For oil companies, the good old (bad old) days are over

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ROME — It used to be so easy. A North American or European energy company eager to ramp up foreign production would traipse into a bankrupt, yet oil-rich, country - anywhere in North or West Africa would do - make nice with the local strongmen, promise jobs, technology and export sales, and walk away with oil and gas concessions that made shareholders weep with joy. Reserves and production went up, costs were relatively low, and environmental regulations were the very palest shade of green.

Those were the good old days. Now look at what's happening. Economic nationalism is on the rise. Poor countries that once begged foreign oil companies to develop resources buried in deserts and jungles are now kicking these same companies out. Development, revenue and tax laws are being furiously rewritten to favour domestic interests.

It's happening everywhere and, if it keeps up, your favourite oil company will have an increasingly tough time replacing waning reserves and production.

Just a few days ago, **Repsol**, the Spanish oil giant that considers Algeria its backyard, was given its marching orders by **Sonatrach**, the Algerian national oil and gas company. It and Gas Natural, a company related to Repsol, were booted out of a $6.8-billion (U.S.) gas production and liquefied natural gas development in the eastern part of the country. Repsol and Natural Gas said Sonatrach was "illegally appropriating" the project.

About the same time, Kazakhstan ordered development stopped at the monster Kashagan oil field, where a consortium of Western companies led by **Eni** of Italy held most of the ownership. Kazakhstan wants Eni and friends to cede control of the project, and blamed epic cost overruns and delays for its bad mood. (Canadian investors will remember that PetroKazakhstan, the former Hurricane Hydrocarbons, complained of endless government interference and ended its woes in 2005 by flogging itself to a Chinese oil company).

Last year, Russia's **Gazprom**, the world's biggest natural gas producer, which is privatized yet state controlled and operates a private army, wrested back control of **Royal Dutch Shell's** huge Sakhalin-2 gas project.

Resource nationalism didn't just hit last year. It's been coming, not coincidentally, since oil prices began their relentless rise from about $25 a barrel early in the decade to three times that now. Resource-rich countries, thanks to the commodities boom, are no longer in financial crisis and are therefore less keen to court foreign investment.

Take Algeria, a basket case in the 1990s. Since then, surging oil and gas production has allowed it to pay off almost all of its external debt and build up foreign exchange reserves of $100-billion. Sonatrach last year earned $54-billion from oil and gas exports. As energy prices rose, Algeria decided its foreign investment rules were unduly generous to foreigners.

The new rules, now in place, give Sonatrach the right to take 51 per cent of all new energy projects (the old rules gave it the option to take 20 to 30 per cent). In other words, Sonatrach no longer has to compete for contracts. In addition, Sonatrach's oil and gas transportation monopoly was restored and a windfall tax was slapped on outsized profits earned by foreign companies. **First Calgary Petroleums**, a Toronto-listed energy company with substantial reserves in Algeria, cannot be happy about this.

Algeria doesn't expect a backlash from the Spaniards for kicking Repsol out of one of the country's biggest projects. The Algerians blame Repsol for massively understating the project's development costs - the bill for the first phase has almost doubled to $19-billion. Plus Spain relies on Algeria for 30 per cent of its gas supplies. Algeria is a useful counterweight to Russia, the other big gas supplier to Western Europe (Repsol says it will take the case to international arbitration in an effort to recoup hundreds of millions already sunk into the development).

With energy prices strong, and governments in Africa and Asia enjoying their oil and gas spoils, there is no reason to believe the nationalization trend will end any time soon. At the same time, shareholders of Western oil and gas companies will put pressure on management to avoid plunking fortunes into countries like Algeria because of the new risks. They will suggest that exploration and development money be spent elsewhere.

But where? The biggest potential oil and gas projects reside, inconveniently, in countries where you wouldn't want to spend your vacations.

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