ENCANA CORP. & CHINA NATIONAL PETROLEUM CORP.

The June 24, 2010 news release by Encana (below) about its new partnership prospect with China National Petroleum Corp. (CNPC), the China State-owned corporation, for deep shale natural gas exploration and production in northeastern BC, has triggered this overview of Encana's recent international dealings and investment relationships with CNPC over the last five years.

Below are a sample series of collected newspaper and website articles on this subject, ending with limited summary information on both companies from the on-line encyclopaedia, *Wikipedia*, and a profile on China's human rights issues in the Sudan by *Human Rights Watch* website information.

1. Excerpts from the website, Sudan Watch:

Friday, June 17, 2005

Chinese sign up with Eronat's Cliveden and Canada's Encana to explore oil in Chad

A web page at China National Petroleum Corporation (CNPC) entitled "International Cooperation" states China National Petroleum Corporation (CNODC) signed a deal with Switzerland Cliveden Corporation. Excerpt:

> On December 18, 2003, CNODC signed Stock Purchasing Agreement with Switzerland Cliveden Corporation in respect of the risk exploration at Block H. Canadian EnCana Corporation is the operator of the block. Block H is located in Chad Republic in middle Africa.

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Cliveden's oil deal with Chinese forces Canada's EnCana out of Chad

In his report on Friedhelm Eronat entitled Secret World of the Chelsea Oil Tycoon, published in London's Evening Standard May 26, 2005, Adrian Gatton describes a remarkable "completion" dinner held at Eronat's London home in 2003. Here are some extracts from the report:

> That night, 18 December, marked a victory for China in the scramble for Africa. The banquet, with guests including Felter [Eronat's friend and legal counsel since the mid 1990's] and Chinese State officials, was held in the basement, three storeys below a Chelsea street. In the impoverished nation of Chad, Eronat had landed a huge exploration concession - the "Chad Convention" - potentially holding 10 billion barrels of oil.
>
> The party was to toast a deal in which oil-hungry China bought a stake in this. It was a big move for the Chinese. Chad recognises China's enemy Taiwan, and the Chad initiative was part of a political strategy (Eronat facilitated introductions between the Chad and Chinese governments), thought to have been approved by the Chinese prime minister. The deal was important enough for one of the most powerful men in

> China, Wang Jun, chairman of Citic, the $60 billion State-owned corporation, to fly to London to sign. Together with Chinese oil firm CNPC, they purchased a $45 million, 50 per cent share in Cliveden. The deal was initialled there and then in Eronat's house.

Further extracts from Adrian's report explain what happened between Eronat and Felter, after the dinner celebrating Enorat's deal with the Chinese [note, all of China's oil interests are owned by the Chinese Government]:

> Amid the popping corks, Felter privately reminded his boss there could be a problem.
>
> Cliveden's other 50 per cent holding had been sold the year before to Canadian oil and gas company EnCana for $46.5 million, in a deal clinched by Felter. He believed EnCana was legally entitled to be informed about its new partner. According to Felter, Eronat wanted to keep it quiet.
>
> In January 2004, Felter notified EnCana about China's involvement. Eronat was apparently "furious". By mid-February, following a shareholders' meeting in Beijing, Felter was relieved of his duties. Felter, who argues he put Cliveden on track to become a $1.2 billion entity, says he was sacked because he told EnCana about the Chinese.
>
> Cliveden maintains there was no legal requirement to inform EnCana, and the company acted correctly. EnCana would not make any comment to the Standard about the dispute but is now said to be pulling out of Chad.
>
> Felter had been dealt a bitter blow. As Eronat's friend and legal counsel since the mid-Nineties, he says that, in trying to do "the right thing", he had acted "out of misplaced loyalty". It must have been all the more galling since he had loyally shielded his client, he stated, startlingly, "against being indicted in the US for fraud and moneylaundering".

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Talisman must face lawsuit

Talisman Energy Inc., Canada's largest independent oil producer, must defend a case accusing it and the Sudanese government of genocide, a judge said as she turned aside a second bid to dismiss the lawsuit.

U.S. District Judge Denise Cote in New York said there wasn't a legal basis to dismiss the four-year-old suit, which accuses Talisman of helping Sudanese officials bomb churches, kill church leaders, and attack villages to clear the way for oil exploration.

See full report by The Financial Post at Sudan Tribune June 15, 2005.

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See this statement from the U.S. Department of State on Chad:

2005 Investment Climate Statement - Chad - Openness To Foreign Investment:

> "Other sources of foreign investment include the United Kingdom, South Korea, Holland, Egypt, Sudan, Libya, and Taiwan. A Swiss company, Cliveden, is investing in oil exploration with a Canadian partner, EnCana. A South Korean company, AFKO, has invested in a gold mining venture in southern Chad. A Dutch company, MSI, and a Swedish Company, Millicom International Cellular (MIC), have invested in cellular telephone services. Libyan companies have increased their investments in Chad over the past several years, particularly in hotels and real estate."

2. Washington Post:

Chinese Petroleum Companies Buy Interests in Ecuador

By Ben Dummett
Dow Jones Newswires
Wednesday, September 14, 2005

A joint venture of Chinese petroleum companies has agreed to buy EnCana Corp.'s oil and pipeline assets in Ecuador for $1.42 billion, as China continues to seek energy reserves world-wide.

EnCana, a big Canadian oil-and-natural gas producer, said it agreed to sell the unit to a joint venture called Andes Petroleum Co. A person familiar with the matter said state-owned China National Petroleum Corp. is among the companies in Andes Petroleum. It wasn't clear which other companies might be involved. China National Petroleum couldn't be reached for comment.

By buying EnCana's assets in Ecuador, Andes Petroleum is acquiring daily oil production of 75,000 barrels and proven reserves of 143 million barrels. The price amounts to $9.96 a barrel of oil equivalent of proven reserves.

Andes is also purchasing EnCana's 36 percent interest in a 310-mile Ecuadorean pipeline, which has the capacity to handle 450,000 barrels of oil a day.

India had also been interested in the assets, as it and China seek supplies to feed rapidly expanding economies and satisfy their growing thirst for oil and natural gas. Last month, China National Petroleum agreed to acquire PetroKazakhstan Inc., a Canadian company with energy assets in Kazakhstan, for $4.18 billion, beating out ONGC Videsh Ltd., the overseas-exploration unit of India's state-run Oil & Natural Gas Corp.

In April, Cnooc Ltd., the publicly traded arm of state owned China National Offshore Oil Corp., purchased a 17 percent stake in closely held MEG Energy Corp., a Calgary, Alberta, energy company with a project involving Canada's oil sands, a technically challenging but potentially lucrative oil source. The following month, China Petroleum & Chemical Corp., or Sinopec, agreed to take a minority stake in another oil-sands project in Alberta.

For EnCana, the asset sale is part of a plan to sell more than $10 billion in non-core assets while focusing on its reserves in North America. It entered Ecuador in 1999. EnCana said it plans to use the proceeds to buy back stock and reduce debt.

