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The world financial crisis: Challenges to the extractive industries

By Willy H Olsen, senior adviser INTSOK

My presentation

- **The global perspectives**
- **The new drivers – led by China**
- **Where will the oil and gas come from in the future?**
- **The new competitive environment**
- **The Caspian play in the new financial world**
- **Concluding remarks**

The impact of global financial crisis



- The global economic crisis will have significant impact
- Lower oil prices and lower revenues will lead to higher focus on costs
- Oil companies are looking at their project portfolio - postponing investment decisions
- For oil importing countries – lower oil and gas prices are a major benefit
 - Worth close to 1000 billion dollars
- The fundamentals may not have changed – but when will we see a recovery?

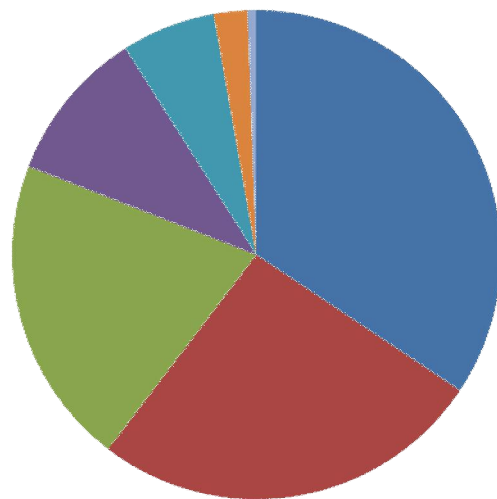
The first globalized gas glut

- **Gas prices in the United States have declined by two-thirds since last summer**
- **Europe's gas prices are declining rapidly due to the oil price link**
- **Six large LNG plants are due to come on line this year**
- **Asian and European countries importing gas are see demand slowing**
- **Gas markets are changing – growing LNG supply influences US and European markets**



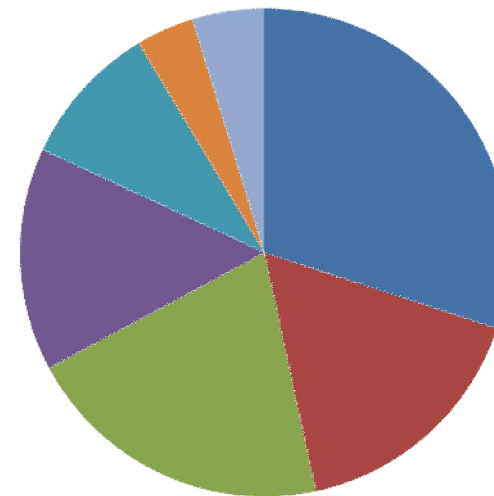
But the world will need more fossil fuels!

2008 – 80% fossil fuels



■ Oil
■ Coal
■ Gas
■ Biomass
■ Nuclear
■ Hydro
■ Renewables

2030 - 67% fossil fuels



■ Oil
■ Coal
■ Gas
■ Biomass
■ Nuclear
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■ Renewables

Source: IEA

Security of supply top of the agenda



**Securing energy
supplies**



- **Security of supply concerns led to the establishment of BP, Total and ENI**
- **Asia's challenge is to secure enough energy to meet future growing demand**
- **Asian NOC are expanding all over the world to secure access to equity oil and gas to reduce the risk**
- **Will they be the future super-majors?**

China is opening its deep pockets



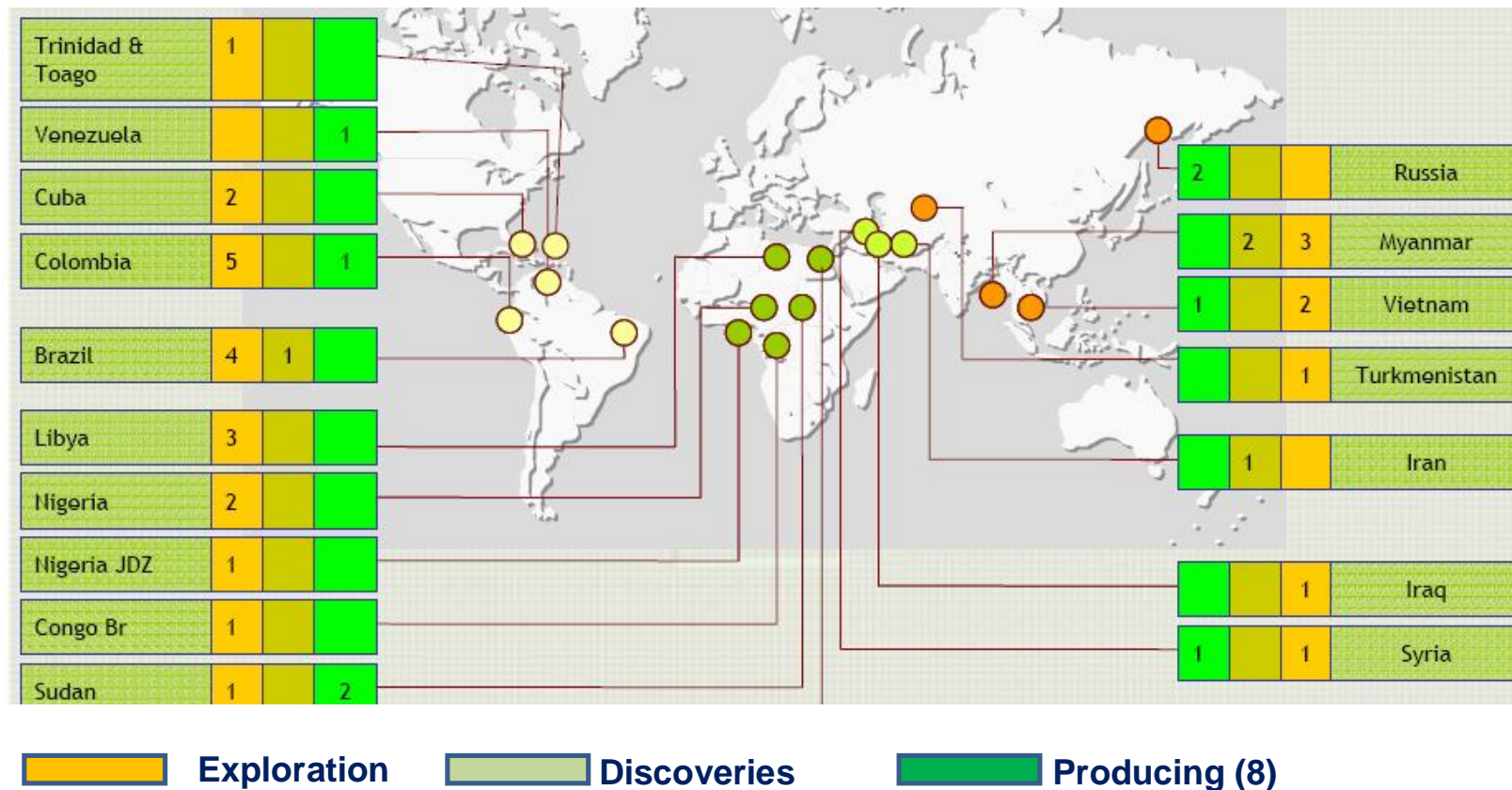
- China with its deep pockets is involved in extensive resource diplomacy.
- More than \$2 trillion in government reserves
- Major loan agreements with Russia
- Rosneft and national oil pipeline operator Transneft clinched a \$25 billion oil export backed
- Venezuela gladly accepted \$12 billion in return for pledging long-term oil supplies to the Asian giant
- Petrobras secured 10 billion dollars to finance its ambitious five year plan
- New deal with Kazakhstan for 10 billion dollars

