ENERGY

BP strikes US$7.2B deal for stake in Indian oil block

RELIANCE INDUSTRIES

LONDON • British energy giant **BP PLC** and India's **Reliance Industries** announced Monday a large investment deal that could be worth up to US$20-billion, with later investment in key Indian oil and gas assets.

BP said it will pay US$7.2-billion to Reliance for a 30% stake in 23 Indian oil and gas blocks, unveiling another major foreign venture as it seeks to move on from the Gulf of Mexico oil disaster.

Last month, the embattled group joined forces with Russia's Rosneft in what could be another transforming deal to explore for oil in the Arctic region.

"BP will pay Reliance Industries Limited an aggregate consideration of US$7.2-billion, and completion adjustments, for the interests to be acquired in the 23 production sharing contracts," the two companies said in a statement.

"Future performance payments of up to US$1.8-billion could be paid based on exploration success that results in development of commercial discoveries. These payments and combined investment could amount to US$20-billion."

Mukesh Ambani, chairman and managing director of Reliance Industries Limited, and Robert Dudley, BP chief executive, signed the deal in London on Monday.

"The partnership will combine BP's world-class deepwater exploration and development capabilities with Reliance's project management and operations expertise," the two groups added.

The Indian news marks BP's latest attempt to move on following the devastating Gulf of Mexico oil spill disaster last year, which forced it to set aside billions to cover environmental damage and tainted its reputation.

Crisis-hit BP reported its first annual loss in almost two decades earlier this month, as a result of the oil spill catastrophe, and outlined fresh plans to shift its focus away from the United States.

BP suffered a loss of US$4.9-billion last year, the first shortfall since 1992 and compared with a massive profit of US$13.96-billion in 2009. The group has also announced plans to halve its U.S. refining business.

Analysts in India hailed the accord as a huge boost for Reliance and the country, which has been trying to boost energy production to meet the needs of its booming economy.

"This is a huge sentiment booster for Reliance and the country, demonstrating that its oil blocks have strong credibility," said Sonam Udasi, head of research with Mumbai-based IDBI Capital.

The BP cash will also help Reliance build its war-chest for further expansion, Mr. Udasi told AFP.

Reliance has generated US$2-billion through the sale of shares since September 2009 and is expected to keep raising cash to boost its reserves and ability to make acquisitions.

Reliance operates the world's largest oil-processing complex in Jamnagar, western India, where two refineries have a combined capacity to process 1.24 million barrels of oil a day.

The deal was announced after trading on the Bombay Stock Exchange closed for the day, with Reliance Industries shares up more than 2% by the close.

Meanwhile, the British energy group said it was making preparations to evacuate some of its staff from Libya amid escalating unrest in the country, a spokesman said.

"BP was initially higher after entering into an oil and gas alliance with

Q&A WITH JACK LEE

INTERVIEWED BY CLAUDIA CATTANEO

DON WEBBER / HANDOUT PHOTO

"The gasoline market is actually decreasing because of new technology," says Jack Lee, founder and chairman of 4ReFuel in Langley, B.C. "Demand for diesel, on the other hand, which drives industry, is increasing."

Huge growth in store for fuel management firms

DELIVERING BIG ENERGY SAVINGS

With oil prices increasing and big oil companies exiting the fuel distribution business, **4Refuel Canada LP** of Langley, B.C., has grown into Canada's largest fuel management enterprise.

Founder and chairman Jack Lee said big fuel users like trains, ships, trucks, cranes or bulldozers are outsourcing fuel management to get the most out of fuel, typically their second highest cost after labour, and ensure there are processes in place to track their fuel use.

The closely held company, partly owned by Mr. Lee and other private interests, including Toronto-based investor TorQuest Partners, has 260 employees, is growing at a rate of 25% a year and plans a big expansion in Canada, in sectors like Canada's oil sands, as well as in the United States. Its customers include Canada's railways, municipalities, product distributors and shippers.

4Refuel hired a new president and CEO, John Gleason, in January, to lead the company's growth strategy. Mr. Lee spoke to the *Financial Post's* Claudia Cattaneo about trends in the business.

Q *Do high petroleum prices make what you do more valuable?*

A Yes, because your diminishing asset is more costly, so it's more important that you manage that diminishing asset. We work with national and international companies to manage their fuel. We procure it and buy it at cheaper price, then take that fuel and deliver it to their equipment wherever it is, so operators don't have to refuel equipment, and equipment can be more productive.

Businesses typically send their trucks and equipment off-site to get fuel. But by bringing fuel to equipment, we save them 30 to 40 minutes per unit, per day.

Q *Why is there so much opportunity for growth in your business?*

A Oil companies in Canada are in the process of divesting their distribution assets. That process in the United States stated 15 to 20 years ago and is now complete.

Oil companies want to stick to exploration and refining and keep their service stations where they display their brand. So somebody has to fulfill that distribution role. When they divest, it's very fragmented. There are lots of mom and pop operations. Our strategy is to consolidate so we get better buying and savings for our customers, and also the assurance of delivery and delivery safety.