The sale of the Ecuadorean assets is expected to close before year's end, subject to approval by Ecuador.

3. China Daily:

Oil consortium buys EnCana Ecuador assets

By Wang Ying
September 16, 2005

China's top oil companies yesterday confirmed EnCana's sale of its Ecuador assets to a consortium led by China's top two oil giants, for US$1.42 billion.

The consortium, called Andes Petroleum Company, includes China National Petroleum Corp (CNPC) and China Petrochemical Corp (Sinopec Corp), the parent companies of Hong Kong-listed PetroChina and Sinopec, said a CNPC senior official yesterday.

"We are in the joint-venture for the acquisition (of EnCana's Ecuador assets), which also includes Sinopec Corp," Liu Weijiang, CNPC spokesman for overseas acquisition yesterday told China Daily.

Liu refused to give further details.

The country's third largest oil and gas producer, China National Offshore Oil Corp (CNOOC) was not immediately available for comment.

Calgary-based EnCana Corp said on Wednesday in a statement that it had reached an agreement to sell its shares in subsidiaries with oil and pipeline interests in Ecuador to Andes Petroleum Company, a joint-venture of Chinese petroleum companies, for approximately US$1.42 billion.

The CNPC and Sinopec Corp-led consortium will acquire five blocks that are able to produce some 75,200 barrels per day and have proven reserves of 143 million barrels, as well as a 36 per cent stake in OCP Pipeline, which is able to pump 450,000 barrels of oil per day, said the EnCana statement.

The sale became effective on July 1, and is expected to close before the end of this year, the statement added.

"It (the sale) is about concentrating our efforts and investment where we have clear competitive advantages we have reached agreements to divest of more than US$10 billion in non-core assets," said Gwyn Morgan, president and CEO of EnCana, one of North America's largest holders of gas and oil resources.

The bidders for EnCana's Ecuador assets also include India's Oil & Natural Gas Corp (ONGC), who was outbidded by CNPC in buying Canadian-registered PetroKazakhstan less than a month ago, according to a Reuters report.

Industry insiders said the coming together of China's oil companies in bidding for foreign assets this time may be drawing on lessons learned from CNOOC's failed buyout of Unocal last month amid strong political opposition from the United States.

"The joint venture by the Chinese oil companies in buying EnCana's Ecuador assets means considerably fewer risks, compared with CNOOC's individual deal for Unocal," said a senior official from PetroOverseas who declined to be identified yesterday.

Liu Gu, a senior analyst with Guotai Jun'an Securities (Hong Kong) Ltd, said the deal would not have a great impact on the listed prices of PetroChina and Sinopec, since "the acquired oil and pipeline assets only make up a small proportion of their total portfolio."

Shares of EnCana on Wednesday fell 35 Canadian cents (29.7 US cents) to 58 Canadian dollars (US$49) in Toronto Stock Exchange trading.

4. Africa Oil Journal, EnCana Corp news release

Encana Sells Chad Interests to CNPC of China

January 17, 2007

EnCana (Chad) Holdings Ltd., an indirect wholly-owned subsidiary of EnCana Corporation, has closed an agreement to sell all of its interests in its exploration assets in Chad to CNPC International (Chad) Ltd., an indirect wholly-owned subsidiary of the China National Petroleum Corporation (CNPC) for approximately US$202.5 million, before closing adjustments. www.encana.com

Pursuant to the agreement, CNPC purchased all of the shares of EnCana International (Chad) Ltd., which holds a 50-percent working interest in a Convention and Permit H which covers seven sedimentary basins. The effective date of this transaction is October 1, 2007. www.cnpc.com.cn/english/

EnCana has operated an exploration program in Chad since 2002. In the past five years, the company has drilled 11 exploration wells and has had encouraging results. Divesting of this asset is part of the company's ongoing program to manage and optimize its portfolio of assets and to focus on core North American resource plays.

EnCana has now completed its withdrawal from exploration activities in Africa and continues with limited exploration work in select international locations.
BNP Paribas acted as the exclusive financial advisor with respect to the sale of EnCana's interests in Chad.

With an enterprise value of approximately US$45 billion, EnCana is a leading North American unconventional natural gas and integrated oilsands company.

5. *Encana News Release:*

Encana and China National Petroleum Corporation look to jointly develop Canadian unconventional natural gas

Ottawa, Ontario (June 24, 2010) – Encana Corporation (TSX & NYSE: ECA) and China National Petroleum Corporation (CNPC) today signed a memorandum of understanding, formally called a Heads of Agreement, that outlines a framework for the two companies to negotiate a potential joint-venture investment in the development of certain lands in Encana's natural gas plays in Horn River, Greater Sierra (Jean Marie formation) and Cutbank Ridge (Montney formation) in northeast British Columbia.

Accelerating value creation from Encana's enormous resource potential

"Given the depth of our enormous unconventional natural gas resource portfolio, we are accelerating our organic growth rate and targeting a doubling of our production per share over the next five years. Beyond our internally-funded capital investments, we have an extensive joint-venture program that helps accelerate value recognition across our North American resource portfolio. With this potential CNPC joint venture, we would expect, upon successful completion of a transaction, to lower costs, reduce risks, increase our capital efficiencies, improve project returns, optimize production techniques and tap natural gas opportunities that would otherwise remain dormant for some time," said Randy Eresman, Encana's President & Chief Executive Officer.

Enhancing competitiveness of Canadian natural gas

"Recent breakthrough technologies are transforming North America's energy future by opening vast new supplies of clean burning natural gas, particularly in U.S. shale gas plays. This initiative with CNPC has the potential to significantly benefit Canada's economy through increased investment in our three British Columbia natural gas plays. New investments of this nature hold considerable promise for creating jobs and new markets, expanding resource revenues for governments and substantially enhancing the competitiveness of Canadian natural gas in North America," Eresman said.

Targeting to increase the current joint-venture investment levels

In the past three years, Encana has attracted commitments of more than US$4 billion of joint-venture capital through multiple agreements in Canada and the United States, of which about $900 million is to be invested in 2010. Encana is targeting annual joint-venture investments of between $1 billion and $2 billion. A joint venture with CNPC could contribute significantly towards achieving that investment target.

Joint venture framework

In the Heads of Agreement signed at the Fairmont Chateau Laurier in Ottawa, Encana and CNPC stated that they "believe the full-scale partnership and cooperation will bring a win-win situation and help to realize the business goals of each" company and they "intend to jointly and comprehensively develop the natural gas value chain business in Canada." Under a potential joint venture, Encana would be the operator of all developments, meaning it would drill and complete the wells, build the processing facilities and pipelines and conduct all field work for the joint venture. CNPC would invest capital to earn an interest in the assets and gain an advanced understanding of unconventional natural gas development through an ongoing sharing of technical knowledge. The companies expect that it will take several months to negotiate a potential joint venture, which would be subject to typical conditions precedent, including the negotiation of acceptable terms and conditions, receipt of the Encana Board of Directors' approval of the final terms of the proposed joint venture and receipt of any necessary regulatory approvals.

