



Strategic Positioning of a NOC in the context of the new regulatory and the operating environment

Dr. Donald Mmari

REPOA

Prof. Sufian Bukurura

Law Reform Commission of Tanzania

Hyatt Kilimanjaro

Outline

- Introduction
- Growth of NOCs
- Lessons Case Studies of NOCs
- Strategic positioning: Boost or Knock?

Introduction

- State participation vs private sector debate
- Risks, technology and financial capability
- Institutions of governance makes a difference
- Political economy has great influence on outcomes
- Objectives
 - Contribution of NOCs to stated objectives
 - Robustness of NOC and operating environment
 - Regulatory framework – Petroleum Act 2015, Oil and Gas Revenue Management Act
 - Political economy

Growth of NOCs

- NOCs - direct state participation
- Full equity, (operating & non) carried equity interest, production sharing (without equity)
- Resource nationalism at the core
- Major thrust in 1970s (except Argentina and Mexico, 1920/1938)
 - New NOCs (Not just LDCs, even OECD)
 - Nationalizations (Kuwait, Venezuela)
 - Mixed resource rights (Netherlands)
 - Government Cartels (OPEC)
- Shifts in reserve ownership & control

Figure 1: Summary of trends of NOC roles and influence

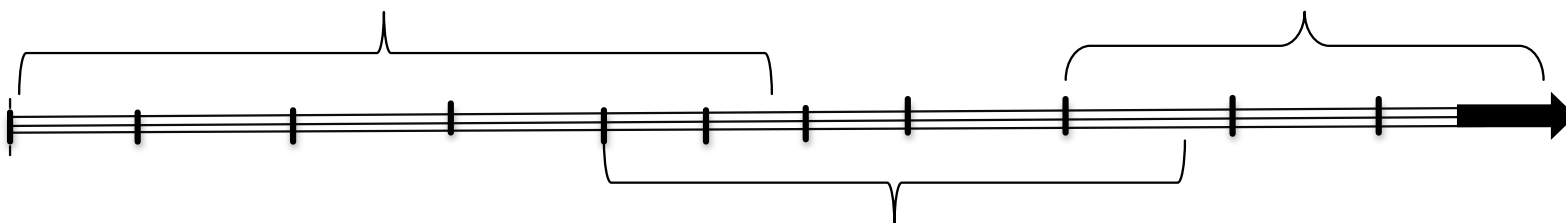
Third Wave: expansion of operational and financial NOCs (1990's –today)

- 2008: IOC's hold 6-8% of world reserves (O&G/2/2/09)
- IOC's driven toward technology, project delivery, capital, downstream roles
- NOCs active operators at home and competing developers abroad

First Wave: Prevalence of IOC'S

(1900's-1960's)

- 1970: IOC's hold 85% of world reserves (O&G/2/2/09)



Second Wave: resource sovereignty of governments (1950's-1980's)

- Government control of reserves and production
- IOCs driven toward production sharing roles
- NOC's given carry, production sharing in some fields, custodial roles in others.

- Drivers of NOCs formation
 - Commercial and Non-commercial objectives
- Commercial
 - Maximizing resource revenues for the state
 - Revenue capture- value addition, dividends
 - **But** depends on
 - Fiscal capacity and credibility of fiscal regime
 - Autonomy, efficiency and capability of NOC
 - Macroeconomic management & inst. framework
- Non-Commercial
 - Not generalizable across countries
 - Driven by natural factors, technology, geopolitics

- Symbolic- national sovereignty
- Regulation of the private sector practice
 - Effective when capacity is built, through NOC
 - Demands deep understanding of complex geological facts, linkages across segments, global energy markets
- Technology transfer and capacity development
 - Effective through NOC/IOC partnerships
- Integrated development in non-oil sectors
 - Stronger linkage between sectors for transformation
 - Job creation, local content, energy supply, financing of infrastructure, income distribution
- The **key**-balance to guarantee competitiveness

- TPDC path
 - 1969 to promote the industry across all segments
 - Earlier concessions-BP, Shell, Agip/Amoco
 - PSA introduced in 1980-PEPA
 - TPDC as licence holder- upstream role
 - Relinquishment of Songo Songo & Mnazi bay a good test for NOC importance
 - \$100 spent on data works and drilling of appraisal wells
 - OneTCF confirmed-basis of today's Gas to Power project
 - Acquisition of seismic data leading to offshore & more onshore acreage
 - Foundation for recent discoveries
 - Downstream- bulky oil import & refinery to **1990s**

- Reforms of the mid 1990s
 - Reduced the scope of TPDC operations-Striping is **commercial** activities! Keep **regulatory**!
 - Focus on exploration work – **okay. but** finance?
 - Substantial reduction on human resources, 260 to 65 (**Capacity building?!)**
 - Closure of the refinery, haphazard imports
 - Revenue losses, dumping, collusion
 - Opportunity for value addition-lube, by-products?

