

## Acquisitions and Divestitures by Foreign Direct Investors in U.S. Energy 2005

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### Findings

- Total acquisitions and divestitures by foreign direct investors (FDI) in the U.S. energy industry fell 18 percent in 2005, with much of the decline attributable to divestitures.
- Acquisitions by FDI declined moderately, with most of the fall due to lower levels of investment in electric power.
- Divestitures by FDI fell 33 percent, their lowest level since 1999, with both coal and petroleum refining and marketing and mid/downstream natural gas falling to nearly zero.
- The largest acquisition was Norsk Hydro's (Norway) purchase of Spinnaker Exploration, an oil and gas producer with assets largely in the Gulf of Mexico.
- The largest divestiture was Credit Suisse's (Switzerland) sale of American Ref-Fuel Holdings, an owner and operator of waste-to-energy facilities.

### Background and Definitions

Foreign direct investment is the ownership or control of 10 percent or more of a U.S. company by a foreign investor.<sup>1</sup> Acquisitions and divestitures by foreign direct investors (FDI) are purchases and sales, made directly or indirectly, of U.S. businesses (or assets) where either the buyer or the seller, but not both, is a foreign direct investor.<sup>2</sup> EIA issues an update of acquisitions and divestitures by FDI in U.S. energy assets each year. The information presented here is derived from company reports and press releases, industry publications, The Online Transaction Roster maintained by FactSet Mergerstat, and company filings with the U.S. Securities and Exchange Commission. Because not all acquisitions and divestitures of private assets nor the ownership of some private companies necessarily become public knowledge, the set of transactions reported here may be incomplete.<sup>3</sup>

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<sup>1</sup> For further information on foreign direct investment in U.S. energy, see Energy Information Administration, "Foreign Direct Investment in U.S. Energy 2004." A good overall treatment of FDI in the United States can be found in Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States*, 3rd ed., (Washington, DC: Peter G. Peterson Institute for International Economics, 1995).

<sup>2</sup> Purchases or sales of U.S. energy businesses or assets by one foreign direct investor from or to another foreign direct investor are not included in the transactions discussed here because they do not change the amount of foreign direct investment, only its source. In some instances, foreign assets owned by the U.S. business that is being acquired or divested are included in the transaction amount.

<sup>3</sup> The Energy Information Administration does not directly collect any data regarding these types of transactions, nor does it make any attempt to independently value them.

## Transactions Summary

Total acquisitions and divestitures by FDI in U.S. energy fell from \$12 to \$10 billion in 2005 (Table 1). In contrast, the equity value of acquisitions and divestitures in all industries (energy and non-energy) that involved at least one U.S. company rose 50 percent to \$1.2 trillion in 2005.<sup>4</sup> This all-industry-transactions total has been rising since 2003, while transactions in U.S. energy by FDI fell in 2003 as well as in 2005.

