



## **ABSTRACT**

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### **FUTURE CHALLENGES FOR NOCs IN SE ASIA - WHERE CAN WE SEEK GUIDANCE AND INSIGHTS?.**

This paper is designed to stimulate discussion and to try to answer some complex questions and challenges. It is planned to explore the issues impacting the national oil companies (NOCs) as customers, and the international oil companies (IOCs) who are usually their major contractors and risk takers in exploration & production, over the next decade.

NOCs control most of the world's oil and gas resource and production, and also have a traditional role in securing energy supply. Many IOCs of course have largely grown on the back of leveraging and selling exploration competence to those countries or states who do not want, or are unwilling, or unable, to take exploration risk. The customers (the NOCs) usually invite bids and select winning bids from IOCs on the basis of lowest cost. At the same time, the IOCs rely on their knowledge, experience and (hopefully diligent) exploration practices, to compensate for 'overbidding' and still make returns of a quality necessary to compete for capital in the international capital markets. IOCs who are not good at doing this simply erode some value, and in extreme cases some IOCs have ended up being swallowed-up in takeovers, or even self-destructing.

But how will the situation develop in coming years? By using examples from around the world, we will look at possible answers and insights to some fundamental questions for SE Asia:

1. NOCs production will need replacing. Can some NOCs do this alone? Will they want to risk their own capital at a time when there are other demands on their financial resources?
2. Will NOCs have any capital available if oil prices return to US\$10-16/bbl? Will investment in reserves replacement carry more risk than the NOC states are prepared to take?
3. Will NOCs adjust contract terms sufficiently to ensure their countries remain internationally competitive & attractive for the IOCs?



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4. With the trend of many NOCs in SE Asia to compete for reserves and production outside their home countries continue? Is the push by many NOCs to internationalise a distraction or a real benefit?
5. Will the industry consolidation seen amongst the IOCs spread to the NOCs? Could there be mergers between NOCs in SE Asia to create super-NOCs?
6. To combat the new challenges of the industry - ever deeper water, more remote basins, infrastructure-led exploration, connecting large volumes of low-cost gas supply to distant markets, gas hydrates - might many NOCs shift focus to becoming technology leaders rather than technology followers?
7. How will the traditional role of guaranteeing energy security change given the changing geopolitics of oil in SE Asia and its neighbouring regions, and the whole industry's somewhat tarnished reputation?
8. Will value added by IOCs ultimately be worth the cost (in ownership, control, economic, social and cultural issues) to the state? What will be the impact of the drive for survival and competing ambitions of IOCs?