

Round Table: Oil & Gas

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Born in 1953 in Yugoslavia. In shipping business since 1979. Invited to Cyprus in 1987 to join a major trading company as an "in-house" broker. 1991-1994 working as MD of a liner shipping company, 1994-1998 MD and Partner in a newly-formed shipping company which has made a fleet of 20 single-size vessels within 1,5 year thus becoming the biggest tramping shipping company in Mediterranean Sea. Meantime completed post-graduate studies in UK (Master's Degree in Shipping Business).

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Sergio Casinelli practises primarily in the area of corporate and commercial law, with a focus on energy and natural resources.

Mr. Casinelli does a wide range of transactional and corporate work, including mergers, acquisitions, spin-offs and corporate restructurings. As part of his practice, he also regularly advises on the incorporation of new companies and formal corporate presences in Venezuela, as well as on the drafting and negotiation of routine corporate documents, including a wide range of contracts, and he conducts due diligence reviews.

Mr. Casinelli has broad experience in the national and international energy area. In particular, he has assisted in the review of Venezuelan regulatory matters for oil and gas companies, as well as in the review, drafting and negotiation of contracts relating to the incorporation of mixed companies for hydrocarbon projects in Venezuela, the drafting and review of several services contracts for oil and gas companies and related Venezuelan regulatory matters, including reviewing and assisting on contractual matters regarding former association agreements and services contracts executed in Venezuela.

Mr. Casinelli has also been actively involved in the energy regulatory framework of Mexico. In addition, he has advised telecommunications and dot-com companies on regulatory and corporate matters and has participated as an advisor in several international arbitration procedures for clients.



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His practice involves the representation of clients in oil and gas, energy, shipbuilding, offshore supply, platform and pipeline finance and construction projects, mergers and acquisitions, infrastructure and tax related matters. Started his career in 1989 as in-house counsel for Shell in Brazil, he worked at an important Brazilian law firm, becoming the head partner of the Oil and Gas practice in 2001.



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Daniel ("Dan") Rogers is a partner in the Global Transactions Practice Group and practices in the firm's Singapore office. His practice centers on international energy projects and transactions, energy-related infrastructure development and finance, commodities marketing and trading, and transportation projects and transactions. He works on projects and transactions involving oil & gas, power, petrochemicals and shipping, and water, where he represents sponsors, lenders, suppliers, transporters, processors, operators and marketers in all aspects of the international energy value chain.

Mr. Rogers has written numerous articles and spoken at several conferences on legal and commercial issues affecting the energy industry. His is ranked as one of the leading projects, transportation and energy attorneys in the *Chambers Asia Pacific*, *Chambers Global* and *Chambers USA* guides, and he is also included in the *International Who's Who of International Project Finance Lawyers* and the *International Who's Who of International Oil & Gas Lawyers* and the *International Who's Who of Business Lawyers*.

Mr. Rogers is a member of the American Bar Association, the State Bar of Texas, the Association of International Petroleum Negotiators, the Southeast Asia Petroleum Exploration Society and the Rocky Mountain Mineral Law Foundation. He received his J.D. in 1991 from Southern Methodist University School of Law, and he received a B.A. in 1988 from the University of California at Irvine.



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Mitchell E. Ayer is a Partner in Thompson & Knight's Oil and Gas Practice Group in Houston. Mitchell focuses his practice on acquisitions and dispositions of oil and gas properties and natural resource companies; oil and gas title due diligence; representing creditors, trustees, debtors, and creditor committees in various bankruptcy matters; and oil and gas litigation. He is Board Certified in Oil, Gas, and Mineral Law by the Texas Board of Legal Specialization and Certified in

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Alex Msimang is Vinson & Elkins' London Office Managing Partner and has extensive experience of a broad range of energy-related projects and transactions, acting for buyers, sellers, developers, lenders, governments, regulators, and publicly, privately, and state-owned companies. Alex has approximately 20 years' experience in oil and gas transactions around the world, especially in Africa, the North Sea and Latin America.

Alex is recognised by the leading legal directories, including as: a Chambers UK Leader in the Field in Energy & Natural Resources: Oil and Gas, 2006-2013; an elite "Leading Lawyer" in Projects, Energy and Natural Resources: Oil & Gas - Legal 500 UK, 2012; and he is ranked as one of the world's ten "Most Highly Regarded Individuals" - The International Who's Who of Oil & Gas Lawyers, 2012.

Oil & Gas

In our Oil & Gas roundtable, eight experts from around the world discuss the impact of recent regulatory changes and provide an insight into compliance issues and pitfalls. We also revisit the controversial topic of hydraulic fracturing and assess the global impact of the shale gas boom. Other highlights include tackling oil theft and future predictions within the industry.

1. Summarise the current trends or recent regulatory changes in your jurisdiction.

Landa: Mexico had its most recent election in July 2012 and as a result a new federal administration took office on 1 December, 2012. There are significant plans for a very important overhaul of the oil & gas regulatory framework as laid out in the “Pact for Mexico”, a tri-partisan agreement that includes over 90 specific actions to be undertaken impacting both the legislative and administrative arenas. Some of those changes have already taken place on educational, telecommunications and cabinet structure matters, which gives credibility to the prospects of significant developments in the energy sector in the months to come in 2013. The Pact for Mexico includes significant increase in the participation of the private sector in oil & gas upstream, midstream and downstream activities.

In addition to the above, as of November 2008, the energy framework was amended substantially to allow Pemex (Mexico’s NOC) more budgetary, financial and contractual flexibility – as a result, in 2011 and 2012 the first two rounds of newly integrated E&P service agreements were awarded by Pemex.

Pemex issued a couple of months ago the RFP for the award of an integrated E&P service agreement for the Chicontepec Basin. There are six blocks being tendered. Chicontepec basin holds approximately 40% of Mexico’s total hydrocarbon reserves. Technical challenges are present in this project; the fields are unconventional fields (low permeability). The blocks being tendered represent 15% of the total reserves of the Chicontepec Basin.

Miroslav: Cyprus is surrounded by substantial oil and gas resources, falling within the Cyprus Exclusive Economic Zone. To date 13 exploration blocks have been defined by the Republic of Cyprus at the south of the island, following bilateral agreements with Egypt, Lebanon and Israel. Cyprus has completed a 1st licensing round for exploration rights in August 2007, with one exploration licence awarded to Noble Energy International Ltd (Block 12). In January 2013, the Republic of Cyprus signed contracts with ENI-Kogas consortium, granting the licences for the exploration of blocks 2, 3 and 9. In February 2013, the contracts for the granting of licences for the exploration of blocks 10 and 11 were signed with Total. An extension of 180 days was granted for the completion of the 2nd licensing round for the remaining unallocated blocks in the Cyprus’s EEZ.

