

# Webinar: Impact of COVID 19, Lockdown & Depressed Oil Price Scenario on Upstream Operators and Service Providers

Key Takeaways

27<sup>th</sup> May 2020



**FIPI**



# Introduction

We would like to take this opportunity to thank the eminent Panelists, for joining us for the Webinar on "*Impact of COVID 19, Lockdown & Depressed Oil Price Scenario on Upstream Operators and Service Providers*". We are also thankful to FIPI for providing us this opportunity to partner with them to share ideas on these topics with leading members of the industry. Most importantly we are grateful for the overwhelming participation and Q&A's which enhanced the overall experience.

Building on the discussion, we have put together a summary of the key takeaways from the Webinar. We hope this document is useful as we all look to navigate these uncertain times.

**Boston Consulting Group , India**

# Esteemed Panelists & Organizing Team

## Esteemed Panelists



**Dr. Rajesh Kumar Srivastava**  
Director Exploration,  
ONGC



**Dr. P Chandrasekaran**  
Director Exploration &  
Development, OIL



**P Elango**  
MD, HOEC Ltd.



**Sai Subramanian**  
President Rajasthan Operations,  
Cairn Oil & Gas Vedanta Ltd.



**Rajeev Kumar**  
Director Regulatory Affairs &  
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MD, India & Bangladesh  
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## Team FIPI



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## Team BCG

An aerial view of a large offshore oil rig in the ocean. The rig is a complex of yellow and white metal structures, including a central derrick and various platforms. The sky is blue with some light clouds, and the water is dark blue.

# Agenda

- Oil & Gas Industry Outlook - Summary
- Key Takeaways - Panel Discussion
- Select Q&A's
- BCG Support for O&G players

# Five Shocks of the oil market



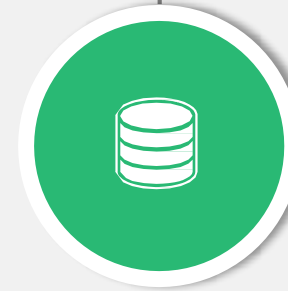
Demand: Social distancing improving



Supply: OPEC+ unwound with deal



Demand: Economic recession sustained



Storage: Overhang—fill in weeks/months



Demand: long term shift?—TBD

# Price forecast highly uncertain, but no expected recovery to pre-crisis levels in short term

## Demand

Demand shocks are usually short-lived, with a quick expected recovery post-crisis

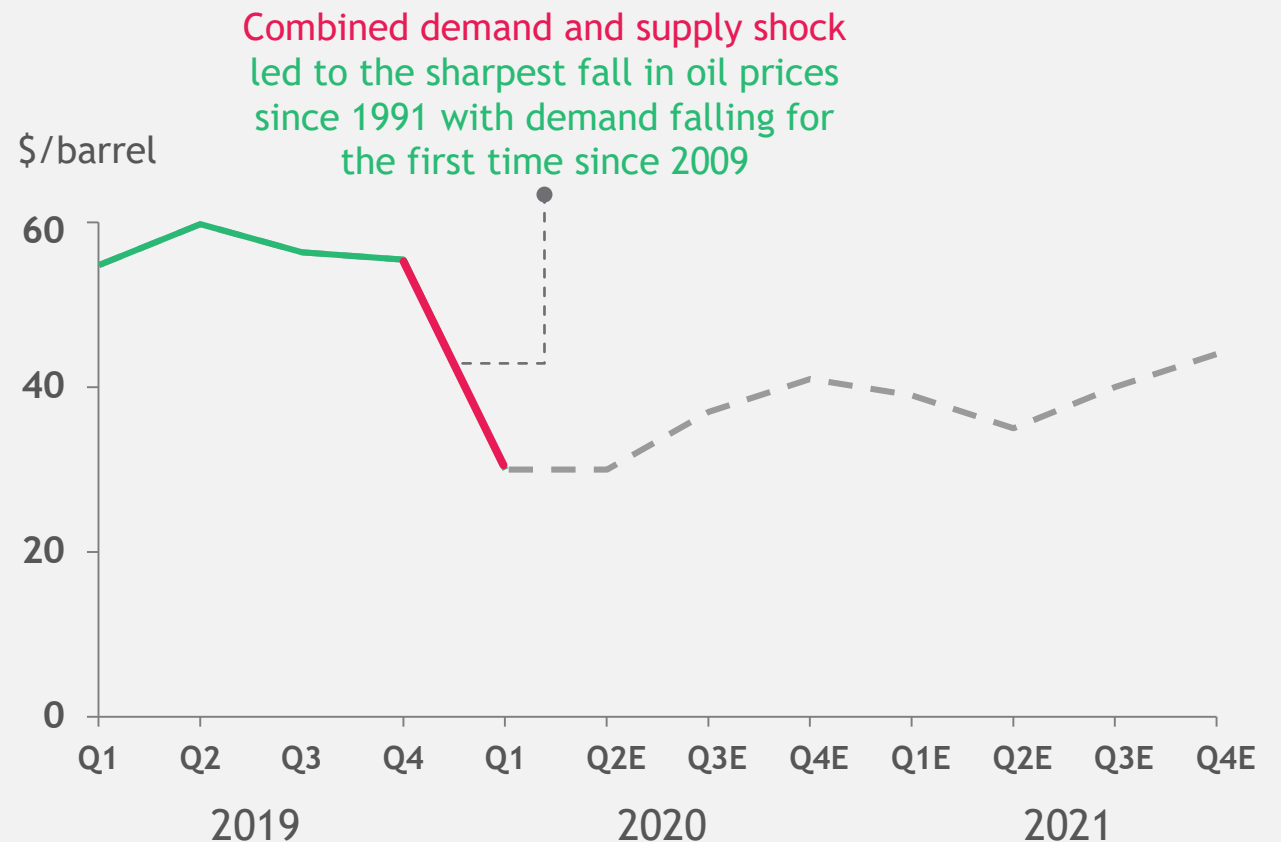
Lockdowns and restrictions around COVID19

