Bottom of the barrel

A Chinese oil firm buys an exploration outfit willing to drill almost anywhere.

Reuters

Most firms making an acquisition want, at the very least, to buy assets protected by strong legal systems in stable countries. But when it comes to buying natural resources, China's large state-controlled enterprises have found themselves blocked in whole or part from countries offering precisely those virtues because of concerns about their own operating practices. As a result, China's desperate hunt for energy to feed its vast industrial economy is focusing on trickier locations. On June 24th a subsidiary of the China Petroleum & Chemical Corporation (Sinopec) announced plans to buy Addax Petroleum, a Swiss company which has listings in Toronto and London and drilling rights in Iraq, Gabon and Nigeria.

The deal is worth $9 billion including the assumption of debt. If it succeeds (it has already been accepted by Addax's management), it will be the biggest takeover of a foreign firm by a Chinese one. Sinopec calls it "transformational", but in reality it is merely the latest and largest of many similar deals. In December, for example, another Sinopec subsidiary spent $2 billion to acquire Tanganyika Oil, which, like Addax, trades on the Toronto Exchange. Tanganyika produces 23,000 barrels a day, one-sixth of Addax's current production.

Before the Addax deal closes, Sinopec will need the approval of China's government (almost certain, given its clout) and of Addax's shareholders who, based on the large premium it offered to the share price, have little to complain about. Potentially more troublesome are the approvals that may be required in the various countries where Addax operates, and protests from human-rights activists, who have targeted Chinese firms working in Sudan and other unstable places.

Many of Addax's projects are controversial. Some of its drilling rights in Nigeria, for example, are in dispute. Its contracts in Iraq are with the government of the autonomous Kurdish area, and have been denounced by the oil minister in Baghdad. So the takeover may complicate Sinopec's efforts to win access to oil elsewhere in Iraq. The only certainty is that the deal will not quench the thirst of Sinopec and its fellow state-controlled oil firms, PetroChina and CNOOC, for foreign oil, whatever the risks.

BOTTOM of the barrel. **The Economist**, New York, June 25, 2009. Disponível em: <www.economist.com>. Acesso em: 30 jun. 2009.