

CRS Report for Congress

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Unocal Corporation's Oil and Gas

Bernard A. Gelb
Specialist in Industry Economics
Resources, Science, and Industry Division

Summary

U.S.-based Unocal Corporation is primarily an oil and gas exploration and production company with operations in North America and overseas. China National Offshore Oil Corporation (Cnooc), which is largely owned by the government of China, has submitted a bid to acquire Unocal. Some Members of Congress and others are concerned that acquisition of Unocal by Cnooc poses a threat to the adequacy and dependability of U.S. energy supplies, and to national security as well. Data from the Unocal Corporation indicate that the bulk of Unocal's oil and gas production and reserves are located overseas. This report will not be updated.

U.S.-based Unocal Corporation primarily is engaged in the exploration and production of crude oil and natural gas and project development in the United States and in various other countries — particularly in Southeast Asia. Among other operations, Unocal produces geothermal energy that supplies steam to power plants for electricity generation, performs physical asset and real estate management of Unocal facilities, and owns a mine in the United States with the capacity to produce some non-energy minerals (including rare earths).¹

China National Offshore Oil Corporation, Ltd., a subsidiary of Cnooc (largely owned by the government of China),² has submitted a bid to acquire Unocal. Cnooc, Ltd. has exclusive rights and overall responsibilities for the exploitation of China's offshore oil and natural gas resources in cooperation with foreign partners. Its bid for Unocal attempts to supercede an April 4, 2005 merger agreement between Chevron Corporation and Unocal that has been approved by the Boards of Directors of both companies.

Some Members of Congress and others are concerned that the potential acquisition of Unocal by Cnooc poses a threat to the adequacy and dependability of U.S. energy

¹ Unocal Corporation [<http://www.unocal.com>].

² Reportedly, the Chinese government owns 70% of Cnooc. See, for example, *The Wall Street Journal*, "Oil Battle Sets Showdown over China," June 24, 2005, p. A1.

supplies and, partly because of this, a threat to national security as well. Some members of Congress have requested a review of the bid as provided for by statute.³

Because some are concerned about possible effects on U.S. energy and national security of a successful bid by Cnooc to acquire Unocal, they may be interested in the quantitative significance and geographical pattern of Unocal's oil and gas operations. Of possible particular interest are the proportions of Unocal's oil and gas operations and holdings in geographic regions that one might consider to be easily accessible to U.S. energy needs.

However, because oil is a fungible commodity in a world market, it can be argued that it matters little where oil supplies originate. Whether Cnooc acquires Unocal or not, it can much more easily, and at basically the same price, obtain oil to meet China's domestic needs from a geographically closer supplier than from North America.⁴

Countering this is the perception of some that world oil supplies will be very tight in at least the medium term, and that control of supplies will be advantageous. Petroleum is an integral input to the economies of industrialized and industrializing countries, and to the armed forces of any nation. Disruption of supplies can disrupt economic activity and affect military readiness. But there is some concern that widespread buying up of energy assets could greatly diminish the size and usefulness of the oil market.⁵

Extent and Pattern of Unocal's Oil and Gas Operations

Unocal's worldwide operations produced a total of 169,000 barrels of petroleum liquids⁶ and 1.56 billion cubic feet of dry natural gas per day in the first quarter of 2005. (Table 1).⁷ It has total proven worldwide reserves of 681 million barrels of petroleum liquids and 6.56 billion cubic feet of natural gas.

Unocal's operations in the United States and Canada combined accounted for 43% of the company's worldwide liquids production and 35% of the dry natural gas production, with the United States accounting for about 80% of the North American total. Unocal's U.S. production of 58,000 barrels per day represents 0.8% of U.S. production of petroleum liquids and 0.3% of U.S. consumption of petroleum. Inasmuch as Canada is a major oil supplier to the United States, it is reasonable to assume that Unocal's small quantity of Canadian production is at least potentially available to the United States. On

³ Commonly called the Exon-Florio provision, the statute is Section 5021 of the Omnibus Trade and Competitiveness Act of 1988.

