
Fourth Meeting of the New Petroleum Producers Discussion Group

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Background

The New Petroleum Producers Discussion Group is a knowledge and experience-sharing platform. It is designed for new and emerging oil and gas producers - and the advisory groups who support them – to discuss challenges, strategies and governance frameworks for sustainable exploration and development of their oil and gas resources.

The group’s discussions are typically “*producer-led*”. This means that participants from emerging and established oil producing countries take a more active part in the discussions and presentations. It is important to note that the cases made in those presentations are not normally endorsed as best practice but rather they serve as a frame of reference for the evolving discussions. Recommendations then emerge from areas of consensus in the discussions. Instead of the best practice advice along the lines of a ‘one size fits all’ model, our project aims for the following: *better practice*, which foresees incremental improvements in governance of the petroleum sector; *appropriate practice*, which is adapted to the national context; and *effective practice*, which can provide a positive impact quickly and sustainably.

The Discussion Group is an initiative of Chatham House, the Natural Resources Governance Institute (NRGI) and the Commonwealth Secretariat through its Oceans and Natural Resources Advisory Division (ONR).

The fourth Discussion Group meeting which was held in Naivasha, Kenya from 2 – 4 March was the second meeting of the Group outside of London. It was hosted by the National Oil Corporation of Kenya. The central theme for this meeting was the importance of a clear vision for petroleum sector development and the role of National Oil Companies, especially taking into cognisance the cyclicity of the industry and the potential impact of such disruptive technologies as shale oil/gas.

Table 1: Emerging producer participants in the New Producers Group in 2016

Country	Status of oil & gas sector development
Barbados	Producing roughly 1,000 barrels per day (bbl/d) and 2.3 mmcfd, additional exploration ongoing.
Belize	Producing roughly 1,700 barrels per day (bbl/d), additional exploration ongoing
Côte d’Ivoire	Mature producer, roughly 36,000 bbl/d, additional exploration ongoing
Democratic Republic of the Congo	Producing roughly 20,000 bbl/d, additional exploration ongoing
Ghana	Producing roughly 100,000 bbl/d from the Jubilee field, which came online in 2011; several other projects at various stages of development.
Guinea	Exploration, no commercial discovery yet
Guyana	Recent offshore oil discovery, subject to evaluation and appraisal
Jamaica	Exploration, no commercial discovery yet
Kenya	Developing onshore oil discoveries in Lake Turkana region, not yet on stream
Liberia	Exploration, no commercial discovery yet (technical finds)
Namibia	Exploration, only commercial discovery is the Kudu Gas Field which has 1.4 TCF of proven reserves
Sierra Leone	Exploration, no commercial discovery yet (technical finds)
Uganda	Development phase for sizable onshore oil finds, not yet on stream

Source: Various government presentations delivered during the New Producers Meetings

The broad objectives of the fourth meeting were to:

- demonstrate the importance of a clear strategic vision for petroleum sector development;
- consider adaptive policy measures in a low oil price environment;
- consider strategic pathways for national oil companies in the early stages of petroleum sector development;
- share experiences concerning the management of public expectations especially during low points of the industry's cycle;
- identify lessons learned in managing multiple or competing levels of government and interests for petroleum revenues; and
- provide short training exercises in various aspects of petroleum sector governance – contract negotiations, principles of fiscal regime design, local content, energy pricing, principles of sub-national resource allocations, and national oil company strategy.

Senior officials from petroleum or energy ministries and national oil companies in new and experienced producer countries participated at this meeting. These included Barbados, Belize, Cote d'Ivoire, the Democratic Republic of Congo, Ghana, Guinea, Guyana, Jamaica, Kenya, Liberia, Namibia, Sierra Leone, and Uganda.

Expert participation included Chatham House, the Commonwealth Secretariat, NRGI, the World Bank, DFID, Norad's Oil for Development programme, GIZ, the King Abdullah Petroleum Studies and Research Centre (KAPSARC), Kenyan civil society groups and independent consultants from experienced producer countries (Bolivia, Colombia, Trinidad and Tobago, the U.S., and the UK).

Global price/investment outlook and the status of oil and gas projects in emerging producer countries

The group's 2016 meeting was held against the backdrop of low oil prices; significant expenditure cuts by exploration and production companies; the difficulty of fiscal and monetary policies to stimulate economic growth the world over; and a general consensus that the oil industry, while being at a low point of a market cycle, is entering into a 'new normal' with potentially significant disruptions in the supply structure.

As was the case with the 2015 meeting, the first session provided a reality check for the new producers in the context of this 'new normal' of lower price expectations, potentially long period of oversupply, sluggish demand growth in importing and exporting countries alike, and the potential impact of adherence to recent Intended Nationally Determined Commitments to reducing carbon emissions climate change commitments on energy demand growth.

The key message from this scene setter was for the development of a robust national vision and policy for petroleum sector development that will survive a low price environment and also benefit from price rises. For new producers seeking exploration and production activity in their offshore areas, this period of low prices provides an opportunity for careful reflection on how they intend to develop their petroleum sector.

