America's Response to Energy Demand of China and Sino-US Relationship in the 21st Century: A Case Study of Failed Mergers and Acquisitions between China National Offshore Oil Corporation and Union Oil Company of California

By

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Introduction

According to the estimate of the U.S. Department of Energy, the oil consumption in China is 5.6 million barrels per day, exceeded Japan for the first time in 2003. At this rate, China became the second largest oil consumer, just after the United States (Dick et al, 2005). Though China consumed 8.5% of global production, it only held 1.3% of proven world oil reserve. It also is forecasted by the International Energy Agency that China will consume 14 million barrels per day by 2025 (Malcolm, 2008). Confronting the challenge, energy security plays a more important role in China’s foreign policy. Inevitably, China’s oil strategy and ambition of global energy searching activities would arouse anxiety and doubt of western countries, especially America.

On June 23, 2005, the China National Oil Corporation (CNOOC) announced to bid for America’s seventh Oil Corporation, Unocal, for 18.5 billion in cash. The news shocked both Washington and America’s general public. Although CNOOC made all kinds of concessions to clear Washington’s concerns, the bid was withdrawn due to political reasons. Failure to win bid, raised series of economic, political, financial and diplomatic issues between China and America.

This paper sought to analyze America’s response to China’s energy demand, and how it influences the Sino-U.S. relationship in the 21st century. The first section of the paper will elaborate on Washington’s response on CNOOC and Unocal deal. Different stakeholders

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2 The table in Appendix one summarizes the timeline of CNOOC & Unocal business and the associated political opposition. Events before June 22, 2005 are derived mostly from the ‘Background of the Merger’ section of the proxy statement of Unocal in 2005. Events at later dates were derived from various newspapers such as the Wall Street Journal, Financial Times, and New York Times (Kam-Ming and Wong 2009, 3).
displayed different attitudes: Congress, White House special Committee on Foreign Investment in the U.S, American general public, American Corporations and the International Community.

The second section will illustrate America’s China policy in the wake of Unocal and implications for Sino-U.S. relationship in the 21\textsuperscript{th} Century. Although National Security Review Mechanism was established in many countries (emerging economic countries like China and developed countries like Canada, Australia), the mechanism should not be used as an excuse for political intervention on normal market dealings. Washington’s reaction on CNOOC and Unocal deal signified the transformation of America’s domestic economic policies and new attitudes toward China. The Theory of Power Transition and Lateral Pressure Theory will be used to analyze Sino-U.S. relationship in the context of rising of China.

**Politicization of CNOOC’s Unocal Bid**

It is argued that failure of the bid led high politicization of business.

The CNOOC bid “simply is not a market-based transaction” because “China is not a market economy” (Richard 2005, 7); The Chinese government would not allow an American company take over such a Chinese company; the CNOOC is the corporate vehicle of a “Communist dictatorship” (Steve 2006, 3); We handed China the money they are using to try to buy Unocal, and now we are telling the Chinese, please keep investing in our bonds but you can’t invest what amounts to a sliver of their surplus in an oil company\textsuperscript{3}. CNOOC’s bid for Unocal will threaten American energy security, national security, and economic independence (Joongi 2007, 168).

Facing successive waves of opposition, voices supporting the deal were faded. On August 8, CNOOC announced in strong terms; “CNOOC has given active consideration to further improving the terms of its offer and would have done so but for the political environment in the US. This political environment has made it very difficult for us to accurately assess our chance

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of success…. Accordingly, we are reluctantly abandoning our higher offer to the clear
disadvantage of Unocal shareholders and employees” (Paula 2005, 29). The following will
explain different attitudes of Washingtonians: proponents and opponents, toward CNOOC and
Unocal deal in detail. However, no matter how fiercely the debate between the two sides, debate
should embody the understanding of how best to serve U.S. national interest.

1. Standpoints of Opponents

Although the White House was to some extent silent on the deal between CNOOC and
Unocal, Congress expressed unprecedented concern on the deal. The organ did not only take
actions to paralyze the deal, it also generated public awareness through hearings, statements, and
studies to pressure CNOOC. At the same time, the legislative branch wrote letters to request the
Secretary of Treasury to conduct thorough review of the deal in line with the following (Dick et
al, 2005).

