

# *U.S. Senate Committee on Finance*

For Immediate Release

Wednesday, July 13, 2005

## Grassley, Baucus Express Concern Over Potential CNOOC-Unocal Deal

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today expressed concern to the President over the potential purchase of the California-based Unocal Corporation by the China National Offshore Oil Corporation (CNOOC) Ltd.

In a letter, Grassley and Baucus said they would welcome a formal review of the transaction. They noted that such a review should take into account the impact this type of subsidized acquisition may have on the U.S. economy and its potential threat to our national security interests. Also, the senators urged the Administration to closely scrutinize any purchase of Unocal by CNOOC Ltd. to ensure that it is consistent with China's World Trade Organization obligations.

The text of the Grassley-Baucus letter follows.

July 13, 2005

The Honorable George W. Bush  
President of the United States  
The White House  
Washington, D.C. 20500

Dear Mr. President:

We are writing to apprise you of our concerns with respect to the offer by a subsidiary of the China National Offshore Oil Corporation ("CNOOC") to purchase California-based Unocal Corporation. On April 4, 2005, California-based Chevron Corporation announced it had reached a merger agreement with Unocal. The Federal Trade Commission accepted that merger, pending public comment, on June 10, 2005. Less than two weeks later, CNOOC's subsidiary, *i.e.* CNOOC Ltd., made an unsolicited offer for Unocal.

We understand that National Security Adviser Stephen Hadley has committed that the Administration's Committee on Foreign Investment in the United States ("CFIUS") will review the proposed transaction for national security implications if Unocal eventually accepts the offer from CNOOC Ltd. We would welcome such a review.

CNOOC is wholly-owned by the Chinese Government. And CNOOC owns 70 percent of CNOOC Ltd. According to at least one press report, the higher offer by CNOOC Ltd. relies upon significant

subsidies in the form of low- or no-interest loans from its government-owned parent corporation. It is reported that without those subsidies, the offer from CNOOC Ltd. would be valued lower than Chevron's outstanding offer.

The offer by CNOOC Ltd. for Unocal raises an important question; namely, whether it is appropriate for state-owned enterprises to subsidize investment transactions to acquire scarce natural resources that are in high demand. When government subsidies are directed toward the acquisition and development of scarce resources, any ensuing market distortions should be of particular concern. Such subsidies may facilitate the allocation of scarce resources to inefficient or less-efficient producers. Any review by CFIUS should take into account the impact this type of subsidized acquisition may have on the U.S. economy and its potential threat to our national security interests.

Separately, we hope that any purchase of Unocal by CNOOC Ltd. will be closely scrutinized by the Administration to ensure that it is consistent with China's WTO obligations. During the negotiation of China's accession to the World Trade Organization, there were extensive discussions with China on the role of state-owned enterprises. The Working Party report on China's accession states that the representative of China emphasized the evolving nature of China's economy and that decisions by state-owned and state-invested enterprises had to be based on commercial considerations as provided in the WTO Agreement. The Administration should undertake a review of the structure of any final transaction in the context of the representations and commitments China made when joining the WTO.

Thank you for considering our concerns, both in the context of the offer by CNOOC Ltd. for Unocal as well as with respect to any similar transactions in the future.

Sincerely,

Charles E. Grassley  
Chairman

Max Baucus  
Ranking Member

cc. The Hon. John W. Snow  
Secretary of the Treasury  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

The Hon. Rob Portman  
United States Trade Representative  
Winder Building, 600 17th Street, NW  
Washington, D.C. 20508

The Hon. Stephen J. Hadley  
Assistant to the President for National Security Affairs  
The White House  
1600 Pennsylvania Avenue, NW  
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