Industry perspectives

Energy and natural resources

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Our second annual thought leadership report for the Abu Dhabi International Petroleum Exhibition & Conference (ADIPEC) 2019, explores key trends in the energy and natural gas (ENR) industry. Amid times of economic change, technological advancement and disruption, the United Arab Emirates (UAE) government has largely managed to fulfil the enormous potential for growth. Over the last few decades, it has been working to create an environment that is particularly conducive to the success of the ENR sector.

A slew of exciting developments are transforming oil and gas (O&G) globally. Artificial intelligence and machine learning are driving a digital revolution. Organizations within the industry are focusing on extensive capital investment. However, there may be some challenges in ensuring that the capital is used productively.

Prices of main energy commodities continue on their upwards trajectory, a trend that commenced in late 2016, and they are forecast to stabilize over the next ten years. This is partly due to ongoing crude oil production cuts implemented by the Organization of the Petroleum Exporting Countries (OPEC). In coming years, prices may well be impacted by the USA and China trade wars, and Venezuela’s economic, political and social crisis.

There have been some promising advances in accounting standards relevant to the industry. Determining whether a transaction results in an asset or a business acquisition has historically been a topic of contention. The International Accounting Standards Board (IASB) has issued amendments to provide further guidance on the definition of a business, applicable to those entities to be acquired in annual reporting periods beginning as from 1 January 2020.
ENR organizations must remain continuously aware of changing legislation relating to tax and foreign ownership. There has been a welcome relaxation in foreign investment regulation in the UAE. Formerly, the practice in the sector was to establish a branch of the foreign company that would be party to a concession. With reforms to the Foreign Direct Investment law coming into effect as of 1 January 2019, foreign shareholders may now own up to 100% of UAE companies incorporated outside the designated free zones.

As per the KPMG Global CEO Outlook 2019 survey, 94% of energy company CEOs are confident in their own business’s growth prospects over the next three years. Tempering this optimistic outlook, 76% of CEOs across all sectors surveyed said their company’s growth would depend on their ability to manage the transition to a low carbon, clean technology economy.

These findings set the scene for a discussion about renewable energy sources. Sustainable energy innovation faces some obstacles: high technological risk, financial costs, and strong commercial competition from established, low-cost products and solutions. These hurdles may be partly mitigated by securing the optimum mix of private and public funding, and establishing a culture of transparent policy discussion.

In this report we also consider research that suggests millennials may sometimes view O&G as an industry that can occasionally be detrimental to the environment. This could be hindering valuable talent from exploring fulfilling careers in the sector. The O&G sector would do well to consider modifying its employee value proposition to match millennial values, focusing on purpose rather than compensation alone, as well as emphasizing the chance to work with cutting-edge technology in what is a largely public service with fairly high levels of corporate social responsibility (CSR).

Finally, we shine a spotlight on ethics. Companies in the energy sector face unmatched regulatory and public interest scrutiny from governments. Increased digitization is creating an ever-more connected world, leading to greater awareness of data breaches, misconduct and other risks among stakeholders and the wider public. Organizations must balance meeting shareholders’ expectations for financial targets, while holding themselves accountable for possible environmental impact, as well as combating potential bribery and corruption.

I hope you find the report an engaging and stimulating read. I would be delighted to discuss the insights with you.
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In the near-term, the ever-increasing global demand for energy, evolving political and regulatory priorities, emerging technologies and increasing cost pressures are likely to pose challenges for energy and natural resources companies.
Price volatility and its impact on the oil and gas sector

Fluctuations in commodities’ prices continue to affect the production of national and international hydrocarbons, and have a direct impact on total investment in the region. Nizar Jichi delves into the key trends, forecasts and reasons for the variation.

In recent years, the oil and gas industry (O&G) has navigated unprecedented disruption. Challenges include upstream volatility, midstream constraints, and industry consolidation. However, shifting customer demands and new technologies are creating hitherto unexplored opportunities for O&G companies.

