



FEATURE

BUSINESS

INDUSTRY

POLICY

LIFESTYLE

T.E.A.C.

PODCAST

Subscribe

ROOM TO WORK
Millions of acres of *POTENTIAL*

May 23-25, 2016
Fort Worth, Texas
Fort Worth Convention Center

LEARN MORE

SHALE

OIL & GAS BUSINESS MAGAZINE

BUSINESS

The Big Deals That Made Big Oil

March 22, 2016 | by Scott A. Bayley



Photo credit: TK Kurikawa/bigstock.com

SIGN UP FREE!

Thanks for contacting us!
We will get in touch with you shortly.

Want to advertise with

SHALE
OIL & GAS BUSINESS MAGAZINE

Delivering insight into the development of the Eagle Ford Shale and Permian Basin plays and the businesses affected

Contact Kym Bolado at 210-240-7188 or kym@shalemag.com

SHALE VIDEO

Will Cheap Oil Trigger More Mega-Mergers?

From a peak of \$107 per barrel in mid-2014, oil prices have dropped 75 percent to a 13-year low of \$26 in early 2016. Market watchers are familiar with the ongoing fallout — idled rigs, slashed capital budgets, layoffs and bankruptcies. Another likely consequence of a stubborn price collapse is industry consolidation. This includes big companies buying smaller companies to gain access to energy resources. Some companies want to shed exploration assets or business units that are a drag on profits. For example, Chesapeake Energy has sold producing wells in Oklahoma, while Hess Corporation has gotten rid of its refining and downstream assets.

Among the largest E&P company acquisitions has been Noble Energy's \$3.9 billion purchase of Rosetta Resources, WPX Energy's acquisition of RKI Exploration & Production for \$2.75 billion (plus assuming 400 million in debt), and Occidental's \$1.3 billion purchase of Three Rivers, all in the Eagle Ford or Permian Basin.

These transactions are dwarfed by the industry transformation of Big Oil at the end of the 1990s, when the number of super majors — the world's largest non-state-owned oil companies, integrated from upstream exploration to downstream marketing — was reduced from 11 to six. In search of a competitive advantage, and with oil at its lowest price in 30 years, a flurry of mergers and acquisitions created ExxonMobil, BP, Total S.A., Chevron, ConocoPhillips and Shell.

Before the 1970s, large oil companies dominated the industry, empowered by access to 85 percent of the world's proven oil reserves. However, the nationalization of much of the world's reserves ended this domination. Oil prices began to tumble in 1997, from \$26 to under \$11 by late 1998. It

Shale Mag...  



SHALE FACEBOOK



SHALE Magazine

Publisher · San Antonio
10,450 likes

Like Page



SHALE Magazine

Yesterday at 9:30am

Let's celebrate all the wonderf there!

[See Translation](#)



took a year for this 58 percent price drop to rebound, but prices collapsed again by 30 percent during 2001.

Except for Shell and Total S.A., Big Oil's roots are in Standard Oil. Standard Oil was formed by John D. Rockefeller in 1870 and became the first and biggest integrated oil company of its time, producing, transporting, refining and marketing oil in the U.S. In 1911, it was found guilty of monopolizing the industry, and a court order dissolved it into 34 smaller regional companies.

ExxonMobil's roots trace to four Standard Oil companies, including Standard Oil of New Jersey.

Exxon and Mobil, the two largest descendants of Standard Oil, merged in 1999 in a historic \$81 billion deal. Adjusted for inflation, the deal today would be \$125 billion (see accompanying table.) Exxon defended the merger by citing price pressure on crude oil, the need for greater efficiency and new competitive threats overseas.

Chevron descended from Standard Oil California. Its dramatic discoveries in Saudi Arabia helped the company to reach its current size. The company began exploring in Saudi Arabia in the early 1930s, partnering with The Texas Co. (later Texaco). In 1944, this partnership became Arabian American Oil Company, or Aramco. But Chevron lost its favorable position in Saudi Arabia during the period of nationalization. It merged with Gulf Oil in 1984, the biggest merger ever at that time, and with Texaco in 2001.

