

---

# 2020 Annual Meeting of the New Producers Group

## Fostering resilience in emerging producers

Event date: 1–3 December 2020

The views expressed in this document are the sole responsibility of the speaker(s) and participants, and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event, every effort has been made to provide a fair representation of their views and opinions. The published text of speeches and presentations may differ from delivery. © The Royal Institute of International Affairs, 2021.

## Overview

The 8th Annual Meeting of the New Producers Group<sup>1</sup> took place from 1–3 December 2020, with a focus on fostering resilience in emerging producers.

The meeting was held in the context of the COVID-19 pandemic, which has precipitated a crash in oil markets, hampered or halted operations across the hydrocarbon sector and caused many oil and gas investments to be delayed or shelved. In addition to these immediate effects, there will be long-term ramifications associated with the global energy transition towards a lower-carbon economy.

The meeting focused on how new producers can adapt their approaches in light of the shocks from the pandemic, and the prospects that the global energy transition will precipitate significant changes in oil and gas markets.

At the outset, the group's organizers encouraged participants to see the meeting as an opportunity to rethink their assumptions about the value of the oil and gas sector to their countries, and to work together to develop resilient strategies that can benefit emerging and established producers alike. Acknowledging apprehension over the uncertainty of the moment and the long-term ramifications of the global energy transition, the host organizations emphasized the value of capacity building and collaboration across agencies, nationally, regionally and internationally.

## Format of the meeting

The meeting, the first to be organized virtually (due to the current COVID-19 travelling restrictions), brought together subject-matter experts, industry executives and officials from the New Producers Group member countries for focused discussions over three half-days. Plenary discussions set the scene for each day, outlining industry changes and the risks and opportunities for the petroleum sector. These were attended by a wide audience of officials from emerging and established producer countries, industry executives, analysts, donors and non-governmental organizations. On two of the days, the plenaries were followed by small, government-only discussions that aimed to tease out the implications for national strategies. The discussions were held under the Chatham House Rule.<sup>2</sup>

The meeting began with a presentation of scenarios for possible evolutions of the COVID-19 pandemic and potential impacts on the oil and gas sector and the energy transition. It then reviewed the new pressures that oil companies are faced with, and how these have changed the prospects for investment in the upstream of emerging producer countries. It ended with a discussion of appropriate strategies to align the oil and gas sector with broader development plans and its potential to act as a bridge to a world beyond oil and gas.

---

<sup>1</sup> The New Producers Group is a collaborative network of governments from over 30 countries, built on trust and peer-to-peer exchanges. The group helps new oil and gas producers manage their petroleum resources effectively and prepare for the world beyond oil and gas. It is coordinated by Chatham House, the Natural Resource Governance Institute and the Commonwealth Secretariat.

<sup>2</sup> 'When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.'

## Impact of COVID-19 and the energy transition

COVID-19 has significantly increased the uncertainties around the pace and path of the energy transition – specifically around the type of rebuilding policies that will emerge and the impact of varying economic growth across different regions. Both will undoubtedly have a major impact on emerging producers' prospects. With uncertainties making accurate forecasts nearly impossible, scenarios are important tools which can help limit the range of possibilities for which producers need to prepare. There is also a need to revisit and challenge old assumptions regarding growth sectors and to develop policy planning that is adapted to the changing environment. Resilience will come through building appropriate systems (whether at organizational or national levels).

The International Energy Agency has anticipated that global energy demand will have fallen by 5 per cent in 2020, as a result of the ongoing COVID-19 crisis. Demand for oil and coal have been hit hardest, leading to a dramatic fall in revenues for producers and causing companies to lay off personnel and cut projects and spending. Scenarios reviewed by the group showed the transition of energy systems to a low-carbon economy occurring at different paces, but in all scenarios oil and coal demand decline, while demand for renewables and gas grow. While one participant expected a sharp fall in global demand for oil after a peak is reached, another saw demand plateauing, leading to a slow decline in production rather than a sudden drop.

Technological shifts can help to reduce emissions and accelerate the transition. Hydrogen, for instance, presents an opportunity for decarbonization in many sectors, including transport, which is currently dominated by oil. Ultimately, however, large shifts in policies, involving a stronger push for efficiency, electrification and recycling, will be needed if oil use is to fall in line with global ambitions to limit greenhouse gas emissions. Multiple models of energy transition are likely to emerge as a result of the different ways continents recover economically from the pandemic, different policy signals for energy use, and the varying penetration of transition technologies.

