

Global Service and Procurement Agreements in the O&G Sector
Managing Sustainable Performance
Fall 2018 – Cardenas and Mitro



Statement of Course Objectives: The activities in the upstream sector are funded by international oil companies but the work is carried out primarily by oil field contractors. Selecting the right contractors and designing and managing appropriate contractual relationships is one of the most important functions in an oil company. From both the operator and the contractor perspective the contracts must be realistic and clearly spell out roles and expected rewards and performance. Yet expectations are changing dramatically as petroleum activities must take into account the requirements of host governments, local communities and international standards in addition to company shareholder demands. Once the host government contract and the joint operating agreement are signed, how contractors would manage the compliance with obligations through service and procurement contracts?

This course will provide an overview of the oil company/contractor relationships, typical contracts terms, financial implications, project finance, best practices, as well as the new trends development by integrated service contracts, to help drive sustainable results that benefit all stakeholders.

PROGRAM

- 1. Overview of the Upstream Value Chain and the Supply Chain**
 - a. Role of the Operator under the JOA or Shareholders Agreement – JC/TM
 - b. Overview of typical service contractor and procurement arrangements and process for upstream activities, - TM
 - c. Overview of typical JOA requirements on procurement and awarding contracts – JC/TM

- 2. Overview of the Natural Resource Curse – roles of IOC's, contractors, governments, communities**

- 3. Who are the service companies? Types, nationalities, sizes, roles – TM**
 - a. Culture, size, employment levels and influence of contractors
 - b. Contractor mergers and concentration and use of remote technology
 - c. Typical service company relationship to operator
 - d. Construction contractors versus service contractors

- 4. Who are procurement companies? Types, nationalities, sizes, roles – TM**
 - a. Culture, size, employment levels and influence of contractors
 - b. Contractor mergers and concentration and use of remote technology
 - c. Typical service company relationship to operator
 - d. Construction contractors versus service contractors

- 5. What does the concession or PSA say about contracting? -TM/JC**
 - a. Exemptions for contractors re payment, importation, tax exemptions
 - b. Impacts of local environment on contractors, e.g. currency requirements, availability of financing, technical skills availability.
 - c. Taxation issues and impacts, e.g. PE, withholding tax, expat taxation

- 6. Stakeholder Expectations for oil companies and contractors**
 - a. Shareholders
 - b. Host Governments
 - c. Local Communities
 - d. Local employees and businesses
 - e. Regulators
 - f. NGO's - Environmental groups, anti-corruptions
 - g. International Standards

- 7. Planning and Project Management – TM**
 - a. Capital Stewardship Process overview
 - b. The Contracting Plan and impacts on costs, local content, and selection

- 8. How does the legal and contractual structure impact contractors and oil companies? – JC**
 - a. Typical service company local laws and regulations, e.g. employment, taxation, currency regulations – JC
 - b. Typical contract and key provisions for service and procurement contracts - JC
 - i. arbitration,
 - ii. warranties,
 - iii. liability clauses,
 - iv. Anti-Corruption,
 - v. Human Rights,
 - vi. Insurance
 - vii. Force majeure
 - c. WTO, EU and Treaty Requirements on competition and preferences – JC

9. The case of Integrated Service Contracts – JC

- a. The new trend of integrated service contracts
- b. Project Finance for Integrated Service Contracts
- c. Risk Management and Liability in Integrated Service Contracts
- d. Cases of Mexico, Ecuador and Venezuela

10. Service companies and Local content – TM

- a. Competition and opportunities for local contractors
- b. Local hiring by international contractors
- c. IOC contracting processes, contract scope, HSE requirements and impacts on local content – TM
- d. Impacts on local contracting and employment of different types of projects, e.g. FLNG/FPSO approaches, onshore pipelines, construction phase vs operations phase
- e. Impact of technology – Article/Case Study on remote management of drilling
- f. best practices

11. Case Study: Emerging Issues for contracting and contractors

- a. Corruption – TM/JC
 - i. Corruption record under FCPA - TM
 - ii. Contractor audits for corruption - TM
 - iii. Brazil Petrobras case study - JC
- b. Establishing responsibility for safety and environmental management (BP Makondo case study)
- c. CSR expectations for contractors - TM
- d. Human Rights and Security issues for contractors - JC
- e. Role in Project Management – TM
- f. Tax Issues
 - i. Restrictions on tax evasion - country of incorporation different than country of payment. – TM
 - ii. Local taxation, Permanent Establishment, and Withholding Tax (Angola case study) TM
- g. EXIM-type financing and impacts on local content -TM
- h. Impact of the Boom or Bust commodity cycle – contract terms, devaluation and inflation and corruption - Nigeria example case study – TM

12. Home Country Corporate Reporting and Disclosures – JC/TM

13. Industry and International Standards, e.g. IPIECA, UNCHR -JC/TM

14. Managing Performance of the contract – JC/TM

- a. Cost Control, Change Orders, Cost overrun experience E&Y study and IOC contract management, Cost Recovery under PSA – TM
- b. Hiring and labor relations
- c. Environmental and safety performance
- d. Community relations, Free Prior Informed Consent, Security
- e. Compliance and Anti-Corruption - TM
- f. Internal controls and contract audits – TM

15. **Perspective of the Operator and the perspective of service contractors** – TM and JC

16. **Emerging Trends, Future Direction and Summation** – JC, TM

Additional Resources:

Industry representative speaker

Industry field trip to service and procurement companies located in Houston

Deepwater Horizon Film Articles on Halliburton

Department of Justice reports on FCPA violations

Evaluation:

Take home assignment.