

Cease-fire in the energy war

In the energy war between producers and consumers that has been heating up in recent years, the ministerial gathering at the International Energy Forum (IEF) in April marked a ceasefire. But whether this leads to a permanent peace remains to be seen.

| by Karel Beckman

In April, over sixty energy ministers and some thirty business leaders gathered for three days in the Cavalieri Hilton on a hilltop in Rome. Although the hotel offers a superb view of St Peter's Basilica, most of the time the delegates to this 11th International Energy Forum sat in a large dark room in the cellar, seated in a square, with a big empty space in the middle. There they talked – about how to improve cooperation, trust, mutual understanding – in a rather constrained setting. They also talked – more freely – in countless of confidential bilateral meetings – undoubtedly about the same subjects and with the same question marks in their minds – put simply, can I trust this guy, or should I see him as my enemy?

Officially, all the talk at the IEF – set up in

1991 to stimulate cooperation between energy exporting and importing countries – is about 'dialogue' and 'interdependence'. 'We will see strongly increasing interdependence between producing and consuming countries in the next decades', is the main conclusion of the 'background paper' supplied to the conference by the secretariat of the IEF in Riyadh.

The reality, though, is rather one of increasing dependence. As news agency Reuters summarised the situation, 'the producing countries are in the driving seat'. Paolo Scaroni, chief executive of Italian oil company Eni, admitted it quite bluntly in Rome: 'The relative positions of international energy companies and national energy companies are changing – and not in our favour.'

Scaroni gave some simple figures to back up his assessment. In the seventies, he said, IOCs (i.e. private international oil companies) controlled nearly 75% of global oil reserves and 80% of production. Now they control just 6% of oil reserves and 24% of oil production. They control only 20% of gas reserves and 35% of gas production.

Fulvio Conti, chief executive of the Italian gas and electricity company Enel, made a similar point with a different set of figures. '62.1% of the EU's energy needs comes from abroad', he said. 'This is expected to rise sharply. The EU's gas import share, for example, will rise from 52% to 78% of total consumption.'

Business models |

No wonder then that the consuming

The plenary meeting room in the basement of the Hilton hotel.





Viktor Khristenko, Russian Minister of Energy and Industry.



Enel SpA ceo Fulvio Conti.



Plenary meeting with ENI ceo Paolo Scaroni and Qatar Minister of energy Abdullah Al-Attiyah.



Gert-Jan Lankhorst, ceo of Gasterra.



Nobuo Tanaka, Director of the Paris based International Energy Agency.



Iraq's oil minister, Hussain al-Shahristani.

countries, with their IOCs, are desperately looking for ways to cope with this new reality. Conti pleaded for 'new partnerships between producing and consuming countries'. Scaroni warned that IOCs 'need to profoundly rethink their business model in order to survive and prosper in the new oil and gas landscape'. He observed that 'many IOCs are still adopting a business model emerged during the 1990s which fragmented their organisations into hundreds of business units, each foreign to the others. Now producing countries are asking them to move precisely in the opposite direction.'

Jeroen van der Veer, chief executive of Royal Dutch Shell, said much the same thing. At an impromptu press conference in the hotel lobby, besieged by reporters, Van der Veer tried to put a brave face on it. 'We don't hang on to business models of the past', he said. 'We develop new business models, based on technology, taking new realities into account.'

There is not much else the ceo's of the IOCs can say of course. Van der Veer dismissed any suggestion that the IOCs might disappear altogether. 'How can we disappear if there are so many investment opportunities?' he asked. 'We are investing \$30 billion this year.'

Scaroni did sound a warning note. He noted that globally the average government take of oil revenues 'is now moving to overcome the critical barrier of 90%'. 'Oil companies' profitability is decreasing', he said, 'in many cases below their cost of capital.'

But Scaroni in any case managed to present, in Rome, a practical result of his search for a new business model. Eni signed a Memorandum of Understanding (MoU) with Qatar Petroleum International (QPI), a subsidiary of state-owned Qatar Petroleum company, 'to seek joint investment opportunities in international projects'. Under the cooperation agreement, Eni will be able to get access to gas production in Qatar, whereas QPI will be able to get involved in Eni's activities outside of Qatar. Typically perhaps for the era of the new business model, the MoU is vague about the exact nature of the Qataris' involvement in Eni's business. 'We don't know yet in which sectors we will become active', said Qatari Oil Minister Al-Attiyah in Rome. 'Upstream, downstream, petrochemicals - anything is possible.' The idea for QPI, he said, is to become a 'leading global energy company' - another case of a national oil company (NOC) "spreading its wings", as they have been doing more and more since being "in the driving seat".

