The Scramble for Resources; Things that Never Happen

By Christof van Agt

This summer the China National Offshore Oil Corporation (CNOOC), the third largest state owned energy company of the People's Republic of China, offered $ 15.1 billion to take over Nexen; the Canadian producer of conventional oil and gas from the UK, USA and West African offshore, next to oil sands and shale gas developments in Western Canada. the company announced this on the 23rd of July.

The deal with CNOOC, was recently approved by its shareholders, meeting the 20th of September at a 60.1 % premium on the value of ordinary shares closed on the 20th of July as recommended by the Nexen board of directors. It marks the biggest Chinese overseas acquisition and delivers 'immediate and significant value' to Nexen shareholders, the company boasts, but remains subject to government and regulatory approval in Canada, The United States and China itself of course.

The West relies on China

Chinese overseas acquisitions have become a regular occurrence from Petro Kazakhstan in Central Asia to assets in Africa and beyond. Since the failed attempt by CNOOC to acquire the United States Company Unocal in 2005 on grounds of national security and denial of reciprocal market access they have never had this high a profile. Moreover the current takeover that will make Calgary CNOOC's mainstay for managing its growing American assets, is cast in an entirely different international policy and energy market context.

Futurologist Carl Sagan once said: "Things that haven't happen before, happen all the time". They are about to happen yet again it seems. That is, if the board of Nexen gets its way and market rationale is allowed to prevail instead of geopolitical reflexes from the past. Pushing back CNOOC across the pacific a second time round will not bolster Chinese confidence in the Euro-Atlantic's sincerity for wanting China to join the rules and value based market economic community. Nor will it contribute over time to a stable and predictable global governance of energy and other resources.

After Nixon's 'things that never happen' trip to China in the early seventies, the Asia Pacific entered a period of dynamic growth culminating in China's membership of the World Trade Organization in 2001. Major foreign investment and trade opportunities embraced by the world's leading market economies followed. These now, however, see their ageing economic engines falter in an all but perfect Euro- Atlantic financial storm while capital and technology flows together with dependencies reverse or have changed unexpectedly. No cause for alarm China like most Asian Pacific dynamic economies is accountable under the rules of WTO and the Euro Atlantic thanks to the growing interconnectivity and co-dependencies benefits still as it rides the Asian Pacific economic wave.

China is already a strategic creditor to the United States treasury and often asked to appreciate its currency, liberalize its economy and step up to the plate by bolstering its contributions to the coffers of the IMF in order to adjust growing global imbalances. The Euro Atlantic is signalling that China should take on more responsibilities in accordance with its growing international role though few are sure what other than emission reductions we really mean.

Trade and investment in energy resources and some minerals such as uranium is often considered off-limits for WTO market disciplines to meddle with. The strategic priorities of many producing nations state budget -often disproportionately- depends on agreements between producer countries, of which OPEC is custodian to manage prices, or in the case of enriched uranium fuel cycles touches on hard-nosed military security and public health concerns. Energy and other resources figure more prominently as global ungovernable inequities due to China's rising energy and resource dependency in combination with its exclusive state trading practices and domestic market restrictions to boot.

Problems with uncertainty

Still the financial economic engine boat the west needs to turn the Titanic in time would steam ahead on a more reliable policy course, if this time round it were offered some overseas energy investment and access to technology largesse. This would prove that the Euro-Atlantic system of open market governance is a reliable constant for China to base long term policies on, meaning more stable governance of resources and rule based economic integration in earnest. The deal once approved could have implications for Chinese trading practices and ready playing fields for mutual market access. Indications that parity is forthcoming from China's government is something United States and Canadian authorities will be looking for before they sanction.

The benefits reaped from the economic complementarities between the Euro-Atlantic and Asia-Pacific although thinning are still a significant lynchpin for the world economy to hold on to. Matching capital markets and premium technology with cheap manufacturing and labour cost has unlocked successive global value tsunamis as it has done many times before by integrating European economies across the Atlantic. Yet invitations still stand for equitable access to energy and resources governed by market disciplines both upstream and downstream the value chain between the Euro-Atlantic, Asia Pacific and of course Middle East and African continent straddling the Pacific Ocean.

Uncertainty arising from major geo-economic shifts, climate change, energy and other critical resource price rises has brought about a fashionable discourse on scarcity and the global pandemonium that might follow. In this zero sum game mindset invitations to join forces across the Pacific are often withdrawn or declined. In times of lowered confidence and crisis oil and gas resources and the space age technologies required to produce the ever deeper layers and remote regions where they are readily found, become prized possessions like socks stuffed with cash and jewellery under the mattress.

Counterintuitive to popular perception the future, as Nixon agrees with Sagan, is non-linear. with hindsight we know that the future is rarely today's reality but even more so. With each price hike more energy resources become commercially available and the incentive to come up with alternative pathways sharpens, for instance making energy technologies such as wind and solar less costly to incorporate. Once linear developments take over entrapped governments like markets normally let thing that never happen do. It seems we are at such a point in which the world's energy and resource architecture may get a welcome -or not- make over.

If on one hand China is testing Euro-Atlantic resolve on its energy and resource policy stance, on the other it spills a spontaneous outcry of nationalist sentiment over the tripping point in a dispute over oily rocks with Japan and Taiwan in the East China Sea. Further South its pressing territorial claims over islands and resources on Vietnam the Philippines, Brunei and other neighbours more forcefully. China calling: are we agreeing to unlocking more 'immediate and significant value' or extending resource nationalism powdered disinvites that will render welcomes such as CNOOC hopes to enjoy in Canada frosty and obsolete?

Events of this kind rarely coincide and demand a deeper lens. In connecting the dots two options are put. Should China gear up for the conflicts over energy and resources that scarcity pundits entrapped in the scramble for resources mode across the linear globe set up for us, or, alternatively, pursue good investment and trade opportunities that universal rational behaviour tends to blend in with norms and values 'en plus', aligning itself with internationally accepted business standards as, indeed, CNOOC does 'non'?

To conclude more important than the money on the table, this deal offers an opportunity for giving further direction in one of the world's most challenging governance arena's because of the issues and parties it involves. Nexen is the canary in the Canadian mine that Asian Pacific and Euro-Atlantic energy policy makers are watching. Not wether 'the things that never happen' deal will happen because according to its shareholders meeting it just did, but on what terms, if any, it will be allowed to happen is what's really on show. An opportunity for the United States, Canadian and Chinese government to get more comfortable with a market driven precedent that strengthens rules through facts on the ground that others can follow.

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