

Beware the new world energy order

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CALGARY - With crude oil prices strengthening and demand for oil continuing to rise, you'd expect three of the most powerful men in the global business to be thrilled with their good fortune.

Instead, Rex Tillerson, chairman and CEO of Exxon Mobil Corp., Jeroen van der Veer, chief executive of Royal Dutch Shell PLC, and Thierry Desmarest, chairman of Total S.A. -- brought together likely for the first time last Friday by Alberta utility magnate Ron Southern to address his Spruce Meadows Round Table -- are anxious about whether there's even a future for their business.

As Mr. van der Veer put it: "We got very serious problems."

Around the world, the rules of the game are changing and their business models become ineffective.

Meanwhile, the solutions are unclear.

Along with facing pressure in the developed world over climate change, from consumers outraged with high gasoline prices, from their respective governments for excessive profits, they're watching their investments evaporate as scores of host countries rip up deals, nationalize resources and seize the power of oil to exert political influence.

"The reality of high oil and gas prices has brought more national behaviors that are not always good for industry, while what is needed is a global approach, international co-operation," to ensure global energy security, Mr. Desmarest told the record crowd of international business leaders, including most of Canada's energy industry chief executives.

"If the IOCs (international oil companies) don't invest because they can't invest, then we made the world more dependent on national oil companies that have a national agenda as well."

In some countries, particularly in the Middle East, that are experiencing growing financial reserves because of the oil windfall, there's even discussion about reducing production to ensure there is continued wealth for future generations, rather than boosting it to meet global oil needs, he said.

Mr. van der Veer warned that national oil companies are more than ever under close political control, resulting in "a level of irresponsibility ? in making decisions for the business. Energy supply is becoming an important diplomatic tool." He complained that private oil companies are facing unfair competition from national oil companies like those from China that complement oil investments with large spending on infrastructure.

"For international oil companies, access to easy oil is very difficult," he said.

Mr. Tillerson, who agrees there's no shortage of resource around the world, said restricting access to private oil companies has ignored the progress made by industry to develop and produce energy under the most challenging conditions.

Already, more than 75% of the world's oil resources are controlled by national oil companies, said Mr. Tillerson, noting that Exxon Mobil, the industry's largest publicly traded corporation, accounts for only 3% of the pie.

While their view of the challenges is similar, the approach each one of these titans is contemplating to chart a way forward is slightly different.

Mr. Tillerson sees the answer in technology. He believes that governments that are taking control of resources will eventually turn once again for help from companies like ExxonMobil because they don't have the ability to fully take advantage of their resources.

"As we go forward?national oil companies are going to have to construct a proper joint-venture arrangement so they can have access to technology," he said. "We will come in with technology, know-how, project management, and take that resource and make it (larger). That creates the space for (them) to share that with us, and (they) end up with more. If there is no room to share, there is no room for us."

It's unlikely ExxonMobil will allow much room for compromise. Mr. Tillerson said he'd rather walk away from a country rather than agree to terms that are changed unilaterally and that are unfair to his shareholders.

"As a private investor I have to leave, because I don't know on what basis we are going to have a deal," he said.

Shell also sees the solution in private oil companies' superior technology -- but with a difference.

Mr. van der Veer emphasized private oil companies can produce oil for less, offer the best environmental solutions and will do the most responsible job in very difficult environments.

Total's approach is the most accepting that there is a new world energy order -- find a new business model reflecting the new reality, including looking for a greater alignment of interests with host countries.

"The IOCs need to remember lessons learned in the past and try to meet at least part of the expectations of producing countries," Mr. Desmarest said. "We have to

think local and act local, offer business opportunities to home-grown suppliers and local development. It requires creativity and some level of flexibility."

Given the uncertainty faced by these giants, it's no wonder Mr. Tillerson was talking down today's high oil prices, saying they're not supported by fundamentals. When the oil price is weak, it loses its power, and no one but private "patient capital" wants to be a producer.

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