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JUSTIFICATION OF THE ORGANIZATIONAL MODEL OF
PARTNERSHIP IN OIL PRODUCTION

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Abstract

In the context of the development of the oil and gas production sector in the economy of the Russian Federation, oil companies need investment resources, and investors are evaluating possible investment options. At the same time, investors are interested not only in the economic aspects of projects, but also in legal issues and compliance with industrial safety requirements, since oil production projects involve the operation of production hazard facilities. In this regard, the authors set a goal - to propose an optimal model of interaction between a large oil company and a small oil producing company from the standpoint of legitimacy and compliance with industrial safety requirements. The authors explore five options for developing partnerships between the parent company and the small operator company. The options vary for the ownership of personnel serving the development facilities, licenses for the operation of hazardous production facilities, their registration and rights to movable and immovable property. For each option, strengths and weaknesses, risks and opportunities are analyzed. As research methods, methods of system analysis and modeling, organizational management methods, SWOT analysis, adaptive and situational management methods were used. The article may be of interest to potential investors evaluating the possibility of investing in Russian oil production. The study was conducted on the basis of real data on the order of a foreign investor, assessing the potential benefits and risks and, in general, the possibility of further stay in the project.

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1. Introduction

In the process of formation, the Russian oil and gas business went through a whole series of restructuring: the transition from a state corporation to private business, from monoproduction to diversification, from the concentration of all types of oil and gas business within a vertically integrated company to the withdrawal of oil services beyond the vertically integrated oil companies (Aleksandrova & Nizamova, 2017). At the same time, the reasons for the restructuring at different time periods were different - from changing the legislation to the need to survive in crisis years and optimizing costs in the current period (Cherif, Hasanov, & Zhu, 2016).

One of the modern management models that some oil producing companies adhere to has become a model in which a large company acts as one of the investors in creating an oil production company in the form of a limited liability company that receives a license to develop a subsurface and acts as a production operator (Gajfullina, Nizamova, Musina, & Alexandrova, 2017; Kopytin, 2018). At the same time, the operator holds a license for development and production facilities, and business processes are organized by the parent company, which has experience and provides its personnel. The extracted products are also sold by the parent company.

2. Problem Statement

The presented management model is undoubtedly economically beneficial for the parent company, however, it raises a number of questions from other investors of the operator company. Investors' concerns are related to the fact that in the current situation the parent company is skimming the cream, then in the event of a crisis, all investors respond within their shares (Sovacool, Walter, Van de Graaf, & Andrews, 2016). Investors are interested in how justified this management model is in terms of industrial safety and legislation?

3. Research Questions

The study sets the following tasks:

- study of the legitimacy of the current model for developing a licensed area of an operator company;
- the formation of alternative options for the interaction of the parent company and the operator company;
- selection of the best partnership option in the current environment (Nizamova & Musina, 2017).

4. Purpose of the Study

The authors aim to propose an optimal model of interaction between a large oil company and a small oil producing company from the standpoint of legitimacy and compliance with industrial safety requirements. Achieving the goal includes researching potential forms of partnership, taking into account the mutual interests of a foreign investor and a Russian company.

5. Research Methods

When developing alternative options for interaction between the parent company and the operator company, methods of system analysis and modeling, organizational management methods, and SWOT analysis were used. In order to select the best partnership option, adaptive and situational management methods were used. As an empirical method, the study of normative and methodological documentation was used.

6. Findings

The paper analyzes five options for interaction.

Variant No. 1 “Regular staff” In this variant the parent company is the subsoil user and the operating company at the same time. The parent company recruits employees on its own and incurs expenses for their maintenance, undertakes to register the hazardous industrial facility with Rostekhnadzor and obtain a license for the oil & gas production facility operation.

Strong points: Transparent and evident incomes and expenses. Accurate planning of the parent company operating company activity. Direct subordination of employees responsible for normal condition and safe operation of the facility to the parent company management. Higher motivation and responsibility of employees. This means a higher quality control resulting in higher quality of commercial products.

