

Foreign Direct Investment Acquisitions and Divestitures in 2001

Acquisition of U.S. Energy Assets by Foreign Investors in 2001 Lowest Since 1997

Total foreign direct investment (FDI) acquisitions of U.S. energy assets equaled \$11 billion in the year 2001, one-fourth the level of 2000 and the lowest level since 1997. FDI acquisitions are purchases, directly or indirectly, by the original foreign investor resulting in the ownership of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or the equivalent interest in an unincorporated U.S. business. The purchases may include foreign assets owned by the U.S. business that is acquired. Purchases of a U.S. business or asset by one foreign owner from another foreign owner are not included in FDI transactions.

The largest FDI energy transaction in 2001 was the acquisition of R&B Falcon, an oil and natural gas drilling company, by Transocean Sedco Forex, another oil and natural gas drilling company for \$9.1 billion. The major difference between the 2000 and 2001 was the lack of an overwhelming acquisition, such as BP's acquisition of ARCO. However, the Transocean acquisition of R&B Falcon maintained the dominant position of oil and gas asset transactions among the energy sectors in 2001.

Electricity related transactions, which were characterized by large purchases in both 1999 and 2000, were almost nonexistent during 2001 in comparison, totalling \$515 million in 2001 after reaching \$13 billion in 1999 and \$12 billion in 2000. Canadian companies were purchasers in both FDI-related electricity transactions in 2001. TransCanada Pipelines acquired a hydroelectric power plant from International Paper Co. for \$285 million in July and Emera, a Canadian electric utility, acquired the Bangor (Maine) Hydro-Electric Company in October for \$230 million.

Most of the FDI energy acquisitions in 2001 were smaller transactions as the value of only one acquisition exceeded \$600 million. In the absence of Transocean's January acquisition of R&B Falcon, acquisitions in 2001 would have totalled just over \$2 billion, which is consistent with the annual totals (without adjusting for price changes) of the 1991 through 1997 period (Table 1 and Figure 1), suggesting that the acquisitive period of 1998 through 2000 may have concluded in early 2001. However, referring to the 1998 through 2000 period as an acquisitive period may overstate the activity because much of the total value of FDI energy transactions for each year was due to a single transaction in each year: BP's acquisition of Amoco for \$53 billion in 1998, Scottish Power's acquisition of PacifiCorp for \$10.9 billion in 1999, and BP Amoco's acquisition of ARCO for \$27.2 billion in 2000. Omitting these unusually large transactions (dotted line in Figure 1) transforms an "acquisitive period" into an acquisitive year (i.e., 2000).

In 2001, divestitures of U.S. energy assets by foreign direct investors reached their second-highest level in the last decade (Table 1). The largest divestiture occurred when Dominion Resources acquired Louis Dreyfus et Cie's U.S. affiliate, Louis Dreyfus Natural Gas in November for \$2.3 billion, including the assumption of more than \$0.5 billion of debt. Schlumberger Ltd.'s sale of natural gas compression assets to Hanover Compressor Co. of Houston, Texas for \$761 million was the second-largest FDI energy divestiture in 2001. This transaction was closely followed (in terms of value) by BP Amoco plc's sale of its Mandan, North Dakota and Salt Lake City, Utah refineries in September for \$677 million.

A list of publicly reported FDI acquisitions and divestitures of U.S. energy assets in 2001 can be found in Table 2 and Table 3.

Table 1. Value of Foreign Acquisitions and Divestitures in U.S. Energy, 1991-2001
(Million Dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Acquisitions											
Oil and Gas Production ^a	1,043	949	1,246	159	2,570	368	1,386	53,892	369	31,373	9,673
Midstream Natural Gas	NA	NA	NA	170	367	1,252	150	3,167	336	680	827
Petroleum Refining and Marketing	103	173	1,264	0	339	50	313	0	0	37	245
Coal	570	1,276	1,928	674	0	204	99	400	1,100	0	N.A.
Electric Power	NA	NA	150	0	0	0	1,390	536	13,003	11,964	515
Total Acquisitions	1,716	2,398	4,588	1,003	3,276	1,874	3,338	57,995	14,808	44,054	11,260
Divestitures											
Oil and Gas Production ^a	736	461	938	663	699	660	340	585	1,072	11,387	2,319
Midstream Natural Gas	NA	NA	NA	0	167	123	0	75	1,102	0	1,121
Petroleum Refining and Marketing	400	60	822	41	0	679	959	806	170	895	677
Coal	155	869	438	768	110	0	47	2,312	0	0	N.A.
Electric Power	NA	NA	NA	NA	NA	NA	528	0	60	4,329	0
Total Divestitures	1,291	1,390	2,198	1,472	976	1,462	1,874	3,778	2,404	16,611	4,117

^aIncludes integrated petroleum and oilfield services.