(1) The bid was not a market-based transaction

Criticism that the bid was not a market-based transaction to a large extent was influenced
by the argument that “China is not a market economy country” (Rechard 2005, 7). The
reprehension of the deal focused on the fact that mergers and acquisitions (M & A) represented
government’s strategy; it was not a business activity (Francis 2006).

It was argued that CNOOC is “state-owned enterprise directly under the State-owned
Assets Supervision and Administration Commission of the State Council of China” 4 and
CNOOC got its financing from non-market approach, because within the 18.5 billion bid, $7
billion loan came from its parent corporation, China National Offshore Oil, without interest and

$6 billion was from the Industrial and Commercial Bank of China, a state-owned bank\(^5\). In this regard, some conservatives were concerned that the deal represented Chinese government strategy (Dick et al 2005).

Critics were of the notion that the direct investment models of Chinese Multinational Corporation listed China’s “non-economic” actions. Thus Chinese multinational corporations’ direct investment modes, favoring mergers and acquisitions were as a result of the Chinese government’s motivation to promote competitive power of its favored companies (Marrison, 2011). By mergers and acquisition, Chinese multinational corporations could acquire technologies, management techniques and know-how. However, the mode had no benefit to American economy because it could not produce more job opportunities (Wayne, 2011).

(2) The deal threatened American national interest, especially energy security

The biggest concern of the deal for Washington was that CNOOC’s take over Unocal would threaten America’s national security, especially its energy security. National security interest because, Unocal was regarded as a strategic asset to the U. S. (Dick et al, 2005). The company could produce 577 million cubic feet of natural gas and 69,700 barrels per day of petroleum in 2004. Domestically, it had both deep water drilling and deep well drilling operations in the Gulf of Mexico; it also had platforms in Alaska’s Cook Inlet, and interest in North Slope fields. Internationally, the company operated platforms in Thailand, Indonesia, Bangladesh, Myanmar, the Netherlands, Azerbaijan, Congo, and Brazil (10).

According to Congress’s logic in its HR 344 (June 30, 2005), first, oil and natural resource are strategic assets to American security and economic independence; second, China is still “strongly committed to national one-party rule by the Communist Party” and the

\(^5\) http://knowledge.wharton.upenn.edu/article.cfm?articleid=1240 (Assess on Dec 11, 2011)
government owns 70% stock of CNOOC. Thirdly, CNOOC’s acquisition activity was financed and subsidized by state-owned bank; fourth, if CNOOC acquired Unocal, CNOOC would ship all oil and natural gas exclusively into China. This would raise oil price in world market and influence oil demand and economic independence of the United States; fifth, the acquisition could allow CNOOC to acquire Unocal dual-use technologies. Therefore,

it is the sense of the House of Representatives that “(1) the Chinese state-owned China National Offshore Oil Corporation, through control of Unocal Corporation obtained by the proposed acquisition, merger, or takeover of Unocal Corporation, could take action that would threaten or impair the national security of the United States; and (2) if Unocal Corporation enters into an agreement of acquisition, merger, or takeover of Unocal Corporation by the China National Offshore Oil Corporation, the President should initiate immediately a thorough review of the proposed acquisition, merger, or takeover” (H. Res. 344 2005).

In fact, China’s world demand for oil had raised American concerns for many years. And critics labeled Chinese oil-motivated actions as “Mercantilism”. Implying “Beijing, in emulation of the European colonial powers, is directing its National Oil Companies to acquire oil assets abroad to exclusively supply China” (Erica, 2007). Due to uncertainty of future energy demands, and its remarkable role for domestic economy, both politicians and legislators in Washington expressed their concern for world energy market.

Moreover, because larger percent of Unocal’s interest was in East Asia, some critics were of the concern that, if CNOOC acquired Unocal, then china could exert more influence on East Asia. And this would threaten both Taiwan and Japan’s national security because those two countries imported large amount of oil from Indonesia (Melissa and Donnelly 2005).

