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Oil price boom brings some gloom to majors

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By Santosh Menon - Analysis

LONDON (Reuters) - For years, international oil majors blamed low prices for their inability to invest in hunting for new oil sources.

Oil prices near record highs now should have meant an end to their complaints, but oil majors are finding that high prices are no less of a curse.

French oil major Total (TOTF.PA: Quote, Profile, Research) this week explicitly blamed high oil prices as the main reason behind its decision to cut its output growth expectations from 2006 to 2010.

The world's fourth largest oil group by market value said it now expected average annual hydrocarbon output to rise 4 percent during the period against a previous forecast of 5 percent growth.

Total is not alone in doing this. The last few years have seen other oil majors -- BP (BP.L: Quote, Profile, Research) and Shell (RDSa.L: Quote, Profile, Research) -- too take the knife to reserve expectations.

"It has happened to pretty much all of them," said Global Insight analyst Simon Wardell, adding that production levels had been flat for most big oil companies for a few years now.

Strange as it may sound, oil companies find themselves with lower output as oil prices move higher.

The reason for this may lie in the seismic shift that has been underway in the oil business.

PRODUCTION SHARING

Faced with declining oil reserves and production at home, large western oil firms started venturing out to far-flung lands in Africa and Central Asia with vast reserves of oil but little capital or technical know-how to retrieve it.

Many of them entered into deals called production sharing agreements (PSAs) with local governments, which gave them a share of the revenue from the oil produced denominated in oil barrels.

The rising price of oil has forced most oil firms to jack up the price assumptions that underpin these contracts. Total on Wednesday raised its average oil price assumption to $60 per barrel from $40 previously envisaged.

BP is also assuming a $60 oil price for this year.

"In broad terms, when oil price rises, companies get less actual oil in a lot of deals. The actual revenues may be the same, but the share of the production they have is lower," said Wardell.

Oil traded above $76 a barrel on Thursday, hovering close to its all-time high of $78.77 hit last month.

Analysts said rising oil prices are hurting international oil majors in other ways too.

The rise in oil prices has brought to the fore the issue of resource nationalism in many countries as governments there have sought to renegotiate old PSAs.

Governments in Venezuela, Russia, Algeria and Kazakhstan have been in the news in recent months as they tighten the screws on international oil majors, and analysts say this is set to increase.

"PSAs account for around 5 percent of the portfolio of these companies, but are increasingly becoming a bigger part of the portfolio as that's where most of the new growth is coming from," said one analyst at a U.S. investment bank, who asked not to be named.

But it is not all doom and gloom for these companies, as high oil prices have resulted in the economics of previously prohibitively expensive projects, notably retrieving oil from the Canadian oil sands, getting better.

"You have some offsetting factors ...The net impact is (for the) better," said Badung Tariono, fund manager of ABN AMRO's energy fund.