Tremendous resource potential across Encana lands

Across North America, Encana has more than 7.5 million net acres of undeveloped land. Based on an independent assessment of Encana's proved reserves and highest-quality economic contingent resources, Encana has estimated that its resource potential is more than sufficient to support the company's long-term goal of doubling production per share over the next five years. These natural gas assets are large enough to support approximately 23,000 drilling locations – an 18-year inventory at the company's current pace of development.

"Our proved reserves and highest-quality economic contingent resources represent just the tip of the iceberg when it comes to what we ultimately expect to develop on our existing resource base. A sizeable portion of our company's future resource potential resides on our extensive lands in northeast British Columbia and a joint venture with CNPC would help develop natural gas from a portion of these promising economic and clean-energy opportunities," Eresman said.

Responsible natural gas growth

The joint venture is expected to develop existing Encana lands at a rate that would be faster than would be achieved without the additional investment. As Encana pursues its long-term growth strategy, the company remains committed to demonstrating reliability and trustworthiness as it continually pursues safe, energy-efficient, sustainable development. Consistent with its long-standing operating and corporate responsibility practices, Encana is committed to advancing this potential joint venture with consideration and respect for the people, communities and environments where the company operates.

British Columbia natural gas plays

In northeast British Columbia, Encana's Greater Sierra key resource play holds about 275,000 net acres of land covering the Devonian shale formation in its Horn River play and about 1.7 million net acres covering the Jean Marie formation. Encana's Cutbank Ridge key resource play holds about 720,000 net acres of land covering the Montney formation. Combined, first quarter 2010 production from these key resource plays was about 535 million cubic feet of gas equivalent per day.

Encana Corporation

Encana is a leading North American natural gas producer that is focused on growing its strong portfolio of prolific shale and other unconventional natural gas developments, called resource plays, in key basins from northeast British Columbia to east Texas and Louisiana. A pure-play natural gas company, Encana applies advanced technology and operational innovation to reduce costs and maximize margins. The company believes North American natural gas is an abundant, affordable and reliable energy supply that can play a significantly expanded role in serving the continent's growing energy needs while enhancing environmental performance and generating economic growth. By partnering with employees, community organizations and other businesses, Encana contributes to the strength and sustainability of the communities where it operates. Encana common shares trade on the Toronto and New York stock exchanges under the symbol ECA.

China National Petroleum Corporation

CNPC is China's largest oil and gas producer and supplier. With a presence in 30 countries, CNPC is seeking an even greater international role. CNPC provides energy in a profitable manner and always attaches great importance to its social and environmental responsibilities.

6. Macleans

Encana and Chinese to negotiate potential joint venture investment

June 24, 2010

OTTAWA - Encana Corp. (TSX:ECA) signed a deal Thursday with China National Petroleum Corp. to negotiate a potential joint-venture investment.

The deal covers Encana's Horn River, Greater Sierra and Cutbank Ridge natural gas plays in British Columbia.

The company said under a potential joint venture Encana would be the operator of all developments, while CNPC would earn an interest in the assets and share in the technical knowledge required to develop unconventional natural gas projects.

"Given the depth of our enormous unconventional natural gas resource portfolio, we are accelerating our organic growth rate and targeting a doubling of our production per share over the next five years," Encana president and chief executive Randy Eresman said in a statement.

"Beyond our internally-funded capital investments, we have an extensive joint-venture program that helps accelerate value recognition across our North American resource portfolio."

Chinese companies have been snapping up oilsands properties in recent years as the country scours the globe for secure energy supplies.

China's strategy so far has been to join forces with Canadian firms that have the technical expertise to extract the heavy oil from sand and clay. In return, the Canadian firms get a big injection of capital that may have otherwise been tough to secure.

Earlier this month, sovereign wealth fund China Investment Corp. bought $435 million worth of Penn West Energy Trust units and invested $817 million in a joint venture at the Peace River project.

Sinopec spent US$4.65 billion earlier this year for a stake in the Syncrude Canada Ltd. partnership, (TSX:IMO) (TSX:COS) (TSX:NXY) (TSX:SU), which owns the gargantuan 350,000-barrel-per-day mining operation north of Fort McMurray, Alta.

PetroChina has invested $1.9 billion in two projects operated by Athabasca Oil Sands Corp. (TSX:ATH), which made its debut on the Toronto Stock Exchange earlier this year.

7. Globe and Mail, June 24, 2010:

B.C. shale gas gets jump-start with $404-million land auction

David Ebner

Energy companies made their biggest bet on the long-term future of Canadian natural gas exploration since the credit crisis began in 2008, putting down $404-million to secure new land to hunt for shale gas in northeastern British Columbia.

The auction in B.C. Thursday was among the largest single sales of exploration land in Canadian history. The major investment indicates the industry has fully shaken off the malaise of the past two years, and is ready to invest in natural gas even though the current price has been depressed because of ample current supplies.

"There's a lot more confidence – you can see it just walking around town," said Brian Lavergne, chief executive officer of Calgary's Storm Exploration Inc., which was active in northeastern B.C. before selling to ARC Energy Trust. He's starting a new company focused on B.C.'s Horn River basin, a hub of much of the latest excitement.

“It’s night and day,” said Brad Turner, president of Britt Land Services, a broker who was active in Thursday’s sale on behalf of energy sector buyers. “Last year, there was no new capital. This year is completely different: We have money, positive cash flow, oil prices are high, we think gas will come back and the technology is good.”

Shale gas – natural gas trapped in tight rock that is difficult to recover – has sparked a revolution in the energy business by unlocking vast new supplies. For a time, supply swamped demand, but this year the pace of supply growth has slowed considerably due to low prices.

Gas supply in the United States has risen only 1 per cent this year, according to data compiled by the U.S. Energy Information Administration, far slower than the stunning growth rates of as much as 9 per cent recorded in 2008, the fastest in decades, when the first widespread flush of shale gas gushed out of the ground.

So while the current price of gas leaves many potential wells unprofitable, the industry is betting the situation will eventually change, perhaps quickly. FirstEnergy Capital Corp. estimates that American gas supply will fall this year, just as demand in sectors such as electricity generation climbs.

Longer term, moves such as Environment Minister Jim Prentice’s call this week to phase out coal-fired electricity generation in favour of sources such as natural gas are also weighed by companies making long-term wagers on natural gas.

“It’s not the gas price in the here and now but the future, and elevated demand,” said analyst Robert Fitzmartyn of FirstEnergy.

What’s also coming together in remote and rugged northeastern B.C. is infrastructure to handle all the predicted action from potentially wildly prolific fields like the Horn River. Roads are being built, pipeline capacity is increasing and gas processing facilities are being constructed and expanded.

