Securing Guyana's future
The opportunities and the risks

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Guyana and the oil industry
A risky combination

Guyana

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Oil industry

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Guyana - Some risk factors

- Gained independence from Britain in 1966.
- Economic performance since 1966 has been disappointing, considering Guyana’s attributes (resources, location).
- Local politics is acrimonious. Race is the main differentiator still to this day after 52 years. There is a large trust deficit.
- Guyana has suffered from bad leadership over most of its existence (dictatorship and corrupt officialdom). Corruption is prevalent.
- Guyana suffered from severe “brain drain” as many left the country.
- Past resource exploitation (mainly gold) has not been a success, especially with respect to economics and the environment (rivers).
- The country has largely maintained its huge “green” potential (tropical rainforests).

The oil industry - Some risk factors

- Oil revenue can be transformative, but this is not the norm in many countries.
- The oil industry can worsen the situation in countries with existing instability and weak institutions. Oil revenue raises the stakes.
- The oil industry is associated with massive corruption scandals, especially in developing countries.
- The resource curse is difficult to manage even in well run countries.
- Large oil companies are powerful entities in their own right, and usually have powerful countries supporting their interests.
- Although it is difficult to imagine a world without oil, negative effects are coming to the fore.

Guyana and the oil industry
A risky combination

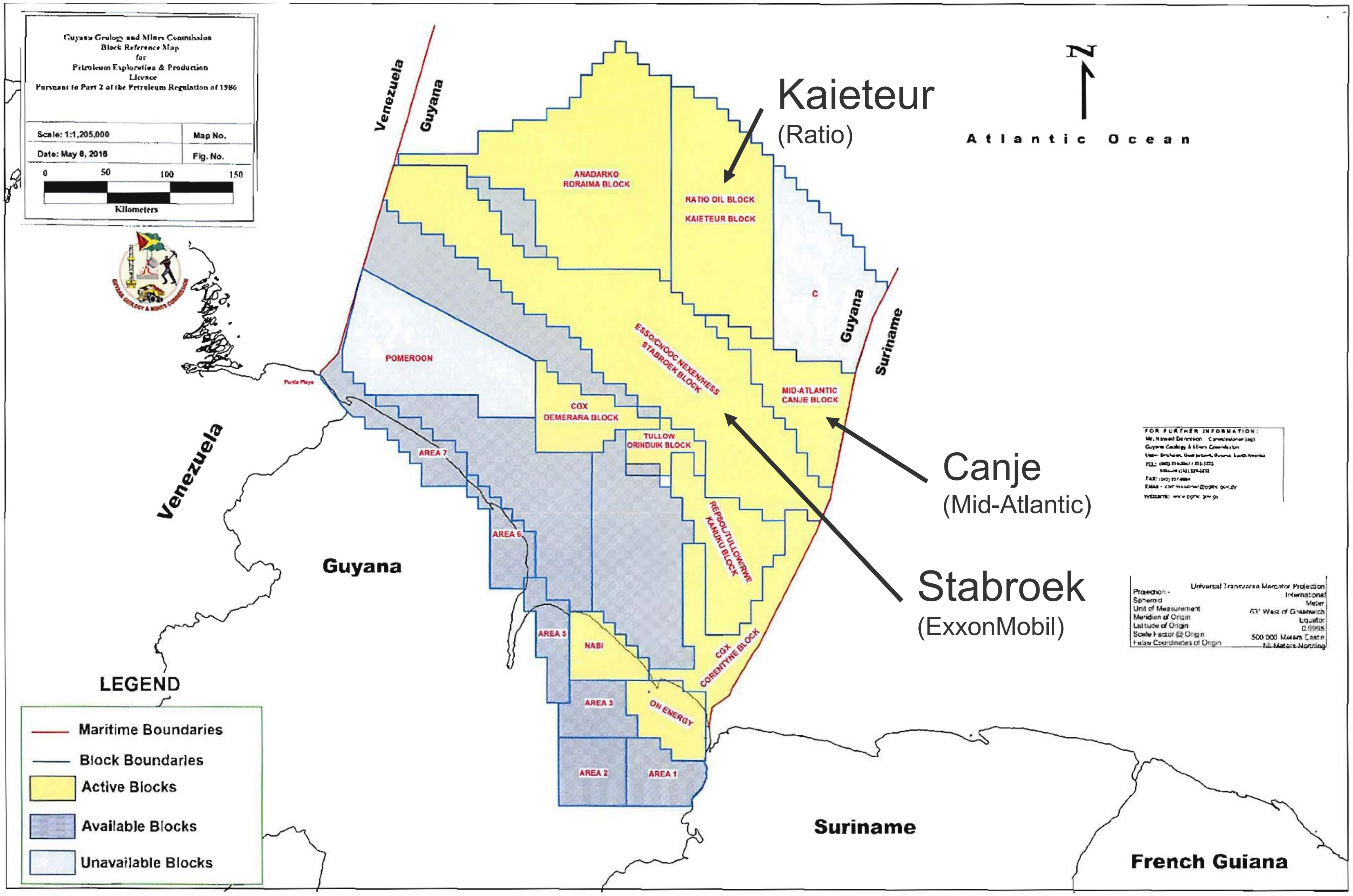
There is no need to repeat the mistakes seen in most oil-rich developing countries, but Guyana is already repeating some of these mistakes.

