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## **The new Seven Sisters: oil and gas giants dwarf western rivals**

By Carola Hoyos

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When an angry Enrico Mattei coined the phrase “the seven sisters” to describe the Anglo-Saxon companies that controlled the Middle East’s oil after the Second World War, the founder of Italy’s modern energy industry could not have imagined the profound shift in power that would occur barely half a century later.

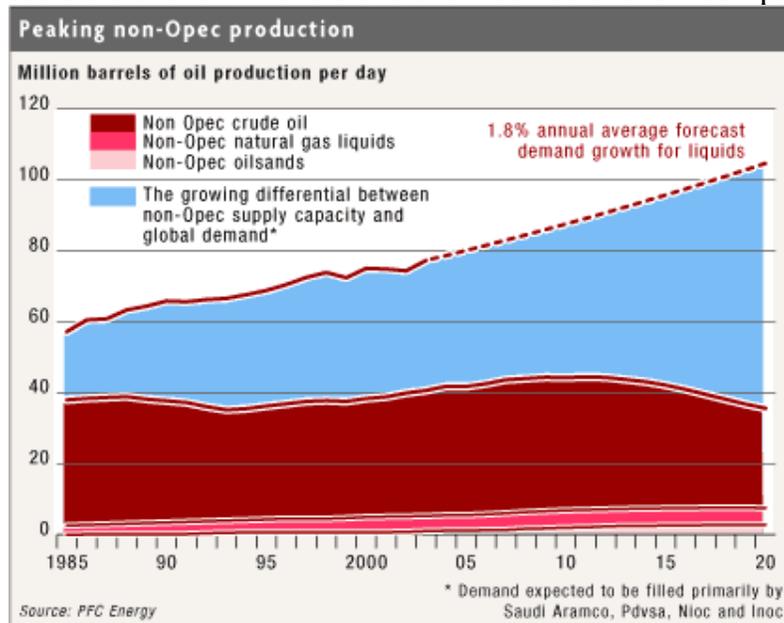
As oil prices have trebled over the past four years, a new group of oil and gas companies has risen to prominence. They have consolidated their power as aggressive resource holders and seekers and pushed the world’s biggest listed energy groups, which emerged out of the original seven sisters – ExxonMobil and Chevron of the US and Europe’s BP and Royal Dutch Shell – on to the sidelines and into an existential crisis.

The “new seven sisters”, or the most influential energy companies from countries outside the Organisation for Economic Co-operation and Development, have been identified by the Financial Times in consultation with numerous industry executives. They are Saudi Aramco, Russia’s Gazprom, CNPC of China, NIOC of Iran, Venezuela’s PDVSA, Brazil’s Petrobras and Petronas of Malaysia.

Overwhelmingly state-owned, they control almost one-third of the world’s oil and gas production and more than one-third of its total oil and gas reserves. In contrast, the old seven sisters – which shrank to four in the industry consolidation of the 1990s – produce about 10 per cent of the world’s oil and gas and hold just 3 per cent of reserves. Even so, their integrated status – which means they sell not only oil and gas, but also gasoline, diesel and petrochemicals – push their revenues notably higher than those of the newcomers.

Robin West, chairman of PFC Energy, an industry consultancy, says: “The reason the original seven sisters were so important was that they were the rule makers; they controlled the industry and the markets. Now, these new seven sisters are the rule makers. They controlled the industry and the markets. Now

these new seven sisters are the rule makers and the international oil companies



are the rule takers.”

The International Energy Agency, the developed world’s sectoral watchdog, calculates that 90 per cent of new supplies will come from developing countries in the next 40 years. That marks a big shift from the past 30 years, when 40 per cent of new production came from industrialised nations, most of it controlled by listed western energy groups, noted a report published last week by Rice University’s James A. Baker III Institute of Public Policy.

