

# **Role of contractors in [the] NOC development**

# Introduction

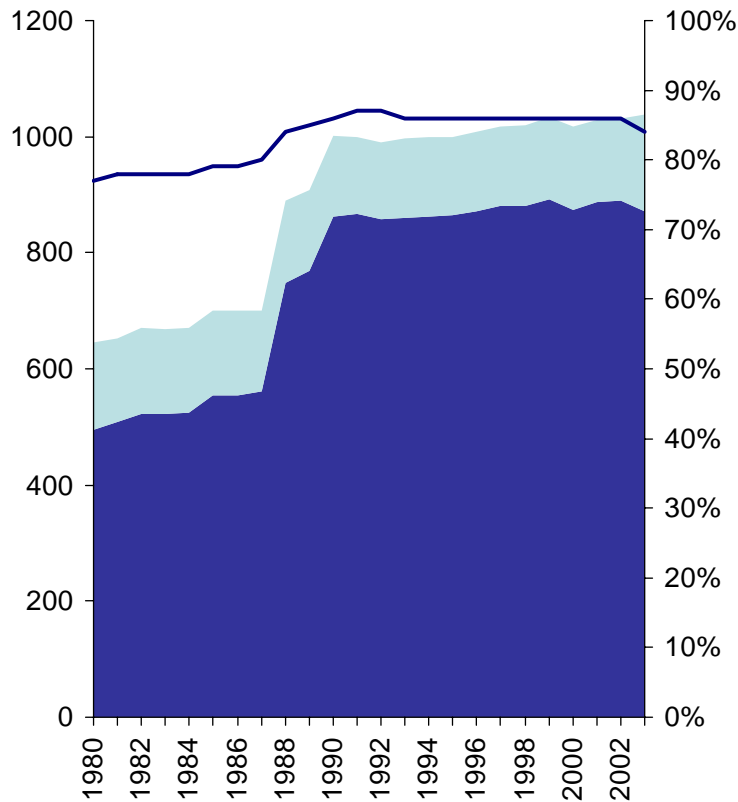
- National oil and gas companies are playing a vital role in national economies and in supplying the world with energy resources
  - High percentage of budgetary revenues from the oil and gas sector
  - Jobs
  - Foundation for long-term economic growth
- Key factors in the NOCs' growth are efficient development and the addition of reserves
  - Growing complexity of reserves
  - Increasing costs to develop and add reserves
  - Additional requirements for expansion of the transportation infrastructure

# Conditions necessary to increase the efficiency of developing and adding to reserves

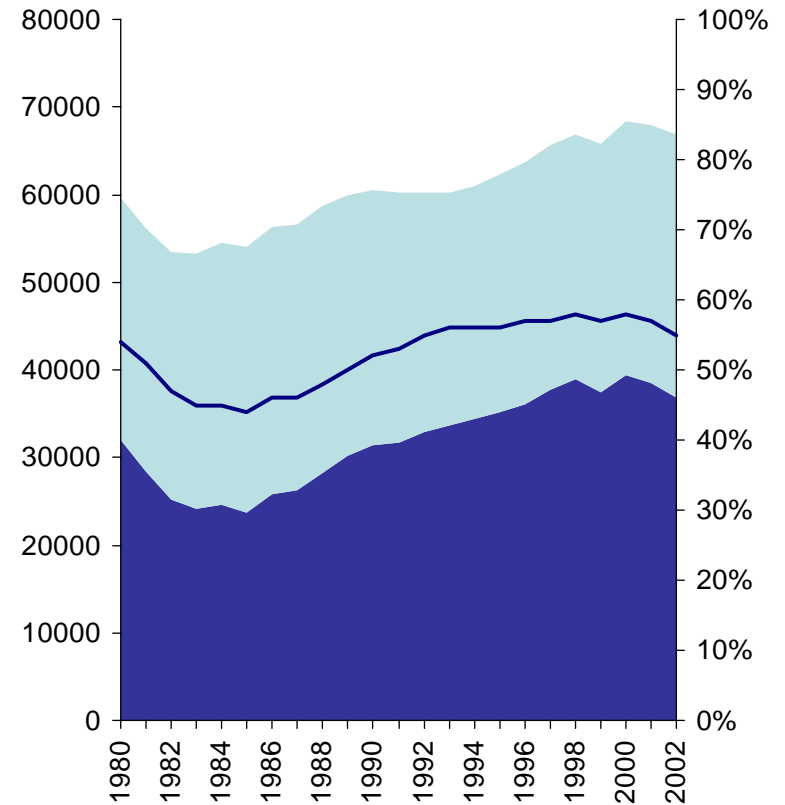
- Investment resources
  - Despite the profitability of the oil and gas sector, NOC investments are limited by the government's growing budgetary needs
  - The growing complexity of reserves creates additional need for investments
- High-quality information and modern data processing infrastructure
  - For most NOCs the problem is not the lack of high-quality information, but of information management
  - Without significant competitive pressure, NOCs usually lag behind commercial companies in information technology
- Technologies
  - The use of new technologies that ensure adequate return on capital investment is a necessary condition for the development of NOCs
- Qualified personnel
  - The growing complexity of reserves and the need to use new technologies and modern methods to manage all processes in an oil and gas company create additional demands on personnel

