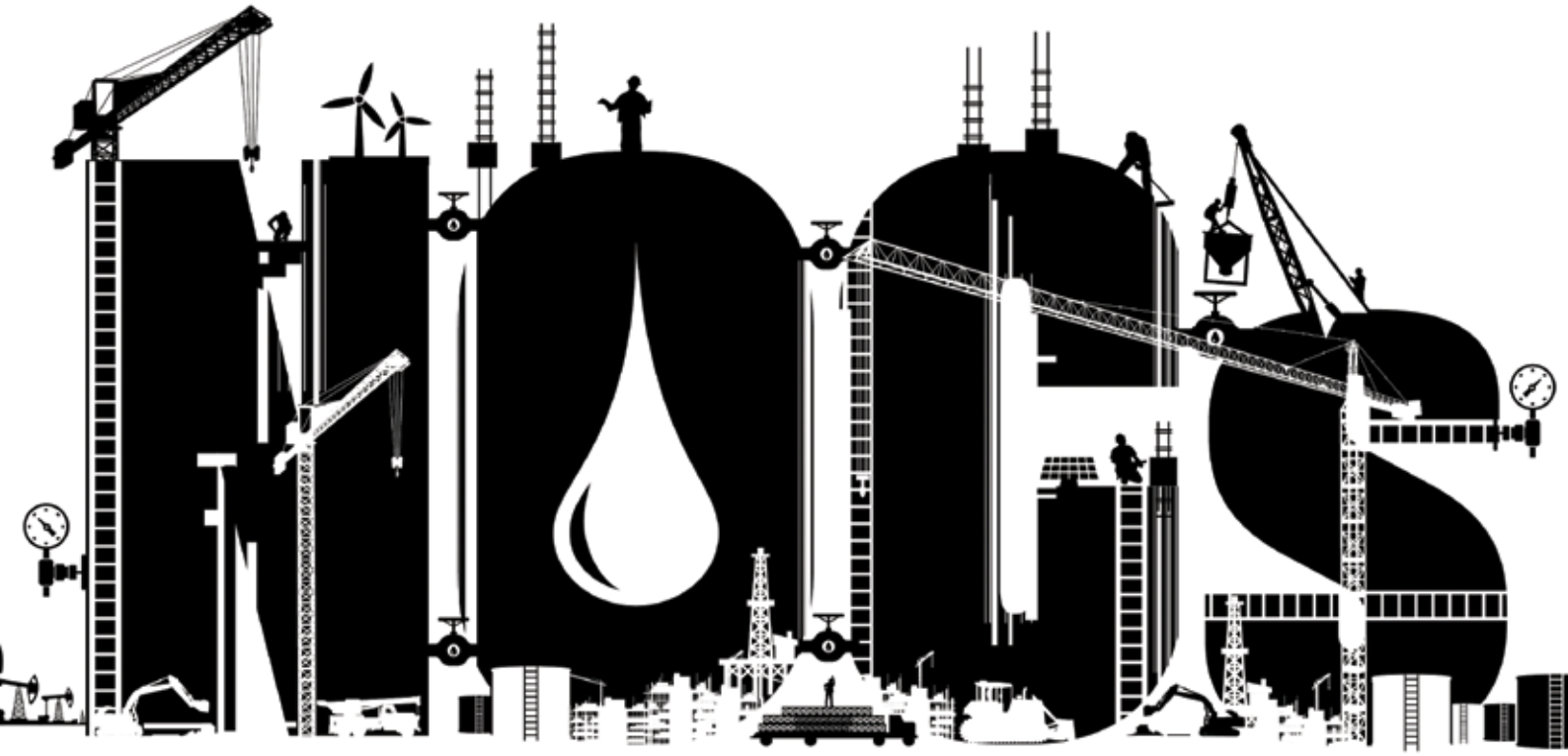
GIQ

Debates

Motion: Arab NOCs will Transform Successfully to Compete Globally – as IOCs Have Done – by 2020?