Guyana should be a test case to prove that an oil industry can be developed in an equitable and sustainable manner, but the test is already showing negative results.

We need to focus on the two main components:

1. maximizing the revenue
2. not squandering the revenue

The offshore blocks

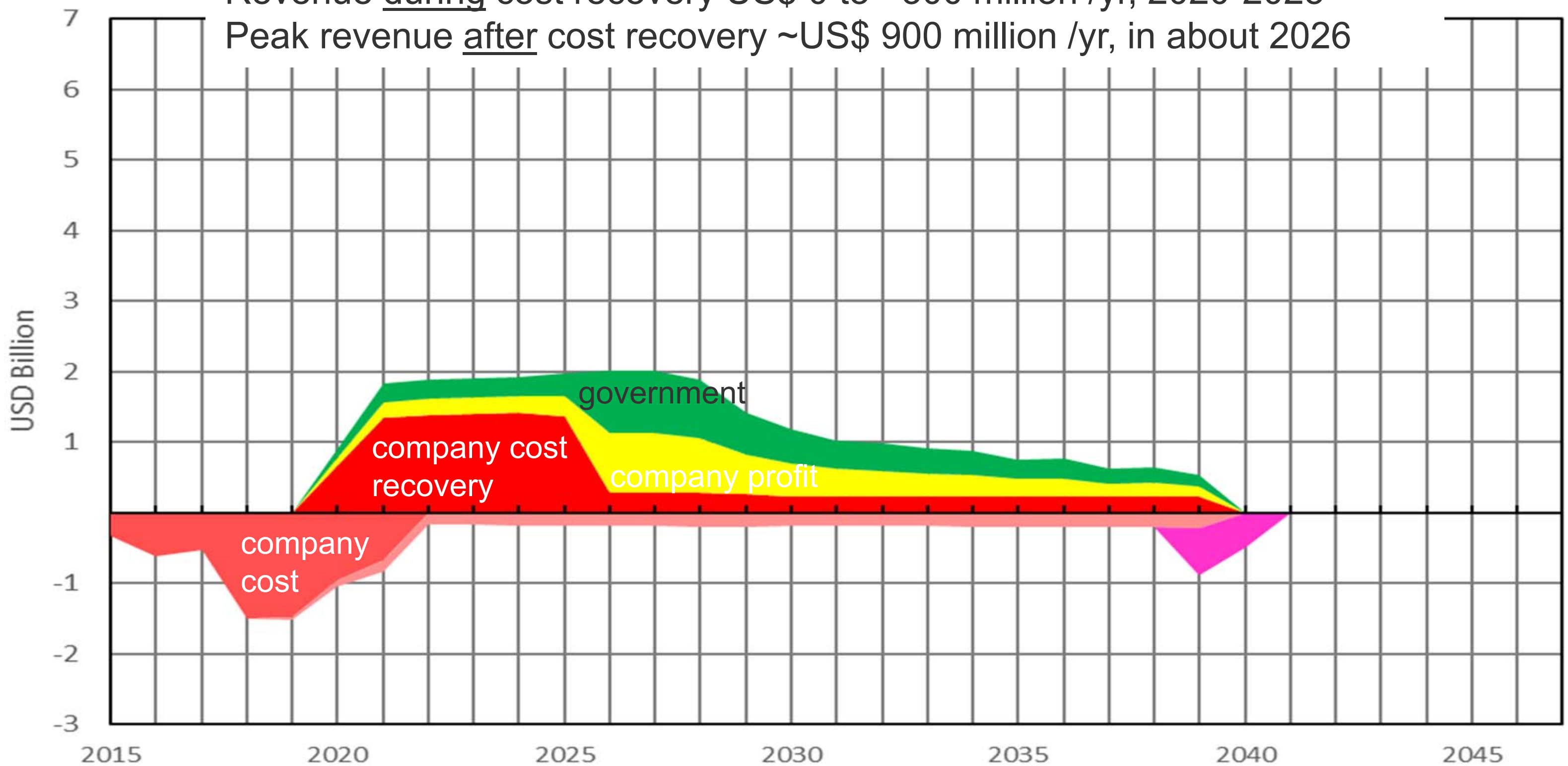


The revenue - Stabroek Block

Liza Phase 1 project (for illustration only)

Data from 2017, current fiscal terms
Peak production ~100,000 bbl/d

Revenue during cost recovery US$ 0 to ~300 million /yr, 2020-2025
Peak revenue after cost recovery ~US$ 900 million /yr, in about 2026