Just this month, Spectra Energy Corp. announced a new gas processing plant to open in 2011, part of $1.5-billion the company has spent in the region.

The $404-million spent by energy players on Thursday is a welcome injection into the B.C. treasury and triples this year’s take from land sales to $609-million. The province had estimated about $250-million would be spent in the auction.

“We were all surprised we were high as it is. It’s a good signal to us the industry has lots of confidence in the province,” said Energy Minister Bill Bennett, who added that companies are preparing territory to increase future production in anticipation of higher prices.

The shale gas revolution has also migrated to Alberta, where the first stampede occurred in December, when $384-million was spent at a single sale. In 2010 so far, $838-million has come into the treasury, much of it from companies looking to stake out emerging shale plays.

Such exploration rights money is bright news for provinces dealing with deficits. On Thursday, Alberta announced that its 2009-10 deficit was only $1-billion, far lower than the predicted $4.7-billion. A big boost was the $854-million of land sales cash in the last four months of the fiscal year that ended March 31.

The good news has spread to Saskatchewan, too, but for oil. Interest in the Bakken oil field in the southeastern region of the province has reignited, with land sales this year bringing in $276-million, more than double the $118-million in all of last year, though much lower than the record $1.12-billion in 2008.

In B.C., there was a mad rush to secure shale gas territory before the credit crisis triggered the economic meltdown of 2008, with companies spending an astounding $1.55-billion in three auctions in May, July and August of that year. The total for the year was a record $2.26-billion.

8. Stockhouse:

Encana and China National Petroleum Corporation look to jointly develop Canadian unconventional natural gas

June 24, 2010

OTTAWA, Ontario, Jun 24, 2010 (BUSINESS WIRE) --

Encana Corporation (TSX & NYSE: ECA) and China National Petroleum Corporation (CNPC) today signed a memorandum of understanding, formally called a Heads of Agreement, that outlines a framework for the two companies to negotiate a potential joint-venture investment in the development of certain lands in Encana's natural gas plays in Horn River, Greater Sierra (Jean Marie formation) and Cutbank Ridge (Montney formation) in northeast British Columbia.

Accelerating value creation from Encana's enormous resource potential "Given the depth of our enormous unconventional natural gas resource portfolio, we are accelerating our organic growth rate and targeting a doubling of our production per share over the next five years. Beyond our internally-funded capital investments, we have an extensive joint-venture program that helps accelerate value recognition across our North American resource portfolio. With this potential CNPC joint venture, we would expect, upon successful completion of a transaction, to lower costs, reduce risks, increase our capital efficiencies, improve project returns, optimize production techniques and tap natural gas opportunities that would otherwise remain dormant for some time," said Randy Eresman, Encana's President & Chief Executive Officer.

Enhancing competitiveness of Canadian natural gas "Recent breakthrough technologies are transforming North America's energy future by opening vast new supplies of clean burning natural gas, particularly in U.S. shale gas plays. This initiative with CNPC has the potential to significantly benefit Canada's economy through increased investment in our three British Columbia natural gas plays. New investments of this nature hold considerable promise for creating jobs and new markets, expanding resource revenues for governments and substantially enhancing the competitiveness of Canadian natural gas in North America," Eresman said.

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Joint venture framework In the Heads of Agreement signed at the Fairmont Chateau Laurier in Ottawa, Encana and CNPC stated that they "believe the full-scale partnership and cooperation will bring a win-win situation and help to realize the business goals of each" company and they "intend to jointly and comprehensively develop the natural gas value chain business in Canada." Under a potential joint venture, Encana would be the operator of all developments, meaning it would drill and complete the wells, build the processing facilities and pipelines and conduct all field work for the joint venture. CNPC would invest capital to earn an interest in the assets and gain an advanced understanding of unconventional natural gas development through an ongoing sharing of technical knowledge. The companies expect that it will take several months to negotiate a potential joint venture, which would be subject to typical conditions precedent, including the negotiation of acceptable terms and conditions, receipt of the Encana Board of Directors' approval of the final terms of the proposed joint venture and receipt of any necessary regulatory approvals.

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China National Petroleum Corporation CNPC is China's largest oil and gas producer and supplier. With a presence in 30 countries, CNPC is seeking an even greater international role. CNPC provides energy in a profitable manner and always attaches great importance to its social and environmental responsibilities.

9. CBC News, June 25, 2010:

Encana mulls Chinese investment in B.C.

Calgary-based Encana Corp. announced Friday it has reached a memorandum of understanding with the state-owned China National Petroleum Corp. for a joint venture to develop natural gas fields in northeast British Columbia.

A memorandum of understanding is a preliminary step toward a final deal, which would eventually have China invest in developing Encana's properties in Horn River, Greater Sierra and Cutbank Ridge in the Montney formation.

In return, the Chinese company would gain a stake in the properties and gain an advanced understanding of the technology of natural gas development.

The properties cover almost 1.1 million hectares.

An eventual deal would "lower costs, reduce risks, increase our capital efficiencies, improve project returns, optimize production techniques and tap natural gas opportunities that would otherwise remain dormant for some time," Encana CEO Randy Eresman said.

Over the last three years, Encana has signed similar commitments with Canadian and U.S. partners for more than $4 billion US of joint-venture capital, of which about $900 million is to be invested in 2010.

Encana said it expects to take several months to negotiate terms acceptable to both Encana and the Chinese firm.

B.C. rights auction better than expected

The announcement came the same week the province’s latest auction of petroleum exploration rights brought in twice as much revenue as the government expected.

Rights to 100 parcels of land around Fort St. John and Fort Nelson went for more than $400 million.
‘It’s a really good sign for the economy,” Energy Minister Bill Bennett said.

“It’s also a good sign British Columbia is viewed by investors as a safe place to invest and a productive place to invest and government needs the dollars to pay for things like health care and education, and this is the main way we do it.”

10. Calgary Herald, June 28, 2010:

Tertzakian: Encana-China natural gas deal points to shifts for North America

By Peter Tertzakian

“GasLand” purports to expose the hazards of onshore natural gas drilling illustrates its point with startling images of people setting fire to water flowing from faucets in their homes
Photograph by: Robert Nickelsberg/Getty Images/AFP, Getty Images/AFP

Watching a kitchen faucet burst into flames is startling to say the least.

That’s one of the outrageous scenes you will see if you watch the new documentary Gasland, which was aired last week on HBO.

Produced like the in-your-face sensationalism of Michael Moore, director Josh Fox exposes his take on the negative effects of natural gas drilling in the United States.

Much of the criticism centers on the effects of hydraulic fracturing on drinking water, and the drilling frenzy in the Marcellus shale underneath Pennsylvania.

Actually, the movie wasn’t broadcast in Canada so I haven’t seen it yet. I’ve only smiled through the exaggerated trailer on YouTube and read through the predictably contemptuous blogs.

