دانـــة غـــاز
DANAGAS

January 2014

Session D Panel: *"INOCs and Independent Arab Energy Companies to Emerge on Global Stage as 2020 Players?"*

- **Rashed Al Suwaidi**, Chairman, Horizon Energy (*former ADNOC E&P Director*)
- **Rashid Al-Jarwan**, Executive Director, Dana Gas
- **Sean Korney**, Partner, Baker Botts
- **Ali Mahdi Aldabbagh**, General Secretary for the Iraqi Intellectual Group (*former State Minister & Official Spokesman for the Iraq Government)*
- **Moderator: Sean Evers**, Managing Partner, Gulf Intelligence

Sean Evers:
I would like to begin by asking Rashid Al-Jarwan, Executive Director of Dana Gas, what your outlook will be vis-à-vis new partnerships, what they make look like. Do you expect to be drilling oil in Abu Dhabi within five years?

Rashid Al-Jarwan:
Dana Gas, which was only formed in 2005, now produces about 70,000 barrel oil per day equivalent through our operations in Egypt and the Kurdistan Region of Iraq. This positions us as among the leading producers in these fast developing markets.

Sean Evers:
It does bring up the point about the opportunity for independent Arab energy companies or for INOCs for that matter going into other markets, perhaps the opportunity to develop the smaller space, the smaller marginal field that maybe the bigger players do not have the economics or the appetite for. Do you see that opening more in the region?

Rashid Al-Jarwan:
I think it is. Over the past 10 years, we have seen Egypt for example incentivising the private sector and encouraging investments in to the sector in order to enhance domestic production. Independents, like Dana Gas tend to be more nimble in their decision making and this helps significantly hasten investment decisions and hence participation.

ص.ب: 2011 الشارقة، دولة الإمارات العربية المتحدة • تليفون: 444 5569 (6)971 + • فاكس: 522 6 556 (6) 971+
P.O. Box: 2011, Sharjah, U.A.E. • Tel: +971(6) 556 9444 • Fax: +971(6) 556 6522
E-mail: mail@danagas.com البريد الإلكتروني •Website: www.danagas.com الموقع الإلكتروني

There are other examples such as in the Kurdistan region of Iraq where, because of certain risks and challenges, independents in the private sector can contribute significantly by not just taking on marginal fields but in the case of Dana Gas, even becoming the principal operator in the market. In many frontier markets, majors hesitate to enter due to geo-political concerns and the resultant risk-reward equation while local political considerations often disallow NOCs from participating.

Dana Gas is also unique in that we are a Middle Eastern company and this reflected in our understanding and appreciation of the local dynamics and ability therefore to offer solutions that are tailor made to suit local market challenges without compromising on creating world class facilities.

Sean Evers:
Dr. Aldabbagh, when Iraq was taking on its tender period and awarded a number of contracts, it obviously had a lot of the major players, but some Chinese national oil companies as well. Obviously we're seeing things change a little bit in Iraq vis-à-vis the appetite of the international companies to the deals that were offered or signed. Is that changing the view at all in Iraq for looking for alternative partners? Do other players, other national oil companies from Asia have an opportunity for more there? Or small players … like we've seen in Kurdistan?

Dr. Ali Mahdi Aldabbagh
The model of Kurdistan is totally different from what we had from the bid rounds in Baghdad. In Kurdistan, politics has played a part in the decisions on concessions. You could see that from some of the Turkish companies, which did not qualify in Baghdad, but have been allowed to work in Kurdistan because Turkey is a very important partner for them, and a corridor for their exports. The same is applicable for Dana Gas. Dana Gas was not allowed to enter the bid round because of politics because it had participated in Kurdistan.

Sean Evers:
Sean Korney - in terms of Kurdistan being the one area in the region where there is clearly active opportunity for smaller players, for international/national oil companies, if you want to call them that—we've got Dana Gas there; Mubadala Petroleum looking there; TAQA looking there. Can that model replicate itself in other parts of the region? Or do you think Kurdistan is unique for whatever reasons and that smaller players, INOC players, won't have opportunity in the southern Gulf, let's say?

Mr. Sean Korney:
I think the Kurdistan region is unique because it sat unexplored or unexploited for such a long time, and then it had a system where wildcatters or small companies went in. And we've seen an evolution of that where bigger companies are coming in and buying up some of the smaller companies.

So, the first answer is yes, it is unique, but I think that you can have that situation elsewhere in the Gulf. If the governments open up additional acreage that are attractive to smaller companies that aren't attractive to larger companies as we've been talking about, then there's nothing preventing some of the people with an entrepreneurial spirit - the Dana Gases and the like, and even smaller ones. People who have split off from a career at ADNOC and want to try something on their own.