In 2019, prices of main energy commodities, particularly oil and gas, continued on the path towards recovery, a process that started in late 2016. This took place after an overwhelming fall in prices, which as of 2016 may be estimated to be well above 60% of the maximum levels reached in 2012 and 2008, for oil and gas, respectively. This has represented accumulated growth of more than 60% for oil, and 50% for gas, from 2016 to 2018.

The price of oil rose from USD/bbl1 43 in 2016 (average price of the West Texas intermediate (WTI), Dubai and Brent oil basket) to USD/bbl 70 in November 2018. In the same period, gas prices increased from USD/MMBTU2 3.5 (average price of the gas produced in the USA and the EU) to USD/MMBTU 5.31.

This trend is evidenced in a recent World Bank study. It indicates that the prices of major commodities up to 2030 are partly due to ongoing crude oil production cuts that the Organization of the Petroleum Exporting Countries (OPEC) and other non-OPEC countries have been implementing from 2016. The cuts aim to foster an upward trend in crude oil prices. This is in addition to the constant increase in USA oil and gas production which, in contrast to the production cuts, tends to mitigate price upsurges and forces them down.

**Trade wars and political uncertainty**

In addition, two other factors might be added in light of their recent significance in outlining future expectations for the energy market: the USA and China’s trade war disputing tariffs; and Venezuela’s economic, political and social crisis. The latter adds a material level of uncertainty in terms of production due to the recent restrictions imposed by the USA and other countries upon their crude oil supplies.

Other oil producing countries such as Russia have adhered to the production cut implemented by OPEC member countries. In January 2017, this group of countries, which accounts for around 50% of the global supply of crude oil, decided to reduce its production by around 1.8 million barrels daily2. The purpose was to support the price of this commodity and recover investments made years ago.

This reduction, which in 2018 had turned towards an increase in daily production as a result of rebounding crude oil prices, has reverted once again as OPEC countries and their partners cut production in 2019, in response to the decline in oil prices.

The restrictions on crude oil supply imposed by the OPEC producers and partners, together with the

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1 USD/barrel
2 Million British thermal units
increase in U.S. production and the restrictions on the production of some countries, continue to contribute to the volatility in hydrocarbon prices. However, based on the latest projections of the World Bank, prices are forecast to remain stable at around USD/bbl 70 up to 2030.

**The imperative for greater investment**

In the recent World Energy Congress, UAE Minister of State and ADNOC CEO, Dr Sultan Ahmad Al Jaber, said that USD 11 trillion are required of investment for the oil and gas industry to keep up with rising global energy demands. “In the short-term, global economic uncertainties are creating market volatility and impacting the energy demand,” he said. “But, in the long-term the outlook is very positive and in fact robust.”

Alternatives are being sought to create the necessary conditions to foster investment, thus achieving a sustained increase in the production of hydrocarbons. In a somewhat unpredictable environment for oil prices, providing forecasts for the short-term seems a complex task. In two years, the steep upward trend, boosted by the restrictions on production imposed by OPEC and its partners, was reversed, leading to some uncertainty in the sector towards the end of 2018. This may be due to the influence of the United States in the international market, coupled with the production and export hurdles currently being faced by some countries, like Venezuela.

Unlike crude oil, the upward trend followed by the international price of gas appears to be clearer. According to the World Bank’s estimations, the average price of the gas produced by the United States and the European Union is expected to average around USD/ MMBTU 6 by 2030.

Given that the UAE possesses nearly 10% of the world’s total hydrocarbon reserves, oil and gas revenue will continue to fuel the country’s national economic growth and social infrastructure development in the future. In the near-term, the ever-increasing global demand for energy, evolving political and regulatory priorities, emerging technologies and increasing cost pressures are likely to pose challenges for energy and natural resources companies. Nevertheless, despite global economic uncertainties and market volatility impacting energy demand, the long-term outlook remains positive.

