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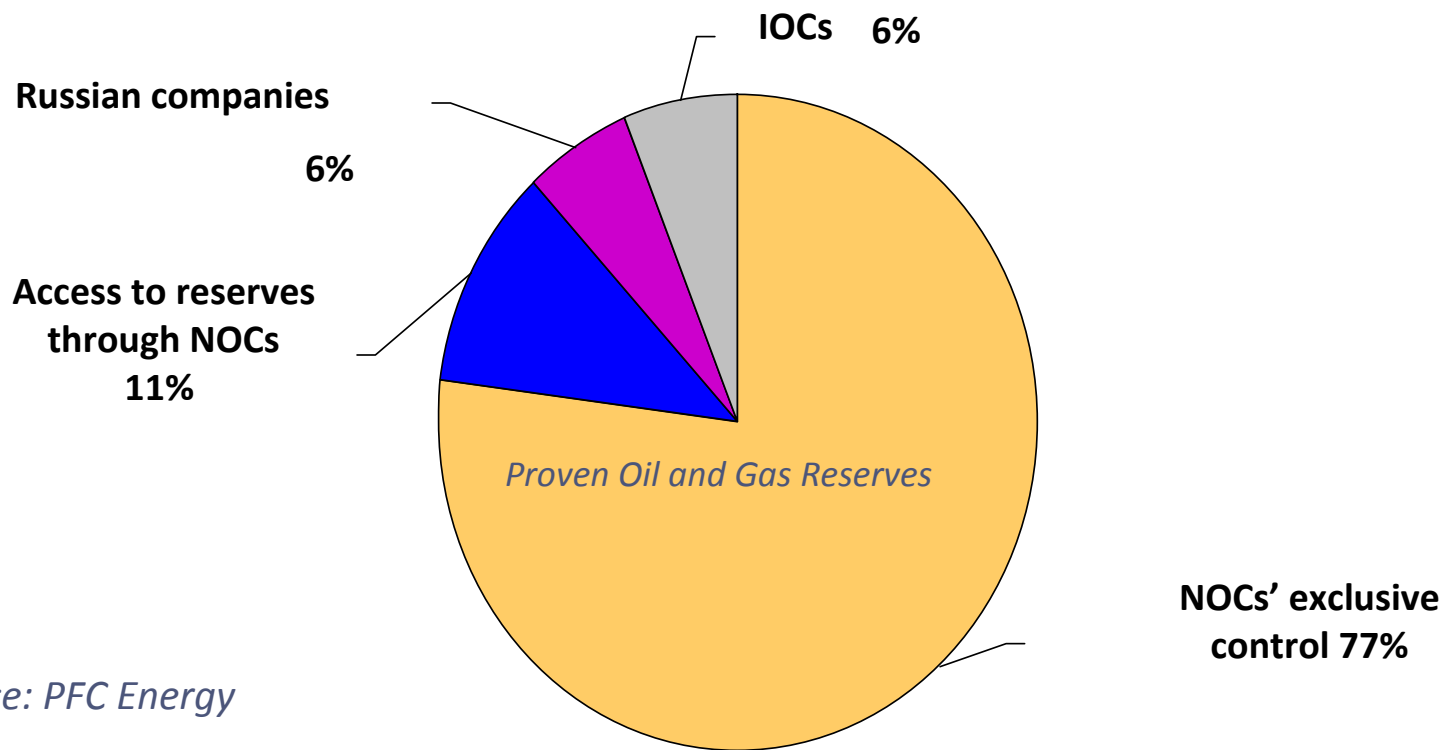


NOC performance & hydrocarbon
sector commercial frameworks

The Particular Situation for NOCs

- NOCs control access to the majority of resources for future oil/gas production.
- NOCs increasingly responsible for the required future investments
- NOC model persists especially in times of “resource nationalism”
- ***Will they be able to deliver the oil/gas supplies demanded by a growing world market?***

The Growing Importance of NOCs



Source: PFC Energy

IOC and NOC Objectives

IOCs

- Commercial goals: maximize return on equity to shareholders
- CSR goals playing greater role since 1990s, but issues re execution capacity

NOCs

- Effective development of country's hydrocarbon sector (commercial)
- Contribute to country social/economic development (non-commercial)

