

Switched on to current
trends and implications
Middle East Energy
and Resources
Managing scarcity
for the future



Introduction

As the Middle East continues to feel the impact of the global financial crisis, and as more recent events, such as the threat of regional unrest, unfold, governments are finding a new set of challenges in the energy and resources sector. Meanwhile within each industry of oil, gas, electricity and water, other challenges and trends are forcing inevitable change in traditional thinking. Issues such as depleting resources, a shortage in skilled talent and environmental concerns among others all pose a risk to the viability of current practices. What will be the impact on the public and private sectors? In this white paper Deloitte Middle East aims to enumerate the wide-ranging trends, their implications and the services that are potentially applicable in overcoming the challenges.



1. Oil and gas

Trend	Implication	Services potentially applicable
Government pressure to increase Treasury take from hydrocarbons, post global financial crisis (GFC) and recent threats of regional unrest	<ul style="list-style-type: none"> Increased control by Governments over strategy and operations of the National Oil Companies (NOCs) More demanding JV and investment terms for International Oil Companies (IOCs), especially as IOCs themselves move from “project” to “harvest” mode in the Middle East (ME) 	<ul style="list-style-type: none"> Review of JV structures and relationships Business risk and governance, both internally and at interface with third parties Monitoring effective operation of existing JV relationships Improvement of existing procurement processes Cost reduction programs
Increased control by government over NOC oil and gas strategy and operations	<ul style="list-style-type: none"> International acquisition strategy more cautious due to government pressure on NOCs to invest domestically, and to reduction in value of certain overseas investments made during GFC NOCs forced to sponsor domestic related-industry, infrastructure and socio-economic projects Attempt to reverse outsourcing to IOCs and third parties in favour of in-house capacity-building 	<ul style="list-style-type: none"> Heightened due diligence process pre acquisition Focus on post-merger integration Public policy and feasibility advice on moving into new industries and projects Public policy and HC advice on in-house capacity building Acquisition of niche businesses with rich people / technology content
Producing oil and gas resources more efficiently and cautiously developed than in the past	<ul style="list-style-type: none"> Delay / abandonment of large upstream ventures Focus on more difficult and unconventional exploration opportunities Acquisition of advanced recovery technologies 	<ul style="list-style-type: none"> Building new ventures from scratch with related operational, IT, HR infrastructure Dispute resolution Advice on structuring projects in a multi-stakeholder environment Buy-side M&A in niche areas
Cost cutting and restructuring to improve efficiency, profitability and Treasury take	<ul style="list-style-type: none"> Modernization and restructuring of existing operations Improvement of risk, governance, controls and processes (IT and non-IT) Delay, re-tendering and re-negotiation of projects in an attempt to reduce costs 	<ul style="list-style-type: none"> Change management Business process re-engineering Project management and advisory services Risk reviews and upgrade of risk environment RFP advice
Shortage of gas combined with low gas prices	<ul style="list-style-type: none"> Pressure to increase wholesale gas prices towards international benchmarks Increased spending on gas infrastructure connectivity 	<ul style="list-style-type: none"> Strategy work around gas pricing policies with international benchmarking of best practices Supply-demand and feasibility studies, including modeling of energy balance Project management services, structured finance, modeling, debt structuring and advisory

Trend	Implication	Services potentially applicable
Shortage of talent	<ul style="list-style-type: none"> • Extended decision-making process, delayed project approvals • Attempts to increase quotas of nationals • Restructuring of existing talent pool with preference for local hires rather than expensive expats • Focus on acquisitions of companies in critical areas of the oil and gas value chain e.g. oilfield services 	<ul style="list-style-type: none"> • HR transformation, strategic change, workforce planning, performance management • Public policy advice at macro level around employing nationals • Buy-side M&A in niche areas with supporting due diligence and post-merger integration
Environmental pressure on usage of oil products	<ul style="list-style-type: none"> • Increased drive for efficiency in consumption at the wholesale and retail ends of the value chain • Phased increase in oil product prices and gradual reduction of subsidies 	<ul style="list-style-type: none"> • Operational improvements around customer credit, collection and billing • Related work around policy and procedure risk of new procedures introduced • Public policy advice at macro level • Strategy work around oil product pricing policies with international benchmarking • Supply-demand and feasibility studies, including modeling of energy balance