GIQ DEBATE

Motion: Arab NOCs will Transform Successfully to Compete Globally – as IOCs Have Done – by 2020?

Debaters:

FOR THE MOTION:

Jonty Rushforth
Director
Oil & Shipping Pricing
S&P Global Platts

James McCallum
Senior Advisor
Lloyd's Register

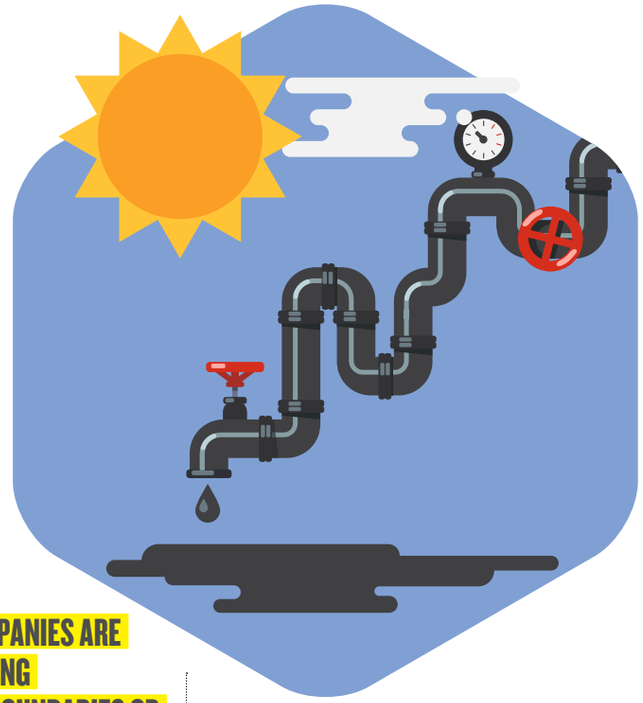
AGAINST THE MOTION:

Gaurav Sharma
Business Editor,
International Business Times,
and Oil Market Analyst

Paul Young
Head of Energy Products
Dubai Mercantile Exchange
(DME)

GIQ DEBATE

FOR THE MOTION



By Jonty Rushforth, Director, Oil & Shipping Pricing, S&P Global Platts

The crucial question here is not if Arab NOCs are going to transform themselves to be like their US and European counterparts, but rather, are they going to compete with them? The biggest transformation in the last few years amongst Arab NOCs is that they are no longer just oil producers, but also significant refiners.

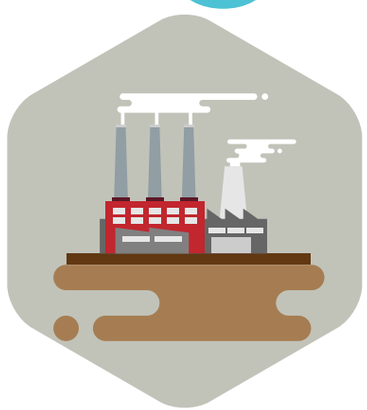
Today, European refiners are most threatened by supplies of refined products from the Middle East. Arab NOCs are already competing internationally into Europe, but there are two key questions are: do they need to behave like IOCs in the international market to compete and do they even need to compete?

They certainly have that incentive because of the flow of products, such as jet fuel and diesel, and because of their growing supply of crude. They want to manage this because they want to disintermediate some of the companies in Europe, in the West and in the East, who have been taking some of their trade margin and supply margin. Consequently, NOCs have a strong reason to get involved in these markets.

Ten years ago, this same question could and would have been asked about Chinese majors – can they really compete internationally? No one would ask that today. There is no doubt that anyone in the market is looking to those Chinese companies as potential partners. The Chinese today are the marginal driver in the market, across the barrel. Chinese companies may not yet be pushing technological boundaries, or providing the baseload of total trade. But they are the market drivers – that is what it means to compete internationally.

