January 20, 2015 5:39 pm

Total's Patrick Pouyanné vows surgical response to oil price slide

Christopher Adams and Michael Stothard in Paris

As a posse of Total managers heads for the lifts, Patrick Pouyanné peels away to his office at the top of the French oil major's imposing tower at La Défense, in the heart of Paris's business district.

The newly installed chief executive of Total collapses into a sofa opposite a painting of a refinery fire — the Le Havre plant set ablaze by company employees in 1940 before the German army arrived. The dramatic scene is apt, given the turmoil confronting energy companies including Total.

In an interview with the Financial Times, Mr Pouyanné says Total will "weather the storm" sweeping through the oil and gas industry by accelerating and deepening a group-wide cost-cutting plan initiated by his predecessor, the late Christophe de Margerie.

But while this plan will involve steep spending reductions, Mr Pouyanné insists his response to a halving in crude oil prices since last June will be surgical rather than drastic. He will sell some less profitable exploration and development projects, and delay others. There will also be a contentious restructuring of Total's troubled refining business in France, but, he stresses, "nobody will be fired".

"We are all rediscovering that oil is a volatile commodity," Mr Pouyanné says, pointing to weaker than expected growth in global demand for oil, the boom in US shale output and a Saudi-led decision by Opec in November not to cut production as reasons for the price collapse to less than $50 a barrel. He sees little sign of a rebound in the first half of 2015.

Mr Pouyanné's central aim is therefore to reduce Total's "break-even" price — the minimum level at which the group can profitably produce oil — by $40 a barrel.

He believes this goal is proportionate. "We have to react, but not overreact," he says. "A major company like Total has always been successful when we manage to maintain our base strategy for these types of low prices . . . The best way to face this volatility is to have the company strong enough to lower your cash break-even."

Underlying Mr Pouyanné's plan is a "very important" commitment to maintain Total's dividend — something he regards as essential to maintain investor confidence in the company.

Total, Mr Pouyanné says, will reduce group capital spending by 10 per cent in 2015, from $26bn last year — a larger cut than expected. Of that reduction, the exploration budget — the easiest area where majors can save money — will be cut 30 per cent to less than $2bn.

Two costly oil sands developments in Canada will be put on “a long backburner” and proposals to dispose of $10bn in assets by 2017 will be accelerated.

There will be bigger savings in operating spending this year — $1.2bn rather than a previously planned $800m. Part of this will involve expenditure on mature “brownfield” projects such as Alwyn in the North Sea slowing.

Downstream oil refining operations will face capacity reductions, leading to partial site closures of the kind that have proved contentious with French trade unions. While the slide in crude provides some relief, Total’s European refining margins are weak, as the sector struggles to compete with more efficient plants in the Middle East, overcapacity in Europe and falling petrol and diesel consumption.

Mr Pouyanné says no refineries will be shut but three in Europe face high break-even prices. The model of Total’s Carling petrochemical plant in Lorraine — where the steam cracker used to produce lighter hydrocarbons is closing at the cost of at least 200 jobs — will be used as a template for those refineries that need to be restructured.

The group will have to tread carefully. “We have the model of the steam cracker in Carling [to work with],” he says.

While he is unable to guarantee no French jobs will be lost, nobody will be sacked and those affected will be found other roles within Total.

Mr Pouyanné, who ran Total’s downstream operations before being appointed chief executive, says that after a three-year restructuring plan ending this year the division will have saved $300m in operating expenditure. The refining margin was $20 a tonne in 2014, he says, but the group’s base assumption is that it will be $25 in the future.

He is anxious, however, to avoid cutting too deep and threaten future output growth, saying oil prices will eventually rebound. He dismisses the idea that Total, the largest producer in the North Sea, could begin decommissioning fields in the region as the economics deteriorate. It will continue to invest in Angola, where last month he inaugurated the 160,000 barrels a day CLOV project, and the company is as committed to Russia as it was before de Margerie’s death in a Moscow plane crash in October.

Total is developing the $27bn Yamal liquefied natural gas project in the far north of Russia with partners including Novatek and CNPC, but is coming under pressure because of western sanctions on Moscow related to Ukraine. The sanctions prevent dollar funding, but Mr Pouyanné is confident financing will be in place by mid-2015, drawn from European and Chinese banks.

