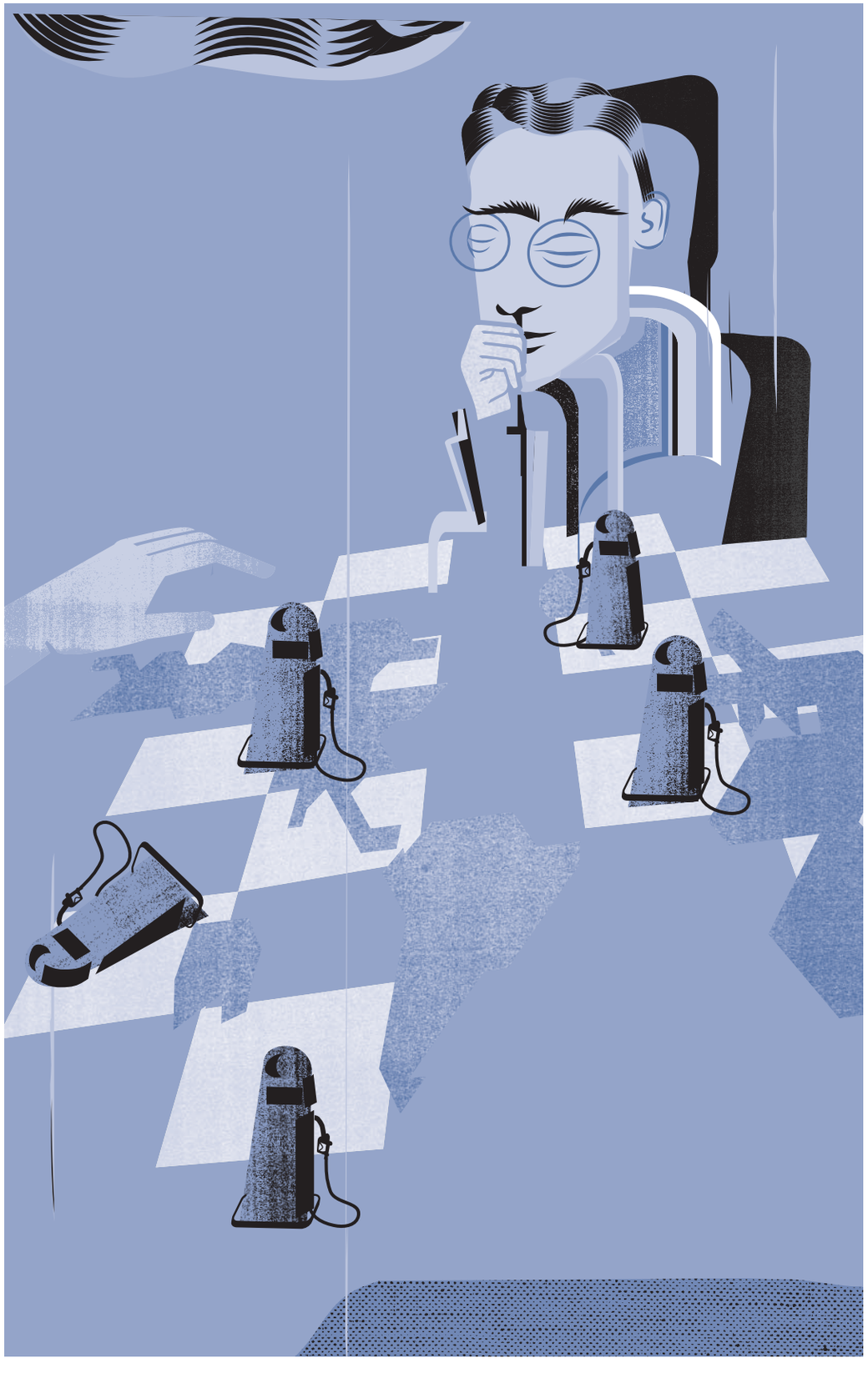



# The Resurgence of Petro-Nationalism

*Rodolfo Guzmán, Santos Cohen, Román Vélez*

**Various regions of the world have recently seen a resurgence of nationalistic trends regarding access to oil reserves. The authors explore the drivers behind this renewed push towards petro-nationalism and discuss the key implications and challenges of this trend for international oil companies, national oil companies and non-oil businesses in a world where the large majority of hydrocarbon resources are owned by states.**

