How National Oil Companies, Established and Emerging Producers are Dealing with Low Prices

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ESCP Europe – Research Centre for Energy Management, 29 September 2016

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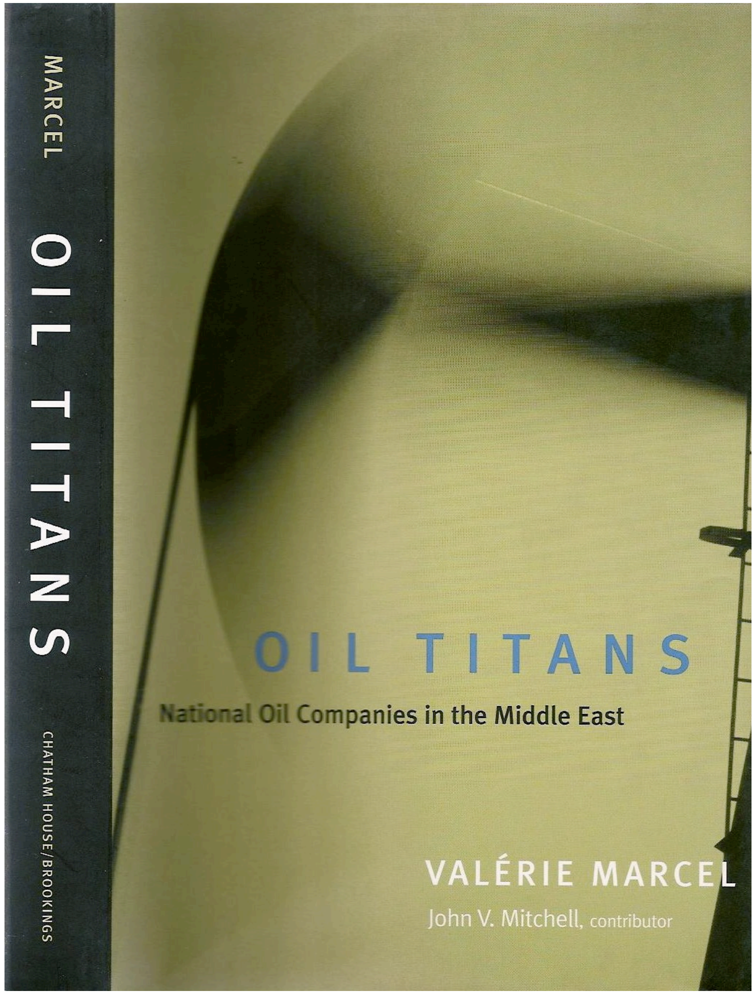
Outline

- Evolution over the last decade
- Landscape of NOCs today
- How are they dealing with low oil prices?
- What happens to local content in this context?

