

# *Sustainable Partnerships*

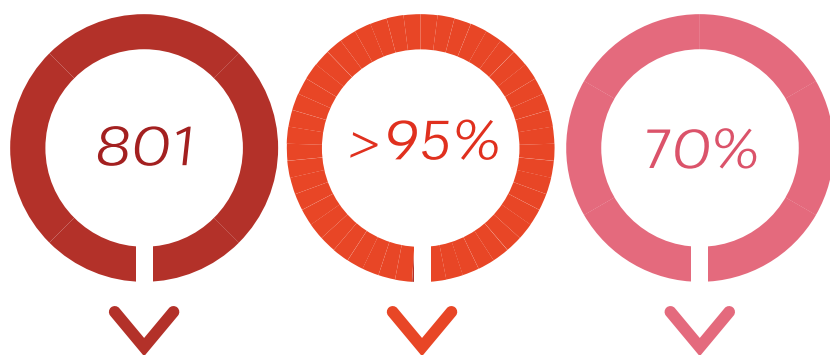
The art of high performing alliances and joint ventures

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# Sustainable Joint Ventures and Strategic Alliances are increasingly critical to delivering value in the petroleum sector, but are not easy to establish, sustain or exit when needed



Requests for Arbitration were filed with the ICC Court;

This is an 50% increase over the last 10 years

Use of JV's in E&P upstream and midstream activities;

It is rare that an operator keeps 100% equity in a block/venture/operation

Of project finance debt in emerging markets adhere to sustainability, social and human rights measures

Expanding the breadth mergers work is an art...

## Key facts:

- 95% of the upstream petroleum industry use JV's and SA's to exploit resources
- 50% increase in arbitration in the last 10 years
- Only 25% of mergers & acquisitions deliver the promised value
- Greater share of the purse is directed to sustainability and social license to operate
- Direct and indirect delivery is undergoing increased scrutiny from the public sector through access to social media
- 70% of project finance debt in emerging markets adhere to sustainable, environmental, social and human rights measures

*Collaboration is needed in accessing new markets, sharing risk and securing growth opportunities*