The biggest contributor will be Saudi Aramco, the world’s largest and most sophisticated national oil company and thus number one on the FT list. After the surge in crude prices since 2002, Saudi Aramco launched its most ambitious expansion programme in a generation. It aims to boost production capacity from 11m barrels a day – or 13 per cent of today’s global consumption – to 12.5m b/d and then 15m b/d.

In doing so, Saudi Aramco will consolidate its position as the world’s most powerful oil company, allowing Riyadh to remain the world’s central banker of oil – turning taps on when there is a shortage of global supply, and off when prices are falling below its comfort level.

International oil companies and the leaders of the main consuming nations have come to accept Saudi Aramco’s dominance. But the recent shift in the international influence of smaller national oil companies has been harder to swallow. By the end of last year, companies such as BP and Shell had lost their leading positions on the world’s stock exchanges: Russia’s Gazprom and

PetroChina (88 per cent owned by CNPC) had pushed their way into second and third place among the biggest listed energy groups.

ExxonMobil, perhaps the only energy company from the developed world that can match the new batch in overall influence, now remains alone at the top. Gazprom, Petrobras of Brazil and PetroChina have also outshone the others in share price gains.

The main reason for this shift in power has been a resurfacing of the resource nationalism that began in Mexico in the 1930s, spread to the Middle East in the 1970s and abated – and in some cases went into reverse – when oil prices cooled in the late 1980s and 1990s. Groups including Mattei's Eni are having to accept new contract terms in countries such as Russia and Venezuela, where national energy companies are systematically clawing back control of fields.

Venezuela this month enacted a law that will give PDVSA majority control of the Orinoco belt's heavy oil fields, the largest such resource in the world. In Russia the Kremlin wrested control of Shell's \$20bn (£10bn, €15bn) natural gas project on Sakhalin Island at the end of last year and announced Gazprom would lead the development of the vast Arctic Shtokman gas field, relegating international oil companies to service providers.

This month Lord Browne, BP's chief executive, travelled to Moscow to try to head off becoming the latest Gazprom victim. He proposed that BP marketed the Russian company's future liquefied natural gas abroad in an effort to stave off Gazprom's ambitions to take control of the Kovykta gas field, one of BP's key Russian assets.

The impact of today's nationalism is different from that of the 1970s. In 1975 Gulf, one of the original seven sisters and now part of Chevron and BP, shifted all its movable investment dollars out of the developing world and back to North America and the North Sea. This time international oil companies are finding no new fields to escape to. In fact, they have discovered nowhere capable of pumping more than 1m b/d since 2000, when Kazakhstan's Kashagan field became the biggest find in 30 years.

Meanwhile, national oil companies are banding together to help to develop each other's reserves, leaving growth in the oil and gas industry – and the resources for world economic development – in the hands of the new seven sisters and the governments that control them. The consequences of this could hardly be more profound. Fatih Birol, chief economist at the IEA, estimates that the world is falling 20 per cent short of making the \$20,000bn investment needed to ensure adequate energy supplies for the next 25 years.

Governments' unwillingness to allow their national oil companies to reinvest their recent windfall profits back into the industry lies at the root of many of the worries about future supplies. Instead, those governments use the money for social ventures or it is wasted.

President Hugo Chávez, of Venezuela, spends two-thirds of PDVSA's budget on his populist social programmes, with almost \$7bn being funnelled in that direction by 2005, compared with the \$77m spent in 1997 by the previous government, the Rice University report found. Meanwhile, in Russia too little of Gazprom's earnings goes towards upgrading Russia's antiquated, leaking pipeline system, 30 per cent of which needs replacing, the IEA warns. In Iran, NIOC is still a gas importer despite controlling South Pars, the world's biggest gas field. It is hindered from boosting its oil production or fixing its refineries because of the burden of financing subsidies that keep petrol prices at just 10 US cents a litre.

But the poster child of what happens when a government restricts foreign investment while using its national oil company as a bottomless piggybank is Mexico. Pemex's decline has excluded it from the FT list of the developing world's most influential energy companies.

