

# Who influences oil sector governance outcomes? It depends on when you ask.

Understanding the shifting power dynamics  
across companies, communities and host governments  
over project lifecycles and their implications



**Premise:** *The naturally occurring shifts in power and influence between main actors over the lifetime of extractive industry projects can be used to better understand and impact actions related to the political economy.*

### Key points:

- Power and interest dynamics across major actors — including companies, communities and host governments — can go a long way in shaping the outcomes from oil sector projects.
- Despite perceptions of one or another actor dominating these processes, power dynamics can shift considerably over the lifetime of a project, with relative influence moving from one actor to another at different points along the way.
- Understanding the nature of these shifts, and the sources of power different actors can draw on, allows those seeking to support good governance of the sector to be more strategic in their interventions -- capitalizing on moments of auspicious power alignments for advancing particular interests and responding more deliberately to more challenging moments.
- This brief provides a preliminary overview of these broad shifts and considers examples of how such insights might be applied to improve outcomes from oil sector development for host governments and communities.

### Introduction

Ultimately, the economic, political, social, and environmental impacts of extractive industry (EI) projects—how they are governed, who will benefit from them and how, the extent to which their social and environmental impacts are understood and addressed—are largely the product of interactions among various international, national and local actors that, each in turn, pursue their respective interests and priorities. *Whose priorities will be served, and how, is often a function of power and influence distributions across the different actors. This is not a static condition.*

Therefore, understanding how the relative power and interests of key actors align and misalign over the course of a project's lifecycle can provide an important starting point for understanding how to advance a range of outcomes across the value chain of EI projects, from improved community benefits to better deals for host governments. This knowledge can help guide interventions and improve their effectiveness.

Relative power across key actors—EI companies, host governments and communities—is often misunderstood and its variability over the course of an EI project is often overlooked. Despite assumptions about the dominance of international extractives companies or host governments and the relative weakness of extractives communities, the actual power relations across these actors are dynamic and their relative influence

varies over time. Therefore, so too do the constraints and opportunities for each to realize their respective, sometimes overlapping, interests.

### Current (Mis)Understandings and Their Implications

Governments wishing to develop their petroleum resources often perceive the large international oil companies (IOCs) that they rely on to carry out these roles as being much more powerful than the host government due to the IOC's more extensive access to financial and technical resources as well as their ability to move investments globally. IOCs themselves often use this perception to their advantage in negotiations. As a result, the preferences of the companies can dominate outcomes, e.g., negotiated contracts can tip the balance in favor of companies through excessive fiscal incentives and easing of regulations. The reality, however, is much more complicated.

The very nature of the typical upstream project cycle stages—1) license award, 2) exploration, 3) development, 4) production, and 5) decommissioning—inevitably entail a shift in power and influence back and forth among the IOC, the host government and local community actors at each stage. For example, an IOC that enjoys great autonomy and influence during the initial exploration phase will abruptly find itself at the mercy of the government or NOC once they have applied for approval of the development plan required in order to proceed further. This shift is not always understood or anticipated by local governmental and non-governmental actors, especially in locations new to the extractives sector. Similarly, a local community that had virtually no influence on the actions of the IOC or government during an offshore exploration period might find that once construction commences on an onshore base, processing plant or pipeline, its power to influence results will have greatly increased now through its ability to obstruct or disrupt operations. Again, such opportunities are too often missed due to fixed assumptions about relative power and influence across key stakeholders. Variation in relative power and influence can also shift as a function of energy market cycles, scale of the resource, relative knowledge and experience of the government or civil society, requirements built into production sharing agreements (PSAs), and local law and regulatory capacity.

Obtaining a better understanding of these factors, in conjunction with timing, can be a powerful tool in strategizing approaches to advancing the interests of host governments and EI communities. Knowing and anticipating the best time to push for changes in fiscal terms, to apply political pressure for changing legislation on transparency, or to open up negotiations on community issues can help maximize the effectiveness of those political actions.

This short overview offers an initial attempt to map the power of key actors across a petroleum project's lifecycle, an indicative

portrayal of how power and influence broadly changes over the life of the upstream process and some of the factors that impact this.

### Mapping the Distribution and Shifts in the Relative Power of Governments, IOCs and Communities Over the Project Lifecycle

Power shifts across the three main groups of actors explored here (governments, IOC and communities) play out in different ways and for different reasons over the lifetime of an EI project (see Figures 1 and 2). The factors that determine which party has power over another are set out in Box 1.

#### Box 1: What factors contribute to actors' power?

##### Governments

- Requirements and authority to approve decisions under laws and agreements
- Concentrated authority to award a contract
- Ability to stop or delay work or approvals
- Authority to impose taxes, fines or penalties
- Control over law enforcement, police or military

##### Investors

- Technical capabilities and access to expertise and technical information that the other party (government or community) does not have or is unable to obtain

- Financial strength and greater access to global financial actors and networks
- Presence or absence of strong internal policies and controls, which determines the ease with which companies' approach will be governed by politics
- Limited alternatives to one party and many alternatives to the other: having a wide portfolio and not being dependent on only a few business opportunities
- Access to legal expertise and ability to reliably use judicial processes or international treaties or arbitration to obtain desired results

##### Communities

- Ability to induce significant economic costs through opposition, obstruction or disruption
- Asymmetry of impact of the stoppage of the project on the company (large economic impact) vs the community (small economic impact or possibly net gain when taking into account externalities)

##### All parties

- Potential influence over public opinion or political decision makers

The following basic sketch is meant to illustrate how relative power between host governments and IOC investors (Figure 1) and communities and IOC investors (Figure 2) shift over the lifetime of a project.

