

# Risk is manageable, uncertainty is not.

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**The oil and gas industry has not been spared challenges in the past two years, but, after all, in our industry, isn't that the rule of the game? Managing risks, being able to mitigate them and to make wise investment decisions at the end, isn't that our daily bread? What is maybe more difficult to handle, however, is the uncertainty that has characterized our environment in the recent past and may continue in the future.**

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## Managing risks

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Extreme volatility has characterized international oil markets for more than two years now. Even if supply and demand fundamentals are slowly rebalancing, this underlying volatility is not going to disappear overnight. Faced with this volatility, our job is to manage the price risk by relentless lowering our breakevens, simply to ensure that our companies remain profitable whatever the circumstances. This means implementing a sustainable capital expenditure policy through the cycle, a competitive costs structure, a high level of operational excellence, and, first and foremost, being exemplary in safety matters. Because safety is a prerequisite, safety is more than a priority; it is a core value, the cornerstone of success and sustainability in our business.

*“Total’s integrated business model has been pivotal in our ability to successfully address the current situation”*

Another way to manage the price risk is to develop the appropriate business model – to be integrated along the full value chain of oil or gas. Total’s integrated business model, stretching from exploration and production to the distribution of products to the end customer, through refining, petrochemicals and trading, has been pivotal in our ability to successfully address the current situation. Only a few years ago, many experts or advisers were pushing us to divest our downstream business and to focus on upstream only. We were right then not to listen to them and to stick to our model. Because, while it is true that upstream is more leveraged to oil prices than downstream, it is also true that downstream helps to recover part of the added value lost by upstream and may offer less cyclical revenues, which are most welcome in the low cycle.

This covers the risks that we know how to manage.

## Dealing with geopolitical uncertainty

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Everywhere we look, the world in 2017 is characterized by conflicts and geopolitical uncertainty:

- Conflicts and wars: just think of the Middle East and North Africa, with wars in Syria, Iraq, Yemen and Libya, but also of the situation in the Eastern part of Ukraine and of the tensions in the South China Sea; not to speak of international terrorism, which should be the priority for all the governments of the world.
- Uncertainty, with the outcome of recent or future votes: Brexit in the UK and presidential elections in the U.S. last November, and elections in France and Germany later this year.

*“The best response for our industry is to remain agile and flexible, to adapt and overcome”*

Faced with this uncertainty, our companies can choose between different types of behavior – they can either adopt a wait-and-see attitude and freeze any important decisions until a clarification that may never come; or they can be bolder, for instance by continuing to invest in Russia despite sanctions or by deciding to return to Iran just after the lifting of sanctions despite possible snapback. One thing is for sure, the best response for our industry is to remain agile and flexible, to adapt and overcome.

| *“Among these disorders, our industry can be and has to be a stabilizing factor”*

There is another important point about the current geopolitical unrest. I think that, among these disorders, our industry can be and has to be a stabilizing factor, a sign of hope for the populations of these countries: by continuing to invest, to provide energy as much as we can without, of course, endangering the lives of our teams, we help maintain more decent living conditions and some economic development. On some occasions, we can even help restore dialogue between governments, as it is clear that conflict can only ever be resolved at the political and diplomatic level through dialogue.

As Isaac Newton said once, “people are building too many walls and not enough bridges”. I like to believe that our industry is on the side of the bridge-builders.

Managing risks and dealing with geopolitical uncertainty: all this will be needed if our industry is to meet our dual challenge of the years to come. I will discuss this in a future article.

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