So I'm not really qualified to review the flick, even though much of the content looks thin on objectivity and fat on sketchy facts (apparently the gas coming out of the kitchen sink is naturally occurring biogenic gas, not natural gas as implied).

Anyway, Gasland is unlikely to have much effect on the booming North American drilling trend.

Like it or not, there is too much economic momentum behind the business – jobs and wealth creation in depressed regions have a tendency to trump fringe concerns.

And now there is a new twist to the real-life shale gas story – unfolding week-by-week to industry participants like an exciting movie plot – that will continue to keep drilling activity robust: the influx of Asian capital.

Historically, low natural gas prices have been effective in quickly crimping exploration and development investment, sending rigs home and moderating production output.

Waiting for investment to dry up has been the part of the shale gas movie everyone in the natural gas business has been anticipating.

Yet, an announcement by EnCana last week confirms that the plot is taking on a different direction. Putting pen to paper in a memorandum of understanding, EnCana and the China National Petroleum Company (CNPC) now have a framework for the two companies to negotiate a potential joint-venture investment in prolific unconventional gas regions of Northeastern British Columbia, specifically, plays in the Horn River, Greater Sierra and Cutbank Ridge areas.

In other words, EnCana will be able to tap into deep, long-term Chinese pockets for exploration and development capital.

The dollar amount is not specified, but I know first hand that Chinese state-owned petroleum companies have difficulty thinking in anything less than 10 figures.

EnCana is not a pioneer in bringing Asian money to shale gas.

About a week ago Chesapeake Energy Corp., one of the biggest independent shale gas producers announced that it had sold $900 million in preferred stock to a group of private investors, mostly from Asian sources including China Investment Corp., Korea Investment Corp. and Temasek Holdings of Singapore. Money from India is spilling into North American shale gas too; recently Reliance Industries agreed to pay $1.36b for a 45% stake in Texan shale gas assets, including the liquids-rich Eagle Ford play.

The deal was the second by Reliance since April when it paid $1.7 billion to form a venture with Atlas Energy, a major player in the Marcellus country portrayed by Fox's Gasland.

Assure yourself that there will be a lot more Asian capital pouring into resource rich areas of Canada and the United States.

But the plot underlying the natural gas movie will have to reach a denouement over the next couple of years, because investment dollars and low gas prices do not mix for long even if the dollars come from the other side of the world.

Relentless drilling at the current pace will continue to pressurize the continent with excess natural gas, to the point where Americans and Canadians will have natural gas coming out of every structural orifice, from kitchen faucets to manhole covers.

Something will have to give before that happens.

You know you have a real energy megatrend when someone makes a contrarian documentary with outrageous claims. Yet the story of natural gas using hydraulic fracturing is no longer just about new technology, aggressive drilling, environmental concern and production growth.

There is a broader plot here that will take the North American shale gas story through another twist or two: the influx of Asian capital followed by reciprocal exports of LNG to Asian markets.

Announcements by large natural gas producers over the past few weeks are like a movie trailer for what's to come.

11. Wikipedia: China National Petroleum Corporation

China National Petroleum Corporation (CNPC) (simplified Chinese: 中国石油天然气集团公司; traditional Chinese: 中國石油天然氣集團公司; pinyin: Zhōngguó Shíyóu Tiānránqì Jítuán Gōngsī)[2] is a state-owned fuel-producing corporation and the largest integrated oil and gas company in the People's Republic of China. CNPC is the parent of PetroChina, the most valuable company in the world by market capitalization as of March 30, 2010.

Corporate structure
CNPC is the government-owned parent company of public-listed PetroChina, a company created on November 5, 1999 as part of the restructuring of CNPC. In the restructuring, CNPC injected into PetroChina most of the assets and liabilities of CNPC relating to its exploration and production, refining and marketing, chemicals and natural gas businesses.

CNPC and PetroChina develop overseas assets through a joint venture, CNPC Exploration & Development Company, which is 50% owned by PetroChina. The half ownership was acquired in June 2005 by PetroChina after paying CNPC 20.74 billion yuan.[3]

History
CNPC can be traced from the beginning as a governmental department of the PRC government. In 1949, the Chinese government formed a Fuel Industry Ministry dedicated to the management of fuel. In January 1952 a sub department of the fuel ministry was formed to manage petroleum exploration and mining, it was called the Chief Petroleum Administration Bureau. In July 1955 a new ministry was created to replace the Fuel Industry Ministry, it was called the Ministry of Petroleum. From 1955 to 1969, approximately 4 oil fields were found in 4 areas in Qinghai, Heilongjiang (Daqing oilfield), Bohai Bay and

Songliao basin. CNPC was finally created in 17 September 1988 when the government decided to disband the Ministry of Petroleum and created a state owned company to handle all Petroleum activities in China.

1993 marks the beginning of CNPC international operation. CNPC sign a service contract with the government of Peru to manage the Talara oilfield. It was followed by an oil contract with the government of Sudan to manage Block 1/2/4 in the Muglad oilfield. Then in June 1997 the company bought a 60.3% stake in the Aktobe Oil Company of Kazakhstan, the next month CNPC won an oil contract for the Intercampo oilfield and East Caracoles oilfield in Venezuela.

Further In July 1998, the company was restructurized by the government in accordance with the upstream and downstream principle of oil industry.[4]

In August 2005 it was announced that CNPC agreed to buy the Alberta-headquartered PetroKazakhstan for US$4.18 billion. This would be the largest overseas acquisition by a Chinese company. The acquisition was successfully completed 26 October 2005 after a Canadian court turned down an attempt by LUKoil to block the sale.[2]

On 5 November 2007, CNPC was listed as A share in the Shanghai Stock Exchange.

Operations

CNPC holds proved reserves of 3.7 billion barrels of oil equivalent. In 2007, CNPC produced 54 billion cubic metres of natural gas.[3] CNPC spun off most of its domestic assets into a separate company, PetroChina, during a restructuring. CNPC has 30 international exploration and production projects with operations in Azerbaijan, Canada, Indonesia, Myanmar, Oman, Peru, Sudan, Thailand, Turkmenistan, and Venezuela.

Iraq

Main article: Rumaila field

CNPC began development of Ahdab, an oil field in Wasit Governorate holding a modest one billion barrels, in March 2009, becoming the first significant foreign investors in Iraq.[5] The project progressed despite security problems although CNPC encountered problems with local farmers. Dozens of farmers complain of damage to property because of work on the site and Iraqi oil officials claim thievery from the oil site by local farmers.[5] Adhab is not expected to be a major profit center, earning the company a projected 1 percent profit. Instead development of the field was seen as an entry strategy into Iraq. Following Adhab, CNPC obtained a contract to develop the much larger Rumaila field with joint venture partner British Petroleum and it is expected that crude oil production from Rumaila will expand by 10% by the end of 2010 once the BP PLC/CNPC consortium takes over development of the field in June 2010.[6][7]

Syria

CNPC with Indian state oil firm, ONGC created a joint venture to acquire minority stakes ranging from about 33.3% to 38% in several mature Syrian oil and natural-gas properties. The combined entity was a notable instance of cooperation between two state oil firms that regularly competed for assets around the world.[8]

Kazakhstan

CNPC is heavily involved in the development of Kazakh oil after the acquisition of Alberta-based PetroKazakhstan, a company with all operations in Kazakhstan. The company was purchased for $4.18 billion. Political resistance in Kazakhstan to the deal was placated by the sale of a minority stake in PetroKazakhstan by CNPC to KazMunaiGaz, the Kazakh state-owned oil company.