Key Observations: CEE/World Bank

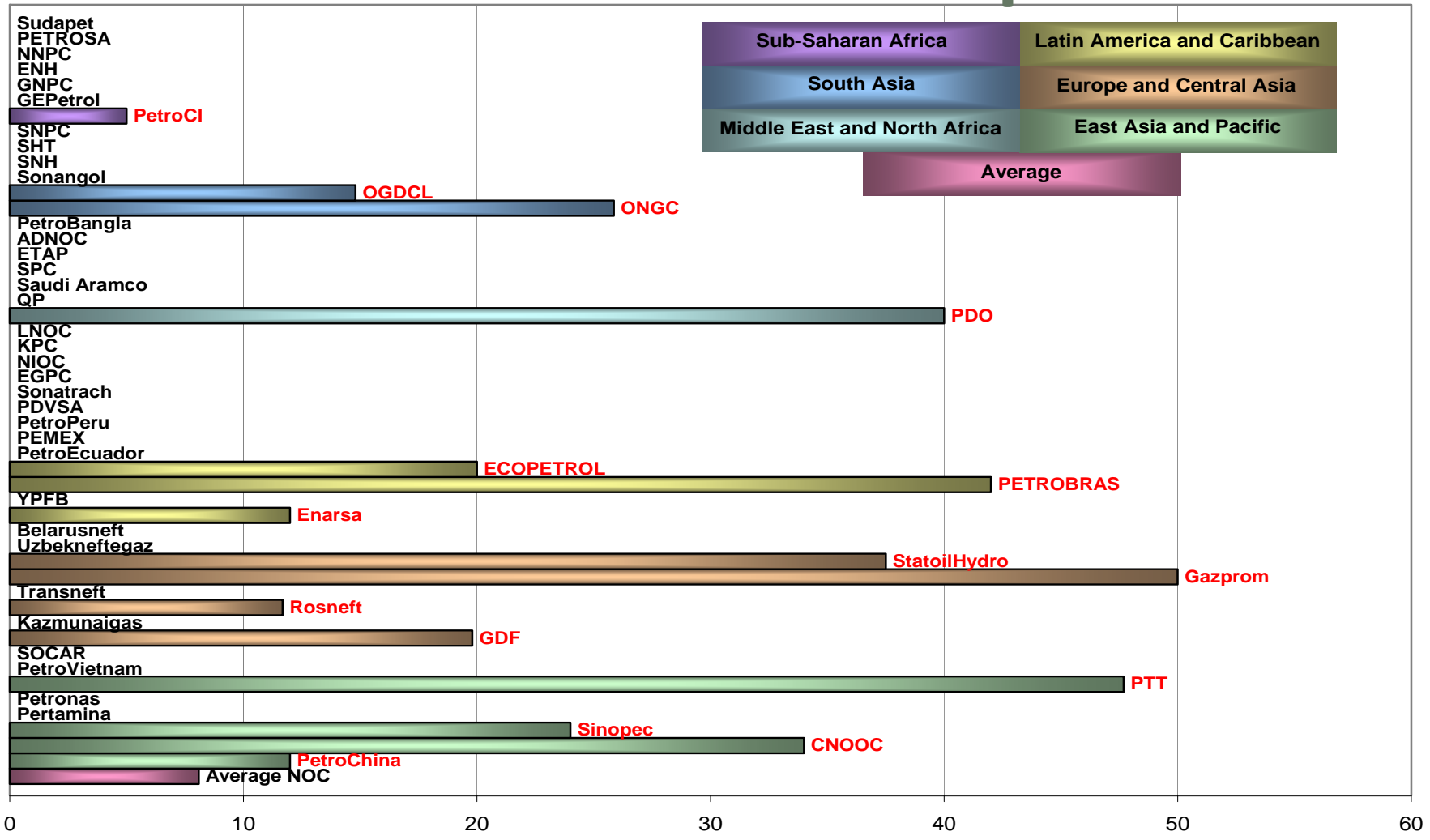
- Limited reporting and quality of reporting
 - Best for NOCs with some public shares (domestic and/or international listings)
- NOCs with best value creation also score highest on governance, fiscal regimes, commercialization, etc.
- High cost structures for many
- Large fiscal contribution to the state (effective tax rates, dividends, etc.) →
 - some NOCs must borrow
 - low attainments on reserve replacement and production
 - disincentive to commercialization
- Even more commercialized NOCs with some public shares carry large numbers of employees
 - Affects value creation results on per employee basis

Not All NOCs Are the Same

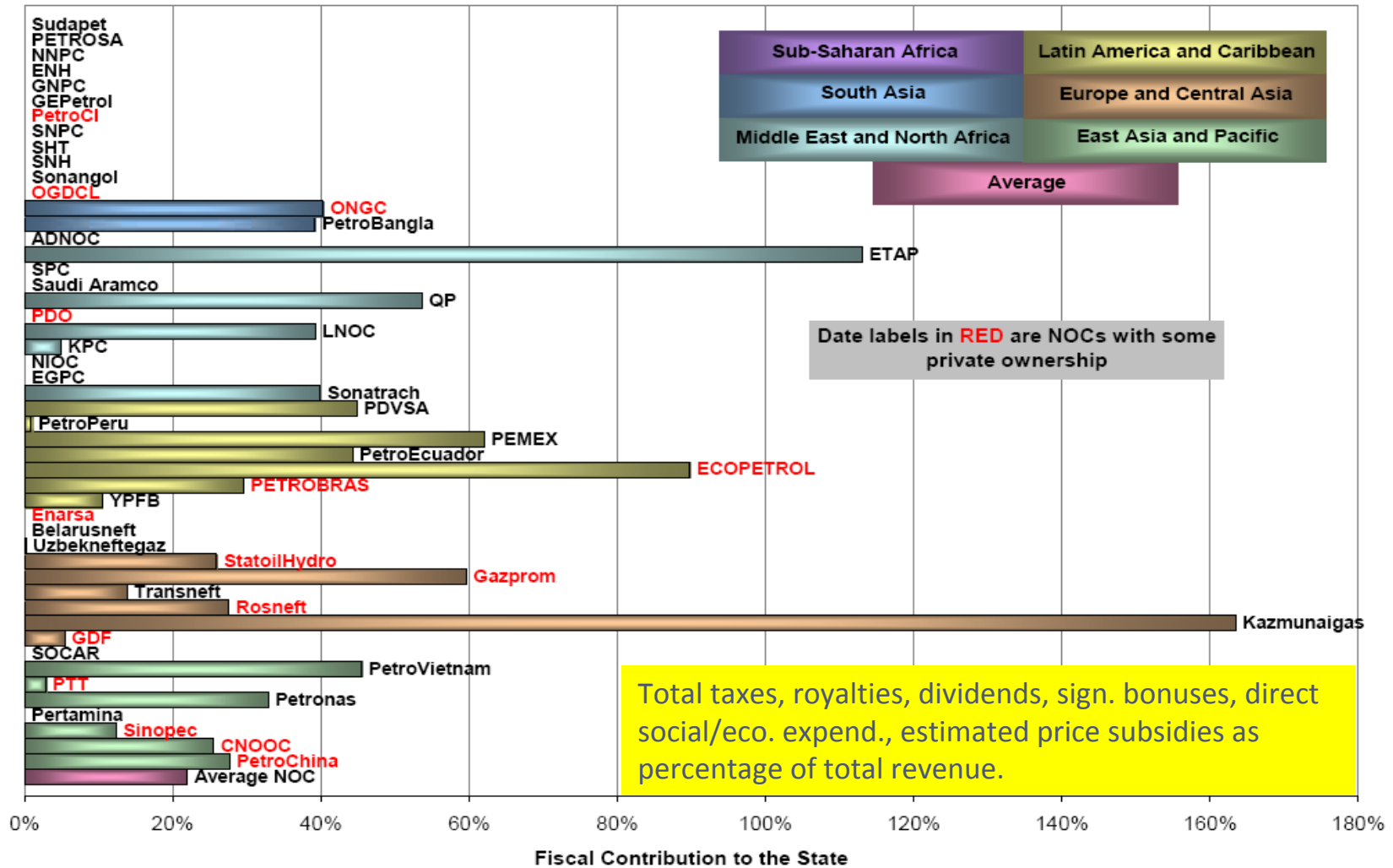
NOCs vary by:

