

Old and New Investment Risks

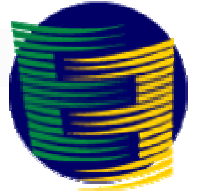
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Why Are We Here?

To get a wide circle of stakeholders together to discuss how to combine

- Continued needs for oil and gas reserve and production additions
- Increasing investment needs
- New challenges and risks coming from
 - more oil and gas developments in “frontier” areas
 - more oil and gas developments in transition economies
 - longer distances to the market (gas)
 - regulatory developments and uncertainties downstream

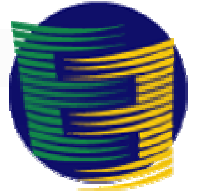


Energy is Risky

- Technology, geology, costs
- Markets, global and regional
- Politics!

- What has changed?
 - Host countries' perception
 - More economic nationalism?
 - A higher share of value for the host governments
 - Longer transition process than earlier expected

- Downstream market liberalization
- Downstream transport regulation (gas and electricity)



Political Risks

- Are they
 - system failures? Sometimes yes
 - bad governance
 - lack of transparency
 - inconsistency
 - consequence of changes? Often the case
 - energy sector reform a long process – in developed as in transition economies
 - the oil and gas fundamentals change
 - more competition for resources
- The objective is to obtain stability and predictability
 - But very difficult to obtain



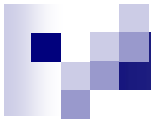
Political Risks (2)

- Is predictability possible?
 - An example: Norway changed its oil profit taxation every 5-6 years in the 1975-92 period
 - responses to changing oil prices, technology/geology, investment needs
 - A \$50-60/bbl world is radically different from a \$15-20 world
 - large windfall gains on producing fields
 - governments try to get their “fair” share of the rent
 - temptation to revisit (=revising) existing contracts



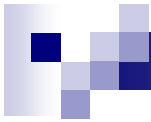
State Involvement

- Contrasting trends in upstream oil and gas
 - OECD countries clear trend:
 - generally less state involvement
 - privatization, more room for market players
 - however, state involvement remains high in some countries (examples Norway and the Netherlands)
 - Transition economies more mixed:
 - in some countries increased state role, and
 - increased role for national companies



State Involvement (2)

- Is increased state involvement = increased risks for private investors?
 - if done in a orderly fashion, no!
 - if rules and practices are inconsistent, un-transparent, yes!
- The signals are not fully clear
- Increasing policy divergence is a concern

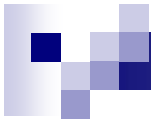


Access to Resources

National preferences

= Discrimination

- Many examples at hand
- Again, contrasting trends across countries
 - In the OECD less preferences for national champions
 - example Norway – Statoil and Hydro now compete on equal terms with foreign companies for E&P licenses
 - earlier explicit preferential position in allocations
 - In FSU increased favoring of national champions/national share
 - example: proposed amendment in Russia excluding foreign majority owned companies from bidding for “strategic” reserves
 - proposed explicit 50% criteria – “strategic” is an ambiguous concept



New Downstream Challenges

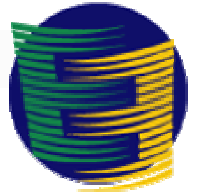
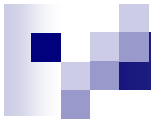
■ New policy risks

□ Market liberalization

- uncertainties about direction of the regulatory process
- UK and US experiences: long way to go before regulation and market organization come into a “steady state”
- possible negative consequences for the investment climate, for long term contracting – particularly important for gas
- questions:
 - are the regulators sufficiently investment-friendly?
 - how to combine regulatory systems with risk taking and risk remuneration?

□ Market reforms and restructuring

- for transition economies: many outstanding/unresolved issues in the gas sector

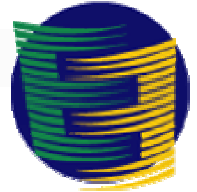


Conclusions

- Increasing investment needs
 - Competition for resources
 - Increasing market risks
 - New policy risks
 - New policy priorities
- = Increasing challenges for industry

Needed more than ever

Government consistency and transparency
and
International cooperation



Conclusions

- **Energy Charter Treaty is designed to protect foreign investments**
 - to improve the general investment climate, and
 - to promote trade, transit, and energy efficiency
- **International cooperative efforts are important**
 - Energy Charter process encompassing a broad constituency, importers and exporters
 - International Energy Agency representing the developed market economies

Legal obligations and a learning process

Establishing best practices for

- *market reforms*
- *restructuring policies*
- *governance*