

Remember: It's their oil, not ours

BY PAOLO SCARONI

One of the big themes of the 21st century will be how to combine population growth and sustainable economic development with the challenge of limited natural resources—food, water, metals, and, of course, energy.

This is not a new concern. Thomas Malthus raised it as long ago as 1798. But, over the years, seemingly inevitable crises have been avoided time and time again, thanks to technological advances which have increased production, reduced waste and changed the way we do things.

Looking ahead, innovation and technology will need to kick into action again. And this is particularly true in the energy sector where the challenge is to combine energy availability with environmental preservation.

International Oil Companies (IOC) are ideally placed to crack this challenge. But to do so, they need to work much more in partnership with their National Oil Company (NOC) counterparts.

The rise in power and importance of the NOCs poses a major challenge to the traditional business model of IOCs.

First of all, the oil is quite literally “theirs” rather than ours. Legally, in every country except the U.S., the mineral rights to what is underground belong not to those who own the land above, but to the national government. NOCs are sitting on 90% of global oil reserves, while all the IOCs put together only hold 10%. That means Exxon, the largest IOC, is in fact ranked only 21st globally as measured by reserves.

Secondly, companies like Saudi Aramco of Saudi Arabia, Brazil's Petrobras and Malaysia's Petronas now have the internal expertise

required to develop much of the oil in their home countries without the help of the IOCs.

And finally, some national oil companies now have the skill to go global. Some, like Petrobras, Petronas and Russia's Gazprom, are expanding from a strong domestic presence. Others, like Chinese oil and gas companies CNPC, Sinopec and CNOOC, were conceived to compete for resources abroad.

So, are international oil companies like dinosaurs: big, powerful but destined for extinction?

That's quite possible, unless we acknowledge a simple fact. The oil is not ours. It is theirs. It belongs to oil-producing countries.

If IOCs want to play a role in the future of this industry, we must add value. And that means building a corporate strategy on two pillars:

Firstly, we must improve our competitive position in exploration and production. This means becoming faster and more efficient, investing in people and managerial competencies, and in particular maintaining and increasing our technological leadership.

Despite the increasing competencies of the NOCs, IOCs still lead the field on “difficult oil”: oil that is located in deep or ultra-deep waters, in areas which are frozen for many months of the year, or in mature fields where production is declining. For an idea of how important technology is, just think that of all the oil in place in the world, we currently have the means to extract only 35%. New technology has much to contribute and the IOCs are well placed to invest.

The second way we can add

value is by developing a real partnership with oil-producing countries; sitting side by side with them to work out how we can help them meet their needs and the needs of their people.

For Eni, this is not a new idea. Eni was born as a tiny Italian company in a field which was dominated by the “Seven Sisters,” the precursors of Exxon, Chevron, BP and Royal Dutch Shell.

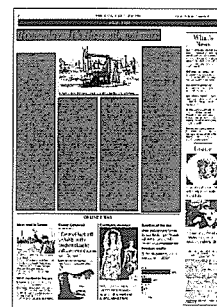
As a small, politically insignificant upstart, it had to find a way to get its foot in the door. Its competitive edge was precisely this: It built a reputation for mutually beneficial partnership, for example, offering the host country a greater share of the revenue from any production there.

Today we carry on and build on this legacy approach. Our Eni model is based on long-standing and solid relationships, particularly in Africa, where we pursue a true partnership aimed at providing solutions to local community needs.

What kind of shape can a partnership approach take?

The bare minimum is to ensure that local communities benefit from the ordinary activity of the IOCs. That means local employment, transferring skills, providing advanced healthcare and protecting the environment. But IOCs can go much further than that.

Our integrated business model means we are ideally placed to design 360° solutions to a country's energy needs: for example, building power stations fired by the “associated gas” found alongside oil. This generates electricity for the domestic market. It protects the environment because it uses gas that is traditionally burned or



“flared.” And it maximizes the amount of energy destined for export.

This is what the Eni model is all about, and what we are doing in the Republic of Congo, in Angola, in Nigeria, in Kazakhstan and elsewhere around the world.

The growing role of NOCs is not just pushing IOCs to become more technically advanced and fairer in dividing up the benefits of oil. It also provides an added incentive for IOCs to invest in other areas of the industry where they are naturally positioned to take a leadership role, like the search for truly effective and efficient alternative-energy sources. These are not yet within reach, but they represent the long-term future of the industry and a conclusive answer to combining economic development with environmental preservation. For our part, we have invested \$50 million in partnership with MIT looking into advanced solar technology. Others are focused elsewhere in the renewable debate. All are important initiatives.

Their oil, not ours. That’s the key to understanding the role that IOCs can play in the global game that is 21st Century Oil. A role which will involve true partnership built on a real and sustainable commitment to the development of host country economies and infrastructures, coupled with research into technologies that will deliver increased production from today’s oil fields and the alternative-energy sources of tomorrow.

—Paolo Scaroni is chief executive officer of Eni SpA.