Uzbekistan
In 2006, CNPC formed an international consortium with state-run Uzbekneftegaz, LUKoil Overseas, Petronas, and Korea National Oil Corporation to explore and develop oil and gas fields in the Aral Sea.[9]

Xinjiang Pipeline
In October 2004, CNPC began construction of a pipeline from the Middle East to Xinjiang.

Environmental record
In 2005, there were explosions at a CNPC owned petrochemical plant causing six deaths, a mass evacuation, and a massive oil spill over the Songhua River. In 2009 a CNPC pipeline burst, spilling a large amount of diesel oil into the Chishui River in Shaanxi province.

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12. Wikipedia: Encana Corporation

Encana Corporation is one of North America's largest natural gas producers, with about 95 percent of its production being natural gas. Its strategy is to be a natural gas pure-play company focused on the development of unconventional resources. The company produced 1.1 trillion cubic feet of natural gas in 2009.

Encana was formed in 2002 with the merger of PanCanadian Energy and Alberta Energy Company. The corporate headquarters are in Calgary, Alberta. In Canada, Encana has operations in Alberta, northeast British Columbia as well as an off-shore operation called

Deep Panuke in development off Nova Scotia. In the United States, Encana operates in Colorado, Wyoming, Texas and Louisiana.

Encana has received numerous awards for its environmental initiatives and is recognized on the Dow Jones Sustainability Index. In 2008 alone, Encana set aside $50 million CDN to be spent on new technologies that will increase energy efficiency. Another program, Encana's Environmental Innovation Fund, "supports technologies that reduce air emissions, increase energy efficiency, improve water conservation, enhance waste management, and develop new renewable energy." [3]

Encana's community investment program supports projects and programs in the areas where the company operates. The company invests in environmental initiatives, education (specifically focused on science, trades and technology), community enhancement, family and community wellness, as well as sport and recreation. Encana matches donations given by its employees to recognized charities. In 2009, the company donated more than $30 million.

A new 58-story headquarters for Encana's Calgary staff, called the The BOW, is now under construction. It will be the tallest office tower in Canada outside of Toronto and is expected to be complete in 2012.[4]

In December 2009, Encana split into two independent companies focused on distinct businesses. The unconventional natural gas company retained the name Encana and the integrated oil company is called Cenovus Energy.[5]

Criticism

Encana has been criticised by landowners and environmentalists, particularly over a protected area south of Calgary where the company proposed to drill several hundred natural gas wells. In northern British Columbia where Encana pipelines have experienced six explosions, media reports indicate the pipeline may have been bombed by disgruntled community members.[6][7]

Issues have also been raised for a proposed project offshore of Nova Scotia, for which Encana has proposed a streamlined regulatory process.[8]

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CHINA'S INVOLVEMENT IN SUDAN: ARMS AND OIL

China's need for oil reserves for its growing domestic economy has caused its government to pursue investments in many countries of marginal stability and democracy, but its greatest oil success abroad has been in Sudan.

Although the China National Petroleum Company (CNPC) had escaped the public relations hammering that Talisman was receiving, it was drawn into the controversy through the efforts of Sudan activists to bar the use of U.S. financial markets to raise money for anyone doing oil business in Sudan in late 1999. China's first foray into the world of high finance—to open up its enormous government-owned corporations to foreign investment—was a controversial offer to sell stock in CNPC to the public on the New York Stock Exchange (NYSE). Its offer, designed to raise a record U.S. $ 10 billion, had to be withdrawn and refashioned because of the negative publicity suggesting that the proceeds would be used to commit further human rights abuses in Sudan, Tibet, and elsewhere. Ultimately, the 90 percent-CNPC-owned subsidiary PetroChina, with a "firewall" to prevent any of the new capital from going to the Sudanese operations, proceeded with a stock offer to raise U.S. $ 10 billion. A broad-based coalition opposed to the PetroChina IPO ultimately succeeded in reducing the proceeds from the IPO by some 70% to only U.S. $ 2.89 billion. This reduced amount was raised with major participation from British Petroleum and a few other large companies. Questions about China's financing of arms sales to Sudan and allegations of Chinese prison labor used in the construction of Sudan's oil pipeline were never addressed.

Arms Trade between China and Sudan

China was not new to Sudan. By the time it invested in GNPOC in December 1996, it was already a familiar arms dealer to many Sudanese governments. The Nimeiri government (1969-85) bought weapons from China. But these purchases rose in the 1990s due to Sudan's internal war and the promise of improved finances and enhanced international credit derived from its oil potential.

Weapons deliveries from China to Sudan since 1995 have included ammunition, tanks, helicopters, and fighter aircraft. China also became a major supplier of antipersonnel and antitank mines after 1980, according to a Sudanese government official.[1387] The SPLA in 1997 overran government garrison towns in the south, and in one town alone, Yei, a Human Rights Watch researcher saw eight Chinese 122 mm towed howitzers, five Chinese-made T-59 tanks, and one Chinese 37 mm anti-aircraft gun abandoned by the government army.[1388]

Human Rights Watch concluded that while China's motivation for this arms trade appeared to be primarily economic, China made available easy financing for some of these arms purchases.[1389]

China's Need to Acquire Foreign Oil Reserves

China invested in Sudan's nascent oil industry because of its need to acquire foreign oil reserves. While China expected its industrial development to make increasing demands for more oil, the Chinese oilfields had, by the late 1990s, already passed their peak production. "China until recently relied on its vast northeastern Daqing oilfield to fuel its energy needs, but output is declining and it has yet to find new large domestic supplies," according to the Chinese government news agency Xinhua.[1390]

In the early 1990s, the Chinese government projected that it could have a shortfall of about 50 million tons of crude oil (30 percent of its oil needs) in 2000, while domestic crude output remained static at 160 million tons. China therefore had to rely on its ability to stake out oil reserves abroad. Oil analysts projected that China would become an oil importer—at the mercy of non-Chinese oil producing states and companies—within five years.[1391] China set about becoming a global player in the oil industry. Chinese officials wanted "to have a 10-million-ton-oil supply from overseas a year by 2000 and 50 million tons of oil and 50 billion cubic meters of gas by 2010."[1392]

By 1997, according to CNPC's then president, Zhou Yongkang, China was "very aggressive in buying foreign oil and gas fields."[1393] The CNPC brought its first shipment of foreign crude oil to China in 1997.[1394]