Recent years have seen interesting changes in the interactions between international oil companies (IOCs) and the host governments and national oil companies (NOCs) that own or control hydrocarbon reserves. While many countries with modest oil and gas resources are making efforts to attract a larger share of international exploration and production investments, several of the countries endowed with large petroleum resources are moving in quite the opposite direction. These nationalistic trends in the wealthiest petro-nations can be observed in different regions of the world. They take the form of increased participation of the state in the oil and gas industry, rises in tax and royalty levels, revisions to existing contracts and possible expropriation of assets. At the same time, several NOCs are increasingly engaging in international expansion strategies and competing strongly for scarce investment opportunities around the world. This should also be of interest to executives outside the oil and gas business, as the trends and lessons explored here can easily be extrapolated to any other industries where globalisation forces are in effect.

Over the last five years, several hydrocarbon-rich countries which had previously opened their doors to international investors have shown a desire to expand the role and share of wealth of the state in their oil and gas industries, reducing the share of foreign participants. Some examples in this category include Russia, Venezuela and Bolivia. Other countries like Argentina, which privatised their oil industries during the 1990s, have now decided to recreate their national oil companies. And in countries such as Saudi Arabia, Kuwait and Mexico, which have been toying with the idea of opening their oil industries to foreign investment for some time, the political debate around these issues is intensifying.

These recent trends towards increasing nationalism in the global oil and gas industry represent a departure from the wave of privatisations and openings that prevailed in the sector during the late 1980s and most of the 1990s

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(see exhibit 1). The examination of recent events in different regions helps to identify the symptoms and characteristics of these nationalistic trends (see "Petro-Nationalism around the World" on the next page). The Middle East accounts for over two thirds of global hydrocarbon reserves and therefore has tremendous strategic importance for the IOCs. All major oil companies would like to eventually regain a foothold in this region. However, two of the largest countries in terms of reserves - Saudi Arabia and Kuwait - remain largely closed to foreign investment. In Russia the state is gradually strengthening its control of the oil and gas sector while avoiding outright nationalisation. Meanwhile, in Latin America several countries (particularly Venezuela and Bolivia) have recently moved in the direction of increased state participation in their energy industries.

Exhibit 1 **Changing Trends in Host Government Postures**

| Nationalisations 1950s-1970s | Increasing private participation 1980s-1990s | The turn of the tide 2000-2005 |
|---|---|---|
| China-CNPC. 1950 | Argentina: YPF privatisation. 1992 | Venezuela: 51% state participation. 2005 |
| Iran-NIOC. 1951 | Bolivia: YPFB capitalisation. 1995 | Argentina: creation of a new NOC. 2004 |
| India-ONGC. 1959 | Argelia opening. 1991 | Bolivia: New hydrocarbon law/ change to existing contracts. 2005 |
| Argelia-Sonatrach.1963 | Venezuela opening. 1991-1997 | Russia: 51% state participation. 2003-2005 |
| Norway-Statoil. 1962 | Azerbaijan opening. 1996 | Kazakhstan: New tax structure. 2003 |
| Libya- NOC. 1970 | Brazil opening. 1997 | Saudi Arabia: Elusive opening of the oil sector |
| Kuwait-KPC. 1975 | Spain: Repsol Public offerings.1987-1996 | Mexico: Intensification of political debate over private participation |
| Venezuela-PDVSA, 1975 | Italy: ENI, transform to a join-stock. 1992 | Iran: Increasing nationalistic sentiments |
| Angola-Sonagol 1976 | Norway: Statoil Public offering. 1999 | Kuwait: Postponement of "Project Kuwait" |

Source: John S. Herold, Inc, analysis by Arthur D. Little





**Petro-Nationalism around the World**

**The Middle East**
Saudi Arabia and Kuwait remain largely closed to foreign investment and it is unclear whether they will modify their nationalistic views to open their doors again to foreign oil companies. Iraq and Iran have both allowed foreign participation in their upstream sectors, but foreign investment continues to be limited due to the highly unstable political situation in these countries. Only the United Arab Emirates and Qatar have reached out to foreign companies for assistance and provide a relatively stable business environment.

**Russia**
With the implementation of a new subsoil law this year, foreign access to the most desirable hydrocarbon assets will be especially restricted. In future auctions of "strategic properties", the government will retain the right to exclude the participation of any joint ventures that do not meet the minimum requirement of 51 percent Russian ownership. A separate amendment limits the total amount of foreign investment to 30 percent of Russia's strategic oil reserves, and existing legislation retains a 70 percent local content requirement for equipment and 80 percent local labour on all production-sharing agreements (PSAs).

