

## **2<sup>nd</sup> NOC-IOC Forum**

**7-8 April 2011, Paris, France**

### **Bringing Together Distinctive Competencies for Common Challenges**

#### **Concluding Statement**

The 2nd IEF NOC-IOC Forum was held in Paris, 7-8 April 2011, with the participation of senior decision-makers from NOCs, IOCs, service companies as well as experts and representatives from producing and consuming countries. “Bringing Together Distinctive Competencies for Common Challenges” was the central theme. Participants discussed the key issues and common challenges facing the oil and gas industry and exchanged views on how to achieve successful and long lasting partnerships among industry players.

They highlighted the following findings and recommendations.

#### **1 - Common challenges and shared interests**

- Global primary demand is set to grow in the future and fossil fuels are expected to remain the main source of energy in the primary energy mix over the coming decades. Global energy demand is shifting to non-OECD countries with most of the additional demand projected to occur in Asia and the Middle East.
- Timely and commensurate investment along the supply chain is crucial for global energy security. The most recent estimates (IEA WEO 2010) indicate that the required cumulative investment to meet projected energy demand over the period 2010-2035 amounts to \$33 trillion, equal to \$1.3 trillion per year on average. Mobilizing such level of investment is a major challenge for the oil and gas industry in the face of unprecedented uncertainty over key determinants.
- Market volatility witnessed over recent years is making investment decisions more difficult. The outcome of climate change negotiations yet to be defined is adding to the uncertainty on future energy mix. Impact on public opinion of accidents such as Macondo oil spill or Fukushima power plants and consequent changes of energy policies and regulations in some major countries can also impact the energy sector. Development of new resources such as unconventional gas may also act as a game changer.

- Despite the changing global and economic landscape, the Forum cautioned against short term solutions for long term challenges, and urged the energy industry to stay the course for the long haul, to ensure that both new and discovered resources can be produced in an economically and environmentally sound manner to meet additional demand and offset natural field decline, despite a persisting volatile business environment.
- Technology was a key to industry ability to reach resources that were out of its reach and will continue to be an important factor in securing future supplies. In addition to NOCs, the role of service companies as technology providers has increased over the years, and major NOCs are becoming active actors in technological development, particularly in upstream.
- To meet future demand, the industry is pushing its operations' frontiers, exploring and developing resources in increasingly severe conditions. Such development requires highly qualified and experienced personnel to execute increasingly complex projects. Human resource management, particularly in a "boom-bust" cycles, is therefore one of the major challenge for NOCs and IOCs as well as services companies.
- More stringent regulatory frameworks, in the aftermath of the Gulf of Mexico oil spill, will probably drive costs up and delay projects commissioning. Industry players and regulators need to work together to address safety issues through appropriate regulation. Industry players also see room for self-regulation where possible and effective.

## 2 - NOC-IOC and service companies' cooperation

- NOCs and IOCs have specific skills and expertise and their strategic objectives may differ. It is their ability to recognise their respective aims, bring together their distinctive strengths and competencies and focus on shared interests that result in successful partnerships. A collaborative approach between NOCs and IOCs can help ensuring the adequacy, affordability and acceptability of energy supplies to meet the rising demand of a growing world population, while maintaining industry profitability.
- The present challenges facing the industry, NOCs, IOCs and service companies alike, offer new opportunities for NOCs and IOCs to partner in long-term sustainable partnerships and alliances, to share risks, both above and below the ground.
- NOCs and IOCs can address the human resource challenge through coordinated collaboration between government, academic and industry, through some of the avenues that were suggested at the IEF Symposium on Human resources held in 2009 in Qatar.

- In a more demanding environment, NOCs and IOCS need to explore new models of cooperation that go beyond simple resource development, and integrate host nation's expectations, such as economic development, technology transfer, infrastructure development and support of local economy. Respect for local culture and involvement in social responsibility programmes are important dimensions in developing a trusting long-term NOC-IOC relationship.
- Cross access to markets, technology, capital and resources can offer mutually beneficial opportunities for cooperation. Joint-ventures and partnerships throughout the whole value chain, based on mutual trust and respect, can anchor long-term relationships between NOCs and IOCs. Innovative arrangements and alignment of interests can provide a sound framework for investment in the oil and gas industry, and help secure its development. Strategic alliances and share exchange deals can also provide a "new template" for NOC-IOC cooperation.
- A balanced and stable taxation regime in host countries is a key element for a win-win partnership between NOCs and IOCs and sudden unexpected changes in taxes regime should be avoided. Partners should favour dialogue and re-negotiations or mediation when they have different views on what "changing circumstances" mean for contracts. Stability of regulatory frameworks in the downstream, both locally and globally, is also needed to ensure that R&D is focusing on the required technologies to deliver future supplies while meeting environmental regulations.
- Contact and exchange of views between NOC, IOC and service companies leaders, through regular gatherings such as the NOC-IOC Forum organized by the IEF, provide a useful platform to discuss the changing business environment and its impact on stakeholder relationships.
- Building on the findings of the NOC-IOC Forum, the IEF Secretariat will work with the IEF Industry Advisory Committee to formulate a set of general principles or best practices defining successful cooperative schemes between NOCs and IOCs. These guidelines will be presented to the 13<sup>th</sup> IEF Ministerial and 5<sup>th</sup> IEBF meetings in Kuwait in 2012 for discussion and endorsement.