South Korea looking for assets abroad



- **South Korea's president, Lee Myung-Bak, has also told his national oil company that now is time to buy**
- **Looking to acquire a medium sized player**
- **Promised 3,5 billion USD in infrastructure investments, including power plant in Iraq for access to oil fields**
- **Promising major investments in Turkmenistan**

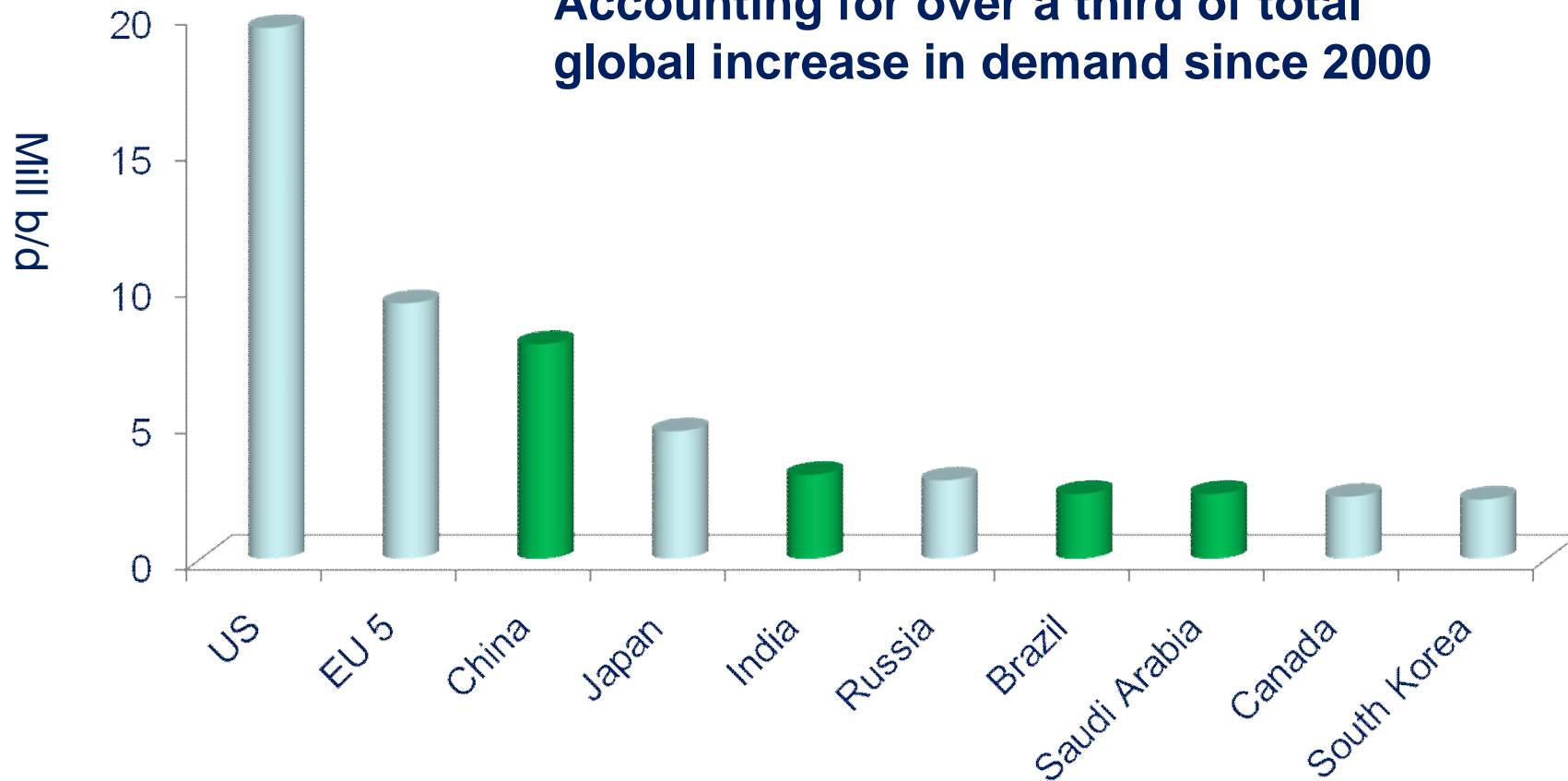
India's international expansion



