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Letter dated 16 November 2009 from the Permanent Representative of Qatar to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith the summary report of the Second High-Level Meeting on Oil and Gas Management, held in Nairobi, during the period from 12 to 15 October 2009 (see enclosure).

The Nairobi Meeting was aimed at continuing the collaboration among Southern oil and gas producers begun at the first South-South High-Level Meeting hosted by the State of Qatar in 2007.

At both Meetings, the objective was the sharing of experiences among the petroleum-exporting countries of the South, including those established countries with many years of experience in addition to the new petroleum economies that will emerge as oil and gas exporters in the coming years. Participants at the Nairobi Meeting came from ministries of petroleum and energy, finance and planning, as well as from national oil companies, sovereign wealth funds and other areas of the public sector. Two important objectives of the meeting were identified:

- that the new and established oil and gas producers represented would be able to effectively and fruitfully share experiences and best practices
- that the dialogue would evolve into an ongoing network of South-South cooperation for oil and gas development. This network would then offer assistance to newcomers to the sector as they seek to identify and address their hydrocarbon management challenges and the associated institutional gaps and weaknesses.

The Nairobi Meeting was organized through close collaboration between the Government of Kenya, the United Nations Development Programme Special Unit for South-South Cooperation and the United Nations Development Programme (UNDP) country office in Kenya.

The participants included senior Government policymakers from ministries responsible for hydrocarbon resources, of finance and of planning, and by representatives of national oil companies. Additionally, several ministers, deputy ministers and members of parliament attended, indicating the high degree of importance attached to the meeting.

The participants discussed candidly the challenges they face, which include negotiating fair and strong contracts, preventing mismanagement of oil and gas revenues and dealing with the “expectations” of Governments, oil companies and, especially, local citizens.

In this regard, participants reiterated the importance of countries managing their oil sector as part of the whole economy, not in isolation.

They endorsed the use of petroleum or sovereign wealth funds as an important, but not sufficient, mechanism for ensuring sound macroeconomic management and agreed that such funds help provide effective long-term use of oil revenues.

Another topic of great interest to both existing and newly emerging oil producers was how quickly and how much “local content” they might introduce.

A great deal of attention was given to the ways in which existing oil and gas producing countries can help emerging producers strengthen their capacities in the sector. Toward this end, many countries held various bilateral discussions, and some existing producers offered to welcome representatives from emerging producers on study tours and other exchanges. The established Southern oil producers appear keen for new producers to better understand how they are managing their hydrocarbon sectors.

In view of the importance of the petroleum sector, the Permanent Representative requests the Secretary-General to kindly have the present letter and its annex circulated as a document of the General Assembly, under agenda item 58 (b).

(*Signed*) Nassir Abdulaziz **Al-Nasser**
Ambassador and Permanent Representative

Enclosure

Government of the Republic of Kenya/ UNDP Special Unit for South-South Cooperation

Second High-Level Meeting on Oil and Gas Management Nairobi, Kenya 12-15 October 2009

Summary Report

Special Unit for South-South Cooperation
United Nations Development Programme
New York

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I. Introduction

This Report summarizes the proceedings of the second South-South High-Level Meeting on Oil and Gas Management that was hosted by the Government of the Republic of Kenya in Nairobi from 12 to 15 October 2009. The Meeting brought together senior officials from 60 countries of Africa, Asia and Latin America as well as representatives of United Nations agencies, other international organizations, local embassies and various Kenyan institutions in the public and private sectors. The Nairobi Meeting was aimed at continuing the collaboration among Southern oil and gas producers begun at the first South-South High-Level Meeting hosted by the State of Qatar in 2007.

At both Meetings, the objective was the sharing of experiences among the petroleum-exporting countries of the South, including those established countries with many years of experience in addition to the new petroleum economies that will emerge as oil and gas exporters in the coming years. Participants at the Nairobi Meeting came from ministries of petroleum and energy, finance and planning as well as from national oil companies, sovereign wealth funds and other areas of the public sector.

The Nairobi Meeting was organized through close collaboration between the Government of Kenya, the UNDP Special Unit for South-South Cooperation and the UNDP country office in Kenya.

At the opening session, presentations were made by invited dignitaries and ranking officials, who commented on the importance of the deliberations and the necessity of sharing experiences and successful strategies in managing the petroleum sector.

The Hon. Kiraitu Murungi, Minister of State for Energy of Kenya, expressed his thanks to the attendees and extended words of welcome to the participants. He noted that in the last five years, Kenya had intensified the search for oil and gas. Neighbouring countries had recently uncovered oil reserves, so it was likely that Kenya would have discoveries of its own soon. The Minister observed that the Meeting was a good opportunity for Kenya to prepare for oil discovery and that Kenya wanted to manage any oil and gas resources for the benefit its people. While oil and gas production had been associated with human rights abuse, tyranny, corruption, civil war, etc., oil and gas could and should be at the centre of Africa’s transformation.