(3) China blocked American corporations to acquire same kind of Chinese corporations

As to the remarkable strategic value of oil Companies, Congressmen posited: whether Chinese government would approve such a kind of deal for American companies? In the process
of CNOOC’s bid, Senator Charles Schumer (2005) detailed all kinds of obstacles of foreign corporations to acquire Chinese corporation. According to Chinese laws and regulations, foreign corporations could invest in all kinds of permitted areas. However, when the target company was a state-owned corporation, the M&A should be approved by the board of the target company, and same kind of approval should be passed by shareholders. The state is the biggest shareholder of energy companies and supervisor of state-owned corporations, and therefore must accent to all transactions on behalf of the state. (Dick et al, 2005).

In the past several years, although shares of Chinese oil companies were bought by foreign corporations, such as BP and Shell, they were just minority shareholders without seats in boards (Dick et al, 2005). In order to meet increasing energy needs, Chinese government encouraged foreign investment by establishing cooperative joint ventures, however, it is difficult to get an approval for foreign corporations to merge a Chinese energy companies.

(4) The takeover of Unocal by a Chinese company would affect world’s human rights, labor conditions, and democracy

A marginal criticism was that China’s oil exploitation in developing countries, such as Sudan and Burma, promoted human rights violation in these areas. This situation did not only tensed Sino-U.S. relationship, but also conflicted with international effort to address human right (Matthew, 2006). In this regard, if Unocal was taken over by CNOOC, human rights, labor conditions and democracy in those countries where Unocal’s interests were located would be in danger. In addition, Washington related China’s human right records to foreign direct investment from China. Thus denying trading with China could pressure China to improve its human rights situation.(James, 2005)
2. Attitudes of Proponents

Different from opponents, proponents had different opinions on CNOOC and Unocal deal. But as to whether the failure between CNOOC and Unocal deal could constitute new protectionism. Scholars did not want to enrage Washington too much. They predicted that the contemporary ownership protectionism was just occasional occurrence. Although the struggle between protectionism and liberalism would continue, open market was still the sustainable force in the long term (Joongi, 2007).

(1)Washington was on the way to “economic protectionism” by labeling the deal “non-economic transaction”

Blocking a business activity by political pressure, Washington’s action aroused a puzzle—who is a “non-market economy” country, china or the United States? From the case, it implied that the United State was becoming a “protectionist capitalists” while China was on the way to “capitalist communism” (Melanie 2005).

The former member of White House Commission, James A. Dorn, criticized that Washington was sacrificing free-trade principles for special interest groups (James, 2005). CNOOC’s competitor, Chevron, profited a lot from CNOOC’s failed bid. Actually, Chevron was located in constituency of Richard W. Pombo, chairman of the House Committee on Resource. It was her who was responsible for amending Energy Independence and Security Act of 2007. Based on new act, the takeover between CNOOC and Unocal would take 141 days and this almost made CNOOC’s bid impossible (65). Although congress relied on national security to oppose the deal between CNOOC and Unocal, the national security risk was so insignificant that the pretext was absurd.
Although congress denied CNOOC’s bid and persuaded Unocal to accept Chevron’s lower bid, the administrative interference sacrificed interest of shareholders of Unocal, who lost at least one billion because of CNOOC’S withdrawal. In a letter written by shareholder Peter Schoenfeld to Unocal’s board, he stated “It is your duty to maximize value for stockholders” 6. However, in the process, Congress treated shareholders’ interest as public good. One step further, even Chinese government subsidized CNOOC’s bid with its foreign exchange reserves, it was a gift for Unocal’s shareholder. (James, 2005)

(2) Protecting national security or playing political trick?

In economic sense, denying the transaction on the excuse of national security risk was just a political trick. Energy economist Phillip Verleger said, “There is no national security issue here—zero. Unocal doesn’t even have technology that needs to be kept secret” (Robert 2005). Chief executive of Exxon Mobile Corp, who has large investment in China, criticized Congress’s action as a “big mistake”. “You have to have free trade, if you start to put inefficiencies in the system, all of us eventually pay for that” (Robert 2005).

