

# Joint Ventures and Contract Negotiations

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July 05

# OBJECTIVES THIS SESSION

- To understand two of the backbone contracts in the industry
  - The EPC and The JVA
- To survey some more recent innovative risk-sharing agreements
- To review negotiation techniques
- Syndicate Exercise 1: To negotiate the sale and purchase of a share in an oilfield
- Syndicate Exercise 2 (Interlude Exercise): To draft the JVA for your agreed sale and purchase

# AGENDA

- 1) THE ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACT - Advance Notice: Dry!
- 2) THE JOINT VENTURE AGREEMENT - Advance Notice: Dry! Sorry!
- 3) UNLOCKING VALUE THROUGH ALLIANCING
- 4) CONTRACT NEGOTIATIONS
- 5) **Syndicate Exercise 1**
  - Negotiate the Sale and Purchase (“Farm-in”/“Farm-Out”) of a share of an Oilfield
- 6) **Syndicate Exercise 2 (Interlude Activity)**
  - Draft and Further Negotiate a JVA for the Agreed Sale and Purchase

## TIMINGS

<u>Time</u>	<u>Title</u>	<u>Description</u>	<u>Slides</u>	<u>Secs/Slide</u>
15.00-15.15	Introdu; Engineering, Procurement, Construction	How do you tender; what is in the contract?	14	64
15.15-15.35	Joint Venture Agreement	Why you do it and all the main provisions	9	133
15.35-15.55	Unlocking Value Through Alliancing	Some real-life examples from the E&P industry	34	35
15.55-16.10	Contract Negotiations	A step by step recipe	9	100
16.10-17.20	<b>Syndicate Exercise 1</b>	Negotiate the sale and purchase of an oilfield	5	N/A
17.20-17.30	<b>Briefing on Syndicate Exercise 2 ("Interlude Exercise")</b>	Negotiate and Draft the JVA for the sale and purchase of an oilfield	2	N/A
			73	

**Debate is more important than getting through the slides – I will always discuss any material at other times.**

# Legal Agreements

- Who should draft them?
  - A lawyer of course!
    - But NOT on his/her own, a big mistake
    - Should serve a team led by commercial and technical experts
      - Translating their deal requirements into a sound contract
      - Prompting them about legal issues and contractual opportunities they may not have thought of
- Why are the contracts so tortuous and long-winded?
  - If a contract is “silent” on any issue or eventuality, the “implied intent” defaults to contract law or the judge’s interpretation
  - The ability to dream up all possible eventualities on any material issue and then set them into a legally sound contract is what you are paying the lawyer for
- So the better the contract, the better your chance in a dispute?
  - **Actually the talent and persuasiveness of your barrister is often as decisive.**
    - He/she may peruse your painstakingly drafted contract for a surprisingly short time before deciding the course of defence/attack!
    - (Because) Winning may have little to do with arguing the actual contract text!

# 1) THE ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACT “EPC”

# EPC Contracts

## (Usually \$50m to \$1000m)

- After FEED, tender for one contractor to do the rest.
  - **Contractor makes his money on the change orders!**
    - Important to have very well defined design if you go for EPC
    - If not well-defined, safer/cheaper to use (e.g.: ) manhours-based contract for detailed design, and then tender a fixed price contract for just procurement and construction
- Unless a “hot” project, tenderers may only bid if their costs are reimbursed if they lose (\$1m each perhaps)

# EPC Tender Documents

## (\$140m Arctic Russia example 2001-2004)

- 1) Instructions to Tenderers (30 pages)
  - Bidding procedures (say **8-12 weeks**) and Evaluation procedures (say **4-6 weeks**) for determining winner.
    - Two envelope system: technical and financial offers.
  - Site visit timetable
  - Company facilities and resources at Contractors' disposal during EPC
    - **Accommodation and air transport especially**
  - Other contractors on site, and interactions with EPC
  - **Bank guarantee** before contract signature (10%-15% of contract value)
  - Request for
    - Acknowledgement of tender and decision to bid (within say 7 days)
    - **Agreement to attached draft contract (tough one!)**
    - **Acceptance of accuracy of FEED documents (tough one!!)**
    - Agreement to Assignment of Long Lead Items
    - Scope of work required (summary; refer Annexes)
      - “Level 2” and Level 4 schedules; Method statements and HSE statements
    - Formats for company experience statements, key fabrication facilities, organograms, key CVs etc
    - **Unit rates for change orders**
    - Proposed Subcontractors and their facilities
    - **Technical and Commercial Exceptions**



# EPC Tender Documents

- 2) Draft Contract and 22 Annexes (400 pages)
  - Tenderer to state his agreement subject to any *specific and quantified* commercial or technical exceptions
- 3) FEED documents (6 or more Lever Arch files!)
  - PFDs, P&IDs, Equipment lists and data sheets, Philosophies, Policies, HSE, Studies, Site surveys etc
  - Long Lead Items
    - Bid documents and signed contracts

# Description of Draft Contract and Annexes

EPC Contract (Main Text): about 7 chapters

1) General

- Intention, definitions, object, duration

2) Rights and Obligations of Company

- Rep, approvals, obligations, suppliers

3) Rights and Obligations of Contractor

- Rep, independence, undertakings

4) Conditions of Performance of the Works

- Schedules, variations, QA, transfer of property, liens (debt rights), acceptances, warranties, liquidated damages for late delivery, HSE

# Description of Draft Contract and Annexes ctd

## 5) Financial Provisions

- Rates and Prices, Fixed contract price, Bank Guarantees, accounting and payment currencies, invoicing, payment, sums due to company, taxes, reservation, performance guarantees

## 6) Liabilities and Insurance

- Liabilities between contractor and company, and third parties, special risks (outside contractor's control), consequential damages, special provisions, insurances by contractor (e.g.: All Risks Construction Insurance", "Third Party", Life Assurance"; "Key Worker Insurance"), insurances by company

## 7) General

- Force Majeure, compliance with laws, property and confidentiality, patent infringement, Assignment/ subcontracting, Title, "Termination, Suspension and Default" (and remedies), right to audit, governing law, settlement of disputes, ruling language, amendments and waivers, notices, limitation of contractor's overall liability, entirety

# Titles of EPC Annexes

**ANNEX 1: SCOPE OF THE WORKS UNDER THE CONTRACT**

ANNEX 2: CONTRACT DATES AND **SCHEDULE**

**ANNEX 3: CONTRACT PRICES AND RATES (Lump sum and unit rates for change orders)**

ANNEX 4: CONTRACT ADMINISTRATION MANUAL

ANNEX 5: CONTRACTUAL REGISTERED SUPPLIERS AND SUBCONTRACTORS LIST

ANNEX 6: PRECOMMISSIONING AND COMMISSIONING

ANNEX 7: QUALITY ASSURANCE AND FOLLOW-UP

**ANNEX 8: INTENTIONALLY LEFT BLANK** (there is always one !)

ANNEX 9: LIST OF TRANSMITTED TECHNICAL DOCUMENTS (make sure they sign a document acknowledging receipt)

ANNEX 10: CERTIFICATES OF COMPLETION

ANNEX 11: TECHNICAL DOCUMENTS TO BE RELIED UPON

ANNEX 12: ASSIGNED LONG LEAD ITEMS; TRI-PARTY AGREEMENTS

**ANNEX 13/A. BANK GUARANTEE FOR PERFORMANCE (PERFORMANCE GUARANTEE)**

**ANNEX 13/B DRAFT FORM OF PERFORMANCE BANK GUARANTEE DEMAND**

ANNEX 14/A MUTUAL INDEMNITY AND WAIVER OF RECOURSE AGREEMENT (VERSION FOR CONTRACTOR)

ANNEX 14/B MUTUAL INDEMNITY AND WAIVER OF RECOURSE AGREEMENT (VERSION FOR CONTRACTOR'S SUBCONTRACTORS)

