

Can The Oil And Gas Industry Live Up To Today's Dynamics?

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The continual change in Middle Eastern dynamics will have a profound impact on the Oil and Gas industry. Brent crude traded just below \$120/bbl last week when events escalated in Libya. The panic is about security of supply rather than spare capacity, considering its abundance in the current oil markets. In other words, the market doubts that the current pro-customer oil policy in terms of pricing and production can be maintained going forward. Changes in the 1960s brought OPEC into existence and changes in the 1970s delivered a higher level of oil pricing. Most importantly, these changes shifted leadership from International Oil Companies (IOCs) to National Oil Companies (NOCs). So, how does the Oil and Gas Industry quickly adjust and reshape under today's dynamics?

Historically, the oil and gas industry has had a narrow focus on the bottom line of creating value for shareholders. The shareholder is the government for NOCs while it is public investors for IOC's. Almost all strive to maximize financial earnings while delivering cost effective performance applying state-of-the art technologies. While considering governments responsible to meet community needs such as job creation and sustainable growth, companies had focused on corporate social responsibility aiming at improving their public image. This 'profit-only' business model, however, started to fail – especially in the Middle East.

One can argue that one of the catalysts of recent Middle Eastern changes is the poor standard of living of large local communities, while billions of dollars accumulated in the hands of business dealers. This small business group was supplying materials and services to industry and securing more corporate agencies over time. There was the false belief that such business pockets could ensure stability and secure supply of energy even at the expense of the community at large. It was further exacerbated by companies focusing on core business while outsourcing utilities, food catering, medical, IT services and others. As such, companies laid off or retired thousand of national employees, leaving room for big business to employ non-local employees at cheaper rates. This had severely shrunk the value of the oil and gas industry in the eyes of local communities.

The industry had also failed, most of the time, to build a complete chain of industrial and services support which provide job opportunities and circulate liquidity into the local economy. It is very devastating in some cases when operations have to be halted to wait for a service hand to fly overseas to service tools and facilities. Billions of dollars worth of EPC contracts to build new oil and gas facilities are also awarded to international contractors. Both detailed engineering and procurement are sourced abroad. Furthermore, at the construction stage, the EPC contractors normally fly in thousands of cheap non-local labour. While Houston is the oil capital in the Western Hemisphere, the Middle East, home to two-thirds of Global reserves, does not have an energy capital yet. This only speaks for industry's narrow focus and failure to stimulate local industrial support.

In order to secure supply of energy and live up to today's dynamics in the Middle East, the oil & gas industry has to adopt a 'People First' business model. Communities are no longer external, inferior or a burden to the business. It is indeed central to the shared value model proposed by Michael E. Porter and Mark R. Kramer in the January-February, 2011 issue of Harvard Business Review. Industry has to abandon outsourcing and start hiring from local communities on their permanent payroll. The region deserves a full and efficient cluster of industrial services to support its local operations, while generating jobs and circulating cash into the local economy. The industry has to invent new means of developing local economy through an integrated development package that include power generation, technology transfers and industry creation. An offset program could be customized for the oil and gas industry. This offset program requests the contractor to invest 10 % of the value of EPC projects back in the community to yield a stand-alone profitable business within five years.

Community expectations are high, and the oil and gas industry is scrambling to catch up. It is time that communities work hand-in-hand with the industry to ensure local growth and global prosperity. This can only happen if industry leaders adapt 'people first' policies and abandon the current failing 'profit only' business model.



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Dragon Oil is an independent international oil and gas exploration, development and production company. Our principal asset is the Cheleken Contract Area, in the eastern section of the Caspian Sea, offshore Turkmenistan. The Group's headquarters are located in Dubai, UAE. Dragon Oil had proved and probable oil reserves as at 31 December 2010 of 639 million barrels of oil and condensate, 1.6 trillion cubic feet of gas reserves (corresponding to 260 million barrels of oil equivalent) and 1.4 trillion cubic feet of gas resources.

