National companies become international

NOCs spread their wings

With the global energy economy set to remain overwhelmingly dependent on fossil fuels, concern is mounting over access to reserves, particularly of oil and gas. These concerns are fuelled by the resurgence of 'resource nationalism' as national oil companies (NOCs), holders of most such reserves, challenge the positions of international oil companies (IOCs), upstream and downstream. The issues raised are crucial to consuming regions increasingly dependent on imports - such as Europe.

By Alex Forbes

The resurgence of resource nationalism has led to much debate about the roles of so-called national oil companies, or NOCs, and so-called international oil companies, or IOCs - and the evolution of the balance of power between these two groups. Not surprisingly, this theme was central to the discussions at last month's National Oil Companies conference in London. The conference turned out to be ironically titled, because what came across clearly is that national oil companies are becoming increasingly international as they compete to secure reserves assets and downstream interests beyond their own borders.

Moreover, the abbreviations NOC and IOC ignore the role of natural gas, which, some believe, will sooner or later overtake oil as the dominant component of the global energy mix. Gazprom and Qatar Petroleum may have oil interests but both are primarily natural gas companies. Conversely, Saudi Aramco and the National Iranian Oil Company may be the two largest oil producers in OPEC but they are also, directly or through subsidiaries, among the world's largest producers of natural gas. So a major problem with the whole debate is semantic inconsistency. Are we talking about national companies versus international companies? Or about state-owned companies versus private companies? And are they oil companies, gas companies or oil and gas companies?
The reality is too complex for such simplistic groupings. So, for the purposes of this article - while the industry and its observers and commentators get to grips with the semantic inconsistencies - we will talk about IOCs and NOCs, with the proviso that these terms have become imprecise, and in the hope that we all know what is meant. The increasing tension between IOCs and NOCs is colourfully described in the title of a book launched at the London conference by Duncan Clarke, Chief Executive Officer of Global Pacific & Partners, the company that organised the event. *Empires of Oil: Corporate Oil in Barbarian Worlds* sets out to explain 'this changing competition between corporate oil, national companies, governments and private interests'. It concludes that:

Duncan Clarke at the London conference in December. Photo: Alex Forbes

'The complex world oil game is changing fast: the old order is dissolving and the new oil barbarians are taking command of many of the industry's citadels. These emerging forces are creating a radically different world in which the megaliths, until now seen as invincible, face huge challenges that will affect us all.'

Clarke's book comes well recommended, but the title is - deliberately - controversial. It is arguable who are the barbarians and what are the citadels. If the citadels are the immensely valuable reserves of hydrocarbons, then some would see the IOCs, rather than the NOCs, as 'the barbarians'. There is a residue of bitterness amongst many NOCs about how they were treated by foreign companies in the past, when the balance of power was usually very much in favour of the IOCs. The fact that proven hydrocarbon reserves are to a large extent located in countries regarded by some western nations as unstable at best, and hostile at worst, does not change the reality that these reserves are where they are - an accident of fate, geology and mostly arbitrary delineations of national borders. Take, for example, the distribution of natural gas in the top three reserves-holding nations. Russia, with 150 million people living on a land area of 17,075,400 km^2, holds 48 trillion cubic metres (Tcm); Iran, with 70 million people on 1,645,258 km^2, has 28 Tcm; while Qatar, with around 850,000 people - most of whom are immigrants and ex-pats - on 11,427 km^2, has 25 Tcm. Little wonder that the Qataris are well on their way to becoming the most wealthy people on the planet on a per-capita basis.

Moreover, the reserves that these three countries hold are an order of magnitude larger than anyone's else's. Together these three nations account for more than half of proven gas reserves. If, as Professor Peter Odell insisted at the London conference, 'gas is the thing to watch' - with its role likely to 'outstrip that of oil by about 2040' - the reserves these three nations possess will give them immense and growing political and economic influence.

The single most emotive aspect of the resurgence of resource nationalism has been the increasing difficulty that IOCs are perceived to face in accessing oil and gas reserves. NOCs are becoming more adept at developing such reserves themselves and therefore less dependent on the technological skills of the energy majors. But that is not all. Increasingly, IOCs find themselves having to compete with NOCs that have stretched their wings and found the confidence to secure assets and make investments beyond their own borders.