ANNEX 15 LIABILITY AND INSURANCE AGREEMENT FROM SUBCONTRACTORS

ANNEX 16 NOMINATED CONSTRUCTION SUBCONTRACTOR

ANNEX 17 CONSTRUCTION ALL RISKS POLICY SUMMARY

ANNEX 18: HSE REQUIREMENTS

**ANNEX 19: SERVICES AND FACILITIES PROVIDED BY COMPANY**

ANNEX 20: SERVICES AND FACILITIES PROVIDED BY CONTRACTOR

**ANNEX 21: ENGINEERING AND DESIGN STATUS**

**ANNEX 22: STATUS OF SITE AND WORKS**

# What Actually Happened (best laid plans...)

- Tender issued in English and Russian (for oil field in Russian Arctic)
- Russian contractor won, 12 weeks later
- Russian Civil Code prevailed (since contract now between two Russian companies)
  - Had to transpose contract from English Law, opening flood gates for renegotiation!
- Russian language had to prevail but (luckily!) we insisted only from time of final signature
  - Translators had mistranslated contract (not specialised enough in oil) causing confusion and ill feeling
- **Russian Civil Code forbade many of the Chapter 6 insurances**
  - in Russia, only three types of insurances permitted, tightly defined
  - Russian State-Owned parent used foreign subsidiary to buy the insurances on Western market

# What Actually Happened (best laid plans...)

- **Contractor found could not raise bank guarantee**
  - Russian State-Owned “parent” stepped in to act as guarantor
- **Long Lead Item suppliers then refused to reassign contracts from Company to Russian contractor!**
  - So Company retained LLIs, opening flood gates for “disputed-scope” claims by Contractor’s 20-odd lawyers. Hard work for Company’s single contracts manager (your speaker)!
- Company had insufficient resources to approve all documents (1000s of them), so they were approved by default, per Contract. Weakened company’s case against contractor
- Contractor 9 months late, theoretically incurring \$10m liquidated damage penalties. Settled before arbitration, price not disclosed.
- Plant operates successfully at 50,000 bbl/d but 9 months late

## 2) THE JOINT VENTURE AGREEMENT

- To agree and set down
  - any initial consideration
  - the subsequent individual contribution obligations and distribution rights
  - and all of the rules of engagement between parties wishing to collaborate...

until the end of the venture's life.

- To enable an orderly transition of ownership of those rights to third parties
- To specify remedies in case of default
- To ensure the agreement is consistent with other important agreements, e.g.: a PSC

# Typical Deal Situations

- A small company has acquired exploration rights and needs 3D or a well paying for. Goes to the market for an investor:
  - Concept of “carry” - carried interest in an investment
  - How much equity does the small company retain
  - How to fund future investments
- Organisations wish to participate in a new business opportunity.
  - Equity value of non-financial contribution (e.g. a patent, a market position or particular expertise)



# JVA Usual Provisions

(8-20 pages)

## 1) Establishment and Object of Joint Venture

- Who the parties are and **what their working interest are**
- What the JV sets out to accomplish
  - **Ideally in bite-sized specific steps, so that financial limits can be placed on each**
- Any important constraints
  - E.g.: “Must be compatible with PSC”
    - And the parties agree can be later modified “mutatis mutandis” (*with due alteration of the details*), if in contradiction

# JVA Usual Provisions

## 2) Financial Obligations

- Banking and mechanism of requesting payments (“cash calls”) to JV account
- **Agreed budgets** (and future mechanisms)
  - Ideally broken down into the bite-sized chunks above
- Mechanisms for dealing (in advance) with minor budget over-runs and serious over-runs
- **Deviations from equitable contributions**
  - **Initial Considerations**
    - For intrinsic value: Into the JV vehicle and/or into existing owners’ bank accounts
    - To match historic costs
  - **Carried interest**
    - Free Carry and Carry repayable from dividends (with compound interest)
  - **Production bonuses**
    - Based on actual performance of assets
- **Deviations from equitable distributions**
  - **Carrying party may recover some or all of carry+interest before distributions are equitable**
  - **One party may take inequitable share for a period or in perpetuity**
    - Often by definition of “E” = equitable shares and “S” = special shares

# JVA Usual Provisions

## 3) Execution of Work

- Who does what and where
- Cover appointment of operating company may/may not have working interest

## 4) Voting

- Passmark, usually simple majority with common-sense exceptions (e.g.):
  - Signature of PSC
  - Abandonment, surrender, relinquishment of acreage, PSCs
  - Amendment of work programme already agreed
    - Lead to “Sole Risk” provisions
  - Sole Risk
    - One party funds some work 100%
    - Other party(ies) has opportunity to later opt back in, usually at a premium 100%-600%.
    - Otherwise benefits accrue only to investing party
  - Joint farm-out
- Appointment of Representatives (in accordance with working interests)

## 5) Area of Mutual Interest

- Usually a map or some other business definition

# JVA Usual Provisions

- 6) Management and Operations Agreement
  - Commitment to negotiate a Joint Operations Agreement (usually based on 2002 AIPN model agreement)
    - subject to certain progress in the work programme (e.g.: signature of a PSC)
- 7) Law / Dispute Resolution
  - Applicable Law
    - easiest to get Law of England and Wales in any international agreement
  - International Chamber of Commerce (“ICC”) arbitration procedures in London, NY, Paris, Stockholm etc
- 8) Confidentiality – usual provisions

# JVA Usual Provisions

- 9) **Assignment** (of some or all of a party's working interest and rights to a third party)
- Right of first refusal
    - “pre-emption” by other equity holders on same terms
  - Time constraints
    - E.g.: no assigns for 18 months
  - Protection of JV
    - Third party must reflect JV interests
  - Joint farm-out of part of equity
    - Say to an oil major with funds/expertise to develop
  - Tag Along Rights
    - Minority has right to join a sale
  - Drag Along Rights
    - Majority can force minority to join a sale

# JVA Usual Provisions

## 10) Remedies (i.e.: what can you do if the other side doesn't play ball?)

- Failure to respond to cash call (the usual one!)
  - Provisional default
    - Lose rights to vote for a period of time (60 days, 180 days, more)
    - Lose rights to distributions, OR reallocate distributions to "pay" for cash call
      - » MUST be explicit
  - Default
    - Dilution pro-rata with defaulted cash call value
    - Annexure of total working interest
      - » MUST be explicit
      - » Need to be careful about governing law (Australia is hot on "fair and reasonable")
- Most others (breach of CA; acting against JV interests; sale to third party without allowing pre-emption. The intent of party is usually pretty clear!)
  - ICC (semi ugh; three experts; \$\$)
  - Courts (100% ugh!; \$\$\$; and MANAGEMENT TIME AND **STRESS**)

## 11) General

- Ownership of data; rights of representation; restrictions on binding other parties; notices; entirety; time limit; withdrawals

That's The Dry Bit Over!

# 3) UNLOCKING VALUE THROUGH ALLIANCING

3.1) BP Andrew

3.2) UK Accelerator Programme

–Case Study: Beuly

3.3) Halliburton Integrated Service Contract



## 3.1) BP Andrew (North Sea)

# Andrew: 'guinea pig' for Alliance experiment

Andrew discovered in 1974

- 112 million barrels, 115 m water, 230 km from shore
- **Original Development Cost \$450m, uneconomic**