The most pessimistic forecasters say the rapid ageing of Mexico's giant Cantarell field will turn America's third largest oil supplier into a net importer within a decade.

"The x-factor is [Mexico's] Congress, with Pemex constantly locked in a battle to secure sufficient funding and a reasonable fiscal regime, the company cannot plan on a long-term horizon with great certainty, handicapping its ability to manage declines," says Ryan Todd, an analyst at Deutsche Bank. This would contribute to a "severe problem" in world oil supplies within the next three to five years. For Mexico, it would mean the gradual loss of 40 per cent of its tax revenue.

International oil companies are, however, competing not only with resource holders but also with national oil companies that have turned resource seekers – highlighting the issue of energy security.

Jimmy Carter, who as US president during the oil shocks of the late 1970s passed the most sweeping energy legislation in the country's history, says in an interview that energy insecurity is "still a major issue and will be increasingly a crisis situation in the years to come". The present situation differs from the one he tackled in one main respect: "Today we are experiencing on a global basis competition from China and India that I didn't know when I was president."

The biggest of those competitors is CNPC. It has a solid foothold in China's large reserves, owning 88 per cent of PetroChina. But it is its rapid push to secure international reserves that makes it so powerful.

Backed by Beijing's feverish quest to secure the energy it needs for China to develop, CNPC has fanned out across the globe into about 20 countries from Azerbaijan to Ecuador. It has pumped more than \$8bn into the oil industry of war-torn Sudan, when concerns over human rights deter others in the industry from involvement with Khartoum. "CNPC are the rule makers on access to new reserves in new markets and they are changing the competition for resources, services, capital and markets," says Mr West.

Nor is CNPC the only company changing the rules in the race to secure assets. Smaller national oil companies such as Petrobras and Petronas are also keeping international energy executives awake at night.

Petrobras, for example, has been at the forefront of the technology needed to pull oil out of ultra-deep waters, such as those that abut Brazil's shores. The company is now using those skills to compete head-on with the likes of BP and ExxonMobil in Angola as well as the US Gulf of Mexico.

Malaysia's Petronas has also spread out internationally, notably into Sudan and Burma. It receives about 30 per cent of its corporate revenues from abroad and operates in more than 26 countries, producing oil from about 50 projects, more than half of which it runs, Rice University's report notes.

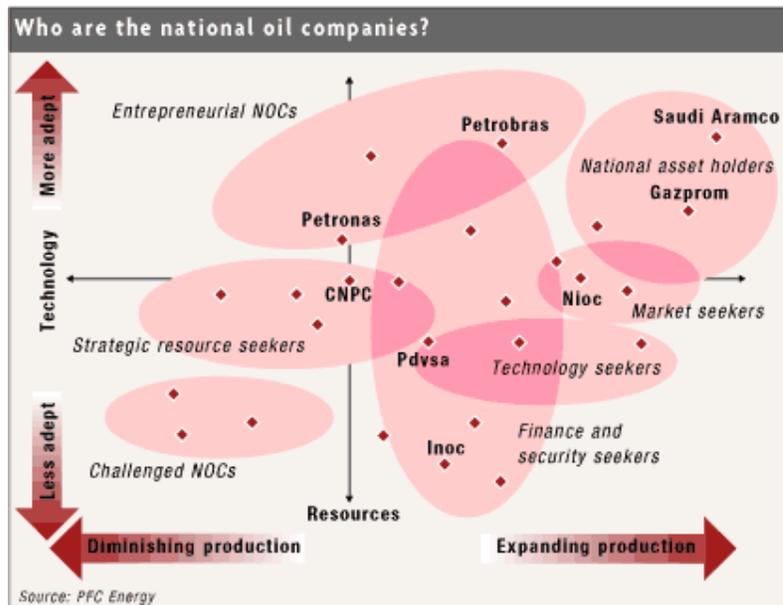
Companies such as Petrobras and Petronas have the advantage that they can more easily woo fellow resource-rich national oil companies. International oil companies continue to suffer from their 1980s and 1990s reputation as haughty and patronising business partners.