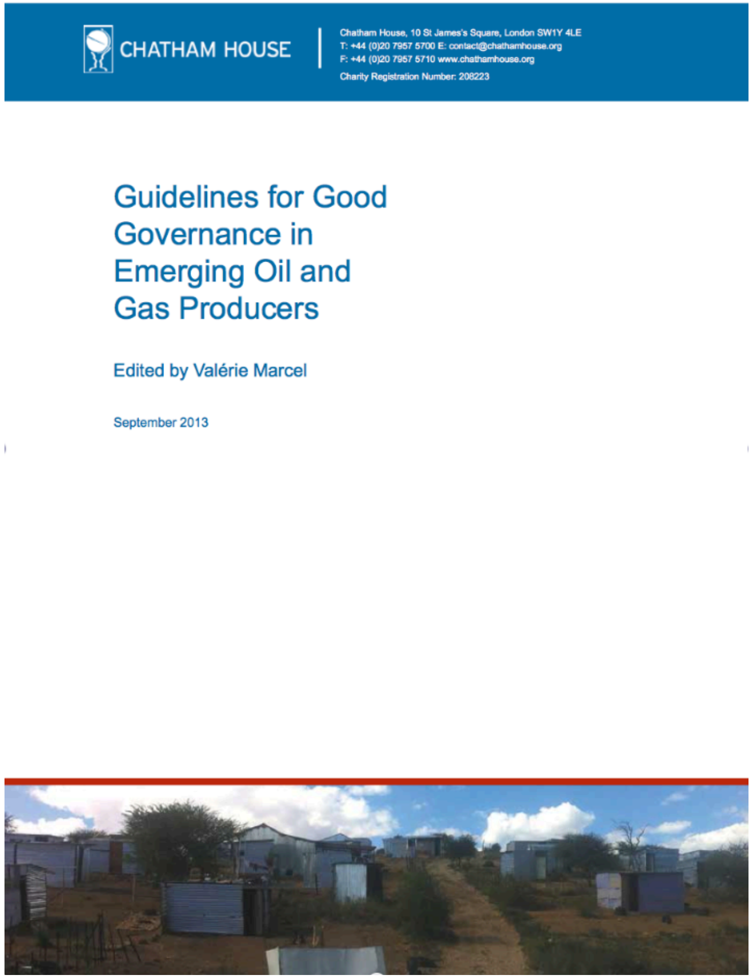
Evolution of established NOCs

- 2003-05:
  - Brent moving from $28 to $54
  - Growing pride, emerging strength of established NOCs
  - Strategies deeply affected by low price era
- 2006-2014
  - Oil price rising quicker (with a blip in 2008-09)



Evolution of emerging NOCs

- 2006-2014
  - Opportunities in the oil and gas hotspots
  - With flurry of activity, expectations rose in governments, NOCs, and societies
  - Ambitious NOCs
- 2014-2016
  - 60% fall in price
  - A new price era?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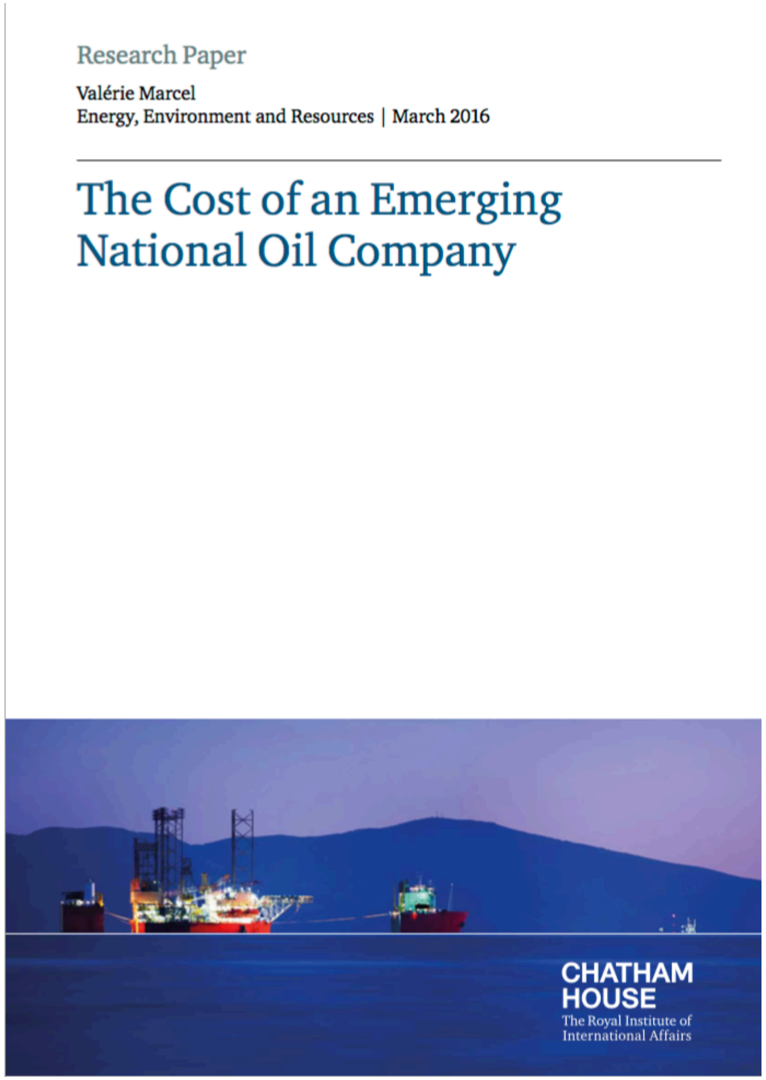
Guidelines for Good Governance in Emerging Oil and Gas Producers

Edited by Valérie Marcel

September 2013

The impact of the fall in oil price

- Some emerging NOCs have 'lost everything'
- Lower revenues from upstream payments & production (if they have any)
- Ambition has to reigned in


Research Paper

Valérie Marcel
Energy, Environment and Resources | March 2016

The Cost of an Emerging National Oil Company

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Emerging producers in a new price era

The impact of the fall in oil price

- Established NOCs have production revenues – just less to go on
  - Those most affected are PDVSA, NNPC
  - Those best placed to weather the storm are Gulf NOCs and Russian NOCs

