

# FINANCIAL TIMES

## Statoil-Hydro merger foresees the future

By Ed Crooks, energy editor

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The merger of Statoil with Hydro's oil and gas business could be seen as a typical European move to create a national champion for Norway.

But the deal also looks forward, to a time when other oil groups will be looking to huddle together for support.

Observers, including Lord Browne, chief executive of BP, have argued that a fall in the price of oil would set off a wave of mergers as the industry consolidated.

Yesterday oil was still above \$62 a barrel in London and New York, supported by last week's aggressive move by the Organisation of the Petroleum Exporting Countries, which promised to cut output by 500,000 barrels a day from February 1. Opec seems determined to defend the price at these levels.

But even at a time of relatively high oil prices, there are still good reasons for oil and gas companies to merge.

Unlike in BP's acquisition of Amoco, or Exxon's of Mobil, which came at a time of weak oil prices, cost-cutting is not the primary motive behind the Statoil/Hydro deal.

Helge Lund, the Statoil chief executive who will be president and chief executive of the new merged company, says: "The deal is not concentrated on and driven predominantly by cost synergies. It is much more driven by growth and growth opportunities."

When pushed by analysts in a conference call, he conceded that "I have never been in a merger yet which did not deliver cost synergies, and of course we will work hard and diligently and in a focused way to deliver those synergies."

There is clearly scope for some administrative savings. Analysts at Wood Mackenzie, a consultancy, estimate that out of 49 Hydro assets in Norway, Statoil is already involved in 43 of them.

But Mr Lund and his new colleagues hope the growth potential they are creating will be much more important than those savings.

High oil prices have created shortages of skilled staff and equipment such as drilling rigs, and sent costs soaring. The merged company will have greater access to those scarce resources, so it can better exploit its most exciting growth areas, such as the Gulf of Mexico and offshore Angola, and squeeze as much oil and gas as possible out of the declining fields in the Norwegian North Sea.

Size also helps in finding opportunities. For example, both Statoil and Hydro had hopes of being involved in developing the huge Shtokman gas field in the Arctic, although the signals from Russia have been confusing and Gazprom, the Russian gas monopoly, has said it does not need foreign partners. In any future talks about getting into the project, the Norwegians will now be working together, not against each other.

Derek Butter of Wood Mackenzie says: "Trying to capture these opportunities is a growing part of how international oil companies do business. This is the game we're in now, and it is a game for large players."

If the logic works for Statoil and Hydro, it works for other companies, too.

Among the super-majors - which on the broadest definition means Exxon Mobil, Royal Dutch Shell, BP, Total, Chevron, Eni and ConocoPhillips - the scope for further consolidation looks limited, at best.

A merger of BP and Shell, for example, has been persistently suggested, and looked at, although not pursued, by BP's board.

But it would face huge regulatory hurdles, particularly because of the two companies' strong position downstream in the US and many European markets.

"The regulatory bodies would have a heart attack," says Peter Hitchens of Teather and Greenwood. "Everybody says big oil has got too much power already."

So the companies that seem the most likely targets are the medium-sized ones, that are big enough to make a difference to the company that buys them, but small enough not to present too many regulatory problems.

Lacking the global clout of the giants and the ability to exploit profitable niches like the small independents, they may be those that find the years ahead most difficult.

Alex Turkeltaub of Frontier Strategy Group, a consultancy, lists three reasons why companies might become attractive targets.

One is if they have access to resources. With Russia, previously seen as one of the best sources of expanding production, now looking inhospitable, access to oil and gas reserves elsewhere becomes ever more valuable.

Another is access to technology. As international oil companies get pushed to ever more inhospitable locations to find reserves, the know-how to exploit those reserves profitably is another appreciating asset.

The last is their cost base. If they have made too many investments that will not be profitable if oil falls, they could be picked off when the market weakens.

Mr Hitchens is sceptical. He argues that all the possible targets will have been looked over, and rejected. But history shows that oil is a turbulent and unpredictable business, and when the market changes, so do opinions about valuations. Yesterday's deal looks more like the start of a trend than the end of one.