

# NETWORKS OF CONTRACTS IN THE OIL & GAS INDUSTRY

Prof. Sheraldine Pinto @  
Universidad Central de Venezuela

s.pinto@entraconsulting.com  
sheraldine.pinto@gmail.com



[www.entraconsulting.com](http://www.entraconsulting.com)

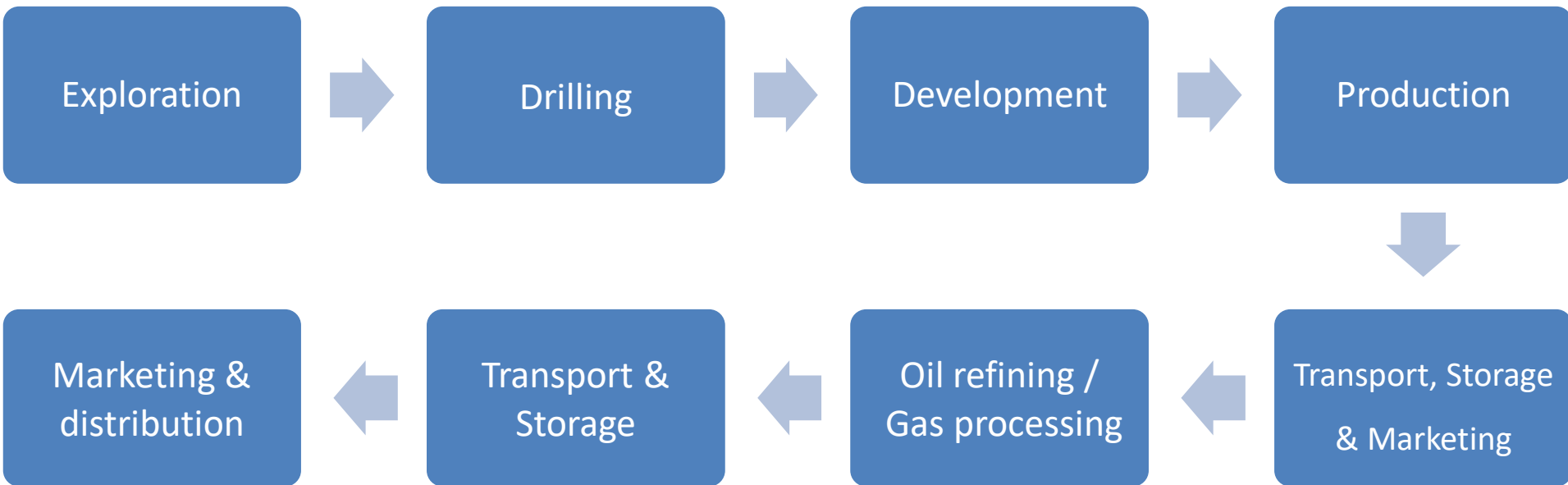


ENTRA Consulting

@ENTRAconsulting

Entra Consulting

# The Oil and Gas Industry



# Oil and Gas Activities

- **Upstream**
  - Exploration,
  - Drilling,
  - Development,
  - Production.
- **Midstream**
  - Transport,
  - Storage,
  - Marketing.
- **Downstream**
  - Refining / processing,
  - Transport,
  - Marketing.

# Oil and Gas Activities

- **Interlinked**
  - Oil and Gas activities and operations,
  - Support services,
  - Infrastructure and facilities.
- **Technically complex**
  - (Specific) technology,
  - Managerial and technical expertise.



# Oil and Gas Activities

- **Highly capital intensive**
- **Highly risky**
  - Capital risk,
  - Geological risk,
  - Political risk.