- Remain prisoners of the economic and political health of their country

Landscape of NOCs today

- Established NOCs - experience
- Emerging NOCs – little experience

- Concessionaire NOCs
- Minority partner NOCs
- Operator NOCs

- Good assets vs. High cost assets

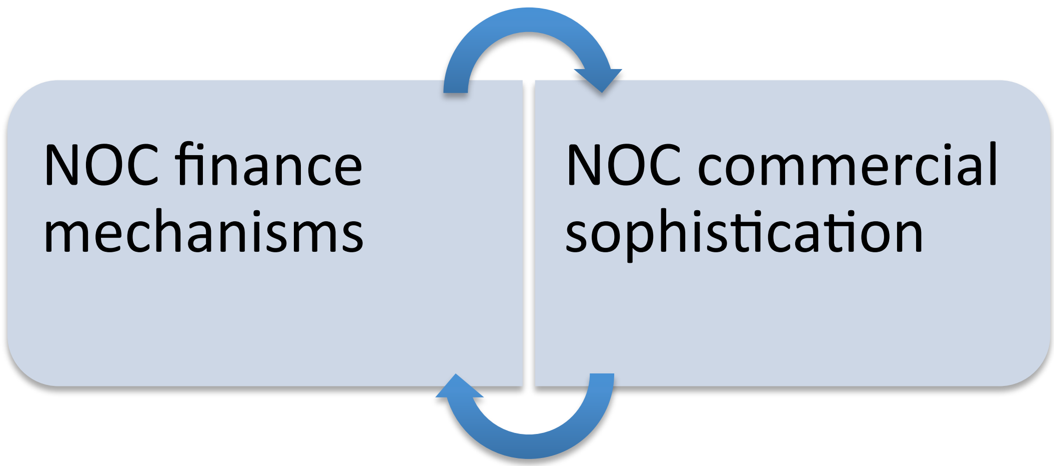
- Good access to finance vs. Financially strangled

Reliable finance is a key challenge for NOCs

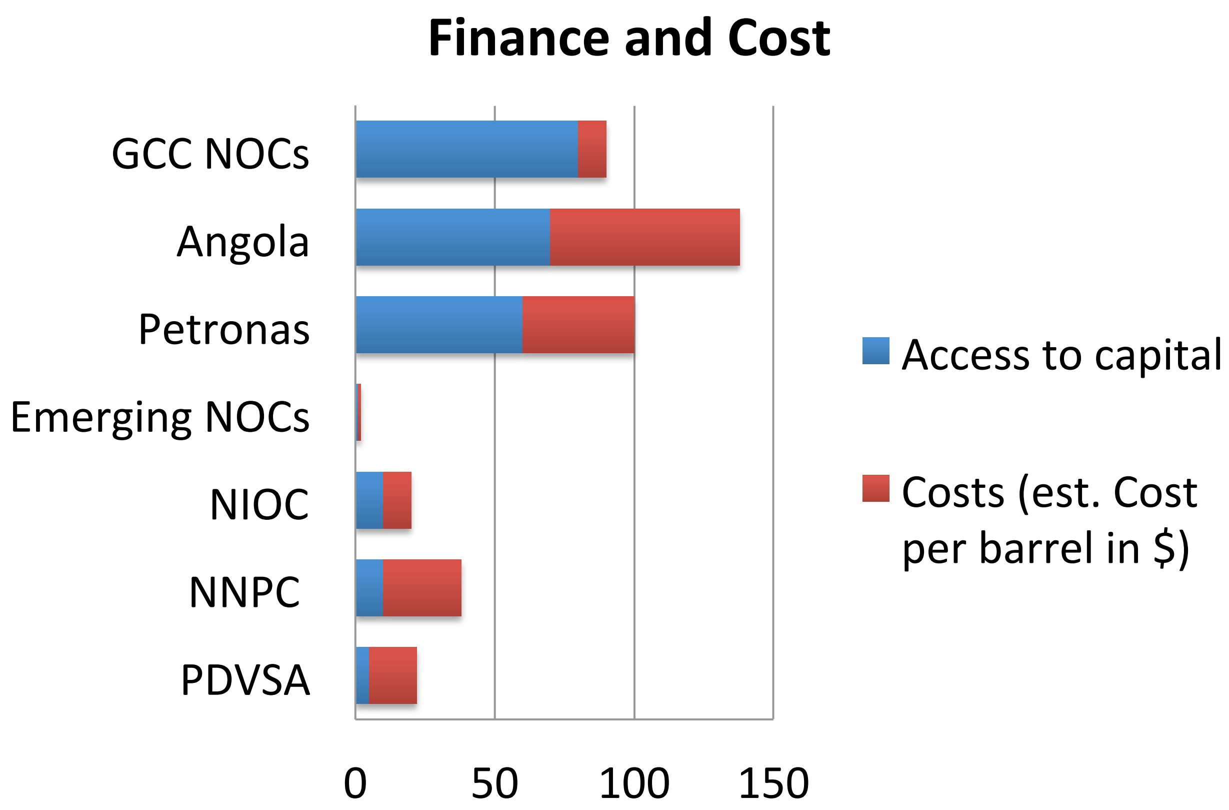
- Less pressure on NOCs in countries with diversified economy
- 'Corporatized' NOCs can better insulate their finance from government needs
- Good corporate governance opens doors of international finance

