

# Foreign Direct Investment Acquisitions and Divestitures, 2002

## *Acquisitions of U.S. Energy Assets by Foreign Investors in 2002 Remain High*

Foreign direct 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 being acquired. Purchases of a U.S. business or asset by one foreign owner from another foreign owner are not included in the foreign direct transactions discussed here. Total foreign direct acquisitions of U.S. energy assets <sup>[1]</sup> rose to more than \$18 billion in 2002 (see Table 1 and Figure 1). This amount exceeded that for every year since 1991, with the exceptions of 1998 and 2000, when British Petroleum's (now BP) investments in the United States expanded with acquisitions of Amoco (1998) and Atlantic Richfield (2000).

The value of foreign direct acquisitions in the electric power sector in 2002, at \$9.4 billion, exceeded those of any other sector of the U.S. energy industry (see Table 1). Electric power shared the leading position with oil and gas production in 1997, the first year electric power made a substantial contribution to total foreign direct acquisitions in energy, and dominated the energy industry's other sectors in 1999. Since the current boom in foreign acquisitions in the energy industry began in 1998, oil and gas production has led the rankings for three years while electric power has led it for two. In each of those years, the largest foreign direct acquisition in the energy industry has determined which sector of the industry would lead the rankings.

The petroleum refining and marketing sector accounted for \$7.3 billion of foreign direct acquisitions in the U.S. energy industry in 2002 (see Table 1). It was the only other sector with more than \$1 billion in acquisitions. This is the first year that acquisitions in refining and marketing have made a substantial contribution to the energy industry total since 1993, when it accounted for 28 percent of the total <sup>[2]</sup>.

Direct divestitures of U.S. energy assets by foreign investors equaled \$4.4 billion in 2002, similar to their level in 2001 (see Table 1). The only year since 1991 that divestitures topped \$5 billion was 2000. The electric power sector had the largest value of foreign direct divestitures, \$2.7 billion in 2002, followed by the midstream natural gas sector, with \$1.5 billion of divestitures.

Worldwide, the total value of all mergers and acquisitions, not just foreign direct mergers and acquisitions in the energy industry, was down 47 percent in 2002. Similarly, the value of worldwide mergers in the oil and gas industry fell 49 percent; however, the value of worldwide electric, gas, and water utilities mergers declined only 16 percent. With this smaller decline, electric, gas, and water utilities rose to from seventh to third place in the ranks of the most active industries in total value of mergers and acquisitions activity in 2002. Oil and gas was the second ranking industry in both years <sup>[3]</sup>.

A list of publicly reported foreign direct acquisitions and divestitures of U.S. energy assets in 2002 valued at greater than \$100 million can be found in Table 2 and Table 3.

## **Major Acquisitions**

● **National Grid Expands in the United States.** In 2002, National Grid (now National Grid Transco) of the United Kingdom greatly expanded its U.S. operations by acquiring Niagara Mohawk for \$8.9 billion, \$5.9 billion of which was the acquisition of Niagara Mohawk's debt. Niagara Mohawk is an upstate New York electric and gas distribution utility, and National Grid is primarily an energy transmission and distribution utility operating in Great Britain and the United States. The deal was structured so that National Grid offered Niagara Mohawk shareholders a choice between cash and American Depository Shares of National Grid, the amounts depending on the price of National Grid shares when the transaction was completed. The deal made National Grid USA, a U.S. subsidiary of National Grid, one of the largest electric power transmission and distribution companies in New York and New England. National Grid USA now serves approximately 3.3 million electricity and 560 thousand natural gas customers. In addition, it operates an electricity transmission network of approximately 14,000 miles and manages a range of electricity transmission operations for three other utilities across five States in the Midwest. National Grid entered the US electricity market in 2000 with its acquisitions of the New England Electric System and Eastern Utilities Associates.

● **Downstream Petroleum Acquisitions Highest in Many Years.** U.S. petroleum refining and marketing saw two major foreign direct acquisitions in 2002. The largest was a three-way transaction that resulted from an agreement that allowed Chevron and Texaco to merge in 2000. At that time, the U.S. Federal Trade Commission and several State commissions would only consent to the merger if Texaco divested all of its U.S. refining and marketing assets, which it held through Equilon Enterprises and Motiva Enterprises. These two companies were joint ventures of Texaco, Royal Dutch/Shell (Netherlands and United Kingdom), and, for Motiva only, Saudi Aramco (Saudi Arabia). In a three-way deal, the other joint owners purchased Texaco's shares of Equilon and Motiva in a transaction valued at \$4.1 billion. After the acquisition, Royal Dutch/Shell owned 100 percent of Equilon, and Royal Dutch/Shell and Saudi Aramco each owned 50 percent of Motiva. The two joint ventures marketed petroleum products through 23 thousand branded service stations in the United States and owned 8 refineries, 30 thousand miles of pipeline, and a trading enterprise.