Weak points: Full responsibility for compliance with the requirements of the Russian legislation. The need for own staff. The full staff maintenance expenses may turn to be higher than expenses under a service rendering agreement (or operator agreement). Development and integration of documentation support for the industrial safety management system at the facilities of the parent company. Establishment of own volunteer emergency response teams and a local alert system.

Possibilities: Improvement of the operating company’s work efficiency. A stable engineering support for the oil & gas production facilities. Organized and controllable work with contractors. Tracking and distribution of working hours.

Risks Full responsibility for violation of the requirements of the Russian legislation. Full immersion of managers in the current operation processes. Minimum legal risks caused by supervising authorities to the operating company; penalties are possible only for direct breach of legal requirements committed by regular staff in the process of oil & gas production facilities operation (Misund, Mohn, & Sikveland, 2017).

Variant No. 2 “Working model”. the parent company operates by the production facilities within the framework of the existing service agreement, involving the regular staff of operator company. All material costs are incurred by the parent company. All costs incurred by operator company while performing works at the oil & gas production facilities shall be charged to the parent company. The parent company shall register the hazardous industrial facility with Rostekhnadzor, obtain a license for the oil & gas production facility operation, and organize admission of operator company employees for performance of works under the agreement.

Strong points: Engagement of a minimum number of employees to manage the Company. There is no need to recruit personnel or to organize oil production, gathering and treatment, and subsequent sale of commercial oil. Accurate cost planning for RHC treatment service organization at the oil & gas production center.

Weak points: Absence of accurate cost planning for RHC production service organization at operator company office (untraceable costs arising from services rendered by the Operator, the agreement provides for hourly rating of the office employees work time and not for a certain amount for rendered services). Absence of connection between incomes and expenses. the parent company is fully liable for any accidents and incidents at the oil production, gathering and treatment facilities as well as for failure to perform contractual obligations by the Operator. The quantity of produced hydrocarbons is controlled and confirmed only at the level of the managing staff. Absence of proving documents for material costs related to facility maintenance on the part of operator company. The operator company has no documents proving the possibility of using the buildings, structures and equipment owned by the parent company. The procedure of operator company admission to the parent company facilities is not well established. Development and integration of the industrial safety management system at the facilities of the parent company. Bloated costs of services under the agreement and low quality of performed works. Insufficient extent of operator company employees' responsibility towards the parent company facilities. Establishment of own volunteer emergency response teams and a local alert system. Organization of an effective industrial control system at the parent company facilities in the sphere of environment protection (industrial environmental control).

Possibilities: Application of advanced technologies. A possibility of implementation of large international projects.

Risks. Legal risks caused by supervising authorities to the operating company are more likely than in Variant 1 "Regular staff". Penalties will be applied for violations of legal requirements committed both by regular staff of the parent company and by personnel of operator company (Operator). The penalty amount depends on the imputed violations.

A list of possibly violations:

- insufficient control on the part of the parent company over the activity of operator company;
- the parent company has no procedures for admission of the contracting company to hazardous industrial facilities (employees of the operator operating the production facilities do not have access to work at this facility);
 - de facto: operator company is the company operating the facility, de jure: the parent company represented by its management (director and chief engineer) is fully liable for the activity of operator company;
 - the parent company as the legal operating company will be kept liable for any accidents and incidents;
 - de facto: Emergency prevention and response measures are taken by operator company, de jure: the parent company is liable for performance or failure to perform these measures;
 - different interpretation of the service agreement conditions by the parent company and operator company, also in the part of operating and maintenance documentation development.

If a decision is made in favor of this option, the parent company needs to perform a number of activities related to licensing of the operation of production facilities

Variant No. 3A “Full outsourcing”. All the facilities of the parent company are operated by regular staff of operator company within the framework of an operator agreement, according to which operator company itself shall register with Rostekhnadzor the transferred hazardous industrial facilities and obtain a license for their operation.

In this variant operator company is a full-scale operating company and incurs full and sole liability for compliance with legal requirements of the Russian Federation to the full extent. The parent company is the subsoil user and the oil production owner (Nyameboame & Haddud, 2017).