# For most NOCs, the key tasks are to expand output and add to reserves

## Reserves (billion barrels)

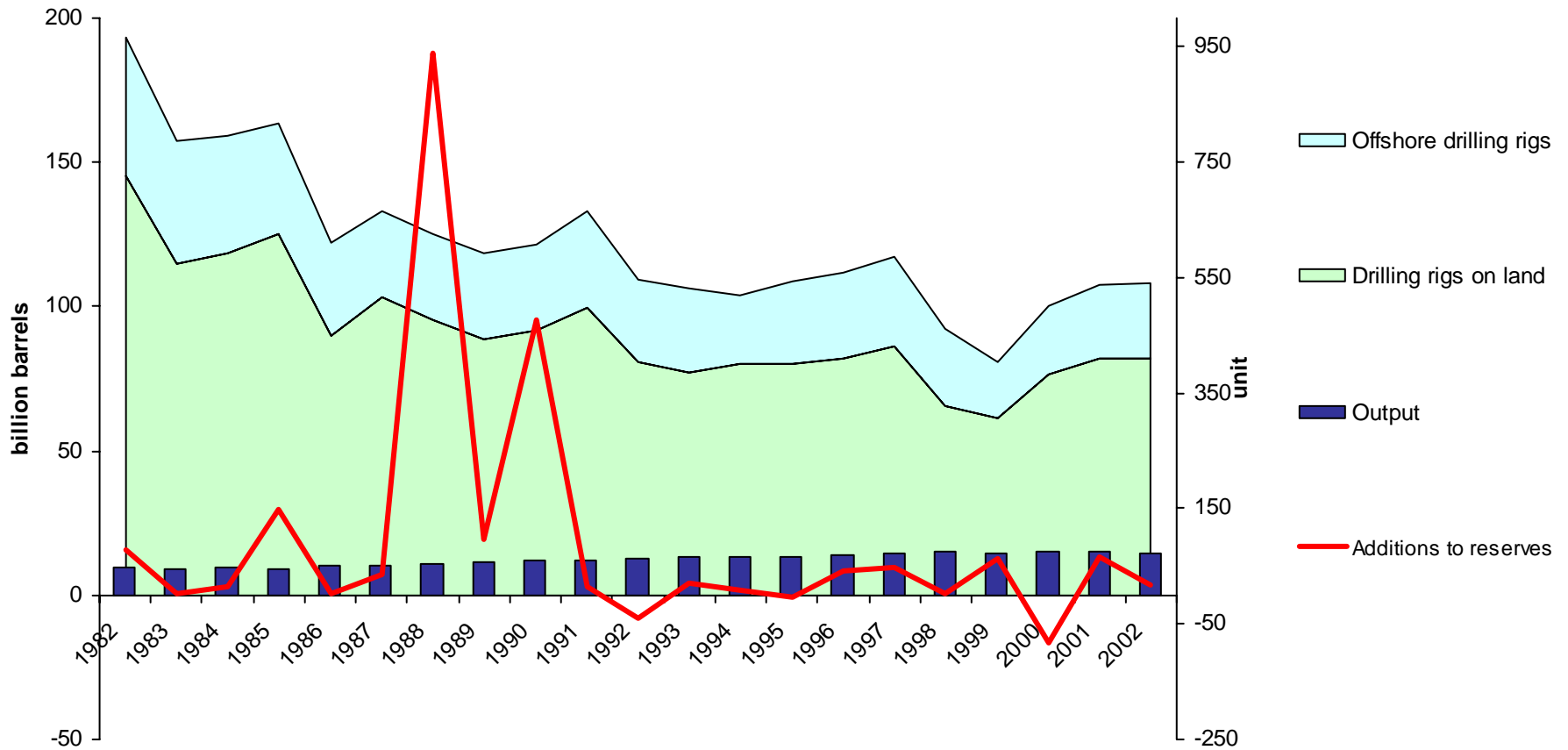


## Production (thousand bpd)



Source: Energy Information Agency

# Most NOCs need to increase output and reserves more quickly while increasing the efficiency with which they use fixed productive assets



Source: Energy Information Agency, BHI rotary rig count

# One of the most effective ways to solve the problems facing NOCs is the balanced use of service companies

- Create a competitive environment
  - Using service companies increases the NOC personnel's motivation to achieve good results
- Transfer technologies
  - New, developed technologies that have proven their effectiveness worldwide are becoming available to NOCs