Mr. Yiping Zhou, Director of the UNDP Special Unit for South-South Cooperation, welcomed participants, expressed appreciation to all for attending the Meeting, and thanked the Government of Kenya for hosting it. He identified two important objectives of the Meeting:

- that the new and established oil and gas producers represented would be able to effectively and fruitfully share experiences and best practices in making oil and gas work for achieving the Millennium Development Goals and other sustainable development goals, and

- that the dialogue would evolve into an ongoing network of South-South cooperation for oil and gas development. This network would then offer assistance to newcomers to the sector as they seek to identify and address their hydrocarbon management challenges and the associated institutional gaps and weaknesses.

The Vice President of Kenya, the Hon. Stephen Kalonzo Musyoka, speaking on behalf of the President of Kenya, the Hon. Mwai Kibaki, extended his welcome to the participants and said that Kenya was honoured to be the host of the Meeting. He stated that oil and gas constituted a critical component of economic development and that they would account for two thirds of global energy consumption in 2020. Much of the coming increase in demand for oil would come from developing countries. That was why South-South cooperation was important: countries with expertise in oil and gas production could help other countries, especially in negotiations with outside investors. South-South cooperation was also valuable in the training of students in the petroleum sector, in sharing information in contract negotiations and in macroeconomic management.

The Vice President of Kenya further noted that while the countries present all wanted to encourage investment in the oil and gas sector, it was necessary to consider environmental and social concerns in light of the highest international standards and strike a good balance between maximizing revenue and ensuring environmental protection. He said that the countries of the South would have to work together to stem the adverse effects of climate change.

He also articulated what the Government of Kenya thought were the clear benefits and expected outcomes of the Meeting: (a) to create a common understanding of issues and challenges in oil and gas management that could improve day-to-day management, and (b) to network with counterparts in the oil and gas sectors in other countries to establish ongoing communication and cooperation.

In closing, the Vice President reaffirmed the importance of South-South cooperation and then declared the Meeting officially open.

II. Discussion Themes

Strategic Context of the Nairobi Meeting

The Nairobi Meeting came at a time when most of the participating countries, both the established oil producers and the newly emerging hydrocarbon exporters, had been seriously affected by the global economic and financial crisis, which triggered serious fluctuations in oil prices. In less than six months in 2008, world oil prices approached $150/barrel and then dropped to below $40/barrel. The economic recession demonstrated that energy has become a critical issue on the global agenda from many different perspectives – from immediate environmental concerns, to development needs, to the growing attention to long-term problems of global warming and the decreasing availability of petroleum and gas reserves.

At the same time, while the current global economic and financial crisis may have affected these trends and concerns, it has not altered the fundamental challenges confronting existing and new oil and gas producers of the South. Over the long term, the new oil boom for developing countries represents the potential for great opportunity or for great peril – the "curse of oil" as it is often called in the international media.

History suggests that having petrodollars has not necessarily helped developing countries to reduce poverty; in many cases, petrodollars have actually exacerbated poverty conditions and worsened income inequality. Thus, oil revenues are neither a necessary nor a sufficient condition for sustainable and equitable economic development. Prudent investments and vigilant attention to sound macroeconomic and governance policies are common elements found in successful oil- and gas-exporting countries.

As the current global recession demonstrates, even successful hydrocarbon economies must continually adjust and calibrate their policies in the face of changing international market conditions.

Major Topics Discussed

Based on earlier communications from the invited participants and the short duration of the Meeting, the decision was taken to concentrate on a small number of topics for the Meeting so as to allow for more in-depth discussion and exchange of experiences. Topics were introduced by invited resource persons or by country delegates who shared the experiences or perspective of their particular country. On the fourth day of the Meeting, break-out sessions were convened to allow for further debate and exchange of views on the points and issues raised in the earlier plenary discussions. The chosen topics were:

- Managing and meeting expectations of national governments, international oil companies and local citizens;
- Options and models of petroleum funds (sovereign wealth funds);
- Fiscal policy for oil and gas revenue management;
- Financial implications of oil and gas contracts;
- Expanding "local content" in the development of the hydrocarbon sector;
- Issues in the utilization of joint development zones for shared resources;
- Corporate social responsibility;
- Environmental management best practices; and
- Carbon markets and trading in the context of oil- and gas-producing countries.

Given below are some of the highlights and key points on these topics that emerged during the plenary discussions and in-depth breakout sessions.

Managing and Meeting Expectations of National Governments, International Oil Companies and Local Citizens

The discussion underlined the importance of understanding the interplay between oil investors and the host-country government as well as local populations. Each stakeholder has different requirements and expectations that must be understood. In establishing contracts, the objectives of the host country and the oil investors often vary; similarly the host country and the investors have different sets of requirements to fulfill.