**Latin America**
In 2001 Venezuela approved a new organic law for liquid hydrocarbons (fully implemented in 2005) to replace the 1975 legislation that had nationalised the oil industry. The main changes introduced in the exploration and production sector are the limitation of private participation in any project to 49 percent of the total capital, an increase in royalties to 30 percent (compared with 16.6 percent under the previous law), and an income tax rate of 50 percent (formerly 34 percent for private companies involved in operating agreements or strategic associations). Bolivia, a country endowed with significant natural gas reserves, also approved a new hydrocarbon law last year, which significantly increased the government's take (raising total taxes to 50 percent) and returned ownership of hydrocarbons at the wellhead to its NOC YPFB (Yacimientos Petrolíferos Fiscales Bolivianos).

## NOCs Go International

While IOCs are facing tougher times getting access to hydrocarbon resources around the world, many NOCs are starting to aggressively deploy international strategies. It is estimated that close to one third of the 120 NOCs in the world have business interests outside of their home country.

*The internationalisation of the NOCs creates further challenges for IOCs of different sizes. NOCs do not always respond to normal commercial pressures and are often willing to sacrifice profits in pursuit of their strategic interests.*

There are several reasons why NOCs are competing abroad. The most important is the need of some large and rapidly growing economies, such as China and India, to secure their long-term energy needs with access to international hydrocarbon reserves. Other more entrepreneurial NOCs like Statoil and Petrobras go abroad to take advantage of the technologies or specialised know-how (such as deep-water operations) that they have developed at home. And then there are NOCs, such as Malaysia-based Petronas or PDVSA in Latin America, whose strategies are closely related to political and cultural advantages.

Exhibit 2 **Acquisitions by NOCs (2004 - 2006)**

| NOC | Country of origin | Target | Estimated amount ($US million) |
|---|---|---|---|
| CNOOC | China | Nigerian offshore field | 2,300 |
| CNOOC | China | South Atlantic Petroleum, West Africa Pipelines | 2,268 |
| CNOOC | China | Unocal USA, (failed) | 18,500 |
| CNPC | China | PetroKazakhstan | 4,200 |
| CNPC, Sinopec | China | EnCana, South America, Upstream reserves | 1,420 |
| Nippon Oil Corp | Japan | Devon Energy, Gulf of Mexico, Upstream reserves | 595 |
| Sinopec, Sonagol | China, Angola | Shell, West Africa, Upstream reserves | 600 |
| ONGC | India | PetroCanada's stake in Syrian oil fields | 288 |

Source: John S. Herold, Inc, analysis by Arthur D. Little

The internationalisation of the NOCs creates further challenges for IOCs of different sizes. NOCs do not always respond to normal commercial pressures and are often willing to sacrifice profits in pursuit of their strategic interests. Chinese NOCs, for instance, have made aggressive bids to acquire oil companies and international properties, aided by their access to low-cost capital from their government.





With the proliferation of regional alliances such as the PDVSA-led* "PetroAmerica", NOCs are often regarding other NOCs as the preferred partners for the execution of politically sensitive projects. For example, it has been speculated that if Mexico ever decided to seek help from foreign firms to exploit its potentially huge deep-water reserves, it would be politically more palatable to form a partnership with an experienced NOC such as Petrobras than with any of the major oil companies. The potential threat to sovereign rights is perceived as lower when the counterpart is another state because the energy cooperation can be placed in the context of a larger bilateral relationship between two friendly countries.

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## Why are Nationalistic Trends Increasing?

The resurgence of petro-nationalism is the consequence of a complex array of economic, technological, political and social developments that include global as well as regional and local dynamics. The specific causes of nationalistic trends and the way in which these trends are manifested can be very different in countries as diverse as Russia and Venezuela. There are, however, a few common factors that help to explain why an increasing number of nations are shifting towards stronger state participation in their oil and gas industries. We will stress three underlying drivers of these trends: higher energy prices, commoditisation of technologies and general disenchantment with the deregulation policies of the 1990s.