CNPC, a government-owned corporation, acting through a wholly-owned subsidiary, took the largest share, 40 percent, in the GNPOC consortium on December 6, 1996, when Arakis sold 75 percent of its interest in the project to three other companies to form that consortium.[1395] The Sudanese project was expected to produce up to ten million tons of oil a year for China by 2000, which would by itself help meet China's projected oil import target for 2000.[1396]

In 1998, CNPC's construction arm, China Petroleum Engineering & Construction (Group) Corporation (CPECC), participated in the construction of the 1,500-kilometer-long GNPOC pipeline from Blocks 1 and 2 to the Red Sea. It also built a refinery near Khartoum with a 2.5 million-ton processing capacity. It further engaged in "10 million tons oilfield surface engineering." The Sudan project became "the first overseas large oilfield operated by China," according to the Chinese.[1397]

The Chinese government-run news agency was effusive about China's participation in the Sudan project, characterizing it as CNPC's biggest overseas project to date.[1398] The agency termed the oilfield, the long oil pipeline, and the oil refinery China built in Sudan "a major breakthrough in China's overseas oil work."[1399] The news agency likewise claimed, "China has made a series of technological breakthroughs in undertaking the huge [Sudan] oil project, including in the sectors of oil engineering technology, geological prospecting and oil drilling."[1400]

Yet, China claimed it did not make any profit on the pipeline, refinery, and two oil well projects in Sudan. The vice president of CPECC said, "A Western company couldn't have done what we did . . . Sudan wanted it done in 18 months and we did it, even though we knew we wouldn't make any money."[1401]

China admitted that it brought in a team of 10,000 Chinese laborers so the GNPOC project could be completed by the NIF's tenth anniversary (June 30, 1999). Its labor costs were low: "Our workers are used to eating bitterness . . . they can work 13 to 14 hours a day for very little."[1402] Similarly, the Chinese subcontractor (also a Chinese government enterprise) brought in two Chinese crews for the seismic phase of the Lundin operation in Block 5A. They were new, straight from Beijing. Some did not know how to drive a vehicle.[1403]

It was widely rumored in the oil business in Sudan that the Chinese planned to bring in prisoners to build the pipelines, which was allegedly how they underbid others to get the pipeline contract.[1404] Still, it is difficult to see how Chinese laborers brought to Sudan could live and work for less than southern Sudanese laborers, even Chinese prisoners, because of the transportation cost—even if the transport was one-way for many who may have perished from disease in the inhospitable swamps and baked savannahs. China also admitted that the Sudanese army had to protect the Chinese workers from rebel attacks.[1405]

The Chinese companies' failure to hire local staff led to copious complaints from southerners. In Block 5A, Lundin and its Chinese subcontractor had a crew of sixty people in the "highland" location (Ryer/Thar Jath), forty-five of whom were (northern) Sudanese, the rest Chinese. On the "swamp crew" of sixty (on the White Nile), thirty to forty were Sudanese, the rest Chinese. The Chinese spoke no English and translations were done by the Chinese party chief, who spoke rudimentary English.

The Chinese subcontractor had recruited in the north and hired northern Sudanese to work on this Block 5A project, though they did not have any technical expertise and had to be trained on the job. The Rappaport security consultant to Lundin advised Lundin and the Chinese that it was not a good idea to take northerners to the south to work. Everyone from the Bentiu area, from the governor to the local hires, complained that there were not enough locals on the job, he reported. The Chinese subcontractor insisted on bringing in these northern workers, however. After some incidents, the security company put its foot down on hiring northern Sudanese, and the Chinese subcontractor relented.[1406]

The Chinese companies involved in GNPOC did all this work, their spokesman said, for no profit—for valuable experience overseas—which, as China omitted to mention, was gained mostly under Talisman as project manager. The *Wall Street Journal* nevertheless reported in 1999 that the Sudan project accounted for U.S. $ 500 million of a record $ 710 million in revenues (unaudited) for China Petroleum Engineering & Construction (Group) Corporation.[1407]

China's First Initial Public Offering on the N.Y. Stock Exchange Backfires

CNPC announced in April 1999 that it planned to begin selling shares to the public in China and overseas to help fund new projects.[1408] This was to be the first initial public offering (IPO) that the Chinese government was to make, to be followed by many more as it restructured and privatized its state-controlled economy. China planned to open with a big splash in the U.S.: the CNPC IPO was to be the biggest IPO Wall Street had ever seen, at some U.S. $ 10 billion. CNPC would become the first Chinese state company to be listed and traded on the NYSE.

The listing and the IPO immediately ran into trouble on account of China's record of human rights abuses and the CNPC investment in Sudan. U.S. Representative Frank Wolf (R-VA) on September 30, 1999 wrote the U.S. Securities and Exchange Commission (SEC, which regulates securities filings required for an IPO) asking it to disapprove the CNPC's listing on the NYSE. U.S. Representative Wolf said that permitting CNPC to raise U.S. money on the NYSE would bypass the U.S. economic sanctions imposed on Sudan, a state sponsor of terrorism and a CNPC partner in the oil project. It would also make it easier for Americans to unknowingly invest in a company "that is propping up a regime engaged in slavery, genocide, and terrorism."[1409] Representative Wolf claimed that Sudan was CNPC's largest venture and that it invested an estimated U.S. $ 1 to $ 2 billion in Sudan, on a total CNPC investment of U.S. $15 billion.[1410]

Roger W. Robinson, Jr., chair of the William J. Casey Institute of the Center for Security Policy and former official in Pres. Ronald Reagan's National Security Council, brought up additional reasons for objecting to the IPO: CNPC was in partnership elsewhere in the world with two other states on the State Department's list of countries sponsoring terrorism, Iraq and Iran.[1411]

The U.S. Commission on International Religious Freedom (U.S. CIRF),[1412] a creation of the U.S. Congress, on November 1, 1999, asked the U.S. Treasury to extend the stringent 1997 economic sanctions imposed on U.S. companies doing business with Sudan to CNPC and others using American debt and equity markets to raise money for the Sudan oil project. The grounds were that CNPC's oil interest in Sudan would fund a "war against the south . . . patterns of forced conversion to Islam, manipulation of food aid, bombing of refugee camps, hospitals, churches, and other civilian targets, as well as enslavement."[1413] This pressure came just as the Clinton administration was launching an effort to persuade Congress to approve China's admission into the World Trade Organization.[1414]

CNPC Erects a "Firewall" to Satisfy Activists

Two days after the U.S. CIRF demand, CNPC's investment bankers Goldman Sachs restructured the deal. They created a separate company to float the public offering, PetroChina Co., which would operate only inside China.