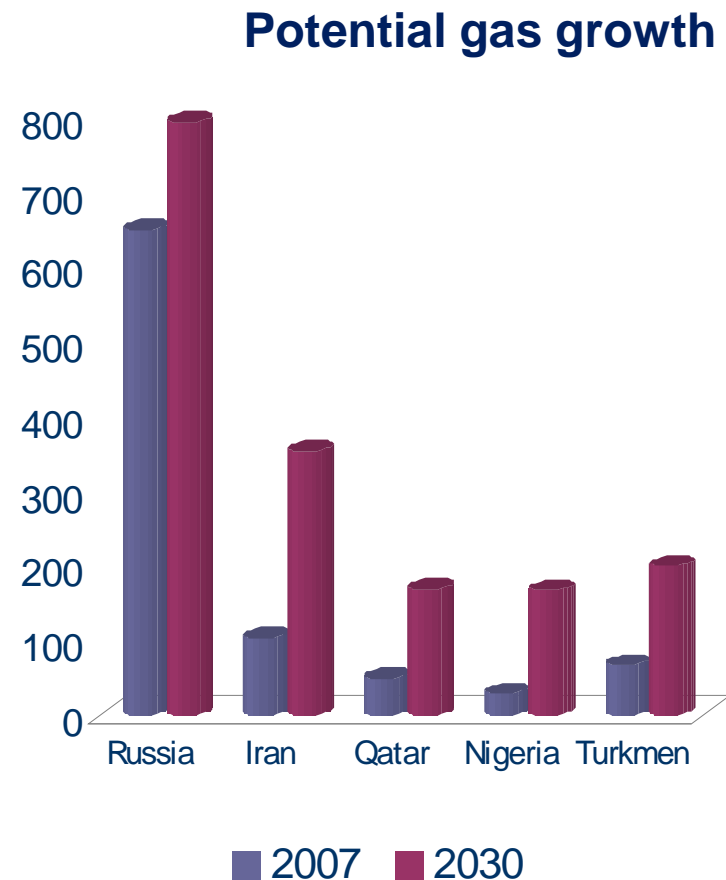
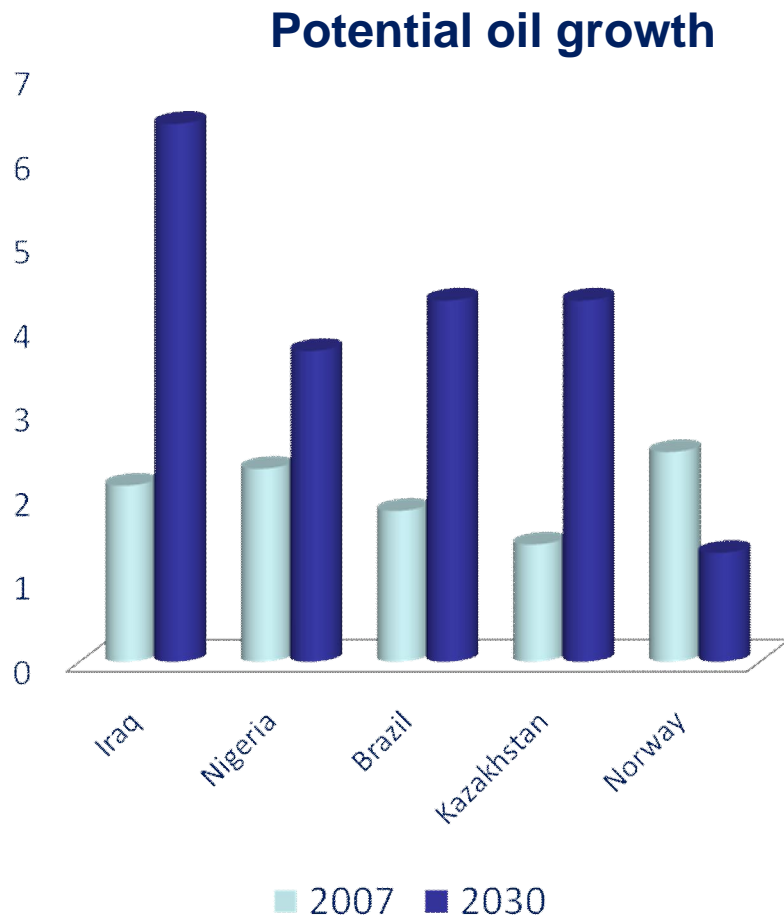
ONGC Mittal signed MoU with Kazakhstan in 2005 – became HOA in 2009 for the Satpayev block in the Caspian

Where will oil consumption grow?

**China has been driving oil demand
Accounting for over a third of total
global increase in demand since 2000**

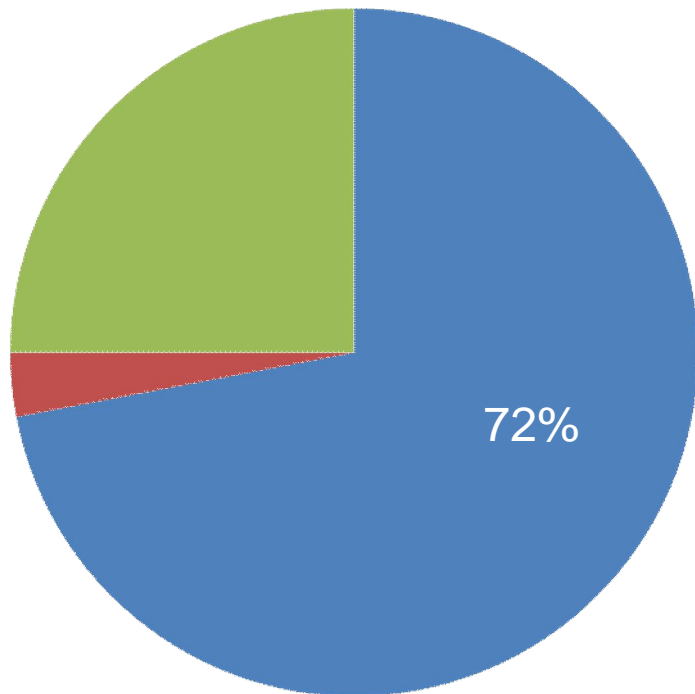


Where can oil and gas production grow?