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The effect of new accounting requirements for business combinations on the energy industry

Previous IFRS 3 guidance on the definition of a business created some diversity in practice and was a subject of concern for stakeholders. Aiming to resolve this, the International Accounting Standards Board (IASB) issued additional clarification and a test for a simplified assessment. Yusuf Hassan explains.

According to long-term forecasts, about 75% of global energy needs will be provided by hydrocarbon fuels at least up to 2035. However, as a recent KPMG study showed, the growth of the electric transport fleet can significantly affect the demand for refined products. What seems like a distant prospect today may affect a business earlier than previously expected. Energy electrification is gaining momentum, and companies around the world are seeking low-carbon energy sources. This trend suggests the need to include non-traditional fuel development functions in the asset portfolio; for example, infrastructure for recharging electric vehicles.

Trends in the oil and gas (O&G) industry in 2019 include increased diversification to manage uncertainty about the future of hydrocarbon fuels and increased tension around trade negotiations globally. Such diversification boils down primarily to major takeover deals by leading O&G corporations, such as BP and TOTAL, which are known for their electro-vehicles (EV) charging infrastructure projects. However, smaller takeover transactions can also strengthen existing capacities and build up new ones, such as low-carbon energy. Additionally, creating partnerships and alliances can be an attractive way to acquire new competencies and technologies or enter new markets without significant costs.

Defining a business
When considering such transactions, O&G companies must carefully determine whether they represent the acquisition of a business or the purchase of assets, as required by IFRS 3 Business combinations (IFRS 3). Understanding the difference between these two transaction types is important to understanding the accounting principles underlying each type of transaction. Business combinations are accounted for by applying the acquisition method (also giving rise to goodwill). However, when accounting for acquisitions of assets, the acquirer allocates the transaction price to the individual identifiable assets acquired, and liabilities assumed, on the basis of their relative fair values. No goodwill is recognized.

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgment.

IFRS 3 originally defined a business as input and processes applied to that input that have the ability to create output. According to the post-implementation review (PIR) of IFRS 3, this definition was the subject of numerous concerns raised by stakeholders about
interpreting and applying it. The International Accounting Standards Board (IASB), therefore, provided further guidance on the definition of a business\(^5\), applicable to businesses acquired in annual reporting periods beginning on or after 1 January 2020.

**Concentrating on fair value**
Previously in IFRS 3, there was little or no guidance to identify situations where an acquired set of activities and assets is not a business. Aiming to simplify such assessment, the International Accounting Standards Board (IASB) introduced the amendments, including an election to use a concentration test. This is a simplified assessment that results in an asset acquisition, if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

Entities may elect whether or not to apply the concentration test on a transaction-by-transaction basis. It is perhaps worth mentioning that it is still mandatory to perform a detailed assessment applying the normal requirements of IFRS 3. This happens when an entity elects not to apply the test or the test is not met.

**Assessing substantive processes**
If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendments provide further guidance to assess whether an acquired process is substantive, with illustrative examples.

IASB outlined that the presence of an organized workforce is an indicator of a substantive process, because the ‘intellectual capacity’ of an organized workforce, having the necessary skills and experience following rules and conventions, may provide the necessary processes (even if they are not documented).

The steps for this assessment are outlined below:

The changes mean that the new definition of a business is narrower, which could result in fewer business combinations being recognized. The amendments may require organizations within the O&G sector to carry out complex assessments to decide whether a transaction is a business combination or an asset acquisition\(^7\).
The need to keep abreast of sweeping tax reforms

Organizations in the ENR sector must remain aware of developments in applicable tax laws, affected by factors including globalization, technological innovation, and geopolitical, regulatory and economic change. Stuart Cioccarelli discusses the main themes relevant to the industry.

For a region that has historically been perceived to be largely free of taxes, there has been a radical shift in the local tax landscape in recent years.