In fact, Washington exaggerated the risk of deal between CNOOC and Unocal. As to Unocal, most of its oil and natural-gas was operated in Asia and its production constituted less than one percent of American consumption. It was difficult to conclude that acquiring Unocal would threaten American energy security. As to Unocal’s technology, CNOOC could obtain it from the free market. Moreover, blocking the acquisition could entice CNOOC go somewhere else to explore oil and natural gas (Joongi, 2007). China could not curtail oil production because

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oil production decrease would also threaten China’s economy. Even in the situation that China reduced its oil production, the impact on American economy would be insignificant because America could get their oil from the international market. Although there was a concern that it was China’s strategy to acquire global energy and monopolize energy production, China’s energy corporations were too weak in strength to challenge OPEC’s position and implement Chinese government’s strategy (Jerry, 2005). Moreover, in order to remove Washington’s concern, CNOOC agreed to continue “selling and marketing all or substantially of the oil and gas produced from Unocal’s U.S. properties in U.S. markets” and retain “all jobs of substantially all of Unocal’s employees” if the deal was successful (Dick et al 2005).

Washington’s concern was derived from economic nationalism. According to definition of Joongi Kim (2007), economic nationalism grew out of compounding fears. First, foreign ownership generated anxiety due to unfamiliarity. For example, if the investment came from developed countries, such as Japan, Singapore and Britain which had entered the U.S. for a long time, they would experience less resistance than emerging countries, such as China, India and Brazil; second, xenophobia due to racism added to the hostility toward investment from emerging countries. For example, if the investment was from leading countries, such as Canada, Germany and France, then response from America’s general public would be different. Thirdly, countries always hold different or conflicting attitude toward inward and outward direct investment. If foreign corporations were acquired by expansion of domestic companies, then the sense of pride would be generated. On the contrary, if domestic companies were merged by foreign corporations, self contemptuous followed (174).

(3) The privatization of Chinese corporations should be processed step by step
It is true that Chinese government is still shareholders, even majority shareholders of energy companies, in some corporations. However, the situation cannot be resolved within a short time. In other words, a large number of state-owned companies could not be dismantled overnight (James 2005). In the privatization process, non-state capital, even foreign funds were accepted into the Chinese economy. This made China the leading emerging economy in developing countries (78).

Blocking a joint-stock company (In fact, one member of CNOOC board, who represented the interest of private sector, resigned after the company conducted the bid, because the bid price was too high, and to acquire America’s seventh oil corporation in the form of political intervention is a conflict the with spirit of capitalism and rules of international trade(Rachel 2005).

(4) Denying trade right is also violation of human right.

Denying CNOOC’s bid could not relieve human right violation in those countries where CNOOC invested. On the contrary, China’s energy corporations would search for energy from other places once the deal was declined in the U.S. Moreover, trading right is also an important human right and denying china’s trading right infringed China’s human right. It is obvious that those countries left outside the global trading system, such as North Korea and Cuba, had no motivation to improve their human right condition (James, 2005). If America wanted to improve China’s human right situation, open market would be indispensable to China.

**America’s China Policy and Sino-US Relationship in the 21st Century**

Generally speaking, America does not prohibit foreign direct investment in its energy area. For example, as mention before, BP, the biggest energy investor in the U.S. owns
significant interest in Alaska’s North Slope production. Royal Dutch Petroleum, a Dutch firm, also has some interest in the U.S (James 2005).

However, CNOOC’s investment gave rise to unprecedented panic in America. Finally, it was denied by the joint force between Washington’s China hawks and protectionists. CNOOC’s Chairman, Chenyu Fu, commented on the failed case that, “shock …… was not just because of the size of the deal, but because such a volume came from a Chinese company. Nobody thought a Chinese company could do this at that time”7. China’s Ministry of Foreign Affairs strongly criticized Washington’s action on CNOOC. It said, “the U.S congress should correct its mistaken ways of politicizing economic and trade issues and stop interfering in the normal commercial exchanges between enterprises of two countries” (Harry and Wang, 2008).