- Extent of government ownership (whole or in part)
- Whether any shares are publicly traded under securities regulatory governance (e.g., SEC)
- Amount of (audited or auditable) financial and operating data provided
- International operations and outbound investment
- Extent of competition in their “domestic” markets
- Access to international credit markets

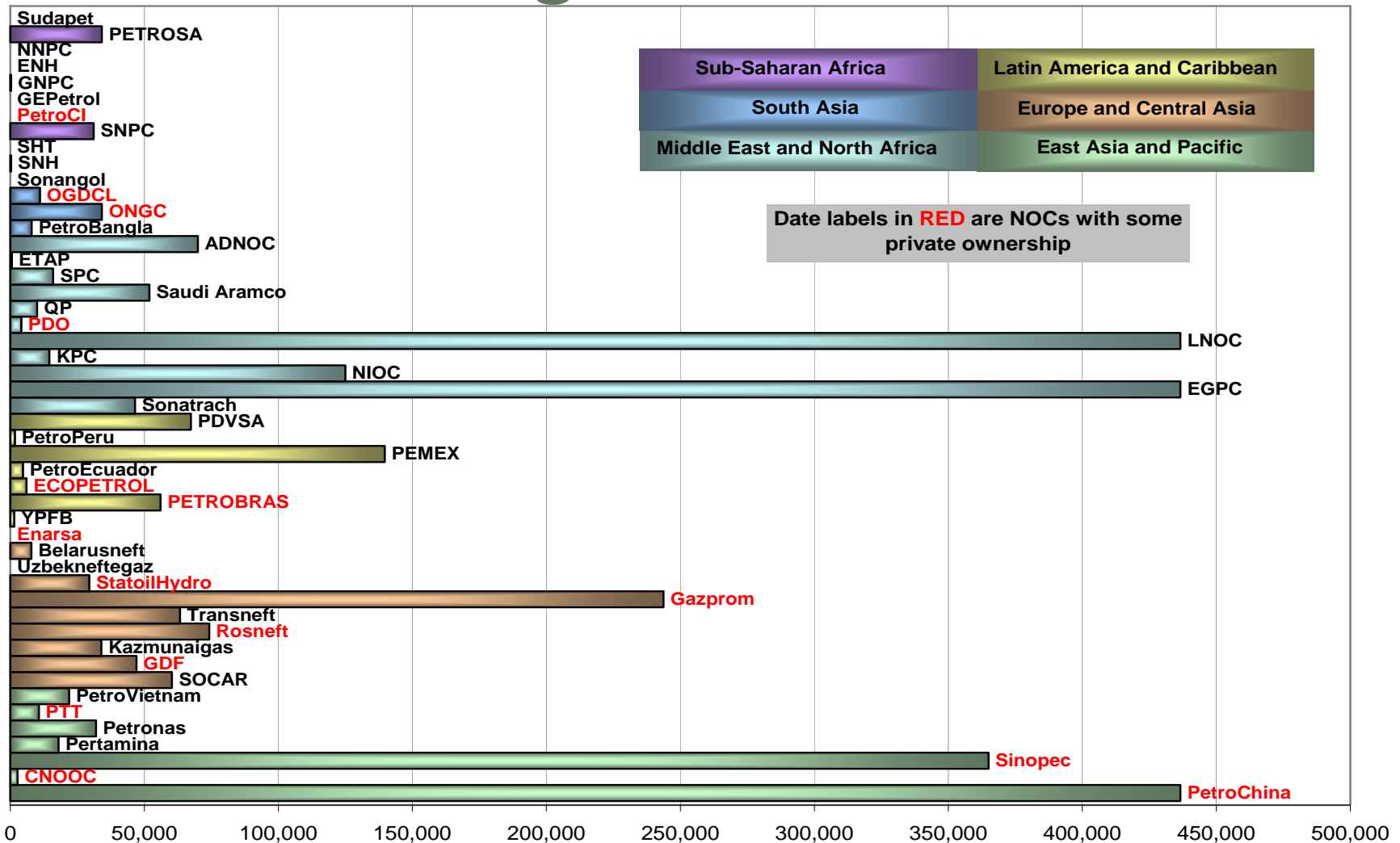
Private Ownership



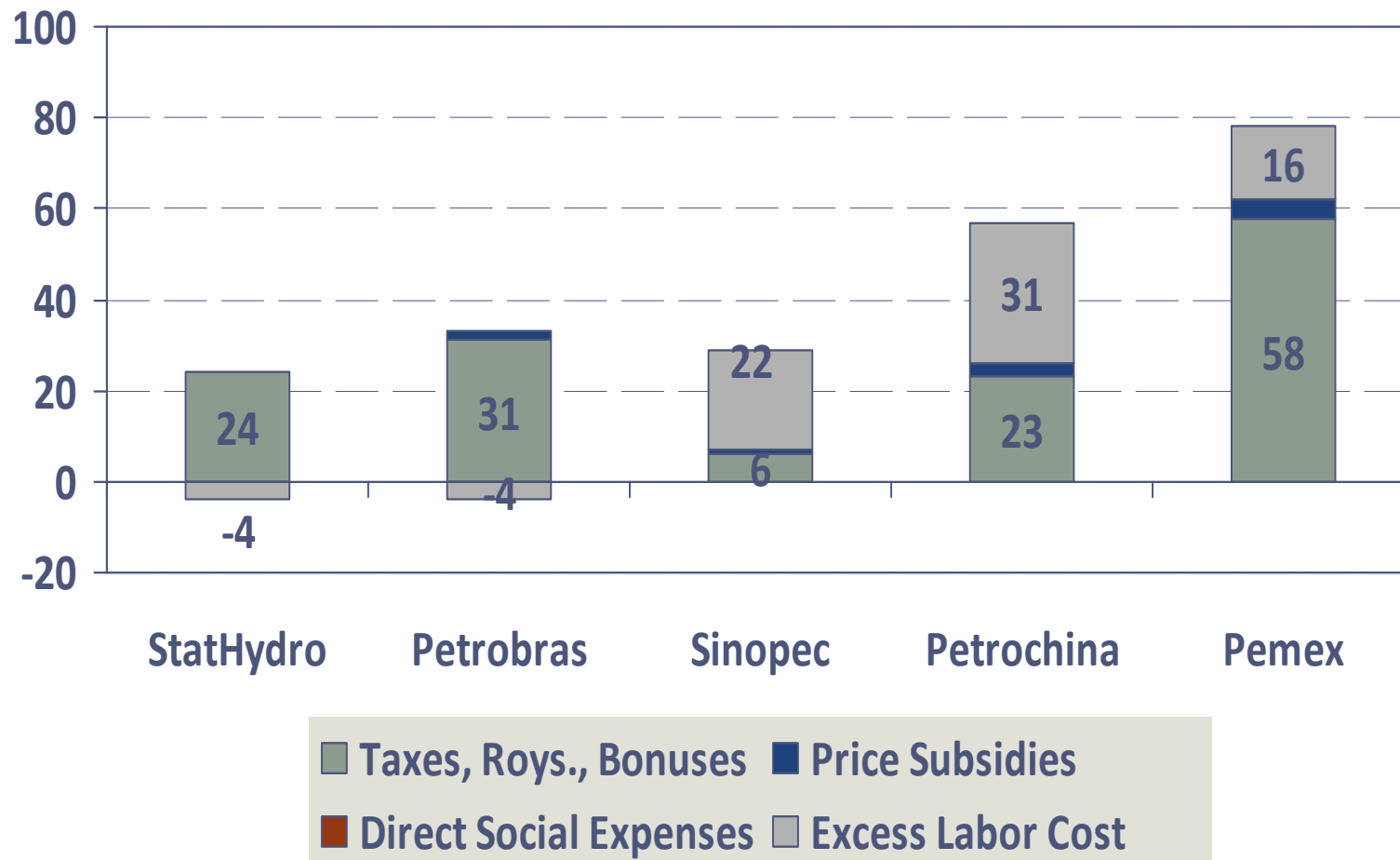
