Chinese Firm Surpasses Exxon in Oil Production

CHRIS KAHN,AP Energy Writer

NEW YORK (AP) — A big shift is happening in Big Oil: An American giant now ranks behind a Chinese upstart.

Exxon Mobil is no longer the world's biggest publicly traded producer of oil. For the first time, that distinction belongs to a 13-year-old Chinese company called PetroChina. The Beijing company was created by the Chinese government to secure more oil for that nation's booming economy.

PetroChina announced Thursday that it pumped 2.4 million barrels a day last year, surpassing Exxon by 100,000. The company has grown rapidly over the last decade by squeezing more from China's aging oil fields and outspending Western companies to acquire more petroleum reserves in places like Canada, Iraq and Qatar. It's motivated by a need to lock up as much oil as possible.

The company's output increased 3.3 percent in 2011 while Exxon's fell 5 percent. Exxon's oil production also fell behind Rosneft, the Russian energy company.

PetroChina's rise highlights a fundamental difference in how the largest petroleum companies plan to supply the world as new deposits become tougher to find and more expensive to produce.

Every major oil company has aggressively pursued new finds to replace their current wells. But analysts say Western oil firms like Exxon Mobil have been more conservative than the Chinese, mindful of their bottom line and investor returns. With oil prices up 19 percent in 2011, they still made money without increasing production.

PetroChina Co. Ltd. has a different mission. The Chinese government owns 86 percent of its stock and the nation uses nearly every drop of oil PetroChina pumps. Its appetite for gasoline and other petroleum products is projected to double between 2010 and 2035.

"There's a lot of anxiety in China about the energy question," says energy historian Dan Yergin. "It's just growing so fast."

While PetroChina sits atop other publicly traded companies in oil production, it falls well short of national oil companies like Saudi Aramco, which produces nearly 8 million barrels a day. And Exxon is still the biggest publicly traded energy company when counting combined output of oil and natural gas. PetroChina ranks third behind Exxon and BP in total output of oil and natural gas.

PetroChina is looking to build on its momentum in 2012.

"We must push ahead," PetroChina chairman Jiang Jiemin said in January.

PetroChina has grown by pumping everything it can from reserves in China, estimated to contain more than 6.5 billion barrels. It drilled thousands of oil wells across vast stretches of the nation's northern grasslands. Some of those fields are ancient by industry standards, dating close to the beginning of China's communist government in the 1950s.

The commitment to aging fields distinguishes PetroChina from its biggest Western rivals. Exxon and other major oil companies typically sell their aging, low-performing fields, or they put them out of commission.

PetroChina also has been on a buying spree, acquiring new reserves in Iraq, Australia, Africa, Qatar and Canada. Since 2010, its acquisitions have totaled $7 billion, about twice as much as Exxon, according to data provider Dealogic.

Several other Chinese companies have become deal makers around the globe as well. Total acquisitions by Chinese energy firms jumped from less than $2 billion between 2002 and 2003 to nearly $48 billion in 2009 and 2010, according to the International Energy Agency. More times than not, the companies are paying above the industry average to get those deals done.

It's making some in the West nervous.

In 2005, for example, CNOOC Ltd., a company mostly owned by the Chinese government tried to buy American oil producer Unocal. U.S. lawmakers worked to block the deal, asking President Bush to investigate the role the Chinese central government played in the process. Chevron Corp. eventually bought Unocal for $17.3 billion.

"There's a resistance to Chinese investment in (U.S.) oil and gas," Morningstar analyst Robert Bellinski says. "It's like how Japan was to us in the 1980s. People think they're going to take us over. They're going to buy all of our resources."

That's unlikely to happen. It doesn't make economic sense to export oil away from the world's largest oil consumer.

But the Chinese could make it tougher for Big Oil to generate returns for their shareholders. China's oil companies have been willing to outspend everyone and that drives up the price of fields and makes it more expensive for everyone to expand.

"You now have to outbid them," says Argus Research analyst Phil Weiss. "If you can't, you're going to have access to fewer assets."

Longer term, Chinese expansion globally will bring benefits to the U.S. and other economies. By developing as many oil wells as possible — especially in Africa, Iraq and other politically unstable regions — China will help expand supply.

"Frankly, the more risk-hungry producers there are, the more oil will be on the market, and the cheaper prices are," says Michael Levi, an energy policy expert at the Council on Foreign Relations.

Despite its swift expansion, PetroChina and other Chinese companies still have much to prove to investors, analysts say.

PetroChina's parent, China National Petroleum Corp., for example, has spent millions of dollars in Sudan to provide highways, medical facilities and shuttle buses for the elderly. Oil companies typically don't do that. All of that increases the cost of business and minimizes the returns for shareholders.

In 2009 and 2010, PetroChina's profit margins for its exploration and production business were only about two-thirds that of Exxon Mobil's. Its stock price has climbed less than 1 percent, in the past year, compared with a 3.7 percent rise in the stock of Exxon Mobil Corp.

"You have to ask yourself: What is the purpose of PetroChina?" Bellinski says. "It is to fuel China. That's it. Although they're a public company, I'm very skeptical that they have any interest in shareholder value creation."

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AP Business Writer Elaine Kurtenbach contributed to this story from Shanghai.

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