Karim: On 13 November 2012, the Constitutional Court (“Mahkamah Konstitusi”) announced a controversial decision, No. 36/PUU-X/2012 (“the Decision”) annulling some of the provisions of Law No. 22 Year 2001 on Oil and Gas (“Law 22/2001”). As a consequence of the Decision, BP MIGAS (the regulator of the upstream oil and gas sector) ceased to exist.

On the same day, the President issued a Presidential Decree No. 95/2012 on Transfer of Duties and Functions of Up-Stream Oil and Natural Gas Business Activities (“Pres-Decree 95/2012”). By Pres-Decree 95/2012, the performance of duties, functions and organisation of BP MIGAS were transferred to the Minister of Energy and Natural Resources until new regulations are issued. Any Cooperation Contracts (including Production Sharing Contracts) between BP MIGAS and business entities or Permanent Establishments would remain valid until their expiration. The entire process of up-stream oil and gas activities would be continued by the Minister of Energy and Natural Resources. As an implementation of Pres-Decree 95/2012, the Minister of Energy and Natural Resources transferred the performance of the duties and functions, as well as all employees, of BP MIGAS to a Special Task Force for Up-Stream Oil and Gas Activities known as “SKKMIGAS”. As of 13 November 2012, SKKMIGAS took over all duties, functions and employees of BP MIGAS. The establishment of SKKMIGAS to replace the function of BP MIGAS temporarily is re-confirmed by the Presidential Regulation No 9 of 2013 on Management of Upstream Oil and Gas Business Activities.

By the issuance of the Pres-Decree 95/2012, followed by the establishment of SKKMIGAS to take over all duties, functions and employees of BP MIGAS, there was surprisingly no turmoil or legal uncertainty in the oil and gas industry, despite a bit of media hysteria. All contracts of cooperation, including Production Sharing Contracts, between BP MIGAS and business entities still remain valid. The process of obtaining approvals of Work Programs and Budgets and all communication have simply been switched to SKKMIGAS. As stated in the Pres-Decree 95/2012, SKKMIGAS is not intended to be permanent.

As the Decision is final, the Government needs to take next steps after the dissolution of BP MIGAS immediately by submitting a new draft law on oil and gas to replace Law No. 22/ 2001, or a draft revision to Law No. 22/2001. Actually, even before the issuance of the Decision, a draft revision of Law No. 22/2001 had been included in the national legislation program. An academic paper on the law’s revision has actually been distributed to all the factions in the Parliament for responses.

Pires: The Macondo incident has caused two significant changes to the Concession Contract, which is the granting instrument currently in place in Brazil. The changes relate to (i) the obligation have a safety and environment management system that meets the Best Practices of the oil industry in place; and (ii) hire civil liability insurance for decontamination from accidents and civil liability for environmental damage.

On the E&P regulatory side, the National Petroleum Agency (Agência Nacional do Petróleo - ANP) created a specific superintendence to inspect operational safety and environmental matters. The new superintendence is called Operational Safety and Environmental Superintendence (Superintendência de Segurança Operacional e Meio Ambiente - SSM).

On the environmental side, the Brazilian Ministry of the Environment (Ministério do Meio Ambiente - MMA) has regulated new procedures for federal environmental licensing of seismic, well drilling, long-duration tests, and production and flow of petroleum and natural gas activities and projects in the marine environment and in land-sea transition zones. The purpose of the new regulations is to provide transparency in the follow-up of the proceedings, as well as to ensure legal security not only to entrepreneurs, but also to the public agents and the community in general. The aforementioned Ordinance provides for the adoption of different kinds of licenses according to the environmental sensitivity, adding new studies and requirements.

Casinelli: The general trend by the Venezuelan State in recent years has been to implement a policy of “full sovereignty over natural resources”, through which the Government has sought to re-establish full sovereignty over the management of its hydrocarbons. As a result of this, the tendency has been to increase the participation of the Venezuelan State in hydrocarbon activities, and to have a more restricted and controlled participation by private investors. Also, the government has aimed at increasing its government take in these projects. A recent example of this has been the amendment to the Windfall Profit Tax Law, which regulates a special contribution for extraordinary and exorbitant oil prices.

Ayer: Thompson & Knight recently led an effort to amend the Texas Environmental, Health, and Safety Audit Privilege Act to extend the eligibility for immunity from civil and administrative penalties for violations of state laws to a new owner who discovered the violations during due diligence prior to closing. For example, if in due diligence you discovered (i) a tank battery does not have the proper spill pollution prevention berms, or (ii) a natural gas processing plant did not have the proper air permits, these could be taken care of after closing without risking fines.

Msimang: Although V&E’s London office was founded more than 40 years ago to undertake North Sea work, nowadays we undertake significant volumes of overseas work (especially in Africa) as well as continuing our North Sea activity. In the mature North Sea, the trend has been for new classes of investor to appear, beyond the traditional oil and gas majors. Investors now include private equity funds and smaller E&P companies; around the UK companies increasingly explore offshore frontier acreage or unconventional onshore resources, while much regulation focuses on decommissioning liabilities. By contrast many African countries are just starting really to take advantage of their natural resources. Mozambique and Tanzania are putting in place regulations to manage development of huge natural gas reserves, Nigeria continues to focus on its Petroleum Industry Bill, and in Angola, Sonangol continues to acquire additional oil and gas acreage by direct negotiation and by exercising pre-emption rights. A continuing theme for legislators and regulators across Africa is the promotion of indigenous African companies and that sets the tone for many of the transactions and joint ventures on the continent.

2. Can you outline the attractions and challenges of investing in your jurisdiction?

Landa: In general, Mexico has several attributes that position it as an attractive jurisdiction for investment. It has entered into 12 free trade agreements with 44 countries, including the US, Canada and the EU, as well as 28 bilateral investment treaties and a number of tax treaties to avoid double taxation. With an extensive communication infrastructure, Mexico has become one of the most important commercial corridors for international trade. Political risk in Mexico is substantially low; Mexico offers an overall economic stability.

As for challenges, Mexico has to overcome the security issues it is now facing along with governmental corruption and an inefficient justice system.

Miroslav: Cyprus government believes it is sitting on an amazing 60 trillion cubic feet of gas, but these are early days, these aren’t proven reserves and commercial viability could be years away. In the best-case scenario, production could feasibly begin in five years. Exports are even further afield, with some analysts suggesting 2020 as a start date. But the process of exploring, developing, extracting, processing and getting gas to market is a long one. Getting the gas extracted offshore and then pumped onshore could take at least five years and some very expensive infrastructure that does not presently exist. The gas would have to be liquefied so it could be transported by seaborne tankers. The potential is there: Cyprus’ gas discoveries adjoin Israeli territorial waters where the discovery of the massive Leviathan gas field (425 billion cubic metres or 16 trillion cubic feet) and smaller Tamar gas field (250 billion cubic metres or 9 trillion cubic feet) have foreign companies in a rush to cash in on this.