Sean Evers:
Rashed - you made a rather strong, bold statement in your opening remarks that IOCs have a limited opportunity here going forward, so who is going to deliver the technical and production capacity ambitions of the region in partnership of course with the NOCs? How do you think that will play out?

Rashed Al Suwaidi:
What I said earlier is that for the past 50 years, IOCs have taken things for granted. They have to change their attitude into more of a partnership spirit, where some benefit also comes from the outside, from the customer, from the network, from their infrastructure. For example, what Occidental has done with Mubadala - taken them to Bahrain and also to Oman and so on.

Another example is Oman - where the government have decided to take small fields from PDO and auction them to smaller companies. Why? Because smaller entrepreneurial companies are more active, more responsive and more responsible; they come forward and invest the money and they do it faster.

Also, international oil companies don't have technologies. What they have is their brand name and financial muscle. And they have the infrastructure and above all, they have political support.

Sean Evers:
And they also have the legacy and reputation of having delivered.

Rashed Al Suwaidi:
I agree with that. They have delivered, and will continue to deliver. But what I am saying is they have to change the way that they're doing business because the world is changing.
But we do have to remember that governments also have a lot of responsibilities - social responsibilities - which sometimes prevent them from acting as fast as the private sector. Subsidy is a big issue for example, in Egypt, of energy and food and also here in the UAE.

Sean Evers:
In America with agriculture.

Rashed Al Suwaidi:
Yes - and the other point is that we have to protect our demand security in the market with our customers, the Japanese, the Chinese, the Indian, the Koreans.

Sean Evers:
You're indicating indirectly that you're not doing enough with your customers at the moment.

Mr. Rashed Al Suwaidi:
Yes, exactly. Our customers are also our stakeholders. We should have a model where they should know what we are doing in our own country - that they are partners with us here and that they know our problems and are ensured of security of supply.

Sean Evers:
We have a comment from the audience. Please, Andrew if you'd like to just introduce yourself.

Audience Member: Andrew Vaughan:
My name is Andrew Vaughan with Shell here in Abu Dhabi. At the risk of sounding defensive, I have to take issue with the fact that I believe the IOCs do have a huge role to play in the future, just as they've had a huge role to play in the past.

I think the contribution that the IOCs and the independents have made to the development of national oil companies has been enormous. We just completed a 75-year history for ADCO. And I don't think ADCO would be where they are today were it not for the contribution that our companies made decades ago in their development.
But I think there is also a huge future, and particularly in technology. Technology is not just about transferring technology from A to B. It's about how you apply the technology. Shell is probably the biggest researcher and developer of new technologies in the business.

Taking that technology and applying it is what makes the difference. It's what has helped us to build the Pearl GTL plant in Qatar. It's what's helping us now to help PDO to develop their enhanced oil recovery fields in Oman.

Massive change over the last 10 years and so we have a massive contribution to make alongside the independents and alongside the NOCs. The future is going to be enormously challenging and we all have a role to play, be it the application of technology or the development of expertise or the transfer of knowledge.

Yes - traditional boundaries amongst different types of companies are blurring. If I look at ADNOC today and the ADNOC that I first knew when I encountered them back in 1997, it's an enormously different company. It behaves in an enormously different way. It's grown over the years, and I think those boundaries are blurring. I've worked for an independent as well as for a major, and the independents turn into majors in their own way at the time. It's a good thing that that blurring takes place because it really is about integration, collaboration and development of a new industry.

<u>Sean Evers:</u>
Sean - the point that there has to be more value exchange embedded in partnerships on a contractual basis rather than just through CSR - the actual development of young national capacity for example. Are you seeing that this needs to be more prevalent?

<u>Sean Korney:</u>
There are two things that go into this partnership point. You have to look at the asset that's on offer, what are the terms that are on offer and what are the additional asks from either the host government or the national oil company. If the national oil company is asking for technology, you're naturally going to prefer a company, whether it's an IOC or INOC or service company, that has superior technology. So your needs determine who your partners are.
As to the different types of partnerships going forward, I think you will see some successful partnerships between the NOCs and their customers. You'll see Chinese companies going into Saudi Arabia and then having a reciprocal invitation to participate in a refinery in China and similar buyer/seller relationships.

<u>Dr. Ali Mahdi Aldabbagh</u>
I think this is all related to whether it is a conventional or unconventional source. For the conventional, I think there will be a heavier NOC weighting and for unconventionals, I think IOCs still have to lead the industry.