# Cooperation among Oil Companies: Purposes

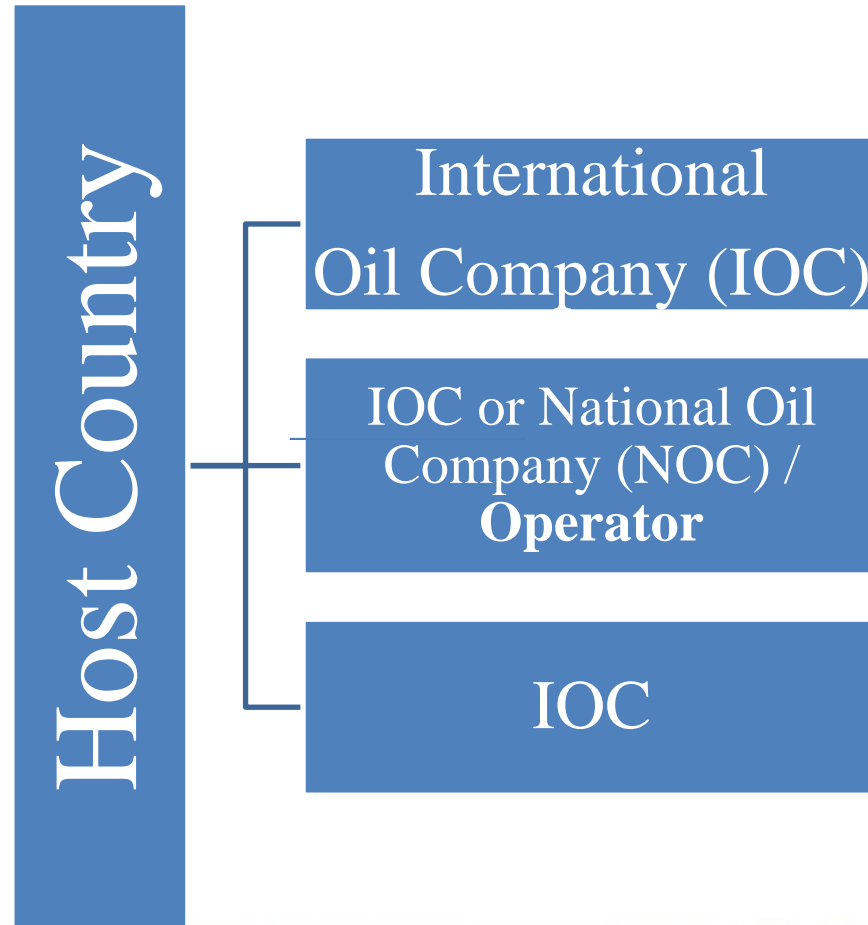
- Fulfill technical, financial, and legal requirements of project or bidding process to assign E&P rights,
- Accomplish local content requirement of Host Country,
- Access to finance,
- Facilitate sharing of technology, assets and resources,
- Manage and conduct the operations, and
- Share cost, risks, responsibilities and profits.

# Oil and Gas Contract

An agreement by which the exploration and production owner (who is usually the Host Country) grants (or authorizes) rights to conduct “exploration and production activities” to the Oil Company(/ies).

- The Concession or License,
- The Production Sharing Contract (or Agreement),
- The Service Agreement, or
- The Participation Agreement.

# Oil and Gas Contract: Multiparty contract





# Incorporated or Unincorporated?

- The decision on whether to adopt an incorporate (equity) or a contractual joint venture depends upon many factors such as **the local law in the Host Country, the corporate and tax law in the IOC's home country, and whether the parties prefer that ownership of assets and production be in joint entity or in the individual parties.**
- **A contractual joint venture can adapt more easily to peculiarities of Oil and Gas operations.** Indeed, a contractual arrangement allows that the NOC does not begin to share in the risks and costs of the venture until the “commerciality declaration” has been made, which is a typical feature of Participation Agreements and Production Sharing Contracts.
- An incorporated joint venture is generally governed by corporate board of director. Instead, in a contractual joint venture, **the decisions are made through a management committee, that has a significant power on operational decisions.**