### Higher energy prices

The most important force behind the resurgence of nationalistic trends in the global oil and gas industry is undoubtedly related to the increase in the level of hydrocarbon prices in recent years. As the rent generated by the exploitation of oil and gas resources has increased significantly, it is only natural for nations to aspire to a larger share of this windfall. Several countries have dealt with the fluctuations in oil prices by developing progressive fiscal regimes in which the government's take automatically increases when commodity prices go up. Others,

* Petróleos de Venezuela Sociedad Anónima.

however, have implemented more radical reforms, including changing their hydrocarbon laws and revising existing contracts to obtain an immediate increase in the government take. These reactions are usually perceived by foreign investors as a violation of their contractual rights, and they are sometimes attributed to an entrenchment of nationalistic attitudes and behaviours in the host country. The governments, on the other hand, believe they are only exercising their legitimate rights to appropriate a fair share of the wealth and allow their citizens to benefit from the oil bonanza.

Exhibit 3 **Crude Oil Price Trends**

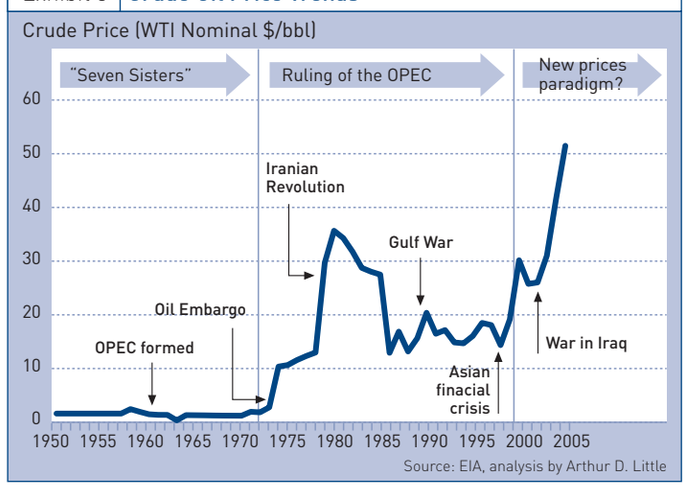


Exhibit 3 traces oil prices over the last 55 years. It is interesting to note that widespread nationalistic tendencies were also observed during the 1970s when oil prices were hitting record levels. In 1975, for example, countries such as Kuwait and Venezuela decided to nationalise their oil industries. However, the relatively low level of oil prices during most of the 90s, exacerbated by the crisis of the Asian economies in 1998, eventually forced many countries to liberalise their energy markets and encouraged them to compete more aggressively to attract foreign investment into their cash-strapped industries.

Oil prices are also a determining factor in the level of capital investment of the NOCs. When prices are relatively low, governments tend to extract a higher portion of the NOCs' cash flows in the form of taxes and dividends to finance much-needed public spending. This can leave the NOC in a precarious financial condition, and hence foreign oil firms are desperately needed to bring the capital required for the development of large investment projects. However, when oil revenues are high, NOCs are allowed to reinvest a good portion of their cash flows, and countries can significantly reduce their dependence on foreign firms in capital investment projects.

*An overwhelming focus on efficiency improvements during the 1990s led most of the largest oil firms to reduce their levels of research and development expenditure. As a result, the major oil companies started placing more emphasis on technological collaboration and outsourcing, and the ability to assimilate and deploy new technologies became more important than invention and ownership.*

**Commoditisation of technologies**

Increasing commoditisation of technologies in the global oil and gas industry is also contributing to the spread of petro-nationalism. In the past, ownership of proprietary technologies was a critical differentiating factor for the major oil companies, particularly in the upstream segment. Technological advances led by the oil companies were a major driver of improved performance during the 1980s and 1990s. For instance, breakthroughs in exploration and production techniques allowed oil companies to get access to offshore resources in extra-deep waters, significantly increase oil recovery from existing fields and reduce geological uncertainty with the use of 3D seismic methods.

Despite the tremendous importance of technology in value creation, an overwhelming focus on efficiency improvements during the 1990s led most of the largest oil firms to reduce their levels of research and development expenditure. Significant cost pressures, a wave of mergers and the increasing difficulty of protecting technology leadership gave way to new philosophies about the role of R&D as a competitive tool in the oil and gas industry. As a result, the major oil companies started placing more emphasis on technological collaboration and outsourcing, and the ability to assimilate and deploy new technologies became more important than invention and ownership. At the same time, large service firms such as Schlumberger and Halliburton have been investing heavily in improving their technological capabilities. In this new environment, it is much easier for cash-rich NOCs to get access to critical technologies through such service firms, while further reducing their dependence on foreign oil firms for the execution of technically challenging projects.

