

Acquisitions and Divestitures in U.S. Energy by Foreign Direct Investors 2007

Findings

- Based on EIA's latest analysis of information on acquisitions and divestitures by foreign direct investors in the U.S. energy industry, net FDI acquisitions (the value of acquisitions minus divestitures) jumped from negative in 2006 to the highest level since 1998, when British Petroleum purchased Amoco.
- Gross FDI acquisitions in 2007 were almost five times higher than in 2006, and were exceeded only by 1998 and 2000, when a large single acquisition dominated each year. In contrast, eleven transactions exceeded \$1 billion in 2007.
- Divestitures in 2007 dropped to about one-sixth of the 2006 amount, reaching the lowest level of FDI divestitures since 1997. The only large divestiture by a foreign direct investor in U.S. energy in 2007 that could be identified was Royal Dutch Shell's sale of its Los Angeles refinery and associated products terminal and retail sites in Southern California to Tesoro.

Background and Definitions

Foreign direct investment (FDI) is the ownership or control of 10 percent or more of a U.S. company by a foreign investor.¹ Acquisitions and divestitures by foreign direct investors 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. The information presented here is derived from company reports and press releases, industry publications, and company filings with the U.S. Securities and Exchange Commission. Because not all acquisitions and divestitures of businesses (or assets) nor the ownership of businesses (or assets) necessarily become public knowledge, and because the reporting of FDI mergers and acquisitions is incomplete, the set of transactions reported here may be incomplete. 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.

¹ For further information on foreign direct investment in U.S. energy, see Energy Information Administration, "Foreign Direct Investment in U.S. Energy 2006." 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).

Summary of FDI Transactions

Gross FDI acquisitions in the U.S. energy industry were almost five times higher in 2007 than in the previous year while divestitures dropped to about one-sixth of the amount in 2006 (Table 1). Net acquisitions, which were negative in 2006, increased to the highest level since, when British Petroleum (England and Wales) purchased Amoco 1998 (Figure 2).

Table 1. Value of Acquisitions and Divestitures of U.S. Energy Assets by Foreign Direct Investors, 2003-2007
(Million Current Dollars)

	2003	2004	2005	2006	2007
Acquisitions					
Oil and Gas Production ^a	386	3,875	5,254	5,505	18,982
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	1,831	1,994	1,634	2,448	9,062
Coal	0	0	0	0	0
Electric Power	724	1,937	860	1,635	18,330
Total Acquisitions (Gross)	2,941	7,806	7,748	9,588	46,374
Divestitures					
Oil and Gas Production ^a	1,998	464	684	1,476	450
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	0	2,207	238	3,810	1,820
Coal	738	1,594	0	0	0
Electric Power	459	0	2,047	9,200	0
Total Divestitures	3,195	4,265	2,969	14,486	2,270
Net Acquisitions	-254	3,541	4,779	-4,898	44,104

^aIncludes oilfield services companies and petroleum refining and marketing assets of integrated petroleum companies.

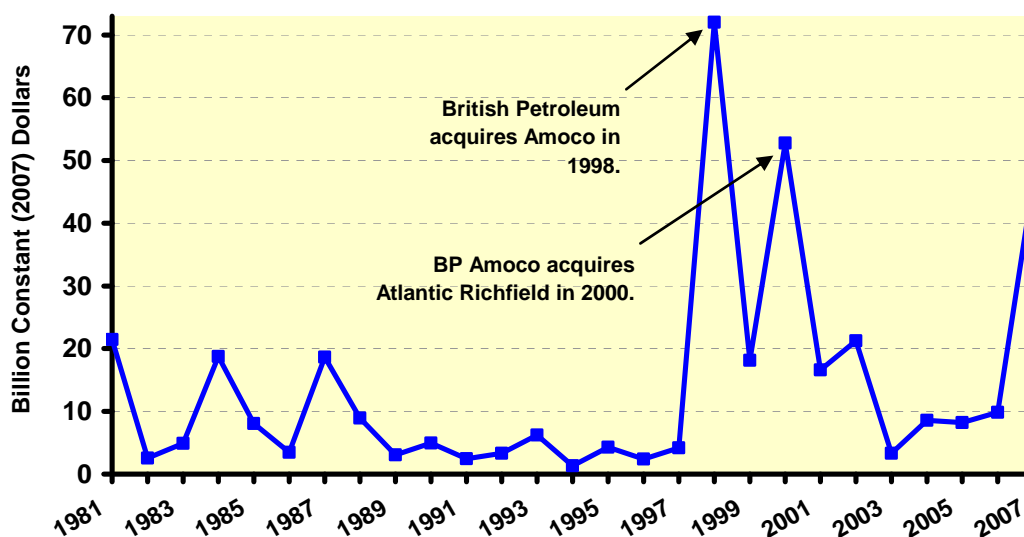
Notes: From 2003 - 2006 only acquisitions greater than (current) \$100 million are included; In 2007 only acquisitions greater than (current) \$250 million are included. R = revised. Totals calculated from unrounded data.