Karim: Indonesia has a diversity of geological basins which continue to offer sizeable oil and gas reserve potential. According to the official website of the Ministry of Energy and Natural Resources, of the estimated 128 oil basins, only 38 have been extensively explored.

Most oil production and exploration is currently carried out in the basins of Western Indonesia. The Government hopes to encourage increased exploration and, with few significant oil discoveries in Western Indonesia in the last 10 years, Government incentives, such as encouragement of 3D seismic surveys, have focused on developing oil reserves in Eastern Indonesia's frontier and deep-sea areas.

Indonesia's total geothermal energy potential is equivalent to 27,710 Mega Watts of electricity, the largest geothermal energy capacity in the world. Besides that, Indonesia's Coal Bed Methane ("CBM") reserves are estimated to be 453 Trillion Cubic Feet which is larger than Indonesia's estimated natural gas resource. This would make the Indonesian CBM resources potentially one of the largest in the world.

Indonesia's economy is on the rise and thus seeing the country take its rightful position as a major destination for foreign investment. The country is unique in many ways as the biggest archipelago in the world, the world's third largest (albeit young) democracy and a leading exporter of numerous high value commodities. Its distinct characteristics are now coupled with political stability, self-reliance and robust economic growth which saw the country largely shielded from the global economic crisis. This represents a window of opportunity for investors to participate in a market in the world's fastest growing region that exhibits strong fundamentals and is poised to flourish.

The country faces many challenges ahead of it in securing the business environment for investors and sustaining economic growth. Core issues of corruption and excessive bureaucracy are still hurdles for any investor, while a scarcity of qualified human resources and poor infrastructure are restraining GDP growth from reaching the levels being seen in India and China. However, slow but steady steps are being taken to address the aforementioned obstacles.

Indonesia has undergone a political transformation since the upheaval of 1998 which saw the fall of General Suharto, after more than 30 years of authoritarian rule, and a collapse of the local currency, the Rupiah. The political situation is not without its risks: the snail's pace of economic and political reform under President Yudhoyono's coalition has come under fierce criticism for its inertia and pandering to vested interests of coalition members. Political noises towards greater protectionism are regular occurrences that often result in overlapping regulations creating investor uncertainty. In the run up to the 2014 elections, party interests are coming to prevail over those of political progression, with a stalemate over many proposed new bills.

The immediate impact of Indonesia's decentralisation has been excessive waste and bureaucracy. However, this is part of the process of political maturation that will eventually yield a series of coordinated regions that have adopted policies which complement their particular attributes and commercial strengths. From this long term perspective, investors can have confidence in Indonesia's stability and its political system will continue to strengthen in the decades to come.

Pires: Shortly after the success of the 11th Bidding Round, the Brazilian Energy Policy Counsel ("CNPE") published in the Brazilian Official Gazette on 22 May, 2013 the Normative Ordinance number 4/2013, which approves the 1st Pre-salt Bidding Round of blocks for exploration of Oil & Gas. This Normative expressly authorises the National Petroleum Agency to promote the 1st Pre-salt Bidding Round in accordance to Federal Law n. 12.351 of 22 December, 2010 ("Pre-salt law") and states that the recently-introduced production sharing model will apply. In addition, the only area to be offered is the Libra prospect, located in Santos Basin and discovered by the exploratory drilling well 2-ANP-0002A-RJS. This well was drilled about 183 kilometres off the coast of Rio de Janeiro state and at a water depth of 1,964 metres. The Libra prospect is considered the largest oil reserve ever discovered in Brazil, and is estimated to contain between 3.7 billion to 15 billion barrels, with a total of 7.9 billion being most probable.¹

Casinelli: The most notorious attraction of investing in oil and gas projects in Venezuela is that it is the country with the largest oil reserves in the world. According to the Venezuelan government, such proven reserves amount to approximately 297 billion barrels. With respect to gas, Venezuela also ranks highly in the list of States with the largest natural gas reserves, with reserves estimated in 4 billion cubic metres. Moreover, the geographical location of Venezuela also offers several advantages, with strategic synergies for supplying markets such as the United States of America, China and India.

Among the challenges to invest in Venezuela, some of our clients have expressed concerns about what may be viewed as a complex set of legal provisions and regulations, not only on hydrocarbon matters, but on many aspects relevant to any project carried out in Venezuela, such as labour matters and exchange control restrictions (including restrictions to freely convert local currency into foreign currency). These may constitute in some cases barriers to investment in our country.

Ayer: Texas remains one of the most business-friendly jurisdictions in the world, with low taxes and a lighter paperwork burden than most producing states. The regulatory regime is generally sensible. Texas' guiding principal remains freedom of contract with minimal government intervention. This cuts both ways: While the regulatory burdens are light, operators still do not have some of the powers they enjoy in other jurisdictions such as force pooling of mineral interests.

Msimang: Like many jurisdictions seeking to top up their coffers from their natural resources, the UK taxes oil & gas profits at a high rate. The current rate is 62% or, for some older fields, 81%. In addition to the high tax rate, the UK tax regime can be unpredictable, such as the surprise overnight 12% hike in the tax rate in 2011.

However, the UK Government has recently sought to sustain North Sea investment through tax allowances. As well as capital allowances for exploration and certain production expenditure, the UK provides "field allowances" to incentivise the development of commercially marginal or challenging oil fields. A "pad allowance", to incentivise shale gas production, is currently being discussed. In addition, the Government has recently undertaken to guarantee now the future rate of tax relief for decommissioning costs.

1: Petrobras. <http://www.petrobras.com/en/magazine/post/deep-future.htm> accessed on 23.05.2013

3. Are there any compliance issues or potential pitfalls that firms need to be cautious about? What incentives are provided for organisations which meet compliance with environmental legislation?

Landa: As in any other country, compliance issues need to be carefully analysed, particularly in sectors dominated and controlled by the State, such as the Mexican oil & gas sector. This has become more important lately, as foreign companies need to comply, not only with national laws and regulations governing improper payments and similar conduct, but also, foreign companies (especially US and UK based) must be very careful to comply with the FCPA, UK Bribery Act and Dodd-Frank Act. These companies, when investing in the Mexican oil & gas sector (whether as a contractor of Pemex or as an active participant in the downstream natural gas activities) are exposed in a greater degree to compliance risks.