Movable and immovable assets must be transferred to operator company for operation either under an operator agreement or a lease agreement. It is necessary to issue an acceptance report for movable and immovable assets transfer and to make operator company responsible for notification of the equipment owner about any failures of the equipment and organization of prompt repair. To establish liability for improper maintenance of movable and immovable assets.

The cost of operation services must be fixed depending on the produced and treated quantities. Discussing the cost of operation services, it is necessary to request from operator company calculations justifying the service cost.

Strong points: operator company is fully liable for any accidents at the facilities. Simple financial reports to shareholders. No need to develop and integrate documentation support for industrial safety management systems at the facilities of the parent company.

Weak points: The procedures of forest (land) plots transfer from the parent company to operator company require an in-depth study of the subsoil use incense terms and conditions. High cost of operation services.

Possibilities: Simplification of the control system.

Risks: Legal risks caused by supervising authorities to the operating company are possible only for direct breach of legal industrial safety requirements committed by regular staff of operator company in the process of the parent company oil & gas production facilities operation.

The parent company as a subsoil user will be liable only for compliance with the subsoil use conditions.

Variant No. 3B “Hybrid variant”. This variant is applied to all oil & gas production facilities of the parent company. The specific feature of this variant is simultaneous application of the “Working model” to hazardous industrial facilities of class III and IV (the well stock of West-Yaraktinsky subsoil block) and “Full outsourcing” to industrial facilities of class I and II (high and extremely high hazard).

Strong points: Control of hydrocarbon production costs. A simple control system. No changes in the existing business-processes of the parent company and operator company are required when working at the functioning hazardous industrial facilities. The parent company has a license to operate oil & gas production facilities (for operation of facilities like the Well stock of hazard class III). The parent company is not liable for operation of hazardous facilities of class I and II, at the same time remaining to be their owner.

Weak points: The procedures of forest (land) plots transfer from the parent company to operator company require an in-depth study of the subsoil use incense terms and conditions. High cost of operation services.

Possibilities: Stable development of the parent company.

Risks Legal risks caused by supervising authorities to the operating company are possible only for direct breach of legal industrial safety requirements committed by regular staff of operator company in the process of the parent company class I and II oil & gas production facilities operation.

As a subsoil user, the parent company is liable for compliance with the subsoil use conditions; as an operating company, it is liable for “direct” violations of legal requirements committed by regular staff of the parent company in the process of oil & gas production facilities operation.

7. Conclusion

As part of the work, almost all partnership models were considered.

Each of the examined operation management variants has advantages and disadvantages of its own and conforms to the laws of the Russian Federation.

The key advantage of the first variant is independence of the Company that enables it to avoid legal complications when applying the requirements of the Russian legislation to the operating company. If this variant is chosen, the parent company will be fully liable for violation of the requirements of the Russian legislation both as the soil user and as the operating company. Minimum legal risks caused by supervising authorities to the operating company; penalties are possible only for direct breach of legal requirements committed by regular staff of the parent company in the process of oil & gas production facilities operation.

The second variant “Working model” also conforms to the laws of the Russian Federation. Its practical application does not ensure compliance with the industrial safety requirements in the process of facility operation, also in the part of proper documentation support for the operated facilities (there will be a need for duplication of the internal regulatory guidance documents of operator company for the parent company, etc.). If this variant is chosen, it will be necessary to make amendments to the existing agreement.

Variant No.3A “Full outsourcing” will be possible in case of revision of the existing service agreement with operator company. When making the agreement, considerable attention shall be paid to the section describing contractual obligations of operator company towards the parent company. It is also necessary to investigate the legal aspects of transferring the forest plots to operator company for performance of their obligations.

Mutual relations between the partners and hence the efficiency of their contractual relations will depend largely on the signed agreement (contract). It is connected with exact regulation of rights and obligations in the regulatory legal documents of the Russian Federation applied to:

- companies – owners of oil & gas production assets (Wicaksono, Bin Arshad, & Sihombing, 2019);
- companies holding licenses for subsoil use (subsoil users);

- companies having registered their hazardous industrial facilities and operating such facilities (operating companies);
- companies holding licenses for operation of explosion-, fire- and chemically hazardous production facilities of hazard class I, II and III;
- contractors.

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