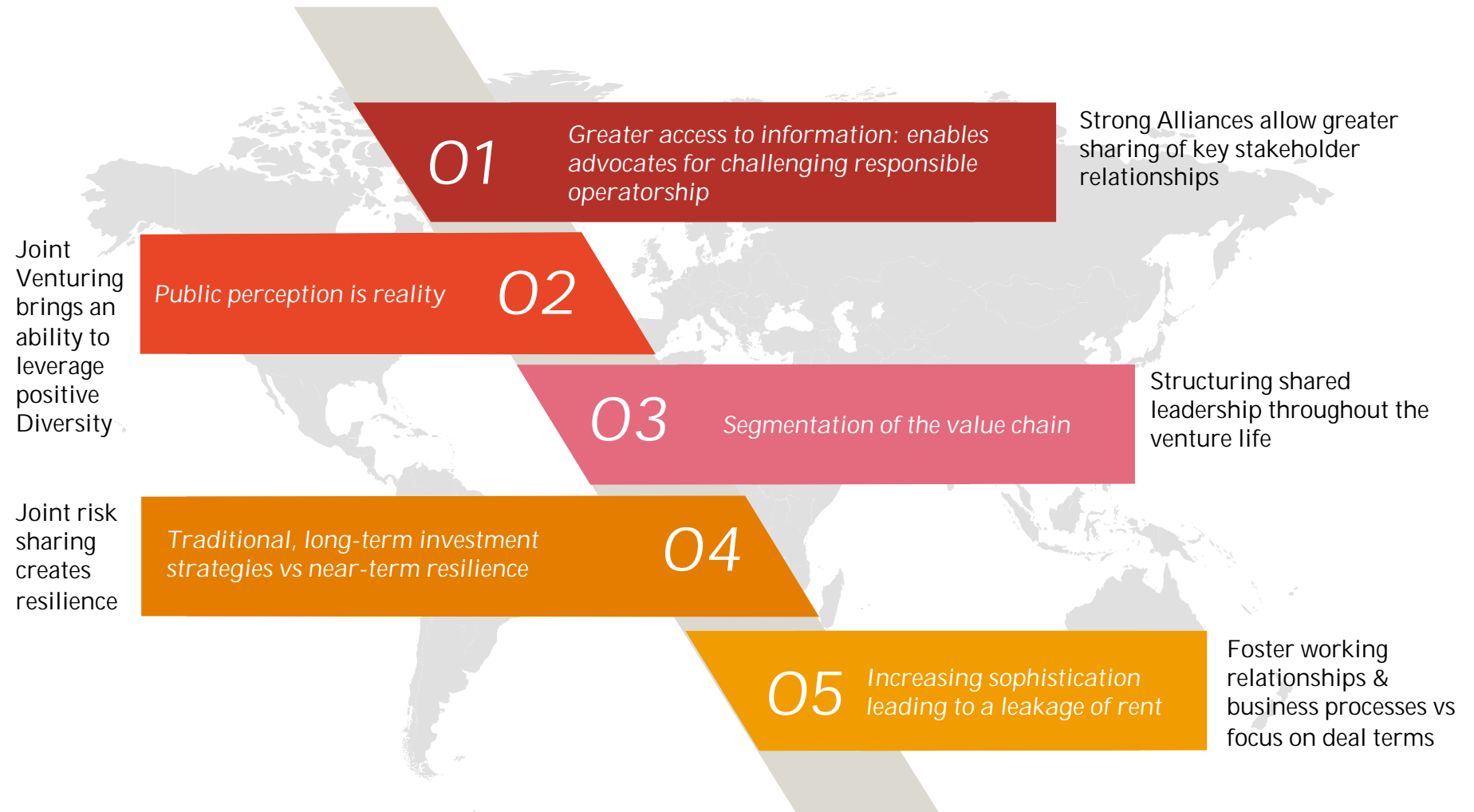


## *Impetus for focus*

*The expanding reality is development of ecosystems rather than value chains – strengthening customer to service provider interdependencies*

*Who will you do business with?  
Why will they want to work with you?*

# Emerging issues







## Lock the Gate Alliance

### Industry example:

“Lock the gate” program has been directed at coal seam gas and fracking – the impacts are numerous and vary from subtle objections to state based and Federal moratoria on actions by the gas producing industry by playing on emotions through “human voices” of suffering.

# 1. Access to information

*Online marketing, social media disruptors*

*With* increased access to information, the general public is more aware than ever of the threats and challenges petroleum exploitation presents to the local environment and are willing to challenge.

*Impacts* long-term sustainability model

*Challenges* governance procedures and standard operating protocols

*Embrace the Challenge*

*Experienced players establish repeatable success factors*

1. Informed governance procedures controlling information flow
2. Pro-active information management
3. Reducing response time and methodology through clear role definition
4. Employing ‘cyber’ security measures increasing the barrier for adversaries



### *Industry example:*

Volkswagen diesel scandal, what started in the US has spread to a growing number of countries.

The UK, Italy, France, South Korea, Canada and, of course, Germany, have opened investigations.

Throughout the world, politicians, regulators and environmental groups are questioning the legitimacy of VW's emissions testing, the financial impacts to VW are still unknown...

## 2. Perception vs. reality

*Power is shifting to the scrutineer*

*Rapid* dissemination of sound-bites through a global media.

*Impacts* valuations of public companies

- during the project lifecycle,
- operations, and
- particularly in the unfortunate event of catastrophic failure

*Impacts* reputation of the resource industry

*Embrace the Challenge*

*Venture party selection and venture functionality must take into account the social media and community profile to leverage the agility of parties*

1. Identify the power centres
2. Employ marketing skills to get ahead of the scrutiny
3. Prioritise compliance based investments as a forethought rather than an after-thought
4. Expand partnering opportunities to distribute the risk and share the burden for success



### 3. Value chain segmentation

*Increased* and diversified access to debt capital

*Increased* access to off-the-shelf technology

*Lowered* threshold for market entry to smaller players

*Fragmenting* the value chain

*Embrace the Challenge:*

*Sustainable relationships of the future are increasingly premised on integration of suppliers with buyers:*

1. Employing an enriched, competitive value proposition
2. Customer focused drivers for investment
3. Development of agile capabilities and skill sets
4. Clearly defining value by segment and performance based decision making





## 4. *Traditional investment strategies can lead to value erosion*

### *LNG projects*

underpinned by long-term gas sales agreements is no longer a pre-requisite.

