2nd International Energy Business **Forum**

III Session: “Access to energy – to Markets, Technology and Capital”

Opening speech by
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Your Excellencies, Honourable Ministers, Illustrious Delegates, Ladies and Gentlemen, good morning.

First of all, I would like to thank the organisers of this important event for inviting me to speak to such an extraordinary audience on the issue of “access to energy sources”, an argument that is very much on the international agenda.

In my capacity as the chief executive of one of the world’s leading oil and gas companies, I am well aware that a subject of this kind can not be dealt with in a “simplistic” manner. Consequently, I would like to focus on the two issues that are at the centre of the current debate:

- Firstly, the strategic positioning of International OIl Companies (IOC), their strengths and weaknesses, and what they are able to offer in order to satisfy the expectations of the major petroleum producing countries.

- Secondly, the reasons why petroleum producing countries, and their National Oil Companies (NOC), have an interest in cooperating with the big oil companies.

Finally, I will conclude by talking about my own company, - Eni - with particular reference to what we intend to do to build a new strategic alliance with producer countries.

Let's start with the first point, the strategic positioning of the International Oil Companies.

We all know that the greatest difficult confronting the IOCs today is the replacement of oil and natural gas reserves. The IOCs have access to and control over less than 10% of the world's oil reserves, and less than 30% of those of natural gas.

Moreover, we need to bear in mind that the IOCs do not only have limited access to new reserves, but that this is a growing obstacle, both in terms of costs and from a technological point of view; in particular, as far as the new frontiers of conventional hydrocarbons are concerned (such as offshore reserves in very deep waters) and "non-conventional" petroleum.

Many IOCs are currently experiencing the singular paradox of abundance. They have great financial resources but the opportunities for re-investments in the oil business are decidedly limited. At the same time, investment possibilities are also limited in other segments of their business models. Investing in refining, petrochemicals or the development of natural gas is often difficult because of environmental restraints, both as a result of the NIMBY (not-in-my-backyard) syndrome, and for the hyper legislative activities in the majority of industrialised countries.

Although it is diminishing – the principal advantage of the majors, from a competitive perspective, is their ability to design and manage highly complex projects that cut across the entire chain of the energy business - in all its aspects, from upstream, to midstream and, finally, downstream – that offer authentic challenges from a conceptual, technological, engineering, managerial and financial point of view.

The IOCs can boast unique competences in each of these areas. I'm referring, for example, to the technologies that we are developing to produce, profitably and marketably, heavy and non-conventional oil - which is often a big problem for producer countries - or to obtain oil and gas from deep water areas around the world.

In other words, the International Oil Companies have unparalleled skills to face what I call "difficult oil" and "difficult gas". Given that they do not have direct access to the world's major reserves of oil and gas, they are focusing on these opportunities - thanks also to a current scenario in which oil prices are so high as to render profitable that which yesterday was not.

But let us now look at how these specific competences can satisfy the needs of the major producer countries. Or better - and this brings us to the second area I wanted to address - why the major producer countries should be interested in taking account of the specific competences of the IOCs

It is still the case that the technology, capital and managerial skills of the International Oil Companies have a fundamental role in the development of most of the territories in the world where oil and gas are found. If these regions were to be deprived of this support, they would find themselves shut out from the oil market and obliged to postpone indefinitely their emergence as oil and gas producing countries. I am referring, in particular, to the whole of the African continent, the Caspian basin, as well as less conventional oil areas in Canada and all areas of offshore deep water extraction.

Nevertheless, many producers and their National Oil Companies (NOC), are now in a position to conduct exploration activities, as well as development programmes for oil and gas, also by hiring external experts who can give them the support they need to deal with more complex operations. This is particularly true in the Gulf area where we are, but also in other areas across the world.

Most of the countries to which I am referring, have large reserves of oil and gas - and who logically think they can proceed autonomously, depending on their own strengths. But this approach could turn out to be a mistake, if we take a broader and more sustainable view of energy and economic development.

In the first place, the complexity and the technological challenges of the biggest projects in the energy sector demand particular skills that, until now, have been developed only by a limited number of International Oil Companies. Here I'm thinking – for example – of the technologies and know-how for oil and gas extractions in very deep wells and the management of the biggest reservoirs, and the technologies required to refine heavy crude and high sulphur content oils with a view to obtaining medium and light distillates that can meet the high environmental standards demanded by the market.

In addition, moreover, most of the producers are entering a new phase of development that demands a broader approach than that foreseen by a traditional business model based on oil exports.

In particular they will need to :

- *efficiently develop the different hydrocarbons they has, exploiting oil and natural gas, for a more adequate and profitable final use;*
- *identify markets for their less premium resources – such as heavy and very heavy crudes,*
- *develop integrated domestic energy systems to drive their own economic growth. This implies not only earmarking a part of their mineral resources for internal consumption, but also strengthening and building refineries, petrochemical plants, power stations, desalination plants, etc.;*
- *offer also finished products to international markets, and not just raw materials;*
- *and, finally, to create jobs, related to all these activities, for their young citizens.*

All of these needs offer a common platform that could bring together the respective expectations of the IOCs and the NOCs. In particular, if we can put aside our respective short term objectives, and think in terms of long-term development, starting from the needs of a specific country, when can foresee many solutions that will be advantageous for all.

This is the logic that inspires the new strategic approach that Eni intends to propose to the major producer countries – especially here in the Gulf. *And this is what it involves.*

First of all, we want to get around the table, side by side, with the major producer countries and their National Oil Companies, to understand what their needs are and how they intend to configure their energy future. In short, we want to understand what their strategic objectives are, and how we can help them to achieve them - rather than simply considering our own objectives, as the International Oil Companies generally do.

This is why we are ready to promote new strategic alliances with all the producers, based on the combined development of integrated projects in their territories, at the service of *their* energy objectives and *their* economic development. Such projects must be fundamental for the strategies of the producer countries, in that they must effectively contribute to:

- developing their energy sector, in line with their productive context and the needs of their populations;

- guaranteeing an effective exchange of technological know-how and the management of complex projects;

- ensuring to local populations adequate qualified manpower.

In the downstream area, these integrated plans could include projects for big refineries and petrochemical plants, plants for the liquefaction of gas and regasification, and projects for energy production, associated, finally, with water desalination plants.

In the upstream sector, areas of cooperation could include the recovery of additional volumes of oil and gas from older wells, the implementation of sophisticated techniques for the management of reservoirs and the exploration and valorisation of new hydrocarbon reservoirs in difficult geological and environmental contexts.

In short, we are not simply asking producer countries to open the doors to their reserves to the International Oil Companies, in that that would be useless. Rather, we are inviting them to consider their reserves in a much broader perspective. For Eni, this perspective means a return to the origins of the company, to the cooperation model developed and pursued by the founder, Enrico Mattei. He was the first, among western oilmen, a to understand that the needs of the producer countries must have priority.

Thank you for your attention.