

Oil and gas giants ConocoPhillips and Chevron announce major acquisitions as industry consolidation continues

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ConocoPhillips, one of the leading oil and gas companies in the United States, announced Wednesday that it would be purchasing Marathon Oil for \$22.5 billion. The agreement contains an all-stock offer of \$30.33 per share, a 15 percent premium on the company's stock price at the time of the deal, and will include \$5.4 billion in Marathon's debt. The acquisition is expected to close towards the end of 2024.

As part of the deal, ConocoPhillips announced it would sell \$2 billion in assets as well as increase stock buybacks from \$5 billion this year to \$7 billion next year. It has also committed to buying a total of \$20 billion in shares back from investors over three years following the close of the deal.

The deal could attract scrutiny from the Federal Trade Commission (FTC) but federal regulators believe the merger constitutes a small portion of the global market and is smaller than other mergers already approved in recent years.

Marathon Oil has large holdings in the Bakken basin in North Dakota and the Permian basin in Texas and New Mexico. ConocoPhillips is currently the third largest oil and gas producer in the Permian, which is the largest shale oil field in the US. By purchasing Marathon, ConocoPhillips will expand its production in the Permian by 48,000 barrels a day to a combined 701,000 barrels per day, and in the Bakken basin by 105,000 barrels a day to a total of 200,000 barrels.

The past few years have seen an upsurge in the number of mergers and acquisitions in the oil and gas industry. In 2023 alone there were \$234 billion in mergers and acquisitions, the largest amount since 2012, according to the US Energy Information

Administration (EIA).

Other notable mergers include the planned purchase of Hess by Chevron for \$53 billion also announced this week, and the purchase of Pioneer Natural Resources by ExxonMobil for \$60 billion, approved earlier this month.

Hess owns a 30 percent stake in the Stabroek Block that has rights to the oil and gas reserves in Guyana. By acquiring Hess, Chevron will gain a significant stake in these energy reserves. Even with stiff resistance from Exxon (45 percent in Stabroek Block) and China National Offshore Oil Corporation (25 percent), approval by the FTC could come as early as next month.

Exxon's purchase of Pioneer will add 700,000 barrels a day to the company's current production by 2027 and create a combined land ownership of 1.4 million acres. Both companies have large stakes in the Permian basin and the merger would combine their adjacent fields, creating a combined reserve of 16 billion barrels in the Permian alone. According to the EIA, the Permian is the primary source of increased production in the US.

The acquisitions could increase the share of US production for Chevron from 5 to 6 percent of the US market and increase Exxon's share to 7 percent to surpass Chevron as the largest oil and gas producer in the country.

Other notable acquisitions include Diamondback Energy purchasing Endeavor Energy for \$26 billion, potentially making it the third largest producer in the Permian. Chesapeake Energy plans to merge with Southwestern Energy for \$11.5 billion and could become the largest natural gas producer in the US. Chevron and Exxon made additional purchases of PDC

Energy for \$7.6 billion and Denbury Inc for \$4.9 billion in 2023 respectively.

The surge in consolidations has been fed by two major factors. One is that the outbreak of war in Ukraine in 2022 caused a massive spike in energy prices around the world. This resulted in windfall profits for oil and gas companies and sparked a race to boost production and fill the gap caused by disruptions to global oil and gas markets by the war.

The other is that newer drilling technologies are opening up large oil and gas fields, such as the Permian, to cheaper production. Many of the smaller companies that have been acquired owned land on large reserves where the cost of production has fallen. Giants like Chevron and ExxonMobil are seeing an opportunity to capitalize on the 2022 oil price spike and acquire new reserves to consolidate their position in the market.

A survey by the US Geologic Survey in 2018 estimated that there were 46.4 billion barrels of undiscovered and recoverable oil in the Permian's Delaware basin, double the previous estimate. As one of the oldest oil fields in the US, the Permian has been drilled for oil for over a century. But production began to decline in the later decades of the 20th century.

With new hydraulic fracturing technologies the Permian has seen a resurgence in production and a drop in cost. Prior to purchase, Pioneer had developed drilling technologies that allowed it to reduce the cost of production to as low as \$19 per barrel in some areas, according to Pheasant Energy. Exxon expects the average cost per barrel to be less than \$35 from Pioneer's assets, far less than the national average for shale basins in the US of \$54 per barrel.

A similar situation exists for the reserves in Guyana, with Americas Market Intelligence estimating the cost of production to be as low as \$25 a barrel in some areas.

The consolidation of the oil and gas industry is also playing out amid the escalating NATO war against Russia in Ukraine. As NATO prepares to send combat troops to Ukraine and the Biden administration lifts restrictions on the use of US weapons on targets inside Russia, disruptions to global energy supplies may be around the corner.

Russia is the third largest oil producer in the world, with 12 percent of global production. Since the

beginning of the Ukraine war the share of Europe's natural gas imports from Russia have dropped from over 40 percent in 2021 to just 8 percent in 2023, with the US replacing much of that supply.

Regardless of whether US energy companies are factoring the war into their acquisitions they will certainly benefit from a greater market share in a war-time economy. Since the start of the war, five of the world's largest energy companies—Shell, BP, Chevron, ExxonMobil, and TotalEnergies—made \$281 billion in profit and paid out \$200 billion to investors according to a recent report by Global Witness. Further reducing costs for the oil companies, the United Steelworkers imposed a below-inflation sellout agreement covering 30,000 US oil refinery workers concurrent with the launching of the US-NATO proxy war in 2022.

These companies stand to profit even more from an expanding global imperialist war.



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