# Andrew Alliance - the challenge

- **Building the Alliance**

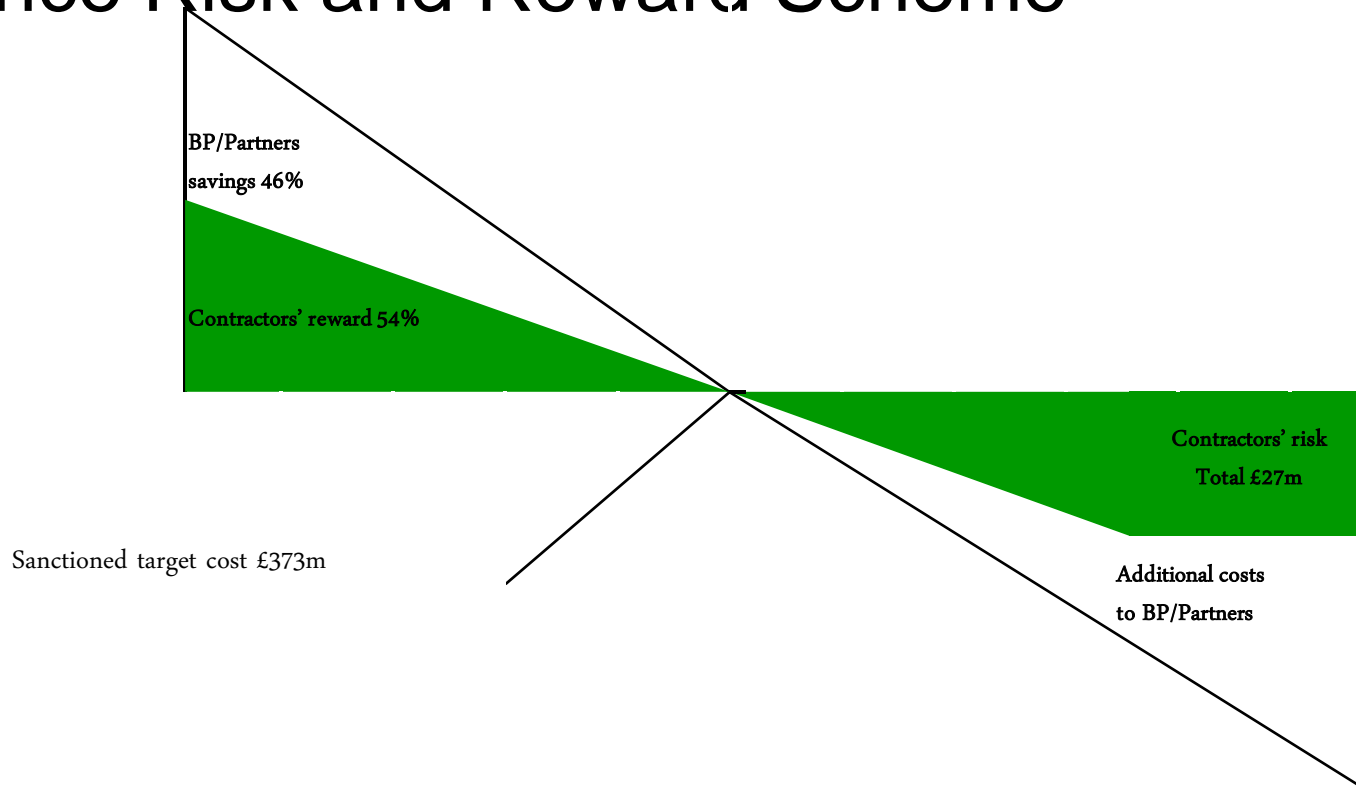
- Two years pre-sanction phase
- Early selection of key Contractors using 10 Minimum Conditions of Satisfaction (MCOS) e.g. eliminate inefficiencies at all interfaces
- Seven Contractors selected (Brown & Root, TJB, Barmac, Saipem, Allseas, Santa Fe, Emtunga)
- Formation of Integrated Management Team (IMT) with BP and all Seven Contractors

# Andrew Alliance - the challenge

- **Alliance agreement and cost target**
  - All Contractors involved with development of sanctionable Alliance cost target
  - Finalise Alliance agreement, including risk and reward structure
- **Andrew sanctioned February 1994**
  - Agreed cost target £373m (20% below original estimate)
  - First oil in early 1997

# Andrew Alliance - the challenge

## Alliance Risk and Reward Scheme



# Andrew Alliance - the delivery

- **Building the Team**

- Only one team -- BP & Contractors
- Commitment and enrolment at all levels
- Everyone understood the goals and objectives
- Openness, honesty and trust

# Andrew Alliance - the outcome

- **The Andrew result**

- The final project cost was **£290million**
- £83m (20%) below sanctioned target (£45m contractors' "gainshare")
- Platform started up six months ahead of schedule

# Andrew: Key Lessons Learned

- Alliances need established benchmarks and norms to ensure that potential risks and rewards are realistic
- Early involvement of key contractors is very important – equally true in more conventional contractual arrangements
- Alliances need to be built by the team – there is no recipe and they are difficult to replicate



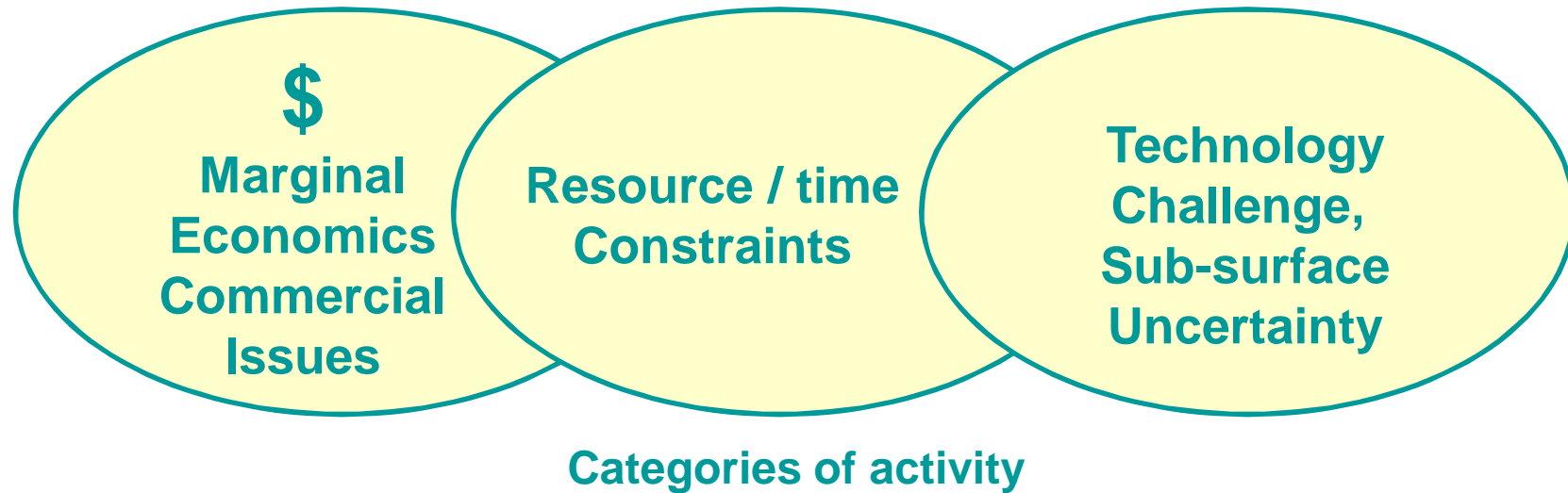
## 3.2) Satellite Accelerator

The UK's Problem:

How to accelerate development of sub-marginal small oilfields before the major infrastructure is abandoned?

Solution developed for the UK, but could it work in Trinidad? *And what role for Petrotrin?*

# UK Government Initiative: *“The Satellite Accelerator Project”*



- Adaptable, non-prescriptive process – small challenges to large opportunities
  - Can unlock resources, enthusiasm and innovation
-

## Satellite Accelerator - What is different ?

**Collaborative, open approach**

**Commitment from Operators**

**Provide a Challenge – NOT request a Product**

**Teams – Facilitation but not “forced” - Interaction with teams**

**Focus on the challenge NOT the process**

**LOGIC as independent facilitator *(or Petrotrin?)***

# Satellite Accelerator

Looking for innovate technical & commercial solutions  
Proposals sought from capable teams – potentially including investors  
Amerada Hess, BP & Shell first opportunities – Phillips now

Field information is available to teams  
Clear challenges / hurdles identified  
Interaction discussions with teams before / after proposals  
Tight time-line – keep workload down  
*Aim for ALIGNMENT*

Initial challenges include:

- Remote locations
- HPHT well design
- Gas Flaring
- Reservoir difficulties
- Marginal economics