Figure 1: Shifting power over time between host governments and IOC investors

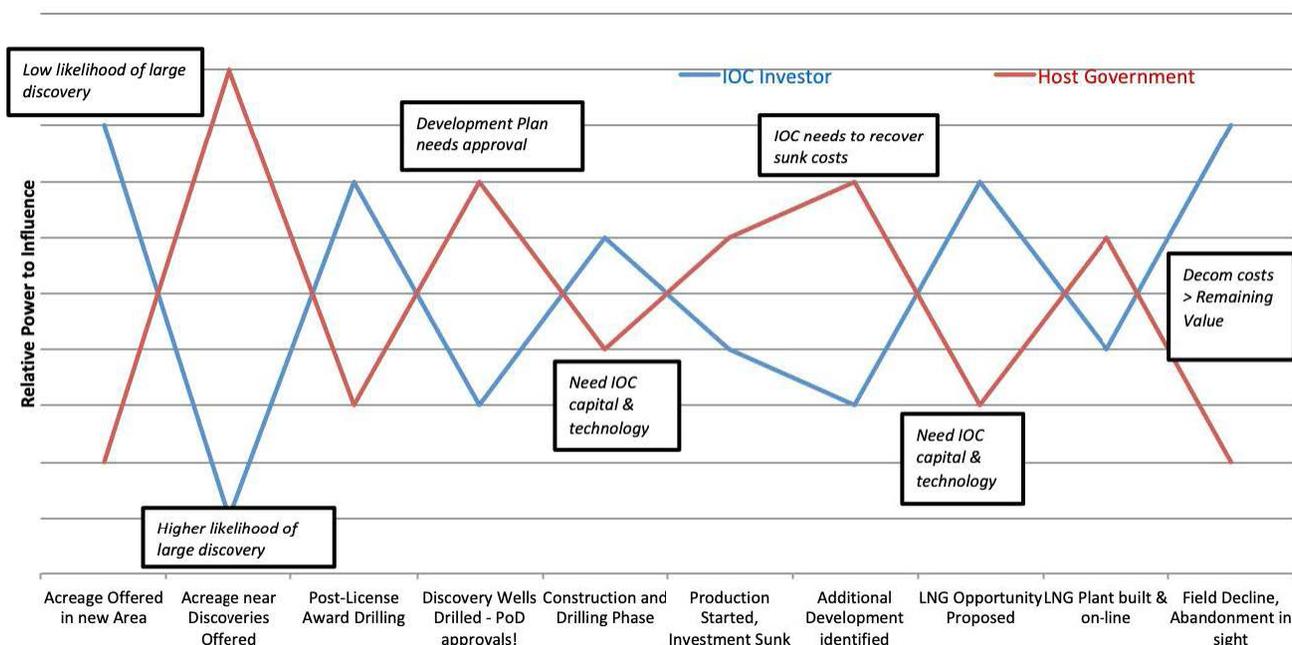
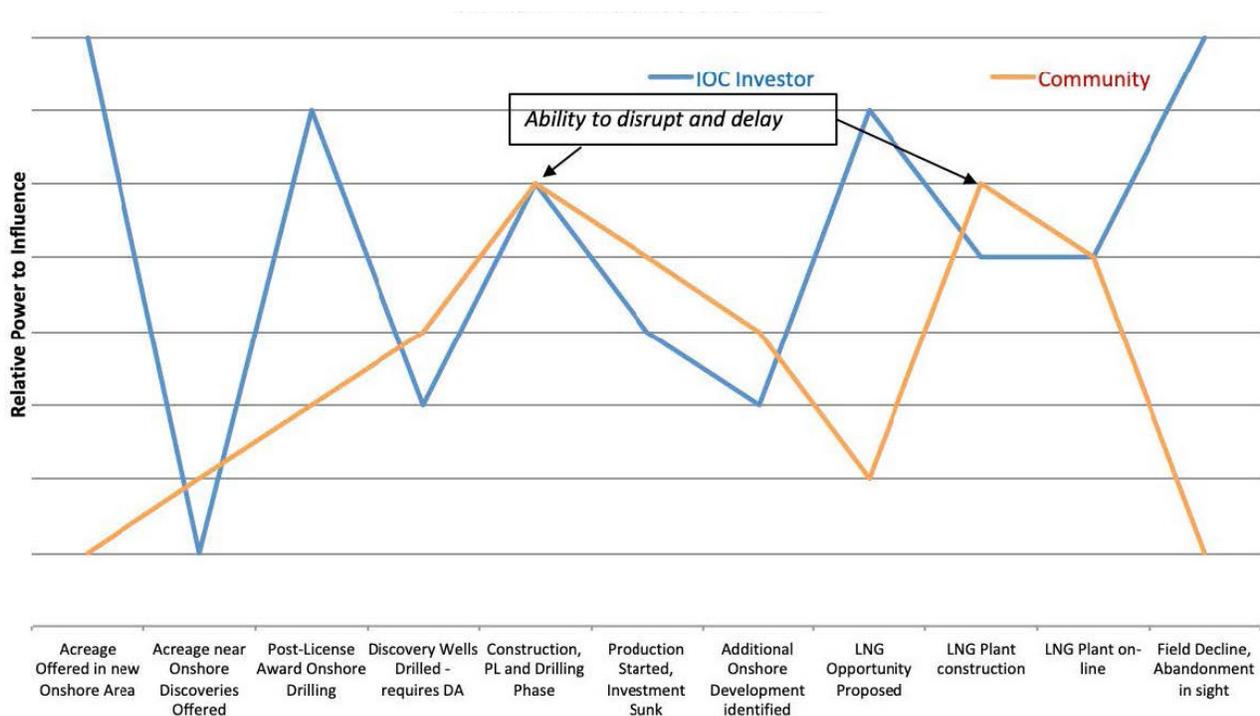


