

CHRISTOPHE DE MARGERIE

Chief executive officer of Total

Paoli:

Sir, we have heard two extremely interesting plenary sessions focusing on the issue of governance. Now what we want to do with you, M. de Margerie, is still to look at the issue of governance, but through the specific issue of energy. M. de Montbrial highlighted that economics and politics are very closely intertwined.

Hoagland:

Welcome to hear you to have a discussion on how private companies can contribute to good global governance. What is the role of the private sector? But particularly : energy companies. We look forward to your remarks and I wonder if at the end of your remarks or as a conclusion to your remarks you might address specifically the point that is on everybody's mind, that is the extreme volatility of energy prices over the past year, and whether or not that has contributed greatly to the lack of confidence that is at the base of the current financial crisis.

Margerie:

Thank you very much for giving me the floor. I would like to thank each and every one of you for joining us here. I've been told to basically be the actor that will keep you happy in between the more serious sessions and before the Presidents who are coming afterwards. Anyway, let me just say that we have to focus on priorities. The fact is that we have to prioritize, and we have to make sure that our leaders and maybe leaders in the business community also should identify their priorities and stick to them. Because precisely you said Jim that all sorts of people are lost and don't know exactly what we're talking about – on climate change, on purchasing power, on the conflict in terms of timeframe between the two issues. Now, of course that needs that we look at these issues and let time take its course. It doesn't mean that we shouldn't do anything, but that we should take these things into account. Now there are other countries we have to deal with and work with. They sometimes are in a different context and a different state; and we have to take that into account when we want to involve and include them in the process, otherwise we risk excluding them and being at a loss. So once again, we have to focus on identifying priorities and prioritizing them.

Now, corporate governance is important of course, but it may be not the most acute issue in terms of the current global crisis. Now, corporate governance is something we've worked on quite a lot. I can tell you that in Total the executive chairman and the CO have already applied – even before the industry rules were released yesterday – these rules. We are not involved in wild capitalism, savage capitalism. We know these rules, we act upon them, we pre-empt them in a way. We have to realize that the subprime crisis was in fact the works of the Anglo-Saxon bankers. We have to bear in mind also this golden handshake people are talking about. It's true that in French we call it a 'golden parachute', but it's true that executives in a company haven't got specific contracts, and it makes sense in a way when you put an end to the contract and to discussions to get a golden handshake. A number of politicians will probably discuss these things but I think that when you completely confuse core-business with other businesses, for instance banking and insurance, when you have construction companies take on business activities, it doesn't make sense for them to get golden handshakes. I think that when you start confusing issues so you should get drawn to court. So I think that the current crisis has to be settled, but you can't settle it with golden handshakes, you have to identify the priorities, identify how we can get out of the crisis, try and identify what the crisis is exactly and what we can do, maybe in my line of business – in energy.

Paoli:

Can we move on maybe to energy but also on transparency. Now, you are a very senior official in a very large corporation; what degree of transparency would you agree to?

Margerie:



Well, look at the annual report that Total produces. You can see exactly what pay I get, what sorts of premiums I get. I can tell you that I don't get a free plane, a free house, or domestic staff. You can see that exactly. Transparency is visible in great corporations; we have had that degree of transparency for quite some time and we haven't waited until we were told to do it to do it. You just have to read the papers, get hold of these reports and read them properly. It's not that difficult. There is a booklet. You can call Isabelle Desmet at the communication and PR department to get a copy of the booklet. 1.250.000 Euros gross and a very oval add-on of 1.5 million. So were I to leave Total not for a major mistake but because the board would ask me to leave – which as far as I can tell is not going to happen any time soon –, well in that case I'd 1.5 plus 1.25 multiplied by 2, so that would be about 5 million Euros. Yes, it's a nice, hefty amount of money. But I'm not sure that that's in any way abnormal. I'm not sure that that is so-called 'jungle capitalism'.

Hoagland:

Mr. de Margerie, I wonder if we can approach the question of global governance, perhaps from a different angle, and talk about, in the field of international relations, companies playing a major role. Total is faced with a situation where sanctions against Iran are inhibiting your attempts to have greater resources that come from Iran. Are sanctions in such a case a contribution to global governance or would you argue that they are a detriment to global governance, as well as of course to your company's profits?

