



CHATHAM HOUSE



GOOD GOVERNANCE OF THE NATIONAL PETROLEUM SECTOR

Good Governance Workshop III: Consolidation

Date: 1-2 June 2006

Venue: British Academy, 10 Carlton House Terrace, London SW1Y 5AH

The Good Governance project

In 2005, Chatham House and CEPMLP launched an initiative on good governance of the national petroleum sector, which works closely with the governments of oil and gas producing countries, their national oil companies and other stakeholders to establish principles of good governance and guidelines for best practice. Petroleum sector representatives from 16 producing countries took part in the first two highly successful workshops in which we discussed the major governance issues facing oil and gas producers, established five principles of good governance and examined several country-specific case studies in-depth.

Workshop summaries, case studies and further information on the project can be found at www.chathamhouse.org.uk/sdp/goodgovernance.

Aims of workshop

The 3rd workshop, hosted by Chatham House at the British Academy in London, will flesh out the key issues of contention over organization and practice in the sector. While we have gained broad consensus over *principles and objectives* and certain rules of best practice, there will be variations on implementation and the bodies that should have oversight. The level of economic dependence on oil, presence of governing institutions and the NOC's level of sophistication and capability are going to be important elements in determining the quality of governance position and pace of change. The goal of this final workshop is for all stakeholders to define where they are now, the ultimate position they want to be in and how to move up the good governance curve. To this end, we have asked participants to be prepared to contribute and promote debate in each session. Discussions will assist the drafting of 'The Chatham House Document on Governance Issues in the National Petroleum Sector' to be finalised over Summer 2006.

Participants will be a high-level group of 35-40 professionals and policy makers from major producing countries.

AGENDA

Day 1 – Thursday 1 June

8.30 - 9.15 Tea & coffee

9.15 - 10.00 INTRODUCTIONS

10.00 - 13:00: SESSION 1: ROLES AND RESPONSIBILITIES OF ACTORS IN THE NATIONAL PETROLEUM SECTOR

Clarity of goals, roles and responsibilities between agencies in the petroleum sector is the first requirement of good governance. This session looks at the present trends in NOCs development, how roles are changing and how the sector will need to adapt and respond to these changes.

Presentation: **Dr. Valerie Marcel, Chatham House**

The changing role of the NOC

- *How and why is the NOC mission changing over time?*
- *How does internationalization change the NOC's mission?*
- *Corporatisation is not a universal trend. Why are some NOC missions becoming increasingly national?*

11.00:11:30 - Coffee break

The influence of outside actors in decision-making

- *To what extent do private shareholders lead to changes in the governance system for the NOC?*
- *Under what circumstances can board members external to the NOC and government (such as union representatives, deans of universities or private sector directors) play a positive role in decision-making?*
- *What is the best political representation in Boards or SPCs (senior politicians, multiple ministers)?*
- *Under what conditions can the involvement from parliament be most effective?*
- *To what extent does IOC involvement in the country affect governance issues for the NOC?*

Regulation

- *Which bodies are best suited for oversight of the sector, for close or technical monitoring and for auditing of operations?*
- *Where has regulation been successful in improving the performance of operators?*
- *Are there cases where the NOC should be left to regulate its own activities?*

Lunch: 13:00 - 14:15

14:15 – 17:30: SESSION 2: ENABLEMENT OF THE NOC

For the NOC to work efficiently and maximize revenue for the government, it needs to be enabled. This session looks at how the NOC can be enabled financially, have a social mission designed to benefit rather than constrain the NOC's core business and the optimum balance of responsibility for contractual agreements between the NOC and government.

