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How to optimally balance upstream and downstream investments? Swaps of Assets as a tool to achieve this balance

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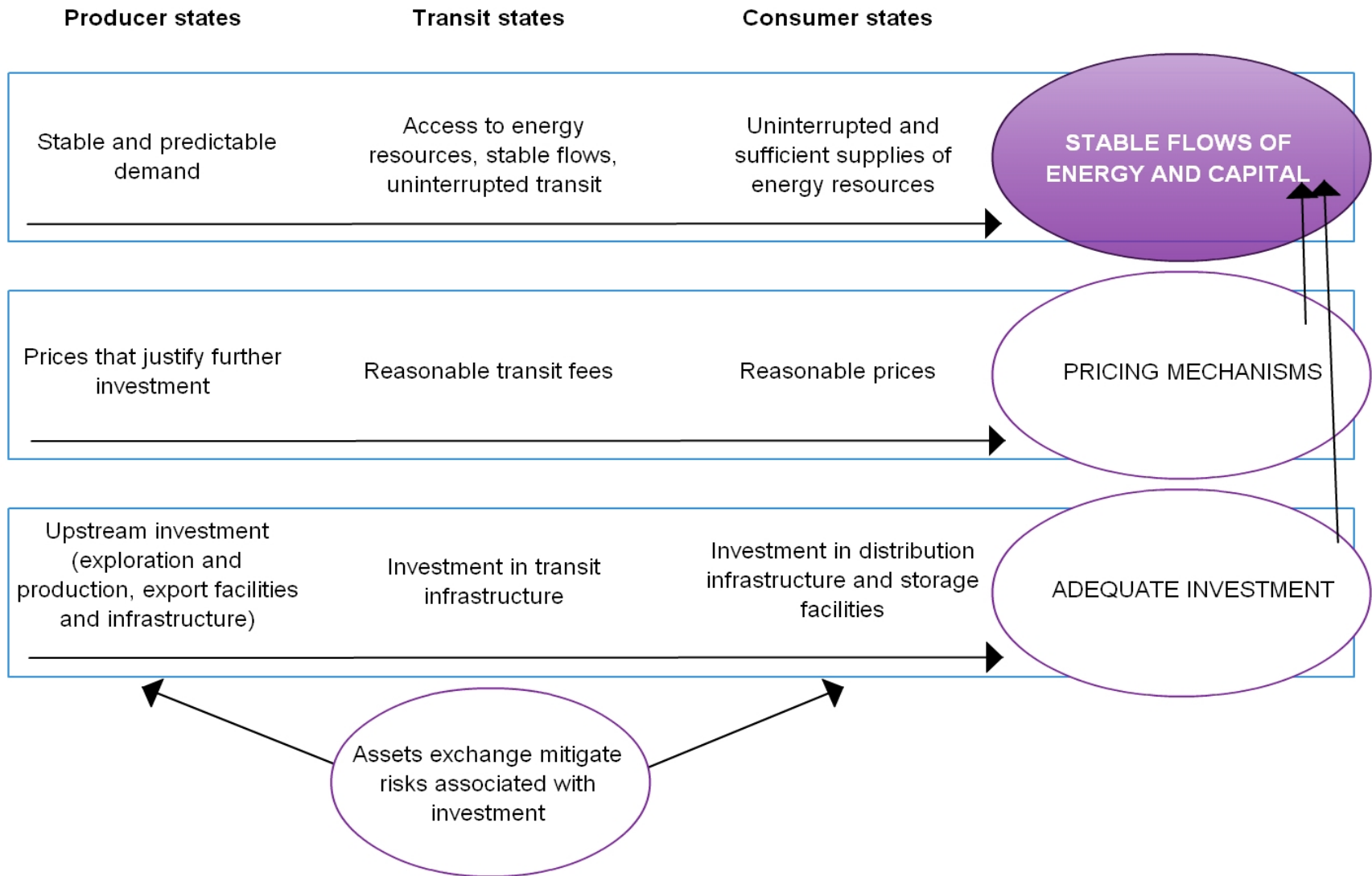
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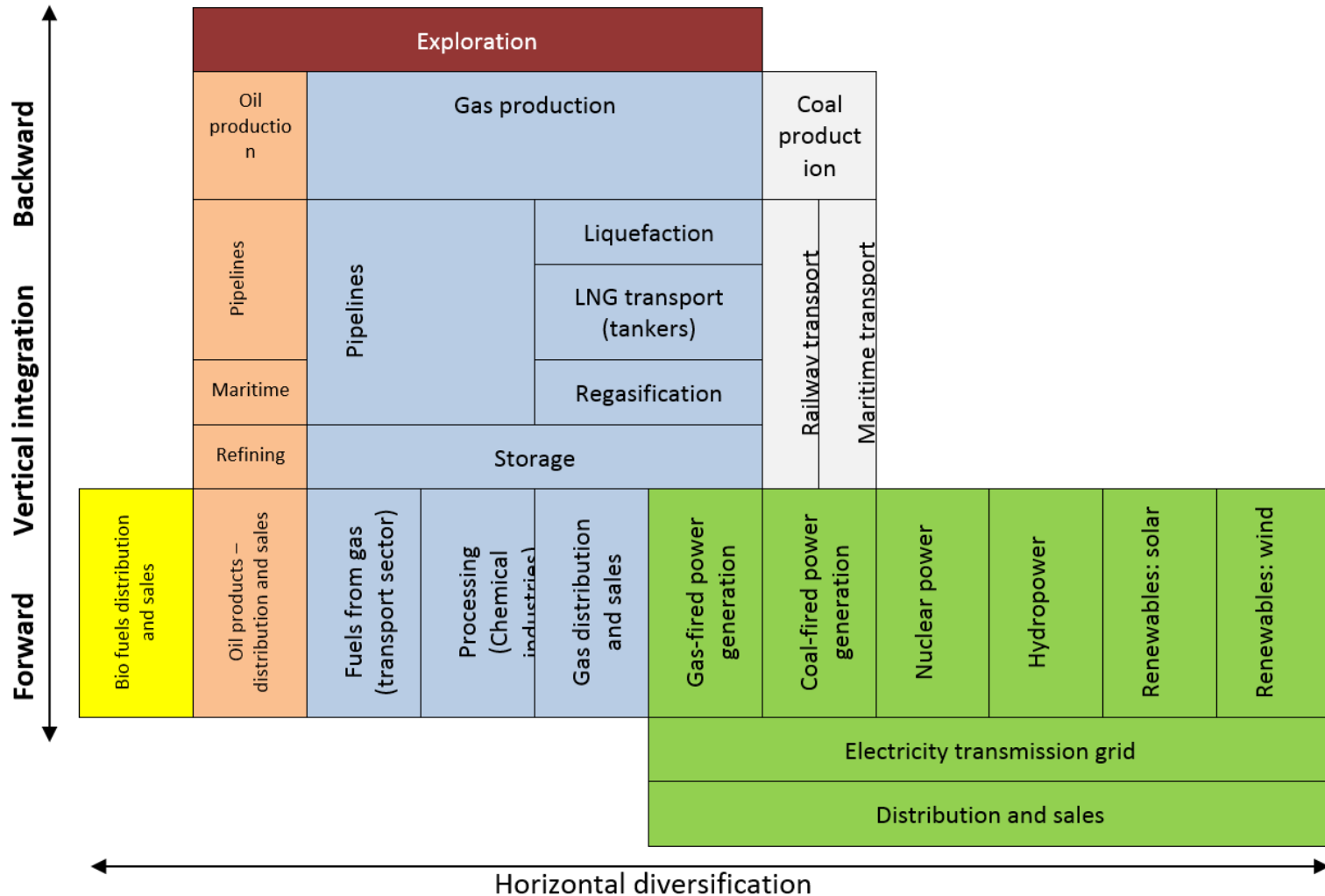
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Asset swaps in the structure of energy security