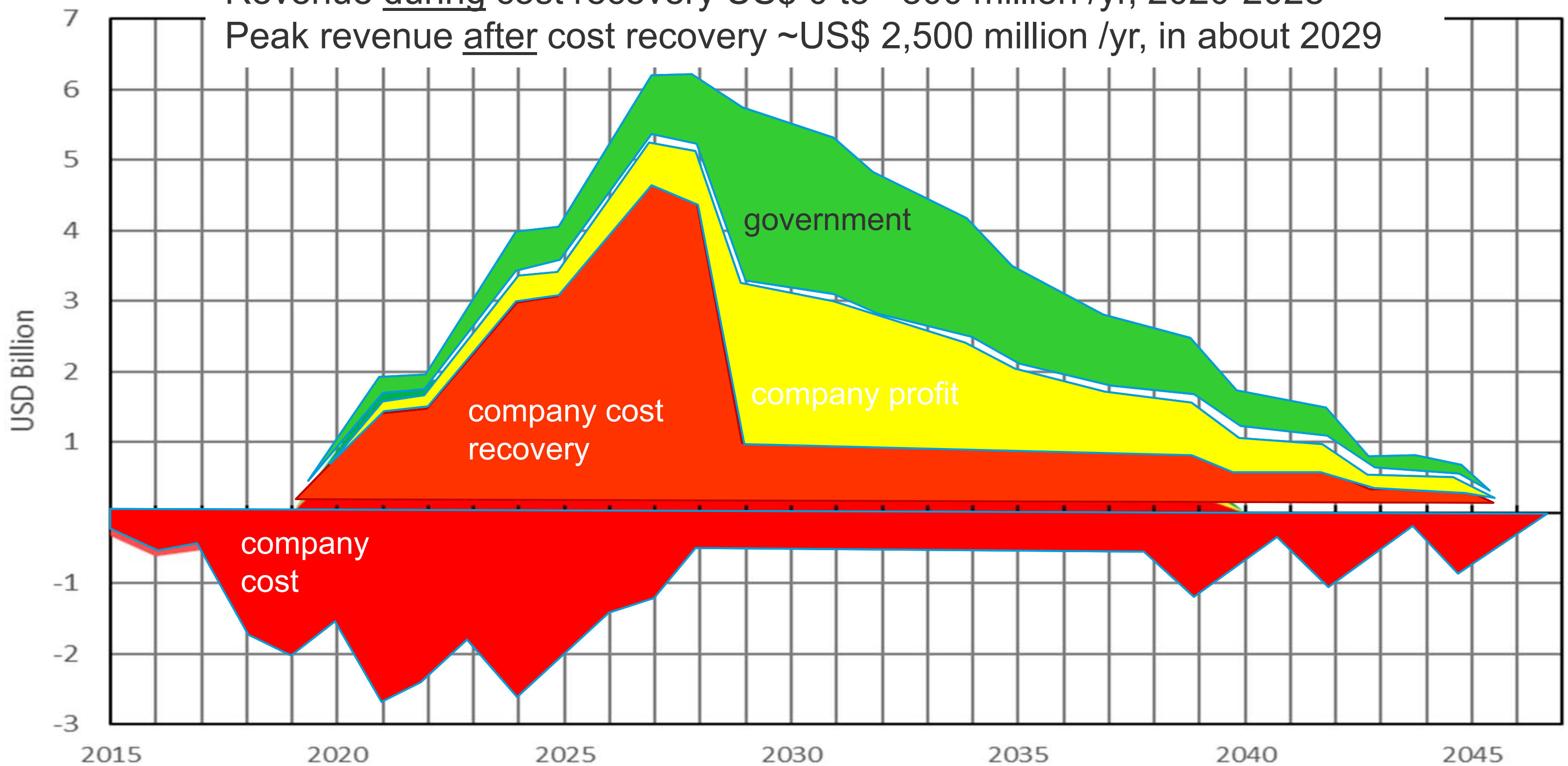


The revenue - Stabroek Block

Three (3) Liza Phase 1 projects superimposed (for illustration only)