## Contacts:

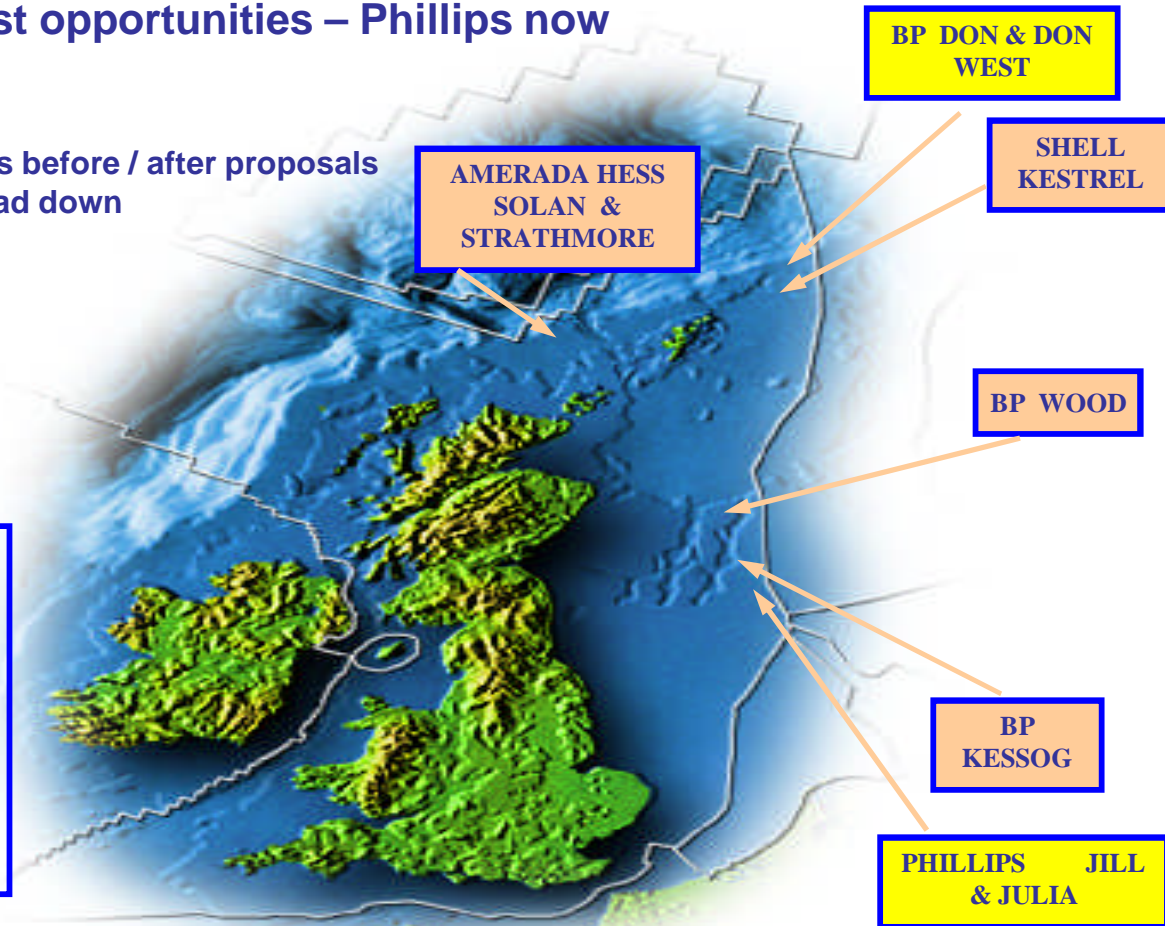
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**FULL DETAILS & REGISTRATION:**

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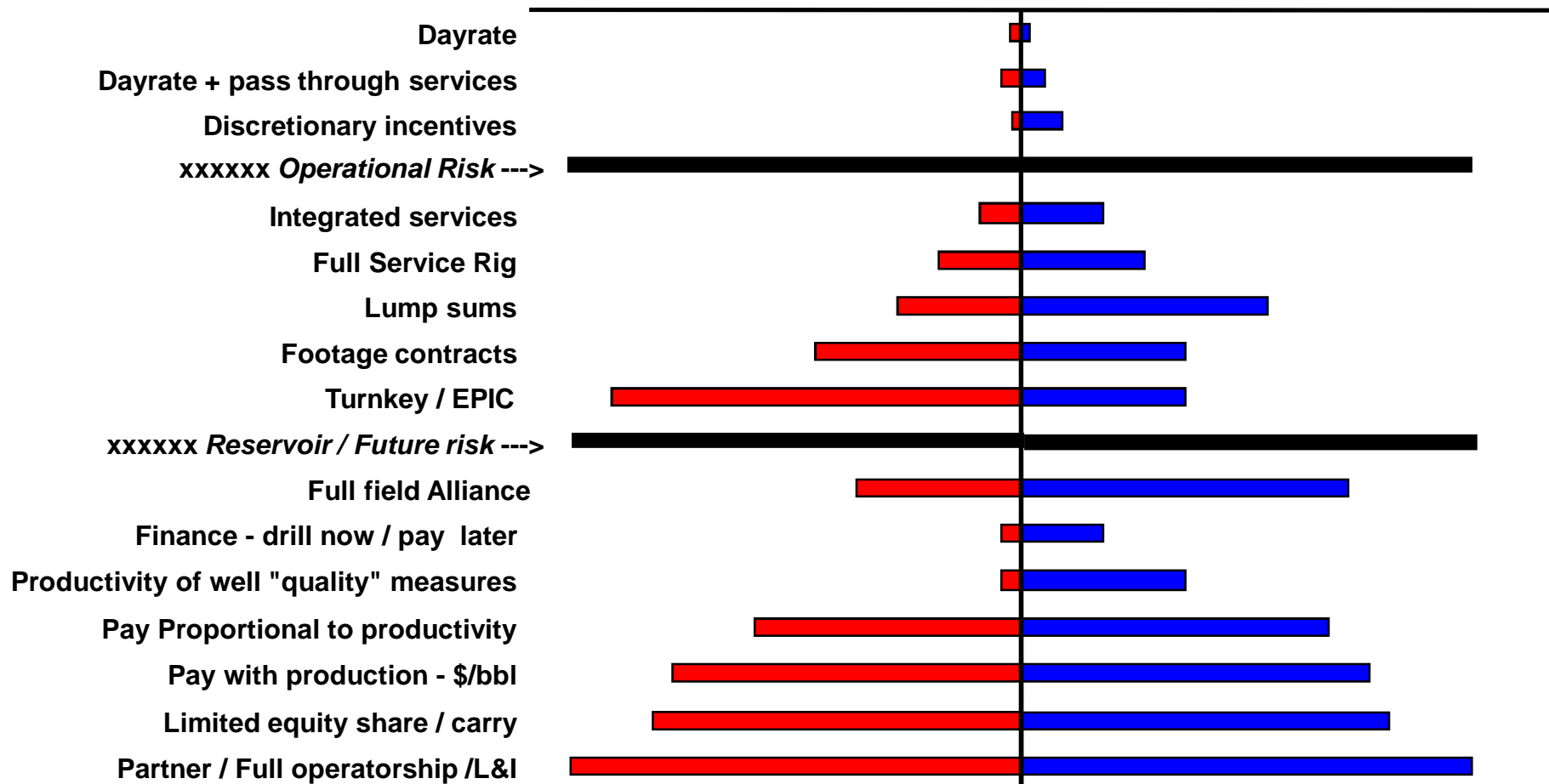
# ***Satellite Accelerator - principles***

- **Clear objectives and boundaries (technical, commercial, economic, HSE) provided**
- **Operators provide sufficient resource & interaction**
- **Operators open to innovation & willing to share risk and reward**
- **Proposals both within and outside existing agreements**
- **Unfunded proposal work kept to a minimum**
- **Learnings shared through LOGIC**