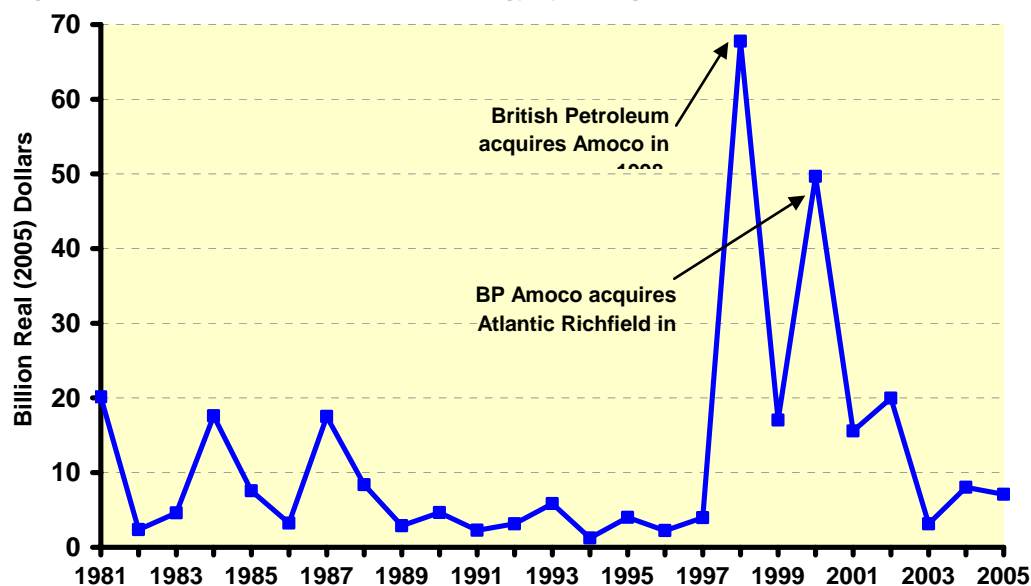
	1996	1997	1998	1999	2000	2001	2002 <sup>b</sup>	2003	2004	2005
<b>Acquisitions</b>										
Oil and Gas Production <sup>a</sup>	368	1,386	53,892	369	31,373	12,579	809	386	3,875	4,813
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	1,302	463	3,167	336	717	1,072	8,196	R1,831 <sup>c</sup>	1,994	1,634 <sup>d</sup>
Coal	204	99	400	1,100	0	0	0	0	0	0
Electric Power	0	1,390	536	13,003	11,964	515	9,447	724 <sup>c</sup>	1,937	623
<b>Total Acquisitions</b>	<b>1,874</b>	<b>3,338</b>	<b>57,995</b>	<b>14,808</b>	<b>44,054</b>	<b>14,166</b>	<b>18,451</b>	<b>R2,941</b>	<b>7,806</b>	<b>7,070</b>
<b>Divestitures</b>										
Oil and Gas Production <sup>a</sup>	660	340	585	1,072	11,387	2,319	0	1,998	464	684
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	802	959	881	1,272	895	1,798	1,629	0	2,207	108
Coal	0	47	2,312	0	0	0	0	738	1,594	0
Electric Power	NA	528	0	60	4,329	0	2,723	459	0	2,047
<b>Total Divestitures</b>	<b>1,462</b>	<b>1,874</b>	<b>3,778</b>	<b>2,404</b>	<b>16,611</b>	<b>4,117</b>	<b>4,351</b>	<b>3,195</b>	<b>4,265</b>	<b>2,839</b>
<sup>a</sup> Includes the petroleum refining and marketing assets of integrated petroleum companies and oilfield services companies. <sup>b</sup> Beginning in 2002, only acquisitions and divestitures greater than \$100 million are included in this table. That year, all acquisitions less than or equal to \$100 million totaled \$332 million and all divestitures less than or equal to \$100 million totaled \$135 million. <sup>c</sup> Includes half of an acquisition that was in both midstream natural gas and electric power. <sup>d</sup> Includes convenience stores that do not sell petroleum products. NA = Not available. Notes: 1995 divestitures do not include DuPont's \$8.8-billion stock buyback. 1998 divestitures do not include Union Pacific Resources' acquisition of Norcen Energy Resources (Canada) because most of Norcen's assets were not in the United States and an estimate of the purchase price of Norcen's U.S. assets was not available. Totals calculated from unrounded data. Sources: <b>2005:</b> Tables 2 and 3. <b>1995-2004:</b> Energy Information Administration, "Direct Acquisitions of U.S. Energy Assets by Foreign Investors Rebound in 2004, but Still Below Recent Average," Table 1, <a href="http://www.eia.doe.gov/emeu/finance/fdi/2004a&amp;d.pdf">http://www.eia.doe.gov/emeu/finance/fdi/2004a&amp;d.pdf</a> .										

Total acquisitions by FDI in U.S. energy in 2005 fell 9 percent, a small change given the large year-to-year variance in this data series (Figure 1). After five years of substantially higher values, acquisitions by FDI have held near the low levels seen in most of the 1990s for the third year in a row. The most notable change in acquisitions by FDI occurred in electric power, where purchases fell 68 percent, and in oil and gas production, where the number of transactions greater than \$100 million rose from five to nine (Table 1).<sup>5</sup> The largest single purchase by FDI in 2005 was only \$0.5 billion, while there were two acquisitions of almost \$1 billion each in electric power in 2004.