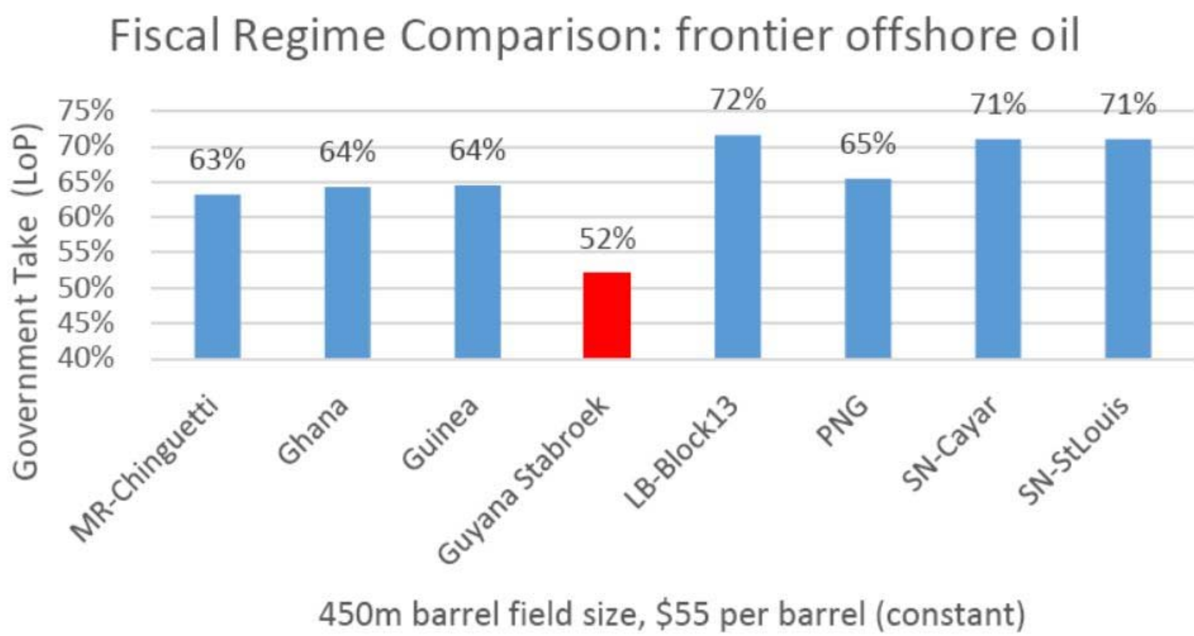
Data from 2017, current fiscal terms
Peak production ~300,000 bbl/d