Figure 2: Shifting power over time between communities and IOC investors



The salience of these factors varies over the lifetime of a typical petroleum project. Ebbs and flows are also shaped by variation in international market conditions, geology and knowledge (see Box 2 and Figure 3).

**Box 2: Transversal external factors**

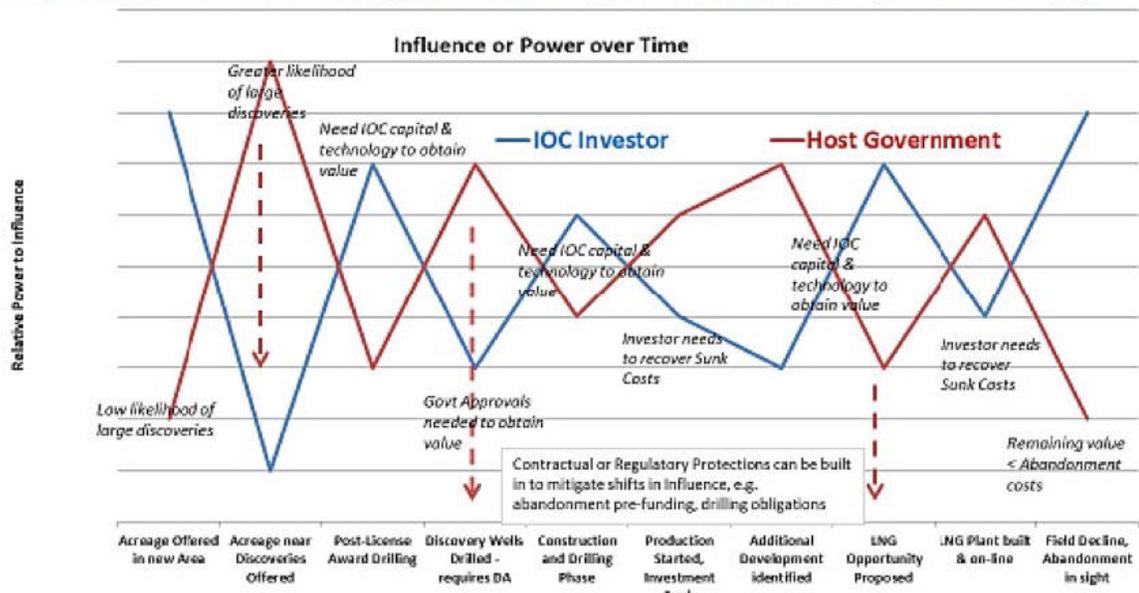
**Oil price** – In general, higher oil and gas prices result in an increase in the resource owner’s power, pertaining to both governments and local communities. The government and local community influence curves are shifted upward during times of higher prices. The lower that prices are, the more that power shifts to the entities that have access to capital, technology and markets – the IOC investors.

This can be seen most clearly in the run up of oil prices in the 1970’s when many governments increased taxes and the number of equity shares invested in projects. Conversely, during periods of low oil prices, oil companies reduce drilling, and are, thus, able to pressure governments to grant fiscal incentives as a condition of resuming investments. (Example-Chevron’s statement in 2017 “Existing tax terms are not very attractive. We have been working ... with various departments of the government of Angola so that we can make it feasible and we can invest. Our investment will depend on what will result from these negotiations.”)<sup>1</sup>

Governments, as owners of mineral rights, obtain more than 50% of profits through fiscal systems (royalties, taxes and production sharing). Consequently, the government proportionately benefits more than the oil company investors from price increases and suffers more profoundly from decreases. This effect can accentuate shifts in influence due to price movements.

**Size of the Resource** – Typically, the greater the size of the discovery, the greater the power of the government as the owner of mineral rights. Moreover, the influence of a large discovery in adjacent blocks augments the government’s leverage in all phases as it increases the geological attractiveness of the countries. The economic value of a large discovery to an investor is significant in comparison to other opportunities that a company may have; consequently, the opportunity cost to the investor of delaying or “walking away” from a negotiation or a project is greater. Conversely, the risk of an investor leaving a project is less significant since a larger discovery means more potential companies would be willing to step in to replace or buy-out a departing investor.

Figure 3: Factors shifting power of IOC investors and host government



**Government Power Curve shifted downward with Natural gas plays, without economics knowledge, or when prices drop**

**Oil versus Gas** – Relative to natural gas which is complex and more expensive to produce, treat and transport, discoveries of oil tend to favor governments over companies as they require less specialized commercial and technical expertise and financial commitments than natural gas (thereby lowering government reliance on EI companies to provide these).

**Impact of PSA Terms** – This is the primary vehicle by which the parties attempt to mitigate the power shifts that naturally occur via provisions such as economic stabilization, pre-funding of decommissioning, minimum work programs, mandatory relinquishment provisions, plan of development and contract approvals, profit sharing and royalty or taxation term design.