Q *With the economy recovering, is fuel consumption also growing?*

A The gasoline market is actually decreasing because of new technology, like the introduction of hybrids and electric cars. Demand for diesel, on the other hand, which drives industry, is increasing as the world comes out of recession.

Q *Is biodiesel catching on?*

A Biodiesel was made popular by the green movement, but more so by high crude prices, because they made regular diesel more expensive than biomass. When oil prices weakened, people backed way. Generally, companies will use biodiesel if it's not more expensive. When it costs more, green is not as important. The big users of biodiesel among our customers right now are municipalities.

Q *Has the carbon tax been effective in British Columbia in reducing fuel consumption?*

A No. People in B.C. just ignore it. It's just another tax, like the HST. With business customers, it just increases costs. In Vancouver, if there is any reduction in consumption, it's because the city is driving out cars by putting in bike lanes.

Financial Post

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BHP JOINS SHALE GAS RUSH WITH US$4.7B DEAL

BY JAMES PATON

The rush into the shale gas industry is accelerating.

BHP Billiton Ltd., the world's biggest mining company, agreed to buy **Chesapeake Energy Corp.** assets in central Arkansas for US$4.75-billion in cash Monday, entering the U.S. shale gas business for the first time.

The deal comes less than two weeks after PetroChina announced plans to spend US$5.4-billion to buy half of Encana Corp.'s Cutbank Ridge resource in B.C.'s north east. It also marks a new acquisition strategy for BHP, three months after its US$40-billion takeover offer for Potash Corporation of Saskatchewan was rebuffed by the Federal government.

BHP, Australia's largest oil and gas company, will add more than 10 trillion cubic feet of gas resources through the purchase of the Fayetteville assets, J. Michael Yeager, chief executive of BHP's petroleum division, said in a statement.

"This transaction marks BHP Billiton's entry into the U.S. shale business," Mr. Yeager said in a separate statement released by Melbourne-based BHP. "The operated position we are obtaining will immediately make BHP Billiton a major North American shale gas producer."

There have been 133 oil and gas deals done globally this year, worth US$36.3-billion, according to data compiled by Bloomberg. Last year's deals worth US$285.3-billion were the second highest on record, behind 2007. Deal premiums this year have been announced at an average 24% premium, compared with last year's average 19%.

Chesapeake agreed to sell all of its interests in about 487,000 net acres of properties in central Arkansas, the company said. The transaction is expected to close in the first half of this year, Chesapeake said.

Oklahoma City-based Chesapeake said Feb. 7 it intends to raise US$5-billion this year by selling its Fayetteville shale holdings and its stakes in two companies. It will use the money to cut debt.

BP PLC paid US$1.9-billion for a 25% stake in Chesapeake's Fayetteville Shale operations in 2008, a month after buying all of the company's operations in the Woodford Shale of Oklahoma's Arkoma Basin for US$1.75-billion. Chevron Corp. agreed to buy Atlas Energy Inc. to add acreage in the gas-rich Marcellus Shale in the U.S. East. Exxon Mobil Corp. acquired XTO Energy Inc., a shale-gas producer, for US$34.8-billion in stock and debt in June.

Cnooc Ltd., China's largest offshore energy producer, in January agreed to pay $570-million in cash for a one-third stake in Chesapeake's Niobrara shale project in Colorado and Wyoming.

The PetoChina deal is the largest investment by a Chinese company in the North American oil and gas industry.

Tony Clement, the Federal Industry Minister, said he will review Chinese oil giant's investment.

If the deal goes through, PetroChina would acquire a 50% stake in the Cutbank Ridge fields in British Columbia and Alberta.

Under the terms of the deal, PetroChina and Encana would jointly develop the 635,000-acre spread with current daily production of 255 million cubic feet of natural gas equivalent.

Encana said the fields have proven reserves of about one trillion cubic feet of natural gas equivalent.

Bloomberg with a file from AFP

Turmoil could cause spike in oil prices

UNREST

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Bahrain's 2020 bond yield increased for a 10th day after S&P cut the nation's debt rating. The yen and the dollar strengthened against most of their major peers.

Canadian stocks were closed for the Family Day holiday in Ontario and Alberta, while U.S. markets were

blocked foreign news reports on protests across the country to stamp out any movement toward pro-democracy revolts.

"You've got to be very concerned, particularly because it can affect the oil price, and if you have the oil price spike up another US$20, US$30, you could reenter a global recession," said Bill Belchere, global chief economist at Mirae Asset Securities.

Bahrain's long-term rating was re-

at Fitch Ratings. The MADEX free float index in Morocco tumbled 3%, the most in two years, at the close in Casablanca. The Bloomberg GCC 200 index of Gulf stocks lost 0.4%, bringing the seven-day drop to 5.3%.

"Certainly perception of risk is only increasing," said Alia Moubayed, senior economist at London-based Barclays Capital. "Investors will not take any sort of half solutions to be enough for calming their sense of risk aversion in the region."

Analysts warned of the risk of unrest spreading to Saudi Arabia, the world's biggest oil exporter. Oil for

COMPANIES IN THE NEWS