The other major downstream petroleum foreign direct acquisition in 2002 was made by Royal Dutch/Shell on its own. It purchased Pennzoil-Quaker State, the largest producer of motor oil in the United States and the operator of Jiffy Lube, a chain of auto service centers, for \$1.9 billion plus the assumption of \$1.3 billion in debt. This deal expanded Royal Dutch/Shell's position in the U.S. lubricants market. With this deal and the above Equilon and Motiva deal, Royal Dutch/Shell completed a major expansion of its downstream petroleum activities in the United States.

## Major Divestiture

● **Major Divestiture in the Electric Power Sector.** The largest foreign direct divestiture was the sale of half of Sithe New England Holdings by Sithe Energies, at the time a U.S. subsidiary of Vivendi Universal (France) and Marubeni (Japan). Exelon, already the indirect owner of the other half of Sithe New England Holdings, purchased the assets for \$1.7 billion. Exelon had acquired the first 50 percent of Sithe New England Holdings when it acquired half of Sithe Energies in 2000. Later in the year, Vivendi Universal, which has been selling off assets in order to reduce debt levels, sold its share of Sithe Energies to Apollo Energy. In 2003, Marubeni sold its share of Sithe Energies to Exelon, which eliminated all foreign direct investment in the company. With the purchase, Exelon, at the time the largest U.S. nuclear-power producer, extended its participation in the U.S. electric power market to New England. Previously, the company's major activities focused on the Chicago and Philadelphia areas. The assets divested by Sithe Energies included operating generators, generators under construction that were expected to begin production soon after the deal closed, and Sithe New England Holding's marketing unit. The generators burn oil and natural gas and are located in Massachusetts and Maine. These Sithe New England Holdings electric power plants were planned to be able to generate 4,500 megawatts of electricity, enough to power 4.5 million average U.S. homes.

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## Endnotes

<sup>1</sup>EIA issues an update of acquisitions and divestitures of U.S. energy assets by foreign direct investors each year. The information presented here is derived from company reports and press releases, published compilations of acquisitions and divestitures, such as *Mergers & Acquisitions*, and company filings with the U.S. Securities and Exchange Commission. 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.

<sup>2</sup>Transactions in the petroleum refining and marketing sector are small in part because deals involving integrated petroleum companies, which include refining and marketing, are included entirely in the oil and gas production sector.

<sup>3</sup>"2002 M&A Profile," *Mergers & Acquisitions* (Thompson Media, New York, February 2003), pp. 15, 22-24 and (February 2002), pp. 13, 20-22. Total mergers and acquisitions data are used because, while *Mergers & Acquisitions* separates deals into a category titled "non-U.S. companies' acquisitions of U.S. companies and assets," the definition of this category is not equivalent to the definition of foreign direct acquisitions used here.

**Table 1. Value of Foreign Direct Acquisitions and Divestitures in U.S. Energy, 1991-2002**  
(Million Current Dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 <sup>b</sup>	2002 <sup>c</sup>
<b>Acquisitions</b>												
Oil and Gas Production <sup>a</sup>	1,043	949	1,246	159	2,570	368	1,386	53,892	369	31,373	12,579	809
Midstream Natural Gas	NA	NA	NA	170	367	1,252	150	3,167	336	680	827	896
Petroleum Refining and Marketing	103	173	1,264	0	339	50	313	0	0	37	245	7,300
Coal	570	1,276	1,928	674	0	204	99	400	1,100	0	0	0
Electric Power	NA	NA	150	0	0	0	1,390	536	13,003	11,964	515	9,447
<b>Total Acquisitions</b>	<b>1,716</b>	<b>2,398</b>	<b>4,588</b>	<b>1,003</b>	<b>3,276</b>	<b>1,874</b>	<b>3,338</b>	<b>57,995</b>	<b>14,808</b>	<b>44,054</b>	<b>14,166</b>	<b>18,451</b>
<b>Divestitures</b>												
Oil and Gas Production <sup>a</sup>	736	461	938	663	699	660	340	585	1,072	11,387	2,319	0
Midstream Natural Gas	NA	NA	NA	0	167	123	0	75	1,102	0	1,121	1,501
Petroleum Refining and Marketing	400	60	822	41	0	679	959	806	170	895	677	128
Coal	155	869	438	768	110	0	47	2,312	0	0	0	0
Electric Power	NA	NA	NA	NA	NA	NA	528	0	60	4,329	0	2,723
<b>Total Divestitures</b>	<b>1,291</b>	<b>1,390</b>	<b>2,198</b>	<b>1,472</b>	<b>976</b>	<b>1,462</b>	<b>1,874</b>	<b>3,778</b>	<b>2,404</b>	<b>16,611</b>	<b>4,117</b>	<b>4,351</b>

<sup>a</sup>Includes integrated petroleum and oilfield services.