Globally, tax initiatives are being implemented to accommodate requests from the Organization for Economic Co-operation and Development (OECD), under the Base Erosion and Profit Shifting (BEPS) project, which aims to combat tax avoidance. Transfer pricing changes in the region call for compliance with country-by-country reporting requirements. There is an increased need for transparent exchange of information by regulators and tax authorities as economies acknowledge the interdependence on other countries, within the region as well as globally. This is underscored by a widening tax treaty network and bilateral trade agreements.

Regional introduction of new taxes
In an effort to diversify revenues from the oil and gas (O&G) sector in the region, the GCC states have committed to framework agreements to implement value added tax (VAT) and excise tax. Four GCC states have already introduced these (Oman currently only having implemented excise tax), with the remaining two expected to do so by late 2020 or 2021.

The ENR sector has predominantly been the driving force of the UAE economy, with the majority of reserves located in Abu Dhabi. There has been increased business activity in this emirate in 2018 and 2019, with up to 40% interests being granted to international oil and gas companies in both onshore and offshore concessions.

In addition to fiscal reforms, there have been further changes to commercial company law, which now permits up to 100% foreign ownership, as well as dual licensing in some free trade zones.

Investment structure
One of the major reforms to the UAE market has been the relaxation of foreign investment regulations. The new rules will allow foreign investors to establish UAE (rather than offshore) corporate hubs for ring-fencing country-specific ENR activities.

To ensure 100% control, the previously prevalent practice in the ENR sector has been to establish a local branch of the foreign company that would be party to the concession.

With changes to the Foreign Direct Investment (FDI) law effective from 1 January 2019, foreign shareholders may now own up to 100% of UAE companies incorporated outside free zones (“Onshore”). Permitted foreign ownership is determined on the basis of a “Negative list” (where the relaxation of the 51% UAE national shareholding requirement will not apply) and “Positive list” (more than 49% of foreign ownership will be permitted). In addition, most Free Trade Zones (FTZs) are now granting dual licenses that permit FTZ-registered businesses to carry out operations on the mainland.

The Abu Dhabi Global Market (ADGM) FTZ recently announced a collaboration with the Supreme Petroleum Council (SPC). Foreign concession holders will now be permitted to establish ADGM registered entities. These may obtain a license to provide onshore and offshore oil field and facilities services (subject to receiving necessary approvals).

Fiscal regime applicability to the ENR sector
Taxation of the ENR sector in the UAE was originally established through Emiri decrees (modeled after the...
Abu Dhabi Income Tax Decree of 1971). However, unlike other jurisdictions, the UAE fiscal regime is unique: over time, each concession is issued a specific Fiscal Letter that governs the taxation of foreign concession holders and petrochemical companies.

In Abu Dhabi, the Fiscal Letter and accompanying procedures supersede the Abu Dhabi Income Tax Decree. The terms of the Fiscal Letter vary depending upon whether the subject is a petrochemical company, or whether it is an onshore or offshore concession. For petrochemical companies, tax is imposed on the profits of the entity. For foreign concession holders, tax is imposed on the share of profits allocated to the oil lifted.

The Fiscal Letters are broadly aligned, that is, the income is subject to corporate income tax and royalties. However the computation of tax and applicable rates can vary depending on the Fiscal Letter. In Abu Dhabi, the Fiscal Letter is determined by the SPC and agreed with the respective concession holder on a confidential basis. The tax rates are agreed upon on a case-by-case basis by the concession holders and the SPC.

The SPC formulates and oversees the implementation of Abu Dhabi Petroleum Policies. It is responsible for administering, assessing and collecting corporate tax for foreign upstream companies and petrochemical companies in Abu Dhabi. Each concession holder is responsible for calculating, reporting and payment of its taxes pertaining to its participating interest in the concession as per the Fiscal Letter, and to make a payment of corporate income tax and royalty to the SPC.