Theories of Power Transition and Lateral Pressure are introduced to analyze America’s China Policy and Sino-US Relationship in the future. According to Robert Kagan (2005), Power Transition model was designed to deal with and forecast relationship between the rising power and the existing dominant power. In his opinion, the best bilateral relationship management in the modern era was Britain’s appeasement of the United States in the late nineteenth century, and concluded that “the smooth process of this power transition was largely due to the fact that both powers share common liberal democratic ideology and thus roughly consonant ideas of international order”. According to Choucri, N. and R. North (1975), lateral pressure theory states that “when a country is forced to look beyond its own borders for new supplies, it will likely run into conflict with existing consumers of that resource.” As China rises economically, its addiction for oil increases as well. Addiction coincides with the U.S. increase desire for imported

oil. The zero-sum situation implies that economic conflict would be inevitable when new and existing consumers compete with limited resource.

1. America’s China Policy: Engagement VS. Confrontation

America’s China policy is one part of U.S. Global Strategic Priorities. During the period of the Cold War, fighting against communism, based on George Kennan’s containment policy, was on Washington’s top agenda; after the collapse of Soviet Union, Washington’s top priority became identifying potential rivals challenging America’s global superpower (Quansheng, 2005). At the time, Japan was recognized by both Washington and the general public as the biggest challenge. As the declining of Japan’s economy and rising of China, America’s concern shifted to China.

Although CNOOC’s bid in the case was only 18.5 billion dollars, Washington’s interference in formal market transaction sets a dangerous signal that anti-China trend was on the rise. In the process, Washington did not resort to engagement but confrontation. Congress threatened CNOOC to withdraw bid under the guise of national or energy security.

When Chinese multinational corporations entered American market with cheap commodities, Washington always appealed to impose sanction against Chinese companies. And this became Washington’s customary tactics. For example, the U.S. Trade Rights Enforcement Act (H.R. 3283) was introduced by the House on July 27, 2005. Although the act was almost impossible to become law, it “authorized the application of the U.S. countervailing duty law to exports from non-market economies such as China”. The second example was Action on the Schumer-Graham bill (S.295) on February 3, 2005. The bill threatened to “impose punitive tariffs of 27.5% on Chinese exports to the United States if Beijing does not revalue the
Yuan ……”. The bill was temporary laid aside because China reformed its exchange rate regime. However, it lead to a big backward lash for U.S.-China relations.

Although the plane collision in 2001 implied America’s martial confrontation toward China, the martial confrontation was never obvious and pressing as energy confrontation toward China. As the rising of China and implementation of China’s energy global supplying strategy, an imperative question, where should China fit in global energy market, harassed Washington? After President Nixon first declared his “energy independence” goal in 1973, America imported one third oil from the global market. In current times, the percentage rose to 60% (Daniel, 2007). It is inevitable that the number would go up again. As mentioned before, China consumed 8.2% of the global energy production and the percentage will climb in the near future. Some analysts (Dan and Lin, 2006) concerned that energy importation was a “zero-sum game,” China’s diversity sources of energy supply would aggravate American potential energy shortfalls.

It is a little excessive pessimism toward America’s short-sighted strategy today. However, if Washington continued to leave decision making right to hawks and China bashers, reluctant to interpret China’s energy strategy and foreign policies rationally, America’s free market will be in danger (Francis, 2006). Singapore’s Prime Minister Lee Hsien Loong, in the U.S.-Asian Business Council, criticized Washington’s discriminative treatment toward CNOOC. He said, “If the United States values its influence in Asia, it must take a considered, long term approach, upholding its commitment to free markets, free trade, and international rules. If it yields to short term political pressures and turns to protectionist, the damage to U.S. interests in Asia and its standing worldview will be long lasting” (Jamesa, 2005).

Different from Clinton’s policy toward China, in which China was regarded as a constructive strategic partner, George W. Bush, in his 2000 presidential campaign, made it clear that “China was not a constructive strategic partner, but rather a competitor and rival” (Quansheng, 2005). The role of China as not a partner but a rival almost became America’s consensus. Pentagon labeled China as “‘credible threat’ in East Asia and beyond” in its 2005 Annual Report to Congress on the Military Power of the People’s Republic of China. Ernest Preeg (2005), a prestigious international economic and foreign policy specialist and a senior fellow in trade and productivity for Manufacturers and Alliance, concluded that China is on the way to technology super state and the fundamental rival in the section (133).