Karim: Non-compliance with environmental legislation shall be subject to sanctions as stipulated in the applicable laws in Indonesia. There are no special incentives for organisations which meet environmental legislation compliance, other than the occasional award or other recognition, since environmental legislation compliance is mandatory. On the other hand, organisations which do not meet environmental legislation compliance shall be subject to sanctions.

Pires: The beginning of the exploration, development and production in the areas located on the so-called Pre-Salt polygon poses a new challenge for the suppliers of the domestic oil & gas industry. The blocks located in ultra-deep waters demand a high Level of technology and technical qualification from the companies which are a part of the goods and services within this scenario, the debate concerning local content, which constitutes the sum of goods and services produced in the country and acquired by the concessionaires within the scope of the Concession Contracts ("Local Content"), regains strength. The Local Content percentage is defined in each Brazil Round's respective Tender Protocol and represents one of the determining factors for the concession of the blocks.

Casinelli: There are no significant pitfalls that we could particularly point out. However, bear in mind that there are regulatory requirements that must be met in order to carry out oil and gas activities in Venezuela, since these are reserved activities. In this sense, exploration, production, gathering, transportation and initial storage of hydrocarbons (known as "primary activities") have to be carried out through joint venture companies, referred to as mixed companies, in which private investors may participate as minority shareholders.

The organisation of a mixed company is subject to several granting instruments issued by the Venezuelan government, including (i) the approval of the participation of private investors in the mixed company by the corresponding Ministry; (ii) an Accord issued by the National Assembly (the National Legislature) approving the terms and conditions applicable to the conduct of activities by the mixed company; (iii) a Presidential Decree approving the incorporation of the mixed company; (iv) a Resolution of the Petroleum and Mining Ministry assigning the geographical area where the mixed company will conduct primary activities; and (v) a Presidential Decree authorising the mixed company to carry out primary activities.

On the other hand, non-associated gas projects in Venezuela are subject to the granting of a gas license by the Petroleum and Mining Ministry.

With respect to incentives provided for compliance with environmental legislation, we must note that the Venezuelan Environmental Law establishes some incentives for those companies who comply with certain requirements to promote environmental activities.

Ayer: Property Assessed Clean Energy (PACE) is an innovative mechanism for financing energy efficiency and water conservation improvements to existing structures on commercial and industrial property. Through the efforts of Keeping PACE in Texas, a non-profit association formed by Thompson & Knight, Texas enacted the PACE Act in 2013. The Texas PACE statute authorises municipalities and counties to create regions in which PACE financing secured by property taxes will be available. Property owners within these regions may elect to use PACE programs to pay all costs and fees associated with the installation or modification of a qualified project.

Msimang: Any company incorporated or having operations in the UK will be subject to the UK Bribery Act – an aggressive anti-corruption law which prohibits both commercial bribery and improper payments to public officials, not just in the UK but anywhere worldwide. In order to ensure compliance with the law, not only is it necessary to avoid making improper payments, but it is also necessary to have a strong global anti-corruption policy in place, and ensure that payments made by agents, contractors and service-providers on behalf of the company comply with this policy. In addition, those operating within the UK are subject to thorough environmental compliance, competition law and EU procurement obligations.

4. Given the fast pace of change and an increased sensitivity to litigation risk, is there a greater emphasis on due diligence?

Landa: In the Mexican oil & gas industry, emphasis on due diligence has always been present. Perhaps, what has been modified is the manner in which risks are allocated in projects and how the litigation risks are assessed and priced.

Karim: On up-stream business activity, Indonesia experienced only a very minor dispute that brought it into litigation/ arbitration process. Disputes between the Government and contractors are usually settled through amicable settlement. On oil and gas supporting activities, it is important to conduct a due diligence on sub-contractors. BP MIGAS (now SKKMIGAS) provides the procedures on procurement of goods and services within the oil and gas companies, to minimise unnecessary disputes. All service companies need to be registered with SKKMIGAS after passing certain classification and qualification tests. By using the procedures as provided by SKKMIGAS, contractors can minimise possible dispute with sub-contractors.

Rogers: While some of my Southeast Asian legal colleagues may disagree with my views, we have not really experienced any significant

change to the level of due diligence that is undertaken in connection with oil & gas transactions in the region. While it does appear to be the case that there are more oil & gas related disputes in Southeast Asia today than there were 5-10 years ago, we still haven't seen as much extra emphasis on due diligence since most experienced oil & gas players have a pretty good grasp of what they need by way of due diligence. At the same time, many of the larger disputes we have recently seen in the Southeast Asian oil & gas sector arguably may have been avoided (or at least minimised) with more up-front due diligence, although the availability of and access to information seems to have been at the root rather than a lack of careful and thorough review. In certain areas, we are definitely seeing lots more attention being paid to more carefully and thoroughly documenting oil & gas transactions.

Pires: Yes. The oil & gas goods and services market is pulverised and the majority of the companies that act in this sector are small and they are usually family-owned businesses. Therefore, the acquisition of corporate interest of Brazilian companies must be preceded by a thorough due diligence process, that reviews all of the tax, regulatory, labour, corporate, real estate and environmental aspects, not only to find the best structure for the operation but also to mitigate any possible issues which may arise due to the cultural differences between foreign and Brazilian suppliers. The due diligence process becomes even more complex depending on the activities performed by the target company, which shall comply with specific laws and regulations applicable to its respective areas of practice.

Casinelli: Nowadays we can say that, in Venezuela, there is an increased emphasis on due diligence by private investors. However, from our perspective, such emphasis has not been the result of sensitivity to litigation risk. Instead, we believe that it is safe to say that emphasis on due diligence is related to the risk of sanctions by the State should private investors fail to meet legal requirements in their projects. In the case of a highly regulated jurisdiction, such as Venezuela, companies and investors must devote considerable time in ensuring that they comply with all applicable regulations in order to avoid potential sanctions or risks. Also, companies must ensure that they have sufficient resources to quickly adjust and adapt to change in a dynamic jurisdiction with an evolving legal framework, like Venezuela.

Ayer: Due diligence concerns are not greater, they are different. Much activity in the resource plays still involves vast undeveloped acreage that make traditional due diligence methods impractical. The availability of formal title materials is limited in many cases, while environmental risk is diminished with respect to previously undeveloped acreage. Because of the large acreages involved in a horizontal well project, pooling authority and procedures, and drilling and production timelines for continuous development to maintain acreage under the oil and gas leases have become serious due diligence issues.

Msimang: There is a much greater emphasis on due diligence, but not just because of litigation risk (although this is important, as an E&P transaction itself can trigger disputes, with partners, regulators and host governments, and the underlying business is never immune from third-party claims). Companies increase due diligence where they are looking to enter a new jurisdiction or are contracting with an unfamiliar counter-party (which is more common nowadays since, as described above, E&P activity is no longer the preserve of a handful of well-known major companies with strong balance sheets and good operating histories). Integrity due diligence, on asset sellers and local partners, is an increasingly important element of the process, due to the growing global focus on compliance. In our experience, clients therefore want due diligence to focus on key issues and risks, and to give insight into how the risks can be mitigated. Old-fashioned due diligence based just on summarising the contracts and ticking the boxes is a thing of the past.