Sources: **2007:** Tables 2 and 3. **2003-2006:** Energy Information Administration, "Acquisitions and Divestitures by Foreign Direct Investors in U.S. Energy 2006," Table 1, <http://www.eia.doe.gov/emeu/finance/fdi/2006a&d.pdf>.

Several transactions involving electric power assets nearly equaled transactions associated with oil and natural gas production assets. Total FDI acquisitions in 2007 were exceeded only by 1998 and 2000 (Figure 1), when a very large single acquisition dominated each year. In contrast, eleven transactions exceeded \$1 billion in 2007, and none were nearly as large as the largest in 1998 and 2000. The largest transaction in 2007 involved electric power assets while the second and third largest transactions involved oil and natural gas production assets (Table 2). The largest divestiture that made the list involved the sale of a refinery and associated products terminal and retail sites (Table 3). This was the lowest level of total FDI divestitures since 1997.

A list of FDI acquisitions and divestitures of U.S. energy assets in 2007 that were valued at more than \$250 million can be found in Tables 2 and 3, respectively.

Figure 1. Value of Gross Acquisitions of U.S. Energy Assets by Foreign Direct Investors, 1981-2007



Note: From 2002 - 2006 only acquisitions greater than (current) \$100 million are included; In 2007 only acquisitions greater than (current) \$250 million are included.

Sources: **2003 - 2007:** Table 1. **1981-2002:** Energy Information Administration, "Acquisitions and Divestitures by Foreign Direct Investors in U.S. Energy 2006," Figure 1, <http://www.eia.doe.gov/emeu/finance/fdi/2006a&d.pdf>.

Major Acquisitions

The largest foreign direct investment acquisition of U.S. energy assets in 2007 was National Grid's (England & Wales) purchase of Keyspan, which was formed in May 1998 as a result of the merger of KeySpan Energy, the parent company of Brooklyn Union Gas, and certain businesses of Long Island Lighting. At the time of the merger, Keyspan was the fifth-largest distributor of natural gas in the United States, with customers in New York, Massachusetts, and New Hampshire. It was also the largest electricity generator in New York, with customers on Long Island and in New York City and the operator of the electric power transmission and distribution system on Long Island under contract. National Grid's principal operations are in the United Kingdom and the United States. It has been expanding in the United States since 2000 by purchasing electric and natural gas utilities in the Northeast, including Niagara Mohawk, a large New York utility; Keyspan was its fifth U.S. acquisition.

The next three largest acquisitions in 2007 involved oil and natural gas production, an oil and natural gas field services company, and a natural gas pipeline. Eni's (Italy) purchase of Dominion Resources' remaining oil and natural gas properties in the Gulf of Mexico completed a major expansion for the company in the United States. Eni's acquisition strategy has been to acquire reserves and production in areas where it can play an important role as an operator of deepwater developments. It is now the 15th-largest producer of crude oil in the United States. Dominion was in the process of selling most of its oil and natural gas properties as part of a previously announced plan to refocus the company on its power generation and energy distribution, transmission, and storage operations.

Compagnie Générale de Géophysique's (CGG, France) purchase of Veritas combined two seismic companies to create the world's largest surveyor of oil and natural gas fields. The

Table 2. Completed Acquisitions of U.S. Energy Assets by Foreign Direct Investors, 2007*