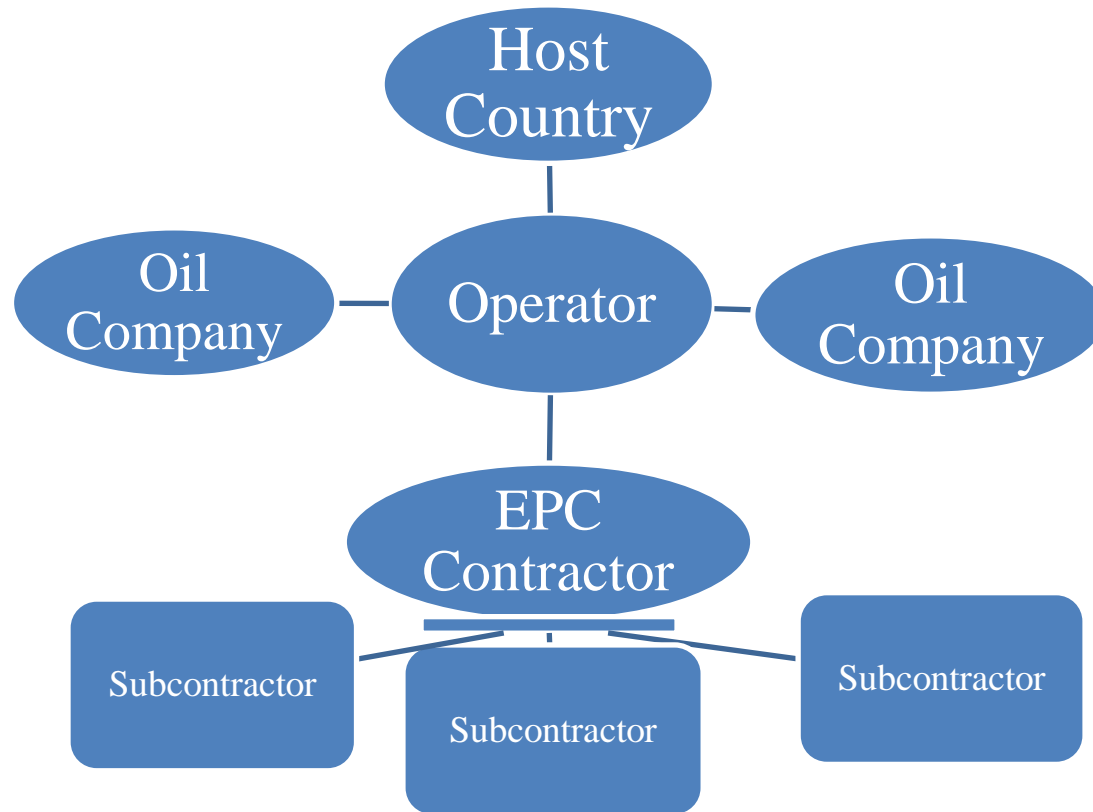
# Consortium or JV among Oil Companies

- Provides the manner in which operations will be **conducted by the operator subject to the supervision of an operation committee**, and
- Establishes the basis for sharing rights and obligations among consortium's members regarding the Oil and Gas Contract.
- Ancillary provisions regulate other relevant aspects of internal relation of consortium such as **defaults, withdrawal**, and transfer of interest, as well as some matters about external relation of consortium, like **jointly liability of consortium's members** to Host Country for breach of contract, **operator's power to act on behalf of other consortium's members** to Government authorities or thirds, taxes, etc.

# Oil and Gas Contract: Development of petroleum infrastructure & facilities

Under an **EPC contract**, a single contractor performs the engineering design and the construction work, as well as procures all necessary equipment, materials, consumables and supplies to the owner (operator, and the other concessionaire(s) or contractor(s) under the Oil and Gas Contract). Specialist engineering, procurement or construction may be subcontracted out, but the EPC contractor remains responsible for the entire project.