Asset Exchanges and Corporate Strategies: Building Energy supply chains



Source: I. Mironova. *Mutual Exchanges of Business Assets within Investment Activities in the Energy Sector*. Energy Charter Secretariat. 2013.

Asset exchanges: definition and incentives

- **Asset exchange, or asset swap, is a transaction in which companies agree to mutually transmit ownership rights to previously matched assets without exchanging money.**
- **Incentives for asset exchange deals:**
 - Vertical integration, geographic diversification, business diversification, horizontal integration
 - Regional / cultural incentives
 - Policy-related incentives
 - New opportunities within the markets
 - Limited amount of available assets worldwide - the asset swap mechanism is projected to be one of the main means of promoting access to new markets.
 - Limited financial capabilities during the crises
- **Targets:**
 - Potential modernization via transfer of technologies and management expertise, diversification of economic risks, integration into world economy
 - Entry into new markets while securing existing markets
 - Search for profitable investment while mitigating investment risks
- **Asset swap deals:**
 - E.ON; Enel; GDF Suez; Iberdrola; EDP; Eletrobras; OMV; Statoil; Petrobras; Petronas; Saudi Aramco; CNOOC; CNPC; Sinopec; Gazprom; Novatek; Likoil; Rosneft; Inter-RAO UES; Rosatom.