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 \$)
National Grid (England & Wales)	-	Keyspan	electric power	Keyspan	11,800
Eni (Italy)	-	oil & gas assets	oil & gas production	Dominion Resources	4,757
Compagnie Générale de Géophysique (France)	-	Veritas DGC	oil & gas field services	Veritas DGC	3,500
TransCanada	-	American Natural Resources	natural gas pipeline	EI Paso	3,400 ^a
Macquarie (Australia)	-	Duquesne Light	electric power	Duquesne Light	3,150
EnCana (Canada)	-	WRB Refining	refining & marketing	ConocoPhillips	2,800 ^b
Energías de Portugal	-	Horizon Wind Energy	electric power	Goldman Sachs	2,740
EnCana (Canada)	-	natural gas assets (remaining 50 percent Amoruso Field)	oil & gas production	Leor Energy	2,550
Husky Energy (Canada)	-	Lima Refining	refining & marketing	Valero Energy	1,900
Provident Energy Trust (Canada)	Breitbart Energy	oil & gas assets	oil & gas production	Quicksilver Resources	1,474 ^c
k1 Ventures (Singapore)	McMoRan Exploration	oil & gas assets	oil & gas production	Newfield Exploration	1,322 ^d
TransCanada	-	Great Lakes Pipeline (46 percent)	natural gas pipeline	EI Paso	962
StatoilHydro (Norway)	-	oil & gas assets	oil & gas production	Anadarko Petroleum	901
EnerVest (Canada)	EV Energy	oil & gas assets	oil & gas production	Anadarko Petroleum	728
Mitsubishi Oil (Japan)	-	oil & gas assets	oil & gas production	Anadarko Petroleum	600
Nippon Oil (Japan)	-	oil & gas assets	oil & gas production	Anadarko Petroleum	600
BHP Billiton (Australia & England & Wales)	BHP Billiton Petroleum (Americas)	oil & gas assets (44 percent of Genghis Khan)	oil & gas production	Anadarko Petroleum	585
Royal Dutch Shell (England & Wales)	Shell Oil	oil & gas assets	oil & gas production	U.S. Government	555
Energy XXI (Bermuda)	-	oil & gas assets	oil & gas production	Pogo Producing	410
Repsol YPF (Spain)	Repsol Energy North America	oil & gas assets (28 percent of Genghis Khan)	oil & gas production	Anadarko Petroleum	372
Électricité de France	-	Unistar Nuclear Energy	electric power	Constellation Energy	350 ^e
ITERA Oil & Gas (Russia)	Dune Energy	Goldking Energy	oil & gas production	-	329
Trican Well Service (Canada)	-	Liberty Pressure Pumping (93 percent)	oil & gas field services	Liberty Pressure Pumping	299
Iberdrola (Spain)	-	power plant	electric power	Klamath Falls, OR	290

*Includes only transactions valued at \$250 million or greater.

^aCompanies being acquired includes ANR Storage and 3.6 percent of Great Lakes Gas Transmission.

^bEnCana and ConocoPhillips formed a 50/50 U.S. partnership, WRB Refining, to which ConocoPhillips contributed two refineries. The value of the refineries was not separately disclosed. John S. Herold values 50 percent of them at \$2.8 billion.

^cIncludes some midstream assets.

^dk1 Ventures owned greater than 10 percent in McMoRan Exploration on December 31, 2006 and less than 10 percent on December 31, 2007. McMoRan purchased the above assets on August 6, 2007; on that date the ownership share of K1 Ventures could not be

^eFormation of a joint venture.

NA = not available.

Table 3. Completed Divestitures of U.S. Energy Assets by Foreign Direct Investors, 2007*

Divesting Foreign Parent Company (Country)	U.S. Subsidiary	Company or Asset Being Divested	Business of Divested Company or Asset	Acquiring U.S. Parent Company	Estimated Value (million \$)
Royal Dutch Shell (England & Wales)	Shell Oil	refinery and downstream assets	refining & marketing	Tesoro	1,820
BP (England & Wales)	BP America	Gulf of Mexico assets (part)	oil & gas production	Occidental Petroleum	450

*Includes only transactions valued at \$250 million or greater.

combined company had 7,000 employees worldwide providing seismic data acquisition, processing, and reservoir services and, manufacturing geophysical equipment. CGG financed the deal partially with cash and partially by issuing new stock.

TransCanada's acquisition of American Natural Resources extended its natural gas pipeline network to more than 36,500 miles and its natural gas storage capacity to 360 billion cubic feet. TransCanada's acquisitions have made it a major operator of natural gas pipelines and storage facilities in North America. TransCanada also acquired 46 percent of the Great Lakes natural gas pipeline from El Paso in 2007. El Paso sold various assets in 2007 to increase its financial flexibility and improves its credit rating.

Major Divestiture

The only very large divestiture by a foreign direct investor in U.S. energy in 2007 that could be identified was Royal Dutch Shell's (England and Wales) sale of its Los Angeles refinery, an associated products terminal, and about 250 retail sites in Southern California to Tesoro. The purchase was expected to be financed using cash-on-hand. The refinery, which uses sour (high sulfur) crude oil, is located in Wilmington, California. The refinery has a capacity of 97,000 barrels per calendar day and produces a range of petroleum products, including California-grade gasoline. The refinery became Tesoro's third largest refinery and was expected to create synergies within its West Coast refiner-marketer network. The retail sites, with an average volume of 225,000 gallons per month each, were to remain Shell-branded. Shell said the sale was "consistent with Shell's strategy of managing its portfolio to deliver maximum value to customers and shareholders."