*The impact of all these drivers must be seen against the background of a shift in expectations about long-term hydrocarbon availability due to diminishing exploration success and faster-than-expected depletion of the world's largest oil fields.*

**Political and social disenchantment**

Another factor contributing to the resurgence of petro-nationalism in recent years is the disenchantment with the neo-liberal policies that were enforced in several places with the support of multilateral institutions such as the International Monetary Fund. While these policies contributed to successful economic reforms and vibrant private sectors in several countries, in other places, such as Argentina, Venezuela and Bolivia, the long-term outcomes were not quite as expected. Rushed privatisations, sudden elimination of trade barriers and poorly planned deregulation of markets in many cases led to greater levels of social inequality and popular discontent. As a consequence, new governments with fundamentally different ideologies have been elected in some countries and the banner of nationalism has become popular once again in political discourse. For instance, Argentina, which privatised its national oil company (YPF) during the early 1990s amidst a wave of market liberalisation policies, decided in 2004 to recreate a new national oil company with the name of ENARSA. This recreation of the NOC was in part due to the government's desire to intervene in the domestic energy markets to prevent situations of abuse arising from the oligopolistic positions of a few private players.

The impact of all these drivers must be seen against the background of a shift in expectations about long-term hydrocarbon availability due to diminishing exploration success and faster-than-expected depletion of the world's largest oil fields. Tensions around the control of energy resources are producing various self-reinforcing effects including:

1) heightened concerns in the most powerful nations regarding their long-term energy security;
2) increasing perception of potential political and military conflict around the major petroleum regions; and
3) stronger manifestation of petro-nationalistic trends around the world.

The combination of these elements creates a vicious cycle by putting additional upward pressure on the price of hydrocarbons.





## The Implications of Petro-Nationalism

**Challenges for the global oil and gas industry**

In a world where approximately 80 percent of the total hydrocarbon resources are owned or controlled by states and NOCs (see exhibit 4), the resurgence of nationalistic trends can have significant consequences on the dynamics and flows of international investments in the oil and gas industry. For instance, securing access to new sources of abundant oil or gas reserves is becoming an ever-increasing challenge for most IOCs. In fact, several oil firms are struggling just to replace the volumes of hydrocarbons they are currently producing, and with few big oil fields left to be discovered, they are being forced to venture into riskier and harsher environments. The balance of power is therefore shifting in favor of NOCs.

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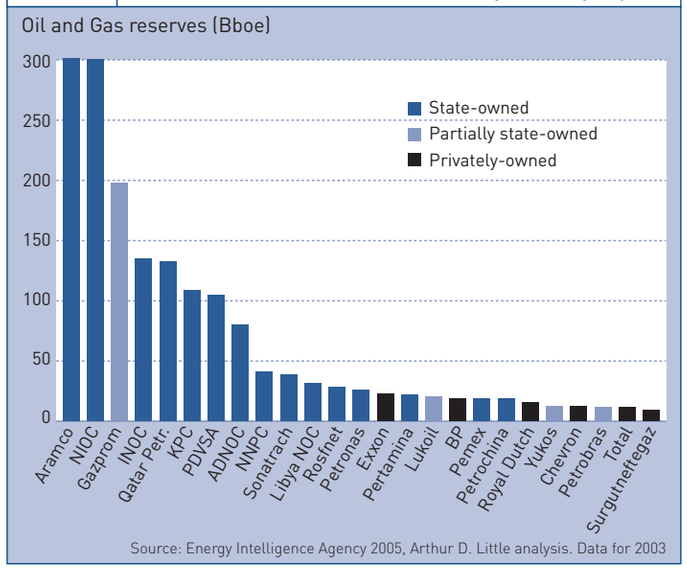
Exhibit 4 **Proven World Oil and Gas Reserves per Company**




Source: Energy Intelligence Agency 2005, Arthur D. Little analysis. Data for 2003

IOCs also need to be able to book reserves, or at least share in the profits of their oil developments in order to keep their shareholders happy. However, this is becoming increasingly difficult in places such as Mexico, where emotional arguments about the ownership of hydrocarbons are rooted in historic events and deeply connected to expressions of national sovereignty.

Meanwhile, contractual rights over oil and gas are becoming increasingly vulnerable in various parts of the world. In Venezuela and Bolivia, for example, new hydrocarbon laws can overrule the validity of any contractual condition granted under previous regulatory schemes. This presents a new challenge for IOCs, which now need to reflect the increased level of political and contractual risk in their investment equations.