*Optionality* and alternative contracting structures are dominating the future of LNG sales

*Tolling* transactions are oil price insensitive, thereby reducing risk and equity premiums

*Embrace the Challenge:*

*Development as an industry partner of choice for resource development*

1. Secure favourable fiscal/ economic terms in emerging markets
2. Reduce the development timeline and streamline project delivery through new technologies
3. Create eco-systems defining the corporate's core capabilities essential to the livelihood of the venture



## 5. *Increased local sophistication leads to a rent leakage*

*Local content* offerings such as the development of railways, roads, telecommunications

*Complex* carry structures of indigenous companies

*Challenging* role for adapting the corporate capabilities

*A Focus* on deal terms rather than venture operability can lead to narrow arrangements.

*Embrace the Challenge:*

*Widen the partnership lens*

1. Design of sustainable, strategic license-to-operate partnerships
2. Sustainability is a key concept for new country entries
3. Creative partnering to meet the needs while enabling core infrastructure and skills development
4. Partnering in adjacent and complementary industries

# Connectivity: Creating an enterprise wide DNA

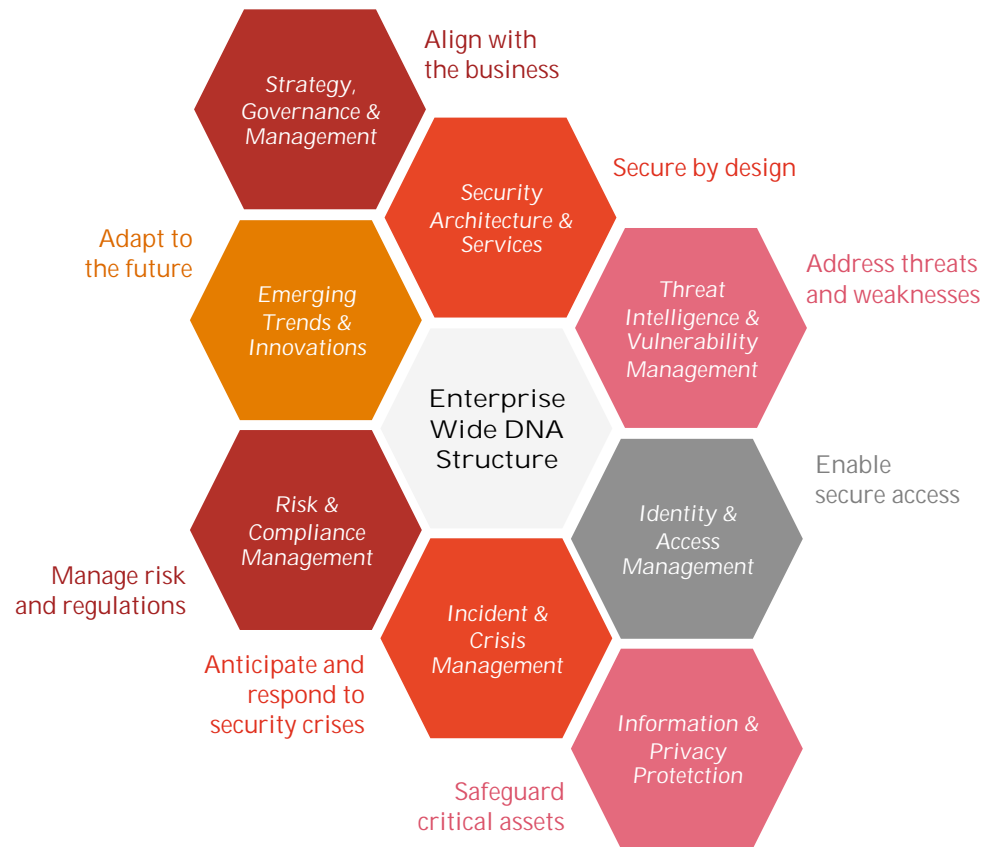
Human factors are often underestimated

Human factors introduce challenges the governance model:

- behavioral elements
- inherent biases

These informal dimensions are interdependent

Successful organizations are sustainable by developing a reliable, enterprise-wide DNA



Unique and dependable corporate culture nurturing the internal and external relationships

# Conclusion: Change is inevitable



## *The opportunity*

- Embrace challenging scrutiny
- Invest in proactive, targeted engagement
- Get ahead of incongruent information flows



## *An industry partner of choice:*

- Builds Trust
- Is Authentic
- Leads with Skill
- Is Consistent
- Delivers