Imminent recession across the world & change in mobility behavior

## Supply

Supply shocks are usually long-lived, requiring significant company cost reductions

Global Storage Overhang

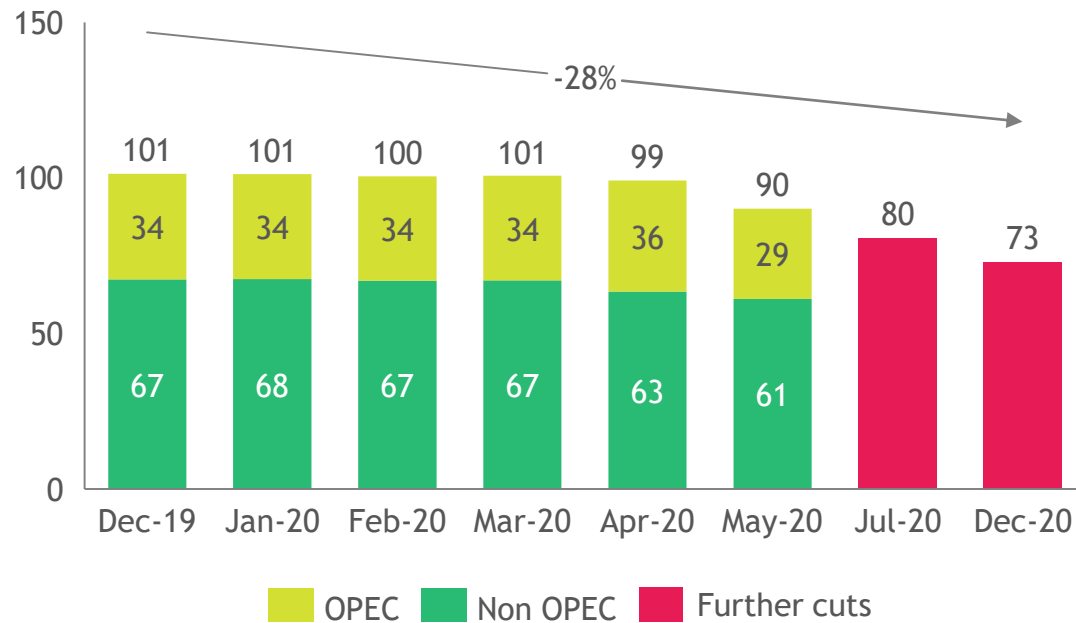


# The crisis has impacted the global energy sector significantly

Non-exhaustive

## Significant Production Cuts<sup>1</sup>

World Liquids Production (Mb/d)