This overview suggests that, departing from common rudimentary generalizations about “who holds the cards” when it comes to how oil and gas projects might unfold, reality is far more complicated, providing the key actors involved with a series of auspicious circumstances for advancing their respective interests over time. The following section explores some key points in the value chain in an effort to illustrate some of these shifts and how they can play out.

**Prior to a license award – Power depends on prospectivity**

**Distribution of power.** The government or IOC’s power to influence the outcomes of the terms of a license award will depend almost entirely on the prospectivity of the area being offered. For example, if there have been large discoveries in adjacent blocks and the area being offered is of similar geological attractiveness, then the government power is almost unlimited and the IOC influence is low because many IOCs will be willing to compete for access to the area. If it is an area that was relinquished after dry holes or one where only limited geological or seismic data is available, then the government power to influence is quite low and the IOC can virtually dictate conditions because the latter is assuming the bulk of costs and risks associated with highly uncertain prospects.

In many cases, this is the stage at which point the IOCs push to insert an economic stabilization clause into the PSA. This is done as an attempt to protect themselves from the impact of future government actions in subsequent project phases to increase government take, impose new taxes or establish new regulations that are enabled by successful discoveries and developments or improvements in oil and gas prices enhancing government power and influence.

At this point, a government may also be in the strongest position to impose strong anti-corruption and information disclosure standards. Failing to set the requirements early on can attract less than ideal IOC participants and make it difficult to impose such requirements at a later stage. Following a rigorous due diligence review of potential IOC participants prior to license award is an important part of standard-setting.<sup>2</sup>

**Example of High Government Influence Prior to License Award:** In 2016, after several mega-discoveries were made in its deep-water area, Angola put out for the bid rights to Block 15 which was adjacent to these large discoveries. The rights were won by an ENI-led consortium which bid a very high \$1 billion signature bonus,<sup>3</sup> demonstrating the government's leverage.

**Example of Low Government Influence Prior to License Award:** In 2003, Ghana awarded rights to the West Cape Three Points block—with highly favorable investor terms in an unexplored offshore region—to a small partnership, the E.O. Group, and a newly formed small oil company with no funding or track record in carrying out exploration. This was based purely on the hope that they could attract others who were capable of funding and technically conducting the necessary work.<sup>4</sup>

### Exploration Phase - After a license has been awarded but prior to a discovery

**Distribution of power.** At this stage, most of the power shifts to the IOC. By granting mineral rights, the government has effectively granted the IOC a monopoly to explore the block that was awarded. The probability of a discovery depends on the IOC's technical expertise, experience in similar scenarios, and the financial wherewithal to carry out a robust exploration program. Also, the exploration stage is where companies have the most flexibility in terms of where to allocate exploration funds in scenarios around the world as financial resources have not yet been sunk. Many companies consider a portfolio approach as the most advantageous at this point. Consequently, there are very few decisions that the government or any government official has power to “influence” as most of the relevant decisions at this point lie in the hands of the IOCs. There are relatively a fewer number of alternatives outside of an individual country or region that smaller, less geographically diverse companies typically enjoy, limiting a smaller company's ability to allocate its funds elsewhere, and thereby giving back some power to the government.

Government influence is enhanced in cases where there are strong work obligations with relinquishment or work-or-pay requirements built into the concession award.<sup>5</sup> This is especially true in cases where the initial exploration efforts may not result in discoveries and require the government to agree to more time or to permit flexibility in which prospects are drilled to allow seismic/study costs to displace drilling.

Also, if the license area is very large (like the Exxon's Guyana Stabroek block<sup>6</sup> comprising 26,800 square kilometers) then the power of the IOC becomes even greater. This is because they have the freedom to choose to explore a wide range of prospects in diverse geologic trends within that block without necessarily having to seek government approvals to proceed. The IOC also can “hold” the exploration license longer by exploring a relatively small part of such a large block.

### After a discovery but before approval of the development area/plan

**Distribution of power.** At this point power typically shifts from the IOC to the government as the IOC needs government approvals to proceed in the most economic and expeditious manner. This is even more acute when an initial concession bonus had been paid as time value economics are more affected by any delays.<sup>7</sup>

In addition to the right to approve the details, costs and technical approach to a development, the development plan often represents the time at which the government typically has the option to decide on other vital aspects:

- Ring-fencing area defines what impacts cost recovery and final economics
- The decision to extend the concession or contract life upon moving from prospecting/exploration stage to development/producing stage
- Initial production rates and declines which can serve to mitigate or exacerbate the boom and decline cycle of revenue flows to the government
- The national oil company often has the right to elect to begin equity participation in the development and trigger IOC carry of the NOC interest
- The overall health, safety and environmental plan is submitted and must be approved
- How associated natural gas will be utilized, treated, exported, sold locally or flared is clarified
- Fiscal incentives or amendments to agreements necessary to achieve a “reasonable” return on investment are approved
- Trigger for the government NOC to seek internal or external financing for its own equity share

- Overall project contracting strategy and specific contractor requirements are determined
- Specific requirements and targets for community consultation, local infrastructure projects and use of local companies and employees are established

If the IOC does not agree usually the license terms may require them to relinquish some or all of their acreage. In many cases, the IOC may have requested a tax incentive or relief in order for the project to proceed, which puts further power into the hands of the government to grant or deny. (See further details in case study below).