# Risk and Alignment

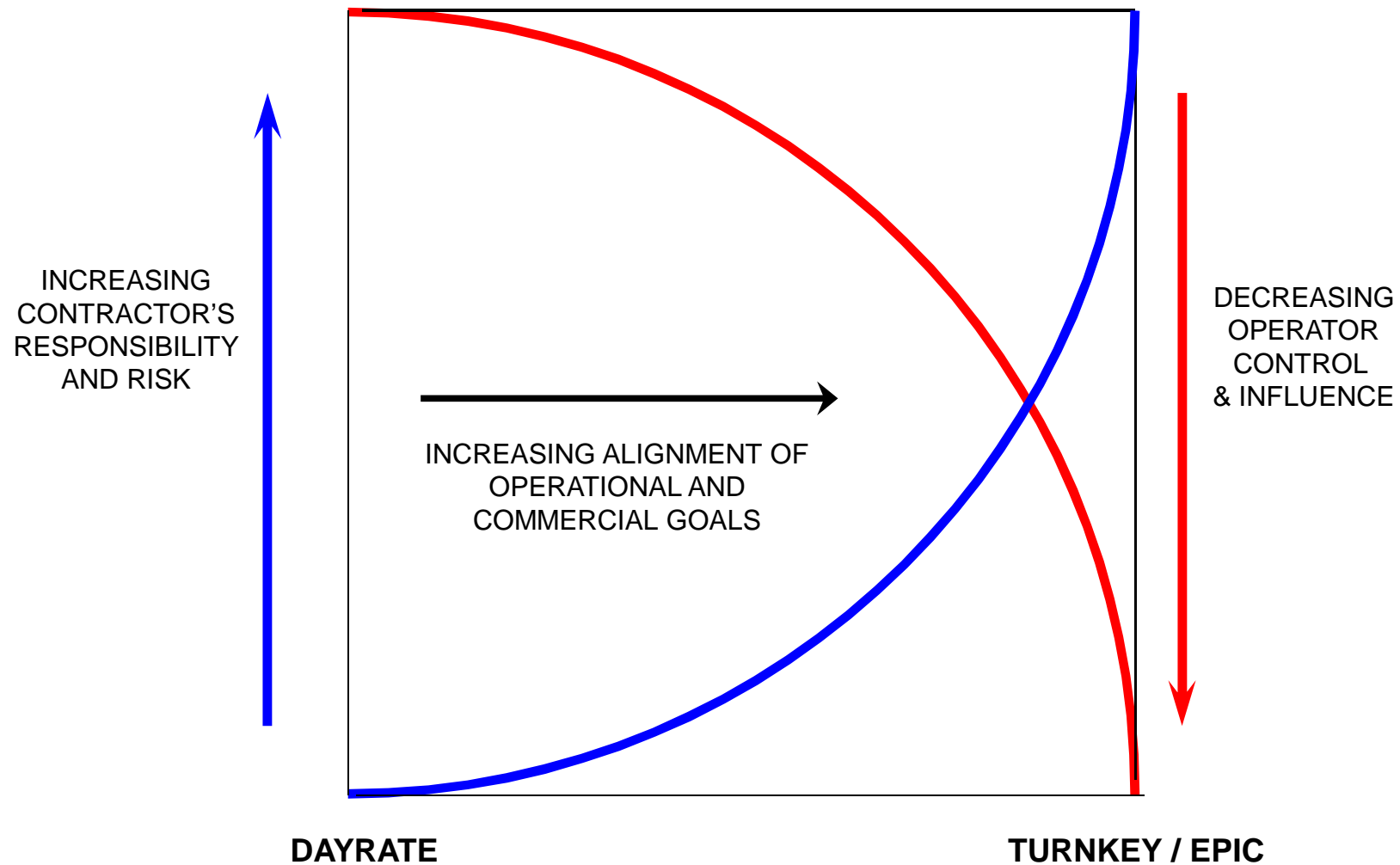
## Each project will be different

<<-- CONTRACTOR'S RISK PROJECT ALIGNMENT-->>



# Shared responsibility

## Changing the traditional approach



# ***Satellite Accelerator***

## **Role of LOGIC - *Could this be Petrotrin?***

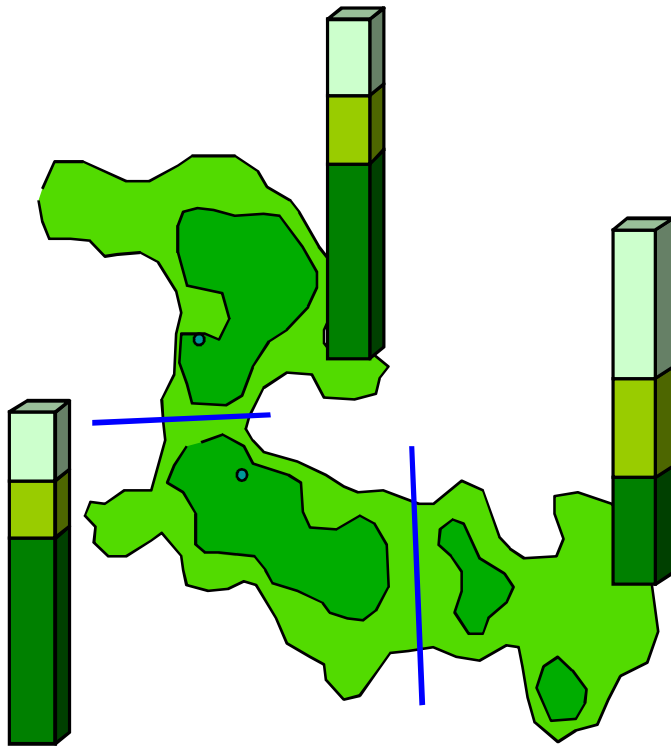
### **LOGIC involvement:**

- **Marketing & engagement**
- **Communication internally and externally**
- **Presentation – conferences, exhibitions, trade associations**
- **Supply chain contacts & facilitation as required**
- **Support to asset teams / operators**
- **Data room procedures / assistance**
- **Process management and continuity**
- **Scheduling – aim one project per 4 / 6 weeks**
- **Feedback, key learnings, continuous improvement**

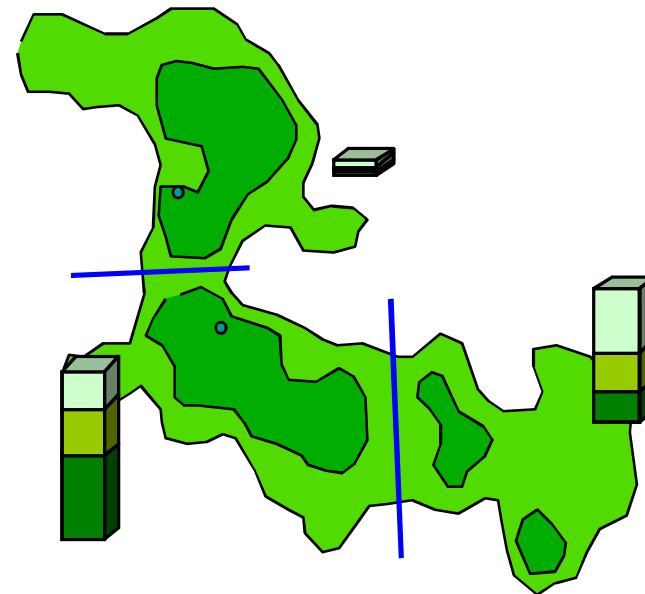


# Satellite Accelerator Case Study (BEULY)

# Beauly - A Submarginal Subsea Prospect



STOIIP 8 - 12 MMstb



Reserve 2 - 4 MMstb

# The Beaulieu Context and Challenge

- Very small oil discovery 5 km SE of the Balmoral Floating Production Vessel
- The commercial downside made investment unattractive
- Could new thinking unlock the development?

# The Consortium

*nisus* - RML, GMIS, Stolt, Wood Gp

- Full corporate backing as core business
- Understands Operator's commercial objectives
- Innovative and aligns and shares risks

# The Proposition

- Owners, Development Contractors and Transporters are all Stakeholders with an interest in progressing the development
- Regard all cash flow  $>$  cost as “profit”
- *No one should profit unless the project profits*