The compliance process is performed over a two year cycle. The first year requires payments of estimated taxes on a monthly and quarterly basis and a true up calculation is performed in the second year based on actual data. A tax audit is also conducted by the SPC in the second year by its appointed auditor.

**The lasting impact of VAT**

The Federal Tax Authority (FTA), a government entity, was established in 2016 and is responsible for enforcing country-wide taxes in the UAE. Currently the only federal taxes under its jurisdiction are excise tax (from 1 October 2017) and VAT, implemented with effect from 1 January 2018.

There are no special VAT regimes or exemptions for businesses operating in the O&G industry. VAT is applicable on most supplies of goods and services at the standard rate of 5%, unless there is a specific provision for applying the zero rate or exemption.

Sales of crude oil and natural gas are specifically zero rated, whether as a domestic supply or as an export. As a result, most concession holders will be obliged to register for VAT to report the sales of oil and gas. A credit for VAT incurred on expenditure will thus be permitted.

There is a particular provision for local sales of specified hydrocarbons to customers who are wholesalers or will use them to produce energy. The supply is deemed outside the scope of VAT but subject to a domestic reverse charge on the part of the purchaser, provided certain conditions are satisfied. This may represent an important cashflow advantage as neither party has to fund the VAT upfront, but reports it using VAT accounting entries.

VAT registered entities must comply with UAE VAT legislation, file periodic returns, and pay any associated VAT liability within specific time limits. A harsh administrative penalty is applicable for non-compliance.

Entities in a refund position, where the VAT credits exceed the VAT liability, are entitled to a repayment. Historically, the FTA has seemingly been comparatively slow in processing these refunds, but recently there has been a noticeable increase in VAT credits received.

The regulatory landscape for investment, and consequently the tax environment, in the O&G industry is complex. It involves acquiescence with the law at both emirate and federal level, while concurrently aligning with global tax directives. Compliance depends upon thorough, complete understanding of obligations under the specific fiscal regime, as well as under complementary federal taxation laws.
Adoption of renewable energy sources in response to climate change

Sustainable energy innovation is of critical importance in achieving the global climate targets. Vivek Agarwal explores how technological solutions and a canny funding strategy can help make adopting renewable energy sources more feasible.

In 2017, human-induced global warming hit approximately 1°C above pre-industrial levels. The Paris Agreement on Climate Change in 2015 achieved quasi-global consensus on the necessity for governments, industry players, and society as a whole, to limit global warming to below a 2°C increase. This will not happen without a fast transition toward adopting low-carbon technologies to slow the pace of climate change. Innovation must play a key role in the development of sustainable clean energy technologies as part of the endeavor to find viable substitutes for the carbon-emitting technologies that have become embedded in our everyday lives.

Unlike solar and wind power, many other clean energy technologies are generally not yet mature nor sufficiently cost-competitive enough to be deployed on a commercial scale. The geographical, political and social disparities and availability of resources around the globe will likely require a broad range of different sustainable energy technologies to be developed.

**The UAE’s commitment to sustainability**

The UAE is striving to move towards a more sustainable future. The UAE Energy Strategy 2050 aims to double the contribution of clean and nuclear energy in the total energy mix and reduce the power-generation carbon footprint by 70% of its current level. By the end of 2019, the government is aiming to make 10% of all citizens’ homes in Dubai energy self-sufficient, with free solar power, as the UAE works to implement its energy goals. The homes will then be connected to the Dubai Electricity and Water Authority (DEWA) grid.

The construction of the fourth phase of the Mohammad Bin Rashid Al Maktoum Solar Park has advanced further with the completion of 128 pillars of the project’s solar tower. It is the largest single-site solar energy project in the world, with a planned total production capacity of 5 gigawatts by 2030.

