# CNOOC withdraws 18.5 billion dollar offer for Unocal

BEIJING (AFP) - State-owned Chinese oil group CNOOC said it was withdrawing its bid to acquire US oil company Unocal for 18.5 billion dollars in cash, citing "unprecedented political opposition" from Washington.

"The unprecedented political opposition that followed the announcement of our proposed transaction ... was regrettable and unjustified," China National Offshore Oil Corp. (CNOOC) said in a statement.

It said it considered raising its offer and would have done so but decided to walk away because tabling a sweeter bid would not enable it to overcome US political opposition, which created a lot of uncertainty.

"This political environment has made it very difficult for us to accurately assess our chance of success, creating a level of uncertainty that presents an unacceptable risk to our ability to secure this transaction," the company said.

"Accordingly we are reluctantly abandoning our higher offer to the clear disadvantage of Unocal shareholders and employees."

Investors appeared pleased that CNOOC had walked away from a costly battle for Unocal, while unhappy that the California firm is now set to be taken over by Chevron for an inferior amount to CNOOC's bid.

In late morning New York trade, US-issued shares in CNOOC surged 3.99 dollars (5.75 percent) at 73.33 dollars.

Stocks in US oil giant Chevron rose 67 cents (1.15 percent) to 59.10 dollars, but Unocal shares were down 24 cents (0.37 percent) at 64.13 dollars.

Senator Charles Schumer, one of China's most vocal critics in the US Congress, told Beijing to learn lessons from the dispute.

"If China were to open up to American companies buying Chinese companies, I think CNOOC would have had a much easier time of it," said the New York Democrat.

CNOOC's decision to bow out leaves Chevron as the only contender for Unocal, the ninth-largest US oil company.

It also marks the second time recently that increasingly ambitious and outward-looking Chinese companies have failed in their attempts to acquire US corporations and brands.

Chinese appliance maker Haier Group last month dropped its 1.28-billion-dollar bid for US-based household appliance manufacturer Maytag, unable to compete with a 2.3-billion-dollar offer by rival bidder Whirlpool.

CNOOC's bid was beset by politics from June 23, when it sparked a storm by bidding to take control of Unocal, trumping an already agreed offer tabled by Chevron by 1.5 billion dollars.

Chevron struck back in July with an improved offer in cash and stock that valued Unocal at about 17.1 billion dollars.

But the battle for Unocal was more than about money. Several US lawmakers were set to torpedo the takeover bid, raising concern about a Chinese government-owned company taking over a US oil firm and potentially threatening US national security, and arguing China would never let the reverse happen.

CNOOC and its largest shareholder, the Chinese government, which owns about 70 percent of the group, maintained the deal was purely business and should not be derailed by politics.

However, US politicians criticised the deal as a Chinese raid on US oil assets and late last month passed an amendment that would have delayed the completion of a CNOOC takeover by more than four months.

Unocal shareholders will now vote on August 10 on the rival takeover offer from Chevron, which enjoys the Unocal board's backing, and is expected to seal a deal.

Analysts said the failure to acquire Unocal would force CNOOC and possibly other Chinese companies to reconsider its overseas mergers and acquisition strategy.

"It is too difficult for CNOOC to fight against Chevron, Unocal and the US government at the same time," said Shang Ma, a Fitch Ratings oil analyst.

The failure is the Chinese firm's second failed attempt at buying important oil and gas reserves after it lost out in 2003 in the bidding for a Caspian oil and gas company.

CNOOC on Tuesday did not rule out future bids for overseas companies, including US firms, saying it will "continue to work closely with companies and countries around the world."

"To this end, we look forward to continuing our strategy and business plan and to growing our business for our shareholders," it said.

The company, publicly listed in New York and Hong Kong, is China's largest producer of offshore crude oil and natural gas and one of the largest independent oil and gas exploration and production companies in the world.