Large fiscal contribution to the state



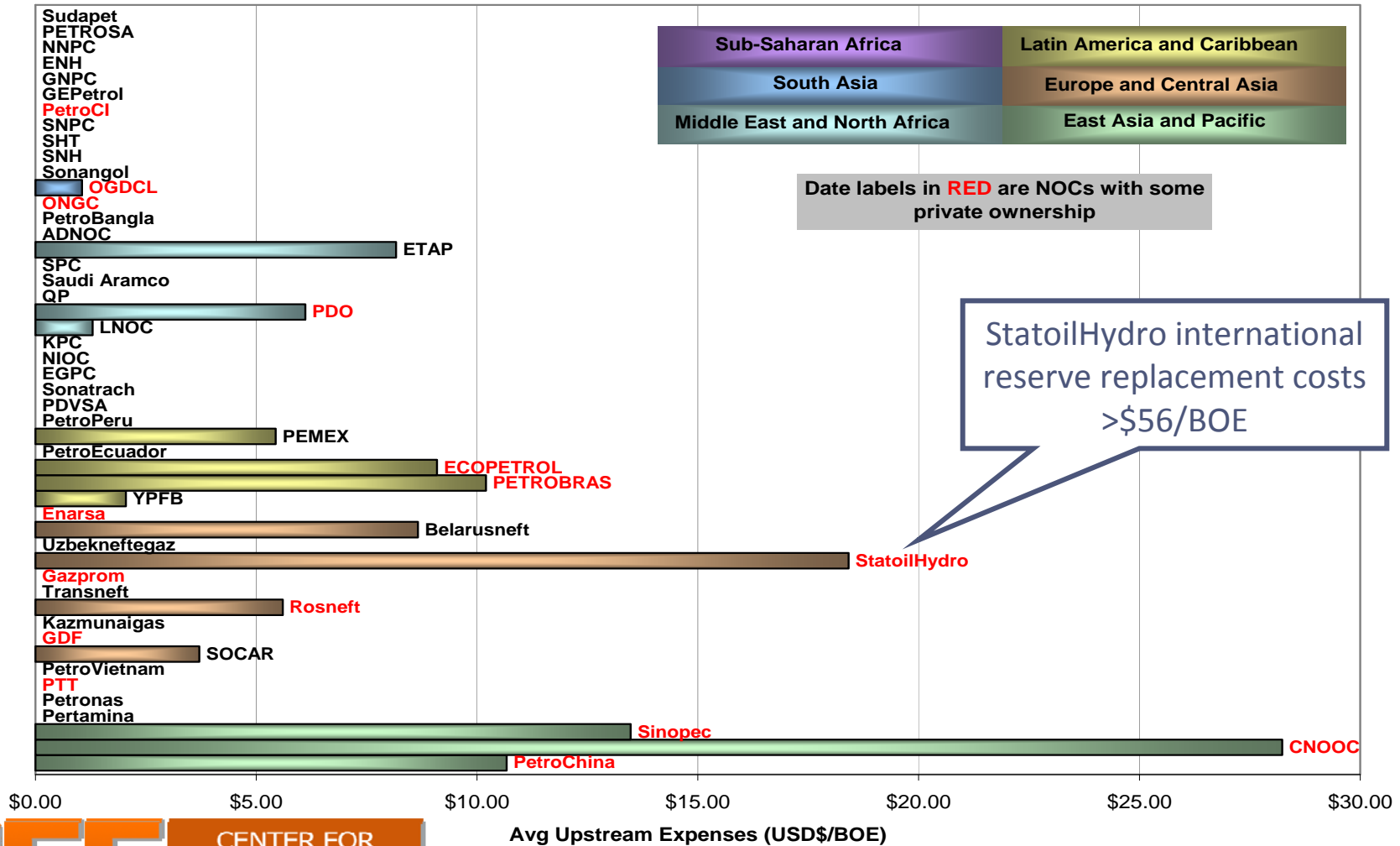
Large workforce



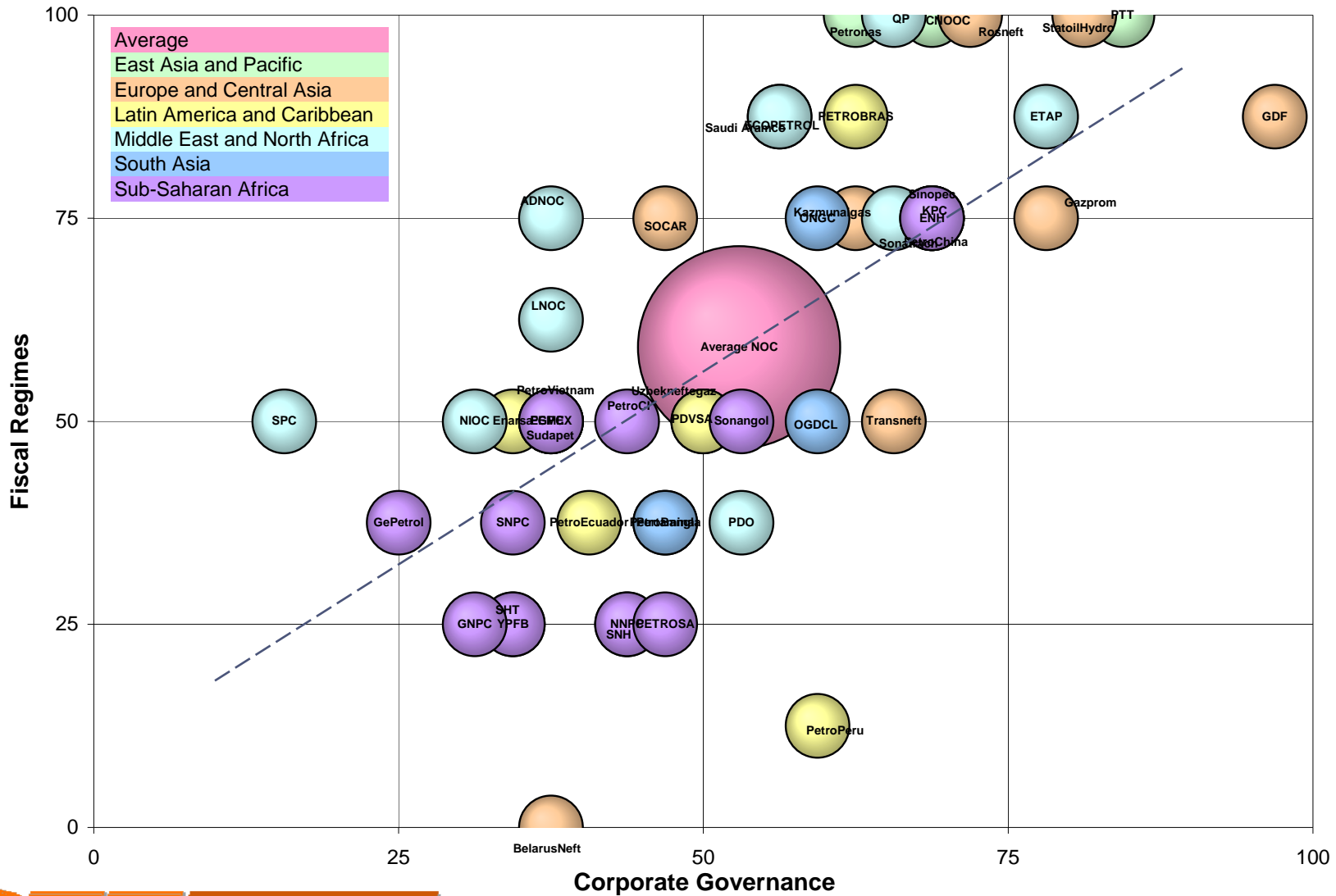
Non-Commercial Performance Contributions by Type/Revenue (%)