Although it is inevitable that the rising power would shock existing international system, which is dominated by the U.S., China is too early to be defined as America’s rival. Not to mention that China has a lot of domestic issues to solve, such as the increasing gap between rich and poor, conducting reformation of economic and political system, curbing environmental pollution. According to China’s three-step development strategy, raised by China’s second President Xiaoping Deng, China could not reach the standard of moderately developed countries until midterm of this century. Olympic Games and global financial crisis in 2008 pushed China to a “global power” in advance.

Scholar (2006), forecasted a 45 percent chance that US–China relations in 2015 will become rival, 35 percent chance that the US and China will become partners, and the chance that they become both allies and enemies would be 5 percent and 15 percent respectively. Obviously, the rising of China would challenge American global sphere of influence. However, the influence of China’s global energy demanding on international oil market could be negligible and China does not have capability to challenge America’s global position. Moreover, there are a
lot of common interests for cooperation between China and the United States. Taking energy as an example, presented in a 2007 Naval War College research study, their common interest will include:

Underwriting additional energy exploration; enhancing energy efficiency; encouraging resource conservation; and reducing the long-term environmental consequences of fossil fuel consumption (Jonathan, 2008).

**Conclusion**

Whether America is willing to accept or not, the rising of China is the reality. This follows China’s global oil demand to develop its economy and corresponding global sphere of influence. Rise notwithstanding, the initiative to improve Sino-U.S. relationship depends on Washington. In other words, the future of relation between China and the U.S. lies on whether America accepts and adapts to the rising of China.

Currently, both Washington and Beijing should work together to improve their relationship. For Beijing, it should first speed up its corporations’ privation process, especially transparency the relationship between government and state-owned corporations. It is reasonable to imagine that Washington’s resistance would largely decrease if CNOOC was a private company. Second, China should present its global energy strategy explicitly and communicate the strategy to Washington. In fact, just like Robert Zoellick (2005), Deputy Secretary of State, address to the National Committee on Sino-U.S. relations in New York:

“Uncertainties about how China would use its power will lead the United States — and others as well — to hedge relations with China. Many countries hope China will pursue a 'Peaceful Rise,' but none will bet the future on it.”

For Washington, it should not politicize pure commercial transaction. Certainly, every country desires a balanced open economy and national security. It's a state’s right to block hostile transaction if real national security risk was confirmed. However, hypothetical intentions
should not be relied upon to make foreign policy. Second, America should consider the rising of China as an opportunity. Trading with China and multi-investment are not a zero-sum, but a win-win game.

**Appendix One**

**Table 1 Deal timeline**

<table>
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<tr>
<th>Date</th>
<th>Event</th>
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<tr>
<td>Dec-2004</td>
<td>The CEO of CNOOC approached the CEO of Unocal expressing CNOOC's potential interest to acquire Unocal. Executives of the two companies discussed this matter secretly and generally during the following weeks.</td>
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<tr>
<td>6-Jan-2005</td>
<td>The Financial Times published a report indicating that CNOOC was considering a bid of more than $13 billion for Unocal. That same day, the CEO of Chevron contacted Unocal to inquire the possibility of entering a ‘strategic transaction’ with Unocal. The CEO of Unocal indicated that Unocal was not soliciting a sale.</td>
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<tr>
<td>12-Jan</td>
<td>A senior executive of Italy's ENI SPA (hereinafter referred to as ENI) contacted the CEO of Unocal and expressed its company interest to acquire Unocal if Unocal were to consider entertaining takeover offers from other companies.</td>
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<tr>
<td>26-Feb</td>
<td>Chevron made an all-stock offer to Unocal with an exchange ratio of 0.94 share of Chevron common stock per share of Unocal common stock.</td>
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<td>30-Mar</td>
<td>ENI orally made a conditional cash offer of $58/share. The Unocal board rejected ENI's offer, requested CNOOC to submit a definitive offer by April 2, and told the CEO of Unocal to keep talking with Chevron and seek a partial cash deal.</td>
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<tr>
<td>2-Apr</td>
<td>CNOOC told Unocal it was not prepared to make an offer yet, but would consider</td>
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future discussions. Chevron board authorized a cash-and-stock deal at approximately $65/share.