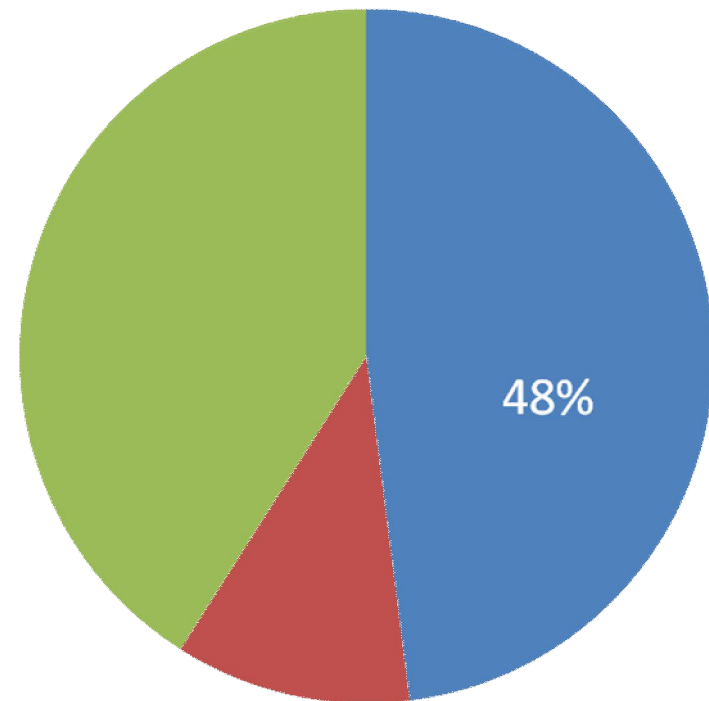
NOCs share of reserves and production

Share of reserves of oil and gas



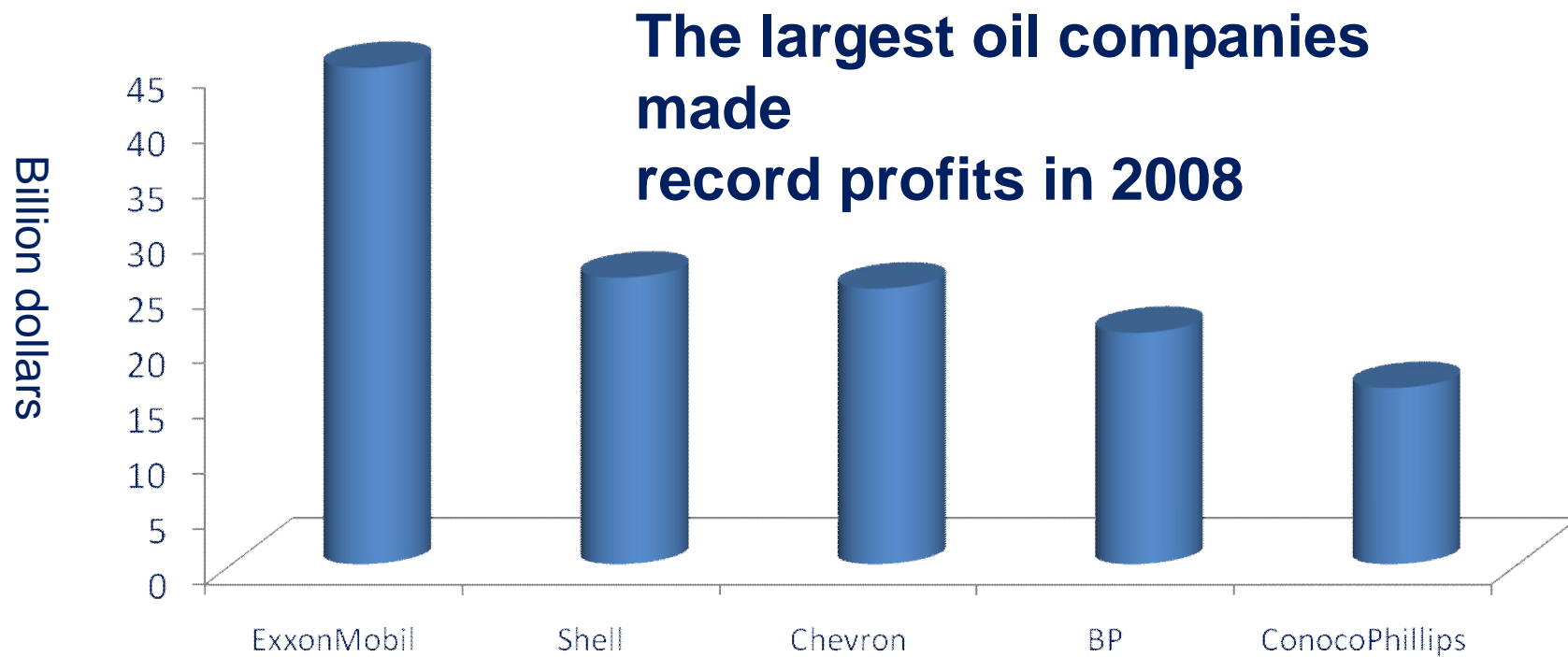
■ NOCs ■ Super majors ■ Other IOCs

Share of production of oil and gas



■ NOCs ■ Super majors ■ Other IOCs

The super major will see profits declining



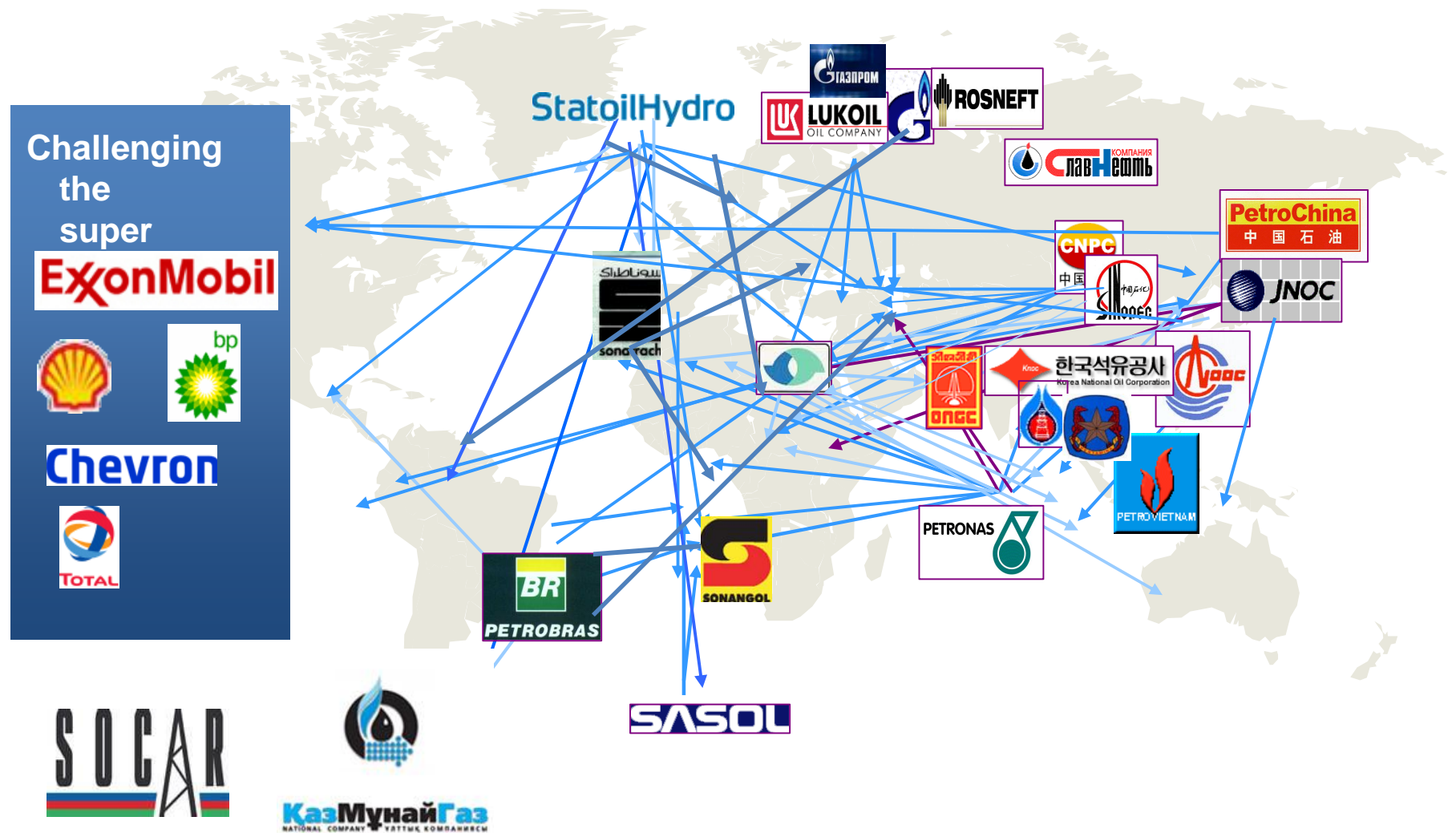
NOCs are maturing and building expertise