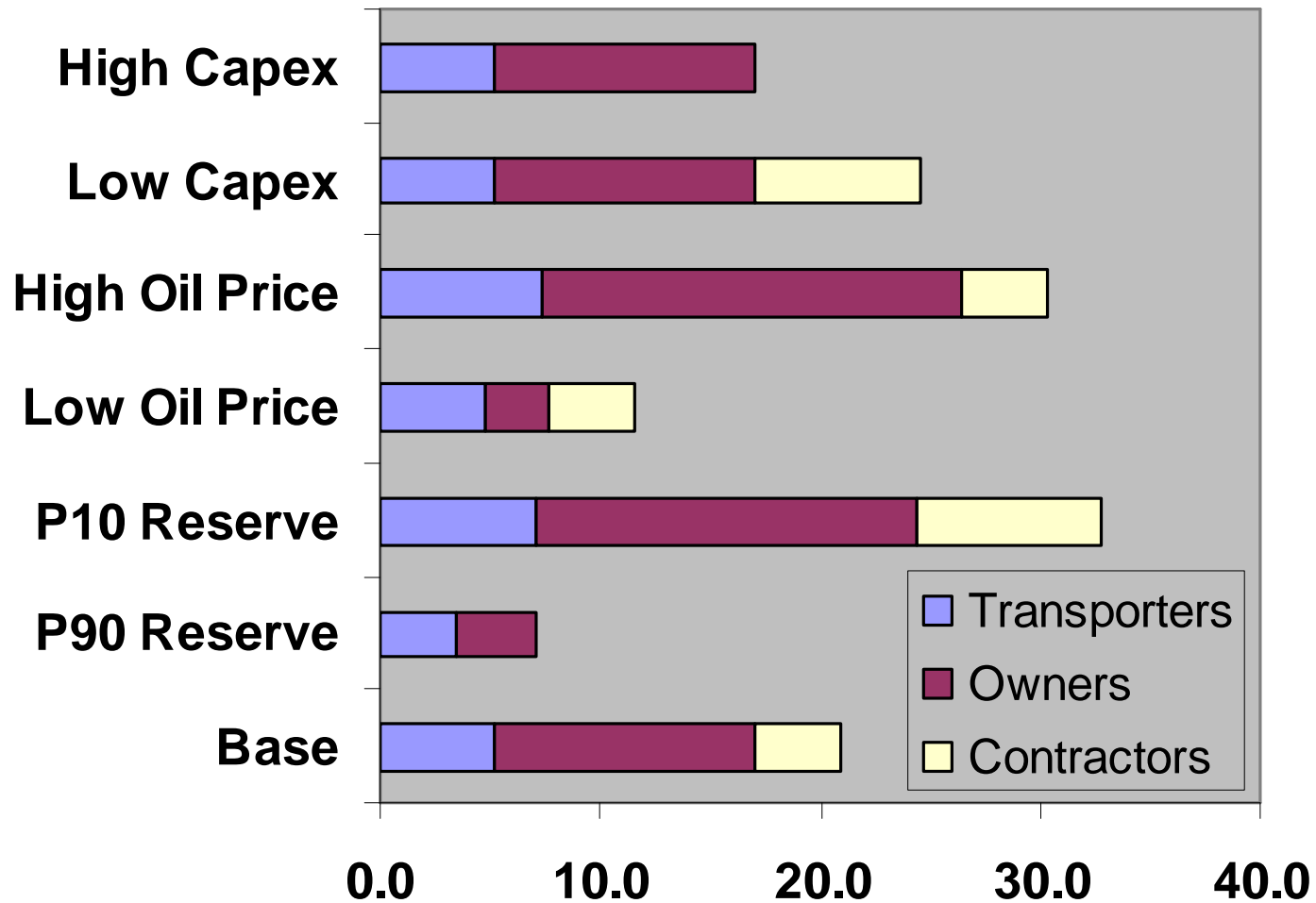
# The Process

- Invite Development Contractors to view data and offer technical and risk sharing commercial solutions
  - Keep offer time short!
- Work with preferred contractor alliance to create investment opportunity
  - Understand each parties' aims
- In parallel seek innovative risk sharing processing and transportation agreements
  - Align the objectives

# The Consortium's Proposal

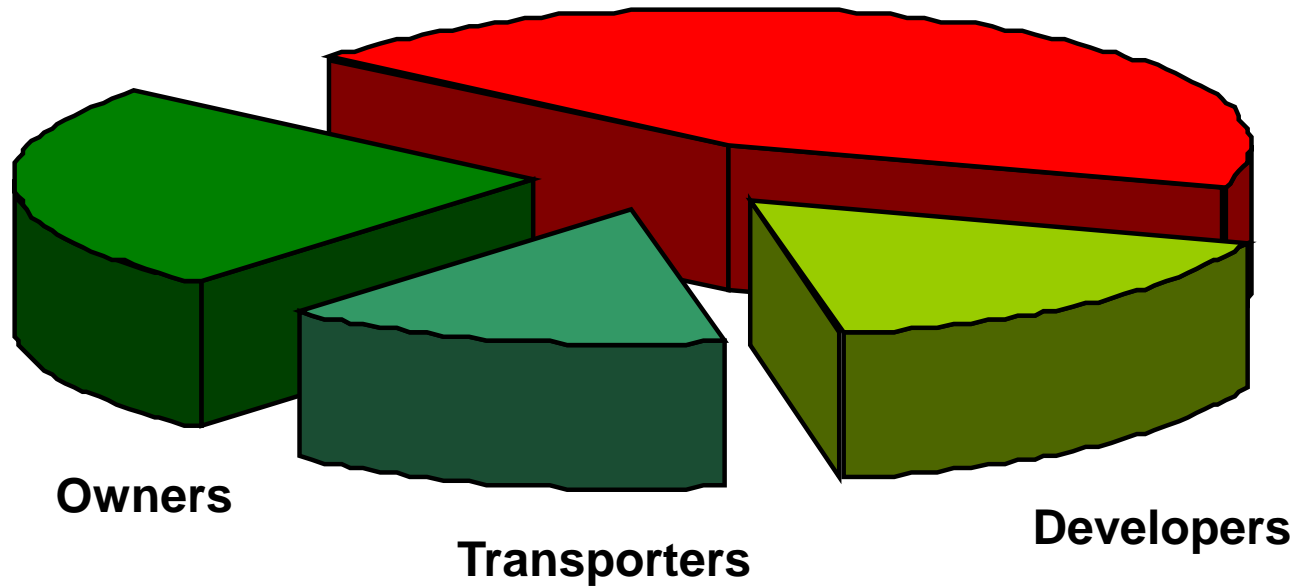
- Contractor Alliance would develop field for a **fixed price with no profit**, payable on handover
  - Contractor carries project risk
- **Profit to be earned through a tariff related to production**
  - Profit can exceed “normal” levels
- Transportation tariff variable in proportion to oil price and field reserve

# Effect of Risk Sharing on Stakeholders





# Beaully - A slice of the cake for everyone!



Risk sharing has created value where none existed

# 3.3) Halliburton Integrated Service Contract (with Shell North Sea)

Contract Value: \$120m, 280 Halliburton personnel, 5 years

Halliburton's return ("profit") to be earned through performance mechanism

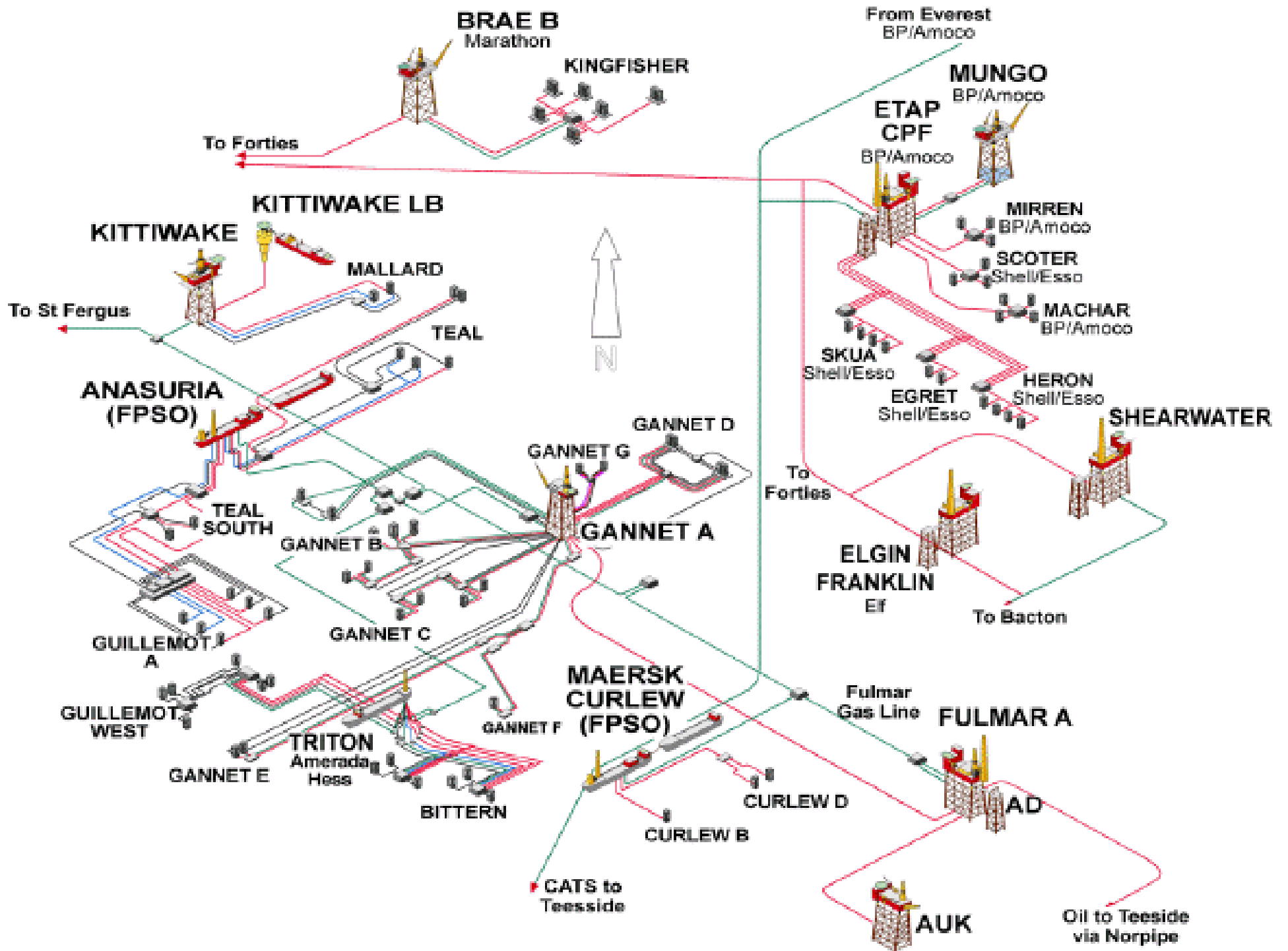
Shell Production

250,000 bbl/d oil (10% of UK production)