The UAE is also looking at nuclear power and waste to diversify away from oil and gas. Five waste-to-energy projects are underway across the UAE, for instance the Sharjah Waste to Energy Facility. The 30 megawatt project, a joint venture between sustainability pioneer Bee’ah, and Masdar, will process more than 37.5 tonnes of municipal solid waste per hour to generate electricity sustainably. It is expected to divert more than 300,000 tonnes of municipal waste away from landfills every year.

**The role of technology in sustainable energy**

The research and development (R&D) process for clean and sustainable energy technologies is characterized by high-potential technological risk. The risk is not only high in the early development stage but remains so until after a product reaches commercialization. For example, wind turbine technology, even though it is now a commercially competitive solution, requires ongoing R&D and improvement, in order to both achieve optimal production and installation cost efficiencies, and to increase the wind yield. This is particularly relevant in an era when tariff support for renewables is decreasing rapidly, thus requiring ever greater efficiencies from...
existing technology solutions. Also, the costs to validate prototypes and demonstration models are much higher than for pure digital/software innovations. Currently much longer periods are required to validate deep-tech sustainable energy products.

**Barriers to sustainable energy innovation**

The nature of sustainable energy innovation — namely, the high technological risk, the financial cost and the strong commercial competition from established, low-cost (but potentially high-emitting) products and solutions — represents the key systemic hurdles for the fast-track development of new innovations.

Sustainable energy innovation can be a highly expensive endeavor. To help meet all the financing requirements, both private and public investments are needed. The reality is that innovators of early-stage sustainable energy solutions find that there is usually a significant financing gap and public and private funding are typically not well aligned to meet this need for various reasons. Public sector investors can find it difficult to identify the right innovators and determine the most appropriate projects in which to invest. They often need to comply with strict internal investment rules and return expectations. Furthermore, the public sector can lack the commercial, financial and entrepreneurial skills to assess investment opportunity, and there may be a paucity of personal accountability for investment success.

Favorable energy regulations, funding policies and institutions to foster innovation are also vital in creating a fertile environment for sustainable energy innovation. Stable policies, independent of political cycles, play a major role in providing the necessary certainty for innovators and private investors. An ongoing absence of a common consensus on the future design of the energy landscape between national governments is leading to the phenomenon that most sustainable energy R&D is still performed on a local level with too little cross-country knowledge exchange and the loss of collaborative synergy potential.

**Possible solutions**

Aligning public and private investment is key to securing the required funding, especially at critical stages of technology development. One potential approach could involve creating financial mechanisms that attract and blend both private and public money. These public-private co-investment mechanisms are designed to reflect the risk profiles of the different parties involved. This could be combined with structured funds which use portfolio approaches, providing returns on the overall performance of all invested projects. Investors are thus not dependent on the performance of individual projects. Such frameworks can help provide a secure and stable framework for innovators and can be complemented with technological and financial assistance. This approach has been used effectively to push the climate change agenda in the developing world; examples include the Danish Climate Investment Fund and the Global Climate Partnership Fund. There is no reason it could not be used in a similar fashion for sustainable energy innovation.

One of the main challenges for private and public investors is to find the right projects to fund. For industry players, investing in innovative start-ups is a way to outsource the innovation process until ideas are demonstrated and tested enough to be incorporated into their core business. Other sector players, such as car manufacturers, may choose to keep most of the innovation process in-house. They often own large R&D centers to test and develop new solutions.

The investment process of utilities and oil and gas companies into innovative start-ups can be a win-win process for both the investors and the start-ups. The due diligence approach must therefore take into account the insecurities and scaling...
potential of business cases of early-stage companies. Considering the restricted resources of these early-stage companies, a due diligence process should not obstruct the day-to-day business of start-ups. The findings of legal, tax and financial due diligence can produce valuable insights for the start-up entrepreneurs, who may use them to improve their organizational structures, reporting and operations.

