New American
Written by Kelly Holt on November 15, 2010

Texans Uneasy Over Chinese Oil Investment in Lone Star State

The mainstream news has been relatively quiet in the last month about a recent and significant Chinese investment in South Texas oil. But Tom Pauken, chairman of the Texas Workforce Commission, has expressed concern about long-term effects of such deals on the U.S. economy and possible threats to Texas.

Pauken's November 5 statement referred to a deal announced in October, in which the government-run China National Offshore Oil Corporation (CNOOC) entered into an agreement with Oklahoma-City based Chesapeake Energy, paying over $2 billion for a one-third interest in Chesapeake's Texas project, through which it will gain access to fracturing and directional drilling technology.

Energy companies from India, Norway, and Canada preceded China in funding this project or play, in industry terms but CNOOC's investment made the biggest splash.

While its not unusual for foreign investors to buy interests in Texas oil and gas deals, this time its different. Its bigger. And it will allow China access to new, hard-earned U.S. technology. The region of South Texas that is home to the Eagle Ford shale play contains reserves trapped in previously hard-to-access shale rock formations. With technological advances, however, the United States has become a leader in hydraulic fracturing (fracking) of these geological formations.

Fracking is a process in which cracks, or fractures, in formations are created or enhanced in order to provide an outlet for oil or gas. Though fracturing a well isn't new, hydraulic fracturing is, and the Chinese want this knowledge.

The 400-mile long Eagle Ford shale runs northeast from Laredo toward Houston through a desolate area of Texas that has now become a huge lab for testing new technology.

Pauken further observed in his Texas Workforce Commission statement that the CNOOC/Chesapeake agreement is just one more example of China's hedging its bets by exchanging its devaluing U.S. dollars for U.S. hard assets:

> The U.S. Department of the Treasury reports that China holds more than $860 billion in U.S. Treasury securities and China's foreign exchange reserves are believed to contain l.7 trillion American dollars.
>
> In fact, 65 percent of China's foreign exchange reserves are composed of greenbacks.

China's recent buying spree includes interests in other U.S. industries. *USA Today* has reported that many financially troubled American states are wooing Chinese yuan as a means of creating, or simply keeping, jobs in their states as the Federal Reserve continues to weaken the dollar.

Pauken discounted as unsound the Keynesian economic policies of Treasury Secretary Timothy Geithner in weakening the dollar, and questioned if the resulting courtship of foreign investment is worth the risk of a short-term shot in the arm:

> If we continue to see the Chinese take flight to our material assets, we should pause before celebrating their investments. It may just signal that the Chinese, skittish over seeing their dollars decline in value and tired of financing our massive debt, have seen the handwriting on the wall even as our political elites turn a blind eye to our continuing economic decline.

The CNOOC agreement with Chesapeake Energy also prompted the November 11 *Christian Science Monitor (CSM)* to ask, What Does China Really Want in South Texas? *CSM* concluded that China is seeking a better way to produce cleaner energy.

Others, however, disagree. In Midland, Texas the epicenter of all things oil in West Texas, with most residents connected in some way to that business oil and gas consultant Morris Burns is disturbed about the long-term ramifications of selling to the communist government-run CNOOC:

> With the Chinese purchasing a minority interest in a field, the camel has his nose under the tent. That concerns me.
>
> If theyre able to purchase a minority interest, they can someday purchase a bigger one. They already get enough of our dollars

Forbes magazine echoed Burns concerns, for different reasons, in its October 17 story, Putting China to a Choice: Tehran or Texas:

> In order to ensure that the CNOOC deal is not a threat to U.S. national security, it requires review and approval by the Committee on Foreign Investment in the United States (CFIUS).
>
> In 2005, CNOOC withdrew a multibillion-dollar bid for Unocal Corporation as a result of national security concerns in Washington.

Many wonder why those concerns are not heightened in 2010.

Forbes further noted that pension fund boards in California, Florida, Illinois, and Minnesota list CNOOC as either a restricted company or one under scrutiny. These boards are divesting their holdings from companies identified as doing business with Iran. According to *Forbes*,

> CNOOC has extensive commercial ties in Iran, and is under contract there to produce ten million tons of natural gas annually, and U.S. officials should determine whether CNOOC is in violation of U.S. sanctions laws.
>
> If CNOOC moves forward on its current deals and engages in transactions that would trigger action under the Iran Sanctions Act investing $20 million or more in the Iranian energy sector, providing it with technology, goods or services, or selling refined petroleum to Iran Washington should prohibit it from making major investments like the Chesapeake deal.

Forbes suggested CNOOC be rigorously examined concerning its intent to use new-technology expertise acquired in the United States to further its projects in Iran:

> Only when CNOOC answers questions over its activities in Iran to Washington’s satisfaction

> should the U.S. government declare Americas energy riches open to the state-owned Chinese energy giant.

There are those, including many Texans, who are at best uneasy about the Chinese presence in the U.S. economy, even if it does satisfy America's concerns about Iran. Under capitalism, the United States has led the world again in the application of technological advances, and opponents of the Chinese investment see no reason to give away the farm under such suspicious circumstances.