Revenue during cost recovery US$ 0 to ~800 million /yr, 2020-2028
Peak revenue after cost recovery ~US$ 2,500 million /yr, in about 2029



Maximizing the revenue
Benchmarking Guyana – An outlier

Considering the Liza Phase 1 project, the 2% royalty and zero tax means Guyana's overall take is about 52%, which is well below comparable countries.



OpenOil (2018)

"This is considerably lower than a general rule of thumb of 60% to 80% government take in oil projects, and also from a range of frontier projects in Ghana, Senegal, Papua New Guinea, Mauritania and Guinea, which were comparable at the time of signature."

Maximizing the revenue
Potential value of a re-negotiation

An example comparison of terms for Liza Phase 1, over life of project (20 yrs)

	2016 contract **2%** royalty **zero** tax	Future contract (?) **10%** royalty **25%** tax
Company Profit share minus tax	US$ 7.3 billion	US$ 4.7 billion
Government Royalty + Profit share + Tax	US$ 7.8 billion	US$ 10.4 billion
Transfers US$ 2.6 billion from the company to the government		
Gov. overall take	52%	68%

Some strategies of a major oil company

- Use bullying and fear to intimidate. Make a re-negotiation seem taboo. "We are powerful and get our way all the time".
- Use its vast sphere of influence to convince Guyana it is getting a good deal, and does not deserve better.
- Reduce international visibility of the realities and challenges in Guyana.
- Keep contractual agreements hidden for as long as possible.
- Provide overly optimistic projections to Wall Street and shareholders. Underplay the real risks.
- Use the three levels of influence:
  - The first and easiest, convince the politicians that you will help them get re-elected and get some rich.
  - The second level, convince the private sector to be quiet and unchallenging if they want to get contracts.
  - Thirdly, placate and capture civil society by doling out grants.
  - And lastly, if necessary, buy the voters by encouraging the government to provide direct disbursements.

Strategies for Guyana

- Focus on maximizing the oil revenue and focus on not squandering it.
- Recognize that the companies use haste for their advantage, and be prepared to slow the pace of developments so as to catch-up.
- Leave the oil companies to do what they are good at. Streamline permitting, and streamline the movement of people and physical assets.
- Focus on generating the main income from the oil revenue, and not from the operational aspects of the industry.
- Develop a clear legislative framework and strong institutional capacity.
- Take ownership of the subsurface data.
- Accelerate use of indigenous natural gas.
- Rescind some of the highly questionable awards of oil blocks, without making it a witch-hunt. Reimburse those involved for reasonable expenses and loses. Then auction the blocks properly so Guyana can get the real value.

Strategies for Guyana

- Raise visibility of issues through international press. Try to influence public opinion in the US and UK.
- Use international NGOs who focus on natural resource governance and anti-corruption.
- Influence the large US investors in the oil companies who are more inclined to be concerned about environmental, social and governance issues.
- Influence the US politicians and prominent figures who are more likely to advocate for Guyana’s interests.
- Use leverage available via stock market influence on the oil companies. For example, a messy re-negotiation will hurt these companies more than Guyana.
- Force competition and eliminate the monopoly in Guyana’s offshore acreage. Encourage and accelerate a diverse selection of operators.

Strategies for Guyana

- Guyana needs to rapidly start fixing its pre-existing problems:
  - Embrace transparency and rules based decision making in all levels of government. Embrace “OpenGovernment”.
  - Focus on anti-corruption measures.
  - Make politicians accountable to the voters (replace the list system).
  - Slowly shift from tribal politics to politics driven by real issues.
  - Address the brain-drain and its impacts. Open up Guyana and inject it with competition from outside.
  - Overhaul and streamline the public sector.
  - Etc, etc.
- Provide cheap and reliable electricity using natural gas.

Thank you

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