Financing routes

- Government budget allocation
- Retained earnings from petroleum sales
- Financial markets
- Oil company partners



Impressionistic view of NOC financial health today



How are these NOCs dealing with low oil prices?

- Cutting costs
  - Operating expenditure or Capex?
  - Crippling cuts or reinvigorating?
- Raising finance
  - Oil backed loans, partial listing, bonds, farm-in, divestment
  - More sophisticated financially

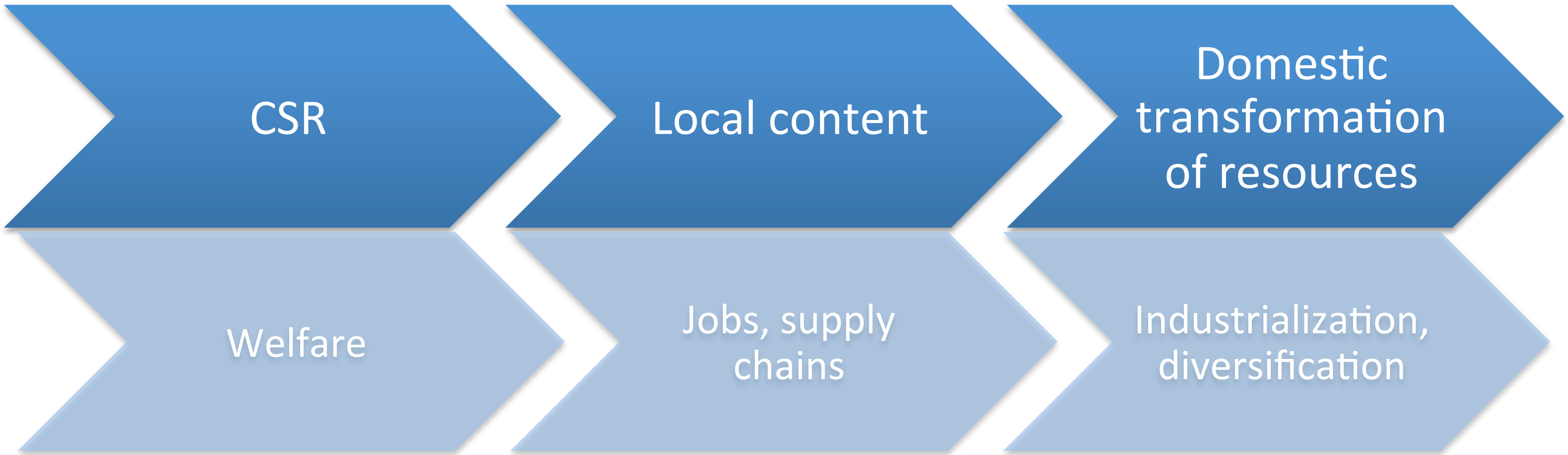
Reactive?
Rethinking strategy?
Or staying the course?

What happens to local content in this context?

- Can we assume that host governments and NOCs will return to the era of politely restrained CSR investments?
- Are host societies expecting less now that prices have fallen?

➢ Increased above ground risk

Host countries are moving away from CSR



Smart investment in local content

- Impactful LC>>Analyse demand from projects and available skills/ goods/services/ infrastructure… & fill gaps
- Where do countries stand on the decision tree?
- Repeat use, transferable skills
- Flexibility

Research Paper

Dr Valérie Marcel, Roger Tissot, Anthony Paul, Dr Ekpen Omonbude
Energy, Environment and Resources Department | July 2016

A Local Content Decision Tree for Emerging Producers

Thank you

For further information, please contact Dr Valerie Marcel,
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I’m also commenting on oil sector issues on Twitter @ValerieMarcel