Neither Scaroni nor Al-Attiyah could give any indication how much money would be involved in their cooperation or how extensive it would turn out to be. This too seems to be typical of the new energy reality, dominated by diplomatic business "deals" that are regularly announced all over the world these days, without ever becoming very specific.

The Dutch delegation at the IEF also made a contribution to the search for new business models. Gertjan Lankhorst, chief executive

of gas trading company Gasterra, a joint-venture of IOCs ExxonMobil and Shell and the Dutch State, explained to the assembled ministers, in one of the sessions, how the Dutch gas sector has been characterised for forty years by an intensive 'public-private partnership' that has profited both the state and the private oil companies involved in it (see the interview with Lankhorst on page XX). 'It is undeniable that tensions have increased in the past few years', Lankhorst said in Rome. 'But we think that the Dutch experience has shown that a balance between different interests is possible.'

'The world is moving from energy war to energy peace'

Only show in town |

The Dutch Minister of Economic Affairs Maria van der Hoeven, sounded downright optimistic after having spoken with her colleagues from Russia, Saudi Arabia, Norway, Algeria and others. She said she felt 'a change in the air' in Rome. She noted that the Qatari Minister Al-Attiyah had used the word 'cease-fire' during one of the sessions. "Tensions may be getting less."

The Dutch initiated their own new form of cooperation with oil producer Saudi Arabia. The two countries decided to invest together in carbon capture and storage (CCS). A conference will be held this summer in



ENI's Paolo Scaroni and Qatari energy Minister Al-Attiyah signed a MoU on joint investment opportunities.



Saudi oil minister Ali Al-Naimi and Dutch Minister of Economic Affairs Maria van der Hoeven.

Amsterdam to 'sort things out', as the Saudi Minister Ali Al-Naimi put it.

The initiative may be important because CCS has emerged as a crucial link that could resolve the contradiction between consuming countries' insistence on "security of supply" versus the producing countries' insistence on "security of demand". The consuming countries tell producers constantly that they are worried about underinvestment, which undermines their supply security. The producers counter that they want to be sure of demand before committing themselves to huge investments. What this means in practice is explained by Noé van Hulst, the new Secretary-General of the Riyadh-based IEF. 'Just after I had started work in Riyadh this year, the American president and the French president visited the Saudis, asking for more oil. Then they went back home and told a different story – about getting away from oil dependence. Producers take notice of these mixed messages.'

The politicians of the industrial countries are caught up in a contradiction, Van Hulst notes. 'Climate policy has led them to pursue a great reduction of CO₂-emissions. At the same time, they know that their economies will remain heavily dependent on fossil fuels for a long time to come.' The only way to reconcile this conflict, says Van Hulst, is through CCS. 'CCS is the only show in town. It is the only way to continue using fossil fuels while cutting down on emissions.'

Hence, the Dutch-Saudi project. 'We must show that we are committed to CCS', says Van der Hoeven. 'It's the only way to resolve this issue.' The Dutch minister conceded that it was not clear yet who will pay for the hugely expensive CCS-technology. 'In any case the EU should make much more funds available for CCS', she said.

Van Hulst hopes that the Rome conference will get people to 'really listen to each other'. 'What I am trying to do is to promote thinking from the point of view interdependence. It is an illusion to think

that countries can be energy-independent.' There is nothing he can really do to force the matter. The IEF is an informal club. 'Yet that is also our strength. Everyone can and does participate in the IEF, including countries like Russia, India, China and Brazil, which are not part of Opec or IEA. The informal way is sometimes the best way of mitigating conflicts. Since I have moved to Riyadh, I have learned that the personal approach is much more important to many people than the formal approaches we in the West are used to.'

Van Hulst may have felt encouraged by the speech Russian energy minister Victor Khristenko held in Rome. Khristenko said the world was moving from 'energy war' to 'energy peace'. Perhaps the inspiring sight of the great dome of St Peter's Basilica in the distance had something to do with the peaceful feeling at the conference. One very senior delegate was pessimistic, however. After all these years of talking, he said, the distrust remains the same. ■



Libya's Oil Minister Shokri Ghanem



Noé van Hulst, Secretary General of the IEF.



Shell's ceo Jeroen van der Veer.



Iranian oil Minister Gholam Hossein Nozari.