Governments seek to enhance the development of their petroleum resources and reserves as the first priority in their efforts. There is thus a natural wish to increase access to modern technology and promote technology transfer. Governments hope to improve their capacity for institutional management and maximize revenue from resource development. The majority of the governments (with very few exceptions) are attempting to encourage the flow of private-sector investment and to establish long-term relationships with international oil companies**.** When countries are interested in attracting investors, there are a number of important factors that can make a country more attractive for investment: a history of honouring contracts, political stability in-country, an open economy, a technically competent workforce and an efficient regulatory system.

During the discussion, it was noted that the objective of investors is the diversification of the asset base through additions to reserve inventory as well as the minimization of capital and operating costs and, at the same time, the maximization of profit and operational freedom. All operating companies are concerned with the issues of transparency, fairness and competitiveness in the resource-rich countries where they are operating. It is a natural aspiration towards a reasonable limitation to liability, in other words, risk proportional to reward. Foreign investors are generally concerned about three primary issues: (a) the scope of government involvement in oil and government's financial capabilities in the sector; (b) the degree of foreign ownership of oil in the country; and (c) the past degree of success of foreign investment in the country.

It was pointed out that national oil companies, in contrast with corporate oil companies, may have different obligations and that even among national oil companies, there is a great deal of variation in policy and management. National oil companies generally espouse three principal objectives on behalf of their respective governments: (a) to reduce dependence on multinationals for their oil supplies; (b) to provide the government with an "inside window" on the petroleum industry to enable its bureaucracy to judge the performance of the multinationals in the specific country; and (c) to assure continuity of supply both at the crude oil producing, refining and marketing stages at home.

The discussion included examples from countries in the Caspian Region: BP in Azerbaijan, Burren Energy in Turkmenistan and KazMunaiGaz in Kazakhstan. In all three countries (and no doubt for other oil-producing regions as well), there are two fundamental issues that must be confronted: the impact of hydrocarbon resources on the economies and economic development of the Caspian countries, and the management of the hydrocarbon wealth. Both these issues have a critical importance for the region, but especially in the light of managing expectations between companies and governments.

Options and Models of Petroleum Funds (Sovereign Wealth Funds)

Petroleum funds – or sovereign wealth funds as they are now often called – are becoming a common macroeconomic instrument in oil revenue management. This session examined the best international practices in petroleum fund management and key principles for sound management of petroleum revenues, highlighting such principles as maintaining clear lines of responsibility and ensuring transparency. It should be understood that a petroleum fund is no substitute for sound fiscal management and that a poorly designed fund can do more harm than good.

Features of successful funds include fund management as an integrated part of the fiscal policy and macroeconomic framework, good governance, transparency and a clear separation of roles of the overall owner of the fund, usually the Government, and the operational management responsible for implementing the investment strategy. A petroleum fund can act as a buffer against volatile petroleum production and prices, be a useful savings instrument to avoid the "petroleum curse", and ensure that both current and future generations can benefit from the petroleum revenues. The Santiago Principles for sovereign wealth funds were cited as a sound approach potentially achievable by countries at all levels of development.

During the discussion, two case studies were presented of successful petroleum funds that have been put into operation in the last few years – in Timor Leste and Azerbaijan. In both cases, the funds were already managing several billion dollars in assets and had had notable success in having independent management and high fiduciary standards. Timor Leste's Petroleum Fund was set up in 2005 and is already valued at $5.1 billion, over 10 times the non-oil gross domestic product of the country. The State Oil Fund of Azerbaijan was established in 1999 and now has deposits in excess of $12 billion. In both instances, deposits were being invested in global markets to maximize returns within accepted risk parameters. The Azerbaijan Fund, for example, earned some 3.5 per cent on its investments during the past recessionary year (2008), surpassing earnings of many private investment firms. In addition, both Funds were managed in accordance with the principle of "saving for future generations" so that only a very small portion of the money was being disbursed in any given year.

Fiscal Policy for Oil and Gas Revenue Management

In this discussion, several considerations were mentioned as a guide to sound fiscal policy in developing countries with an emerging oil and gas sector. These include the need for fiscal sustainability and sound governance as well as the importance of intergenerational equity as a core principle of fiscal policy. Fiscal policymakers also need timely information about oil and gas developments to make sound decisions.

The discussion focused on key guidelines in formulating fiscal policy:

- A sustained and high fiscal deficit is detrimental to long-term growth; all countries must move towards a sustainable fiscal policy for oil and gas revenues.

- Public debt should be kept at a sustainable level.

- The economy should not rely solely on hydrocarbons; it must be diversified.

- It is important to carefully integrate policies for a country's oil fund with government budgets and expenditures and to ensure transparency.

