Face value

Totally different

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Christophe de Margerie, the boss of Total, thinks that the world's oil production may be nearing its peak

CHRISTOPHE DE MARGERIE is not exactly a conformist. His family is in the champagne business, but he deals in a much less exalted liquid: oil. Despite his heritage, his favourite tipple is single-malt whisky from Islay, which, a colleague confides, he often requests specially at posh corporate events where champagne is *de rigueur*. His starburst moustache would look right at home on the face of a British cavalry officer, but is an unusual choice for the chief executive of Total, the most valuable company in France (and, indeed, in the whole of the euro zone). And unlike many French bosses, who shuffle from ministry to moneymaking, he has spent his working life in business.

Mr de Margerie's opinions also stand out, at least within the ranks of senior oilmen. Last year he declared that the world would never be able to increase its output of oil from the current level of 85m barrels per day (b/d) to 100m b/d, let alone the 120m b/d that energy analysts predict will be needed by 2030. That is in stark contrast with the view of Rex Tillerson, the chief executive of Total's larger American rival, Exxon Mobil, who argues that the world is neither short of oil, nor likely to be any time soon. It also contradicts the line of the Organisation of the Petroleum Exporting Countries (OPEC), which claims that the only thing that prevents its members from producing more oil is the fear that no one will buy it.

Many bigwigs in the industry have complained that their firms are excluded from the most promising territory for exploration by prickly governments that would prefer to go it alone. Some have concluded that this fad for "resource nationalism" will help to keep the oil price high for some time to come. But none have gone as far as Mr de Margerie in asserting that the oil industry is nearing a peak in production.

Mr de Margerie is careful to point out that he is not predicting "peak oil" in a geological sense. His definition of peak oil is "when supply cannot meet demand". He believes that the fuel that the world needs to keep its cars and factories running may well be out there, somewhere. It is just getting harder and harder to extract, for technical as well as political reasons. For one thing, he points out, the output of existing fields is declining by 5m-6m b/d every year. That means that oil firms have to find lots of new fields just to keep production at today's levels. Moreover, the sorts of fields that Western oil firms are starting to develop, in very deep water, or of nearly solid, tar-like oil, are ever more technically challenging. There is not enough skilled labour and fancy equipment in the world, he believes, to ramp up production as quickly as people hope.

Oil might be a little easier to get at in places like the Middle East or Russia. "But we can't just say we'd like it, we want it, we'll take it," says Mr de Margerie. Oil-soaked countries, he believes, will not open up their reserves for exploitation just to make life easier for companies like his. All of which leaves Western oil giants in something of a pickle. "We all think the same," he says of other oil bosses, "it's just a question of whether we say it."

Arguably, Total's problems in this respect are more severe than those of most of its rivals, since it derives a relatively high part of its output from geologically promising but politically inauspicious spots. That is a plus, insofar as it brings more opportunity for growth. In the third quarter of last year Total was the only one of the "majors" that saw its output rise. It was recently picked to help Gazprom, Russia's state-controlled gas giant, develop Shtokman, a massive offshore gasfield. Total is also involved in big projects in Iran, Kazakhstan and Venezuela. Thanks to such investments, the firm expects its output to grow by 4% a year for the next three years.

But doing business in such places has its drawbacks. Total risked American sanctions when it invested in Iran in the 1990s; further investment is being held up in part by an argument with the government over the division of the proceeds. Kazakhstan is demanding a speedier payout than planned from a huge oilfield that Total is helping to develop. In Venezuela the authorities first raised the royalties on Total's output, and then demanded that the state-owned oil company be granted a majority stake in several fields operated by Total. When the two sides could not agree terms on one such project, the government simply expropriated the field. Meanwhile, French magistrates have questioned Mr de Margerie several times over suspected bribery of both Iranian and Iraqi officials.

The nuclear option

Even without such troubles, says Fadel Gheit of Oppenheimer, a financial-services firm, oil from such places tends to be less profitable than that produced in North America, since the American and Canadian governments take only a relatively small share of the revenues. But Total, Mr de Margerie argues, has no choice. It has invested in friendly spots, including Britain and Norway, when the opportunity has arisen. But unlike most other big oil companies, it has no backyard, since France has no oil of its own. Since its inception it has been forced to look for oil overseas, often in less than ideal circumstances. It would be wonderful if the world's oil happened to lie under Club Med holiday resorts, Mr de Margerie says, but sadly it does not. The firm's relationship with leaders like Hugo Chávez of Venezuela "is not a love affair". But political obstacles are just as much a part of the oil business as tricky geology is.

Perhaps the best measure of Mr de Margerie's gloomy outlook for the oil industry is his eagerness to get Total into nuclear power. Though he says he is not about to increase Total's token 1% stake in Areva, France's nuclear-engineering giant, he clearly sees nuclear energy as part of Total's future. Why would an oil firm want to enter such a controversial field, unless it feels that it is already out on a limb?