The uncertain outlook for the sector necessitates changes to strategies and business models. As COVID-19 holds back economic recovery and demand for oil and gas, the lower price outlook adds to the strain on countries that rely on these revenues. As one scenario-builder put it: 'Diversification is the critical watchword for oil and gas producers.'

Oil company strategies are indeed changing. Though investments by oil and gas companies dropped by between 30 and 35 per cent in 2020, no cuts were made to their investments in their low-carbon initiatives. Many large companies are setting 'net zero' emissions targets, working on reducing the carbon intensity of their operations and expanding into the clean energy value chain. The importance of preventing methane leakages is now broadly accepted by the upstream oil and gas industry, and new monitoring systems make it possible to better monitor leakage.

The uncertainty around the duration of the pandemic and the resulting economic impacts make it challenging for producers to know if and when to proceed with oil and gas extraction. Participants were asked to reflect on how countries, and especially new and emerging producers, should adapt their national strategies to these changing circumstances.

For ministries of finance, the apparent risks are now clear, as is the necessity to rethink assumptions about the value of the oil and gas reserves. While some governments and companies work on a forward price assumption of \$50 a barrel, future prices could be much lower, particularly if automation in US production from shale can bring its break-even price down to \$30 a barrel. Diversifying the economy and

avoiding contracting debts on expectations related to petroleum wealth were highlighted as a sensible approach to resilient economic development. It was also noted that governments should embed their petroleum sector within an overall energy policy and move towards carbon neutrality regardless of the prospects for the sector.

### Key takeaways

- COVID-19 appears to have accelerated the transition to the low-carbon energy future. While there will be regional differences in oil demand, global demand is likely to begin a period of sustained decline after 2030 and possibly earlier, depending on policy choices. The outlook for gas demand will depend to a large extent on policy signals.
- Bespoke or off-the-shelf transition scenarios can be used to assess the impact of different outcomes on strategies and to consider associated opportunities and risks.
- Countries should carefully consider assumptions about what are sustainable levels of expenditure and debt, given the increased risks to fiscal stability. Countercyclical fiscal policies and savings can be used to help manage revenue volatility.
- Multiple energy transitions are likely to emerge, with continents travelling at different speeds and on different paths on the route to a low-carbon economy.

### Upstream investment strategies

Oil companies are under increasing pressure from investors to reduce emissions during production, reduce exploration and development risks and show higher returns. This pressure has only increased since the pandemic, and it is now challenging to obtain insurance for projects, especially offshore exploration. The pressure from investors is also causing many listed companies to withdraw from high-risk, high-carbon projects and frontier exploration. A number of major companies have taken the decision to withdraw from frontier oil exploration. This leaves frontier assets to smaller exploration companies, national oil companies that operate internationally, and private companies that may not have the ability to sustain financial loss or handle accidents (particularly offshore). These companies are also affected by the fall in oil prices.

One exploration company described how it used International Energy Agency transition scenarios to stress test its portfolio to carbon risk and commercial viability in different contexts. As a result, the company shifted its assets towards projects that are lower in cost and emissions and that will produce faster returns. It reduced exposure to frontier exploration and focused instead on proven basins with existing infrastructure that allow for quicker monetisation, higher payback and lower carbon intensity.

As one government participant noted, the options available to emerging producers are different from those enjoyed by international oil companies. Governments are bound to the resources within their territory, and the only tool they have is their licensing strategy. While they would normally be advised to wait until prices recover before issuing licences for petroleum exploration or extraction, in light of the expected shorter lifespan of the sector, the time lost in the interim may not be recovered in later years. And yet, issuing licences now could lead governments to offer investment conditions that do not provide long-term value to the country. As a government participant highlighted, there will be fierce competition between countries to attract the small pot of exploration money available. Though investors are looking for lower-emission projects, governments' ability to meet these expectations is challenged. New producers have limited infrastructure to capture gas and prevent flaring, which creates a disincentive for investors.

The point was made that governments need to understand the commercial robustness of projects, and how potential investors will evaluate them. Scenarios based on different price assumptions would help countries see the vulnerability and strength of their acreage and to formulate appropriate upstream strategies. An expert participant noted that it is now critical to be able to price carbon and to assess projects with the assumption that carbon prices rise over time. This is how oil companies evaluate projects, building in, on average, carbon cost of \$50–80 per tonne.

With capital investment in the sector falling by 30 per cent, and new project sanction levels at a 40-year low, the general feeling among participants was that investments will not recover to pre-crisis levels and that 2020 propelled the oil and gas sector into a new era.