Five success factors were noted for good fiscal policy in the context of anticipated oil and gas revenues: (a) aligning fiscal, economic and energy policies; (b) incentive-based public expenditure systems to improve the quality of public spending; (c) the promotion of domestic value added; (d) economic and political reforms; and (e) openness and transparency.

The discussion highlighted several key fiscal policy challenges for the oil- and gas-exporting countries in the years ahead:

- The prime fiscal and economic challenge will be consistency in pursuing efficient and effective management of public hydrocarbon wealth to serve as a strong anchor for achieving sustainable economic freedom and livelihoods in an environment currently characterized by hydrocarbon-induced environmental degradation, low living standards, large-scale unemployment and social conflict.

- Clearly, the fiscal policy questions in oil- and gas-producing and exporting countries are not only complex but also politically controversial as they involve a set of economic, social, political and environmental goals that are not necessarily mutually reinforcing.

Financial Implications of Oil and Gas Contracts

This session looked at some of the implications and unintended consequences of oil and gas contracts for investors/operating companies and national governments. A key theme of the discussion was the need to "be aware of ambiguous or missing terms" in contracts and the importance of "doing it right the first time". Features of advanced petroleum contracts were examined, including progressive fiscal terms, "R" factors, rate-of-return features, windfall-profit taxes (price caps), effective royalty rates (how soon governments receive a share of revenue), and incentives for investors to keep costs down (savings index). The session also focused on the real need for local content and infrastructure provisions. A country's contract-negotiation leverage is constrained, however, by boundary conditions, "prospectivity" (the chance of actually finding recoverable oil and gas at a profit), market access, and, for some counties, the expected economic return from the hydrocarbon assets if these resources are costly to extract.

Key points touched upon in the discussion included the following:

- Sustainable agreements must be progressive so that the government's share of the profits (per cent of profits or take) increases when profits increase. Most systems today are regressive.

- Sustainable agreements must also provide governments with high, effective royalty rates (early money) – if governments need them (some do not).

- Sustainable agreements must also provide the investors with an opportunity to share in the profits since the latter do take on considerable risk and fiscal terms today are very demanding for investors.

- If agreements are not perceived to be fair – by any party – then they are inherently unstable.

- At the same time, there are inherent risks in renegotiating and or changing terms of contracts just prior to a licence round, suggesting the need for very careful analysis before contract signing (allocation processes and licensing).

- It is also a problem if discoveries are made and there is a long wait before production commences. This is known as "warehousing". Nothing is more frustrating for a government than having a discovery that is not developed for decades. The investors are capable of waiting until the time is right for them, but it is difficult for governments to implement "use-it-or-lose-it clauses as part of contract negotiations.

- Today the field size of discoveries of oil is going down, which has implications for the preparation of oil and gas agreements. Therefore, governments, especially those of emerging oil- and gas-producing countries, need to fully understand the time line and financial implications of bringing oil and gas to full commercial exploitation.

Expanding "Local Content" in the Development of the Hydrocarbon Sector

Local content is concerned with using the opportunities and advantages offered by multinational oil companies and their international contractors to jumpstart local capabilities and accelerate local, regional and national development in specific priority areas. Participants at this session agreed that although local content is primarily about access to oil and gas contracts for local suppliers, it should be seen in a more holistic and integrated way. An integrated policy will take into consideration available local industrial capacities, technical skills, infrastructure facilities and fiscal regimes in fixing local-content targets in field development projects. It was also agreed that the whole value chain should be studied carefully to decide where value extraction would provide the maximum benefit to a country's economy. One country might find it better to concentrate on maximizing value extraction in field development projects, another might focus on downstream activities such as refining, and yet another might maximize value extraction in gas-to-wire projects.

From a policy perspective, it is the government's responsibility to plan the direction in which to move so the country must craft the legal framework that best captures local content, taking into consideration price competitiveness, project delivery and transparency. At the same time, while government has a legitimate role in the formulation of local-content strategy, local-content objectives can be constrained by weak government policymaking, weak institutions, and equity issues associated with natural-resource-based economies.

Nonetheless, local content in the oil and gas sector can stimulate infrastructure investments, rural development, and the growth of linkage sectors such as steel, marine, electricity, banking and insurance, as well as new small and medium-sized enterprises. In conclusion, factors that contribute to successful local-content provisions include a good understanding of the oil and gas value chain and the supply chain on the one hand and the ability of national oil companies to encourage collaboration (not coercion) with international partners on the other. For long-term sustainability, a sound business environment and careful attention to social issues including human capital investment are indispensable.

