

# Laws and policies affecting oil gas industry



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Every oil and gas industry are working according to the oil and gas laws, the law covers every aspects of the oil industry for example , ranging from licencing, operational issues, joint venture, project contracts, service contract and construction , disposal, acquisition, farm -in, marketing and sales , oil and gas transportation and diligence work. There are three major laws shown below

### **Downstream Energy Law and Policy**

The Downstream Energy Law and Policy, the legislation and regulation are implementing implement policy for down stream energy industries. . The importance of this the policy decision is to restructure the electricity and gas industries it will change the legislation, the approach of regulators. The law can makes working environment better

### **Environmental Law and Policy for Natural Resources and Energy**

This policy deals with national and international environmental policy and power generation, consumption of natural resources and production.

Example there may be problem rising in production sector, mining activities, transportation of petroleum, use of new clear energy, global climate effects and air pollution and d ad regulatory systems

### **International and Comparative Petroleum Law and Policy**

This is law and policy implementing in the international petroleum industry, The main part of this law are oil company, investors and host government. In this law financial investor and international corporate are faced in a open and practical way, The stake holders are very much interested on the financial development of petroleum resources . The law fully supporting the <https://assignbuster.com/laws-and-policies-affecting-oil-gas-industry/>

taxation issues also solve the variety issues , economic , lawyer , accountants , engineers and geologists in A brief introduction is provided to petroleum taxation issues.

## **Private and Government Policy**

Some factors should be considered before deciding to choose a private or government policy.

1. Private company wont have a nationality requirement ie not be a citizen of host country also they provide insurance without regard to country's economic development level or investment economic effect.

2. Private companies insure both existing and new ones whereas government insure only new project or expansion of the existing one. Also if we want a government policy for the project we must register our project with the government company at an earlier stage.

3. The government usually write policies for a long term(15-20 years)whereas private one write only for short usually three years basis and is renewed at the end of each year for an additional year so that there is always a three year basis.

Currently political risk insurers provide coverage's at a fixed rate . Most recently private companies offer coverage up to 15 years

4. Government insurance cost is cheaper than private ones.

5. Private offers more flexibility and opportunities to change the conditions of policy whereas government is not willing to change the rules from a standard form

6. The government policies inform the host government about the coverage . But private firms forbid the investor from disclosing the information regarding the investment because disclosure will make the policy invalid.

For some investors it is advantageous to use both private and official markets to meet their needs in securing investments. Government insurers such as MIGA and OPIC encourage public - private partnerships and syndicated insurances in cooperation with private companies.

<http://www.dundee.ac.uk/cepmlp/academic/FT-MBA-Oil%20and%20Gas%20Mgt.php>

## **Development strategy achieved through transforming corporate governance**

I took Halliburton petroleum industry to analyse the structure, performance and management. It is the one of the richest refinery in US . is the prime responsibility of the Top level directorial board to ensure the benefits of its share holders and the main duties includes

The evaluation of the chief executive officers performance and commitment and to take adequate action which includes dismissal , removal etc. In this main duty of the board in the executive section in each board meeting is to evaluate the chief executive officers performance by the main director and the evaluation includes both qualitative and quantitative work area of the chief

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executive . The quantitative and qualitative areas include leadership , following management development , Integrity, performance of the business, informing the board matters that affect Halliburton and its operation unit

The final evaluation department made by the main director will present in the compensation committee after being communicated with chief executive officer and the duties if the compensation committee includes the review of the evaluation of the report and provide the recommendation for the coming year and setting the compensation of the chief executive officer. The compensation is made according to the recommendation made by the compensation community

The setting and evaluation of compensation of the executive management

Annual reevaluation and review of the plans and development program for the executive management

The monitoring performance of the corporate against strategy and business plans

## **Innovation Management in oil and gas Industry**

Innovation is not simply start the business but is a business of creativity , It has something new , it is a new art . Innovation strongly supports the performance of the business , Innovation is the result of hard work, efficiency.

I choose BP to explain innovation management . BP is a UK company based company and it the 4th largest company in the world and also largest private energy corporation in the world.

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## **Innovative characteristics**

Now BP is gain an important place in the world oil industry. it was founded by George Reynolds. BP gain momentum in innovative process in nineties and it has got enough investment and is declaring now but 2001/2000 it was on its peak . BP is the biggest 10 company in the world constantly alter its technology by updating the new and latest . Bp using ultra modern technology to keep themselves at top.