5. With plummeting prices of certain natural gases, should we be concerned that drilling activities will become no longer viable in a struggle to maintain profitability?

Landa: That has certainly been the concern and case in Mexico. Even though Mexico has substantial reserves of natural gas (including shale gas reserves), production of Mexican natural gas fails to meet demand, which makes it necessary for Mexico to import natural gas, mainly from the United States, Peru and Nigeria. Mexico has preferred to import natural gas at the current market prices rather than investing in infrastructure to tap the reserves. Although such a strategy may appear to be unsustainable, some commentators believe that such a strategy is not as bad as it may appear. However, Mexico should look to develop infrastructure to import natural gas from the United States, rather than importing it from other places. Currently, the United States is expanding its import capacity through the re-configuration of LNG regasification plants. Mexico should take advantage of this situation. Moreover, an important issue that Mexico needs to review is the possibility of acquiring interests in shale fields in the US (specifically in the Eagle Ford basin) as a manner to insure security of supply.

As for price, opinions are quite divided. First of all, the price of natural gas has plunged in the US and Canada, unlike the markets in Asia and Europe. Natural gas prices, as opposed to oil prices, are set on a regional basis. Although some think that the rise in exports of US gas will eventually increase the price of natural gas, others think that such exports will affect the current price. The US Energy Information Administration shares that opinion.

Miroslav: Natural gas is a versatile energy source. It has many applications in our daily lives including:

- domestic uses like home heating and cooling, cooking, fuel for transportation;
- steam heat production;
- electrical generation;
- manufacturing and industrial uses like producing steel, glass, forest products, clothing, cement, fertiliser and petrochemicals;
- creating polyethylene polymers, which is the most widely used plastic.

Natural gas industry has generated billions of dollars in revenue, created millions of jobs and as the cleanest burning fossil fuel, has the

potential to reduce the harmful emissions generated by oil and coal. Abundant supplies of this domestic resource will provide a secure and stable energy future while reducing greenhouse gas emissions for generations to come. For all the above, it is to be expected that the natural gas will sooner or later take a leading role in providing sustainable and cleaner energy to the World in years to come. Having all above in mind, I don't think that the industry leaders and world political leaders will let it slip away as a non-profitable venture.

Rogers: We haven't seen any significant reductions in the price of natural gas in Southeast Asia, and with the fast growing demand for natural gas for power generation and industrial development in the region we haven't really seen any significant drop-offs in drilling activity. In North America, this was an issue in the recent past with low U.S. gas prices causing some shale gas producers to shut-in production of dry gas and to only produce gas with significant higher-value associated liquids. With the modest recovery in the benchmark U.S. Henry Hub gas pricing index from the very low levels of a year or two ago, it appears that this issue may no longer be as pressing.

Pires: Against the international trend, natural gas prices in Brazil are still very high (around USD 10,000 m/btu). This is the reason why we are not anticipating problems on the drilling activities so far. Moreover, Brazil still imports 50% of its gas domestic consumption mostly from Bolivia.

Casinelli: The drop of the price of certain natural gases is certainly a matter of concern, especially for the gas extraction industry. Particularly in Venezuela we have witnessed how it has affected the gas industry. In this sense, in recent years Venezuela has seen the need to re-visit its projects to liquefy natural gas, among other reasons due to the need to review the economic terms of such projects and the sources of economic resources in the context of the plunge of natural gas prices. However, a shortfall of gas for supply to our domestic market, as well as the considerable amount of our gas reserves, may still ensure that gas related activities are a priority of our government.

Ayer: No. The gap between the price of gas and oil will narrow as users switch from oil to natural gas and its by-products – CNG, LNG and Gas to Liquids Plants. Plus, regardless of falling prices, drilling activities are necessary to maintain acreage positions which may have been bought at great cost.

6. Are there any new methods or unconventional resources being developed in order to raise levels of activity?

Landa: Not in Mexico. As mentioned above, Mexico has substantial unconventional resources, but currently Mexico only has minor production from unconventional hydrocarbon projects. It is expected that Mexico will start developing unconventional resources (deep-water and shale hydrocarbons), but that is not currently the case.

Miroslav: We are witnessing improvements of technology almost on a daily basis, as every new building brings technical and technological advances, in accordance with ever-more-demanding requirements related to far-offshore and deep-water conditions of oil/gas exploration. I don't think that, technically-wise, there is much the science or technology could do, but it is the price of oil/gas that is the driving factor. We are all witnessing what artificial problems the New World Order is creating all over the World, in order to create oil/gas supply irregularities, which, in turn, puts the oil prices up. And there is the contradiction: if we want more money to oil/gas companies in order to "raise levels of activity", it can be achieved only by creating instability in the areas where the oil comes from. But there should be a way to raise the levels of activities without creating further conflicts around the Globe.

Karim: Pertamina, a State-Owned company in Indonesia for energy, will tap into shale gas exploration in 2013 to discover unconventional natural gas amid dwindling crude oil production. Located in North Sumatra, the Sumbagut block is estimated to possess 18.56 TCF (Trillion cubic feet) of shale gas, and Pertamina through its subsidiary, PHE MNK Sumbagut, has been given six years for its first exploration phase and four years for a second exploration phase. Shale gas is natural gas extracted from shale rocks and other geological formations by injecting water and chemicals into the rocks through a technique known as hydraulic fracturing.

Ayer: Yes. One of the more exciting is the use of the Fischer-Tropsch technology to turn gas to liquids. Another is the use of LNG in trucking and the development of LNG trucking corridors. These will lead to higher gas prices.

7. The concerns about possible pollution to ground-water by the chemicals in hydraulic fracturing ("fracking") fluids, and the leakage of methane, a gas that aggravated global warming, have resulted in the issuance of numerous moratoriums around the world. Are the concerns justified?

Landa: These technologies are certainly new and are in many respects still in the exploratory stage in many jurisdictions. While it may be a little extreme to stop their use altogether, if the evidence suggests that there are significant risks in their use, it is not unreasonable for countries like France and South Africa to subject their use to further evaluation and testing. The reality is that it seems that the accumulated use in the US regions where the technology is generating unexpected output of new hydrocarbons, appears to make it less likely for significant drawbacks to be prevalent in the use of fracking as an energy generating technique.