Legal, Policy and Practical Issues Arising from Joint Development Agreements

This session examined the legal basis and current examples of joint development agreements for the management of overlapping claims areas and transboundary petroleum resources. Broadly speaking, "joint development" occurs when two or more States that have legitimate rights to a common hydrocarbon deposit or field formally agree to cooperate in exploring and exploiting the common deposit according to a pre-arranged share of the revenues to be gained from such exploitation. It was noted that the application of the joint development principle between neighbouring States, especially developing countries in Africa, Asia and South America, was much to be preferred to undertaking expensive inter-State litigation or, even worse, the threat or use of force to secure access to these shared resources.

It was noted that semi-enclosed sea areas are the most common location for such joint ventures, such as the North Sea, the Persian Gulf and maritime Southeast Asia. More recently, State practice in joint development has also taken place in the Caribbean and off the coast of West Africa. Three models of joint development have been utilized to manage overlapping claims areas and transboundary deposits:

- Model 1: one State exploits resources and pays the other State a proportion (usually half) of the proceeds. Examples of these agreements include the Bahrain-Saudi Arabia, Qatar-United Arab Emirates and Islamic Republic of Iran-Sharjah agreements.

- Model II: the States agree to require their individual licensees to enter into a joint operating agreement for the exploitation of shared deposits whether in an overlapping claims area (e.g., the Malaysia-Viet Nam agreement in the South China Sea) or lying across the already delimited boundary line (e.g., the United Kingdom-Norway and United Kingdom-Netherlands agreements in the North Sea).

- Model III: a joint institutional framework is established to facilitate cooperation in the exploitation of shared resources within an overlapping claims area (e.g., the Malaysia-Thailand, the Australia-Timor Leste, and the Guinea-Bissau-Senegal agreements).

It was also noted that within the joint development models described above, there were many examples where the government revenue-sharing split does not necessarily need to be equal. The revenue-sharing proportions can reflect the physical, political and economic perspectives of the State parties involved in the joint development agreements, depending on their specific circumstances. For example, the Australia-Timor Leste agreement provides that 90 per cent of the proceeds go to Timor Leste and 10 per cent to Australia.

Common elements in all three models of joint development agreements are now well documented and could provide a basis for negotiations between States for possible future joint development agreements. International law and jurisprudence in this area are growing, with Articles 74(3) and 83(3) of the 1982 United Nations Convention on the Law of the Sea providing a significant basis in law for the negotiation of such joint development agreements.

Corporate Social Responsibility

Corporate social responsibility (CSR) is concerned with integrating social and environmental responsibilities into the business model of extractive-industry companies. It is growing in global importance because companies now see it as good business for financial, operational and strategic reasons. CSR investments may represent 3 to 5 per cent of the total corporate investment in a project at the production phase. Governments should address social and environmental issues early in the negotiation and planning phases of oil development and proactively negotiate CSR policies and practices with oil companies at an early stage. It is also important, from a government perspective, to enact laws and regulations that backstop CSR behaviours based on clearly articulated national objectives.

During the discussion, it was pointed out that the number of stakeholders and interested parties in CSR has grown considerably. No longer are social (and environmental) issues of bilateral concern only to the government and the oil company or consortium involved. Instead, the number of stakeholders and constituent groups has increased substantially, now requiring much higher levels of proactive participatory decision-making and transparency. This situation has arisen as the result of increasing scrutiny by media and local non-governmental organizations of oil operations in developing countries in addition to more vocal demands by local communities that expect to be involved in the decisions that affect their lives and livelihoods.

In viewing CSR from the perspective of the private sector, it was pointed out that corporations should not view CSR as an expenditure but rather as an investment with a return on investment. One of the primary returns of CSR is reduced risk in operations. CSR also increases an oil company’s political capital with host governments.

In looking at CSR, it is important to recognize that the top priority of oil companies is to achieve returns on their investments. Oil companies are not philanthropists so they as well as governments need to find a middle ground in viewing CSR as falling between pure philanthropy and pure business. A long-term perspective on government-company relations can build mutual trust and confidence.

Environmental Management Best Practices

In this discussion of changing best practices for environmental management, several instruments were highlighted. These included legal registries that provide companies with a clear list of laws and regulations with which to comply; environmental screening of projects to ensure that all of the stakeholders focus on the key issues; public involvement aimed at improving public understanding of the proposed project and to obtain the input of stakeholder issues and concerns; environmental impact assessments to clearly define and understand the potential positive and negative impacts of new developments; and environmental and social management plans to prevent, mitigate and monitor both positive and negative impacts.

An important element of environmental best practices is to recognize and understand the range and role of different stakeholder interests involving governments, communities and non-governmental organizations as well as the oil and gas companies. Best practices are increasingly becoming the norm for many companies. More broadly, an "environmental and social management system" is seen as an increasingly important way to address environmental and social issues arising from extractive industries. The 2006 Equator Principles, adopted by the financial industry to manage social and environmental issues in project financing, were discussed as a possible framework to guide best practices in the oil and gas industry.