### Key takeaways

- Oil companies are more selective about their investments. Low-cost and low-carbon projects will be the most attractive from this point on. In addition, countries will prioritize projects that are focused on domestic energy use, employment and local development.
- Scenarios may help governments evaluate risks and opportunities.
- Contract terms need to be progressive, particularly in times of uncertainty. In this context, they will also need to be competitive in order to attract investment. But some flexibility should be maintained to allow for the changing circumstances of the energy transition, notably related to future carbon pricing.

### Government discussion on exploration and licensing

For now, the stated objective of most governments in the group is to award additional acreage and keep exploration going. The small group government discussions created an opportunity for participants to share some of the challenges they have encountered and to discuss their licensing strategies.

As discussed in the project's Guidelines,<sup>3</sup> while transparent, competitive bid rounds are industry best practice, these involve specific risks for frontier exploration countries and in a depressed market, where there will be little competition for the acreage. Understanding market interest is therefore important when choosing between direct negotiation and competitive bid rounds.

The regulator in a country with recent discoveries recounted that it had decided it could proceed with an open bid round, though it offered more flexible licensing conditions to increase investor interest. Instead of requiring a firm commitment to drill wells from the outset, it allowed companies up to 24 months to carry out additional geological studies, after which they could either drill or exit. This regulator saw the strategy as a win-win because the government gained new data and kept the companies engaged, while the companies could reduce risk before committing to drill.

Some countries reported that they were opting for direct negotiations, which seemed preferable to imposing the rigid criteria required by a bid round. This would allow more flexibility in reaching agreement. Other countries continued to study their options and consider how to amend licensing terms to make them attractive to international oil companies. One country saw its options as: sit tight and wait for a market recovery; wait but actively improve the domestic investment environment (e.g. make the tax

---

<sup>3</sup> Marcel, V. (ed.) (2016), *Guidelines for Good Governance in Emerging Oil and Gas Producers*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/2016/07/guidelines-good-governance-emerging-oil-and-gas-producers-2016>

and regulatory conditions more attractive) and increase geological understanding of the basin; or proceed with licensing now. An innovative approach this country considered was to develop an integrated energy sector proposal, linking the plans for the petroleum and power sectors. The presence of a domestic power sector that is ready to use gas would make the development of gas discoveries more attractive to international companies.

### Key takeaways

- For countries seeking exploration investment, options are to wait; to reduce obstacles to investment; or to proceed to license.
- Innovative government approaches include integrating energy sector planning, so the plans for the petroleum and power sectors are aligned. This approach could prevent future bottlenecks related to price and market if discoveries are made.
- Several countries delayed their exploration rounds in light of the challenging market.
- Other countries opted for direct negotiations, instead of having rigid licensing criteria, in order to reach agreement with companies with some flexibility, given the unprecedented nature of the challenges the industry is currently facing.

### Government discussions on managing relations with upstream partners at the production phase

Established producers in the group reported receiving an increased number of requests for contract renegotiations and changes to workplans. New producers, for their part, had experienced pressure from oil and gas companies to obtain quick approval for development plans and to proceed with development.

Discussions pointed to the merit of governments increasing contractual flexibility to allow them to adapt to an industry in transformation, notably by accommodating future carbon taxes and rethinking strict fiscal stability. It was also noted that internal capacity and interagency collaboration are critical to ensuring a fruitful relationship between the government and the oil companies.

### Key takeaways

- Contracts are living instruments and need to be flexible, particularly in times of uncertainty. Flexibility is required on all sides, not just on the part of governments.
- When there is a lack of institutional capacity, it is important to have experienced consultants who can help manage the relationship with all the agencies, operators and other parties involved.
- Interagency cooperation requires time but is essential. Colombia, for instance, developed formal cooperation agreements with agencies for environmental, indigenous and social affairs.

### The oil and gas sector as a bridge to the future

Discussions also focused on the links between the oil and gas sector and countries' broader development plans, and examined the potential for the petroleum sector to act as a bridge to a world beyond oil and gas, through the use of revenues or policies overseeing the energy sector's development. As countries look to build more resilient economies, reassessing and resetting expectations for the petroleum sector are more important than ever in efforts to mitigate the long-term risks and challenges. One of the key challenges emerging producers are facing is the wide range of uncertainty on the impact of the pandemic and the energy transition. This session reiterated the value of using scenarios to understand the fiscal and economic implications of different industry trends.