Lessons from Case Studies

- More than 100 NOCs, 30 in Africa
- Diversity of history, political economy, continents
- **Petrobras (Brazil) -1953**
 - Both commercial and non-commercial objectives
 - Job creation, hydrocarbon control, industrial development
 - 100% state till 2000 IPO, regulated by NPA, policy oversight by National Council of Energy Policy
 - Key role in industrial devt-petrochemicals, machinery
 - High local content through downstream investments

- Strong sectoral linkages – iron & steel, autos, etc
- Rapid Technology transfer and adoption
- Knowledge networks with IOCs- geological challenges
- Heavy investment in R&D, 15% of gross receipts
- **Sonatrach (Algeria)-1963**
 - State control on the economy & infrastructure
 - Nationalization of IOC assets in 1971
 - Also regulator till 2005
 - Hydrocarbon Regulatory Authority-downstream
 - Agency for Development of Hydrocarbon devt-upstream
 - Joint operations, installations, & downstream-to promote in-house capacity & local content
 - Heavy domestic subsidy, but 99% electricity
 - Key risk: Dependency- 1/3 GDP & 98% of exports

- **Statoil (Norway)- 1972**
 - To manage petroleum resources on state's behalf
 - Remained 100% state owned until 2001
 - Major discovery by IOCs-Phillips in 1969
 - Norsk hydro had started in partnership with IOCs
 - No petroleum legislation prior to 1985
 - Ten principles by Industry Committee of Storting
 - Norwegian Petroleum Act no. 29 of 1996
 - Statoil enjoyed special acreage privileges to 1985
 - Separation of roles- policy, licencing, regulations, commercial (principal before 1985, then in law)
 - **Storting** (oversight); **MPE** (policy & licencing); **NPD** (Economic & technical regulations); **Statoil** (Commercial)

- Petoro As in 2001 to manage SDFI (from Statoil)
- GASSCO AS -operator of oil & gas transport
- Statoil have played great role on local content
 - Trade offs between short-run profits & long term industry development
- Strong linkage with domestic technology and industrial sectors
- The Petroleum Fund 1990 (Pension Fund 2006)
 - Stability in macroeconomic environment

• Petronas (Malaysia)-1974

- State control of the modern sector & avail greater opportunities to Malays-New Economic Policy 1973
- Exclusive rights over industry + **regulation**
- Also to operate **commercially & profitably**
- 100 subsidiaries & 40 JV across all segments
- Major capacity building initiatives
 - Scholarship programme
 - Upstream and downstream subsidiaries
 - Oil refinery, LNG plant, fertilizer plant
 - Local content and technology capability
 - Strategic collaboration with IOCs
 - Strategic integration with the rest of the economy
 - Petrochemicals, machinery and electronics

- **NNPC (Nigeria)-1977**
 - Successor to NNOC of 1971 (merged with Department of Petroleum Resources)
 - To manage regulatory, policy & commercial functions
 - Frequent change in regulatory regime-as political economy evolved with military juntas
 - Buhari regime 1983-MPE oversight , President as Minister
 - Babangida-1985-removed regulatory from NNPC to MPE
 - New regime in 1990s-policy and regulation to president
 - Obasanjo regime- separated roles again

- Today:
 - Ministry of Petroleum Resources-oversight & policy
 - Department of Petroleum Resources-Regulation & licencing
 - NCMB- local content development
 - Ministry of Environment -environmental issues
 - NNPC Inspectorate- Licences
 - Oil Spill Detection & Response Agency
- High dependency-90% exports, $\frac{3}{4}$ revenues
 - Thus strong push for local content, but sometimes undermined by collusion
 - Nigerian participation in bidding for blocks, **but** marred by corruption & patronage, discretionary allocation of blocks & contracts with NNPC

Strategic Positioning: Boost of Knock?

- NOC matters, depending on historical & institutional landscape & the political economy, thus depends on:
- Commitment of government to support transformation & development of TPDC
- Capacity of institutions across the industry –policy making, oversight, tax and audit, etc
- Separation of functions & clarity of roles
 - Policy formulation & coordination
 - Regulation & oversight
 - Commercial operations
- Robust and stable regulatory framework
 - Policies, laws, regulations, legal mechanisms of enforcement
 - Adaptive to legitimate changes in technology, economics & geopolitics
 - Promote appropriate energy mix and depletion policy



**Thank you for your
attention**