For the IOC, the submission of the development plan also represents:

- An approval that is essential to be able to reclassify its reserves from “probable” to “proved”. This has a direct and significant impact on share prices, reported earnings, and financeability of the project
- The authorization to begin more detailed engineering and design work, plus commencement of bidding, negotiation and awarding contracts and materials procurement
- The time when companies must obtain evidence of financing of their share of development costs
- Typical time for triggering changes in equity shares as this is the point at which risks, reserves and costs are clarified or reduce. At this point many companies sell down/sell off their shares because they are not able to easily obtain financing for full development costs, and many new companies want to enter the project since exploration risk has now been eliminated

For any decision having such a large and long-lasting impact, it is common for certain political elements to arise in the process. For example, the company may have an incentive to select a base case (for the project’s economic return) which will influence the government’s decision or that paints the project in a better light. In some cases, they may also push to include costs that are higher than needed in order to obtain leeway for affiliate charges, using favored contractors, or “breathing room” to avoid scrutiny in case of eventual cost overruns. In other cases, companies may elect to utilize a cost estimate that is unrealistically low in order to obtain government approvals, even when they know there is a good chance that actual results will be higher. In short, companies may use price forecasts that are more influenced by the result they wish to show (fiscal incentives, fast-track approvals, larger ring fences, etc.) than by a sober and realistic assessment. In all cases, less than realistic and fully-disclosed cost risks will result in higher financing costs for NOC shares and unrealistic government and public expectations regarding future benefits.

In light of these political aspects, it is common for some companies to sidetrack government technical reviews by lobbying for approvals at the political level or for unrealistically short approval times. In extreme cases, companies may even offer corrupt payments to remove obstacles.

### Case Study

*As discussed above, depending on the terms of the PSA (see example of language in Appendix) or concession or petroleum regulations combined with the economic potential of a prospect in any particular country, the approval of the Development Plan is perhaps the point at which the government has the most influence and power to be able to shape sustainable and mutually beneficial projects. In this case study, the Angolan government was able to exercise such power effectively.*

*In Angola, the state oil company, Sonangol, was the concessionaire that retained the rights to the natural gas. When several major deepwater oil discoveries from different blocks had been made which were seen to be simultaneously approaching Development Plan approvals in the mid- 2000’s, Sonangol had the right to approve the plan for associated gas utilization. Sonangol advised project investors from all the deepwater blocks that they would approve their Development Plans as long as they contained acceptable plans for avoiding flaring and monetizing the associated gas. They further clarified that the only gas flaring and commercialization plans that they would consider as being adequate would have to entail feeding into and investing in an LNG plant. Sonangol used its power to approve the Development Plan as the catalyst to eventually successfully develop the only LNG plant in the world to be based entirely on associated gas. In order to achieve this, Sonangol did have to commit to helping “sponsor” the project within the Angolan Government and lobby to obtain the fiscal incentives and other government commitments needed to make the project economic. Sonangol pushed further to have the upstream companies not only participate in the supply of gas, pipeline and liquefaction, they also pushed to have the companies participate in the LNG shipping, regasification and marketing of the LNG. All of this was carried out in conjunction with Development Plan approval for the deepwater oil projects.<sup>8</sup>*

*In other cases, Sonangol insisted on submission of annual Contracting Plans for all projects at the time of Development Plan submissions, which ended up being an effective tool for Sonangol to influence early enough on the scope of contracts and the types of contractors who would be considered. In this way, Sonangol could more effectively lobby to have contract scopes that would be more likely to enable local contractors*

*to become pre-qualified and also to insist on a criteria that international firms would be evaluated on their past track record in hiring, training and developing Angola national employees or sub-contractors.*

*During a period of numerous and simultaneous deepwater discoveries in the early 2000's, the Angolan government decided that it would not be in its best interest to sanction several new developments at the same time as that would require more funding for Sonangol's share and the simultaneous spike in production and decline would negatively impact the overall economy. Consequently, the Government advised the IOCs of each development that they would delay approvals of the Development Plans for some of the discoveries in order to achieve a more measured pacing. This caused an uproar from investors, many of whom had paid large upfront concession bonuses which meant that approval delays had large impacts on time value indicators such as NPV and IRR. Although the concept of pacing was well intended, ultimately the Government of Angola relented due to pressure from corporate executives, political leaders and concern for their reputation as a reliable place to do business.<sup>9</sup>*

### Development Phase

**Distribution of power.** The Development Plan, once approved, often leaves few additional decisions for governments. Therefore, the power shifts back to the IOCs as the technical expertise and financial resources of the IOCs become particularly relevant and their interests often dominate outcomes. IOCs want to develop as economically as possible, and because they provide the funding they have an incentive to minimize the operability or completion risk. They may also have pressures from lenders to pursue development in a particular manner.

To satisfy these pressures and minimize risks, IOCs want to select the contractors they prefer often based on good previous experience with them in other locations. Governments may want others who have better local content track records or that have established good reputations in their country, but the government often does not have much room to maneuver to impose it.