*In this challenging and unpredictable global environment, it will be critical for IOCs to be able to differentiate themselves with offerings that go beyond the traditional provision of capital and technology.*

The implications of petro-nationalistic trends also extend to the arena of foreign policy. In Russia, for instance, the state is using its increasing oil power as a bargaining tool in its relations with the major superpowers of the United States, Europe, China and Japan. Venezuela is also capitalising on its enormous oil reserves to increase its influence in Latin America and attempt to displace the United States as the dominant player in the region's politics.

## Insights for IOCs

In this challenging and unpredictable global environment, it will be critical for IOCs to be able to differentiate themselves with offerings that go beyond the traditional provision of capital and technology. Issues such as local development, employment creation, protection of the environment and communities, training of local staff and transfer of know-how will be more than ever present at the negotiation table, gaining critical importance in the agendas of host governments. In some cases, personal relationships and ideological affinity can supersede the benefits of technological superiority when competing for access to hydrocarbon resources. Although there is no clear recipe for success in this complex and challenging new world, we believe that there are some basic common-sense - although often ignored - rules that can help the IOCs improve their chances of survival. Some specific suggestions include:

**1. Invest wisely in local development**

Several countries around the world are already demanding high levels of local content for large oil and gas developments. In places where the domestic construction and services industries are still undeveloped, the IOCs need to work out detailed strategies to provide appropriate training as well as technical and financial support to local vendors and contractors. This usually requires a completely different approach to project management, demanding greater managerial attention and effort than the traditional projects where most of the work was contracted out to a reputable international engineering, procurement and construction firm. International players with a long-term business view should consider these strategies as an investment in their own success, as the local workforces they are training will be the enablers of more efficient and productive operations in the future (see BP's Cannonball example in Trinidad and Tobago).

**2. Support NOCs with their social objectives**

For many NOCs around the world state ownership means that there is no clear distinction between achieving their business and commercial goals as an enterprise and contributing to the social and policy objectives of their governments. In fact, these apparently contradictory objectives often coexist in the scorecard that is used to measure management performance. While this concept may be anathema to a profit-driven IOC, it is not surprising that many NOCs expect their foreign partners to pitch in towards the achievement of their country's social goals. Therefore, rather than worrying about the typically marginal impact that a higher level of community investment will have on the rate of return of their projects, IOCs should look for ways to maximise the impact that these investments can have through a closer alignment with the stated social goals of the host governments.

**3. Be open-minded, but without compromising transparency**

IOCs need to be open-minded, flexible and sensitive to the needs of different stakeholders in their host countries even when these requirements extend beyond traditional business boundaries. However, IOCs should never give up their right to specify and make transparent the type and amount of resources that they are willing to commit for these purposes. Full transparency will always be beneficial to both parties. The NOC needs to know how well it is

performing commercially and how much is being contributed to its communities and other national goals. Such knowledge also provides the IOC with an opportunity to quantify and disclose its specific contributions, strengthening its public image.

**4. Learn local history**

The IOCs will need to pay much closer attention to the real needs of their host governments, and they will have to develop a much deeper understanding of the historic, social and political factors that affect the decisions of the resource holders. IOCs should carefully evaluate issues of high political sensitivity during the early planning stages of their energy development projects, identifying solutions that are acceptable not only to the governments in place but also to the population at large. Witness the recent failure of a proposed project to export Bolivian gas through a Chilean port, which eventually contributed to the overthrow of the Bolivian government.

*IOCs should carefully evaluate issues of high political sensitivity during the early planning stages of their energy development projects, identifying solutions that are acceptable not only to the governments in place but also to the population at large.*

**5. Pay greater attention to risks above the ground**

While many IOCs pay a great deal of attention to the subsurface and technical risks of their international exploration and development projects, very often they tend to ignore or miscalculate the political and macroeconomic risks associated with these investments. In some cases the IOCs base their investment decisions on misconceptions that arise from outdated information or a poor understanding of the current situation, and this can also make them miss potentially attractive opportunities. For these reasons it is critically important for the IOCs to include in their portfolio evaluations a thorough and objective analysis of all the local, regional and national risks, particularly when they lack an established presence in the target country. The idea that every risk involves an opportunity should always be present. In more closed and discretionary business environments, the barriers to entry can be high, but once these barriers are overcome the competitive intensity tends to be lower than in more open markets.