Will Middle Eastern companies be the most significant participants in the Eastern markets going forward? ENOC has been active already for many years and Aramco Trading is becoming increasingly influential in those markets. So, yes, the Arab NOCs are going to compete and they will be successful. ■

"CHINESE COMPANIES ARE NOT YET PUSHING TECHNOLOGY BOUNDARIES OR BE PROVIDING THE BASELOAD OF TOTAL TRADE. BUT THEY ARE THE MARKET DRIVERS AND THAT'S WHAT IT MEANS TO COMPETE INTERNATIONALLY."



By James McCallum, Senior Adviser, Lloyds Register

In the last 10 years, NOCS have experienced a significant transformational journey towards both financial and intellectual independence that has included in the UAE not renewing the license concessions of several major IOCs. There have been clear signals that NOCs increasingly do not need IOCs as partners, as they have done historically. Additionally in the region, we have witnessed a clear appetite for international expansion – with the likes of Qatar Petroleum diversifying in the Mediterranean, the Abu Dhabi investment authority acquiring Spain's Cepsa and ENOC having success in Turkmenistan and looking at Tunisia, for example.

Today, NOCs are focusing on how they can have more control on the conversations that influence what happens both at the wellhead and consequently to the oil price. We have seen OPEC countries struggle to deal with the impact of the US shale oil conversation, but they have no intention to give up their desire, or need to have a major influence on what happens to oil price, as it critically affects their countries' balance of payments.

Abu Dhabi, Dubai and Saudi Arabia have invested significantly in infrastructure in the last two decades and need oil prices to be above $50/bl to have balance in their economies. They need to be part of the oil price debate and will leverage their incredibly opportunistic position of low cost production to do that. I think this is the pivotal point to today's global energy discussion.

In a fractured geopolitical world where the US is looking increasingly inward, NOCs are looking to the East, where their refined products are being sold and they are looking for Far Eastern partners to join them in the space previously occupied by the IOCs. They feel that they have learnt a harsh lesson about previously asking major IOCs for technology partnerships and knowledge transfer. In their view, it did not happen and they now have to move forward by themselves, or with new partners.

As we emerge out of a recession that has torn this industry apart, NOCs will also increasingly engage in knowledge and technology partnerships with the supply chain. The intention being that this will give them complete capability to function as major international oil and gas companies without having to share production. There is no question that the ambition is there.

The backdrop of a declining OPEC influence on the world stage versus their leveraged position of having incredible access to low cost production from massive reservoirs means there is only one direction NOCs can go and that is to build on the value proposition of initiatives like Saudi Aramco's planned international sale of stock, like the financial partnerships that the UAE's Mubadala has looked to drive through the Abu Dhabi Investment Authority and like taking other national companies out of their home region and into areas where they can add to their production threshold. Increasing globalization will ensure that OPEC's voice regains it's position of influence in the world's energy markets. ■

GIQ DEBATE

AGAINST THE MOTION

By Gaurav Sharma, Business Editor, International Business Times, Oil Market Analyst

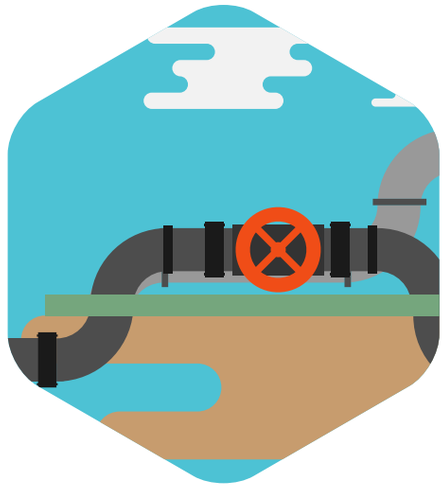
'Transformation' is a word that is being liberally applied across the Middle East's oil and gas industry. Does the deployment of modern planning software, or exploring mature prospects outside the Middle East herald a transformative chapter for Arab NOCs? No. Instead, these constitute process optimization and sensible resource planning.