## Capex/Opex Cuts<sup>2</sup>



### CAPEX Deferment

- Significant Capex reduction programs in place for 2020 (-25% for the EU majors, -30% for the US majors)
- Other measures-Delay buy backs, Increasing Debt, Asset divestment, Issuing Bonds



### OPEX Reduction

- Announced operational cost savings of ~ 15%,
- Key areas: Increased efficiencies, reduced activity, and lower energy costs

Note: 1. Source Data: IEA  
 2. Based on IOC results for Q1, 2020. Includes Exxon, Chevron, BP, Shell, Total  
 3. Total Capex Cut ~ \$ 25 Bn  
 4. Total Opex Cut ~15 Bn.

# Signs of demand recovery-but into weakened economy

## Gasoline



- First fuel to return  
Increased demand in some areas as commuters avoid public transportation
- Sharp reduction in employment/economic contraction will slow full demand return

## Diesel



- Second fuel to return as industrial activity restarts
- Trucking is still contracting but
- March industrial data fell 6x more than worst month of the Great Recession

## Jet



- The last fuel to recover
- Will require re normalization of travel, which may not occur for years
- Global commercial flights up 13% from low point-still down ~70% from pre crisis levels



4

implications

Liquidity crisis & imminent recession

Services sector in distress

Uncertainty in refining margins

Uncertainty around energy transition



Impacting global O&G, other industries & economy

# Impact on Indian landscapes remain equally significant with clear action calls

Non-exhaustive

## Favorable Conditions



Essential Sector;  
Operations continue  
with some impact



Lower cost  
of labor

## Challenges



Demand has tanked;  
ATF, MS, HSD  
hardest hit



Significant shortage of  
semi skilled and unskilled  
labor due to migration



Low digital  
maturity of  
the sector



Huge exploration prospects  
but severe challenges in low  
oil price environment

## Action Calls



Increase focus  
and accelerate  
digital adoption



Shared model  
amongst operators,  
operators and OFSEs



Govt. support  
on extension  
of exploration  
period, cess  
exemption,  
marketing freedom  
for natural gas



Selective Investments in  
most low risk-medium  
reward projects

An aerial view of a large offshore oil rig in the middle of the ocean. The rig is a complex of yellow and white metal structures, including a central derrick and various platforms. The sky is blue with some light clouds, and the water is a deep blue.

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Oil & Gas Industry Outlook - Summary

➤ Key Takeaways - Panel Discussion

Select Q&A's

BCG Support for O&G players

Increased government support, a common theme voiced by all participants



### Increased Government Support

- Relaxation in taxes & royalties
- Funding upstream oil & gas companies & technologies
- Policy simplification



### OFS Partnership Model

- Combined investment in upstream R&D technology
- Partial risk sharing by OFS players



### Fiscal Prudence

- Reduction in break even prices on per bbl basis
- Revaluating capex & optimizing opex spend



# Operator Imperatives: Long term sustenance is critical



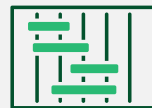
Negotiating prices of key consumables e.g. Cairn has negotiated reduction in polymer prices



Manage increased operating costs, owing to increased safety/quarantine measures



Maintain a balanced long term view & ensure quick ramp up once oil prices rise again



Project re-engineering & looking at modular approach for executing large capex projects



Need for robust capex project prioritization framework



# Government Support: Critical to ensure business continuity & recovery



Relaxation in Cess & Royalties for E&P players



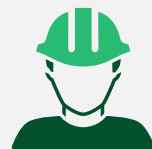
Flexibility for OFS players in using equipment & resources across different fields & players



Investing funds collected through Cess, towards upstream oil & gas sector development. No stimulus offered to the oil sector



Simplifying the restrictions in terms of freedom for marketing & pricing of gas & removing tax distortion specifically for gas producers



Continued support for resource movement across states/districts to ensure business continuity e.g. Govt. declared oil prod. as essential services





## OFS Partnership Model: Creating a win-win scenario



OFS players yet to recover from previous shocks of 2014 - limits scope of negotiations



Work collaboratively to develop niche technologies, to serve individual E&P player needs



Talent crunch & resource mobilization a concern for OFS players e.g. 30% further workforce reduction expected across OFS players



Continue to invest in integrated models, where OFS players can take on moderate risks