**6. Refine negotiating skills**

With the balance of power shifting in favor of host governments and NOCs, it has become apparent that IOCs will need to develop more tactful and diplomatic approaches in their quest for new hydrocarbon resources. This is a game that can require some degree of humility as well as a lot of patience and perseverance, but the IOCs need to keep their focus on the long-term benefits. To guarantee successful and longstanding relationships with the host governments, IOCs need to deploy teams with the power and skills to deal effectively with a myriad of delicate negotiation issues, adapt to often-changing interlocutors and respond to potentially disruptive situations.

**7. Reinvent the expatriate model**

Most of the largest oil companies still employ a traditional management approach based on using expatriate teams to conduct business in key target countries. High-level business development executives are often rotated among different international assignments with typical durations of between two and five years. In many cases these executives do not speak the local language and are completely unfamiliar with local culture and traditions. Anecdotal evidence suggests that these kind of executives can be ill-prepared to deal with the new challenges and complex demands of nationalistic governments. IOCs should therefore try to establish more permanent teams in countries with high strategic relevance, making room for seasoned locals in the top positions of their local organisations. The goal should also be to establish a merged culture by exposing the local talent to international experience and corporate indoctrination, thereby capturing the benefits of both worlds.

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**8. Develop a friendly image**

As examples in several industries indicate, foreign companies can be the target of hatred and even violence when strong nationalistic sentiments erupt in politically volatile countries. Oil companies' typical strategies to protect themselves against these type of situations involve keeping a very low profile, avoiding contact with the pub-

lic and maintaining high levels of security at their installations. However, these conservative approaches can backfire when the company has not made any effort to develop a friendly image, particularly with the surrounding communities at the field level. Several examples among smaller and less conventional IOCs demonstrate that a more open and friendly attitude towards local citizens and communities can prove to be a more effective strategy in the long term.

**9. Find the right partner**

*While it is important for IOCs to develop business relationships at different levels with their key counterparts (the NOC, the ministry of energy, the hydrocarbon agency, regulatory bodies, etc), it is even more critical to fully identify the key decision-makers and understand what their main decision levers are.*

In an environment tinted by nationalistic attitudes bringing to the table a partner with the right pedigree can make a huge difference to the quality of relations with the authorities. In some cases this partner could be another IOC from a country with a friendlier government or a more suitable ideological stance. In others, IOCs could make a successful move by partnering with an NOC as an entry vehicle to a third country where that NOC has relationship advantages. A third and perhaps more attractive option for the IOC is to partner with a local player, thus supporting the host government's objectives of building strong national industrial capabilities.

**10. Focus your attention on the key decision-makers**

In many petro-nations, the power to accept or reject foreign proposals regarding energy developments can be concentrated in the hands of a few individuals. In some extreme cases, these decisions can even require the approval of the head of the country. While it is important for IOCs to develop business relationships at different levels with their key counterparts (the NOC, the ministry of energy, the hydrocarbon agency, regulatory bodies, etc), it is even more critical to fully identify the key decision-makers and understand what their main decision levers are. Special attention to details such as the educational and professional background, political ideologies, communication style and business or technical views of the key local decision-makers can help an IOC identify additional selling points or avoid potential roadblocks even before the start of a project negotiation.





**Successful IOC Approaches**

**BP: Supporting the development of a local construction industry in Trinidad and Tobago**

BP expects that it will need to build a dozen offshore platforms over the next 20 years to expand its oil and gas activities in Trinidad and Tobago. When the company initiated its recent Cannonball platform project, it established as one of its main goals providing support for the development of a local platform construction industry. To achieve this the company aimed at maximising local content and participation in every phase of the project, training nationals in engineering, procurement and construction management services and establishing a local manufacturing site. This collaborative approach is fully aligned with Trinidad and Tobago's aspirations to achieve developed-country status by 2020, while BP hopes to be able to boost its business development opportunities and future profitability in the country.

**Chevron: Cultivating political relationships in Venezuela**

*Chevron in Venezuela is a good example of an IOC understanding the main issues when dealing with foreign governments.*

IOCs have been facing a very difficult business environment in Venezuela in recent years. Not only have contract terms been revised, but the companies have also been presented with retroactive bills for tax and royalty payments. Key projects under negotiation for several years have been cancelled or restructured to accommodate re-stated national interests. In these turbulent waters, Chevron seems to be doing better than many of its peers. The company has been investing in maintaining strong relationships with government officials at the highest levels and has demonstrated skillful diplomacy and tact when dealing with politically sensitive issues. Chevron has also established its Latin American headquarters in the Venezuelan capital Caracas and has reiterated several times its long-term commitment to Venezuela and the region. Today Chevron remains one of the largest foreign investors in Venezuela and was recently awarded a new offshore exploration block in the western region.