He will not be deterred by sanctions. “It has been a long effort to go to Russia . . . You will not jeopardise that,” he says. “People have memories. You have to be with the partners not only when it’s a good time, when the power is high, when things are developing, but also when it’s harder.”

And what kind of industry will emerge from the price collapse — does he foresee a wave of mergers? “You will see some impact on smaller players. I think it will be an opportunity for larger players maybe to have access to resources at a lower cost.”

Total could play a part in that consolidation if, say, the slide in prices leads to a shakeout among the US shale producers: “We are pragmatic. If there are good deals, we will study them. But we need not rush.”

Filling the shoes of ‘Big Moustache’

More than any other oil major Total has been associated with the personality of one man — the group’s gregarious and well connected former chief executive Christophe de Margerie, also known as the Big Moustache, **writes Michael Stothard**.

For Patrick Pouyanné, 51, who succeeded de Margerie following his death last year, the challenge of inspiring employees, amid falling oil prices and cost cutting, while nurturing the same kind of working relationships as his predecessor with foreign governments, will be immense.

What, then, will define Mr Pouyanné's leadership style? "You don't need to be clever, let's stick to the basics," he says, citing four management tenets: safety, delivery on projects and financial targets, cost-cutting and a laser-like focus on "creating cash".

Mr Pouyanné does not shy away from a hard-won reputation as a ruthless instigator of change — notably through cost-cutting.

Yet he does not want simply be seen as the right person for navigating leaner times.

Mr Pouyanné believes he has the "same capacity to be intuitive as [de Margerie] had", speaking about his predecessor's famed charm, which analysts and investors saw as a key strength in negotiating big foreign projects in difficult countries.

"I maybe have one advantage," he adds. "Because of the dramatic events of 2014, there is a strong feeling of union in our company. They have a situation where they lost their cheerful CEO and they want to face this economic situation. . . Everyone is motivated to demonstrate that Total is strong. I need to maintain this motivation."

January 20, 2015 5:42 pm

Total to cut capital spending by 10% amid oil price rout

Christopher Adams and Michael Stothard in Paris and Ed Crooks in New York

Total, the French oil and gas giant, plans to reduce group-wide capital spending by 10 per cent this year and speed up billions of dollars in asset disposals, under an accelerated cost-cutting plan led by new chief executive Patrick Pouyanné.

The move comes as thousands more job cuts were announced in the energy industry on Tuesday, with Baker Hughes, the oilfield services provider being acquired by Halliburton in a $26.8bn deal, saying that it would lay off 7,000 employees.

Global crude prices have tumbled nearly 60 per cent since June to trade at less than $49 a barrel amid weaker growth in demand and after Opec decided against cutting output in November.

In a Financial Times interview, Mr Pouyanné — appointed to the top role at Total after the death last year of Christophe de Margerie in a Moscow plane crash — said the majors, the world's biggest energy companies, could emerge as "the winners" from the market turmoil because they have greater flexibility to respond by using strong balance sheets to borrow more while interest rates were at historic lows.

Total, he said, would first make deeper and swifter cuts to this year's spending. These would include cuts to exploration and development in the UK region of the North Sea, Canada's oil sands and mature fields in west African states such as Gabon and Congo.

The group is also looking at imposing a group-wide hiring freeze for 2015. Capital spending is now expected to fall $2bn-$3bn from last year's total of $26bn.

Total is the latest of the majors to signal further cuts as they look to shore up cash flow and protect dividend payouts. ConocoPhillips has announced a 20 per cent reduction in capital spending for 2015, while BP has taken a $1bn restructuring charge to pay for job losses, including 200 staff directly employed in its North Sea business.

The majors have made it clear they will pass on the effects of crude's slide to oil services companies — including groups such as Schlumberger, which last week announced plans to axe 9,000 jobs.

Oil drilling was falling faster in North America than in the rest of the world, according to Baker Hughes. It warned of "challenging" conditions, with the industry in the early stages of the kind of downturn seen once or twice every decade.

Mr Pouyanné said Total would press ahead with a restructuring of lossmaking refineries in Europe. "We have some assets on which we may need to make some efforts," he said. "We have three assets [of this nature], one of them being in the UK, but we have some in France [as well]."

Regarding France, a restructuring plan will be presented in the spring, but Mr Pouyanné confirmed that it "will include capacity reductions" at refineries.

"When you have a plant losing more than €100m a year, it's not sustainable. And it is my duty to find solutions . . . We are losing money and it doesn't work."