Countries like France and South Africa have banned fracking, while other countries such as the UK, have recently lifted bans on fracking. Poland is another country expecting a big shale gas revolution. This may be for several reasons, not necessarily related to the environmental friendliness or unfriendliness of fracking. There is still a big debate, especially in the United States, on the real environmental consequences of fracking, as there are no definitive studies evidencing its net effects. While this debate continues, Europe is in desperate need

of natural gas; North Sea reserves are rapidly depleting and projects such as Nabucco, North Stream, and South Stream will not reduce dependence of Europe on foreign natural gas; at best, Nabucco pipeline will reduce dependence on Russian gas. Other suppliers include Algeria, but still, Europe will keep relying on natural gas imports to meet its demand. The decision to allow fracking in Europe certainly must take into consideration the environmental effects, but there is a good possibility that the decision will side more on the energy security of the region. However, important advances have been made in the US, where “waterless fracking” technology is being developed.

Karim: Government Regulation No 27 of 1999 on Environmental Impact Analyses provides that any activities should have an Environmental Impact Analysis before the activities are performed, to protect the environment from pollution. During the performance of the activity, the steps that should be taken to prevent environmental pollution shall always be monitored. Such principles (i.e. to have an Environmental Impact Analysis before performing any activity and to monitor the steps to be taken) are an important basis to prevent environmental pollution. The steps to be taken can be changed or amended from time to time in accordance with the development of new technology.

Rogers: Any time there is a possibility of groundwater contamination the concerns should be taken seriously. At the same time, it appears clear to me that there is an enormous amount of misinformation, as well as very old information, currently being used by various special interest groups to advance the anti-fracking cause. In some cases (such as the early views taken by some in Russia’s leadership) the concerns appear to be mainly centred on trying to eliminate, or at least slow down, a significant competitive threat in the global gas marketplace. In many other cases there appear to be motives that range from some landowners simply trying to gain more leverage to extract more “rent” in connection with unconventional gas production, to some groups simply trying to force the need to develop more alternative energy options by trying to prevent unconventional gas production. The extent to which fracking has taken on a political (and sometimes irrational) tone throughout the world has made the development of shale gas, shale oil and coal bed methane projects much more difficult to undertake on an economic basis, but I suspect in time this issue will be overcome through increased information and aggressive regulation. Both the “science” and current practice seem to have shown that fracking can be done in an environmentally responsible manner, and in a way that minimises the risks of groundwater contamination. I have not yet seen any credible studies that show that the risks of methane leakage during fracking operations poses a significant global warming threat, so to me the “jury is still out” on that issue.

Ayer: No. The danger to groundwater posed by hydraulic fracturing has been grossly exaggerated in media reports. Halliburton conducted the first hydraulic fracturing in 1948. Tens of thousands of wells have been fracked without polluting any ground water. The fracking operation is separated from the groundwater by thousands of feet of rock. The real area of environmental concern is not the fracturing process. The real risks are very limited such as pit overflow or other spills from the surface or improper well casing in the water-bearing strata, not contamination from fracking itself thousands of feet below. The industry has developed Model Well Standards to address these concerns.

8. It is believed that the shale gas boom could cut costs significantly for the chemical industry and ultimately benefit the apparel, electronics, machinery and other industries. How will this affect your national economy, and what affect will it have on a more global scale?

Landa: The effects are already being felt by sharp decline in regional gas prices. This is more visible in the regional pricing trends, particularly in the areas in the US (southwest and northeast) where the shale gas boom has unexpected and unforeseeable output. In terms of the southwest region, shale gas deposits know nothing of political boundaries and thus they extend into good portions of the Mexican north-west region, an area usually known for mining (in particular carbon deposits) and that are now expected to see a surge of oil/gas related exploitation with a technology that was unknown just a few years ago. The overall expectation is for the offer to keep expanding and thus for prices to be either contained or even reduced, thus generating additional benefits to all industries where gas plays a key role in their cost structure, including electricity generation.

A natural effect of the shale gas boom is that the global supply of natural gas will increase, thus naturally lowering the prices of said commodity. This effect is more visible in the United States (and in Mexico). However, unlike in the United States (and Mexico) the pricing effect is not being felt in Europe or Asia just yet, where natural gas is being traded at approximately US\$13 the mmbtu while in the United States (Henry Hub) natural gas is being traded at approximately US\$3. A lot is being said about the United States possibly becoming a net exporter of energy (including natural gas in the form of LNG). Many re-gasification facilities are now being converted into LNG export facilities. A natural thought is that if the United States starts exporting LNG from its vast shale deposits, prices in regions such as Europe and Asia will naturally decrease. However, commentators believe that the price of natural gas will not remain as low as it is now. Future exports of natural gas to Europe, Asia and even Mexico along with local natural gas consumption could be a factor that may increase the price of natural gas.

Karim: Pertamina has signed the first Non-conventional Oil and Gas Production Sharing Contract (PSC) in Indonesia; and it raises Pertamina as the pioneer in developing shale gas in the country. The definition of Non-conventional Oil and Gas is oil and gas that is produced from reservoirs where oil and gas are formed with low permeability, namely shale oil, shale gas, tight sand gas, coal methane gas and methane hydrate, by using certain technologies such as fracturing. Shale gas is expected to support the government’s campaign to diversify the nation’s energy sources in order to curb the dependence on crude oil.

Rogers: In Southeast Asia in general, the potential to obtain what many buyers believe to be lower-priced LNG supplies produced from North American shale gas has already had a fairly significant impact, both in terms of supply competition between North America based

and other more traditional non-North America based LNG supply projects, as well as in raising the possibility of “breaking” the traditional oil-linked LNG pricing mechanism that has prevailed in Asia for the past 40 years. Of course, much of this attention appears to be based on an assumption that oil prices will remain at their present relatively high state and U.S. natural gas prices will remain at their recent low levels, both of which are likely to turn out to be incorrect. On a personal level, I believe that increasing North American shale oil and tar sands production will, over time, have the effect of pushing down world oil pricing (including the oil price index that is used in most Asian market LNG contracts), and that the U.S. Henry Hub gas pricing index will experience a moderate but significant rise over the near term, both of which could effectively erase any pricing advantage in Asia for North American LNG produced from shale gas. The potentially expensive tariff structure for LNG tankers passing through the newly-expanded Panama Canal could further cut into the cost-competitiveness of some U.S. East and Gulf Coast sourced LNG supplies in the Asian market, and I haven’t seen many cost comparisons that really address this issue. Closer to home, in Singapore the effects of potential lower priced gas supplies may not be as immediate. The first three million tonnes per year of new LNG supplies are already committed under long-term contract with an established oil-based pricing mechanism (and the balance of long-term pipeline gas supply is likewise under a traditional oil-linked pricing model), so any potential for “cheaper” North American origin LNG supplies to significantly benefit local industry in Singapore would only be realised when the domestic gas market develops well beyond the three million tonne level. This market development will of course happen in time, but it is not likely to occur overnight.