- Transfer project management skills
  - Project management is a key factor in increasing efficiency, and NOCs can significantly increase their own efficiency by adopting project management skills from service companies
- Risk management
  - Using service companies lowers the NOCs' operating risks

# NOCs and service companies have complementary strategic goals

## National oil company

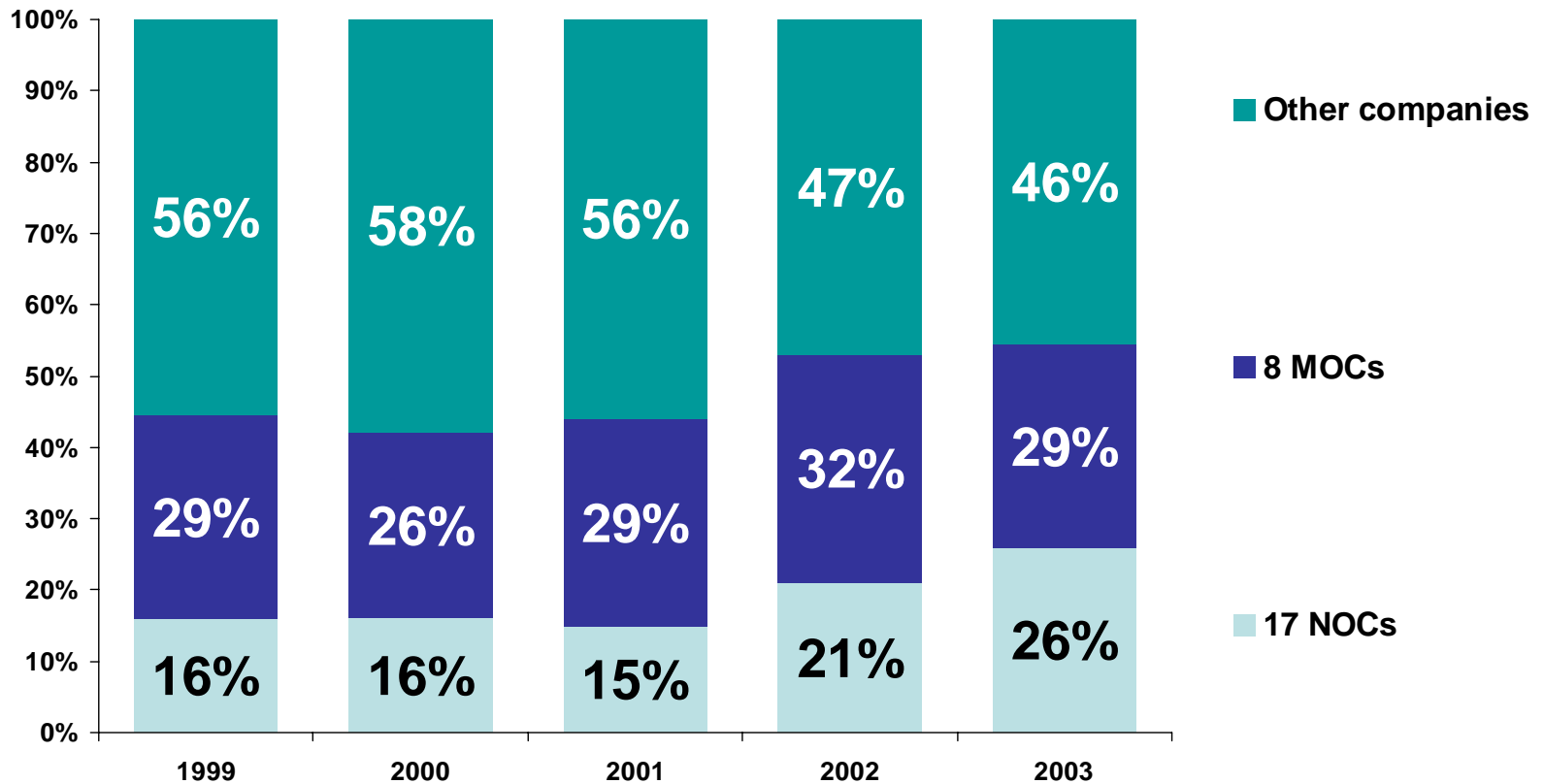
- Increase share of export markets
- Meet the economy's energy needs
- Provide sustained and growing income to the national budget
- Improve company efficiency to meet world standards
- Ensure additions to reserves
- Lower operating risks
- Efficient and safe hydrocarbon production and refining

