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Beware Foreign Refinery Ownership

By Edward P. Cross

The United States continues to be a global leader in oil and natural gas production. However, foreign-owned refining capacity may limit future U.S. oil production growth.

Foreign entities have acquired significant U.S. refinery assets since the 1980s, and currently, about 30 percent of the country's refining capacity is foreign owned. Many of these foreign-owned refineries have financial agreements that allow them to exclude domestically sourced crude oil. These foreign-owned entities can use these U.S. refinery assets in a new strategy to capture market for their oil production and limit markets for U.S. production. Many experts believe the United States may double oil production by 2025, making our nation energy independent–but not if our oil has nowhere to go.

Rosneft, an oil corporation majority-owned by the Russian government, says it has the right to claim an ownership stake in the U.S. oil company Citgo Petroleum if Citgo's parent company defaults on billions in loans. Citgo's parent company, the Venezuela state-owned PDVSA, pledged a 49.9 percent stake in Citgo to Rosneft as collateral for a $1.5 billion loan signed last November. The credit rating agency Fitch reported in January that a default at PDVSA is probable. A default will leave the door open for Rosneft to seize the promised stake in Citgo, a company with U.S. holdings that include three refineries and three pipelines. If that claim succeeds, Rosneft will own 49.9 percent of a company that is among the United States' 10 largest petroleum refiners.

Russian ownership of a large portion of a U.S.-based oil company is unprecedented. The United States has a clear national interest in achieving energy independence. The loan agreement between Russia and Venezuela involving Citgo refineries, pipelines and terminals presents a clear threat to U.S. energy security. This agreement may give Russia clear control over the sixth-largest refinery in the United States, the ability to impact Americans' gasoline prices and a strategic advantage over the country's geopolitical freedom of action.

The White House has the power to block the deal on national security grounds. When foreign companies make major investments in American properties, each side is expected to voluntarily file a notice with the White House committee known as the Committee on Foreign Investment in the United States (CFIUS). CFIUS is a nine-member interagency committee, chaired by the U.S. Treasury Secretary, that reviews the national security implications of foreign investments in U.S. companies or operations. There have been cases in which foreign state-operated companies have withdrawn their bids because of political pressure. In 2005, the Chinese state-owned oil and gas company CNOOC cancelled its $18.5 billion bid for U.S. oil company Unocal after members of Congress sought to extend CFIUS' review of the case. Many experts expect the Rosneft transaction would meet similar, if not stronger, opposition.

In April, U.S. Representatives Jeff Duncan, R-S.C.. and Albio Sires, D-N.J., asked CFIUS Chairman and Treasury Secretary Steven Mnuchin to investigate the deal. Duncan and Sires are the top members of the U.S. House Committee on Foreign Affairs' Western Hemisphere subcommittee.

U.S. oil companies have struggled in a low-price market environment during much of the past two years. The low price environment's ripple effects have affected employment, tax revenues and economic growth across the country. Oil producing companies across America have refocused their capital expenditures and are strategizing their way out of this downturn. As America continues our march to energy independence, we do not need limitations on our domestic oil production markets. ❐

EDWARD P. CROSS

Edward P. Cross is president of the Kansas Independent Oil & Gas Association. He is an active member of the Independent Petroleum Association of America and serves as secretary-treasurer of the Liaison Committee of Co-operating Oil & Gas Associations. In addition, Cross is a past chairman of the Interstate Oil & Gas Compact Commission Public Outreach Committee. He serves as an executive board member for the Domestic Energy Producers Alliance, and also serves on the board of the Council for a Secure America and as an advisory board member to the Tertiary Oil Recovery Project. Cross is a licensed professional geologist and certified school business official holding a B.S. in geology and an M.B.A. from Southern Illinois University.