Examples of Asset Exchanges-1

ExxonMobil (USA) - Rosneft (Russia)	2012 Joint ventures to manage an exploration program in the Kara Sea and Black Sea. Neftegaz Holding America Limited (independent indirect subsidiary of Rosneft registered in Delaware): 30% equity in ExxonMobil's share in the La Escalera Ranch project in the Delaware Basin (Texas, USA); the right to acquire a 30% interest in 20 blocks held by ExxonMobil in the U.S. Gulf of Mexico RN Cardium Oil Inc. (an independent Rosneft subsidiary): acquired 30% of ExxonMobil's stake in the Harmattan acreage in the Cardium formation of the Western Canada Basin (Alberta, Canada)	Target: jointly explore and develop oil and natural gas in Russia and to share technology and expertise. Jointly develop tight oil production technologies in Western Siberia
ExxonMobil (USA) - Total (France)	2012 Total will offer ExxonMobil its stakes in the PL089 license (5.6%) and the Sygna (2.52%), Statfjord Øst (2.8%) and Snorre (6.18%) fields. In return, it will take ExxonMobil's 4.7% interest in the Oseberg field in the North Sea and a 4.33 % interest in the Oseberg transportation system, along with interests in the PL029c license (100%) and the PL029b license (30%), containing part of the Dagny field. Additionally, Total will pay a cash consideration to ExxonMobil.	Target: various producing and undeveloped assets offshore Norway. Objective for Total: fewer but larger assets.
Chevron (USA) - Shell (UK / Netherlands)	2012 Chevron will transfer to Shell its interests in the Browse LNG project in Western Australia, which has an estimated value of some \$30 million, while Shell will transfer its 33.3% interest in two gas fields connected to its Wheatstone project, also located in Western Australia. Shell will also make a \$450 mln cash payment to Chevron. Shell will acquire Chevron's 20% interest in the West Browse assets and a 16.7% interest in East Browse.	Chevron's target: "expansion opportunities for the Wheatstone Project".

Examples of Asset Exchanges-2

Royal/Dutch Shell (UK, the Netherlands)- Gazprom (Russia)	2011- current Joint projects in West Siberia and in the east of Russia; Gazprom's participation in Shell's undertakings in third countries; Increased liquefied natural gas (LNG) deliveries to quake-hit Japan from the Sakhalin-II project (Shell wants to boost the plant's output by 50% and raise its stake in the plant). 2013 Russian arctic shelf, deep shelf outside Russia Joint venture (to be registered in Saint-Petersburg) to explore shale oil fields in Khanty-Mansiysk region	Sakhalin-2 Arctic shelf Shale oil (technology and experience) Oil and gas markets (Europe and APR), Upstream (E&P) LNG transport infrastructure
BP (UK) - BG Group (UK)	2008 BP and BG exchange a package of North Sea assets which is intended to strengthen BP's position as a major operator in the Southern North Sea and facilitate development activity and investment in the UKCS.	North Sea
StatoilHydro (Norway) - Rosneft (Russia)	May 2012 Joint venture to explore the Perseevsky license block in the Barents Sea and three blocks in the Sea of Okhotsk. Statoil will hold a 33.33% stake in the project. Rosneft's participation in the exploration of license blocks in the Norwegian part of the Barents Sea, as well as the possible acquisition by Rosneft of interests in Statoil's international projects.	Target: Jointly explore offshore fields in the Russian sections of the Barents Sea and Sea of Okhotsk. Joint research to identify effective approaches to developing deposits with hard-to-recover oil and gas reserves European oil and gas markets; Upstream (E&P)

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Examples of Asset Exchanges-3

ENI (Italy) - Rosneft (Russia)	April 2012 Joint venture to explore the Fedynsky and Central Barents fields in the Barents Sea and the Western Chernomorsky field in the Black Sea. Eni will hold 33.33% in the project.	
ENI (Italy) - Gazprom (Russia)	2010 Gazprom joins Elephant oilfield in Libya (33% in the project). Eni will be taking part in projects to develop northwest Siberian assets owned the Arctic Gas company. 2013 Gazprom seeks acquisition of a stake in Mozambique's Area 4	Upstream (E&P), oil field; Upstream (E&P), offshore gas fields, LNG
ENI (Italy) - CNOOC (China)	2012 Production agreement in exchange of technology know-how.	Upstream (E&P), deep water block in China South Sea.
Gas de France/SUEZ (France) - Wintershall (Germany)	2009 Asset swap deal covering acreage in the German sector of the North Sea which will see the French group get 40% of two sectors, and Wintershall gaining 25% of acreage next to the Mittleplate oil field.	

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Conclusions

- Asset swap is a mechanism of risk mitigation for:
 - Investment activities
 - Energy companies internationalization / globalization strategies
 - Solving the difficult issues of reciprocity access to market segments: asset swaps allow overcoming such difficulties in full compliance with national legislations
- In relation to the rules of competition, asset swap deal:
 - In principle does not affect markets or the rules of competitiveness, as it does not decrease the number of companies involved
 - Increases the number of active companies within the separate segments of the supply chain
 - As a part of vertical integration strategies, it improves access to markets for producers
 - Improves access to resources for consumers
 - Does not alter supply-demand balance and price levels
- **In the situation of mutual mistrust, lack of financial confidence and resources, asset swap mechanism helps to provide stable flow of energy and capital and in most cases helps states enhance their respective energy securities.**