There are many different ways to support innovation start-ups other than just the provision of funding. For example:

- development of business strategy and shaping a comprehensive business plan for innovators
- identifying strategic business partners, particularly larger industrial concerns to test prototype and demonstration models
- helping innovators through the maze of intellectual property protection
- setting up the right organizational structures and processes right from the start so that the start-up can function like a proper business with appropriate corporate governance.

**Next steps**

Sustainable energy innovation is of critical importance to achieve the global climate targets; more sustainable energy technologies need to be developed and commercialized faster. Breakthrough energy technologies with broad applicability and affordability are needed to substitute incumbent solutions and lifestyles. In order to tackle systemic hurdles in the energy innovation process, it is critical to foster a culture of policy discussion and to increase the involvement of both private and public stakeholders in the energy innovation ecosystem.
Sustainable energy innovation is of critical importance to achieve the global climate targets; more sustainable energy technologies need to be developed and commercialized faster.
Fostering passion for an oil and gas career among millennials

Millennials may harbor some misconceptions about the industry. Peter Haugaard elaborates on how to alter their views and introduce them to a sector with promising career opportunities.

Research indicates that more recent generations may view oil and gas (O&G) as an industry in decline rather than an innovative sector in which to build a future—this may be more detrimental to the environment and society than beneficent. These misconceptions could be keeping some millennial talent from exploring careers in O&G. When you ask millennials to identify their preferred career path, they often name employers in technology, public service, and corporate social responsibility. Oil and gas does not always make their list because they do not think it matches their values.

Millennial values differ
Generally, millennials prize purpose and meaning in their careers. For instance, they often prefer to join and stay with companies that clearly articulate their principles, according to Gallup research. It also indicates that millennials seek career mobility, with 87% saying that professional development or career growth opportunities are very important to them. The Gallup findings also suggest they are willing to change companies to gain that experience.

Yet at the same time, millennials also tend to seek more of a work-life balance than previous generations, and their careers are not necessarily the most important part of their lives. When they are at the office, they typically prefer collaborative effort to solitary work, and value inclusion and diversity.

Finally—and a key point for oil and gas companies to remember—this generation grew up with ubiquitous technology, and they want their employers’ enterprise technology to be up to date and on par with what they use in their personal lives. A remarkable 93% say that a business having the latest technology is an important value proposition when choosing a workplace, and 42% of them say they would leave if the technological infrastructure was substandard.

Focus on learning and innovation
Millennials are frequently looking for employers who will expose them to Industry 4.0 (i4.0), but they may not realize that their opportunity to work with new technologies does not have to be at a traditionally defined “technology” firm.

The i4.0 technologies that O&G companies have implemented over the last decade, under economic and regulatory pressure to continually make operations safer and more efficient, are in line with what many millennials want exposure to. Examples include automated production, remote asset monitoring through Internet of Things sensors, and data analytics to crunch vast amounts of valuable information.

ExxonMobil and the Massachusetts Institute of Technology’s effort to leverage artificial intelligence to detect natural seep in deep ocean waters is the kind of project millennials can get excited about. Meanwhile, BP’s upstream chief operating officer for production, transformation and carbon recently said that millennial employees are demanding the company’s teams work in a more agile way to complement the increasing deployment of these digital tools.
Forty-six percent of millennials intending to stay at their current organizations for at least another five years say they receive help understanding and preparing for i4.0. Yet among those intending to leave within two years, that figure dropped to 28%.

**Vaulting ambition**

Some employers may tend to labour under the misapprehension that millennials have no loyalty. Yet, while they are more willing to move for the right opportunity, their job tenure is no shorter than that of Generation X. Research suggests that millennials set themselves similar career goals as those of prior generations. They nurture a desire to make a positive impact on their organizations, like baby boomers. They would also like to work with diverse groups of people, like Gen X. Part of the misconception may be driven by a slower progression through the various life stages than previous generations, according to Nielsen.

For a number of millennials, growing up during the financial crisis delayed reaching the personal economic security they needed in order to move out of their parents’ houses and start families. This makes it important to view millennials as individuals, rather than a monolithic group, while at the same time acknowledging their needs and values for the life stage they are in.