Margerie:

I should have known. Well, let me just say that those who lose out are not the companies such as Total. It's Iran, the people of Iran and the international consumers, in the United States, in Europe, in France, because they do not have access to those energy resources, gas more specifically. And we know that there is a shortfall in gas now. We have to bear in mind that as ever when there is embargo or sanctions, it's not necessarily the leaders who suffer most but the rest of the people. So you might have gathered from my answer that I'm not a great fan of embargoes. But Total always abides by embargoes wherever we do business and wherever there are embargoes imposed. Now it's true that it's difficult to develop a large project in Iran (for ten or twenty billion Euros for instance), but we want to maintain a good relationship not so much with the government and the authorities in Iran but more specifically with our counterparts – the companies, the international oil companies and others. The fact is that we work in a twenty or thirty-year timeframe. So I can't pull out overnight as if I were selling Coca-Cola or Evian water. You can stop trade but you can't stop an investment. Now I know that people often accuse me of justifying my words and my presence in Iran by saying so. The fact is that we have to be there present for a long time; we have to make sure that there is oil and gas for those who need it on the international market. Now if we can't do it for a given period of time, well, too bad!

We'll maintain relations and resume our business when we need to. We were being accused of funding or contributing to the funding of professionals in Iran. These professionals are industry representatives who work in oil and gas or they would have to be from companies from governmental industries, and they clearly have nothing to do with the nuclear issues. That was, however, what we were being accused of supporting. I'm not sure this is very useful. Again, it's not so much Iran as a whole that we want to keep aside but we want to set aside a number of leaders in the country. We shouldn't confuse the seventy million inhabitants of an ancient country with an old culture and the leaders of the country. I will abide by the international rules but I would like people to let us do our job. After all, when there is oil or gas shortage people turn to us and wonder what we do. But the fact is that if we're prevented from working everywhere we can't do anything.

Paoli:

Well, I think this brings us back to an issue we have discussed on a number of occasions over the course of this conference. What we identified over the last three days is that a unipolar world is no longer a fact. We have a multipolar world. And having a multipolar world means that the large and the small powers have to cohabitate and to establish a new means of working together. Now, for a company such as yours, which is really at the heart of the energy issue and therefore at the heart of the natural resources issue and the scarcity natural resources, how can you manage, within the next 20 or 30 years let's say, the issue of redistributing this energy? And how can you fit in with the economic issues? How do you take on all these factors? What do you do with it?

Margerie:

That brings us to the issue of transparency and transparency proper. Governance is not so much an issue; I think that governance has been defined, and we abide by the governance rules. We might do a bit more on assuming responsibility and chastising when there are mistakes. But if you come back to the major issues of energy, I think there's one item you forgot in your long list of topics and that is climate change. Yet climate change is being announced everywhere as being the priority, simply because what is at stake is the survival of the planet. Remember that there won't be any more financial crisis if the planet disappears. The energy companies understood that climate change is very important. We may maybe waited too long to realize but it is such a vital issue, why isn't it dealt with everywhere, in every conference? After all, what is at stake is our survival, the survival of our children, the survival of the species. We can't just say climate change is a priority, and then there are so many priorities that you just can't do anything. As I said earlier when I was focusing on prioritizing issues, we are an oil company; our main concern, our priority of priorities is sustainable development and getting energy to our customers. The second aspect here is to make sure that we should always respect the environment and make a contribution to fighting against climate change. We, contrary to others, want to make sure that this is a common issue, which they looked at together rather than opposed. You can't choose between energy and climate change. The two have to be dealt with at the same time. The other option would be to say: 'Well, we want to preserve the environment and stop climate change', and then we might as well stop producing overnight, and stop emitting greenhouse gases. So what we want to do is produce where we can, as much as we need, and produce it better. If I had more time, I could take a little more time to explain these things. I'll tell exactly what we are doing in Total and what others are doing also. We in Total set great store by our relationship with producing countries. And I think that this is vital if you want to bridge the gap between producers and consumers and that we could serve as a bridge. Producing countries I think are much more aware of these climate change issues than we think they are and than we ourselves are.