Need for more flexible contracts between OFS and E&P players for increased efficiencies

# Panelist Speak



Negotiated lower prices of key consumables such as polymers & other chemicals, which contribute 28-30% of our OPEX spend

Sai Subramanian  
President Rajasthan Operations, Cairn



Government should look to support small independent operators through the Oil Industry Development Board

P. Elango  
MD, HOEC Ltd.



Offshore operations were not impacted much & we did a good job to maintain supplies to our people in offshore locations

Dr. R.K. Srivastava  
Director Exploration, ONGC



Companies like ONGC, OIL & other majors are in for the long haul & take a long term view

Dr. P. Chandrasekaran  
Director Exploration & Development, OIL





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➤ Select Q&A's

BCG Support for O&G players



## Q&A's

### Select Question & Answers

Q: What's the scope for viability gap funding for upstream oil and gas companies ? What are some of the other financing options that government can leverage in such depressed oil prices ?

A:

- Government under **Oil Industry (Development) Act 1974**, has collected **INR 2 lakh Cr. of Cess** from domestic oil producers , including collection of **INR 20k Cr.** last year itself
- However only **limited amount transferred to Oil Industry Development Board (~900 Cr.)**, which the board invested with banks and earned interest, with **current available amount 11K Cr.**
- **INR 5K Cr.** has been provided as **funds to downstream companies only. Not a single upstream oil company project has been funded** under this arrangement
- Central Government should on regular basis transfer **25% of Cess (~5K Cr.) collection on yearly basis** with the Oil Industry Development Board, to support small independent E&P players
- Government should also support upstream oil and gas players to **fund development projects & exploration projects**, which are only attractive at certain price points.
- Need is to **create a financial structure within the petroleum ministry**, which can look at the issues on hand & address them on merit. This would help the petroleum ministry to get its fair share in the Oil Industry Development Fund

Q: What's the scope for OFS players to have a closer relation with the operator, specifically in such challenging times and do an operator/government institute funded research ? Also what is the OFS players view on linking service fee structure to crude oil price ?

A:

- A lot of the **efficiencies that have been tapped by North American companies** is through investment **in fit to purpose technological development**
- OFS players typically identify key **technologies to invest in based on global marketing study** , which sometimes overlooks the need of independent E&P players
- However some OFS players like **Schlumberger**, have put in some effort to create direct link with global R&D teams, **to address the specific technological needs of their regional clients** (a similar model was instituted with ONGC way back in 1990)
- **Linking of service fee with crude oil price is difficult**, as the risk that an operator takes is different to that of an OFS.



# Q&A's

## Select Question & Answers

Q: How to keep up the morale of the employees in such times ? How also under such challenging times with greater emphasis on use of local resources, how to manage upstream activities such as exploration ?

A:

- Post 2014, two major observations can be seen
  - Most oil majors reduced capex by 25% (except Exxon & Total)
  - Portfolio Management in terms of shift to more mature basins for play consolidation, supplemented with high value unchartered categories and completing the obligations
- Two factors considered in moving to mature basins
  - Shorter cycle time from discovery to production
  - Higher success ratio (owing to better knowledge of the basins)
- To keep the morale high, ONGC maintained frequent contact with its employees and catered all their and their family members needs. The employees also responded actively
- Some additional support is required from the Government
  - For e.g. in OALP's definite committed program for exploration, relaxation should there for operator to invest the remaining amount in some other acreage
  - Operator should be able to back with data from initial exploration results that it won't be prudent to further invest the remaining amount in the committed program
  - This helps in judicious use of operator resources

An aerial view of a large offshore oil rig in the ocean. The rig is a complex of yellow and white metal structures, including a central derrick and various platforms. The sea is a deep blue, and the sky is a lighter blue with some clouds. The word 'Agenda' is overlaid in white text on the left side of the image.