Ayer: Manufacturing in the United States is becoming more attractive with a competitive advantage of lower energy costs.

9. Are there any renewable or alternative energy sources which can emulate the success of the shale gas boom?

Landa: We do not believe that it is the case right now. Producing energy with renewable sources is still not as economically feasible as natural gas. There are several constraints in the development of the renewable energy industry. Such constraints include: (i) government subsidies; (ii) intermittence risk; (iii) technological risk; and (iv) lack of a known efficient technology to store energy. Although countries have seen a rise in the investment in renewable energy, fossil fuels still present a cheaper and more efficient source of energy. Of course, countries are expected to diversify their energy matrix and to include renewable sources to insure energy security; however, experts believe that fossil fuels will dominate energy consumption for at least the next 50 years.

Miroslav: I am pretty sure that there are other modes of producing energy, for example the power of sea waves, sea currents, tidal waves, and of course, permanently available solar power. Vast areas of the Earth are unusable for human living, such as deserts for example, which are receiving enormous quantities of solar energy on a daily basis; however none of it is used for common human benefits.

Karim: Biofuel is a natural alternative energy. Biofuel is produced by using ethanol from naturally grown plant matter which allows for a more sustainable and environmentally friendly earth. To assist in the manufacturing of biofuel, the plants and plant-derived materials that contribute to its formation include corn, corn cob, sugar cane, soybeans, flaxseed, rapeseed, vegetable oils, waste cooking oils, animal fats, tall oil and even cow manure.

Besides that, coal bed methane (CBM) is pipeline-quality gas that requires no or minimal processing prior to sale. The presence of methane is well known from its occurrence in the coal mining industry, particularly underground mining where it can present serious safety risks. In fact, CBM production began as a technology for improving the safety and productivity of underground coal mining and preventing explosions. Not only does it provide the same service now, it also decreases emissions of greenhouse gas from coal mines and decreases air pollution because it is a clean-burning fuel. Chemically, CBM is similar to other sources of natural gas (about 95% pure methane) and can be sold into any market. CBM is a “sweet gas” as it generally does not contain hydrogen sulphide and is considered to be more environmentally friendly than oil, coal or even conventional natural gas. CBM contains very little heavier hydrocarbons such as propane or butane, and no natural gas condensate which is often found in conventional natural gas.

Rogers: In certain countries in the Asia-Australia region, such as Indonesia, China, India and Australia, we see the availability and production of coal bed methane (or “coal seam gas” as it is referred to in Australia) as having equal or greater long-term potential than shale gas. In the near-term, in every one of these countries there are significant legal and regulatory challenges to attaining the level and consistency of coal bed methane production that we have seen with North American shale gas. In some countries - such as China - there are also significant technical issues that make coal bed methane more difficult (and expensive) to produce than North American shale gas, but in time there will likely be technology developments that will cause these technical issues to be overcome.

10. What regulations and procedures need to be put into place to ensure that 2013 is less of a PR disaster for the oil & natural gas industry?

Landa: None of the recent environmental incidents associated with the oil & gas industry can be taken lightly. Besides the PR reputational nightmare for energy related companies, all these damages result in increasing concern about the activities of IOC’s and NOC’s in general. There can be no mistake, no savings in the environmental cost of exploration and exploitation activities prove to be wise decisions in the long run. All these companies must realise that the long-term effects of the Valdez and Macondo incidents (to name just a few) are far more damaging than the introduction of increasingly safer and accident free technologies. We are clearly not exempt of new unfortunate events such as these, but what cannot be tolerated is for those same defects to materialise again. Technological developments are now at a stage where most of these events can and should be prevented. Where risks exist, prevention measures must be maximised.

Casinelli: Certainly there are measures which could be adopted in order to not only to mitigate the impact of oil and gas disasters, but to prevent them. We could make emphasis on the need to create: (i) operating procedures to prevent oils spills; (ii) legal requirements of good industry practice; (iii) incentives for companies to improve their internal organisation and decision-making processes to ensure key maintenance and technical decisions are adopted; and (iv) counter measures to contain, clean up, and mitigate the effects of an oil spill.

In very broad terms, any type of measure to create awareness, education, preparedness and prediction systems is certainly necessary and favourable in order to mitigate the consequences of natural disasters caused by oil spills.

11. Oil theft costs Nigeria lost revenue of \$6 billion a year and it is estimated that oil theft exceeds 180,000 barrels of oil per day. This is just one highlighted case of a serious issue throughout the oil industry. To what extent can an organisation better protect their assets?

Landa: While we cannot say that Mexico is alien to the type of illegal activities described in Nigeria, we are nowhere near those extreme levels. There is a known problem with hydrocarbon theft through the illegal tapping of pipelines, this not a small problem by any standard. However, through the use of technology that detects pressure changes, and increased use of sophisticated safety/security protocols, the frequency and effect of those thefts is being consistently reduced.

Although physical safety measures (intervention of the State security forces and private security forces) may help to reduce this risk, companies will need to be aware of the security risks of each jurisdiction and how the State may assist companies. Allowing companies to retain large private security forces may not be the best solution.

Karim: In 2012, Pertamina lost about 2,000 barrels per day due to oil theft. Oil companies take various ways to avoid oil theft. Burying pipelines two metres under surface and using a technology that can detect the change of pressure in the pipelines immediately are common strategies. Besides that, using CSR funds to assist local people to develop their communities may also minimise oil theft. In some fields, Pertamina invites people through cooperatives to produce oil from old wells. Through such activity, local people can take benefit from oil operations in their area. But the losses remain a problem. Other oil companies also experience losses due to oil theft. Most commonly the oil theft occurs at the point of sale and/or export, and involves collusion among those involved in operations and supervision at those areas. These are usually difficult to detect and therefore there is no reliable data.

Casinelli: Let us begin by saying that in Venezuela, there are no relevant public records evidencing major problems concerning oil thefts. However, we believe that creating organisations for the purpose of monitoring situations involving crimes related to the oil industry would certainly have a positive impact. If we see the particular case of Nigeria, we can point out the creation of the Bayelsa Volunteers, a civil law enforcement organisation under the leadership of an Assistant Superintendent of Police, that, despite some alleged irregularities for which such group has been accused, has had a significant impact towards reducing oil related crimes.

Msimang: In countries like Nigeria, protecting assets from theft or destruction is best achieved using a broadly twofold approach. Of course physical security is important, whether that involves armed protection, remote surveillance or constant intelligence-gathering, but that can only have a limited effect as not every metre of every pipeline can be monitored and guarded. Therefore oil companies need also to work with local communities so that indigenous people benefit from the industry, and see those benefits early on, and therefore want the industry to succeed and prosper. This can take the form of investing in local social projects, such as healthcare or schools, employing and training local staff, and contracting with local suppliers and service companies.