<sup>4</sup> Total value measured as base equity price only. "Mergerstat Free Reports: M&A Activity U.S. and U.S. Cross-Border Transactions," FactSet Mergerstat, [http://www.mergerstat.com/new/free\\_reports\\_m\\_and\\_a\\_activity.asp](http://www.mergerstat.com/new/free_reports_m_and_a_activity.asp), May 2007.

<sup>5</sup> For integrated petroleum companies (companies with operations in both oil and gas production, and refining and marketing) whose primary activity is oil and gas production, the oil and gas production category includes their petroleum refining and marketing assets because transactions are not usually broken down by industry sector and

Figure 1. Value of Acquisitions in U.S. Energy by Foreign Direct Investors, 1981-2005



Note: Beginning in 2002, only acquisitions greater than \$100 million are included.

Sources: **2005:** Table 2. **1981-2004:** Energy Information Administration, "Foreign Direct Investment Acquisitions and Divestitures for the Year 2004," Figure 1, <http://www.eia.doe.gov/emeu/finance/fdi/2004a&d.pdf>.

In 2005, total divestitures by FDI in U.S. energy fell to \$3 billion, their lowest level since 1999, with only four transactions over \$100 million. In 2004, there were eleven divestitures by FDI over \$100 million. All sectors of the industry experienced major changes in divestitures in 2005. Sales in coal and in petroleum refining and marketing and mid/downstream natural gas fell, with only one small deal between them, while divestitures in oil and gas production, and especially in electric power, increased.

A list of publicly reported acquisitions and divestitures of U.S. energy assets by FDI in 2005 that were valued at more than \$100 million can be found in Tables 2 and 3.

## Acquisitions

The largest acquisition by FDI of a U.S. energy company in 2005 was Norsk Hydro's (Norway) purchase for \$2.5 billion (including assumed debt) of Spinnaker Exploration, which did most of its exploration, development, and production of oil and gas in the Gulf of Mexico. At the time, the deal fitted well with Norsk Hydro's announced plans to increase foreign oil and gas production by roughly 40 percent between 2005 and 2008. However, in 2006, Norsk Hydro and Statoil (Norway) agreed to combine their oil and gas operations. (The Norwegian government owns 45 percent of Norsk Hydro and 70 percent of Statoil.) Because Norsk Hydro uses the "successful efforts" method of oil and gas accounting (which expenses geological and geophysical costs) while Spinnaker used the "full cost" method (which capitalizes geological and geophysical costs), the cost of the seismic database licenses that Norsk Hydro gained control of in the acquisition and that had been capitalized by Spinnaker were expensed by Norsk Hydro and not added as assets to its balance sheet.

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companies are classified by their major activity. For an integrated petroleum company whose primary activity is petroleum refining and marketing, the reverse would be true. Since the primary activity of most integrated petroleum companies is oil and gas production, its value may be overstated and the value of transactions in the petroleum refining and marketing and mid/downstream natural gas sector may be understated. Oil and gas production also includes oilfield services companies.