- **More than 100 NOCs around the world**
 - They control most of the reserves
 - Many are cash rich thanks to the oil price
 - But they are very different
 - Many are heavily politicized
 - And very many are very inefficient
- **Many still need IOCs to do the job, but will influence contract decisions.**
- **Many are keen to develop their own competence**
- **Company culture is not always dominated by commercial behavior**



But they are increasingly going abroad





**Let me turn to
Caspian**



My perspective ten years ago

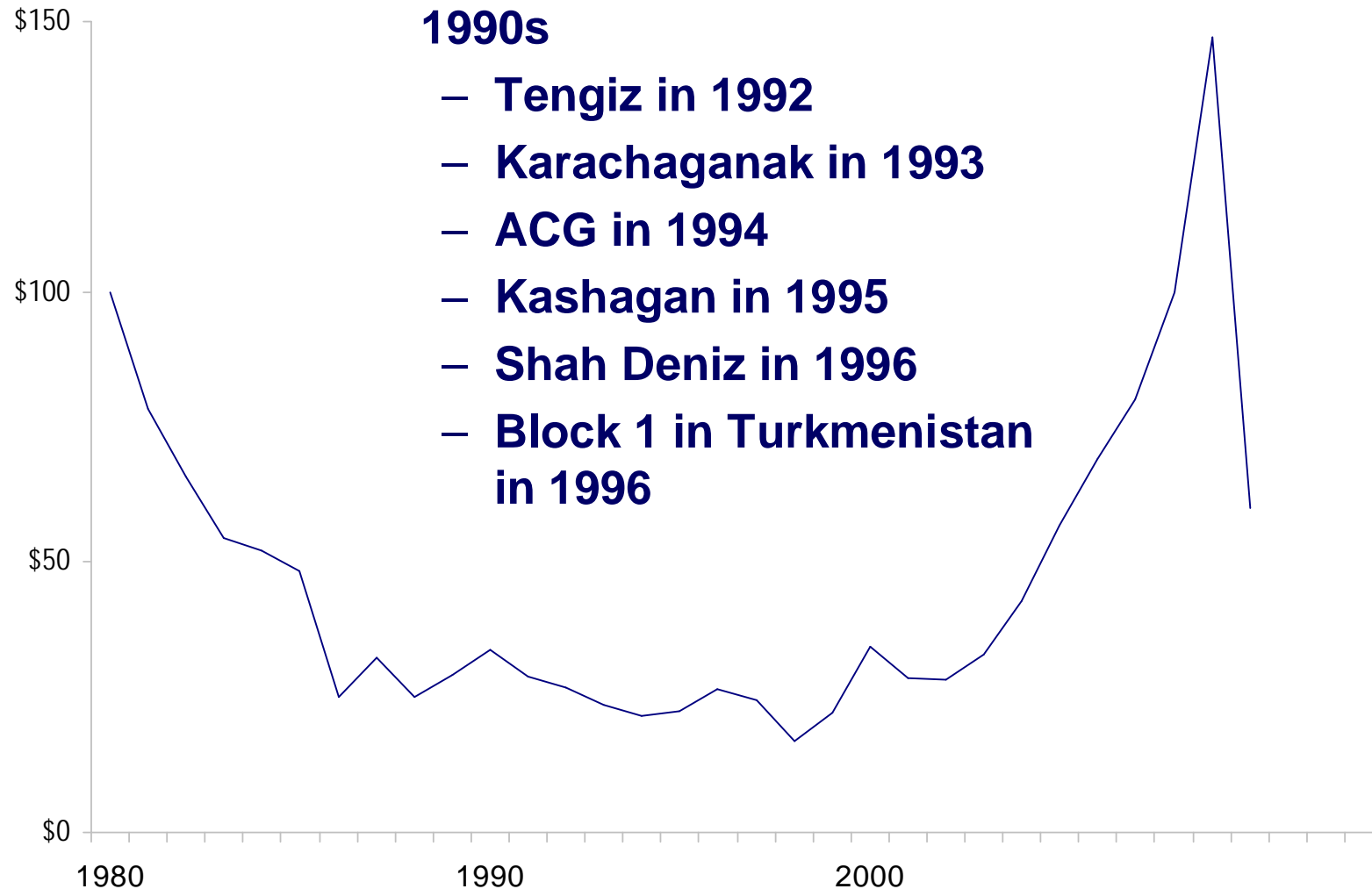
- *“Caspian states see the energy sector as a foundation for a bright economic future, securing international recognition and attracting international capital*
- *To depend only on the success of the energy sector would be a dangerous strategy*
- *Future petroleum revenues are exposed to the price of oil – the price fluctuate*
- *The Caspian energy rich states will have to diversify their economy to succeed”*



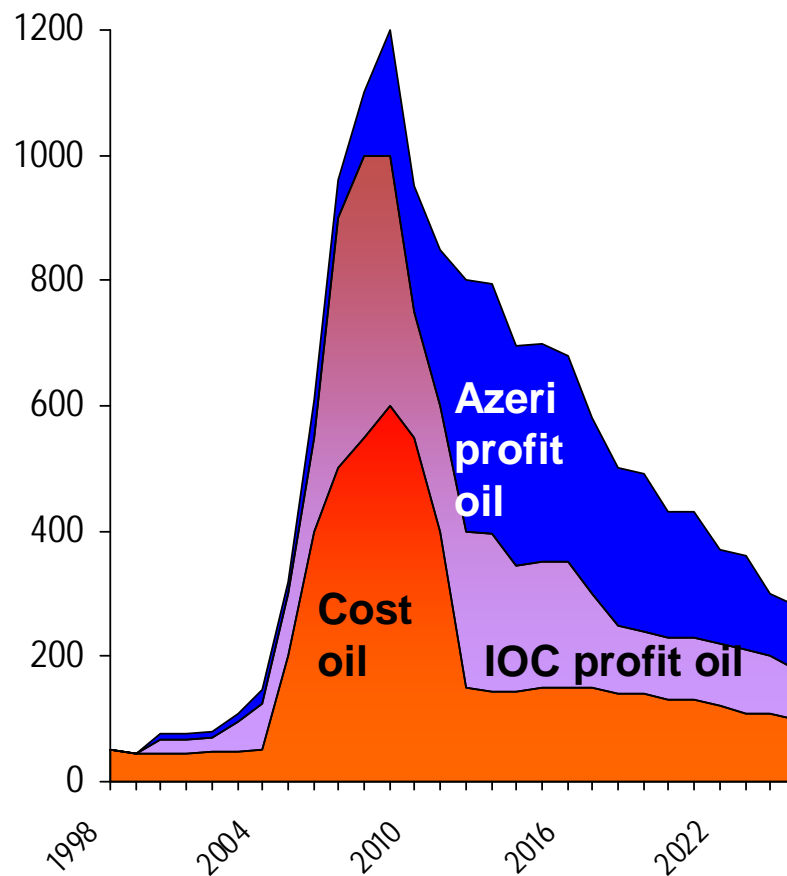
- **Speech to Royal Institute of International Affairs, London**
- **7th July 1999**

