

Allied interests of private and national oil companies



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In a globalised and inter-connected world, where knowledge, competence and technological innovation are continuously shared, international oil companies must ask themselves what their future role will be and how they can best cooperate with their national counterparts.

Although often turbulent and sometimes tense, it is a cooperation that has ultimately proven to be long lasting and mutually beneficial. It has made it possible to forge partnerships, ensure a transfer of knowhow and highlight the benefits of aligned interests.

As we steer in uncertain waters, marked by structural changes and challenges, it has become difficult to make a clear-cut distinction between IOCs and NOCs. Our common external conditions range from an unstable economic environment, fluctuating and geographically uneven demand patterns, tightening climate change parameters, geopolitical turbulence and an overhaul of a long established financial system.

Against this backdrop of uncertainty, consumption levels continue to rise and our common task is to ensure that demand is being met. The reliable supply of energy sources to consuming markets thus increasingly supersedes the distinction of whether the producing company is private or national.

Furthermore, as the energy mix continues to evolve and host countries pave the way for the future by increasingly taking into account issues such as climate change-related concerns or the final use of their resources, IOCs and NOCs must seize the opportunity to take their cooperation to the next level. Their ability to adapt to the new environment, produce new forms of energies and view each other as equal partners will shape the oil industry for some time to come.

A common goal

As uneven demand patterns, exposure to volatile oil markets and tightening environmental regulations increasingly affect the oil sector, NOCs and IOCs are gradually shedding their distinction and must be seen as producers. Security of demand and security of supply are concerns that affect them both.

Our industry cannot live in isolation and the environment in which it operates is undergoing fundamental adjustments. Over the past 18 months, structural changes have marked our times: they included, only to name a few, the growing role of the state in key market-based economies, where the debt crisis had devastating effects

on the eurozone, the worst oil spill in US history which led to a fundamental rethink, strict adoption and sometimes readjustment of Health Safety Environment protocols across the oil industry and the catastrophic consequences of a natural disaster which badly hit Japan and highlighted amongst other things the inherent contradiction of clean and risk-free energy sources.

The necessity of industries like ours to restore trust and confidence with the public has emerged even further as a key issue while consumers continue to centre their objective around secure, accessible and reliable energy sources.

On the political level, new and unprecedented forms of governance are gradually emerging in the Middle East and North Africa – the outcome of which is still unknown.

External risks expose NOCs and IOCs alike as they weather common challenges while they strive to achieve common objectives, that is to say provide oil and gas supplies in a reliable and secure manner.

What is certain, is that today's conditions in which both have to navigate are more unpredictable and rapidly evolving, than they were 20 years ago.

Bridging the gap

As NOCs continue to differ in their competence, size, market share and know how, they face similar constraints but in different ways: while some NOCs produce less than they need for their domestic market, such as the Chinese NOCs, others produce more (i.e. Saudi Aramco). A number of distinctive differences between NOCs and IOCs spring to mind:

- Host countries remain the largest reserve holders controlling about 75 per cent of the world proved reserves and more than 55 per cent of the world production. Oil production policy determines the production of these reserves, the timing of production, as well as the legal and tax regime applicable to oil and gas developments. Their national companies remain inevitably defined by policy orientations as set by the energy ministries; they build and implement a long-term national reservoir management and development strategy; they contribute to the turning of the country's natural wealth into long-term socio-economic development.
- IOCs are tied to their international markets, consuming states and demand centres. As demand continues to climb, it has to be met in a timely manner. Indeed, one of the main and most stimulating tasks of IOCs is to sustainably align the respective requirements of both host countries and their customers abroad, or, in other words, to act as



facilitators between producing countries and consumers.

- IOCs have a diversified and worldwide experience, which creates excellent conditions to innovate. As a result, IOCs can offer wide-spread technological expertise as well as an integrated approach for the most challenging resources (very deep offshore, extra-heavy oils, tight and sour gas etc). In the Pazflor project, offshore Angola, for instance, Total implements in partnership with Sonangol a new subsea gas/liquid separation concept, a world technology first, which is the result of our extensive R&D efforts.

Converging interests

As owners of the largest part of world reserves, NOCs often call upon their international partners to jointly develop technically most complex areas where the deployment of innovative technology is paramount. The production and development of oil and gas resources remain evidently a key objective of any oil company; a world where IOCs and NOCs would grow separately, one where NOCs would manage their own resources and where IOCs would be focused on the development of non conventional hydrocarbons in other areas, is not a vision one should wish for. Such a split would not be efficient as it implies no cooperation, no cross-fertilisation of their experiences and no risk mitigation.