8.2 MMm<sup>3</sup>/d gas (290 MMSCD)

Shell Operating Costs

£250 million pa



# ISC Performance Model - Asset Influence Scorecard

<u>Element</u>	Poor	Satisfactor	Good	Very Good	Excellent
<u>Health &amp; Safety</u>					
No.HPIs	3	2	1	0	0
TRCF	> 6	6 - 4.7	4.6 - 3.3	3.2 - 1.9	<1.9
LPI Completion	< 80%	80 - 85%	85 - 90%	90 - 95%	> 95%
<u>Environmental</u>					
Gas Losses, sm3	> 121	121 - 112	112 - 103	103 - 93	< 93
Oil to sea, ppm	> 15.5	15.5 - 13.5	13.5 - 11.5	11.5 - 9.5	< 9.5
Weighted Incidents	> 2.75	2.75 - 2.00	2.00 - 1.25	1.25 - 0.50	<0.50
<u>Unit Operating Cost</u>					
	>£2.27	£2.27-1.98	£1.98-1.66	£1.66-1.53	< £1.53

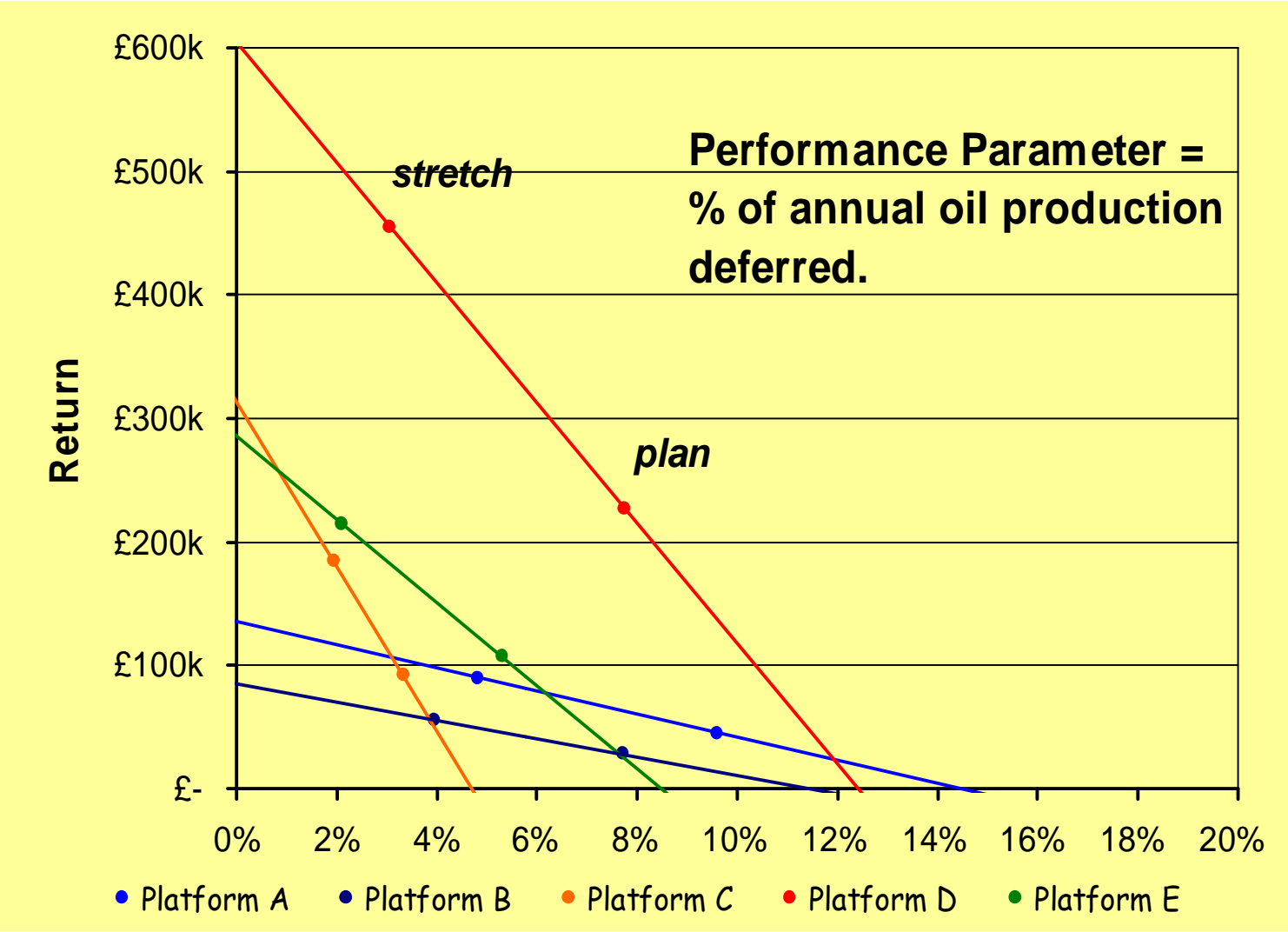
HPI = high potential Incident      LPI = Leading Performance Indicators

TRCF = total recordable case frequency (LTI+MTC+RWC per million manhours)

# ISC Performance Model

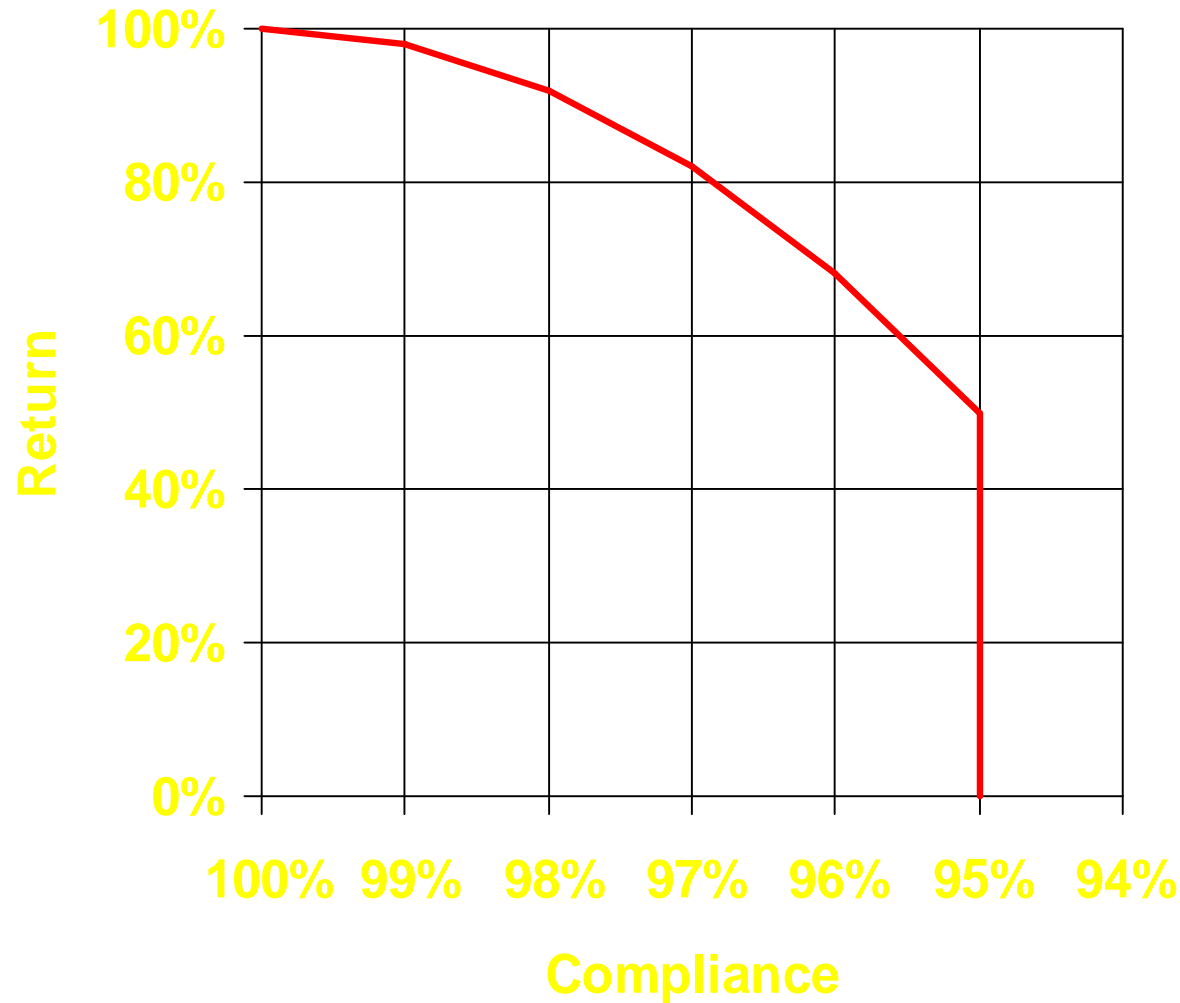
		Poor	Satisfacto	Good	Very Good	Excellent
Cost Containment		%	%	%	%	%
Maintenance Compliance		%	%	%	%	%
Production Deferment		%	%	%	%	%
<b>Contractor Influence</b>						
HS&E:		3	2	1	0	0
No.HPIs	TRCF	> 6	6 - 4.7	4.6 - 3.3	3.2 - 1.9	<1.9
	LPI Completion	< 80%	80 - 85%	85 - 90%	90 - 95%	> 95%
	Gas Losses, sm3	> 121	121 - 111	111 - 93	93 - 66	< 66
	Oil to sea, ppm	> 15.5	15.5 - 13.5	13.5 - 11.5	11.5 - 9.5	< 9.5
	Weighted Incidents	> 2.75	2.75 - 2.00	2.00 - 1.25	1.25 - 0.50	<0.50
	Unit Operating Cost, £/boe	>£2.27	£2.27-1.98	£1.98-1.66	£1.66-1.53	< £1.53
<b>Asset Influence</b>						
Major Projects		Poor	Satisfacto	Good	Very Good	Excellent
Production		bbls	bbls	bbls	bbls	bbls
Challenge		£	£	£	£	£
Extraordinary Return		£	£	£	£	£
<b>Value Adding</b>						