Malcolm Brinded, head of Shell's exploration and production, acknowledges this when he says international oil companies need to ask themselves, "How are we going to make this marriage work?" He describes Shell and other international oil companies as "much less paternalistic than in the partnerships of 20 years ago".

Examples of this include anything from the tone the international groups use in negotiations, to employing and training local engineers and building infrastructure, such as desalination plants, even though it might not be needed for the project in which the company is involved.

International oil executives are making these concessions because they believe today's power balance is unlikely to change any time soon. Christophe de

Margerie, chief executive of Total and the man who made his mark brokering deals with national oil companies in the Middle East and Africa, says: “I think this new world will stay even if the price of oil drops a little bit. People will keep in their soul that they have this power – it will take time before they change.”



But he adds that his optimistic side believes that eventually national oil companies, many of them battling declining fields and other technical and managerial challenges, “might be forced to consider, ‘well, whatever we said, those people are worth working with because we need them to develop our reserves’.”

The wish expressed by Mr de Margerie could not be further from the self-assured position his predecessor at CFP, Total’s ancestor, used to enjoy 60 years ago. Yet it is a worry not only for Mr de Margerie and his peers. If the new seven sisters do not live up to their potential, the world’s continued economic growth, China’s development and the west’s comfort and wealth will become far from assured.

## SAUDIS HEAD A RICH FIELD

With 25 per cent of the world’s oil reserves and the capacity to produce nearly triple the amount of any other group, Saudi Aramco is the world’s most successful national oil company. The House of Saud dictates energy policy but leaves day-to-day strategy to the capable technocrats who run it. Saudi Aramco is investing \$50bn (£26bn, €38bn) over 15-20 years but its biggest fields are ageing.

## **Gazprom**

No other company keeps Europe, and increasingly Asia, on tenterhooks more than Gazprom. As a tool of the Kremlin, it has been involved in a gas dispute with Ukraine and a debate with Japan and China over competing pipelines from Siberia as well as the grab of Royal Dutch Shell's majority stake in the Sakhalin II liquefied natural gas project.

Gazprom has increased its influence with upstream deals in central Asia, including Iran. Downstream, its push into the European market has set off moves to limit its access.

## **CNPC/PetroChina**

All three of China's top oil companies have been making ambitious moves abroad. But China National Petroleum Corporation, with its 88 per cent owned PetroChina as a listed subsidiary, is the biggest and has the widest international reach. PetroChina holds most of its overseas assets in a joint venture with its parent and is active in about 20 countries from Azerbaijan to Ecuador. CNPC retains sole control of its controversial assets in Sudan.

## **NIOC**

Iran is one of the few Middle East countries with massive hydrocarbon wealth that is open to investment by foreign energy companies. National Iranian Oil Company has partnerships with Italian, French, Dutch and Norwegian companies and collaborates with Chinese and Russian groups.

Yet South Pars, the world's biggest gas field, remains so untapped that Iran is a net gas importer.

Pdvsa President Hugo Chávez this year signed a law that allows Pdvsa to seize control of the \$30bn Orinoco Belt heavy crude oil projects. Pdvsa's production is shrinking but it is still important to the fortunes of international energy groups, many of whose contracts are being rewritten.

The strength of Petrobras is in finding and producing oil from deep waters. Expertise gained in Brazil's waters is being applied in offshore West Africa and the Gulf of Mexico, where its Cottonwood field is in production.

Petronas Malaysia's national oil company has been described as the role model others would like to follow. Though a top-three exporter of LNG, Petronas risks falling behind the oil groups of Qatar, Nigeria and Indonesia.

All of these factors such as demand outstripping supply, Saudis, Russia and Venezuela keeping their resources for themselves, continued political challenges in Nigeria, Iraq and Iran, points to oil prices remaining on an upward trend that astute private investors are taking advantage of. There are not a lot of astute private investors out there.