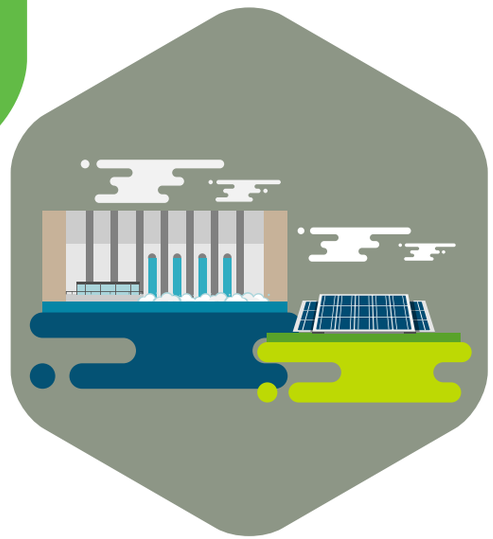
Arab NOCs are still feeling their way down the path towards becoming fully integrated players. They are only slowly changing a proven and bankable upstream model, which has withstood the test of time and keeps ticking along in today's predominantly oil buyers' market.

Of the world's big five major oil importers, South Korea and Japan, are not importing quite like they used to and the US is turning less towards the global supply pool thanks to its domestic production. But scrutinize the export data and you will find importers from China and India featuring on the client books of every major Arab NOC. Arab NOCs operate safe in the knowledge that the Asian component of their order book is not going to wither anytime soon.

Arab NOCs' comfortable position at the front of the global pack of oil suppliers will likely slow their 'transformation' into fully integrated models by 2020, which is just three years away! How will Arab NOCs become successful and fully integrated entities when even IOCs, who have had decades to get a handle on it all, have not quite gotten there yet? Remember that while the three big credit ratings agencies – Moody's, Standard and Poor's and Fitch – rated integrated IOCs higher, almost all of the top 20 IOCs were and still are divesting refining and marketing assets. Some were even contemplating the death of the integrated model as recently as 2014. If IOCs are struggling, why will Arab NOCs thrive?

Arab NOCs are admirably talking the talk, but walking the walk is an entirely different matter. We are talking about dramatically turning the direction of a very large crude carrier (VLCC) and not a lorry loaded with 50 barrels by 2020. That is not a realistic outlook. ■





By Paul Young, Head of Energy Products, Dubai Mercantile Exchange (DME)

There has been some advancement in the last few years for NOCs – for example, they have built up their refineries portfolio – but they have not moved fast enough and there is no way they can transform into IOCs by 2020. They have not been dynamic and have operated on the whole as large family businesses. There needs to be a wholesale change in what are huge inefficiencies, such as overstaffing.

"NO ONE IS DENYING THAT THERE HAS BEEN CHANGE AND THAT ARAB NOCS ARE GOING IN THE RIGHT DIRECTION DIRECTION. BUT... IT IS GOING TO TAKE MANY, MANY YEARS."

No one is denying that there has been change and that NOCs are going in the right direction, but it is going to take many, many years. There is no comparison with Chinese majors, which have transformed more successfully; Iran or Iraq could not produce the next Sinopec, for example.

There has also been no appetite for risk management within NOCS, unlike in the Chinese business model. China gets things done. Chinese majors have massive trading, marketing and risk management operations and there is no way the Middle East's NOCs can get there in three years. ■

GIQ DEBATE

Motion: Arab NOCs will Transform Successfully to Compete Globally – as IOCs Have Done – by 2020

RESULTS

The audience voted using an electronic system before the debate began, with the results displayed at the end of the debate. The audience were asked to vote a second time following the debaters' closing statements. The winning team is the one that swayed more audience members between the two votes. At the conclusion of this event, the 'FOR' team won the debate.