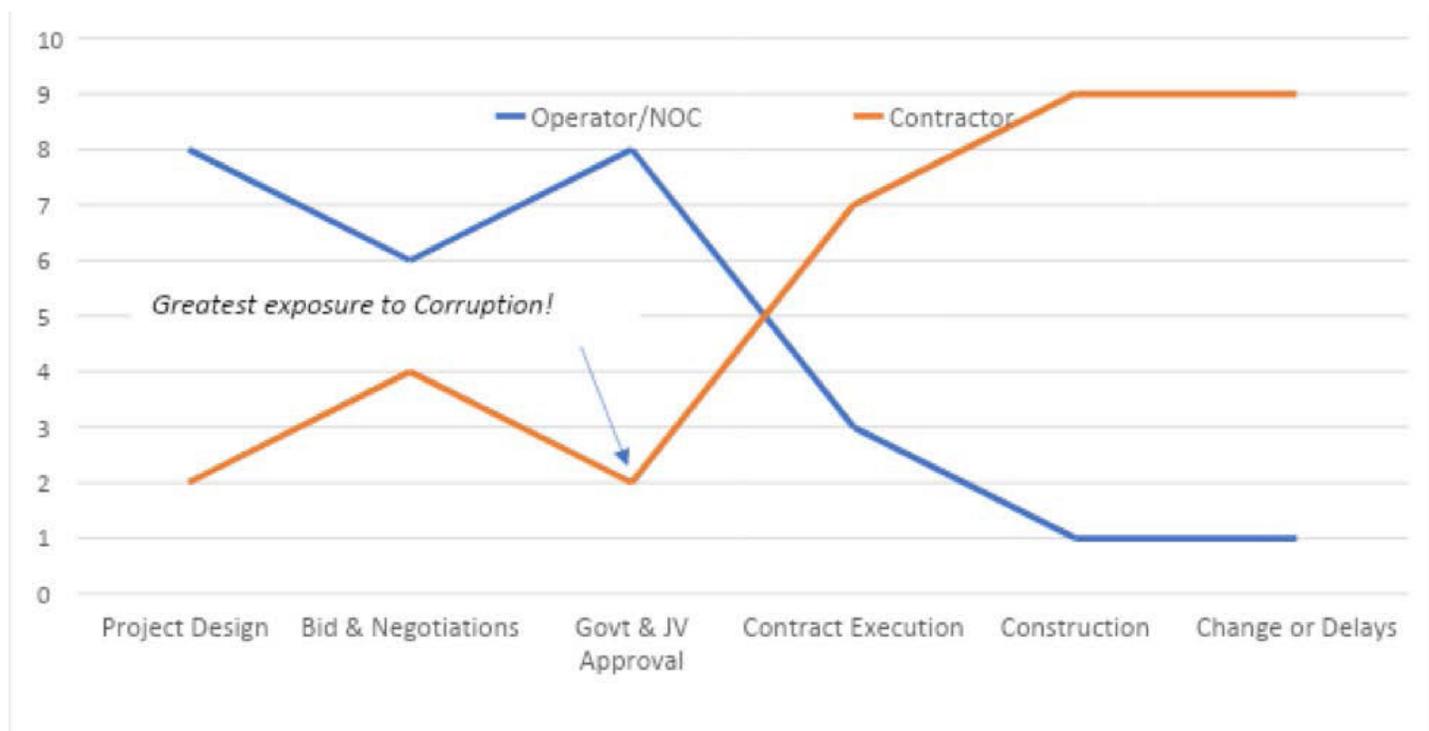
There are however a few exceptions:

- When the PSA terms specifically mandate government approvals of individual contract awards or when the NOC has a high equity percentage and, consequently, the ability - under the joint operating agreement with the IOC or under the Profit Sharing Contract - to block or modify contract award.
- When the PSA requires the submission and approval of a Contracting Plan—In addition to identifying timing and number of anticipated contracts, a Contracting Plan can be used well in advance to identify the expected scope of work and potential contractors. In this way, the government or NOC has sufficient time and information to influence how work scopes and potential bidders are established that enable more realistic considerations of local contractors.
- When the government has the ability to restrict or delay imports of goods or foreign workers through customs regulations, labor or local content laws
- When landowners or local community have the ability to delay progress on development which can have a large economic impact. The potential for delay in cost recovery is especially acute and could slow down the payback period. Since this phase tends to generate the most local employment and local business content, IOCs need to recruit and contract locally to optimize community cooperation.

Other terms of the PSA can also have an impact on power dynamics. Where there is a ring fence<sup>10</sup> and cost recovery has a tight annual “cap,”<sup>11</sup> it can put pressure on IOCs to get to first oil much quicker, or to phase developments so as to recover costs more quickly. This can have the effect of reinforcing the government's power and giving it more say in decisions on approving development areas, new development plans or contracting plans.

During this phase, oil service companies also play a major role. Understanding the power relationship with them is particularly interesting to understand because it explains how to anticipate the corruption risk in the oil industry. Corruption risk changes over the upstream phases as the role and approval authorities of governments change. As IOCs gain power over the contractor prior to the contract award, this may be seen by the contractor (and by another potential recipient of the bribe, the government/NOC) as a time to offer or extract illegal payments in order to obtain the contract (see Figure 4).

Figure 4: Relative power and influence between operator/NOC and contractor by project phase



### After Production Start

**Distribution of power.** At this stage, power shifts again to the government and now also to the community. There are fewer jobs once the construction phase ends. The IOC wants to produce as much as quickly as possible and pay as little tax/production sharing as they can. Any government approvals or compliance actions (flaring orders, export licenses, audits, environmental actions, tax claims, local content requirements, import or visa restrictions) can have the effect of limiting or delaying the net revenues of the IOC. The company is therefore vulnerable to government decisions. For similar reasons as explained above, the structure of the PSA can affect the relative power of the parties. During this phase, the local community may experience a slight increase in their leverage as any of their actions can potentially disrupt production operations. The most dramatic and extreme illustration of this may be in the Niger Delta of Nigeria where community concerns over environmental impacts and lack of employment opportunities led to strikes, protests and even attacks on personnel which have over the years resulted in significant production shut-ins.