## Insights for NOCs

Although NOCs in large petro-states may feel that the balance of power has recently been tilting in their favour, they could realise significant additional gains by paying closer attention to a few critical elements in their interactions with IOCs.

**1. Capitalise on selected capabilities of IOCs**

NOCs need to recognise their technical and managerial limitations when dealing with new challenges associated with very large and complex operations in areas such as ultra-deep water or large-scale development of non-conventional resources. Although technology is becoming more accessible to a wider number of industry players, the technical know-how and specialised expertise of an IOC can sometimes be very difficult to replicate. It has taken decades for the major oil companies to develop core competencies and assemble highly qualified management teams in a few selected areas. BP, for example is well known for its capabilities and superior performance in frontier exploration, while Shell excels in secondary recovery. These are precisely the types of skills that can bring a great deal of value to any NOC when properly deployed through a mutually beneficial partnership.

*NOCs also need to keep looking for the right balance between protection of their national sovereignty and promotion of an efficient and thriving energy sector in their home countries.*

As an example, Kuwait has for several years been enjoying significant production volumes from easy-to-exploit giant oil fields. However, a few of these large fields are approaching the point where more advanced technologies and sophisticated know-how will be needed to improve recovery factors and offset production decline. For these reasons the government has proposed a project, still under discussion in parliament, to invest some $8.5 billion, with the support of foreign oil companies, to double the production of its northern fields in 20 years.

**2. Think long term and aim for the right balance**

NOCs also need to keep looking for the right balance between protection of their national sovereignty and promotion of an efficient and thriving energy sector in their home countries. This requires visionary managers with a strong ability to interpret national sentiment and the courage to ride on often bumpy roads. But, as the examples of Norway and Brazil illustrate, it is possible for the state to maintain a strong role in the energy sector in a way that does not exclude the benefits of competition and foreign participation.

*More and more business models in any given industry consider partnering a fundamental pillar for success. Partnering aims to build and sustain competitive advantage by enabling easier and faster combination of capabilities as well as risk-sharing.*

**3. Team up for success**

Regardless of whether the trends discussed in this article intensify or diminish in coming years, it is important for both IOCs and NOCs to realise that finding a successful long-term approach to their inter-dependence will be crucial to ensuring their success. IOCs will continue to need to identify and secure attractive project opportunities in order to satisfy the growth appetite of their shareholders, while NOCs have to attend to the increasing needs of their multiple local stakeholders by finding a balance between short-term satisfaction of national objectives and efficient long-term development of their hydrocarbon resources. To find an answer to these apparently conflicting objectives, both groups should pay more attention to the factors involved in any successful business partnership. More and more business models in any given industry consider partnering a fundamental pillar for success. Partnering aims to build and sustain competitive advantage by enabling easier and faster combination of capabilities as well as risk-sharing. These goals need not be any different in the relationship between an IOC and its counterpart NOC, but for their partnerships to succeed these actors need to build mutual trust and establish clear contractual arrangements and regular communication vehicles around a common set of well defined objectives.

## Insights for Non-Oil Businesses

The multiplicity of challenges faced by IOCs and NOCs around the world, and the analysis of the way in which the leading oil industry players are accommodating their strategies to respond to these challenges, can generate very interesting lessons for firms from many types of industry involved in international investment activities. One area of particular interest for executives in non-oil sectors would be to study the evolution in the concept of

partnership between international investors and resource-holders when dramatic changes are suddenly introduced in the rules of the game.

On the other hand, nationalistic attitudes that germinate around hydrocarbon ownership issues can easily extend into other industry sectors, impacting on the business interests of multinational firms. The newly elected government of Bolivia, for example, has announced its intention to regain control not only of the oil and gas firms that were formerly privatised, but also of the firms that had been privatised in other sectors such as telecommunications. Legal disputes between governments and foreign oil companies over hydrocarbon contracts could also lead to erosion in the credibility of the whole judicial system, potentially affecting the stability of regulatory frameworks in other industrial sectors. For executives outside the oil sector it is also important to closely monitor the manifestations of petro-nationalism in the markets they serve.

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