



China's purchasing power...

Posted by [Prof. Goose](#) on June 22, 2005 - 4:37pm

[CNOOC's bid for Unocal is becoming reality.](#)

Here's a snippet:

"China National Offshore Oil Corp. (CNOOC) has agreed to launch the biggest ever takeover offer by a Chinese group with a 19 billion dollar bid for US oil major Unocal, according to a report.

The decision to trump a rival bid for Unocal by ChevronTexaco was reached by CNOOC directors in a tense six-hour board meeting held in Beijing on Wednesday, The Financial Times said in its online edition."

Here's the initial post on this topic from 6 JUN...

Let's put ourselves in the shoes of Chinese leadership at the moment.

Your economy is growing at amazing rates, with so much unrealized potential that you shudder to think of the possibilities.

You look out at the world and realize, in your nascent economy, that you need as much oil as you can find (as the US had at its disposal through its unparalleled growth) to improve your country's standing.

What do you do? Because you run a government controlled economy, your government can amass private corporations (through the Chinese oil companies) of other countries and their oil resources, unlike your more democratic competition.

That's probably what you start trying to do, isn't it?

The other thing to remember is that your government is sitting on a centrally controlled currency with no debt (that you have to pay attention to...). The cash you have can be outlaid for just this purpose, because you have unanimity of purpose (the preservation of the Chinese state) unlike the other purchasing powers (which have a profit motive and will wait until it is fiscally rational to make such purchases of small oil).

On the other hand, your main competitors, the US and Europe, are in comparative fiscal and economic trouble, though the US economy is growing, its debt is quite cumbersome. While the US imports around half of its oil, as we saw from HO a couple of posts ago, if other countries start horning in to those supplies (especially if there IS NO MORE SUPPLY TO DIG INTO), prices spike, meaning it costs more because of the competition for that scarce supply.

[This article today is symptomatic of what I fear is coming](#) more and more around the bend.

Here's a quote:

"CNOOC Ltd. said Tuesday it remains interested in Unocal (UCL: news, chart, profile) , which is attractive to the Chinese producer because of its Asian assets. Chevron (CVX: news, chart, profile) is already in an \$18 billion deal, as yet unapproved, to buy Unocal.

Shares in Unocal rose 1.1%, or 61 cents, to close at \$58.10. Chevron stock lost 7 cents to close at \$54.78.

CNOOC would likely sell Unocal's U.S. assets, as it's primarily interested in the company's fields in Asia, mainly in Thailand and Indonesia, said Oppenheimer & Co. analyst Fadel Gheit. Unocal's U.S. assets include about 500 million oil-equivalent barrels of proved reserves, which could generate close to \$7 billion in cash proceeds, he said."

CNOOC said in a statement to the Hong Kong Stock Exchange that it was "continuing to examine its options with respect to Unocal. These options include a possible offer by the company for Unocal, but no decision has been made in this respect."

Whether or not CNOOC makes the bid for Unocal, this is a trend of consolidation that will continue.

Yes, some corporations, like Exxon-Mobil are sitting on \$48B in cash, thinking about doing the same thing no doubt...buying up more and more oil that is close (Oh, Canada?) and easy to get here. But they're not doing it yet...whereas China is also making inroads with Canada and other potential suppliers. (Canada may well be the oil merchant of the future, remember that. Can anyone say NAFTA?)

Consolidation will be the key in the new oil economy. The large oils have no flexibility in supply, and with little new supply being found, all they can do is buy up smaller corporations.

The catch is that right now, China is winning the race and the US is losing it.

This is the geopolitical instability that peak oil causes. It's real. Get used to it.

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