# ISC Performance Model - Production Deferment



Source: Halliburton

# ISC Performance Model - Maintenance Compliance



Performance  
Parameter =

% of safety critical (cat  
1) maintenance  
routines completed on  
time.

All return eroded if  
compliance falls below  
95%

# ISC Performance Model - Major Projects

## Example Project - Produced Water Quality Improvement

CATEGORY	WEIGHTING	PARAMETER	Poor	Satisfactory	Good	Very Good	Excellent
OPEX	15%	De-Oiler ppm	20	15	10	<b>5</b>	0
			-£7,500	£5,625	£18,750	£28,125	£37,500
SCHEDULE	20%	HOC Date	<b>18-May-00</b>	11-May-00	04-May-00	28-Apr-00	21-Apr-00
			-£10,000	£7,500	£25,000	£37,500	£50,000
ENVIRONMENT	35%	OIWOB ppm	40	25	20	15	<b>10</b>
			-£35,000	£26,250	£87,500	£131,250	£175,000
NPV GAIN	30%	Shutdown Days	5	3.5	2	1.5	<b>1</b>
			-£47,500	£13,750	£75,000	£112,500	£150,000



**Scorecard Return = £343k**

**Project Budget = £2.6M**

- Extensive technical studies undertaken to arrive at IGFU (Induced Gas Flotation Unit)
- Weather deck proposal @ £3.5M challenged to bring 'end of line' solution @ £2.6M
- Costs minimised through deviations to Shell material standards and synergies with other projects.
- 'Novel' tie-in technique to minimise shutdown and hence production deferment



# ISC Performance Model

	Poor	Satisfactor	Good	Very Good	Excellent	Return
Cost Containment	%	%	%	%	%	£
Maintenance Compliance	%	%	%	%	%	
Production Deferment	%	%	%	%	%	£
HS&E:	3	2	1	0	0	£
No.HPIs	> 6	6 - 4.7	4.6 - 3.3	3.2 - 1.9	<1.9	
TRCF	< 80%	80 - 85%	85 - 90%	90 - 95%	> 95%	
LPI Completion	> 121	121 - 112	112 - 103	103 - 93	< 93	
Gas Losses, sm3	> 15.5	15.5 - 13.5	13.5 - 11.5	11.5 - 9.5	< 9.5	
Oil to sea, ppm	> 2.75	2.75 - 2.00	2.00 - 1.25	1.25 - 0.50	<0.50	
Weighted	>£2.27	£2.27-1.96	£1.96-1.66	£1.66-1.53	< £1.53	£
Unit Operating Costs, £/boe						
Major Projects	Poor	Satisfactor	Good	Very Good	Excellent	£
Production	bbls	bbls	bbls	bbls	bbls	£
Challenge						
Extraordinary Return	£	£	£	£	£	£

Total Financial Return = £x

## 4) CONTRACT NEGOTIATIONS

- Two or more parties attempting to arrive at a mutually satisfactory end point starting from different interests
- By means of interaction, bargaining, movement and compromise

# Before the Process – Preparation

- What do you think the other side wants
  - What is their “walk-away” position?
  - **What is more valuable to them than to you? (It might cost you nothing as a bargaining chip!) And vice versa.**
- What are your objectives (S.M.A.R.T.)
  - Target position
  - Walk-away position
- What are the salient facts
- What are the strengths and weaknesses of the two sides
  - **Is anyone short of time?**
    - S&W change over time
  - How you relate to your adversaries affects balance of power (over years not months)
- Composition of your team
  - Leader, shouter (!), note-taker, figures person etc
- Tactics
  - Conventions
    - E.g.: Go in strong then more substantive etc
  - Is this negotiation in the public eye?
    - People behave differently

# The Process

- Opening
- Testing
- Moving
- Closing
  
- **You will lose out if**
  - You do not know which stage you are in
  - You attempt to move to the next stage too early

# Opening

- Introductions
  - Clarify roles
  - “Box off” what you are about to do
  - A bit of one-upmanship
- Claim
  - Keep cards hidden but be flexible
- Counter Claim
- Attitudinal Structuring
  - Moral pressure
  - Impact on third parties

# Testing

- Questioning
  - Information
    - What is important?
  - Relationships
    - Interested, concerned
  - Share control of process
    - Be careful what you reveal!
- Repetition
- Tactical use of emotion
- Observing
  - Pick up things about their case
    - What is weak / not really believed
    - What is and is not important to them
    - Identifying negotiating ploys
- Adjourn
  - What have we found out?
  - How to get from here to our target position

# Moving

- Conditional concessions
  - “if we were prepared to.., would you..”
- Keep moves small
  - Avoid losing credibility
- Never give a concession for nothing
  - Only move when they are ready to move
- How to move together:
  - summarise position
  - clarify where you both are
  - suggest a break so both sides can think about it / “come back more positive”

# Closing

- Need to know when reached
  - Smaller concessions
  - More summing up
  - People not knowing when to close
- Big opportunity
  - One side trying to close when other still negotiating
    - Things get given away
    - Use time / other urgent pressures



# Socialise

- Congratulate
- Drinks
- Next Year

# Accrued Wisdom

- Nothing for Nothing
- Speed is not a virtue
- The power of tomorrow
- The importance of convention but..
  - Everything is right, in the right place
- Different teams do achieve markedly different results
  - Some correlation with number of questions asked

# 5) SYNDICATE EXERCISE 1: NEGOTIATING THE SALE AND PURCHASE OF A SHARE IN AN OILFIELD

- 30 mins to prepare negotiating plan
- 30 mins of negotiation
  
- You **MUST** get a deal

# Syndicate Exercise 1

- Syndicate Results
  - Sellers
  - Buyers

# Syndicate Exercise 1

- Replace this page with Seller's Handout  
1/1

# Syndicate Exercise 1

- Replace this page with Buyer's Handout  
1/2

# Syndicate Exercise 1

- Replace this page with Buyer's Handout  
2/2

# 6) SYNDICATE EXERCISE 2: DRAFTING JVA FOR THE AGREED SALE AND PURCHASE

- Before we meet again!
- Handout of a pro-forma JVA
  - Ask around in Petrotrin to improve it!



# Syndicate Exercise 2

- Replace this page with Proforma Joint Venture Agreement (8 pages)