### During Production Decline

**Distribution of power.** Power begins to shift to the IOC as production declines since, at this point, they have recovered their initial investments, earned a sufficient return and are therefore less exposed to losses than during previous periods. Moreover, absent the likelihood of new prospects in other blocks in the country, the IOC's interest in maintaining a long-term relationship with the government begins to decline. This is especially true for larger IOCs who recognize that they are not as well-equipped to operate declining oil and gas fields as cheaply and efficiently as smaller independents. Also, they see the pending facility decommissioning and abandonment cost on the horizon and, prior to that, the costs of having to repair or replace aging infrastructure and the environmental risks of leaks. The larger IOCs usually at this point pursue a strategy to sell off their interest. This potential for large IOCs' selling their interests to smaller, less financially secure companies creates a risk to the government that funds will not be in place to fully repair and decommission at international standards. The government can preserve some power if the PSA or laws of the country require pre-funding of decommissioning costs, grants the government the right to approve any transfers of interest, or establishes capital gains tax on sales.

Summary table of power and influence across the life of the project

Sources of IOC Power and Influence	Sources of Government Power and Influence
<b>Pre-Award Phase</b>	
<ul style="list-style-type: none"> <li>• More choices around the world</li> <li>• Financial resources and technical expertise</li> <li>• Better knowledge of resource potential</li> </ul>	<ul style="list-style-type: none"> <li>• Size and certainty of potential resource</li> <li>• Control of award process</li> <li>• Due diligence and establishment of strong anti-corruption requirements</li> </ul>
<b>Post-Award Pre-Discovery Phase</b>	
<ul style="list-style-type: none"> <li>• Financial resources and technical expertise</li> <li>• Have been granted an exclusive right</li> <li>• Influence with international contractors</li> </ul>	<ul style="list-style-type: none"> <li>• Limited approvals</li> <li>• Few local firms with expertise in exploration</li> </ul>
<b>Post-Discovery Pre-Development Approval</b>	
<ul style="list-style-type: none"> <li>• Financial resources and technical expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Strong approval authority that impacts NPV</li> </ul>
<b>During Production</b>	
<ul style="list-style-type: none"> <li>• Limited options</li> </ul>	<ul style="list-style-type: none"> <li>• IOCs have “sunk” costs not yet recovered; need to produce without interruption to recover investments</li> </ul>
<b>New Discoveries Made in Existing Concessions</b>	
<ul style="list-style-type: none"> <li>• Technical knowledge and financial resources to develop</li> <li>• Rights under the concession</li> </ul>	<ul style="list-style-type: none"> <li>• New Development Plan approvals</li> <li>• Represents opportunity for IOC to develop relying on existing infrastructure</li> </ul>
<b>Prior to Decommissioning</b>	
<ul style="list-style-type: none"> <li>• Walking away or selling interests avoids high costs</li> </ul>	<ul style="list-style-type: none"> <li>• PSA requirements re pre-funding, right of approval of asset sales</li> </ul>

**So what? How understanding shifts in power over EI project lifecycles matters for good governance**

Actual and perceived power dynamics can shape the interactions that determine how EI projects unfold, and how their benefits and costs are distributed across the various stakeholders involved. This brief has mapped out how these power dynamics evolve over the life of a project in order to shed light on different moments in which specific actors have some leverage over outcomes. These crucial insights can be an extremely valuable tool in bringing about better good governance of EI by:

- Enabling host governments and host communities to make strategic decisions to capitalize on moments when they have the most leverage, and also seek added support to attempt to offset power asymmetries when at a particular disadvantage. For example, a local community may have the most power to influence outcomes during the development stage so they may need to plan their strategy and actions to press hardest during this period. For a government, typically the best time to implement policy changes or enhance PSA

terms is just after a discovery but before the approval of the development plan, when its power relative to the IOC is greatest.

- Helping stakeholders anticipate and take advantage of opportunities for interest alignment and compromise. When the interest of two or more of the parties coincide at a certain point in the development cycle then they can become temporary allies and amplify their power to effect change without having to be permanently allied. So, for instance, the IOC may be better served by actively seeking community involvement and economic benefits some time prior to the development phase so as to avoid disruption or delay when the costs of this would be higher.
- Allowing stakeholders to avoid the negative consequences of trying to influence outcomes when they do not have the leverage, e.g. decreased level of interest in bid rounds, project delays, arbitration cases, treaty claims
- Carrying out due diligence prior to awarding mineral rights to determine capabilities and track records of potential investors; this will reduce the asymmetry of

information during all phases which is critical when information access provides leverage

- Contributing to better governance provisions in contracts and laws that help increase benefits to governments by rebalancing power in their favor:
  - minimum work obligations;
  - relinquishment provisions;
  - caution on economic stabilization clauses;
  - fiscal regimes that take into account changes in prospectivity over time (“progressive fiscal regimes”);
  - pre-funding of decommissioning;
  - anti-corruption measures;
  - community consultation requirements;
  - local content provisions that anticipate further project phases;
  - establishment of operator requirements aligned with international standards;
  - cost, safety and local content reporting requirements.