Based on a review of best practices in environmental management for the oil and gas sector, the following best practices were highlighted for implementation in developing countries: strategic environmental impact assessment, cumulative environmental impact, health environmental impact assessment, efficient regulatory environment, corporate social responsibility (CSR) for companies, capacity-building for government, institutional coordination, information and communication for local communities, environmental and social action plan, and revenue sharing.

Carbon Markets and Trading in Oil- and Gas-producing Countries

The discussion of carbon markets and climate change began by noting that the science of climate change is no longer in dispute and that, although many policymakers, academics and activists agree with the prevailing science that reducing carbon dioxide (CO_2) emissions to keep global temperatures from rising by 2 degrees Celsius is essential in the quest to avoid the catastrophic effects of climate change, the numbers are no longer the driving force. The debate is not about whether there will be climate change effects but when they will occur, who will be impacted and what can be done to mitigate and adapt to the effects. It was further noted that as much as the oil and gas sector is a potential cause of greenhouse gas emissions and the resulting climate change impacts, it is also a potential solution that provides oil- and gas-producing countries and the entities operating in them with significant opportunities.

In the context of a carbon-constrained economic future, there are likely to be significant opportunities for oil- and gas-exporting developing countries. The discussion highlighted six areas of opportunity:

- Integrate climate policies into broader development policies (to make it easier to overcome barriers);
- Develop investment-conducive legal and regulatory infrastructure to attract technology and assist in adaptation;
- Use voluntary agreements to accelerate the application of the best technology available;
- Engage in and facilitate the development and diffusion of new technologies (including carbon capture and storage);
- Take advantage of international financial institutions and private investment for the application of improved and proven technology;
- Use a portion of oil and gas revenues to counteract the effects of the industry on climate change and thereby assist in adaptation and mitigation.

As part of the discussion, a case study was presented on climate change and carbon trading in developing countries such as South Africa, which has used Clean Development Mechanism (CDM) opportunities such as access to clean energy to its benefit. Some of the CDM projects in South Africa have resulted in benefits such as job creation, facilitation of technology and skills transfer, and improvement of housing. It was also recognized that a number of countries, especially in Africa, have not been able to take advantage of CDM opportunities because of weak institutional arrangements and carbon price risks.

Other challenges highlighted include the following:

- There is some reluctance on the part of private investors to invest in Africa.
- The CDM procedures and modalities needed to bring projects to implementation are complex and lengthy in terms of time.
- There are many host-country constraints, such as weak institutional capacity and unfamiliarity with carbon markets and carbon offsetting.
- Costs for registration, verification and monitoring emission reductions are significant.
- There is the potential for time-consuming, confrontational debates over political acceptability (eligibility, approval processes).

Capacity-building for Effective Oil and Gas Management

One of the main agenda items and discussion topics during the course of the four-day Meeting was an examination of the critical need for accelerated capacity-building for the newly emerging oil and gas economies. At the first South-South High-Level Meeting on Oil and Gas Management, held in Doha in 2007, the participants noted that shortfalls and gaps in institutional capacity were the most significant challenge facing new oil- and gas-producing countries. Three of the conclusions from the Doha Meeting touch upon the institutional and management problems confronting the newly emerging oil and gas economies and why so much attention was devoted to this topic in Nairobi:

- Shortfalls and gaps in institutional capacity represent the most fundamental and underlying challenge that most new oil- and gas-producing States face.

- Considerable attention is necessary to address the institutional and capacity gaps well in advance of the actual receipt of petroleum revenues.

- Many new oil and gas producers currently have neither the financial nor the technical means to increase their internal institutional capacity fast enough to keep up with the expansion of their hydrocarbon sector.

Given the critical importance of capacity-building, the Special Unit for South-South Cooperation launched a South-South oil management capacity-building project during the Meeting that is designed specifically for the newly emerging oil and gas producers. The project will be financed through a Hydrocarbon Trust Fund with a target endowment of $8 million. During the Nairobi Meeting, contributions for the Trust Fund were received from the Governments of Kenya ($200,000), Liberia ($200,000) and Suriname ($100,000) as well as from the UNDP Special Unit for South-South Cooperation ($1 million). In addition, the Government of Kenya offered to host the project secretariat, which will oversee the Trust Fund and oil management capacity-building project.

One of the key objectives of the capacity-building project will be to provide scholarships for over 1,000 students to study at Southern universities that offer specialized training in petroleum engineering, resource economics, environmental management and other critical tasks needed by the newly emerging oil and gas producers. Apart from the scholarships, the project will also fund short-term seminars and workshops for senior- and mid-level policymakers and mangers that will be hosted at these same Southern universities.

As of this writing, the Special Unit is actively seeking additional contributions to the Hydrocarbon Trust Fund and anticipates launching the project in January 2010.