Paoli:

What is the priority? What is the prioritization in a company such as yours on environmental issues on the one hand, and economic issues on the other? Do you all agree to say that environmental issues, climate issues should preempt everything else?

Margerie:

I would say that it can't preempt everything, quite simply because we need energy to support life on the planet. But managing the climate change issue is vital to avoid the collapse of our world. That's what I mean when I say we have to do the two at the same time. When people attack us on energy and say we do good things on environment, it's a bit of a lopsided approach. What we've been doing for a number of years has been looking at how we can increase our production and improve our production. We've spoken about transparency, but look what has happened in France with the Grenelle de l'environnement, this countrywide conference on environment. What is important is not so much the pieces of legislation that will come out of it, but the fact that it has increased awareness in the country. People still speak about corporate governance and transparency and when people tell you that electricity is a clean energy in fact it isn't true, since it is not a primary but a secondary source of energy. So it depends on what you produce your electricity from. If you use lignite then it isn't clean; if it is nuclear energy then it is clean but people have to accept nuclear energy. So we really have to make sure people decide what they want to agree to. Now, I had a chat with a former US candidate who has received the Nobel price. He was telling me that oil wasn't clean; gas wasn't either; that coal was not clean at all, that nuclear energy was unbearable. So, I said: 'What can we do? We might as well go to bed and wait for it'. And I won't tell you how he reacted to it. Anyway, that's transparency I think. You have to speak honestly and clearly. That is what we must do and that's what transparency is all about. Electric cars are a solution and you have to work with them. But if you say that electric cars are the solution then you have to bear in mind where the electricity comes from. Electricity isn't derived from water. In France it's done with nuclear energy and that's a positive thing, but in other countries it's with coal. So it's not necessarily a clean energy. Now we're working on hydrogen. Hydrogen is a clean energy when you use it, but when you produce it's actually very polluting and it emits a high level of greenhouse gases. People say we need transparency? Fine! We're happy to be transparent. And we're happy to say exactly what we do and how we do it. Otherwise it will be very messy.

Hoagland:

Can I maybe come back to a slightly less important issue, the role of the energy crisis in the current financial crisis? I was a young correspondent in Iraq in the early '70s and made an astonishing discovery by going to Saudi Arabia, which was that the oil companies there were imposing quotas on production in order to help consumers. They were not in fact gouging all possible profits but were managing their industry in a way that kept oil prices and gasoline prices down, in the United States in particular. This was an astonishing discovery since I assumed, as most Americans do, the reverse. That came to an end shortly after I arrived in the Middle East. There is not a cause and effect relationship there... But when the producing companies took control and began to impose their quotas to raise prices for consumers, we didn't have a long period where oil companies functioned essentially as agents for the consumers. They now had to adjust to become agents for the producers in many ways. And that's contributed of course greatly to the volatility, the increases in prices. Do you see any possible solution to this price volatility?

Margerie:

I really love this question, even if I might disappoint you to some extent on the noble and generous aspect of oil companies in the 1970s. I was part of this era. I joined in 1974. But I'm afraid I'm going to disappoint you by saying that oil companies never earned more money than at that time with respect to all capital employed. They've never been as powerful as they used to be at that time, and that's precisely why we call them the majors because they really controlled everything – including politics, which is not perfectly in line with corporate governance, you might say. So it's true that this price volatility was to the detriment of the locals. Saudis couldn't see the color of their oil, unfortunately, but it was good for Western countries. But the oil was in their country and it didn't belong to them: we considered these countries as milk cows. There are 25 million inhabitants in Saudi Arabia, 70 million in Iran. These are not small countries by any means; they have their own vision about how to use their raw materials and commodities. Nobody tells the United States how they're supposed to use their raw materials, especially their coal reserves. That is why we say that Saudi Arabia is the equivalent of the United States when it comes to coal. So, to answer your question: Yes, indeed, there was a change; there was a desire on the part of these countries to emancipate themselves, to get more freedom and more autonomy on the political front. And simultaneously we wanted to take over their gas reserves. This is something that always surprises me: Had we not had OPEC, oil prices would not only have been very high very quickly but they would have been far more volatile. We talk about oil a lot, obviously because it's an indispensable energy, but if you look at the prices of other commodities as well, prices go up and down all the time. For instance, coffee: now, we can survive without, but unfortunately we can't survive without oil, that's the problem. So, there was a readjustment of oil price with a fairer sharing between producer and consumer countries. Consumer countries found that the prices were not high enough so they added all sorts of taxes, more in Europe than in the United States. In Europe we imposed 60 to 70 taxes. European countries themselves imposed these taxes on oil sold. And when you tell the Saudis that oil is too expensive, they say: 'But I don't understand; I earned a lot less on my oil, which belongs to me, than you do'. How are they supposed to understand? I wouldn't understand either. So you have to stop this discussion on the 'how?' and 'why?' of things. However, there was an interesting development recently with oil prices soaring this summer. What is surprising, and this is noteworthy, is that these oil prices continue to soar even when the economic crisis was at our doorstep. We were already in a sort of recession, whether in the United States or in Europe or even in Japan. Japan hasn't really been impacted by the financial crisis yet except through the stock-exchange, but their growth rate is at 0%. They don't say it's because of oil prices or because of subprime; they say it's of a cyclical nature. So, oil prices are not responsible for this crisis because they continue to soar despite everything. This means that there were still people capable of believing that oil did have some value. It was not mere speculation. A survey was conducted on the practices over the summer, which concluded that there was no speculation in the strict sense of the word. But buying oil when we believe that it will become a rare commodity – that was the conception of the market at least – was tantamount to buying shares, for instance. When the price was far too high, it started coming down. But unfortunately oil and oil-related projects are getting more and more expensive. So if oil prices drop too much we won't be able to invest in this industry anymore. \$107 of course is unacceptable. But currently we are at about \$80 a barrel, which is not enough for marginal products. It is not enough at all for unconventional energy-related products. And considering that we have to pay the price for greenhouse gas emissions we're not going to be able to make all these investments if oil prices are not reasonably high. I'm not threatening anyone; this is a reality. Everyone should understand this carefully. For years and years we've been told that energy prices going up would bring down consumption and reduce the problem of global warming. And all of a sudden, people say: 'What about the consumers?'



So, we have to be expensive to bring consumption down and at the same time we have to be cheap because of buying power and because of the environment. It's a bit too complicated.

Hoagland:

Isn't this a key-issue then for governments? Listening to you, I have the feeling that you don't see any compact or agreement between producer and consumer countries as being the answer to the problem.

Margerie:

I think there is the dialogue between producer and consumer countries under the impetus of France and companies such as ours for instance – because I know this isn't really the flavor of the month but I've always been in favor of being involved in political choices; we didn't really have a choice for that matter. There's no point saying that we're outside this discussion. This discussion is indeed taking place in Saudi Arabia and also elsewhere. This debate must be built on mutual respect. It's not what I want (?). It's exactly the same as Europe in China. We say that China consumes too much. Fine, but it's still far from what we consume per inhabitant in Europe, because now we have more technologies, more energy-efficient technologies, but we can't expect China to stay in the dark just because it suits our purpose. So we have to think mutually, in terms of mutual benefits, not just consumer countries versus producer countries but also consumer countries versus other consumer countries. I think there is a better understanding between consumer and producer countries. From time to time there are a few hitches here and there. There was some pressure on our Saudi friends to organize a meeting in Jeddah in June, where everyone was present and the King said he would put more crude oil onto the market. He said he would add more crude if necessary and this was a statement made by the Oil Minister. He explained exactly when he would do it, how he would do it; he said he would do it on the first of July and he did it. The journalists left the room saying nothing had happened, there was no scoop at all. And on that very day, oil prices increased by \$20. So when oil arrived on the market, it played the same role as the water that extinguishes the flames. Then, of course, there was the crisis, which caused a reduction in consumption and a reduction in prices, at least temporarily – but that's a different subject altogether. We have to be careful: demand is one thing; supply is yet another. Supply is extremely limited; it's complicated to develop; it's very expensive to develop. The challenges are more and more of a political and technological nature. It's not a question of reserves. It's a problem related to production capacity. We're not able to ramp up production sufficiently. But if we go back to a context free of crises, and if emerging countries want to pursue that development, we would once again find ourselves in the same situation as we did a few months ago.