In short, thinking about the realities of power shifts across actors over the lifetime of an EI project allows for more strategic thinking about the best and worst opportunities for different actors to advance their interests and the most important times to attempt to bolster their power through strategic alliances that have aligned interests at a particular moment. While this is a first broad-brush illustration of how such mappings might work, there is room for refinement and further iterations to capture shifting power dynamics that might be relevant to another sector (e.g. mining), a particular stakeholder group or stage of the EI project lifecycle could valuably be explored.

## Endnotes

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- 5 Wells, Lou. “Do Companies Have Personalities and Why Does It Matter?” Interview by Columbia Center on Sustainable Investment. March 2019, <http://ccsi.columbia.edu/files/2018/02/Lou-Wells-Company-Personality-Interview-March-2019-CCSI.pdf>
- 6 “Esso Exploration and Production Guyana Ltd., Liza Well, PSA, 1999.” Resource Contracts. 1999, <https://resourcecontracts.org/contract/ocds-591adf-2947803650/view#/pdf>; “Esso Exploration and Production Guyana Ltd, CNOOC Nexen Petroleum Guyana Ltd, Hess Guyana Exploration Ltd, PSA, 2016.” Resource Contracts. 2016, <https://resourcecontracts.org/contract/ocds-591adf-1399550295/view#/pdf>
- 7 In time value for money economics, the money flows in the short term are those that most contribute to improving return. The shorter the payback period, the better it is for the project economic return.
- 8 Many of the IOCs were forced to clarify internally their individual long-term strategies for Angola as this point. If they refused to participate in the LNG project, they may face a more difficult time politically in obtaining new opportunities there. For example, Statoil and ExxonMobil, after initial participation, decided to withdraw from the project. ENI, after initially electing to not participate, eventually decided to purchase a share of the project and even went further to invest in regasification dedicated to LNG. (Author’s own experience)
- 9 Author’s own experience complementing the following sources: <https://www.angolalng.com/en/about-angola-lng/our-history-overview/>, <http://www.biofund.org.mz/wp-content/uploads/2018/11/F1228.Scopingreport-Nb.pdf>
- 10 Project costs cannot be consolidated across projects. This means that losses for one project cannot offset gains in another project to reduce taxable income and lower the tax liability.
- 11 When there is a tight annual cap or cost recovery limit that is low it means that a lower amount of revenue can be used to recover costs and more gross revenues is retained by the government.
- 12 “Model Contract, PSA, 2015.” Resource Contracts. 2015, <https://resourcecontracts.org/contract/ocds-591adf-8711222221/view#/search/The%20development%20plan%20shall%20include>.

## Appendix: Example of Development Plan Language From a PSA

(From Kenya 2015 Model PSA)<sup>12</sup>

“(1)...This field development plan shall be based on sound engineering and economic principles and in accordance with best petroleum industry practice and considering the Maximum Efficient Rate of production appropriate to the commercial discovery.

(2) The Development Plan submitted by the contractor to the Cabinet Secretary shall contain details of the proposed development area, relating to the commercial discovery which shall correspond as closely as possible to the extension of the discovered accumulation in the contract area, as determined by the analysis of all relevant and available information.

(3)...The development plan shall include:

(a) A description of the proposed commercial discovery in the development area that is identified for the development and management program;

(b) Details of the following upstream petroleum operations:

(i) geologic, seismic, and geophysical exploration analysis and appraisal, including production simulation profiles;

(ii) proposed well locations and production, treatment, storage and transportation facilities to be located in the development area;

(iii) spacing, well construction, drilling process, casing and cement programs, well logs, completion methods, and production operations of the wells required for production of petroleum in the development area;

(iv) facilities for transporting petroleum from the Development Area to the Crude Oil Delivery Point and the Natural Gas Delivery Point;

(v) identification of any alternative markets and sales of all petroleum resources, especially natural gas;

(c) The initial production profiles for all petroleum reserves in the commercial discovery, including the production life, the commencement of production, and the anticipated daily rates of petroleum production;

(d) The decommissioning plan, in such detail, as the Authority requires, including in accordance with clause 17 a calculation of the quarterly accrual charges to be paid by the contractor to the decommissioning fund for individual well plugging and abandonment operations and overall field

decommissioning costs;

(e) A detailed environmental impact assessment for the commercial discovery, which identifies current and possible environmental issues and concerns and a plan for ensuring environmental compliance during the life of the field;

(f) A contractor’s proposal for ensuring the safety, health, security and welfare of persons and facilities in or about the proposed upstream petroleum operations;

(g) The contractor’s proposals for stimulating local content, including:

(i) maximizing the procurement and use of Kenyan goods and services in upstream petroleum operations to local communities;

(ii) identifying specific skills’ training programs and technical courses that shall directly translate to the employment of citizens of Kenya and shall ensure occupational health and safety requirements, fairness in gender practices, and career advancement opportunities;

(iii) coordination with stakeholders and local communities in open and timely posting of job descriptions and minimum skills’ requirements for employment to fully address local content issues and concerns;

(h) The contractor’s complete finance program for the Annual Development Work Programme and Budget;

(i) Details and copies of all contracts, agreements and arrangements for the sale of petroleum at the identified delivery point;

(j) Such other data and information as the law requires and as the Cabinet Secretary otherwise requires and is relevant to the development plan.”



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