## **Innovation Strategy of The Company**

Dedication shown by the senior management with in the business strategy. Dedication by the employment is very important to implement innovative process. The main innovative steps are

Performance

Progressive

Health and Safety-which ensure no harm to the people of environment

Innovative- transformation new business , bottom line performance and HSE expected a achievement are I part and factor of innovative process

BP achieved innovation by abandonment of effective management and process added heavy stress and multi performance to the staff and which effects the working pattern of the company . Every motivated individual are the great and strength of every business sector but pressure of the management will effect their performance . BP creating campaign to make aware every employer that about priority and making comfortable in their own way to provide effectiveness and innovation

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Innovation requires knowledge of customer and user, BP providing training programs for understanding the innovation application in their working field by this new technology BP achieved performance management, new idea will be a risky factor to companies . Innovation occurs motivation . Innovation need encouragement for the new idea in the driving force for the innovation. BP providing innovation needs, active support to improve employees skills. Innovation is long term process involve lot of money and time BP investing millions of pounds for theses activities

2009 was the worst economical year in oil and gas industry> The recession hit all over the world . Demand of the energy resources doesn't gone down but even through the production goes down . It is reported that world will use 45% of energy by 2030 there may be some challenges which need ultimate solution to the innovation strategic level , some example are invest more money on innovation , a alternative fuels like wind , solar , increase innovation process

## **Sustainable Development in Oil and Gas Industry**

I am analysing Zardco oil company to examine about the corporate Overview of Sustainable development . It is the second largest oil company in U. A. E. The main objective of the Sustainable Development of the development of the present generation and meet the development future generation

## **Economic Sustainability**

Zardco is producing approximately one by fourth of U. A. E oil , Upper Zakum field which is the fourth largest oil in the field is the main assets of the Zardco's mainly depend upon the growth

## **Social Sustainability**

Zadco contribute for the social sustainability and some contribution in includes employment opportunity, community welfare project , promotion of educational institution

## **Enviromental Sustainability**

Zadco has strictly maintaint its effort to reduce the environment pollution, it also monitor its emission and discharges constantly to to reduce the harmful effect in the ecosystem

<http://www.halliburton.com/AboutUs/default.aspx?navid=973&pageid=2305>

## **Business Planning Processes**

**The success of an organization depends on how effectively their strategies are implemented and how it works. The main function of the business plan is to identify and develop strategy to support the company's mission and vision. It may be long time or short time. The corporate performance focussing the development of companies in all area. The corporative planning team interfaces every group in the business units.**

[http://www.zadco.](http://www.zadco.com/CMS/AboutZADCO/CorporateOverviewMissionVisionValues/BusinessPlanning/tabid/251/Default.aspx)

[com/CMS/AboutZADCO/CorporateOverviewMissionVisionValues/BusinessPlanning/tabid/251/Default.aspx](http://www.zadco.com/CMS/AboutZADCO/CorporateOverviewMissionVisionValues/BusinessPlanning/tabid/251/Default.aspx)

## **Operation management in oil and gas industry**

The basic ethics and idea of operation management in the framework of the upstream Oil and Gas business is to enable executives to carry out a decisive

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evaluation of their concern's contrive and supply chain to comprehend the ways in which strategic goals are interpreted into decision-making.

Decipher calculated objectives into rational calculated verdict associated to effective placing, viewed within a global context for the oil and gas sector.

Transmit and converse the relation between manufactured goods and development design, and examine and construct strategies for re-engineering effective and supply chain practices to gather diverse market needs.

Evaluate and expand stratagem for facility development and classify deliver chain arrangement and control worth planning, manage and skill management.

Competent of effort out troubles relating to strategic operational decisions leading to the achievement of competitive advantage through an effective operational strategy.

## **Characteristics**

, The model of transformation, how cooperate strategy links with operation strategy, operations by strategic drives, project appraisal, project management, location of operations, planning capacity, capacity strategies: methods of forecasting demand; Operational Scheduling; aggregate plan formulation; capacity strategies; purchasing and supply chain strategies, global sourcing and supplier selection; inventory management; MRP/MRP II/ERP; quality and environmental policy: quality management; quality control and international standards for quality systems;

environmental policy; risk management; measuring performance, performance metrics, improvement strategies. Strategies for Facilities Management; Total Productive Maintenance (TPM).