III. Meeting Outcomes and Major Recommendations

On the last day of the Meeting, participants turned to an examination of ways to foster ongoing mechanisms and opportunities for South-South collaboration so as to share experiences and best practices in hydrocarbon management. There was consensus that ongoing exchanges of experiences between the existing and emerging oil- and gas-producing countries of the South have proven to be beneficial and effective in facilitating improved hydrocarbon management for the new oil- and gas-producing States. At the conclusion of the Meeting, a draft "Nairobi Statement on South-South Cooperation for Effective Oil and Gas Management" was distributed for discussion. Based on comments received, the draft was revised and a final version of the Nairobi Statement is included as an annex to this Report.

The following are the key recommendations that emerged from the Meeting aimed at helping the newly emerging oil and gas producers to manage their hydrocarbon sectors more effectively:

- Provide support to help new oil and gas producers to fully understand the financial implications of various contractual components, including allocation of acreage (licensing rounds), renegotiations, arbitration/litigation and enhanced oil recovery;

- Research policy guidelines on approaches and best practices to address the local content challenge in a cost-effective and equitable manner that promotes the local economy, expands the number of local businesses and creates value-added jobs in the hydrocarbon sector;

- Compile best practices on managing expectations among national governments, international oil-company partners and local populations. This is seen as a key requirement especially for the newly emerging oil and gas producers when the general population anticipates unrealistic changes in their livelihoods due to oil revenues;

- Establish a set of carbon principles for oil and gas companies that are consistent among the regions and include explicit guidance on due diligence for climate change-related impacts of projects and their mitigation by oil and gas companies;

- Implement the 2006 Equator Principles adopted by financial institutions as a possible framework to guide best practices in environmental and social management in the oil and gas industry; and

- Reconvene a follow-up meeting within one year to report on progress achieved through the South-South exchange of experiences and the capacity-building project.

At the closing session of the Meeting, the Minister of Energy of Kenya, the Hon. Kiraitu Murungi, made concluding remarks and thanked the participants. He noted that the Meeting was important for Kenya as the country would be beginning to drill shortly and it was very optimistic that oil would be found. Therefore, even though Kenya was not yet an oil-producing country, it was important to learn from the experiences of other countries of the South and he thanked UNDP for the timely Meeting.

Before concluding, the Minister of Energy introduced the Minster for Planning and Vision 2030, the Hon. Wycliffe Ambetsa Oparanya.

Minister Oparanya then read the closing remarks on behalf of the Prime Minister of Kenya, the Hon. Raila Oginga Odinga, in which the Prime Minister said that he had been informed that the Meeting had covered a wide range of topics such as fiscal policy and oil revenues, financial implications of contract negotiations, local content, joint development zones, environmental and social issues in hydrocarbon management, and climate change and carbon markets. The Prime Minister commended the participants for their commitment and hard work to come up with constructive and practical recommendations. He further stated that the deliberations demonstrated the importance of creating ongoing means of collaboration and interaction between and among the countries represented in Nairobi. He expressed the hope that the participants would continue the discussion and exchange of experiences that had begun two years ago in Qatar. The Prime Minister concluded by thanking UNDP and the Special Unit for South-South Cooperation for their support in organizing the Meeting.

Yiping Zhou, Director of the Special Unit for South-South Cooperation, congratulated the participants on their active involvement and strong sense of collaboration during both the formal meetings and those informal times over coffee, meals and evening gatherings when there were occasions for discussion and sharing of experiences. He said that those kinds of interaction are what lie at the heart of South-South cooperation and demonstrate that the problems and challenges were, in fact, common to most, if not all, of the participants gathered in Nairobi.

Mr. Zhou ended by expressing his official and personal thanks to the Government of Kenya for its strong support and incredible warmth in hosting the Meeting.

The Minister of Natural Resources of Suriname, the Hon. Gregory Rusland, then took the floor to thank the Government of Kenya and UNDP, on behalf of all the participants, for hosting and organizing the second High-Level Meeting. He expressed his appreciation for the opportunity to share experiences with other oil and gas producers from the South and hoped that there would be a chance for the participating countries to meet again.

ANNEX

NAIROBI STATEMENT ON SOUTH-SOUTH COOPERATION FOR EFFECTIVE OIL AND GAS MANAGEMENT

Nairobi, Kenya, 15 October 2009

Introduction

From 12 to 15 October 2009, the Republic of Kenya hosted the second South-South High-Level Meeting on Oil and Gas Management, which brought together senior officials from 60 countries of Africa, Asia and Latin America as well as representatives of United Nations agencies, other international organizations, local embassies and various Kenyan institutions in the public and private sector. The Nairobi Meeting was aimed at continuing the collaboration among Southern oil and gas producers begun at the first South-South High-level Meeting hosted by the State of Qatar in 2007.