The price of oil was at its lowest level

- **Contracts signed in the 1990s**
 - **Tengiz in 1992**
 - **Karachaganak in 1993**
 - **ACG in 1994**
 - **Kashagan in 1995**
 - **Shah Deniz in 1996**
 - **Block 1 in Turkmenistan in 1996**

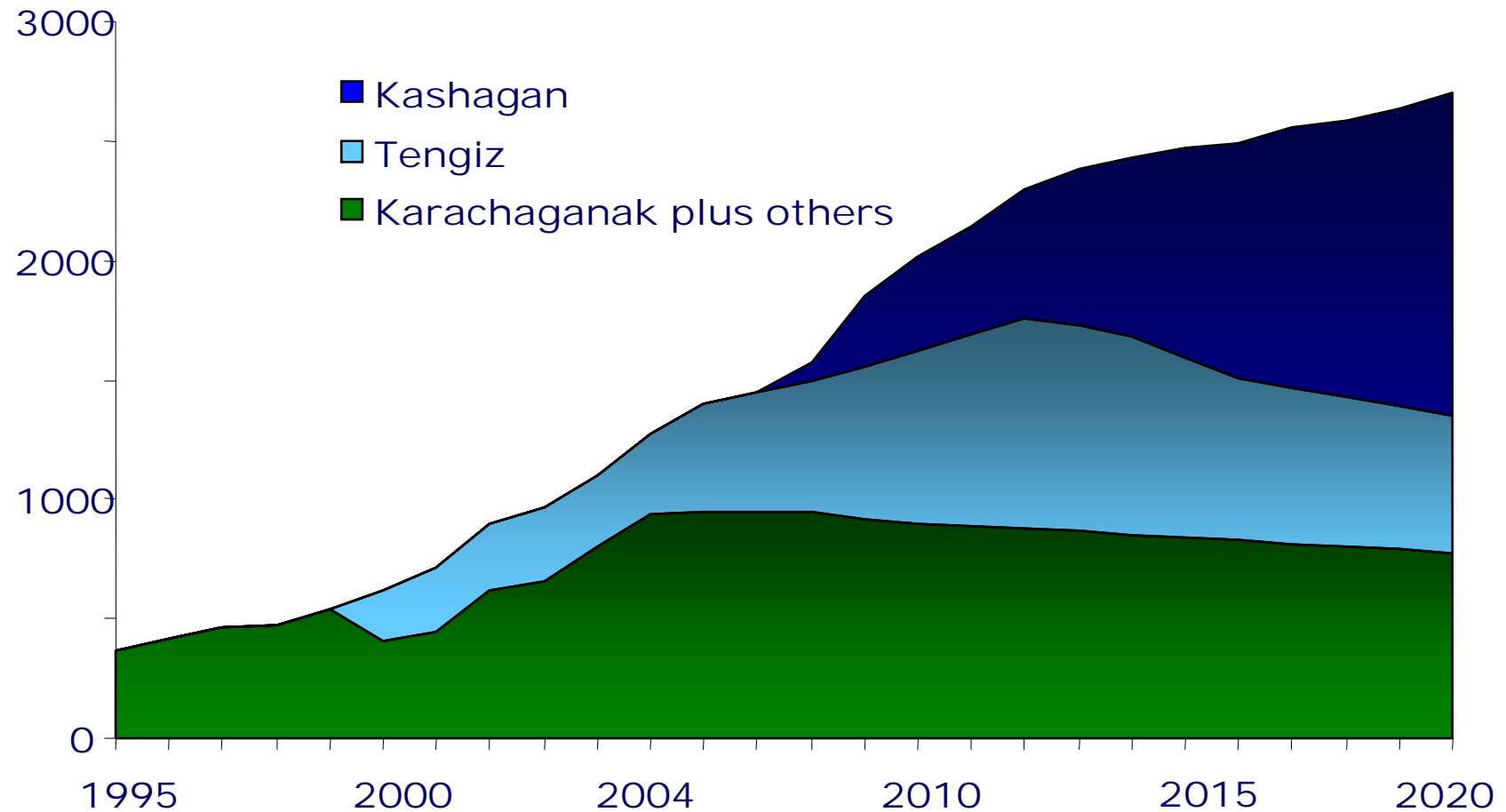


The oil price have benefited Azerbaijan



- The price that was the basis for the development of ACG would not have resulted in an early flow of money to Azerbaijan
- The high price has paid back investments faster than any had hoped for
- Leading Azerbaijan to receive most of future revenues from the large oil field

Kazakhstan has experienced delays



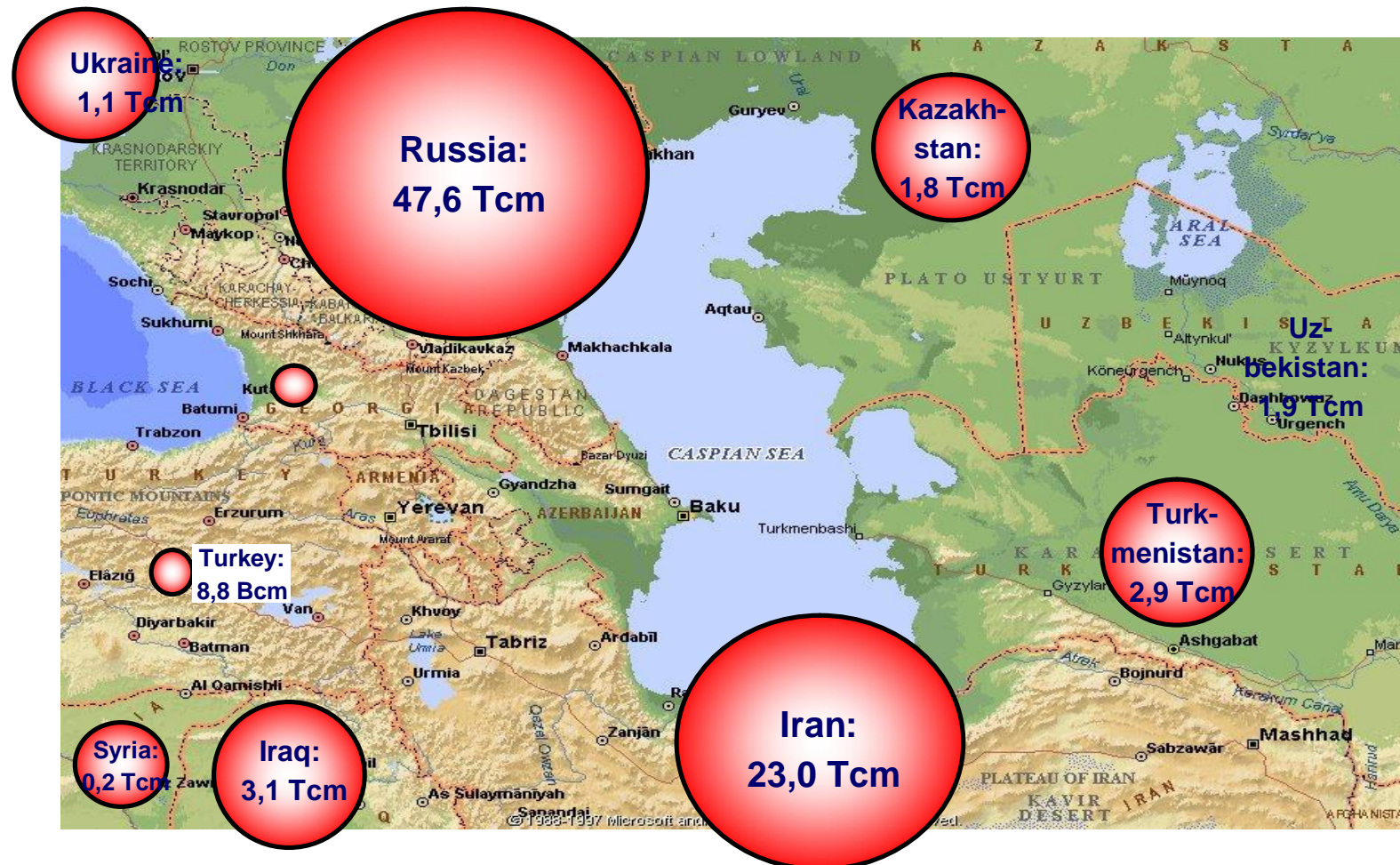
“Multiple pipelines, please!”