3-Apr Unocal board accepted Chevron offer.

1-Jun CNOOC contacted Unocal and expressed its intention to present an offer to Unocal in the next few days. That same day, Unocal notified Chevron about CNOOC’s potential bid.

8-Jun CNOOC said it was considering a potential bid for Unocal in a statement filed with the Hong Kong Stock Exchange the day before. The news was widely reported by US-based media on June 8.

10-Jun Federal Trade Commission accepted Chevron's acquisition of Unocal, pending public comment.

20-Jun Two US Congressmen, Duncan Hunter and Richard Pombo, were calling on the Bush administration to review—and potentially block—CNOOC's attempt to take over Unocal.

22-Jun CNOOC made an unsolicited $18.5 billion cash bid for Unocal, offering $67 a share. In addition, CNOOC would have to pay a $500 million breakup fee to Chevron while assuming $1.6 billion of Unocal debt. The news was publicly reported on June 23, the day after.

23-Jun Chevron granted Unocal a waiver to discuss the offer with CNOOC. Negotiations began.

27-Jun An open letter questioning CNOOC's attempt to takeover Unocal, signed by 41 members of Congress, was already circulating.

28-Jun The White House said the US would review CNOOC's proposed takeover of
Unocal only if its bid was accepted. On the same day, some members of Congress and CNOOC suggested that CFIUS could stage a review even before CNOOC's bid was accepted by Unocal.

30-Jun  In the evening of the same day, the House of Representatives first voted by 333 to 92 to bar the Treasury from using any of its funds to ‘recommend approval’ of the sale to CNOOC (HR 344). A second and nonbinding resolution, adopted by 398 to 15, expressed concern that the sale ‘would threaten to impair’ US national security (H Amendment 431).

1-Jul    CNOOC filed a voluntary notice of foreign acquisitions with the CFIUS.

13-Jul   CFIUS declined to review the potential CNOOC–Unocal deal and told CNOOC that a review would only commence after a definitive merger agreement had been reached.

14-Jul   Unocal told CNOOC that the Unocal board might accept CNOOC’s offer if it put forward a price high enough to compensate for ‘additional risks’. On the same day, a Wall Street Journal and NBC News poll found that 73% of the respondents opposed CNOOC's attempted takeover of Unocal.

19-Jul   Chevron and Unocal jointly announced an amended merger agreement. The revised transaction was structured as 40% cash and 60% stock, providing an overall value of $63.01 per share of Unocal common stock based on the closing price of Chevron stock on July 19, 2005. Unocal stockholders could choose to receive, for each share of Unocal stock, either $69 in cash, 1.03 shares of Chevron stock, or a combination of $27.60 in cash and 0.618 of a share of Chevron common stock, with the all-cash and all-stock elections subject to pro-rataion.
20-Jul Senator Charles Schumer of New York introduced an amendment to the Foreign Operations Appropriations bill (HR 3057), which the Senate passed by voice vote. The amendment would delay the US government from approving any acquisition by a foreign government-owned entity of a US company for 30 days. The amendment requires the Secretary of State to deliver an assessment as to whether there were reciprocal laws allowing for similar transactions in that foreign country.

27-Jul The US Congress added wording to the Energy Policy Act of 2005 (HR 6) that would delay the closing of CNOOC’s attempted takeover of Unocal for 120 days.

2-Aug CNOOC withdrew its bid for Unocal, citing ‘unprecedented political opposition’, even though CNOOC could have raised its bid for Unocal, should CFIUS approved the CNOOC–Unocal takeover deal.

10-Aug Unocal shareholders approved the merger proposal with Chevron.

Source: Economic impact of political barriers to cross-border acquisitions: An empirical study of CNOOC’s unsuccessful takeover of Unocal (Kam-Ming and Wong 2009, 3)

References