It is evident why the issue is so central. In the case of oil, the top ten reserves-holding countries account for more than four-fifths of proven reserves and in all ten the oil and gas industries are controlled by state-owned NOCs, most of which are highly nationalistic in character. Saudi Aramco, for example, does not

invite foreign companies to participate in its upstream oil activities (though it has with natural gas), while Iran only does so under terms of so-called buy-back contracts which give no equity in reserves to foreign partners. These two countries account for a third of world reserves.

As Clarke writes in Empires of Oil: 'Ultimately, corporate oil would wish to gain full access to reserves in key OPEC territories such as Saudi Arabia, Kuwait, Iran and Iraq. In the current dispensation most such opportunities are currently off-limits, despite limited gas openings in Saudi Arabia and perhaps restricted potential for North Field access in Kuwait. He adds: 'Another limitation to corporate oil's access to global oil reserves is the sanctioning of states. Sanctioned oil states currently include Iran, Sudan, Syria, Cuba, Myanmar and Somalia. As well as sanctioned states, there are also those, such as North Korea, to which oil-related restrictions apply.'

The position is especially bleak for the European Union. Despite being collectively one of the world's biggest energy consumers, the EU has less than 1% of the world's proven oil reserves. The level of dependency on imports that this implies means that European consumers should be taking a very intense interest in how the global oil game plays out. Oil may currently be a globally traded commodity but that may not necessarily remain the case if supplies run chronically short.

In the case of natural gas, the top-ten reserves holders account for more than three-quarters of proven reserves. Only in the US are these reserves not in the control of a state-owned NOC. Again, the European Union faces huge future import dependency. Its proved reserves of natural gas amount to just over 1%. As we have seen, the top three reserves-holders control more than half - 56% of the total. Russia and Iran have shown themselves to be fiercely nationalistic about their hydrocarbon assets, while Qatar, after a period of headlong rush to develop its gas reserves, slammed on the brakes in April 1995 - by imposing a moratorium on further gas projects at its North Field.

Qatar's decision was ostensibly made to allow time for production histories to be compared with original reservoir models to ensure the field was behaving as expected, but the debate within the country has since moved on. There are growing concerns about the need to meet rapid growth in domestic demand, and about the need to ensure that Qatar's gas reserves last for future generations - the target the Qataris have set is about 100 years.

The situation in Qatar serves to illustrate an important difference between IOCs and NOCs. As the nation's energy minister, Abdullah bin Hamad Al-Attiyah, has frequently said: 'We are a country, not an oil company.' The issue here is that IOCs and NOCs have different priorities when it comes to development of hydrocarbon resources. As Terry Newendorp, ceo of Taylor de Jongh, explained at the NOC conference, the ultimate objective of an IOC is to maximize shareholder value while that of a NOC is to fulfill government priorities.

Looking deeper at what this means, said Newendorp, for an IOC it leads to the following objectives: to access reserves, markets and finance; to achieve economies of scale to reduce costs and maximize competitiveness; to share risk; and to diversify the asset portfolio. A NOC's objectives are: to access markets, technology and finance; to attract investment; to transfer knowledge; and, ultimately, to stimulate economic development.

A key difference is in the timescales involved, or at least the perceptions of timescales. IOCs are often seen as driven primarily by short-term considerations while NOCs need to look to the long term. But perception is one thing and reality another. In Mexico, for example, short-termism on the part of a cash-hungry government has led to chronic under-investment in oil and gas development with obvious consequences. It is important to differentiate not just between IOCs and NOCs but also between NOCs themselves. They cover a broad spectrum, from companies that are almost quasi-IOCs, such as Malaysia's Petronas - one of the first and most successful NOCs to spread it wings and look beyond its borders - and fiercely nationalistic companies such as Venezuela's PDVSA and the Iranian National Oil Corporation (NIOC).

Increasingly active beyond their borders are companies that have looked abroad to meet fast-rising energy demand in their home markets, notably companies from China and India, the two emerging giants of the world energy scene.

'Corporate oil is threatened in many different ways across the world,' said Clarke at the London NOC conference. 'Its main obligation is not about success or strategy, it's all about survival and adaptation. They will need to partner with and compete with a wide range of NOCs who have got footprints growing across the world - who are no longer just looking at the backyard. 'Globalization is taking place among the state oil companies - it's the new game in town. We count 35-plus state companies with overseas assets, internationalizing and globalizing. There were only a handful at the turn of the century. So this transformation has taken place in just seven years.' The stage is therefore set for growing tensions between IOCs and NOCs which will be exacerbated by growing competition between consuming regions. We face, as the Chinese saying has it, interesting times. ■