CNPC's domestic China holdings would be spun off to PetroChina and the CNPC would exclude its Sudan (and all other foreign) operations from the IPO.[1415] Oil analysts had already expressed disaffection with CNPC's overseas crude reserves, some of which had a low yield (such as in Peru) or political problems (such as in Iraq).[1416]

The proceeds of the IPO were to be used solely for development of China's domestic oil reserves[1417] and PetroChina would not use any of its funds for Sudanese operations, according to CNPC's investment bankers.[1418] The CNPC claimed it needed the IPO funds to build new infrastructure in China to transport crude as well as oil products within China. The Chinese government had already restricted oil imports so its domestic oil company, now PetroChina, could reap a profit.[1419]

PetroChina would rank as China's largest company, with 70 percent of the country's petroleum reserves and accounting for two-thirds of its oil and gas production. It would immediately become the world's fourth-largest publicly traded oil and gas company, although the Chinese government, through CNPC, would still own 80 to 90 percent of PetroChina's stock after the public offering.[1420]

PetroChina maintained it was neither a U.S. nor a Sudanese company nor would it have direct business dealings with Sudan.[1421] Upon closer examination, this was not the divorce it first appeared to be for at least two reasons: income and debt. Critics charged that the CNPC, as the parent company, would receive 90 percent of PetroChina's income, including funds raised in the IPO. PetroChina's chairman denied the company would use proceeds from its stock offering to fund projects in Sudan.[1422]

When created, PetroChina inherited U.S. $ 15 billion in debt from CNPC, giving critics the opportunity to point to more overlap: this debt, incurred partly in connection with the GNPOC project, would be borne by PetroChina.[1423] Pressure in the U.S. against CNPC mounted: in December 1999 170 civic and religious leaders urged President Clinton to amend U.S. sanctions on Sudan to ban CNPC access to U.S. capital markets as long as it was a partner in Sudan's oil development, arguing that "the fungibility of money and the scale of CNPC's activities in Sudan thoroughly undermine the credibility of this [PetroChina] contrivance."[1424]

In February 2000, President Clinton extended the 1997 U.S. sanctions on Sudan to GNPOC and Sudapet by executive order.[1425] In a setback for the campaigners, however, the U.S. Treasury Department answered Rep. Frank Wolf's letter in April 2000, ruling that the 1997 presidential executive order imposing economic sanctions on doing business with Sudan did not prohibit U.S. citizens from investing in non-Sudanese companies doing business in or with the Sudanese government.[1426]—describing CNPC and Talisman to a "T." Some experts claimed it would be unprecedented to apply such sanctions to stock and bond transactions, since sanctions are usually limited to trade and investment. President Clinton said he shared U.S. CIRF's concerns about new oil revenue for Khartoum. But extraterritorial or third country sanctions, he maintained, would "ultimately prove counter productive and hurt U.S. ability to use diplomatic means to maintain pressure on [Khartoum]."[1427]

But these protest actions, and those of the other campaigners on Sudan, delayed the Chinese financial offer by at least four months and substantially cut back the funds raised.[1428]

Opposition Undercuts PetroChina Initial Public Offering, March 2000

After CNPC spun off the PetroChina subsidiary to avoid Sudan protests, the PetroChina IPO was still not quite on track: it was further delayed by extensive questions by the NYSE.[1429] U.S. Congressmen on March 1, 2000, signed a letter opposing the PetroChina IPO on human rights and other grounds.[1430]

Then the largest American trade union federation, the AFL-CIO,[1431] entered the fray, urging investors to stay away from the PetroChina offer. The union claimed the money raised would be used to lay off one million oil workers in China.[1432] In response to Goldman Sach's road show promoting the PetroChina public offering, the AFL-CIO launched its own "alternative road show." AFL-CIO Chairman John Sweeney, in a teleconference call with forty-two leading global institutional investors in March, warned about the hazards of buying PetroChina's stock.[1433]

On March 22, 2000 the AFL-CIO and the NGO Free Tibet co-sponsored a protest at the office of PetroChina's investment banker Goldman Sachs in New York City.[1434] Bill Patterson, director of AFLCIO's office of investments, was convinced that political opposition and subsequent negative press reduced interest in PetroChina's IPO: "We haven't found a single fund yet that even wants to get near this deal."[1435]

BP Amoco PLC offered to purchase up to one billion dollars, or twenty percent, of PetroChina's IPO. In return, BP Amoco, a long-time investor in China, received the right to establish a gas-marketing joint venture in eastern China.

In response, the broad anti-PetroChina coalition began a boycott of BP Amoco gas stations in the U.S. in March 2000.[1436] Although BP Amoco had not directly invested in Sudan or GNPOC, any affiliation with PetroChina or CNPC, direct or indirect, continued to invite harsh criticism. The head of one advocacy group warned PetroChina investors with this sound bite: "If you want to be tarred with this radioactive slave stock then we will do that."[1437] Ultimately the PetroChina IPO raised U.S. only $2.9 billion.[1438] The anti-PetroChina coalition represented possibly the most effective example of shareholder activism since the South Africa divestment campaign. CNPC continued to hold 90 percent of PetroChina stock.

CNPC did not respond to Human Rights Watch correspondence mailed or faxed to its Sudan office and in care of the Chinese embassy in the U.S.

2001

In 2001, confirming earlier trends, Chinese oil industry officials announced that CNPC had targeted Sudan as the centerpiece of its ambitions to triple overseas production by 2005. CNPC planned to establish two new oilfields in Sudan with a combined output of 180,000 barrels per day, on top of its "biggest overseas windfall," in the GNPOC concession. The two new oilfields would be in Blocks 3 and 7 (Melut Basin), and Block 6 (Muglad Basin in western Sudan, northwest of the GNPOC concession).

CNPC had received revenue of more than U.S. $ 600 million from the GNPOC concession since exports began in September 1999, and Sudan accounted for two-thirds of CNPC's overseas production in 2000.[1439] CNPC's dependence on Sudanese crude oil continued to expand, importing 2.69 million tons from Sudan in January to June 2001, up 38 percent from the year before.[1440]

But China's involvement in Sudan continued to draw criticism and reports of military cooperation. One journalist said that CNPC "reportedly purchased a high-tech radar system for the government last year [2000]."[1441] This allegation remains to be investigated.[1442]

CNPC Participation in Government Refinery

The Khartoum refinery, inaugurated with great fanfare on the tenth anniversary of the Islamist-military coup of June 30, 1989, was built to suppl the bulk of petroleum products consumed in Sudan. Described in the press as a private enterprise, it has been described by the IMF as a joint venture between Sudan and the CNPC, with mostly Chinese financing.

The CNPC secured a valuable concession in the contract: if debt service on this refinery is not met, the CNPC has the right to lift the equivalent of crude oil in kind—which would leave Sudan without its domestic fuel to refine. As the IMF put it, as to the debt to CNPC for the refinery, "nonpayment thus is not a realistic option."[1443] Debt service payments for the Khartoum refinery, amounting to U.S. $ 60 million, would have priority over all other debt service payments, such as to the IMF, the World Bank, and other creditors.[1444]

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