# Agenda

Oil & Gas Industry Outlook - Summary

Key Takeaways - Panel Discussion

Select Q&A's

➤ BCG Support for O&G players

# How to navigate the crisis?



## Now: Tackle immediate priorities

Protect your people, ensure continuity, and mitigate short-term losses



## ➤ Near-term: Prepare for the rebound

Pro-actively seize demand rebound and bring business back on track



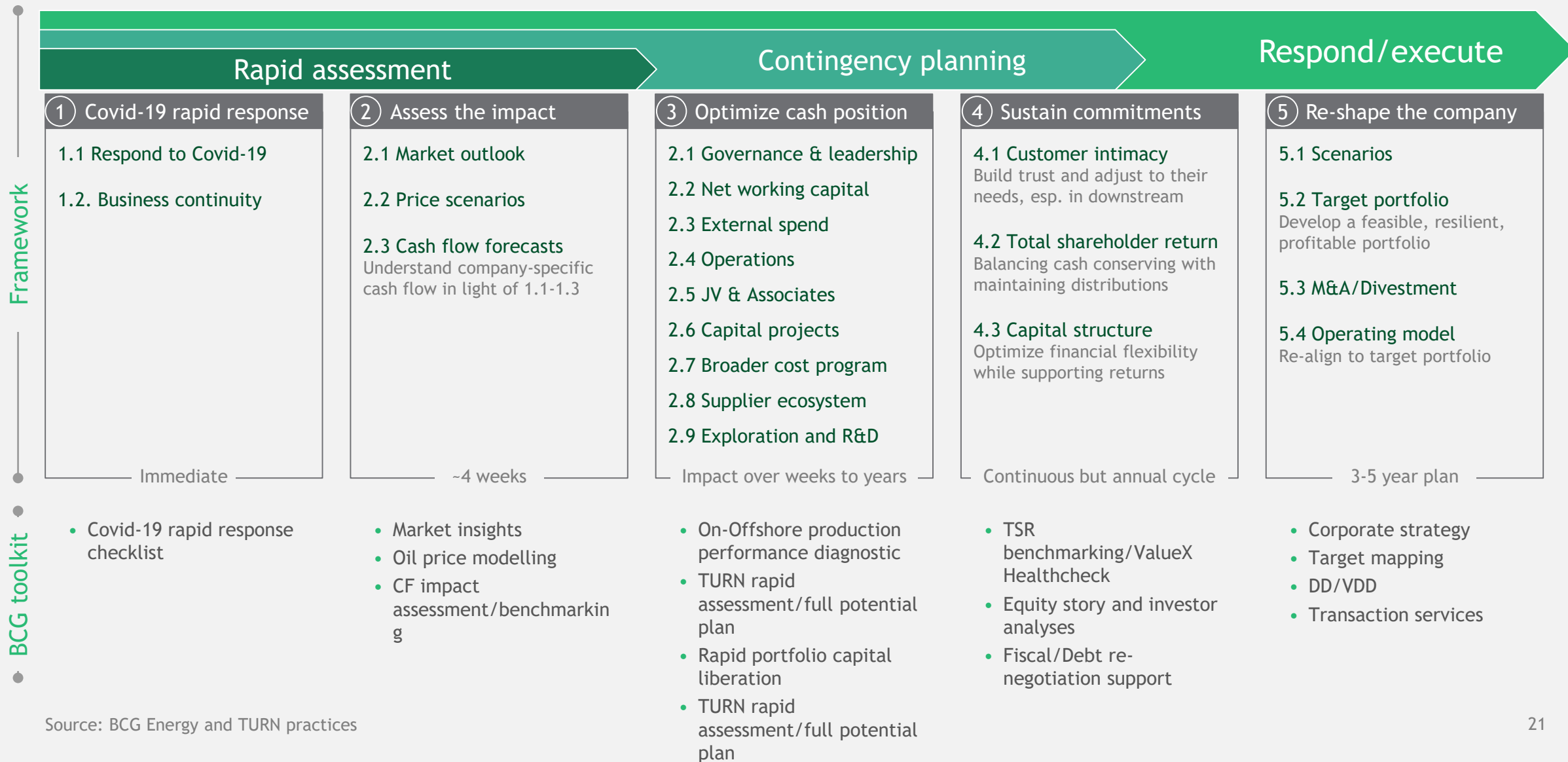
## ➤ Medium-term: Pursue structural enhancements

Build advantage by making strategic enhancements and building resilience



Day-to-day agile approach to navigate changing environment

# Five step framework to kick-start a response



Source: BCG Energy and TURN practices

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A high-angle photograph of a worker in an orange jumpsuit and white hard hat standing on a yellow metal platform. The worker is looking down at the dark water below. The platform is part of a larger industrial structure with various pipes and metal beams. The water is dark and has some ripples on its surface.

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