## Service company

- Grow business
- Increase yield on invested capital
- Develop technologies that increase oil production efficiency
- Specialize in sectors and certain segments
- Reduce market-induced income fluctuations

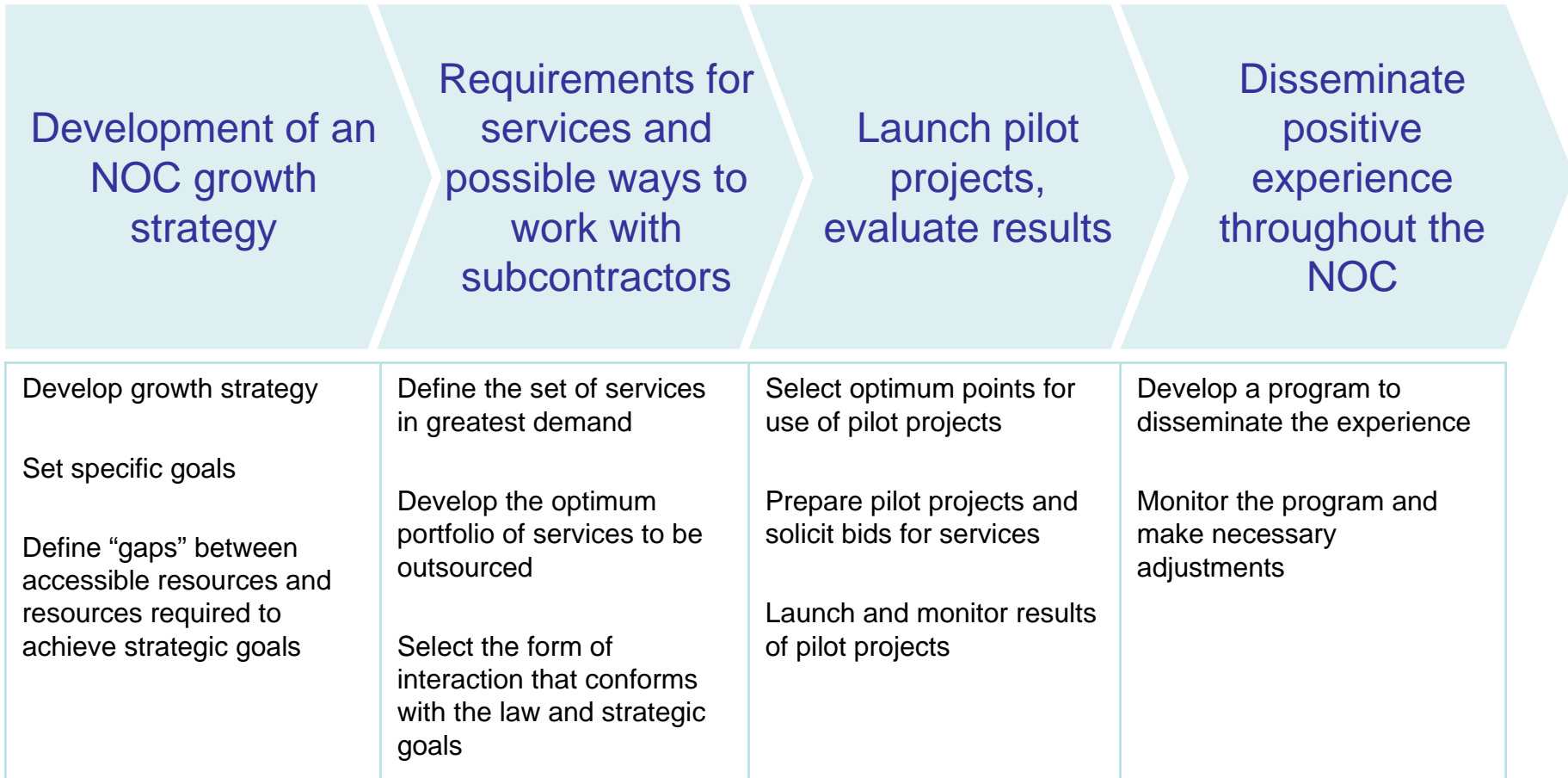
# NOCs, which possess 86% of reserves, play an increasing role in the business of service companies