N.A. = Not available.

Notes: 1992 divestitures include Shell Oil's divestiture of its coal operations for \$850 million. 1995 divestitures do not include Du Pont'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.

Sources: **2001:** Table 2 and Table 3 in this report. **1991-2000:** Energy Information Administration, "Sharp Increase in Acquisitions by Direct Foreign Investors of U.S. Energy Assets in 2000 Due to Purchase of Integrated U.S. Petroleum Company," (March 23, 2001).

Figure 1. Value of Foreign Direct Investment-Related Acquisitions in U.S. Energy, 1991-2000

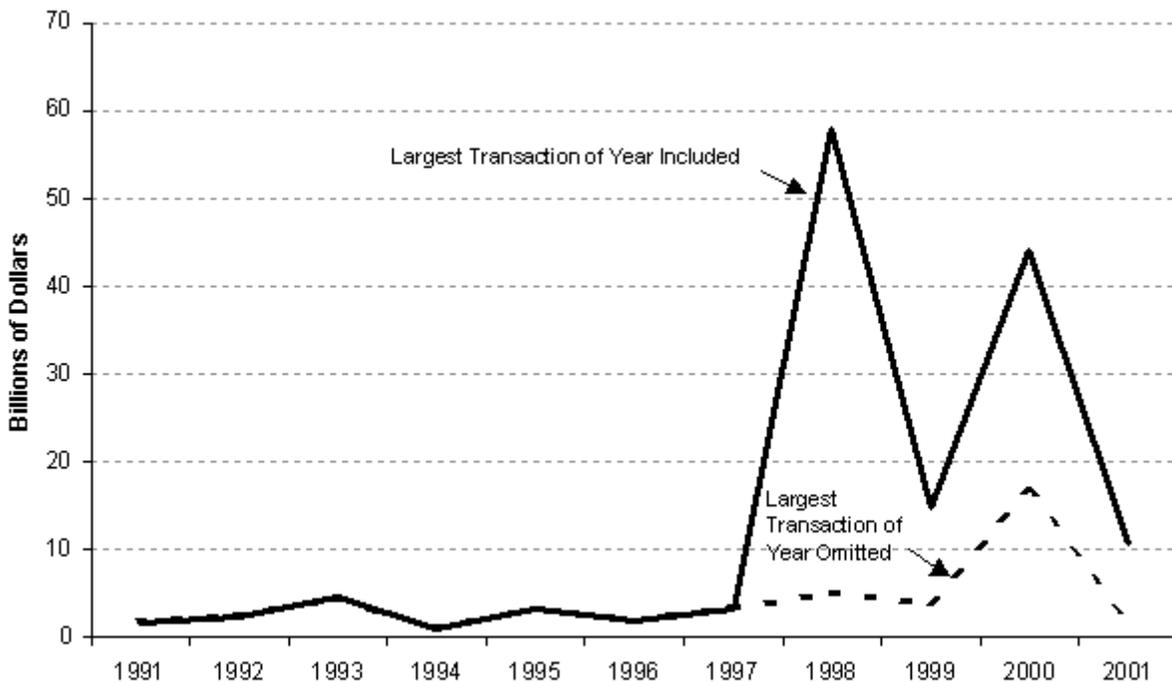


Table 2. Completed Acquisitions and Divestitures by Size in Oil and Natural Gas Production, Petroleum Refining, and Pipelines, 2001

