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BUILDING MODERN & SUSTAINABLE SUPPLY CAPACITY IN EXTRACTIVE INDUSTRIES

Ministry of Non-Renewable Natural Resources
REPUBLIC OF ECUADOR

by

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"The views expressed are those of the author and do not necessarily reflect the views of UNCTAD"



Ministerio de
Recursos Naturales
No Renovables
República del Ecuador

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PETROLEUM RESOURCE MANAGEMENT

The value chain

3 Links in the Resource Management **VALUE CHAIN**:



Exploration
Development
Field development
Production
Tail-end
Abandonment

Sales
Refining
Industrialisation
Power generation

Develop Infrastructure
Development Fund
Sustainable development
Enhance competence
Income stabilisation
Future generations





PETROLEUM RESOURCE MANAGEMENT

Role of the Oil Companies

EFFICIENT OPERATION is the key to attaining maximum net present value.

A MAJOR ATTRIBUTE FOR AN OIL COMPANY IS THUS :

The capability and capacity to explore, develop and produce efficiently so as to maximize net present value.

THIS REQUIRES:-

- * *Technical skills.*
- * *Ability to manage risk.*
- * *Operational skills*
- * *Financial strength.*
- * *Management skills*
- * *Ability to co-operate...ETC.*





PETROLEUM RESOURCE MANAGEMENT

Important Considerations

- **Effective co-operation is the key to efficient Resource Management**
- **The key to fruitful co-operation is a mutual appreciation and respect of each other's interests.**
- **Resource Management is the management of continuing changes in Risks and Rewards**
- **The higher level of Resource Management is that of managing the impact on society.**





TECHNOLOGY UTILIZATION & DEVELOPMENT AND CAPACITY BUILDING

Oil revenues are important and will continue to be important for economic, social and industrial development, specially in developing countries.

We are convinced there is a significant potential for IOR (Improve Oil Recovery) in mature fields . **5 – 15% per field => Billions of USD!**

What does it take to realize the full IOR value creation?

IOR Framework
- Legislation
- Regulation
- Contracts

Management
Committment
and
Finance

Skills,
Competences,
Efficient
Organization

Data Collection and
Data Managment

IOR
Agency /
Watch Dog

National
IOR Strategy

Technology

$\Delta V \times P - \text{Cost} > 0$



TECHNOLOGY UTILIZATION & DEVELOPMENT Challenges

- Capacity Building - Core competences
- Managing contractors / service providers
- Resources & Development / Pilot projects – what works, and what does not
 - *Horizontal wells*
 - *EM surveying*
 - *IOR methods*
- Data collection and Data Management
 - *Logging of all new wells to be drilled + of all work over wells*
- Drilling and well construction cost



CONTRACTS IN EXTRACTIVE INDUSTRIES

Functional Structure

Current Practice	National Legislation	Contract
Operational Regulation	<ul style="list-style-type: none">• Government Participation• Ownership assignment• Arbitration• Insurance	<ul style="list-style-type: none">• Work Commitment• Relinquishment• Commerciality
Revenue Elements	<ul style="list-style-type: none">• Royalties• Taxation• Depreciation• Investment Credits• Domestic delivery• Ring fencing	<ul style="list-style-type: none">• Bonuses• Cost recovery limit• Production split• Fee





ECUADOR :

CONTRACTS NEGOTIATION IN EXTRACTIVE INDUSTRIES

Current Shared Production Agreement

- These are contracts for exploration and exploitation of hydrocarbons, held by the State through Petroecuador, whereby the contractor is delegated the power to explore and exploit oil in the contract area, carrying its own risk for all investments, costs and expenses required for the exploration, development and production.
- The contractor is entitled to receive a production sharing, which is calculated based on the rates offered and agreed upon. The payment could be made in cash.





ECUADOR : CONTRACTS NEGOTIATION IN EXTRACTIVE INDUSTRIES Flat fee - SERVICE CONTRACT

- These are contracts for exploration and exploitation of hydrocarbons. The State ownership of hydrocarbons is reaffirmed.
- Only when the service granter finds commercially exploitable hydrocarbons, it shall be entitled to reimbursement of its investments, costs and expenses and payment for their services.
- Reimbursements and payments for services to the contractor may be made in kind or mixed form.





A SOVEREIGN OIL POLICY FOR DEVELOPMENT

RECOVERING SOVEREIGNTY OVER NON-RENEWABLE NATURAL RESOURCES

- Resources are considered strategic for the country's development.
- **National Oil Companies (NOCs)** play a key role to recover an important role in production and control of such resources.

NOCs generally seek to fulfill three main objectives on behalf of their governments:

1. To give government more control over the oil business.
2. To reduce dependency on transnational corporations for their oil supplies.
3. To assure continuity of supply both at the domestic crude oil production and refining stage, as well as at the market stage.





A SOVEREIGN OIL POLICY FOR DEVELOPMENT

OIL REVENUES FOR SUSTAINABLE DEVELOPMENT AND TRANSFORMATION

In the past, the wealth coming from non-renewable natural resources in developing countries simply flowed into international markets, without contributing significantly to national development.

History of oil exploitation in my own country has been contradictory. While the amount of resources have increased, so has inequality and poverty deepened, especially in the regions where oil is exploited.

The current political changes in our country will make a difference as how oil resources have been managed. Oil and gas income in our country is essential to sustain a new development vision and it will allow the implementation of real changes that will benefit our citizens, both at local and national level. Oil income is being used not only for health and education, but also for infrastructure investment and job creation.





FUNDING OIL PROJECTS

- New projects are being formulated, most do not take off because of the difficulties of securing sufficient financing.
- Project sponsors are being forced to design more flexible and innovative financing packages involving a range of partners from both the public and private sectors.
- Emphasis to help governments and private companies manage and mitigate project risk.





FUNDING OIL PROJECTS

- *The role of the state has been redefined*
- *The international petroleum market has changed*
- *Environmental concerns are now prominent.*
- *Governments establish clear regulatory and fiscal regimes in line with their national laws*
- *International companies fulfill national laws and regulations defined by sovereign States*





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THANK YOU

