

# Implications of the rising NOCs for the IOCs and the industry

## A Chinese Perspective

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Hello, everyone,

Now I would like to cover three topics at the panel.

- I. Some comments on Asian NOCs including CNPC and other peers;
- II. Cooperative models for NOCs-IOCs;
- III. How to working together to deal with some key issues facing the industry.

### Some Comments on Asian NOCs

Now starting from the first topical comments on rising Asian NOCs. Rising Asian NOCs is really a topical issue. The reasons behind one's concerns are multiple: (1) access to reserve or enhancement of reserves replacement, (2) performance or revenue issues, (3) serious competition realities, and (4) political issues involved. There are huge different views on these issues between IOCs and NOCs, especially on some issues like profit-seeking and revenue utilization by these NOCs, their social obligation and political motives. Many IOC executives and experts touch upon these issues from conventional views and standards. Dr. Peter Evans listed a point yesterday, say, caring little profit as one of characteristics of NOCs. As matter of fact, majority of NOCs are caring much of profits they generated if we review almost each NOC case study, although profit may not be a single out factor mattering most for some of them.

Furthermore, if we realistically review each NOC, the result is that these NOCs are absolutely NOT stand for a single model and hard to be grouped up. Recently, Financial Time along with some advisory firms cited advocate New Seven Sisters or some one called Seven Brothers embracing Saudi Aramco, Gazprom, CNPC, NIOC, PDVSA, along with Petrobras and Petronas.

In fact, NOC is falling into a very diversified group, varying from country to country. To have a better understanding of all of them, we should distinguish them in real term. For me, I would like to divide them into following four groups at least.

1	<b>Relations with Politic</b>	Political tool or weapon	Corporate entities
2	<b>Commercialization</b>	Commercialized NOCs	Non-commercialized ones

3	<b>Playing fields</b>	NOCs act as it is in home countries	Act as IOCs or in many host countries
4	<b>State-owned</b>	Fully owned	Partly-owned

We should explore our targets with care of distinction of these different groups. And Asian NOCs we discussed at this conference are, more or less, commercialized, actively operated worldwide comparing with home focused Aramco or PDVSA. This is some methodological matter we ought to take care.

In this part, I would like to add a few words about the CNPC as I have been observing for 24 years from now. Very briefly speaking, CNPC overseas investment has mainly been driven by low reserves/production ratio and up-growing home demand. There was no political push behind at its early entry. Relations between CNPC and its government are clear. CNPC is a player, government is its parents instead of its coach. So far, CNPC is growing independent oil company in the international arena. CNPC is fully seeking for a broader access to reserves and profit thereafter. CNPC is applying international practices and pursuing win-win or multi-win solutions, both region wide and worldwide. CNPC is committed to enhancing oil investments, technology transfer and production in some tough countries. CNPC takes its part caring local social welfare and sustainable development. Currently, we are working on compliance with global resource governance as well.

These are additional comments to our yesterday's discussion. Back to this panel discussion, I would like to explore two issues about an implication of the NOCs to the IOC and the industry as a whole.

### **Competition or Cooperation**

Competition between NOCs and IOCs is almost everywhere and will continue to be so. However, there are two areas where the both parties have to or can cooperate closely:

- (1) Cooperation in NOCs' home countries, and
- (2) Cooperation in many host countries against the harsh investment climate.

Currently, IOCs are facing widely spreading changes in oil legislation and policy setting in NOCs' home countries. Among some of these changes are nationalization or re-nationalization, break-up of existing contracts, and strengthening of tough fiscal terms in favor of host government. IOCs for now have to negotiate and then re-generate new strategies to tackle these unexpected challenges. Venezuela is a critical testing field for many IOCs at this moment, esp. for oil majors now. Oil Majors are taking "wait and cooperate" attitude and I believe they have to come to term for long-term presences. As Dr. Ed Morse said, they would be big losers if they quit Orinaco belt. Be sure, in this regard, NOCs, in their home countries, are absolutely rule makers. Oil majors have no choice but negotiating and taking their rules wisely. Otherwise, these majors find

themselves nowhere to leave for huge alternatives now, strategically speaking.

Now talking about cooperation in host countries, every foreign oil company is IOC, either competing each other or cooperating. Oil majors enjoy their strength in technologies, exploration and development of giant fields and huge infrastructure projects around the world. In contrast, NOC originated foreign oil companies hold a series of advantages and disadvantages. Their stable and traditional relations with host countries are critical to compete with other IOCs. In addition, they are dedicated or committed for long-term extraction and development in host countries that highly appreciated by host countries in Africa and South America including Ecuador for instance. In this regard, we can and should explore possible cooperative ways for IOCs. I joined Baker Institute's NOC study team last year and attended their report release and Stanford University's NOC discussion workshop last month. I started to explore some cooperative models for cooperation. I listed some models below for cooperation between NOC originated foreign oil companies.

Project based models	Prevailing
Expertise sharing model	CNPC-Petronas
Strategic oriented models	CNP C-Gazprom, Rosneft, Statoil
Technical support models	Intl consortia in Kuwait
Risk mitigation models	Many consortia
Competition reverse models	CNPC-ONGC
Cross-investment models	CNPC and Aramco
Politics motivated models	PDVSA cooperation with its ally

I am, at CNPC, also exploring some possibilities for cooperation between NOC originated foreign oil company and western oil majors. We discussed many times in house on the issues.

### **Working Together**

Moving to evaluate the impact on the industry, I am feeling our industry today is facing several key challenges or hardships. I summarized some points below:

- (1) Clash of Age as coined by Houston based investment banker Matthew Simmons when he spoke to us in Shanghai 2004, simply meaning that "supply is too old and demand is too young". Access to new strategic reserves and non-conventional sources is destiny related issue for the industry, especially for IOCs.
- (2) Limited spare capacity and infrastructure, both outdated and planned, deserves huge investments.
- (3) New game between capital and resources against high oil pricing yields tough oil policy setting in many host countries.
- (4) Looming changing global energy system. There are several influential industrial rule-makers including IEA, ECT and Guinea Principles. NOCs are not rule makers out side of their countries.

However, it is a fact that NOCs are getting more and more influential on rule making processing as growing players and increasingly important stakeholders. They started to challenge or alter some contractual structure prevailing since the 1990s and launched the new game in favor of resources holders. Venezuela wants full oil sovereignty as touted. Some NOCs and their governments even lined up as virtual Gas Opec and set NOC Forum to raise their voices. CNPC is preparing next NOC Forum in Beijing for your information.

It is a really critical time for both NOCs and IOCs to sit down or even calm down for close dialogue on key issues facing the industry, emphasizing:

**1. Open access to reserves**

NOCs or Seven Brothers take their parts in opening access to strategic reserves while Four Sisters remained and other sisters do their parts in technology innovation.

**2. Huge investment commitments and transfer of technologies**

Oil Majors and other IOCs should continue to commit to huge investments and technology transfers under sound legislation and fiscal system, while host countries have to generate favorable cooperation framework.

**3. Sound cooperative model and contract**

All parties have to work closely and explore possible cooperative models good for to their survival and thriving.

**4. An establishment of global energy system.**

We know CERA voiced it is the time bring China and India into global energy system. I doubt this possibility because of uncertain global energy system without guarantee of energy security for most developing host countries. Just list several obstacles or hurdles ahead: (1) lack of energy data transparency and statistical reform, (2) low participation in rule making process by host countries, (3) no open dialogue and committed actions like comment action to global climate change.

Sorry for the very brief points without detail description. I will be very happy to discussed and cooperate with all parties involved. At last, I would like to extend my thanks for invitation and this opportunity.

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