The discussion highlighted the following strategies to support resilience to the decline of the petroleum sector and support future economic competitiveness:

- Manage revenue volatility to minimize national economic disruption. The severity, shock and duration of current disruptions from COVID-19 are uncertain. Governments should expect ongoing volatility post-pandemic, as the energy transition builds momentum.
- Assess the vulnerability of government revenues, foreign exchange earnings and gross domestic product to oil and gas price volatility and production decline.
- Develop fiscal policies that protect the economy from these impacts; and determine how to use petroleum wealth and how much to save and invest. Ministries of finance should also use shadow carbon pricing<sup>4</sup> when making assessments about the future.
- Reduce the carbon intensity of projects (e.g. by improving energy efficiency, preventing gas flaring, preventing fugitive emissions, and increasing use of renewable energy in petroleum operations). Strong regulations can help countries achieve these targets, but implementation can be slowed by lack of capacity or finance to put infrastructure in place.
- Manage the political economy around the energy transition. Inequality and inequity will be important socio-economic issues in the recovery period from the pandemic, and could be compounded by the energy transition in some countries. Petroleum wealth should be deployed in a way that aims to address broad-based societal needs, including preventing job losses resulting from the decline of the petroleum sector.
- View oil and gas as part of an integrated energy framework, rather than in isolation. Integrating sustainable energy sources and local economic development in petroleum projects should increase interest from investors who are transforming their business models towards sustainable energy and low-carbon oil production.
- Economic diversification is key to a sustainable economy. But this takes time; often decades. Establish what has economic potential and could bring employment and opportunities for nationals in the long term. Focus on the ‘three Ps’: people; policy; private sector. Governments will need to understand national capabilities and human resources. Policy should be steered by a broad economic plan, and not by the needs of the oil and gas sector. Private sector support should be focused, with an understanding that smaller, domestic companies will take more time to be competitive than larger or foreign ones.
- There is an element of denial whereby countries are continuing on the current path and see the implications of the transition to a low-carbon economy as too far away to affect them. Some countries’ petroleum sectors will not emerge from the current crisis. Governments need to be make the implications of transitioning to sustainable energy clear to the public.
- Capabilities and skills from the petroleum sector workforce and companies can be transferable to other sectors, such as renewable energy. This requires long-term planning and time to reskill workers and build new supply chains.
- Countries need to consider the right balance between requiring companies to source more expensive local content and being able to attract investments.

---

<sup>4</sup> The High-Level Commission on Carbon Prices, which was set up in 2016 as part of international climate change talks to benchmark pollution costs, recommended that carbon should be priced at \$40–80 per tonne in 2020, rising over time and reaching \$50–100 per tonne by 2030. See: <https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices>

## Government discussion on national oil company strategies

The discussion around national oil company (NOC) strategies in the transition highlighted that most NOCs in the group were still at the early stages of developing strategies that would be resilient and adapted to evolving market circumstances. Participants noted several strategies that are being developed or considered:

- Refocusing on alleviating domestic energy poverty
- Bringing gas to the domestic market
- Cost control
- Reducing the carbon intensity of projects
- Developing renewable energy for oil and gas projects and for domestic needs
- Acquiring producing petroleum assets
- Acquiring non-producing assets from departing oil companies
- Acquiring clean energy assets
- Acquiring mining assets
- Developing an integrated gas value chain – including associated infrastructure and market

Diversification was a key objective, although future discussions might investigate the value of strategic niche specialization. The discussions noted the importance of NOCs learning from each other and tailoring strategies to specific circumstances. Participants highlighted the value of scenarios in helping to understand the impact of different transition timescales on their strategies. It was decided to continue addressing these issues in a working group.

### Key takeaways

- Participants in the session highlighted the need for governments to develop and put in place strong strategies and legislative frameworks to guide their activities.
- Many NOCs see gas as playing a key role in the energy transition, for example in fuel for ships, for generating electricity, or to power oil pumps.

## Government discussion on local content

In the discussion on local content, participants appeared aligned on the need to diversify their economies and create a more resilient national supply base that is not dependent on oil and gas. However, as highlighted by one of the new producer countries, petroleum wealth is likely to be used to bridge development gaps in sectors such as education and health.

COVID-19 has affected many aspects of oil and gas production, with impacts including reductions in the workforce and the suspension of licensing rounds, but participants noted the pandemic crisis has also prompted companies to rely more heavily on local goods and services, ultimately demonstrating the viability of local content strategies. At national level, the discourse around local content should focus on developing skills within the oil and gas sector that will be transferable to the rest of energy sector, in particular clean energy. This will ensure that the skills and supply base fit into the wider energy transition while continuing to meet the objectives of the petroleum sector. And at international level, participants considered that the discourse should take into consideration the impact the energy transition will have on developing countries that have not yet had the opportunity to use their oil and gas resources to raise their prosperity.