Alignment of interests for parties remains, however, an unconditional element of a successful partnership. When IOCs are being offered suitable contractual terms paying for the risk taken and giving sufficient incentives to bring the best of their expertise, the joint venture acquires a life of its own, with its own culture, a product of the host country, the NOC and the IOC. One of the best examples of this being the giant Jubail Refinery being built by Satorp, a company where Aramco and Total employees have a unique goal: joint success.

But producing states might ask themselves ‘what is it in for me?’ Indeed, what can an IOC effectively bring?

Research and Development: R&D and the consequent technological innovation continue to be shared between IOC, the host country’s NOC and the contractor. But it is up to the oil companies, both IOCs and NOCs, through their extensive knowledge of the resources’ challenges, to define the required technology and R&D programmes that are needed. In this spirit, Total spends US\$1bn annually on R&D. Technological breakthrough, resulting from well focused R&D, can bring beneficial responses in our constant struggle to control cost, such as for instance

the modularisation of LNG plants, or the concept of ice resistant floating processing platforms designed for the extreme sea and weather environment of Arctic regions. As partners in increasingly complex projects, NOCs and IOCs have a common interest in delivering successful production units.

Exposure and knowledge: expertise brought in from other projects can add substantial value. The capacity to reach markets can add further commercial value. The example of QatarGas springs to mind: Total’s capacity to access markets through its regasification terminals and customer portfolio allowed Qatar to sell LNG to previously inaccessible markets. In another vein, IOCs have accumulated experience in managing large and complex developments and are used to handling huge, multi-billion dollar projects. This is clearly demonstrated when looking at the growing share of deep-offshore, heavy oil, ultra-deep gas reservoirs, and LNG projects in their portfolio, such as the Yemen LNG project and the Akpo development, offshore Nigeria, both operated by Total. IOCs are also managing large, integrated projects, beyond just exploration and production: such projects involve the midstream section (power plants and desalination) and the downstream section (refining and petrochemicals) of their corporate activities. In some cases, they also implement, as operators or key partners, trans-national projects, such as the Qatar-UAE Dolphin project.

Risk mitigation: As NOCs are increasingly internationalising their activities, IOCs, whose core business is located by definition in international markets, can help mitigate risks. But successful joint investments inevitably require joint objectives. They need to be aligned, technology needs to be shared, training needs to be provided and access to new countries can be offered. Working in association with NOCs outside their country of origin, especially so as NOCs expand worldwide, has taken the oil sector into a new phase. We often forget that most IOCs were once state-held. Examples range from the partnership between Total and Qatar Petroleum International in the Taoudeni exploration permits in Mauritania to our JV with CNPC and Petronas in Iraq; from our partnership with Kufpec in Yemen and Sudan to our affiliation with Sinopec in Canada and Yemen or even the very ambitious LNG project we have in Australia with Petronas.

Preparing the future: IOCs are committed to preparing the energy future as new, increasingly complex and more diversified energy sources are necessary to meet →



→ growing energy demand, and to limit CO₂ emissions associated with energy consumption. Considerable R&D and technology related work are needed before these new energies become competitive. It makes sense for an oil and gas company to get more involved in alternative energies as we have to stay in step with the long-term energy transition that our industry, and the world, are facing. It is in NOCs' best interest to cooperate with IOCs in the challenging domain of new energies, and many producing countries, concerned by the diversification of their energy mix, are presently developing projects in the field of renewable energies. In the UAE for instance, Total

is building a 100 MW solar power plant in association with Masdar and the Spanish company Abengoa. Innovative investment, if performed today, will pave the way for securing energy needs in the next decade, including in oil-exporting countries.

Building sustainable relationships

Upstream projects are long in duration and wide in scope: IOCs and their host country learn in time to understand their respective cultures and exchange know-how in a sustainable manner. Total has been working with many countries for 50 to 75 years, thus giving us an intimate understanding of a country's culture and expectations; they are ingredients for building mutually beneficial relations based upon common trust and respect.

Two essential and organic trends result from a successful joint venture between an NOC and its international partner: one, which starts with a human experience whereby the project staff create their own culture, one of the project. Their drive to make their mission a successful one supersedes quickly their affiliation to the NOC or the IOC. They become affiliated to the JV, the project. This meeting of the cultures, perceptions and know-how inevitably gives the project a successful dynamic.

The second element refers to the benefits of a JV in a given host country: job creation, training, transfer of technology, business opportunities for local suppliers, social and environmental impact. In many countries our presence is not limited to the upstream but it extends to other domains: refining, petrochemicals, research centres, renewables. And for us, there is no better example of a wide-ranging and successful partnership than Qatar where this World Petroleum Conference is being held.

In short, IOCs must build the host country's development expectations into their wider thinking and contribute to local socio-economic development: where it operates, it should behave as a local player and be entirely recognised as such. ■

Production and gas processing platform in the North Sea off the Netherlands