Shell began in the early 1900s by the merger of British Shell Transport (created as an oil shipping company in 1878) and Holland's Royal Dutch (created in 1890 to explore oil in the Dutch East Indies). In 2005, as a result of major structural reorganization, the 100-year partnership was dissolved and a single company, Royal Dutch Shell, was created. Shell did not merge with another international oil company in the late 1990s. However, in 2002, Shell purchased Enterprise Oil (the



OUR SPONSORS



UK's largest E&P company at that time) and Pennzoil-Quaker State (a motor oil company descendent of Standard Oil). Shell is now the world's largest non-state-owned oil company.

BP traces its history to Standard Oil Indiana (Amoco) and the predecessor of British Petroleum, Anglo Persian Oil, which was formed in 1908 to explore oil in Iran. The Iranian nationalization in 1953 took away two-thirds of the company's production. The company responded by increasing output in Iraq and Kuwait, and developing new resources around the globe, including major oil discoveries in Alaska and the North Sea. BP merged with Amoco in 1998 and acquired Arco and Castrol in 2000. These major oil findings and mergers and acquisitions helped the company to reach its current size.

Total S.A. began as Compagnie Française des Pétroles, founded by the French government after World War I to implement a national oil policy. The company inherited a share of Turkish Petroleum Company, which had been seized as war reparations, upon the signing of the San Remo Treaty in 1920. The settlement gave the company access to oil fields in Iraq. Total S.A. became the first foreign oil company allowed back in Iran since the overthrow of the shah in 1979, sticking with projects there despite U.S. sanctions and opposition. Total S.A. merged with Belgium's PetroFina in 1998 and its French rival Elf in 1999.

ConocoPhillips has roots in another Standard Oil company, Continental Oil. It became the third-largest American oil company by the merger of Conoco and Phillips in 2002. In 2012, it shed its downstream sector in a spinoff of this business to Phillips 66. ConocoPhillips explained this restructuring as a move to optimize its portfolio, enhance returns and increase financial flexibility. ConocoPhillips continues to operate as an exploration and production company.

The mega-mergers in the late 1990s and early 2000s created today's super majors. It was rumored a year ago that Shell was taking a hard look at a staggering acquisition of BP. But talk of such a mega-deal was quieted when Shell announced its \$70 billion acquisition of BG Group in an aggressive move to be the world's dominant supplier of liquefied natural gas.

There are fewer super majors today, which may make it harder for further consolidation among the world's largest integrated oil companies. But history proves that the biggest oil companies always seek a competitive advantage from combining businesses when justified by price, strategic fit and cost efficiencies. The steep and rapid decline of oil prices in this current downturn may be the catalyst that again causes major changes in the oil industry.

Scott A. Bayley, Founder and President of Houston-based companies Accumyn Consulting and Bayley & Company CPAs, has provided economic and financial advisory, valuation of complex securities and closely held business, and accounting services to corporations and individuals for over 30 years. To learn more about this author, visit www.bayleycpas.com.



Share This



Related



The Bridge
In "Industry"



In The Oil Patch:
Episode 40 - Paula
Waggoner-Aguilar



Going the Distance
In "Feature"

In "Podcast"

Comments

Community

 Login ▾

 Recommend

 Share

Sort by Best ▾

Start the discussion ...

Be the first to comment



SHALE

18756 Stone Oak Parkway
San Antonio, TX 78258
(210) 240-7188

SECTIONS

- Feature
- Business
- Industry
- Nonprofit
- Policy
- Lifestyle
- Scene
- Podcast

MORE

- Advertise
- Contact Us
- Galleries
- Magazine Issues
- Media Kit 2016
- Radio Show
- Subscribe

Copyright 2016 SHALE Oil & Gas Business Magazine. All rights reserved.