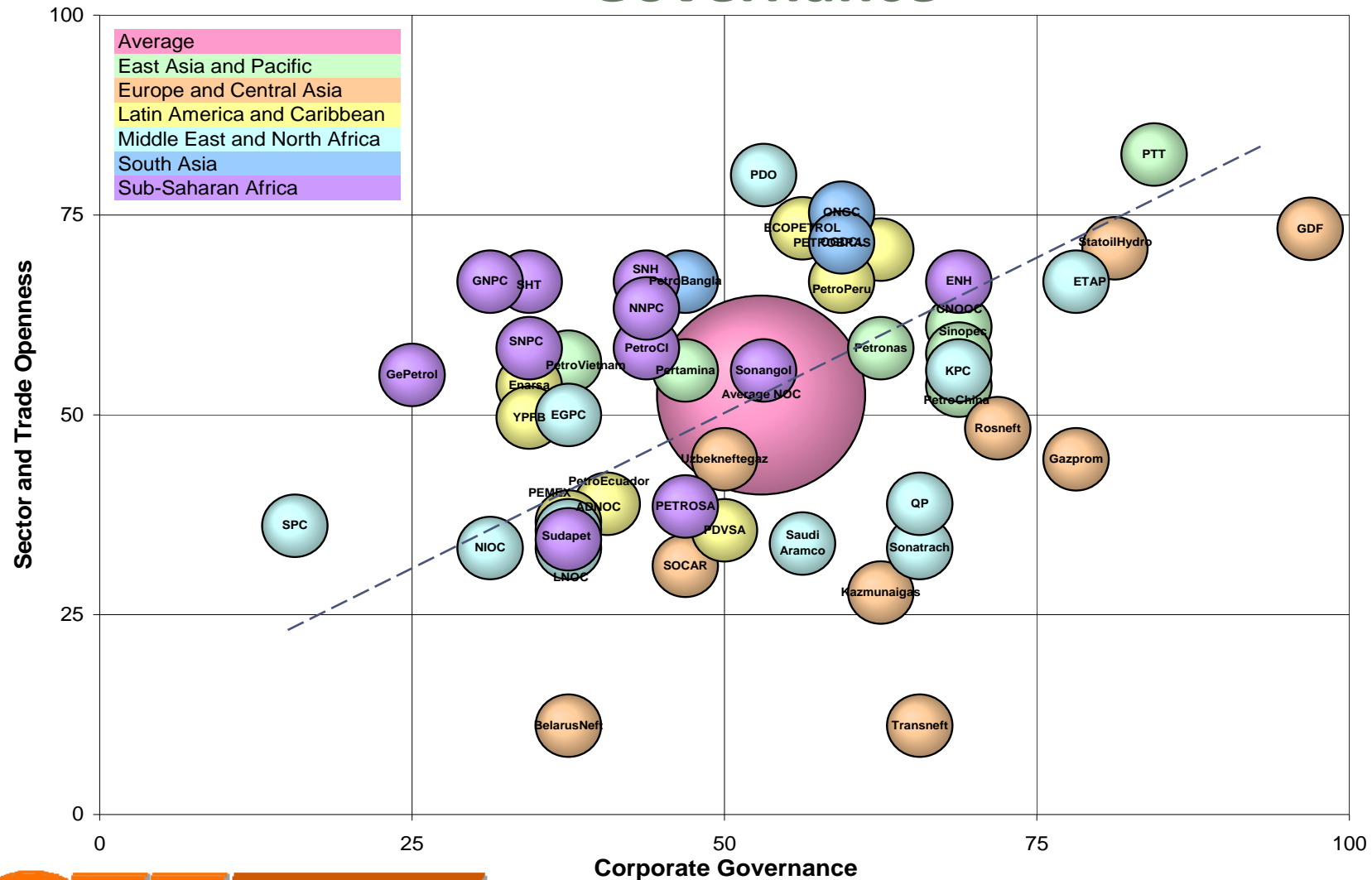
Upstream costs vary widely

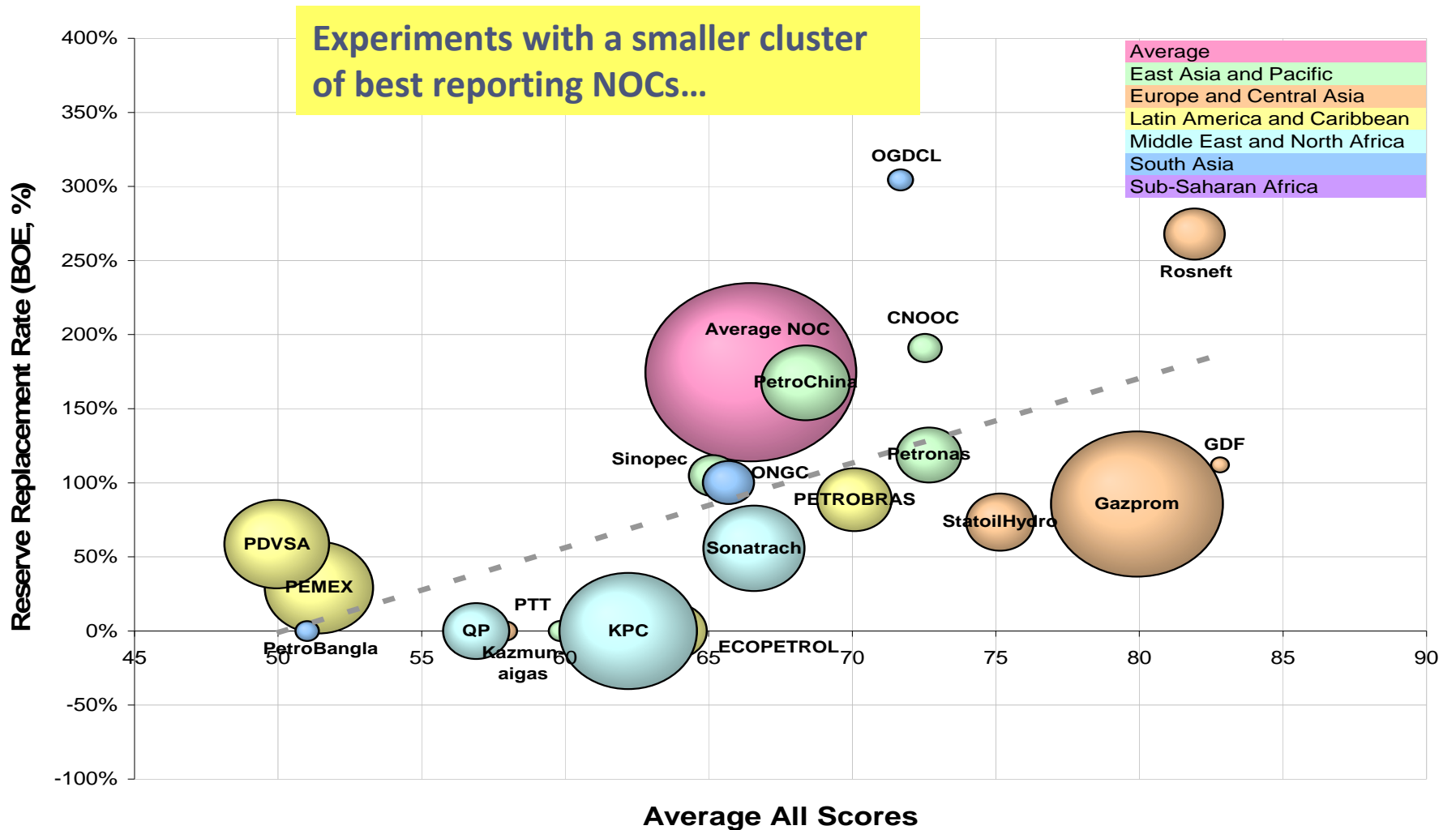


Fiscal Regime and Corporate Governance

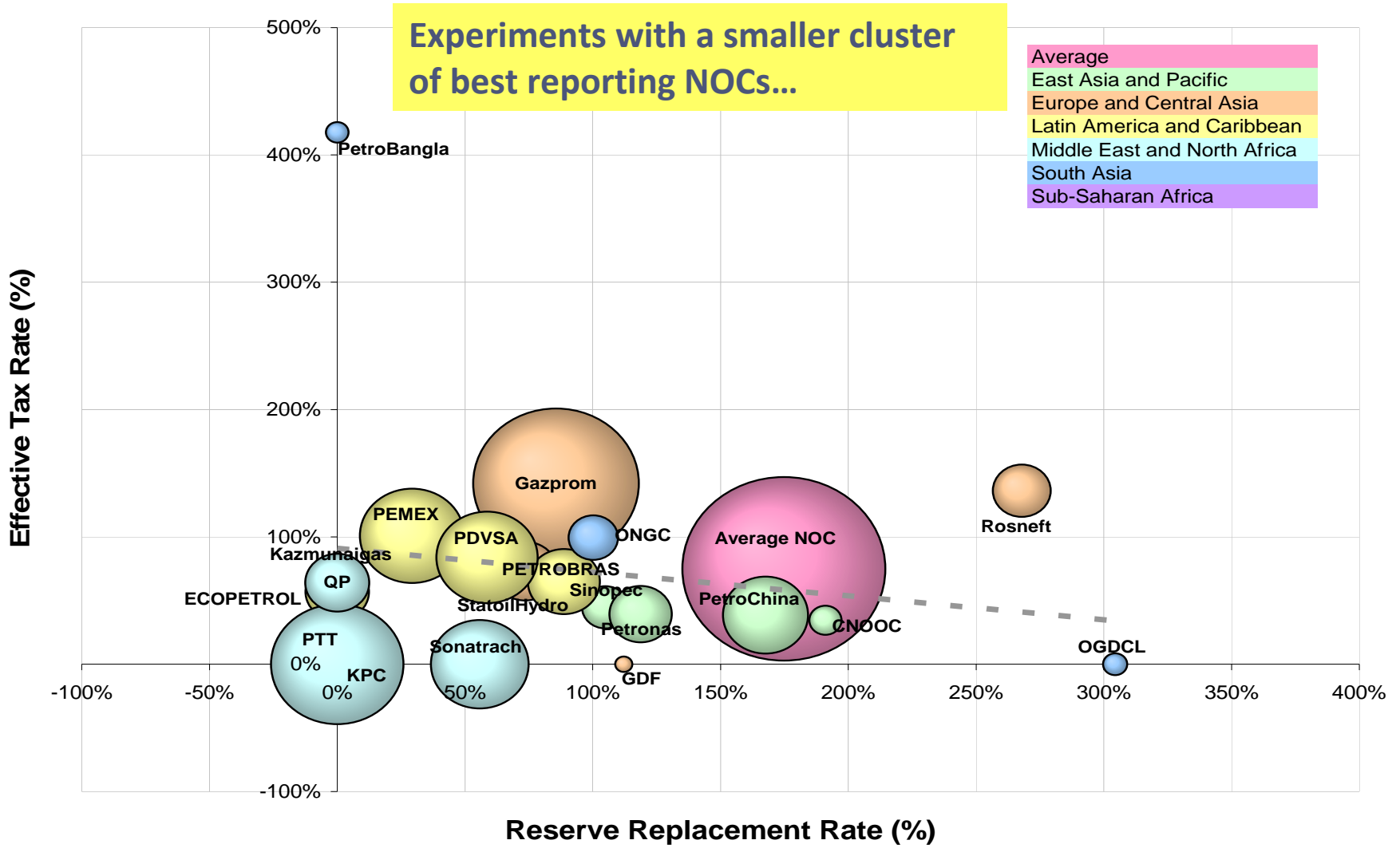


Sector/Trade Openness and Corporate Governance

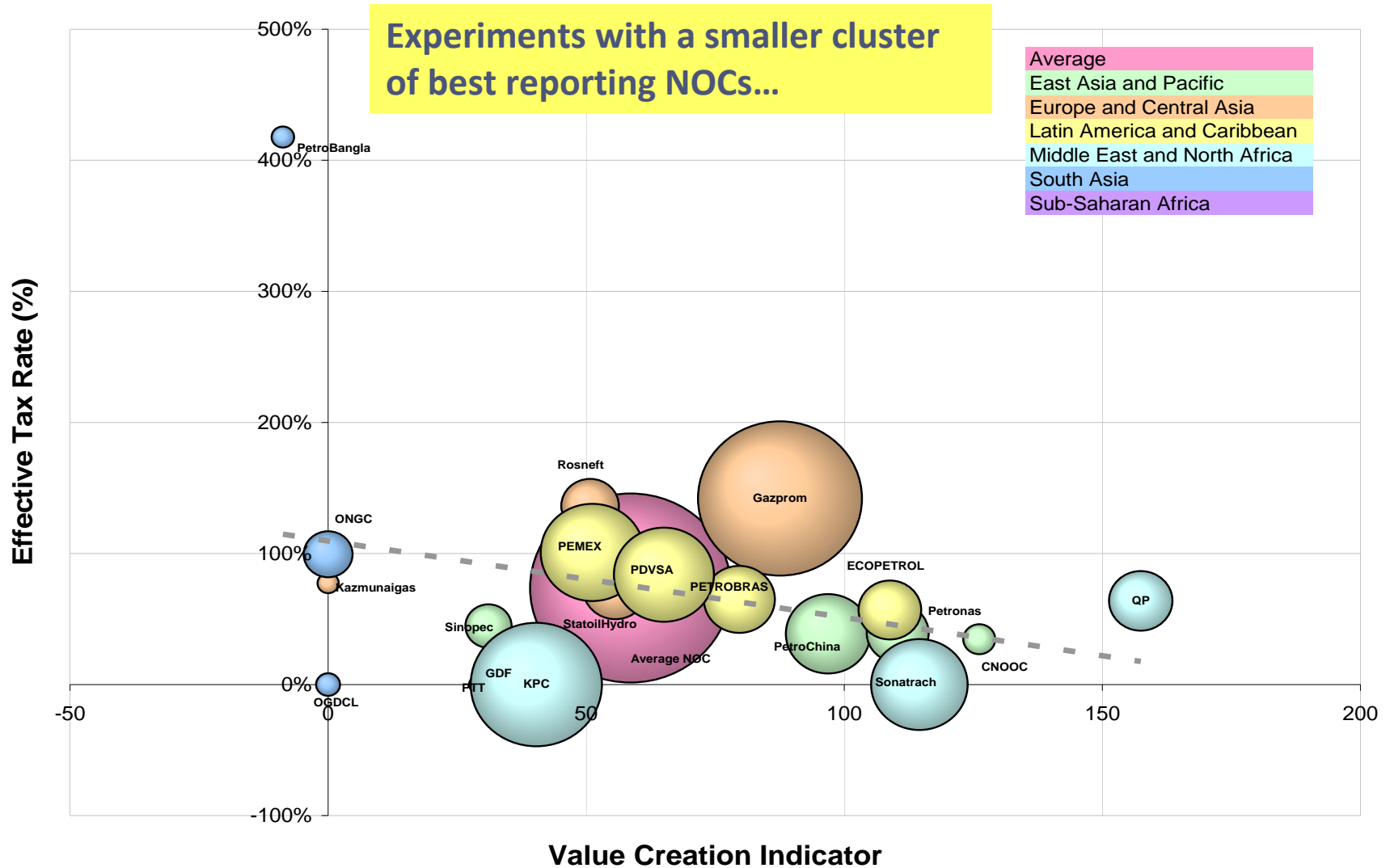




Improvements in NOCs' reserve replacement rate are supported by improvements in governance, more effective and stable alliances between NOCs and IOCs, sound competitive frameworks, and progressive fiscal regimes

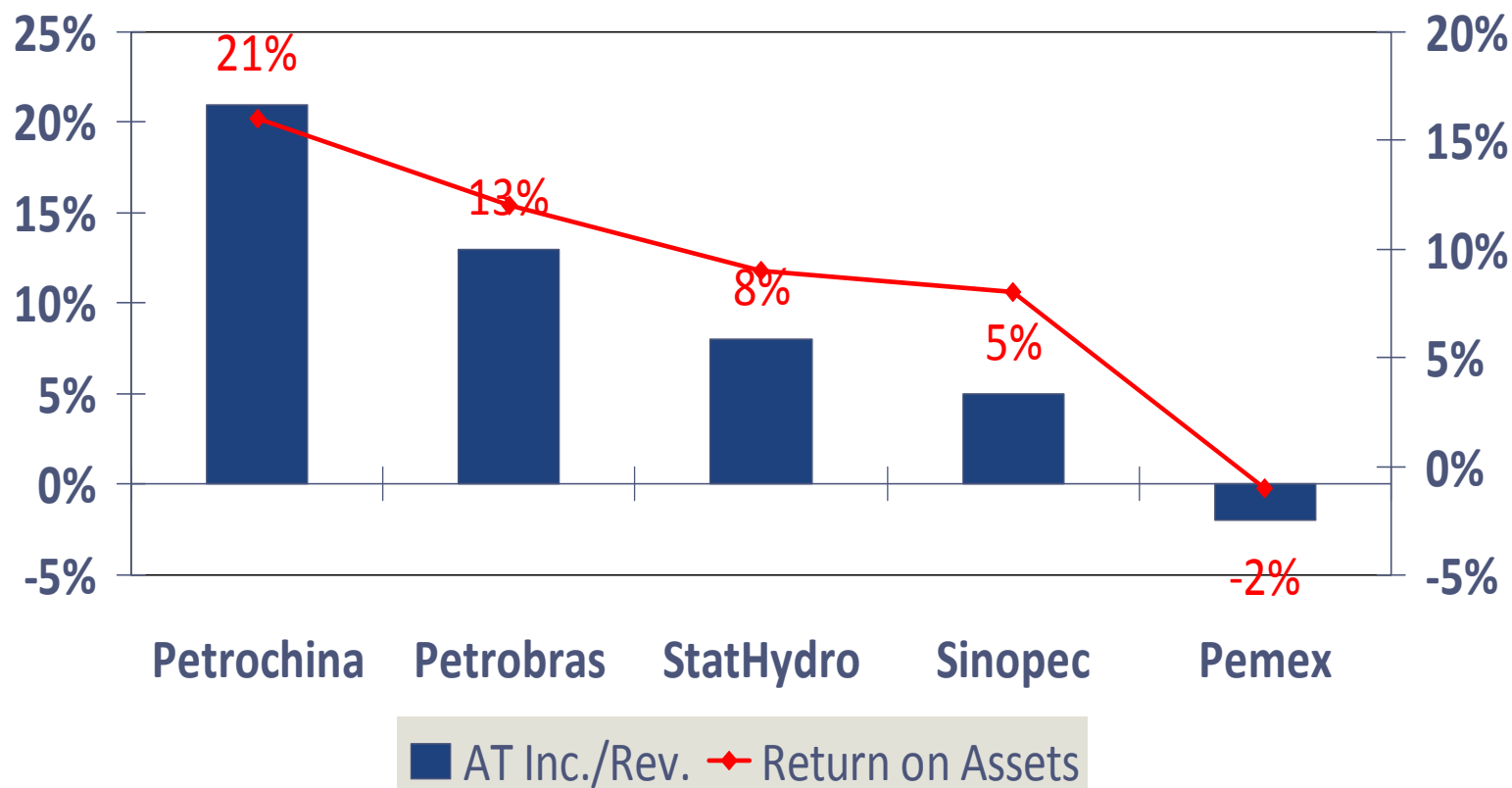


A more competitive fiscal structure for NOCs enables them to re-invest in their core upstream businesses...



...and enables them to create and optimize value from assets.

Consolidated Performance After-tax Income/Revenue and Return on Assets (%)



Implications of NOC performance

- Tax and debt burdens threaten financial sustainability
 - Most NOCs are for exploitation rather than exploration
- Additional and/or new equity issuances by existing or new partially privatized NOCs
 - Key consideration: global credit and credit risk trends for new issues
- Impact of financial market turmoil plus falling commodity prices on NOC viability
 - Implications for FDI and global oil supply and deliverability

Considerations going forward

- NOC governance structures
 - Organization of sovereign ownership and control
 - Balancing sovereign/shareholder investors for partial offerings (or transition to public ownership)
 - Establishing and asserting “independent” regulatory oversight
- Management skills limited in addition to general HR constraints
 - More interest in training programs
- Lack of technology development/management
- Shortage of experience in global competition
 - The NOC-SC, NOC-NOC, NOC-SC-NOC models are not sufficient
 - NOC-IOC partnerships are needed

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For more information:

<http://www.worldbank.org/noc>

<http://www.beg.utexas.edu/energyecon/nocs/>

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