- Substantial progress
- Kazakhstan delays
 - CPC
 - Kashagan
- Next stage
- Shah Deniz full phase
- Turkmenistan



Gas has gone to the top of the agenda

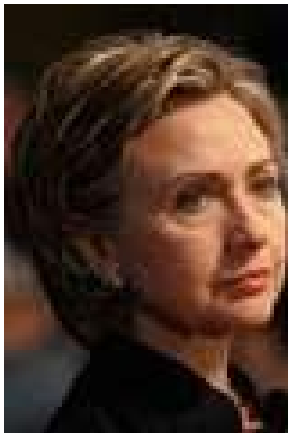


Will the resources go west, north or east?



The main players in the Caspian

What will be the Obama policy?



- Washington has pursued a dual-policy of regional democracy promotion and a multiple pipeline strategy for more than a decade
- Trying to break Russia's near monopoly on Caspian oil and gas flows, limiting access to Iran's oil and gas sector, and reducing China's growing influence
- Support for an East-West energy corridors will continue
- But will the Obama Administration support be as vigorous as we have seen in the last decade?
- The international and domestic drivers of US energy policy are shifting.

Russia – still the most important player



- Russia has been crucial for Kazakhstan and Turkmenistan
 - Depended on Russia for export routes
 - Russia has bought their natural gas
- Russia is building new pipeline infrastructure to move gas into its main markets in Europe
- Gazprom depends on Europe for most of its revenues
- China is entering the region's oil and gas play and will gradually change the competitive landscape in the region

Russian economy is struggling

- The financial turmoil, lower oil prices and a difficult tax regime are making life tough for the Russian oil and gas companies
 - Declining oil production
 - Weak currency
 - Lower gas prices in 2009
- The Oil Fund is providing some protection
- 2009 will be a tough year - 3,5% decline in GDP
- Oil and gas companies have large short debt problems
 - Lukoil has reduced its investments
 - Gazprom and Rosneft trying to maintain investments
 - Rosneft focus in East Siberia



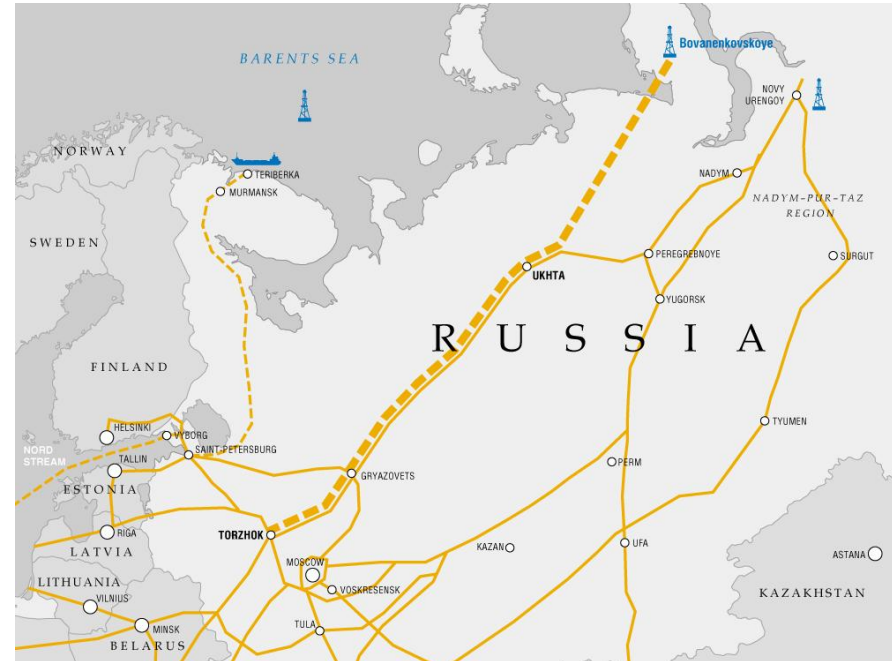
The impact on Gazprom



- **Gazprom's many acquisitions have led to substantial short term debt**
 - **Majority in Sakhalin 2 which is now delivering LNG**
 - **Acquisition of Sibneft and parts of Yukos**
 - **Not finalized the deal to acquire Kovykta from BP**
- **Large investments required to meet gas commitments at home and abroad**
- **Major international ventures will have to wait**
 - **Nigeria, Libya, Bolivia, Venezuela**

Mega projects in Yamal

- Shtokman important – but development of the Yamal gas is top priority
- 11 gas and 15 oil, gas and condensate fields discovered
- Planning 115- 140 bcm annually
- New gas pipeline network of 2451 km
- Total production to reach 350 bcm in 2030



The Gazprom global expansion



China becoming an important player



- **China's share of global oil demand has grown 30% since 2000**
- **58% of its oil imports come from the Middle East - expected to rise to 70% by 2015**
- **China is flying all over the world to secure access to resources**
- **They have become an important player in the Caspian**

Connecting to Turkmen gas reserves

- The Turkmenistan - China gas pipeline looked to be ambitious when the first deal was signed in April 2006
- It is becoming a reality
- The pipeline from Turkmenistan to the Guangzhou and cost upwards of \$10 billion
- The Baktiylarlyk block, awarded to CNPC in 2007, is the basis for the new pipeline
- China will buy 30 bcm per year initially
- Turkmenistan has ambitious targets of 250 bcm/year from 2030
- Aim to start at the giant South Yoloten field in 2010