12. What countries currently offer the best opportunities for foreign investment?

Landa: Although Mexico offers good investment opportunities for oilfield service companies, it may not be considered the best place for upstream investments by IOC's.

In our experience, IOC's are currently looking at the United States, Canada, UK, Norway and Australia as attractive jurisdictions to invest in upstream projects. The minimal political risk, fiscal regime, liberalisation of the industry and energy and transportation infrastructure makes these jurisdictions winners with regards to investment in upstream projects. In Latin American, upstream investment is being focused mainly in Colombia and Brazil.

Karim: Based on Doing Business 2013, issued by the World Bank, New Zealand is in the first rank of countries that offers the best opportunities for foreign investment, in terms of procedures, regulations and bureaucracy. However, it does not have the kind of natural resources that Indonesia has.

Rogers: From a purely geological perspective, Indonesia seems to offer the most opportunity for oil & gas investment in Southeast Asia, although the consistent uncertainty over the Indonesian legal and regulatory environment will likely continue to depress significant foreign investment in that country for some time to come. From a purely commercial perspective, Thailand has perhaps the most investor-friendly approach to its oil & gas exploration and production terms. There's also quite a bit of oil & gas investor interest in Vietnam, although things do not always appear to move quickly or smoothly in their oil & gas sector at present. The Philippines and Myanmar are perhaps the least explored countries in the Southeast Asian oil & gas sector, albeit for very different reasons. There appears to be great interest in the current deep-water exploration licencing rounds in Myanmar, although it is probably still too early to tell whether the Government

will strictly and consistently enforce the rule of law that is so critical to support any significant level of foreign investment.

Pires: Brazil still offers upstream opportunities for companies with different sizes and objectives. In May, the ANP promoted the Brazil Round 11. In total, 289 blocks were offered in 23 sectors divided into 11 sedimentary basins. 142 blocks were acquired by 30 out of 39 qualified companies: 12 domestic & 18 international companies. Total signature bonus of USD 1.4 billion; and USD 3.45 billion regarding the minimum exploratory work program (PEM). The average of local content is 62,32% for the exploration phase and 75,96% for the development phase; The blocks located on the "Equatorial Margin" (Foz do Amazonas, Barreirinhas, Pará-Maranhão, Ceará & Potiguar Basins) turned out to be the most disputed areas. The signature of the concession contracts is scheduled to take place on 6 August, 2013.

Casinelli: Countries that offer the best opportunities for foreign investment are those in which investors are given a legitimate expectation that their investment will succeed together with the assurance that their investment will not be subject to major risks. In addition to this, investment conditions must also be coupled with the actual existence of resources and opportunities. Therefore, in my view the countries that are most attractive for investments are those that offer an adequate combination or balance of both elements, and that therefore offer access to resources that ensure a higher rate of success, but that at the same time provide certainty that such investment or success will be cashed out and profited by investors.

Ayer: I like Colombia. They believe in the 'sanctity of contract'. Oil production rose from half million, to a million barrels a day, in the last six years. I recently had a chance to tour a state of the art refinery being built in Cartagena. Colombia is booming.

13. What key trends do you expect to see over the coming year? In an ideal world what would you like to see implemented or changed?

Landa: Mexico is expecting an energy reform that will open the sector a bit more. Private investment is expected to be allowed in refining, petrochemical and hydrocarbon transportation. Title to hydrocarbons will remain with the Mexican State. However, it is expected to see a reform that allows more private participation with Pemex in E&P activities, either through specific partnerships or through different compensation schemes that will allow the investor to be properly remunerated for the risks associated with upstream projects.

The ideal reform, would allow private participation in upstream activities, make Pemex a competitor in the industry and create a specialised agency with title to hydrocarbons (Colombian and Brazilian model). Likewise, a tax reform would need to occur, so that the Mexican Government ceases to rely so heavily in the oil revenue that thus significantly impacts Pemex's financial abilities.

Miroslav: With global recession deepening, I think that the domestic goods consumption (purchasing ability) of the people will see further decline, which will even further slowdown the World economy, thus creating deeper recession and higher unemployment rate. It would mean also the lower consumption of oil and other energy resources, taking the oil prices down. In turn, this will lower the investments of oil/gas companies.

Karim: Alternative energy, which is more environmentally friendly and less costly, will become a new trend to replace oil and gas energy. Aside from biofuel, CBM and shale gas, wind and hydro power should be more widely applied; also hydrogen fuel-cell technology and perhaps also nuclear energy, although the latter has its own dangers. Any country should be free to develop any alternative energy, as long as it is environmentally friendly, less costly and used for the greatest benefit of the people.

Rogers: On a macro-level, we do expect to see a continued increase in nationalism in Southeast Asia, especially in some countries with a bit more history of oil & gas activities. As for commercial trends, in the long-term LNG and gas supply arena we will likely continue to see a fair amount of uncertainty (and possibly transactional delays) while players sort out the extent to which the U.S. and Canada will export LNG produced from shale gas, as well as the extent to which these exports will find their way into the key Asian LNG consumption markets and the impact of such new supplies on the existing Asian gas pricing structure. This is perhaps the single biggest issue facing many LNG projects that are targeting the traditional "premium" Asian LNG buyers. In an ideal world it would be nice to see a clear, sensible and consistent U.S. Government policy position develop on the issue of LNG exports, rather than the unhelpful and uncertain "case-by-case" approach that appears to be the flavour of the day.

Ayer: The increasing use of natural gas in transportation whether CNG, LNG or by gas to liquids plants is going to happen through market forces. In an ideal world, the government would do away with ethanol subsidies and mandates. These high corn prices are causing starvation in other countries. The Department of the Interior should adopt policies to allow oil and gas production on public lands to be as easy as on private lands. The Department of Energy needs to permit more LNG export plants.

Msimang: We would expect a continued focus in the UK on managing the industry's decommissioning liabilities, while encouraging companies to extract remaining reserves, including unconventional onshore reserves, and explore offshore frontier acreage for new discoveries. In Africa, greater regulatory certainty is needed, for example through Nigeria's Petroleum Industry Bill either becoming law or being conclusively scrapped, although reports suggest either is unlikely for now. In other parts of Africa, including Mozambique and Tanzania, the nascent gas policies need to progress and to become law to give some certainty to those investing, whether through bidding rounds, farmouts or share acquisitions, or through developing (or off-taking from) the LNG projects that are underway. Globally, we expect energy companies to continue to focus on rigorous anti-corruption compliance measures, as laws get tougher and as regulatory enforcement increases.

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