<u>Audience Member- James McCallum:</u>
Picking up on the point which Sean Korney makes on partnerships coming from different places. What we're increasingly seeing now I think is that partnership and collaboration is being defined by access to a very specific need or technical capability. For example, Maersk Oil having built an incredible capability in the area of horizontal drilling in EOR, or Statoil who have very capably specialized in enhanced recoverability from their reservoirs. These are all issues that are affecting national governments around the world.

30 or 40 years ago, a big driver for partnership was access to capital. That's not the same today as it used to be. I think what we're seeing is a real blurring of the boundaries as we move through the '90s and into this last decade where there was a huge dispersion of talent that moved out from the supermajors and into the independent sector, into the NOCs. And what we're seeing today is the product of that where host governments, where NOCs, where IOCs are looking to exploit their specific areas of technical expertise to see where they can enter into areas of collaboration. That's the future that we're predominately seeing here in the Middle East.

<u>Sean Evers:</u>
Thank you for your comment. We have a question here in the front, please.

<u>Audience Member: Robin Mills:</u>
Yes, thanks. Robin Mills from Manaar Energy Consulting.
If we look at the U.S. shale gas and shale oil revolution, it was very much lead by small entrepreneurial independent companies. The super majors have entered into that game rather late.

Does the panel think that, given that many countries in this region are short of gas, we could see a similar revolution in this part of the world to meet the region's gas needs? And if so, what would need to happen in order for small entrepreneurial companies like Dana Gas or others to lead that kind of a revolution?

<u>Sean Evers:</u>
Rashed, would you mind addressing that?

<u>Rashed Al Suwaidi:</u>
Some of the oil or gas reservoirs here are really challenging, and they need proven management. Will we have smaller companies in Abu Dhabi? I'm not in a position to answer that. But I think in the region we have seen Oman doing it, and they were very successful. And we have mentioned Kurdistan where it has also been done successfully.

Rashid Al-Jarwan:

If we take the UAE, for example, Dana Gas now has a presence by beginning to develop the Zora field, offshore Sharjah and Ajman. That's a relatively small field which was discovered previously but was abandoned due to pricing and demand dynamics. Things have changed significantly and so the opportunity came for Dana Gas to say, "Okay, we will develop that gas. We will set the new commercial value for that gas," and the construction stage of the project has begun with production expected in a few months. Once we have proven that Dana Gas can indeed develop a complex area offshore, it will be easier to come onshore and also move in to larger fields and projects.

Sean Evers:
The question of the day, which hasn't been mentioned yet, is that we are in very uncharted waters, where the ADCO concession has expired. The consideration of what the new will be, is underway. I'd like to ask all the panelists what their views are on what the renewal might look like. Will it be different?

Sean Korney:
It will be vastly different. We've got a whole different universe of people who are interested in this asset now so I think what you'll end up with is a very different mix of partners, probably chosen very carefully by ADNOC for different reasons. Some might be that they bring a superior technology. Some might be that they bring the market. Some may be that you need to or you'd like to grow a bigger relationship with a particular country that's a consumer. It will be based on both quantitative and qualitative factors.

Rashed Al Suwaidi:
I agree that it will be different. The IOCs need to change to a new model that's different than the model they have had in the past.

Sean Evers:
And what would be the principal number one on the list of differences?

Rashed Al Suwaidi:
Market - this is the most important. This is what we sell. If you are selling water, you need people who will buy it from you. It's very simple.

Rashid Al-Jarwan:
Dimensions are definitely different. Market consumers are important. Your long-term partners have actually been buying your products. Your history of relationship is important. I don't think that can be neglected. Newcomers, new partnerships, new decision makers. I think there are a lot of elements that will eventually produce something different.

Sean Evers:

Well, I think a very interesting subject inevitably that will be with us for some time. It seems no doubt that whatever it is, there has to be a win-win framework in order for it to work for everybody. So, on that note, I'd like to thank all my panelists for their wise words and insights and for coming today. Thank you very much.

END OF SESSION D PANEL

ص.ب: 2011 الشارقة، دولة الإمارات العربية المتحدة ● تليفون: 444 5569 (6) 971 + ● فاكس: 522 6 556 (6) 971+
P.O. Box: 2011, Sharjah, U.A.E. ● Tel: +971(6) 556 9444 ● Fax: +971(6) 556 6522
E-mail: mail@danagas.com البريد الإلكتروني ●Website: www.danagas.com الموقع الإلكتروني