The new deal with Kazakhstan

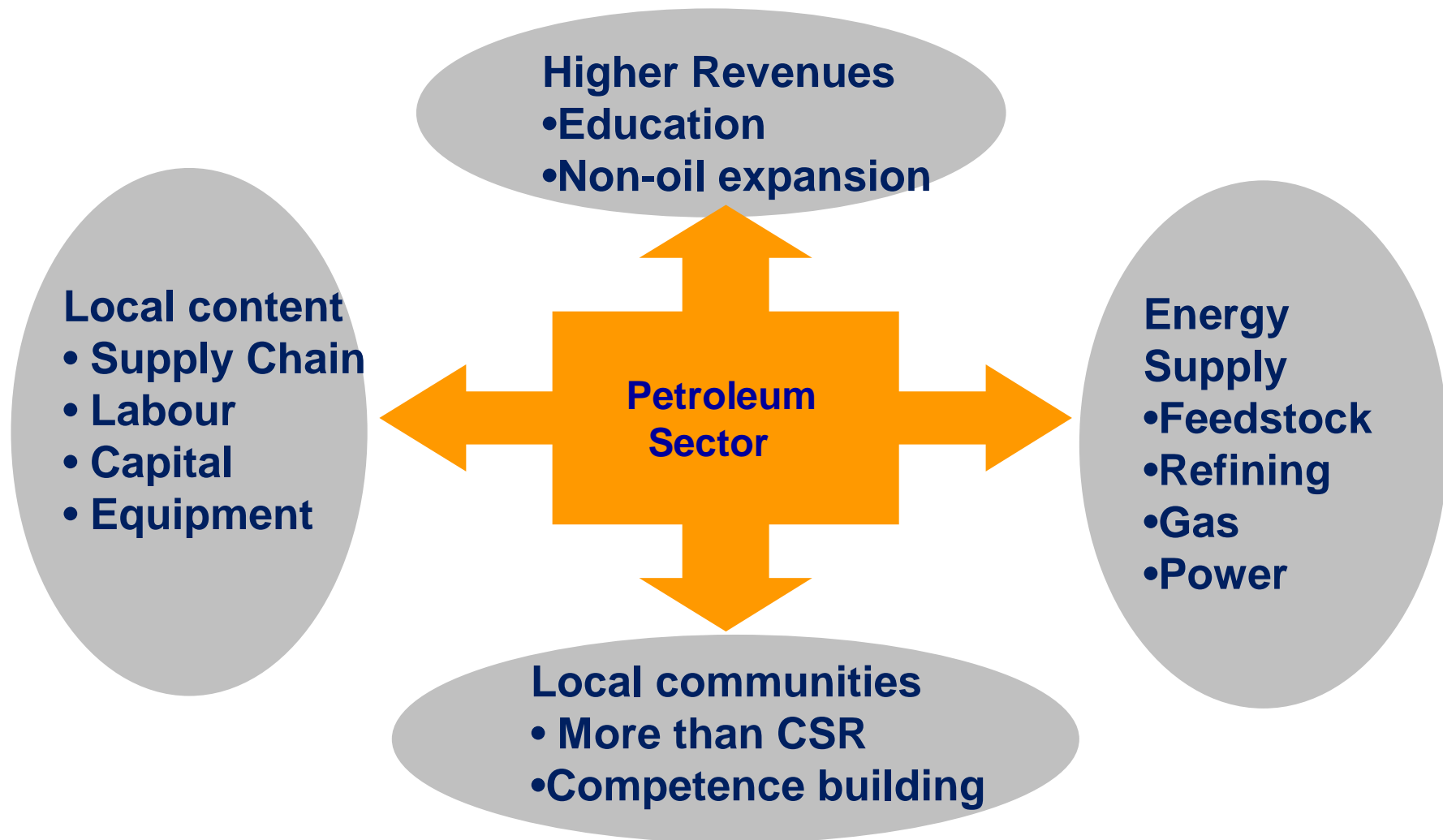


- China and Kazakhstan have been looking to expand their cooperation
- Several agreements signed during President Nazarbayev visit to China
- CNPC secured stake in MangistauMunaiGaz by lending 5 billion dollars to KazMunaiGaz
- CNPC already controls Petro-Kazakhstan
- CNPC and CNOOC has secured an offshore block
- China's Exim Bank will lend 5 billion dollars to the Bank of Kazakhstan supporting telecommunication, transport, agriculture and education projects

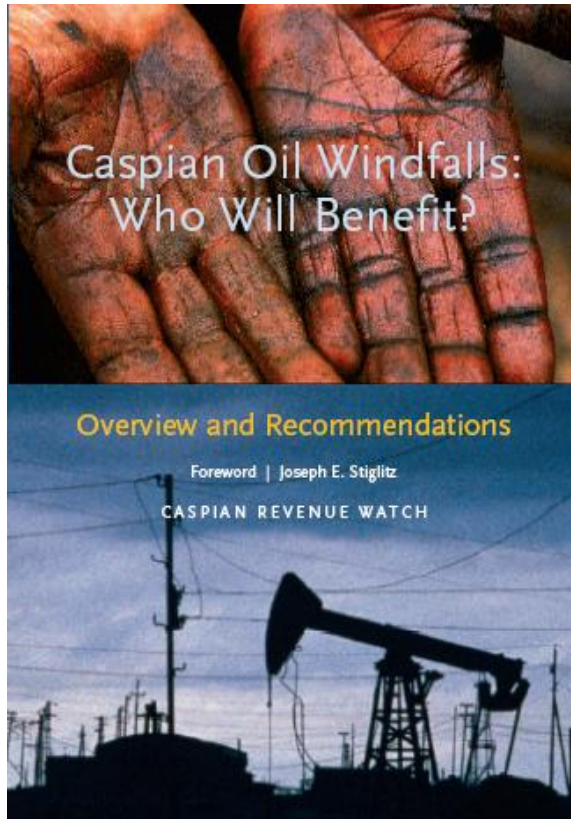


Final remarks

The growing government agenda



Good governance becoming even more crucial



- Many resource-rich countries relies on 'rents'
- Tend to lack the institutional and participatory arrangements associated with good governance
 - Clarity of goals, roles and responsibilities
 - Enablement to carry out the role assigned
 - Accountability of decision-making and performance
 - Transparency of information
- Azerbaijan and Kazakhstan have made substantial progress during the last decade
- Azerbaijan is the front runner on EITI

Sustainable development must be at the heart of policymaking

- **Resource rich countries often forget that oil and gas are finite resources**
- **To goal must be secure sustainable development for future generations as well as for current generations**
- **That will require**
 - **Resource management**
 - **Revenue management**
 - **Commitment to education within and outside the sector**
 - **Support for the non-oil economy**
 - **Corporate social responsibility - the whole population must see the benefits**