⁴ The "price" of North American oil would be lower than that obtained elsewhere if the per barrel cost of acquiring Unocal's North American reserves and production facilities should be lower than the world price.

⁵ Katinka Barysch. *Embracing the Dragon, The EU's Partnership with China*. Centre for European Reform, London: May 1995, p. 26.

⁶ Crude oil, condensate, and natural gas liquids.

⁷ Unocal data obtained from Wright, Robert E. and Nancy A. Murachanian, *2005 Net Production Outlook*, Unocal Corporation, April, 28, 2005 [<http://www.unocal.com/investor/index.html>].

the other hand, Cnooc has purchased 16.9% of a small Canadian company with oil sands holdings.⁸

The shares of Unocal's total proved reserves of oil and gas that are in North America are almost identical to the shares of Unocal's worldwide production. Forty three percent of its worldwide liquids reserves and 36% of its worldwide natural gas reserves are located in North America, with about 80% of each located in the United States (**Table 2**).

It is clear from the above that operations overseas account for the bulk of Unocal's operations and holdings. The rest of the world — primarily Southeast Asia — account for 57% and 65%, respectively, of Unocal's worldwide production of petroleum liquids and dry natural gas. Similarly, the rest of the world accounts for 57% of Unocal's proved reserves of petroleum liquids and 64% of Unocal's proved reserves of natural gas.

**Table 1. Production of Oil and Gas by Unocal, by Country
First Quarter of 2005**

Region or Country	Liquids¹ (thousand barrels per day)	Dry Natural Gas (million cubic ft. per day)
North America	73	538
United States	58	455
Canada	16	83
Southeast Asia	76	1,011
Thailand	38	691
Indonesia	38	164
Myanmar	0	76
Bangladesh	1	80
Other Overseas	20	10
Azerbaijan ²	14	0
Other	6	10
TOTAL	169	1,559

Note: Details may not add to totals because of rounding.

¹ Crude oil, condensates, natural gas liquids.

² Unocal reports this as the Azerbaijan International Operating Company.

Source: Wright, Robert E. and Nancy A. Murachanian, *2005 Net Production Outlook*, Unocal Corporation, April, 28, 2005 [<http://ir.unocal.com/phoenix.zhtml?c=111875&p=irol-irhome>].

⁸ "CNOOC Limited Acquired a Stake in Canada-Based MEG Energy," April 8, 2005. at CNOOC Limited [http://www.cnooc ltd.com/cnooc ltd//template/Template011.jsp?Wc_Id=541&Wg_Id=19].

**Table 2. Estimated Proved Reserves of Unocal by Region
Yearend 2004**

Region or Country	Liquids¹ (millions of barrels)	Natural Gas (billions of cubic feet)
North America	295	2,382
United States	239	2,076
Canada	56	306
Asia	203	4,093
Other overseas	183	84
TOTAL	681	6,559

¹ Crude oil and condensate.

Source: Wright, Robert E., and Nancy A. Murachanian, *2002-2004 Costs Incurred and Oil and Gas Reserve Estimates Data*, Unocal Corporation, March 9, 2005 [<http://ir.unocal.com/phoenix.zhtml?c=111875&p=irol-irhome>]. Oil and gas reserve estimates are subject to change. Risk factors that may result in changes are presented in Unocal's 2004 Form 10-K submitted to the U.S. Securities and Exchange Commission.

Possible Diversion of North American Oil and Gas?

It is likely that one of the considerations in any U.S. government review of the bid by Cnooc to acquire Unocal is the risk that oil and gas now produced by Unocal in North America, and particularly in the United States, will be diverted to markets elsewhere. To the extent that it is significant, it is clear from the data provided above that the amounts of such quantities are small relative to U.S. oil and gas consumption. Also, to the extent it is significant, Cnooc, in proposing its acquisition of Unocal, has committed to continue Unocal's practice of selling or marketing in U.S. markets all or substantially all of the oil and gas produced from Unocal's U.S. properties.⁹

⁹ Cnooc. Transaction Information Site, "The Deal Website of the Proposed Merger of Unocal," Overview. [<http://www.transactioninfo.com/cnooc/home.php>]. Viewed June 29, 2005.