

U.S. Opens China Energy Office as Chinese State Oil Bids for Unocal

WASHINGTON, DC, July 1, 2005 (ENS) - Energy Secretary Samuel Bodman Thursday announced the establishment of a Department of Energy (DOE) office in Beijing, China. The new office will support DOE's cooperative efforts with China on energy and nuclear security issues, the secretary said.

The announcement of DOE's new Beijing office was made in conjunction with the first meeting of the U.S.-China Energy Policy Dialogue held in Washington also on Thursday.

"The United States and China have a constructive relationship on a variety of issues, including energy security and nuclear security," Bodman said.

"Through the U.S.-China Energy Policy Dialogue, and with on-site assistance from the new DOE office, we can enhance our cooperation to promote energy efficiency, diversify our energy supplies, expand the use of clean energy technologies, as well as continue our mutual efforts to increase nuclear security in both our nations."

The Beijing office will provide guidance and support for DOE's cooperative activities with China, in both the energy and nuclear security fields. The office will be located within the U.S. Embassy in Beijing.

Both the establishment of DOE's Beijing Office and the U.S.-China Energy Policy Dialogue were initiated in 2004 by then-Secretary of Energy Spencer Abraham, in recognition of China's role in the international community, as well as the increased numbers of cooperative agreements established between the two countries in recent years.

The opening of the DOE's new Chinese office comes at a time of controversy surrounding the U.S.-China oil relationship.

On June 22, one of China's government-controlled national oil companies - CNOOC Limited, an affiliate of China National Offshore Oil Company - made an unsolicited offer to purchase Unocal Corporation, a U.S. corporation on the verge of a merger with the much larger Chevron Corporation.

CNOOC offered \$67 per share for Unocal, an independent natural gas and crude oil exploration and production company based in El Segundo, California with principal oil and gas activities in North America and Asia.

Unocal's board of directors has set August 10, 2005, as the date of the special meeting of Unocal's stockholders at which a vote will be taken on the proposed merger with Chevron.

Until that date Unocal can engage in discussions with CNOOC Limited and its representatives concerning the purchase proposed by CNOOC under a waiver issued by Chevron late last month.

But Chevron is still eager to merge with Unocal, and the deal has cleared the various regulatory agencies. "The successful completion of U.S. regulatory requirements demonstrates that our transaction can be brought to a quick and successful conclusion," David O'Reilly, chairman and chief executive officer of Chevron said Wednesday. "The Chevron-Unocal agreement presents a compelling, long-term investment opportunity for stockholders."

House Democratic Leader Nancy Pelosi said on the House floor Thursday that she supports an amendment offered by Representative Carolyn Kilpatrick of Michigan that blocks the purchase of Unocal by the Chinese company.

Pelosi called the CNOOC bid to acquire Unocal "a graphic example of America's energy vulnerability."

"President [George W.] Bush should refuse to approve the acquisition, and Congress should indicate its disapproval as well," Pelosi said.

"The Chinese government's control of CNOOC made the bid possible, not the free market," she said. "My Republican colleagues and Democratic colleagues are all dedicated to the free market system, and should understand that this is not a free market transaction."

Pelosi said the Chinese government provided low interest loans that allowed the company "to bid at rates not otherwise available," and if the acquisition of Unocal was "critical to the Chinese, they would probably allow the bid to be increased to any level needed to seal the deal."

The proposed purchase "raises serious national security concerns for the United States," Pelosi said.

She expressed concern that if China buys Unocal, it would get "cavitation" technology as part of the deal. "Cavitation is a process which Unocal uses to go into deep water to drill

for oil," said Pelosi. "That same technology can be used by the Chinese to do nuclear tests underground and to mask them so we would not ever be able to detect them."

"Given China's commitment to improving its military capabilities, why would the United States permit the sale of this kind of technology?" Pelosi asked.

Pelosi says that the Chinese believed a bid for Unocal could succeed because the United States is dependent on them "to finance a significant portion of our massive budget deficit."

"Our reliance on the Chinese to finance our debt gives them far too much leverage over our decision-making process," she said.

In Beijing today, the official news agency Xinhua quoted unnamed "observers" as saying that if CNOOC successfully merges with Unocal, the astronomical sum of loans in U.S. dollars used by CNOOC will "alleviate the pressure on Chinese yuan's appreciation."

CNOOC's "planned merger" with Unocol was hailed because it would result in capital outflows of US\$13 billion if it succeeds, which will help reduce China's foreign exchange surplus, the observers said.

If the CNOOC purchase of Unocal succeeds, it would be the largest overseas merger in Chinese history.