# Oil and Gas Contract: Development of petroleum infrastructure & facilities

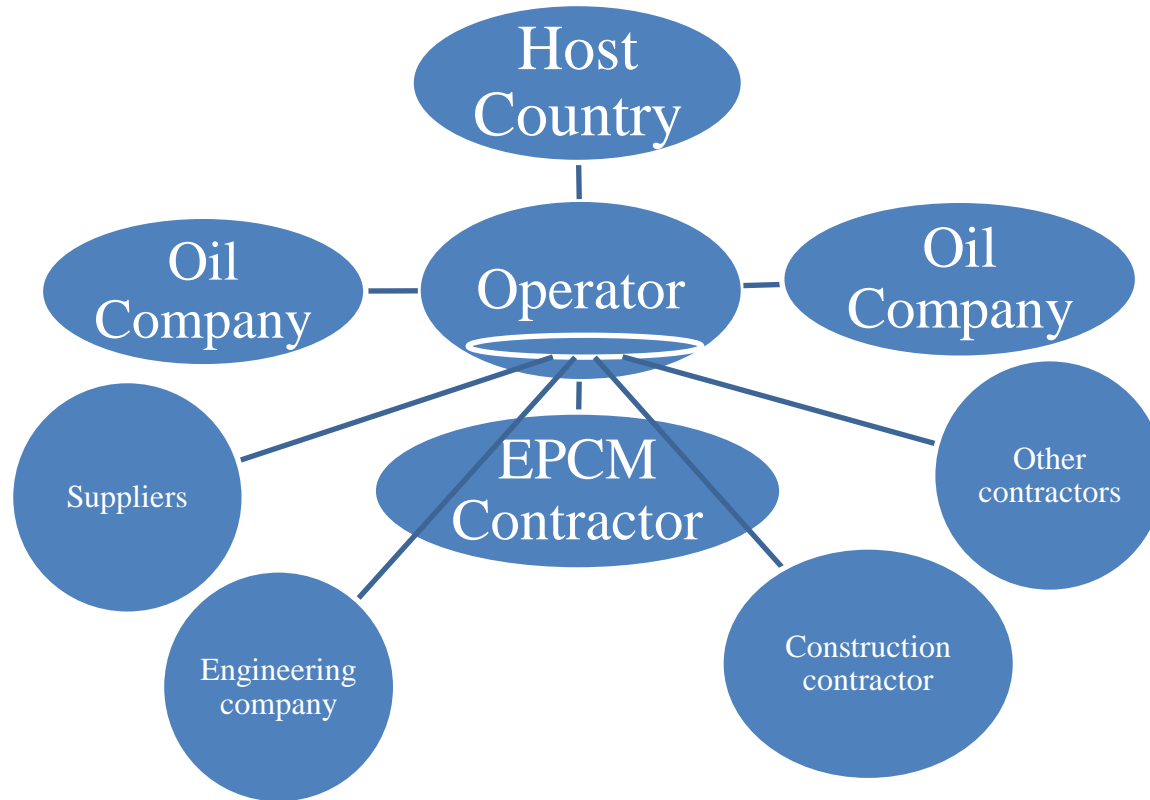


# Oil and Gas Contract: Development of petroleum infrastructure & facilities

- Under an **EPCM contract**, the EPCM contractor performs construction management services. That is, it will manage a number of construction contractors on behalf of the owner (operator, and the other concessionaire(s) or contractor(s) under the Oil and Gas Contract), but it will not perform any of the construction work. The EPCM contractor will also procure equipment, materials, consumables and supplies needed for construction on behalf of the owner.
- The EPCM contractor on behalf of the owner – operator, and the other concessionaire(s) or contractor(s) under the Oil and Gas Contract – or the operator on behalf of the aforementioned must engage services companies to perform exploration and production activities.
- The EPCM contractor, on behalf of the owner, generally will manage the relationship with the specialist engineer, but the EPCM contractor does not assume liability for the quality of the work product produced by that specialist engineer.