<sup>b</sup>Revised.

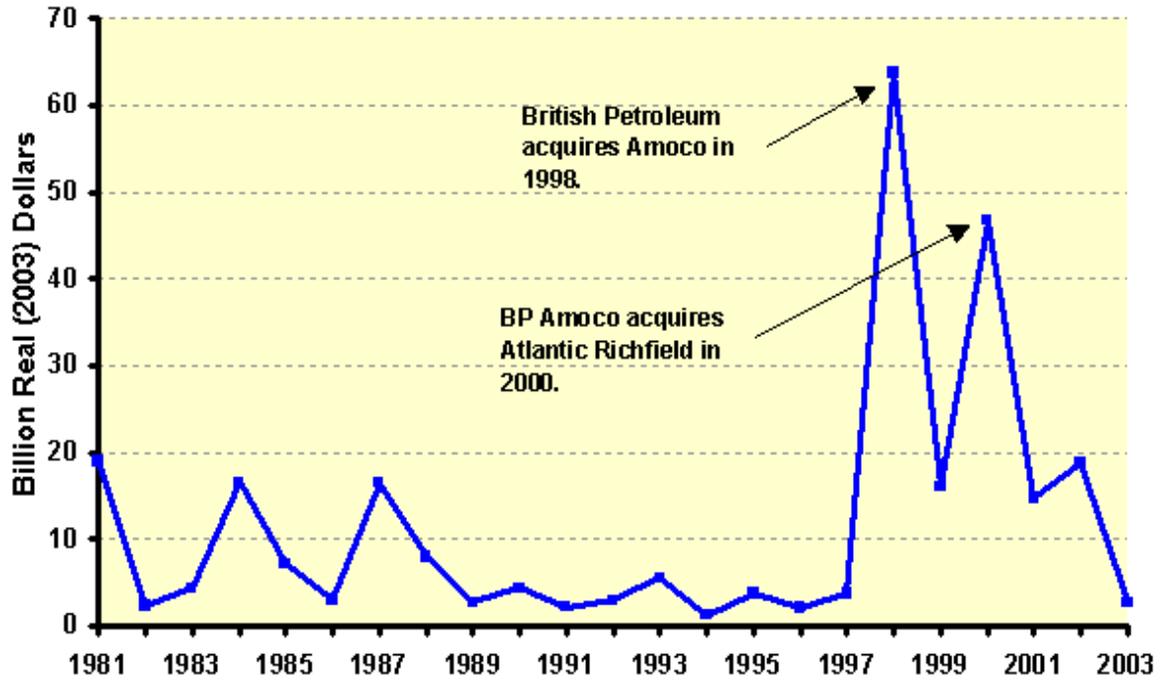
<sup>c</sup>Beginning in 2002, only acquisitions and divestitures greater than \$100 million are included in this table. In 2002, all acquisitions less than or equal to \$100 million totaled \$332 million (1.8 percent of total) and all divestitures less than or equal to \$100 million totaled \$135 million (3.0 percent of total).

NA = Not available.

Notes: 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. Totals calculated from unrounded data.

Sources: **2002:** Tables 2 and 3. **1991-2001:** Energy Information Administration, "Acquisition of U.S. Energy Assets by Foreign Investors Lowest Since 1997," Table 1, <http://www.eia.doe.gov/emeu/finance/fdi/2001/index.html>, September 10, 2002.

Figure 1. Value of Direct Acquisitions in U.S. Energy by Foreign Investors, 1981-2003



Note: Beginning in 2002, only acquisitions and divestitures greater than \$100 million are included in the totals in this figure.

Sources: **2003:** Table 2. **1981-2002:** Energy Information Administration, "Acquisitions of U.S. Energy Assets by Foreign Investors in 2002 Remain High," Figure 1, <http://www.eia.doe.gov/emeu/finance/fdi/adindex.html>, December 23, 2004.