## Breakdown of Schlumberger Earnings



Source: Presentation by Schlumberger

# One of the most effective ways to solve the problems facing NOCs is a balanced policy on using service companies



# Approaches to interaction between NOCs and service companies (1)

- **Service contract**
  - One-time, for specific kinds of work
  - Executed through a bid, direct negotiations
  - Minimizes risk for service companies (payment for work completed)
  - Used mostly in stable and developed markets
- **Strategic Alliances**
  - Long-term, for integrated work
  - Executed through a bid, direct negotiations
  - Minimize risk for service companies and provide a broad range of activities compared to a one-time contract
  - Widely used in the oil and gas sector in different countries
- **Joint Ventures (JV)**
  - JVs are a more complicated, integrated form of service cooperation compared to service contracts and alliances
  - Three major elements that distinguish a JV from other forms: joint property, joint management, joint allocation of income and risk
  - High risk for service company
  - Widely used in the oil and gas sector in different countries

# Approaches to interaction between NOCs and service companies (2)

- **Joint Financing Agreement**
  - Foreign partner acquires a block of shares in the national service/oil and gas company in exchange for a commitment to perform services
  - Company management, income and risk allocated according to parties' equity stake
  - Limited application, primarily in countries where the oil and gas sector is under the scrutiny and control of the government
- **Agreement on Foreign Partner's Full Participation**
  - Full financing of the contract work by the foreign partner and sharing of risks for the results
  - Usually used to explore poorly studied areas if the foreign partner is granted:
    - Preferential rights to obtain the operating license in the future
    - The right to freely sell (with the recipient) geoscience information resulting from the contract work
  - Limited application, mostly in countries where the oil and gas sector needs investments for exploration
- **Acquisition of foreign technologies, materials, equipment, training for NOC personnel**

# Conclusion

- Turkmenistan's oil and gas sector faces the task of significantly increasing hydrocarbon production and reserves
- Turkmenistan's oil and gas sector is already working with several contractors
- Involving foreign partners in national service is a decisive factor in the modernization of the oil and gas sector, the introduction of modern management methods, the training of local personnel and, as a result, the growth in hydrocarbon production
- Expanding cooperation will help accomplish these tasks and increase the efficiency of national oil companies