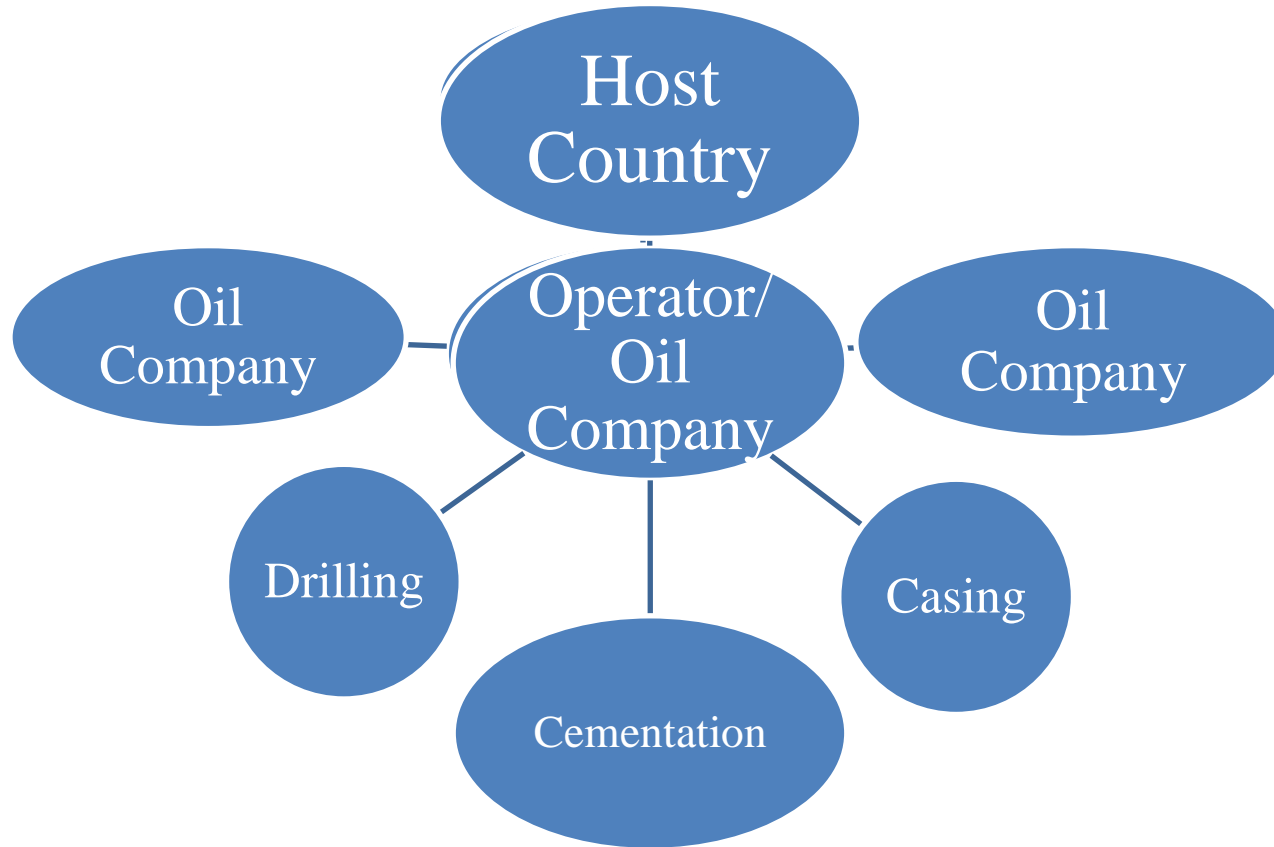
# Oil and Gas Contract: Development of petroleum infrastructure & facilities



# Oil and Gas Contract: Services

- Services contract is an agreement between the operator, under Oil and Gas Contract, and the Services Company(/ies) for the provision of services in relation to the field exploration and production.
- Service contract can be classified in several ways, starting from the simplest model (or pure services contract) to the most sophisticated, complex, and structured model, in which management and performance of services are integrated with complex forms of compensation and financing, and in which the services company may even assume or share some risks.

# Oil and Gas Contract: Pure Services Contracts



# Oil and Gas Contract: Local Content

- More and more micro, small, and medium enterprises play a relevant role in the oil and gas industry particularly in developing countries that are applied national or local content policy. Indeed, some countries (African countries, Middle East countries, Brazil, Colombia and Mexico) have included local content requirements as a parameter to assign exploration and production rights in a bidding process, or established some percentage of local content that must be fulfilled by concessionaire(s) or contractor(s) when performing an Oil and Gas Contract.

# Local content: MSME

