The New Pacific Paradigm: Asian and Canadian Companies Partner on Big Energy Deals

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Increased Asian demand for commodities including oil and gas resources in 2010 may be indicative of a resurging trend in Asian foreign direct investment in Canada's unconventional oil and gas sectors. Many industry experts anticipate the trend will continue through 2011 as countries like China, Japan, South Korea and Thailand seek out international opportunities to secure their energy resource needs. According to Ernst & Young, the number of inbound oilsands-focused transactions from Asia tripled in 2010, with oilsands investment accounting for $US9.2 billion, up significantly from the US$5.9 billion invested in 2009.

Production from Alberta's oilsands, which cover over 14.5 million hectares, is approaching 1.7 million barrels per day. The amount of investment, reinvestment, and revenue from the operation of new oilsands projects between 2010 and 2035 is projected at Cdn$2,077 billion, $235 billion of which is the estimated capital spending on new construction projects.

Shale gas resources in Canada are also significant, with over 850 Tcf of gas estimated to exist in the Western Canadian Sedimentary Basin. Notably, the Montney Shale Basin that straddles British Columbia and Alberta is expected to increase from 387 MMcfpd to 1.5 Bcfpd by 2012. Similarly, British Columbia's Horn River Basin, covering 1.28 million hectares, is expected to produce 462 MMcfpd by 2012 and as much as 4 Bcfpd by 2015, and the Utica Shale in the province of Quebec, although still in the exploratory and developmental stage, is estimated to have between 2 and 69 Tcf of natural gas reserves, making it one of the largest plays in North America.

For prospective investors, the Canadian oil and gas energy markets offer prospective investors the benefits of a stable financial, business and regulatory environment, significant proven oil and gas reserves, well-developed industry infrastructure, and the managerial and operational expertise critical to the profitable exploitation of the underlying oil or gas assets. Foreign direct investment also provides the investor with an invaluable opportunity to access and learn from Canada's advanced oil and gas development technologies, commercial practices and "know-how", which can be applied to the development of domestic heavy oil and shale-gas reserves.

Over the past 14 months, there have been several significant oil and gas transactions between Canadian and Asian entities, mostly by way of either a partnership or joint venture arrangement. These two types of deal structures tend to be preferred by prospective investors because they permit risk sharing between the parties, as well as the pooling of technology and other resources. In February of this year, EnCana Corporation announced the sale of a 50% working interest in its Cutbank Ridge natural gas play in British Columbia and Alberta to PetroChina Company Limited, for Cdn$5.4 billion. However, in June, the parties surprised the business community by announcing that they have ended negotiations for that joint venture. In January, Sinopec International Petroleum Exploration became one of a group of investors providing early-stage financing for the planned Cdn$5.5 billion Northern Gateway oilsands pipeline project that will facilitate the export of crude oil from Kitimat, British Columbia.

The first Thai joint venture deal with a Canadian oilsands operator was struck in November 2010, with the sale by Statoil Canada Holdings Corp. of a 40% stake in their Kai Kos Dehseh oilsands project, a deposit that covers over 257,000 acres with 4.3 billion barrels of estimated recoverable bitumen, to PTT Exploration and Production for Cdn$2.28 billion. PPT Exploration and Production recognized the impact of the deal on the lifespan of Thailand’s domestic reserves, providing the state with an additional 30 years-worth of accessible oil resources.

A few months earlier, in August of 2010, Japan’s Mitsubishi Corp. invested Cdn$850 million in a joint venture arrangement with Penn West Energy Trust for the development of unconventional natural gas properties in British Columbia. Another notable natural gas transaction was completed in March 2010 with the partnering of EnCana Corporation, one of the Montney basin’s major shale gas developers, and Kogas Canada Ltd., a subsidiary of Korea Gas Corporation. Under the terms of a three-year agreement, Kogas will invest $1.1 billion over five years to earn a 50% interest in EnCana’s Montney and Horn River natural gas assets. Korean investment in 2010 also focused on the oilsands, with sovereign wealth fund Korea Investment Corp. acquiring a Cdn$100 million stake in the privately owned oilsands company, Osum Oil Sands Corp.

Three of the largest deals to occur in Canada in 2010 involved Chinese investors, including Sinopec’s US$4.65 billion purchase of ConocoPhillips’ 9% stake in Syncrude Canada Ltd. in April 2010, as well as a Cdn$817 million investment from China Investment Corp. in May 2010 to help Penn West

Energy Trust develop certain oilsands leases located near Peace River, Alberta. Management of Penn West acknowledged the importance of the deal in providing the necessary financial capital to pursue full scale commercial development and production of the light-oil resources. Rounding out the most notable Chinese investments of 2010, in February, PetroChina closed its deal with Athabasca Oil Sands Corporation for a 60% majority working interest in oil sands assets worth Cdn$1.9 million.

As Canada continues to seek opportunities to strengthen its global energy status over the next decade, the focus will remain on securing new export markets for its oil and gas resources, as well as building partnership relationships with foreign investors. Asian investment will play an increasingly prominent role in the Canadian resource sector, as Asian companies look for long-term capital investment opportunities that offer strong returns and that also meet the energy security strategies of their home states.

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