

“IT IS BECOMING INCREASINGLY DIFFICULT TO RUN A RIGID REGIME...”

In an **interview** with CNN's Emerging Markets Editor/Anchor and Stern Stewart Institute Board Member, **John Defterios**, **Patrick Pouyanné**, CEO of the French multinational integrated oil and gas company TOTAL, speaks about the oil price, political and social developments in Saudi Arabia and the future of e-mobility during the ADIPEC oil and gas forum in Abu Dhabi.





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ouyanné worked in politics for several years and became Minister of Industry in 1989.

Four years later he became technical advisor to Prime Minister Édouard Balladur, and later he worked for François Fillon in other positions. From 1997 onwards, he was in the oil business, initially with Elf, as general secretary for the Angolan subsidiary. After joining the Total group in 2000, Pouyanné retained his position before progressively advancing within the company until he was appointed CEO at the end of 2015. In the same year he was also appointed Knight of the Legion of Honour.

Patrick Pouyanné (left)

John Defterios (right)



John Defterios: The first thing I wanted to talk to you about is the condition of the oil market. We put on about eight dollars in the last thirty days between mid-October to mid-November. At the level that we are at right now, would you say this rally is sustainable or is it just built in with some political risk in the region as well?

Patrick Pouyanné: I think there is still volatility in the market. You know, \$44 in August, \$65 today. Of course, this does not mean that everyone is satisfied. You are right, the geopolitical factors must not be ignored. Kurdistan first, then Saudi Arabia. The market is a little bit nervous. I would not say that it is stable, and I think people do have to be cautious because this is the period of the year where demand is strong, inventories are driving down. Any time soon, demand will be lower, and inventories could go high, which would drive the price down again. So, I hoped that the OPEC agreement could be renewed for the full year of 2018, because the market needs a signal of stability.

John Defterios: In fact, we are amid rebalancing, but you are among those who believe that this agreement should be extended to the entire year 2018.

Do you think the Russians are in line with the Saudis on this? At least I know that there is a desire for this.

Patrick Pouyanné: I am quite sure. I think, President Putin was very clear when he met King Salman and I am positive about Saudi Arabia, as well. Both states have a common interest here. A price of over \$60 is better for them than one of \$50, particularly with a daily production of 10 to 12 million barrels. The point is to send a signal of stability. I am very confident that both Russia and Saudi Arabia are seriously committed to this plan. And a difference of \$15 means a lot of money. Moreover, the agreement was only confirmed by both countries in November before the meeting in Vienna.

John Defterios: I saw you at the Future Investment Summit in Riyadh. There was great enthusiasm of all these international investors in place in Riyadh. Just then there was a strong signal against corruption in

the country. What do you think? Do you believe that Mohammed bin Salman, the Crown Prince, is he pushing too far here?

Patrick Pouyanné: I think, he has a vision, which is a full modernization of the economy, diversification and a restructuring of the society. We live in the 21st century, and he's still a young man himself. He lives in the age of social media. It is becoming increasingly difficult to run a rigid regime, as was previously possible. So, we see some modernization tendencies, such as the fact that women are now allowed to drive cars. This sends a signal to the youth in the country. And of course, with such profound changes he will also encounter resistance. After all, I also encounter resistance when I hit on new things within my company. But I think he has a strong will and it is, globally speaking, very welcome if Saudi Arabia continues to modernize.

John Defterios: I see things a little differently. To me, this seems like an overreach. A crack down on opponents within society to make sure he can have a firm grip on power, on the fight on corruption. Wouldn't you agree?

Patrick Pouyanné: All that is the same. Of course, there is a huge amount of money at work, a large and influential royal family. But in fact, I think he is a rather strong leader today and he wants to maintain a momentum. Of course, there is resistance, but they must learn to deal with that. If they are willing to do it, I think it's doubly good to see some modernization.

John Defterios: And it doesn't scare you off, I mean, as an international investor in Saudi Arabia? When you think of the aggressive nature of his actions so far.

Patrick Pouyanné: No, absolutely not. If you have less corruption, it's good for everybody. Of course, people can say, "There isn't stability." But, we cannot ask for new economic patterns. And one should not assume that a fundamental change can be achieved without difficulty. Loyalty is important in this type of Middle Eastern country. So, to be able to continue to

invest when they have difficulties is also a sign of loyalty and they recognize that. People love to speak about partnership, but partnership will only prove itself as such when there are difficulties.

John Deferios: You see the alliance between the United States and Saudi Arabia, does it give you second thoughts about your gas deal in Iran? Will you back off at all or do you proceed despite this process in U.S. Congress today?