## **QUALITY MANAGEMENT**

The industry handles hazardous fluids and gases through a variety of processes. Considering the personal safety for both staff and public, protection of the environment and business continuity (maintenance of revenue streams, both for companies and for national economies) require a high level of operational integrity. A solution element in the reassurance of appropriate products being supplied is the quality management system operated by the goods dealer and service contractor. The experience of previous editions of API Q1 has proven that requirements additional to ISO 9001: 2000 are necessary to provide assurance with high opinion to quality of products and services on a consistent and global basis.

It is a collaboration between the American Petroleum Institute (API) and ISO technical committee ISO/TC 67, Materials, equipment and offshore structures for petroleum, petrochemical and natural gas industries.

According to John Modine, Director - Certification Programs, American Petroleum Institute (API), ISO/TS 29001 is expected to result in "Increased international acceptance of time-tested sector-specific quality system requirements on a broad scale for the worldwide oil and gas industry." He defines it as: "One industry - one standard."

"We knew that API Spec Q1 (6th Edition) contained extremely valuable quality system requirements for the oil and gas industry - and we wanted to  
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help disseminate those sector-specific quality requirements to the international oil and gas industry. We concluded that the best way to do that would be to draft the next version of API Spec Q1 (7th Edition) with a joint API/ISO committee with the final result being a joint publication of API Spec Q1 and ISO/TS 29001. The final goal is to obtain worldwide receipt and use of the standard.”

The new technical specification aims at the growth of a quality management system that provides for frequent improvement, highlight defect prevention and the reduction of variation and waste in the supply chain and from service providers. Incorporating the requirements of ISO 9001: 2000, ISO/TS 29001: 2003, it also includes detailed, sector-specific requirements for design, development, production, installation and service of products. To assist the user, the requirements of ISO 9001: 2000 are given in boxed text, followed by specific direction and additional requirements for its implementation within the industry. Although some of the supplementary requirements may be viewed as not specific to this industry, they are needed in TS 29001 in order to ensure that the requirement(s) are explicit and can be audited.

ISO/TS 29001 is obtainable for use by manufacturers of oil industry utensils and materials (upstream and downstream), service providers to the oil and gas industry, purchasers of utensils, materials and services and organizations who could use the criterion for assessments and certification.

## **Major risks in oil and gas industry**

One of the main consideration in any global investment is the political risk . It is mainly focus on oil and gas or energy sector. This sector is very large and controversial most of the all countries energy sector is privatized, when Investing money on foreign country the investor should evaluate the political risks, economical, and geological risks. The oil companies producing the hydrocarbons in reasonable profit at right time. An contract signed with the government for particular time that should be a longer time than the present government. A upcoming government might ready to western companies and allow a more autonomist policy for their general resources. Once geological survey finished the economists will analyze finance budget, i company management will assess the major risk in a new project and resolve that risk in an suitable way,

Political risks has been changing according to their political and socio-economic situation of their own country, For example in1990s Enron Corp in India and1980s Belco Petroleum Corp Peru in both cases present government changed and new government came and adopt new anti foreign investment policies because of that they dropped their project.

There are mainly two types of risks one is Country specific political risks and another is firm political risks . Firm specific risks are directly connected to the company, for an example government might chance to cancel the project or terrorist group may decided to attack the Industry. But in the country specific politics risks is not directly connected the firm but it will effect national wide, for example the government decision will effect money fluctuation or civil war

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Dfferent types of I risks are shown below .

## **Government Risks**

### **Instability Risks**

#### **Firm exact Risks**

unfair regulations

damage

Creeping expropriation

Kidnappings

break of contract

Firm particular boycotts

## **County Level Risks**

Mass nationalizations

labour strikes

Regulatory change

rural rioting

## **Risk Management**

There are number of essential ways to protect the investment firms from the political risk, economic risks, environmental risks, and technological risks.

Assessment factors can strongly influence the company's fiscal performance.

Political risk is mainly managed by two ways one is actual political risk

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insurance and another is De facto insurance. De facto insurance is the protection from strategic partnering and planning. Political insurance is covering all part of the investment . In De facto insurances is mainly preventing the loss in risky areas for example exploration and production , money fluctuations, civil war etc.