Presentation: **John Mitchell, Chatham House**

Financial freedom: Revenue and capital expenditure

- *What are the conditions under which self-financing and direct borrowing give the cheapest overall capital to the NOC and government?*
- *Can the NOC management have similar financial responsibility and enablement to IOC management? What are the conditions and limitations?*

15.30 – 16.00: Coffee break

National mission spending

- *How can government and NOC investment priorities be aligned?*
- *How is success measured, what allowance is made in its financial targets for social costs, is the NOC penalized for the cost of overruns or non-compliance?*
- *How can the transfer of prices and costs between NOC, subsidiaries and government be clearly identified (e.g in the case of fuel subsidies)?*

Competence

- *What internal processes can ensure that lessons learned from foreign competition or corporation are communicated through the NOC?*
- *Are there 'dos and don'ts' based on experience of working with foreign companies in JV's to maximise the gains in competence?*
- *How can the experience gained by seconded employees best be brought back to the NOC?*

17.30 - 18.30 Drinks reception at the British Academy

19.00: Dinner for participants at Grieg's, Bruton Place, Mayfair (Taxis will be provided from outside the British Academy)

Day 2 – Friday, 2 June

9:00 - 9.30: Tea and Coffee

9.30 - 12.30: SESSION 3: TRANSPARENCY AND ACCOUNTABILITY

The NOC is directly accountable to its shareholder (the government) and in some cases private shareholders. Developing effective mechanisms for making the NOC accountable are key to this session - this includes how to measure NOC performance and the channels of communication between NOC, the shareholders and society.

Presentation: **Keith Myers & Willy Olsen, Chatham House**

Benchmarking NOC performance

- *What are the most appropriate benchmarks, how can they be measured and do they vary from NOC to NOC? (e.g return on capital employed before tax and interest, reserve replacement, unit costs, output per employee, safety and environmental record).*

Accountability to the owners

- *How is the NOC board held to account? And how, in turn, are the management held to account?*
- *What is meant by 'independent audit' and to what accounting standards should NOC annual reports meet?*
- *How important is it to publish financial and operating reports on the lines required by companies with private shareholders?*

11.00 - 11.30: Coffee break

Accountability to society

- *What are the benefits and dilemmas of transparency in revenue payments, licensing, local content policies and NOC plans and strategies?*
- *How can the NOC management engage and respond most effectively to civil society and media concern? When do specialist NGOs impact on the sector?*

12.30 - 13.30: Lunch

13.30 - 15.00: SESSION 4: SUSTAINABLE DEVELOPMENT

Maximizing local content and investing in education and training are generally agreed to be positive contributions that the NOC can make in encouraging national development and economic progress in the non-petroleum economy. However, how best to achieve this without undermining the economics of the business remains debatable.

Presentation: **Prof. Paul Stevens, Centre for Energy, Petroleum and Mineral Law Policy**

Local Content

- *How is local content defined in practise? What definition is most beneficial in a given situation?*
- *Should targets be set by government or the market? Do voluntary targets get better results? Should local content influence the award of licenses?*
- *How can the effectiveness of a local content policy be accurately assessed?*

Strategic Importance of Education and Training

- *Under what conditions should an NOC engage in non-oil related education or training?*
- *How much should the NOC develop its education and training objectives in line with the country's as well as the company's needs? How can these be assessed and a budget agreed?*

Corporate Responsibility

- *How far do IOC's CSR programmes usurp what should be the role of government?*
- *How far is CSR a "bribe" to keep the local community on board and how far this would be better done by paying tax revenue directly to the local communities?*
- *The questionnaire responses often show a conflict between rhetoric derived from the 'national mission' and the reality on the ground. Does this reflect the growing pressures for commercialization?*

15.00 - 15.30: Coffee break

15.30 - 17.00: SESSION 5: CONCLUSIONS

This session will bring participants together to discuss the key messages from each session to be included in the final "Chatham House Document on Governance Issues in the National Petroleum Sector". We will also map out the next steps for disseminating the results of the project.

We would like to thank the following sponsors for their support and continuing involvement with the project. Please note that the project is guided by participants and the advisory committee and sponsors do not hold any special influence over its direction or content.



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