**Table 2. Completed Foreign Direct Acquisitions Greater than \$100 million Ordered by Estimated Amount of Transaction, 2002**

<b>(Acquiring U.S. Subsidiary)* Acquiring Foreign Parent Company Country</b>	<b>U.S. Asset Being Acquired</b>	<b>Acquired Asset Business</b>	<b>(Divesting U.S. Subsidiary)* Divesting U.S. Parent Company</b>	<b>Estimated Amount (million \$)</b>	<b>Closing Month</b>
(National Grid USA) National Grid (now National Grid Transco) United Kingdom	Niagara Mohawk	electric & gas utility	-	8,900	January
(Shell Oil) Royal Dutch/Shell Netherlands & United Kingdom Saudi Aramco Saudi Arabia	Equilon Enterprises (44 percent) & Motiva Enterprises (35 percent)	petroleum refining & marketing	Texaco	4,100	February
(Shell Oil) Royal Dutch/Shell Netherlands & United Kingdom	Pennzoil-Quaker State	petroleum refining & marketing	-	3,200	October
(EnCana Oil & Gas USA) EnCana Canada	Wyoming natural gas properties	oil & gas production	Williams	350	July
Enbridge Canada Fort Chicago Energy Partners Canada	Alliance Pipeline & related assets (various partial interests) <sup>a</sup>	natural gas pipeline	Williams El Paso	338	October & November
EnCana Canada	Colorado natural gas properties	oil & gas production	El Paso	292	July
Statoil Norway	Maryland LNG terminal capacity rights & purchase contract	liquefied natural gas	El Paso	210	December
Enbridge Canada	Texas natural gas gathering & processing facilities	midstream natural gas	Sulphur River Gathering	186	March
Perenco France	CMS Oil & Gas <sup>b</sup>	oil & gas production	CMS Energy	167	September
(PacifiCorp) Scottish Power United Kingdom	Texas gas storage assets	natural gas storage	Aquila	162	December
Brascan Canada	Maine electric power generating plants & related assets	electric power generation	Great Northern Paper	156	February
Centrica United Kingdom	Mutual Energy CPL & Mutual Energy WTU	electric power services	American Electric Power	146	December
Transcanada Pipelines Canada	Colorado power plant	electric power generation	El Paso	127	November
EPCOR Utilities Canada	Frederickson Power (60 percent)	electric power generation	Duke Energy	118	August

\*If available.

<sup>a</sup>Alliance Pipeline and its related assets are located in both Canada and the United States

<sup>b</sup>Includes properties in Congo, Cameroon, and Tunisia.

Note: Only acquisitions greater than \$100 million are included in this table. All acquisitions less than \$100 million totaled \$332 million (1.8 percent of total).

Sources: Company financial reports, company reports to the Securities and Exchange Commission (SEC), industry publications.

**Table 3. Completed Foreign Direct Divestitures Greater than \$100 million Ordered by Estimated Amount of Transaction, 2002**

<b>(Divesting U.S. Subsidiary)* Divesting Foreign Parent Company Country</b>	<b>U.S. Asset Being Divested</b>	<b>Divested Asset Business</b>	<b>(Acquiring U.S. Subsidiary)* Acquiring U.S. Parent Company</b>	<b>Estimated Amount (million \$)</b>	<b>Closing Month</b>
(Sithe Energies) Vivendi Universal France Marubeni Japan	Sithe New England Holdings (50 percent)	electric power generation	Exelon	1,690	November
(InterGen) Royal Dutch/Shell Netherlands & United Kingdom	Tejas Gas	natural gas pipeline	Kinder Morgan	882	January
Schlumberger Netherlands Antilles	Reed Hycalog	drilling products	Grant Prideco	362	December
(LG&E Energy) Powergen United Kingdom	Georgia facilities	electric power generation	(Progress Ventures) Progress Energy	348	February
(Shell Oil) Royal Dutch/Shell Netherlands & United Kingdom	West Texas pipeline and related assets	crude oil pipeline	(Plains All American Pipeline LP) Plains Resources <sup>a</sup>	324	August
Vivendi Universal France	Sithe Energies (34 percent)	electric power generation	Apollo Energy	323	December
(BP America) BP United Kingdom	Colonial Pipeline (18 percent)	petroleum products pipeline	Koch Industries	295	November
(BP America) BP United Kingdom	Virginia refinery	petroleum refining	Giant Industries	128	May

\*If available.

<sup>a</sup>Plains Resources owns approximately 25 percent of Plains All American Pipeline LP and 44 percent of the general partner, Plains All American Inc.

Note: Only divestitures greater than \$100 million are included in this table. All divestitures less than \$100 million totaled \$135 million (3.0 percent of total).

Sources: Company financial reports, company reports to the Securities and Exchange Commission (SEC), industry publications.