Patrick Pouyanné: This one is an alliance between the U.S. and Saudi Arabia, we knew about before we signed. So that is not new. What is new is President Trump. President Trump and the Congress are revisiting the framework of sanctions. Either we can do the deal legally, revise a legal framework, and then we will proceed. If we cannot do that for legal reasons, maybe we have to revisit it. But, today we are working on the project. The EPC contracts should be ready by January. So I hope by that time Congress will have an answer to the President and the President will have to renew all notes and certifications. Let's wait and see.

John Deferios: Does it make a difference what the United States does or not to you or do you stay in anyway?

Patrick Pouyanné: Of course, it makes a difference. If there is a sanctions regime, we must look at it carefully. We are a big company. And we work in the U.S. We have assets in the U.S. and we just acquired more of them in the U.S. So, we are accredited both to Iran and to the U.S. and to Saudi Arabia. But, we know we are a commercial company. And it's not for me to choose who is right and who is wrong.

John Deferios: Right now, we are looking at a special for my programme Marketplace Middle East, on when peak demand for oil will arrive. I was wondering how you factor this in as an oil company. You are investing in renewables. Have you given thought as to when peak demand arrives for you?

Patrick Pouyanné: I'm not sure. It's very difficult to anticipate that question. What is sure is that fundamentally, you will have more renewables. But, we will still have in 20 years, 30 years oil and gas. The lesson for us, is that we should focus on what I call low cost oil, low break-even oil. Because this oil, which has lower cost like the one which is produced here in Abu Dhabi. So, let's concentrate on assets, on the oil which is most affordable for the customers. If it's affordable because of low cost, then it will be produced. I'm convinced of that.

John Deferios: Are you excited about electric vehicles or is there too much hype behind it? Because the infrastructure is not there, and you'll probably need gas to power those electric plants.

Patrick Pouyanné: And that is exactly, why I have no problem with it, you know. Of course, it will be EV, but you need to have power. Where does the power come from? It's coming either from gas or from renewables. If it's coming from coal, it's bad because in this case it would not bring any benefits for climate protection. However, we are well positioned in the gas market and are working on further growth in this area.

John Deferios: It's fascinating, you are investing less than a billion dollars a year in the renewables. For Total, it's not a lot of money. What keeps you from investing more?

Patrick Pouyanné: It may be not that big, but it's one billion. Do you know many companies investing a lot of billions in renewables? It doesn't matter what we do, we're always criticized. At the same time, we could not invest anything at all and say that we are in the gas business and that we are not doing anything at all; but we are not doing so. We're investing somewhere between 500 million and 1 billion dollars, which is a lot of money, I think. That is why I do not accept this criticism. The battery business is the same. Two years ago, we were asked why we are investing in batteries. Today we know that it was a very good decision.

In the whole area of low CO₂ energy are assets which could deliver growth, which could participate to better revenues for our shareholders.

John Deferios: Fast forward 20 years in the Middle East, particularly the low-cost producers of the gulf states. Will it be radically different because of the drop in oil demand or are they going to ride this through because they are indeed the lowest cost producers in the world?

Patrick Pouyanné: They are the lowest cost producer. Which does not mean they should not think like us and diversify their economy. It's not good to rely only upon one product, oil and gas. It's better for diversification. But, I'm quite sure that we'll be there in 20 years, they will still be the largest producer of oil, because it's the energy with the lowest cost. That is why we should not oppose this kind of energy. We need it to provide affordable energy to the billions of additional people that will be on our planet in 20 years' time. We need oil, we need gas. Even though coal today is usually regarded as the energy of the past, we will not be able to get by without coal very quickly. So, it's not again green against oil, gas. That is why it is not a question of using green energy against fossil fuels. We must all develop in the best viable way.

John Deferios: Ok, one last point. What do you think about the last mile covered by the combustion engine for the truck. Do you see any sort of technology there that is going to be a major breakthrough for the big semi-trucks and those delivering to the cities?

Patrick Pouyanné: That's a good question. I'm thinking gas, hydrogen gas. Of course, it is not ideal to let these huge trucks drive into the cities at all. So, we can imagine having a fleet of motor trucks to deliver in cities, and gas or hydrogen gas could be the technology of choice. And for smaller trucks, it could also be batteries.



I think, however, that governments should not simply say, “Electric vehicles or on foot”. Instead, they should set a target and say, “We want no emission.” I think it is very important that there should be no over-regulation by imposing certain technologies.

John Deferios: They shouldn't pick and choose the technology?

Patrick Pouyanné: No, I think, it's a mistake. They take on a huge responsibility. For example, nobody's speaking about recycling all the batteries needed for expanding e-mobility. Nobody wants to discuss it. It's much better in terms of innovation dynamics. But it would be much better if we set a target instead. It would also be better in terms of economic efficiency, to set a target when deciding what could be a viable technology to reach this goal. But you take responsibility and maybe we'll discover in 20 years' time that it had been a mistake all along.

John Deferios: Thank you, Mr. Pouyanné, it has been a pleasure talking with you as always. ▀