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As Profits Surge, Oil Giants Find Hurdles Abroad

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To many Americans, oil companies like Exxon Mobil or Chevron appear all powerful, pocketing record profits as energy costs soar. But in many countries around the world, high oil prices are also making life considerably harder for big oil companies.

Sharply higher energy prices have shifted the power to oil-producing countries, as some governments seek a larger share of the riches. As a result, even as Western oil companies expand their reach through acquisitions and multibillion-dollar projects, a resurgence of nationalist policies is weakening their influence.

"We've seen a return to a 1970's style of resource nationalism riding along the crest of high prices," said Daniel Yergin, the chairman of Cambridge Energy Research Associates, a consulting firm. "During times of low prices, governments are keen to open up. But when prices are high, they have the high cards."

This trend could lead to fewer investments by Western oil companies, lower production, and with more limited supplies, even higher prices at the pump. So far, the power shift has taken on various shades and tones. In Bolivia and Russia, governments have taken outright control of oil and gas fields; in Venezuela and Britain, they have increased taxes; and in Nigeria and Kazakhstan, they have given highly preferential treatment to state companies.

Last week, Bolivia said it would seek 82 percent of the sales from the biggest fields, up from less than 18 percent.

In Venezuela, the government recently asserted its hold on 32 small oil fields developed by foreign companies and increased taxes to 83 percent from 56.6 percent.

The Congress in Ecuador recently approved a law that introduces a 50 percent royalty fee on existing fields.

Even the British government changed the tax regime in the North Sea at the beginning of the year,

increasing its taxes by 10 percentage points, to a total of 50 percent. And if the talk in Congress over windfall profit taxes is any indication, the same might be said — at least to a limited degree — in the United States.

For all their riches, global oil companies have been on a long path of decline, progressively losing out to national oil interests around the world. These days, with higher costs, lower returns and increased competition, the screws are tightening even more, leaving executives anxious about the future of their industry.

"Oil companies," Mr. Yergin said, "are feeling cramped."

Exxon's oil production of 2.5 million barrels a day, for example, accounts for less than 3 percent of the world's daily output. The top seven international oil companies — Exxon, BP, Royal Dutch Shell, Total, Chevron, ConocoPhillips and Eni — control less than 5 percent of the globe's reserves. Most are having trouble finding enough oil to replace what they pump out each day.

Major oil companies have substantial assets, of course. They generate huge profits, they own leading-edge exploration and production tools, and they have developed financial and managerial expertise. They also have a long history of adapting to hostile environments, both natural and political.

Still, the latest trend in the oil business contrasts sharply with the previous decade-long period of privatizations that came after the fall of the Berlin Wall. For the industry, those now seem like distant memories, when oil executives from Houston to London raced to Siberia or the Andes, the Caspian Sea or the Gulf of Guinea, in search of new prospects and bargain opportunities.

Two decades of low oil prices and abundant supplies meant that Western companies were granted favorable terms by governments that were then eager, often anxious, to raise their production, increase their revenue and refill their coffers.

How times have changed.

Meanwhile, of course, energy prices have soared.

"It's quite natural that during a period of high prices the phenomenon of resource nationalism returns," said Leonardo Maugeri, a senior executive for strategy at Eni, Italy's giant oil company. "It's a byproduct of high prices."

"In periods like this," he said in a telephone interview from Rome, "producers think they have the upper hand, and probably they are right. So they impose higher taxes, or worse."

This trend has been particularly pronounced in Venezuela. There, the government is considering

rewriting the rules for investment in the Orinoco belt, where the country's heavy oil reserves are found. Oil companies have invested more than $17 billion there, hoping the reserves might rival those of Saudi Arabia.

Venezuela has already increased royalties to 16.6 percent from 1 percent on the country's four major projects and is planning to raise taxes to 50 percent from 34 percent. It also wants Petróleos de Venezuela, better known as Pdvsa, to increase its stake in these projects to 60 percent or so, from about 40 percent.

"Many companies are willing to play ball because the reserves are huge, but Venezuela is taking a big risk," said Patrick Esteruelas, an analyst at the Eurasia Group, a political risk consultancy in New York.

Indeed, in most cases where governments nationalized their oil industries in the 1970's or have tightened the fiscal terms more recently, production has sagged: Iran today is nowhere near its peak production, nor is Libya, nor Iraq, and until last year, Saudi Arabia had not increased its production capacity in more than three decades. More recently, output from Venezuela and Russia has been stagnant or falling.

"The 1990's was the reverse of what we have today: there was competition for capital rather than competition for reserves," said Michelle Billig, director of political risk at the PIRA Energy Group, a consulting firm in New York. "Now that bargaining power has shifted."

"This totally affects the supply outlook for the future," she said.

"The world is depending on the continued growth of production. If there are fewer incentives to increase production, you will have continued tightness in the market."

Derek Butter, who heads the corporate analysis group at Wood Mackenzie, an oil consultancy based in Edinburgh, said that many oil projects now being renegotiated were drawn at a time when oil prices hovered around $15 a barrel. There was no mechanism that laid out how governments and oil companies would share the larger profits. At the time, he said, no one anticipated that oil prices would reach $75 a barrel.

Their standing has eroded considerably over the years, and most companies have little choice but to go along. At their peak after the Second World War, the so-called Seven Sisters dominated the world oil market. In return, they granted an allowance to host governments, like Libya, Iran, Iraq, or Saudi Arabia, and set oil prices for the world.

Then came the backlash. Oil producers in the Middle East and in Latin America organized themselves, starting in 1960 with the creation of the Organization of the Petroleum Exporting Countries. They demanded a higher share of the oil revenue and higher oil prices. Finally, in the 1970's, they kicked the foreign companies out.

Today, Western oil companies as a whole have full access to countries with 6 percent of the globe's known reserves, mainly in North America and Europe, according to PFC Energy, a Washington-based consulting firm. They can also invest in countries that own an additional 11 percent of reserves through joint ventures or production-sharing agreements. The rest of the world is closed to them.

Paolo Scaroni, the chief executive of Eni, called it "the paradox of plenty." International oil companies, he said during a conference in London earlier this year, "are awash with enormous cash flows, but their opportunities to reinvest that cash are severely limited."

Speaking at a panel discussion held by the Center for Strategic and International Studies in Washington on Monday, Rex W. Tillerson, the chairman of Exxon Mobil, said Western oil companies can help increase production because they bring unique technological skills.

"The biggest challenge for us from a geopolitical standpoint is simply being granted access," he said. "And some countries are more willing and open to allow industry to develop their resources than others."

At the same time, oil companies are facing rising competition from new rivals, like Chinese and Indian state-owned companies, as well as the many increasingly experienced national oil companies, like Petrobras of Brazil or Petronas of Malaysia. That has led to a rush for resources around the world and higher costs. In Libya and Angola, for example, oil companies have recently bid record amounts for new exploration rights.

"There's a lot of arrogance on the part of international oil companies, who believe they can offer something that no one else can," said Valérie Marcel, an energy analyst at Chatham House in London, whose book, "Oil Titans: National Oil Companies in the Middle East," is being published later this month.

"But they are not the only game in town anymore."