In both Meetings, the objective was the sharing of experiences among the petroleum-exporting countries of the South, including those established countries with many years of experience in addition to the new petroleum economies that will emerge as oil and gas exporters in the coming years. Participants at the Nairobi Meeting came from ministries of petroleum and energy, finance and planning as well as from national oil companies, sovereign wealth funds and other areas of the public sector.

The Nairobi Meeting was organized through close collaboration between the Government of Kenya, the UNDP Special Unit for South-South Cooperation and the UNDP country office in Kenya.

Discussions and Conclusions

Over the course of four days of presentations and deliberations, participants discussed a number of topics that were of relevance to oil and gas management. These included:

- Managing and meeting expectations of national governments, international oil companies and local citizens;

- Options and models of petroleum funds (sovereign wealth funds);

- Fiscal policy for oil and gas revenue management;
- Financial implications of oil and gas contracts;
- Expanding “local content” in the development of the hydrocarbon sector;
- Legal, policy and practical issues arising from joint development agreements;
- Corporate social responsibility;
- Environmental management best practices;
- Carbon markets and trading in oil- and gas-producing countries.

The Special Unit for South-South Cooperation used the opportunity of the Meeting to reach agreement with the participating countries on the need for a capacity-building project aimed at supporting the newly emerging oil and gas producers in overcoming institutional constraints in order to successfully manage the oil and gas sector. Shortfalls and gaps in institutional capacity represent the most fundamental and underlying challenge facing most new oil- and gas-producing States. The project was deemed to have critical importance because many new oil- and gas-producing countries do not currently have the financial or technical means to increase their internal institutional capacity fast enough to keep up with petroleum exploration and production.

The project will be funded through a new South-South Hydrocarbon Trust Fund with an endowment targeted at $8 million. During the course of the Meeting, financial commitments to the Trust Fund were received from the Governments of Kenya, Liberia and Suriname, along with an offer by the Government of Kenya to host the project secretariat.

In the course of the four days of discussion, there was widespread agreement on several issues, including:

- The extreme price fluctuations in world petroleum markets and the current global financial crisis have had a severe impact on existing oil and gas producers and slowed the pace of exploration and development for most of the newly emerging oil and gas producers.
- These economic impacts have only heightened the challenge for both existing and new petroleum-exporting countries to ensure that oil revenues are used to improve the lives of their citizens and to achieve sustainable socio-economic development.
- It is important to ensure that the oil and gas sector is not managed in isolation from the wider economy since long-term success can be achieved only when both the oil and gas and other sectors are managed well.

- There is still an ongoing need for newly emerging oil-producing governments to be better equipped to negotiate contracts with international oil companies and to better understand the financial and revenue implications of different contractual approaches or components.

- Petroleum or sovereign wealth funds represent important, but not sufficient, mechanisms for ensuring sound macroeconomic management and providing for the effective long-term utilization and allocation of oil revenues.

- Accelerating the pace at which local content is included in government contracts continues to be a priority for existing and newly emerging oil and gas producers. Local-content policies must encourage knowledge transfers and the formation of human capital in the context of promoting the growth of local companies and service providers.

- The newly emerging hydrocarbon governments need to take a much more proactive approach to corporate social responsibility and environmental management by setting and expecting their foreign partners to meet the highest internationally accepted standards.

- Oil-producing States have both a special obligation and a unique opportunity to address climate change and use carbon markets to achieve wider development goals and help their citizens to reduce the impacts of climate change at the community level.

Recommendations

The participants expressed their appreciation for the opportunity to share their experiences on a wide range of topics that would facilitate more effective management of the oil and gas sector. They further indicated their support for the new oil and gas capacity-building project that would create additional opportunities and new mechanisms for the ongoing exchange of experiences. In this regard, the participants further endorsed the following recommendations for more in-depth review and analysis:

- Provide support to help new oil and gas producers to fully understand the financial implications of various contractual components, including allocation of acreage (licensing rounds), renegotiations, arbitration/litigation and enhanced oil recovery;

- Research policy guidelines on approaches to addressing the local content challenge in a cost-effective and equitable manner;

- Compile a compendium of best practices on managing expectations among national governments, international oil-company partners and local populations;

- Establish a set of carbon principles for oil and gas companies that are consistent among the regions and include explicit guidance on due diligence for climate change-related impacts of projects and their mitigation by oil and gas companies;

- Implement the 2006 Equator Principles adopted by financial institutions as a possible framework to guide best practices in environmental and social management in the oil and gas industry; and

- Reconvene a follow-up meeting within one year to report on progress achieved through South-South exchanges of experiences and the capacity-building project.

At the close of their deliberations, participants unanimously expressed their gratitude to the Government of Kenya for hosting the Meeting and for the quality of the services and facilities and to the people of Kenya for their warm hospitality.