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

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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
Growth of NOCs

- 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-upstrea
◦ 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)
Case studies - 4

- 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, ¾ 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