### Key takeaways

- COVID-19 has affected oil and gas production, caused layoffs and halted licensing rounds, but oil companies have found ways to continue operating, thanks to local goods and services.
- There is a need to strike the right balance between enforcing local content requirements and remaining attractive to investors. It is important to use local content laws and contractual obligations to allow local suppliers to grow and become competitive in the global supply chain.
- Local content policies need to focus on skills within the oil and gas sector that will be transferable to the rest of the energy sector.
- Governments should stay focused on the country's agenda for development, its plans for the sector and local needs, while understanding how the country will adapt to the global energy transition.
- The energy transition will happen at different paces in different regions. There is a need to consider the impact of the energy transition on developing countries that have not yet had the opportunity to use their oil and gas resources to reach their development goals.

### Government discussion on lowering methane emissions, gas flaring and carbon footprint

Discussions around reducing the carbon intensity and emissions of oil and gas projects highlighted the importance of early establishment of supportive policies and regulations, ongoing commitment to them and building the capacity to enforce them. A rush to market risks infrastructure failures (e.g. in compression and processing of gas), and leads to ad hoc flaring that the government has no choice but to allow. Participants discussed the importance of sequencing infrastructure development to support the capture, transformation, transport and use of gas onshore, in line with regulation.

Discussions also highlighted that there should be incentives for oil and gas companies to sell gas to the domestic market – and to pay for the processing and transmission infrastructure. However, the price needs to be low enough to be affordable to the domestic power companies. It can be hard to get this balance right, but it is worth looking at different country models. There was interest in moving to a fee-based structure ('polluter pays'), whereby companies are compelled to be innovative and to get the infrastructure right from the outset and the government can receive cash for environmental breaches. As for reinjecting associated gas in oil producing reservoirs, it is necessary to understand the geology and to have a plan for reservoir management. In one producer country, reinjection caused damage to wells; although production issues are now fixed, this took time and limited reserve recovery. Participants also discussed whether regulations and penalties on their own were sufficient, or whether more commercialization of gas could be necessary to stop flaring, as has been done in Nigeria (and not yet done in the US's shale production).

### Key takeaways

- These issues indicated that they had not yet developed regulations that addressed this issue and would rely on existing Environmental Impact Assessment requirements until they have done so. Others reported that they are still working to refine the role of the Environmental Protection Agency.
- The ability to monitor and independently measure gas flaring was raised as an issue in new producer countries. One producer country noted that cooperation with the Petroleum Commission helped the Environmental Protection Agency do that.

- The rush to begin production (fast-tracking) was identified as one of the barriers to effectively limiting flaring.
- Capturing methane is easier and cheaper than is stopping venting and flaring – and immediately accessible to emerging producers.

## Government discussion on using petroleum revenues to fund a resilient economy and environment

How and when to reinvest revenues from the oil and gas sector is a central issue for many new producers. Participants agreed that these revenues can and should be used to diversify the economy and protect the environment. Public investments aim for social returns and require thoughtful strategies.

Discussions concerning how petroleum revenues are to be spent or saved should start as early as possible: this is important in helping avoid social and political resistance. Plans should be transparent, so members of the public understand how they will benefit from these revenues, as well as the limits of what can be accomplished.

### Key takeaways

- Countries need to develop strategies to align the oil and gas sector with the broader development of the economy and with the energy transition, so that the sector can become a bridge to a more sustainable future.
- Managing expectations is more crucial than ever. Consider how to communicate the risks and benefits from the oil and gas sector.
- Establish policies and regulations to reduce production emissions at an early stage, and back these up with a firm commitment and capacity to enforce them.
- Countries need fit-for-purpose strategies for reinvesting petroleum wealth to benefit social, environmental and economic development. Petroleum revenues should be used to diversify the economy.
- Discussions over revenue investment and spending should start as early as possible, and the process should be transparent. The national budgeting process, if it is robust, is an effective tool available to all countries to allow transparent review of spending priorities.

## Conclusion

The economic and market impacts of the COVID-19 pandemic have hit the petroleum sectors of emerging producer countries hard. With the exception of those countries with new, exciting discoveries and those with low-cost production, emerging producers are struggling to keep their petroleum sector plans going. They face low investor interest in licensing, reluctance to sign off on new projects, and slowed development.

In the wake of the 2010–14 exploration boom, there has been a growing realization among the member countries of the New Producers Group of the vulnerability of their sector to market shocks and, more recently, to the anticipated decline of the petroleum sector caused by the energy transition. The government discussions highlighted some apprehension about the changes that lie ahead, and concerning how to adjust to them, but also an intensifying appetite to discuss strategies for addressing these challenges.