**Table 2. Completed Acquisitions of U.S. Energy Assets by Foreign Direct Investors, 2005\***

Acquiring Foreign Parent Company (Country)	U.S. Subsidiary	Company or Asset Being Acquired	Business of Acquired Company or Asset	Divesting U.S. Parent Company	Estimated Asset Value (million \$)	Closing Month
Norsk Hydro (Norway)	NA	Spinnaker Exploration	oil and gas production	Spinnaker Exploration	2,458	December
Seven & I (Japan)	NA	7-Eleven (remaining outstanding shares)	petroleum marketing	7-Eleven	999 <sup>a</sup>	November
TransCanada (Canada)	NA	567 mw of hydroelectric generation	electric power	National Energy & Gas Transmission	503	April
Santos (Australia)	NA	Tipperary	oil and gas production	Tipperary	466	October
Enerplus Resources Fund (Canada)	Enerplus Resources (USA)	Lyco Energy	oil and gas production	Lyco Energy	425	August
USB (Switzerland)	NA	76 bcf natural gas over 4 years	oil & gas production	Dominion Resources	424	March
Caisse de dépôt et placement du Québec (Canada)	NA	Southern Star Central Gas Pipeline (40 percent)	natural gas pipeline	American International Group	335	July
Woodside Petroleum (Australia)	Woodside Energy (USA)	Gryphon Exploration	oil & gas production	Gryphon Exploration	297	August
Siem Offshore (Norway)	NA	Subsea 7 (50 percent)	subsea engineering & construction	Halliburton	200	January
Trinidad Energy Services Income Trust (Canada)	NA	Cheyenne Drilling	oil & gas production	Cheyenne Drilling	189	December
EnCana (Canada)	NA	24,000 net acres of land	oil & gas production	Progress Energy	178	December
Nexen (Canada)	NA	Island Gas (80 percent)	oil & gas production	Island Gas	176	December
Enbridge (Canada)	Enbridge Energy Partners	natural gas gathering & processing assets	mid-stream natural gas	Devon Energy	165	January
Arcapita Bank (Bahrain)	GASStorage Investment	Falcon Gas Storage (majority stake)	mid-stream natural gas	Energy Spectrum	135 <sup>b</sup>	July
CSE Global (Singapore)	NA	Energy Storage & Power	electric power	Energy Storage & Power	120 <sup>c</sup>	July

\*Includes only transactions valued at \$100 million or greater.

<sup>a</sup>Includes convenience stores that do not sell petroleum products.

<sup>b</sup>Includes \$35 million in common equity contributions by Arcapita Bank.

<sup>c</sup>Does not include preferred shares acquired.

NA = not available.

## Divestitures

The largest divestiture by FDI in 2005 was Credit Suisse's (Switzerland), a large financial services firm, sale of American Ref-Fuel Holdings, an owner-operator of six waste-to-energy facilities (and some other waste-processing facilities) in the Northeast, to Danielson Holding. The total value of the transaction was \$2.0 billion, with an undetermined share going to American International Group, a U.S. insurance company, which owned part of American Ref-Fuel. Credit Suisse had acquired a share of American Ref-Fuel in 2003 through its U.S. subsidiary, DLJ Merchant Banking. Danielson Holding had been primarily

an insurance company until it acquired Covanta Energy, an independent power producer with waste-to-energy facilities as well as generation capacity fueled by other sources and a provider of water and wastewater treatment services, when it exited bankruptcy in 2004. Danielson subsequently changed its name to Covanta Holding.

<b>Divesting Foreign Parent Company (Country)</b>	<b>U.S. Subsidiary</b>	<b>Company or Asset Being Divested</b>	<b>Business of Divested Company or Asset</b>	<b>Acquiring U.S. Parent Company</b>	<b>Estimated Value (million \$)</b>	<b>Closing Month</b>
Credit Suisse (Switzerland)	DLJ Merchant Banking	American Ref-Fuel Holdings (now ARC Holdings) (partial)	electric power	Danielson Holding (now Covanta Holding)	2,047 <sup>a</sup>	January
Credit Suisse (Switzerland)	DLJ Merchant Banking	Seabulk International (51 percent)	oilfield services	SEACOR Holdings	559	July
Stolt Offshore (now Acergy) (Luxembourg)	NA	diving & shallow water pipelay assets	oilfield services	Cal Dive International	124 <sup>b</sup>	November
Enbridge (Canada)	Enbridge Energy Partners	midstream natural gas assets in Texas	midstream natural gas	TexStar Field Services (now Regency Energy Partners)	108	December

\*Includes only transactions valued at \$100 million or greater.  
<sup>a</sup>Includes an undetermined share of American Ref-Fuel owned ultimately by American International Group, a U.S. insurance company.  
<sup>b</sup>Transaction closed in 2005 but some assets not acquired until 2006.  
 NA = not available.