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is funded principally through a grant of the

SPE FOUNDATION

The Society gratefully acknowledges those companies that support the program by allowing their professionals to participate as Lecturers.

And special thanks to The American Institute of Mining, Metallurgical, and Petroleum Engineers (AIME) for their contribution to the program.
International Joint Ventures
How to Keep Yours on Track

Kurt Hillman
Amerada Hess
The Industry Today

- Exploration and production expenditures in 2005 exceeded $190 billion
- 90% of oil company investments are in some type of joint venture relationship
- Over 70% of the world’s oil reserves are controlled by National Oil Companies (NOCs)
Expenditures continue to shift away from the US

2005 E&P Expenditures ≈ $192B

- US: 23%
- Canada: 10%
- International: 67%

Source: Lehman Brothers Survey Midyear Update, June 2005
Expenditures follow the reserve base

Source: Oil and Gas Journal, 20 December 2004
Joint ventures are not new to the industry

- Oil companies participate in more JV’s than all other industries combined

- Long international history

1933

1936
Why form a joint venture?

- Access to reserves
- Source of capital
- Share risk
- Pool resources (commercial, technical, project management)
- Transfer and apply technology
- Expand range of opportunities
Types of Joint Ventures

- Operator/Non-operator role
  - Two indigenous companies

- Two international companies
- Joint Venture
  - IOC-IOC
  - IOC-NOC
  - IOC-IOC-NOC
  - IOC-IOC-NOC

Increasing Complexity
Objectives may be aligned or may differ

Commercial
- Cash flow – front end load or even flow?
- Earnings / margin

Reserves
- Book reserves
- Recovery – ultimate or economic?

Technologies
- Technology transfer
- Apply technology
Objectives may be aligned or may differ

Infrastructure

• Employment
• Feed downstream operations

Other

• Political
• Establish export routes
• Provide stable source of energy
Typical JV Structure

- Partner(s)
- Shareholder Board or Operating Committee
- JV Director
- JV Management
- Seconded Staff

Partner(s)
Interviews were conducted to measure JV effectiveness.

**Interview Questions**

- Most important criteria
- Source of misunderstandings
- Organizational effectiveness
- Personnel attributes
- Technology transfer
- Trends

**How are your JVs performing?**
Interviews were conducted to measure JV effectiveness

Personnel Interviewed

- Board of Director Members
- CEOs
- Heads of E&P Organisations
- JV Shareholder representatives
- JV Directors
- JV Management
- JV Secondees

How are your JVs performing?
What are the most important criteria for a successful JV?

- Alignment of Strategy/Objectives
- Clear Authority to Execute
- Economic Project
- Common Vision
- Competent Partners
- Communication
- Other

Interviews
What has created the greatest debate in JV implementation?

Interviews

- Lack of governance process: 30%
- Misaligned objectives: 25%
- Lack of front end planning: 15%
- Lack of key performance indicators: 10%
- Different economic assumptions: 9%
- Funding and timing differences: 6%
- Other: 0%
Organisational Attributes

- Partners
- JV Board
- Director & Management
- Secondees
Key criteria for a JV director

- Strong leader
- Excellent communication skills
- Displays business acumen
- Diplomat / consensus builder
- Impartial
Key criteria for secondees (expatriates)

- Technically proficient
- Flexible
- High cultural awareness
- Good communicator / mentor
- Open minded
- Patient
Communication

Has your message been seen and heard correctly?

A rabbit, looking right?
Or a duck, looking left?

Is this woman old...or young?
How is technology transfer best achieved?

- Make it part of the business plan
- Provide adequate time and money
- Provide global opportunities to indigenous staff
- Rotate expatriates every 3-4 years
- Source expatriates with good mentoring skills
- Staff adequately to allow time for mentoring
- Train in-house, on the job, and together
Trends - the competitive landscape is changing

NOCs

IOCs

State-to-State
Trends

• **NOCs**
  - Greater control, active partner, operator
  - More commercially driven
  - Expanding globally

• **IOCps**
  - Greater competition
  - Larger JVs
  - Greater emphasis on project management and commercial skills

• **State-to-State**
  - New competitor
  - Different objectives
NOC Merger & Acquisition Activity

Source: JS Herold
Trends

• NOCs
  • Greater control, active partner, operator
  • More commercially driven
  • Expanding globally

• IOCs
  • Greater competition
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• State-to-State
  • New competitor
  • Different objectives
Future Joint Ventures

Success will depend on those companies that:

- Find creative, innovative ways of working together
- Create relationships based on synergy rather than necessity
- Show equal respect for all parties
- Adapt to changing environments and conditions
- Recognize state-to-state relationships