Acquisitions					
Acquiring Company / Parent Company (Country)	Acquiring Company Activity	Acquired Company or Asset	Acquired Company Activity	Size of Transaction (million dollars)	Month of Transaction
Transocean Sedco Forex Inc. (Cayman Islands)	Oil and natural gas well drilling	R&B Falcon Corp	Oil and natural gas well drilling	9,090	January
Schlumberger Ltd. (Netherlands Antilles)	Oilfield products and services	Hanover Compressor Co	Gas compression services	283	September
Consol Energy Inc., / RWE AG (Germany)	Coal mining	Coalbed methane assets of Conoco Inc.	Oil and natural gas exploration and production	158	August
Delek Services Inc., / Delek Group Ltd. (Israel)	Oil and natural gas exploration and production	198 convenience stores and inventories from Williams Companies	Natural gas liquids production	147	May
Westcoast Energy Inc., (Canada)	Natural gas transmission	Empire State Pipeline	Pipelines, except natural gas	75	March
LUKoil (Russia)	Oil and natural gas exploration and production	Getty Petroleum Marketing Inc.	Oil refining and marketing	71	January
EOG Resources / Royal Bank of Canada (Canada)	Oil and natural gas exploration and production	Energy Search Inc.	Oil and natural gas exploration and production	39	July
Enbridge Inc. (Canada)	Energy distribution	Petroleum pipelines from BP Pipelines North America	Petroleum pipelines	29	December
FL Selenia (Italy)	Lubricants	Viscosity oil business of Pennzoil-Quaker State Co.	Motor oil	27	January
Precision Drilling (Canada)	Oil well drilling services	BecField Drilling Services	Oil and natural gas exploration and production	N.A.	January
Petroleum Geo-Services A/S (Norway)	Oil and natural gas exploration and production	Diamond Geophysical Service	Geophysical exploration services	N.A.	August
Divestitures					
Divesting Company / Parent Company (Country)	Divesting Company Activity	Divested Company or Asset	Divested Company Activity	Size of Transaction (million dollars)	Month of Transaction
Louis Dreyfus et Cie (France)	Oil and natural gas exploration and production	Louis Dreyfus Natural Gas	Oil and natural gas exploration and production	2,250	November
Schlumberger Ltd. (Netherlands Antilles)	Oilfield products and services	Natural gas compression business	Gas compression services	761	September
British Petroleum plc (United Kingdom)	Oil and natural gas exploration and production	Mandan, North Dakota and Salt Lake City, Utah refineries	Petroleum refining	677	September
Meridian Resource Corporation / Royal Dutch/Shell (Netherlands/United Kingdom)	Oil and natural gas exploration and production	Non-strategic reserves in and around the Gulf of Mexico	Oil and natural gas exploration and production	69	May
British Petroleum plc (United Kingdom)	Oil and natural gas exploration and production	Carbon fiber business	Carbon fiber	N.A.	September

Sources: *The Wall Street Journal*, various issues (2001 and 2002); company annual reports to stockholders, annual reports on Securities and Exchange Commission (SEC) Form 10-K, and filings on SEC Schedule 13-D; *Oil & Gas Journal*, various issues (2001 and 2002), Pennwell Publishing, Tulsa, Oklahoma; *The Oil Daily*, various issues (2001 and 2002); and *Mergers & Acquisitions: The Dealmaker's Journal (M&A)*, Volume 36, Issues 3 - 12 and Volume 37, Issues 1-2 (March 2001 - February 2002). Source of M&A data is Thomson Financial Merger Corporate Transactions Database. Note that Thomson only includes transactions of a value of \$25 million, or more. If value of transaction is not publicly disclosed, then Thomson includes the transaction only if the value is expected to be \$25 million, or more.

Table 3. Completed Acquisitions and Divestitures by Size in the Other Energy Industries, 2001

Acquisitions					
Acquiring Company / Parent Company (Country)	Acquiring Company Activity	Acquired Company or Asset	Acquired Company Activity	Size of Transaction (million dollars)	Month of Transaction
Enbridge Inc. (Canada)	Energy distribution	Midcoast Energy Resources Inc.,	Natural gas transmission	596	May
TransCanada Pipelines (Canada)	Natural gas transmission	Hydroelectric plant from International Paper Co.	Hydroelectric power generation	285	July
Enbridge Energy Partners LP/Enbridge Inc. (Canada)	Pipelines	Natural gas assets from Koch Industries	Midstream natural gas	231	December
Emera Inc. (Canada)	Electric utility	Bangor (Maine) Hydro-Electric Co.	Electric utility	230	October
Consol Energy Inc., / RWE AG (Germany)	Coal mining	Central Ohio Coal Co. and Windsor Coal Co.	Coal mining	N.A.	July
Suez Lyonnaise de Eaux SA (France)	Waste and energy services	Nalco Exxon Energy Chemical LP	Electric and natural gas utility	N.A.	May
Divestitures					
Divesting Company / Parent Company (Country)	Divesting Company Activity	Divested Company or Asset	Divested Company Activity	Size of Transaction (million dollars)	Month of Transaction
Green River Pipeline LLC / Alberta Energy Co. Ltd. (Canada)	Natural gas utility	Jonah Gas Gathering	Natural gas utility	360	October

Sources: *The Wall Street Journal*, various issues (2001 and 2002); company annual reports to stockholders, annual reports on Securities and Exchange Commission (SEC) Form 10-K, and filings on SEC Schedule 13-D; *Oil & Gas Journal*, various issues (2001 and 2002) Pennwell Publishing, Tulsa, Oklahoma; and *The Oil Daily*, various issues (2001 and 2002); and *Mergers & Acquisitions: The Dealmaker's Journal (M&A)*, Volume 36, Issues 3 - 12 and Volume 37, Issues 1-2 (March 2001 - February 2002). Source of M&A data is Thomson Financial Merger Corporate Transactions Database.