Two important sections in a political risk policy constitutes event of loss and the measure of damages and it will be as a result of the type of coverage that is purchased. So it is important to understand the types of political risk insurance coverages. These coverages generally includes expropriation, currency inconvertibility, war and civil disturbance, trade disruption and breach of contract. all these should be closely examined

Expropriation coverage protects against patial or total loss of investment caused by host government which eliminates insured's ownership or exercise of its rights with respect to the investment. Coverages can also used against creeping expropriations which had effect of preventing the investor of its ownership. to its investments. The amount of loss will be the investments net book value.

While discussing the amount of loss based on a particular coverage the concept of book value become important and it determines how much will be recovered in the event of loss For example in US there are two methods of accounting for drilling results. An oil company can either use an accounting under which dry hole costs are written off in the year incurred, or the full cost method of accounting whereby all drilling costs are capitalized and written off over the economic life of the reserve. Both methods will produce

different results. So it is important to discuss a definition for net book value that will produce a promising financial result for the insured. Expropriation can take the following forms

#### Confiscation of Fixed Assets and Bank Accounts

Many companies have investments in the form of subsidies or joint venture . In order to attract foreign direct investment government will give some concessions or signed agreement with the company . But when the government changes some changes will happen in investment regulations and the locally held assets will undergo some unfairly actions imposed by the new government which restricts its operations. Share holder loans invested by the companies are at the risk of legal penalty. Insurance is needed to protect such loans.

Expropriation coverages also include losses due to material change imposed by the host government. The following agreements are mentioned

#### Drilling Rights

Long term agreements should contain remedy to protect against future disputes because such licenses may be cancelled later. The contract should significantly rely on quality of arbitration provision to secure against legal indebtedness through court.

#### Exploration/Exploitation (Production Sharing Agreements)

When overseas government attract western companies to share in the travel of discovery of the potential field this agreement will comprise the unfair

treatment at the next phase. Thus this agreement will identify how the oil revenues are split between the company and the government.

At the time of struggle the government will undergo any of these agreements and identify the indebtedness of the government and coverage is available on grounds similar to drilling rights

### Proven Reserve

In situations where future oil revenues are included in the balance sheet and the underwriters are satisfied with the accounting principles it is possible to include loss of future earnings as a part of net asset value in the event of expropriation by the host government

### . 2. Confiscation of Mobile Assets

Contractors who take specialized mobile plants or equipments such as barge from overseas will re-export it after the completion of their project. Before re-exporting he needs permission and license from host government. If he refused the permitted the permission he will be exposed to a potential loss caused by confiscation and deprivation.

2. Currency inconvertibility coverage helps the investor to meet the loss arise due to his inability to convert local currency into the foreign currency specified in the policy, which is usually United States dollars, or the investor's home currency, to transfer abroad. The coverages include excessive delays (usually expressed in terms of a stated time period), adverse changes in local laws or regulations, and an adverse change in the conditions governing the conversion to foreign exchange. The risk of

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devaluation is for the insurance company. the investor will pay over the blocked currency to the company in exchange for the foreign currency.

3. War and civil disturbance coverage protects against damage or destruction due to war or any other disturbances. This coverage includes revolution, insurrection, coup d'états, sabotage and terrorism. The damage may not be actual but the investment is considered as a total loss. The measure of loss will be investors net book value of the assets destroyed or damaged. The company also needs a option to replace the destroyed ones or a reasonable price for the maintenance of the damaged ones.

4. Breach of contract coverage protects the host country's repudiation against investor's contract. this coverage will provide a process for resolution of disputed and the investor can obtain an award for damages. If it is not paid with the state period of time, the investor can then demand for net book value of investment under the policy. Future loss in profit is not covered

#### 5. Project finance

Majority of overseas project requires bank finance on a limited or non-recourse basis. Private companies now offer a coverage of 10 years to protect banks giving loans to such projects. . The project sponsors will be seeking finance from the lenders where the assets of the project are assigned as collateral and the cash flows derived used to repay financing.

6. Border closures, blockades and sanctions will not cause a loss of the local investment Two possible consequences that tailores the insurance programs are loss of profit and increase in operating costs

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