Identifying the key elements of a strategic vision for the sector

A question of critical importance for near, new or established producers is "what is our model of development and what role will the petroleum sector play in delivering that model? What could constitute a coherent and achievable vision in different national and market contexts?"

The range of discussions in this regard varied from identifying adaptable templates to creating linkages with wider developmental plans. New and established producers are typically faced with two broad templates, namely the vision of a petroleum sector that serves as a direct catalyst for industrial development; or the vision of a petroleum sector that provides a source of revenue maximisation for the state's wider economic development goals. Many producers grapple with achieving a hybrid of these visions with varying degrees of success and failure.

Discussions recognised the need for an alignment of the vision for the petroleum sector with, and perhaps within, the broader vision for economic development. There was also consensus regarding the need for natural evolution of the vision to occur over time and for thoughtful articulation of the vision in policy, laws and regulations.

There was also overall acceptance of the fact that an exercise of this nature simply would not work without a brutally honest assessment of capabilities from the resource base and infrastructure to rules and human capacity across the wider economy. Such honest assessment could lead to politically difficult decisions such as temporary cessation of petroleum licensing activity in order to effectively plan for the sector.¹

Discussions were held on the potential types of producer models for new producers to consider when setting this vision. The general consensus was around an identification of models with two broad focus areas, namely exports (similar to the revenue model) and domestic consumption for industrial development. As with the earlier discussions surrounding the vision for the sector, there was strong emphasis on the need for understanding the resource base and phasing the focus areas based on the evolution of the resource base and other capacity (infrastructure, human, financial, governance).

Participants from new producer countries also focussed discussions on areas in which value can be added especially during the early stages of the exploration and production lifecycle. Particular emphasis was laid on the potential of new producers establishing a hub of activities around exploration and production operations as an opportunity to develop local capacity and as a potential component of a wider vision for the sector. A number of factors were identified and discussed as necessary conditions for the creation of such added value. These factors include identifying the natural opportunities that can be developed; determination of the service areas upon which to focus; understanding the costs of developing such service areas; exploring domestic and regional opportunities for the development of such services; establishing and clarifying the rules that support or hinder such development; and identifying the ancillary services that will feed into and support the process(es).

Distribution of oil rents and opportunities

The aim of this session was to deliberate on issues related to the distribution of oil wealth at sub-national level. Questions ranged from the relevant effectiveness of the different means of revenue distribution to mitigating the risk of political manipulation of such wealth distribution mechanisms. Discussions naturally touched on the question of saving oil rents as opposed to some distribution at sub-national level which would almost inevitably be exposed to the risk of manipulation. The general consensus was that the risk of potential manipulation of the sub-national distribution mechanisms does not outweigh the need for some measure of sub-national use of oil rent in addition to revenue management mechanisms such as sovereign wealth funds.

¹ It was refreshing to hear one of the new producers providing a practical example of such a decision having been taken well before its first major discovery and during a period of rising oil prices and pressure from E & P companies to release acreage for exploration.

Defining a national oil company (NOC) mandate in line with the strategic vision

Participants reflected on the various roles NOCs could play in different market and resource contexts, such as being an operator; representing the state as a minority stakeholder; being an integrated company; whether or not it should expand regionally and beyond; sector focus areas and, by implication, focus areas along the value chain; and how NOCs would finance these respective roles. Participants from countries with NOCs shared their experiences, plans and challenges which set the scene for debate along the lines of the main questions. The general consensus was on an evolutionary approach to defining the role of the NOC as **a result of the vision**. This approach would then entail an honest tackling of questions ranging from whether or not the establishment of an NOC is necessary, to the extent to which the NOC should play a supporting or advisory function in the regulatory process.

Community engagement

This session took on the double task of managing the prerogatives of multiple levels of government and wider community engagement. Discussions benefitted from civil society participants actively involved in local community relations and from new producer experiences. A wide range of issues was considered, including how to recognise and value spiritual and cultural connections to areas marked for projects; how to encourage communication from community members who are traditionally not attuned to open expression of views; how to avoid *one-size-fits-all* templates for stakeholder engagement through effective stakeholder mapping; how to use the petroleum project lifecycle as a tool for managing expectations; how to honestly attain consent for projects beyond the contractual realm; understanding and appropriately valuing the economic importance of the project area to the community; and taking proactive steps in communication. The participants recognised the natural tension between conservation of culture and development. The general consensus by all participants was that community engagement goes well beyond communication alone and encompasses a fluid mixture of the aforementioned issues.

Conclusions

This fourth meeting was able to clearly demonstrate the value of strategic thinking at the national vision level in determining a sustainable course of action for petroleum sector development. This has not often been the case on examination of numerous petroleum policies across the world. There was also broad acceptance among the participating new producers that policies must be flexible yet robust in order to cope with the cyclicity of the industry. Another positive outcome of this meeting was participant recognition of the merits in applying key elements of the petroleum project life cycle to the management of public expectations and community engagement.

The New Petroleum Producers Discussion Group is emerging as a good platform for peer learning and mentoring exercises between new petroleum producers at different stages of development. The network of relationships being developed has created an opportunity for practical exchange of experiences.