Note that Thomson only includes transactions of a value of \$25 million, or more. If value of transaction is not publicly disclosed, then Thomson includes the transaction only if the value is expected to be \$25 million, or more.

Major Acquisitions

- Often Overlooked Drilling Companies Take Petroleum Center Stage in 2001.** Drilling service companies, an often overlooked part of the oil and natural gas industry, were involved in the largest FDI energy transaction in 2001 when R&B Falcon was acquired by Transocean Sedco Forex for more than \$9 billion in January. R&B Falcon's 139 mobile offshore drilling rigs and barges were combined with Transocean's 72-rig fleet to create one of the largest oil field service companies in the world (behind Halliburton Co. and Schlumberger Ltd.) and the largest offshore drilling contractor.¹ Company officials speculated that the merger would reduce costs by \$50 million a year.
- Prominence of Midstream Natural Gas Grows.** The significance of energy service/midstream natural gas companies, whose recent prominence in other venues has been noted,² have more slowly gained prominence in FDI energy transactions, but have grown steadily over the past three years. The second-largest FDI energy acquisition in 2001 was Enbridge Inc.'s acquisition of Midcoast Energy Resources, a natural gas transmission firm, for \$596 million (including \$250 million in debt) in May. According to press reports, Midcoast's assets included 80 pipelines covering 4,100 miles through parts of 10 states, Canada, and the Gulf of Mexico. Midcoast's operations included gathering, processing, and marketing natural gas in addition to transportation of natural gas and petroleum products. Enbridge Inc., operates crude oil, petroleum products, and natural gas pipelines in Canada and the United States.

Major Divestitures

- **Divestitures Focus on Natural Gas and Petroleum Refining Assets.** The primary FDI energy divestiture was highlighted by the acquiring company, Dominion Resources. Dominion Resources acquired Louis Dreyfus et Cie's U.S. affiliate Louis Dreyfus Natural Gas in November for \$2.3 trillion (including \$0.5 billion of long-term debt). Louis Dreyfus Natural Gas by all accounts was one of the largest of non-vertically integrated U.S. natural gas producers at the time of the transaction. Louis Dreyfus' operations in the Permian Basin of Texas, Mid-Continental U.S., and the U.S. coast of the Gulf of Mexico were considered especially complementary to Dominion's pre-transaction operations. Dominion Resources is an integrated energy company that serves almost 4 million electric and natural gas customers in five states (North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia) with 24,000 megawatts of electricity generation capacity, 6,000 miles of electricity transmission lines, 7,600 miles of natural gas transmission pipeline, and 5.1 trillion cubic feet of natural gas reserves.

Schlumberger Ltd., divested its natural gas compression business to Hanover Compressor for \$761 million in September. Hanover indicated in a company press release that this transaction was a "critical step in our long-term plan to ... extend our position ... [in the industry]." Similar in both size and timing of the transaction was a divestiture by BP Amoco plc of two refineries that were held by Amoco at the time of their merger with BP to create BP Amoco in 1998. Tesoro, a non-vertically integrated U.S. refiner, acquired the two divested Rocky Mountain region refineries for \$677 million in September. The sale allowed BP Amoco to divest assets that were not considered part of the company's core U.S. operations while augmenting Tesoro's position as one of the largest refiners in the western United States.

The information presented here is derived from company reports and press releases, company filings with the U.S. Securities and Exchange Commission (particularly Schedule 13D), and published compilations of acquisitions and divestitures. Because not all FDI transactions necessarily become public knowledge, 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.

Endnotes

¹"Company News: Transocean to buy R&B Falcon in \$8.8 billion deal," *Oil and Gas Journal* (August 28, 2001).

²For example, see Energy Information Administration, *Performance Profiles of Major Energy Producers*, DOE/EIA-0206(2000) (Washington, DC, January 2002), Chapter 5, "The Changing Cast of Major Energy Companies"; Energy Information Administration, *Performance Profiles of Major Energy Producers*, DOE/EIA-0206(99) (Washington, DC, January 2001), Chapter 4, "Special Topic: Majors Restructure, but Follow Different Paths to Enhance Value," and "Special Topic: The Rise of the Energy Services Company -- The Convergence of Electric Utilities and Natural Gas"; Energy Information Administration, "Energy Financial News for Major Energy Companies," (Addition of Worldwide Downstream Natural gas and Power Line of Business to the Financial News for Major Energy Companies).