2. Electricity and water

Trend	Implication	Services potentially applicable
<p>Huge historic and projected increase in wholesale and retail electricity and water demand in every country in the region</p>	<ul style="list-style-type: none"> • Significant extra generating / desalination capacity required • Substantial investment in transmission and distribution assets (including cross border) required, to optimize new generation return on investment (ROI) and promote system stability 	<ul style="list-style-type: none"> • Project advisory and program management • Due diligence on new entrants • New policies, processes and procedures around incremental assets acquired or built
<p>Electricity and water generation, transmission and production activities are still in a single company in a number of countries in the region</p>	<ul style="list-style-type: none"> • Electricity and water operations will need to be unbundled in the longer term to promote operating and capital efficiency and competition, and to avoid conflicts of interest 	<ul style="list-style-type: none"> • Change management, project management office (PMO) and business process re-engineering • Risk assessment of unbundled entities and establishment of new controls • HR transformation, strategic change, workforce planning, performance management • Potential M&A around carve-outs, JVs and divestitures
<p>Shortage or even absence of 'clean' fuels (gas, nuclear) for power generation, to reflect international environmental trends</p>	<ul style="list-style-type: none"> • Every country in the region is considering a nuclear build program • A number of countries in the region are investing in network gasification or unconventional gas exploration and production • Renewable energy projects are being considered throughout ME 	<ul style="list-style-type: none"> • Risk assessment of new projects and their related processes and procedures • Financial and program advisory around nuclear asset development program • Building new ventures from scratch with related operational, IT, HR infrastructure • Capacity building in nuclear and renewable energy requires significant public policy and HR advice
<p>Aging infrastructure, made obsolete by significant population increases and technological developments</p>	<ul style="list-style-type: none"> • Substantial investment in transmission and distribution assets (including cross border) required to optimize generation ROI and promote system stability 	<ul style="list-style-type: none"> • Project advisory, financial modeling, valuation and due diligence • Project management services, structured finance, modeling, debt structuring and advisory
<p>Existing electricity and water companies have not benefited from international partnerships in the same way as the ME oil and gas sector. They still share some of the operational characteristics of government departments</p>	<ul style="list-style-type: none"> • Significant inefficiencies still exist, especially on the distribution side at the interface with customers whose numbers are growing significantly • Thorough commercial unbundling of electricity and water companies still needs to happen, or at least follow existing legal and financial unbundling 	<ul style="list-style-type: none"> • Change management, PMO and business process re-engineering • Risk assessment of unbundled entities and establishment of new controls • HR transformation, strategic change, workforce planning, performance management • Potential M&A around carve-outs, JVs and divestitures • Operational improvements around customer credit, collection and billing processes and procedures • Related work around policy and procedure risk

Trend	Implication	Services potentially applicable
Increased pressure on end-user electricity and water prices due to rising fuel prices and gradual abolition of subsidies	<ul style="list-style-type: none"> Greater efficiencies and more modern customer credit, collection and billing processes are required, to minimize the effect of higher fuel prices on the end users of electricity and water, and to service increasing numbers of customers 	<ul style="list-style-type: none"> Operational improvements around customer credit, collection and billing Related work around policy and procedure risk Strategy work around electricity and water pricing policies with international benchmarking Electricity and water supply-demand and feasibility studies, including modeling of energy balance
Shortage of talent, especially in the nuclear industry	<ul style="list-style-type: none"> Delayed decision-making process, delayed project approvals Attempts to increase quotas of nationals Restructuring of existing talent pool with preference towards local hires rather than expensive expats Focus on acquisitions of companies in critical areas of the electricity and water value chain e.g. nuclear, customer interfaces 	<ul style="list-style-type: none"> HR transformation, strategic change, workforce planning, performance management Public policy advice at macro level around employing nationals Buy-side M&A in niche areas with supporting due diligence and post-merger integration
Increased cross-border connectivity in electricity transmission	<ul style="list-style-type: none"> Significant investment in transmission networks required Further development and harmonization of regulatory regimes Emergence in the medium term of traded electricity markets to promote price and physical stability 	<ul style="list-style-type: none"> Project advisory and program management Due diligence on new entrants New policies, processes and procedures around incremental assets acquired or built
Increasing unsuitability of existing regulatory regimes for current market conditions	<ul style="list-style-type: none"> Electricity and water regulatory regimes will need to be overhauled so that they are more reflective of recent changes in the market 	<ul style="list-style-type: none"> Strategy work around pricing policies with international benchmarking of regulatory regimes Supply-demand and feasibility studies, including modeling of energy balance

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