**Attracting talent**

The O&G sector would do well to consider tailoring its employee value proposition to match millennial values. High compensation alone may not attract this cohort, identified as one of the most charitable generations in history. The millennial focus on altruism offers organizations a unique opportunity to refocus their employer brand so it articulates a social mission that differentiates themselves from competitors.

Some O&G organizations may need to redefine their core competencies, which in turn can update and create new career paths. By redesigning and communicating new career-progression opportunities, companies can reinforce their commitment to the current workforce to better engage and retain talent, while attracting employees with the skills needed in the future.

New technology—automation in particular—creates opportunities to attract innovation- and career-focused employees as organizations shift their employee base toward higher-value work like strategy and analytics, and away from repetitive, manual tasks. Not only does this allow O&G organizations to remain relevant in the marketplace, but the availability of more strategic and advisory roles can lead to higher job satisfaction and improved retention.

Finally, to create a pipeline of fresh talent, O&G companies may do well to consider developing relationships with local universities, offering internship programs and externship programs as well as sponsoring events like ‘hackathons’ and design sprints.

Industry leaders can help combat misperceptions by sharing stories from current employees that demonstrate a positive experience. In particular, potential employers may choose to highlight that O&G offers some of the most innovative and rewarding career opportunities of any international industry.

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Building robust ethics and compliance frameworks a key priority

Ethics and compliance programs in the energy industry are generally more mature than in other sectors. However, the results of the KPMG 2019 Chief Compliance Officer (CCO) Survey demonstrated that certain areas still need development, explains Sudhir Arvind.

Heightened public, investor and board attention to ethics-related issues—many of which made major headlines in recent years—is driving an increased focus on compliance programs across all industries.

The pressure is compounded on chief ethics and compliance officers (CCOs) in the energy industry where companies face unparalleled regulatory and public interest scrutiny from governments and citizens around the world. There is a particular emphasis on environmental impact and the potential for bribery and corruption at international operations. This constant examination by a broad range of stakeholders, combined with shareholders’ expectations for strong financial results, can sometimes place energy companies in the unenviable position of juggling competing demands.

Meanwhile, rapid technological advances and expanding digitization are accelerating the convergence of business models and markets, leading to greater awareness of data breaches, potentially questionable sales practices, organizational misconduct and other possible high-profile risks.

The introspective CCO
In January 2019, KPMG surveyed 220 CCOs representative of the largest organizations across multiple industries. Of those, approximately 13% operated in the energy and natural resources industry. Although the research was conducted in the US, as the oil and gas (O&G) sector is highly multicultural, main themes and behavior may be extrapolated to apply to organizations across the world.

Findings from the survey indicated that ‘investigations’ is the number-one ethics and compliance activity that energy-sector CCOs plan to enhance in 2019. Many O&G companies receive complaints into a centralized team. However a greater proportion of CCOs from the energy sector, compared with those from other industries, stated they do not conduct, document, or adequately address root-cause analysis of operational issues.

Recognizing the need for improvement, 61% of energy CCOs surveyed said they will focus on developing investigations capabilities in the coming year. The effort requires some urgency as regulators are stepping up their focus on root-cause analysis and remediation as part of assessing corporate compliance programs.

Establishing protective frameworks
More energy CCOs expect to enhance their due diligence efforts in 2019 than the cross-industry average. O&G companies with a global footprint rely on a host of intermediaries, opening the door to greater third-party corruption risk. Unfortunately, the energy sector is sometimes found to be below average in seeking to integrate due-diligence processes and use a central system for third-party risk management.

A devolved model for third-party risk management allows for flexibility across geographically and operationally diverse businesses. However it can lack central oversight to ensure consistency and quality of risk management, risks duplication, and likely creates increased costs that could be avoided.
On the other hand, a far greater proportion of energy CCOs are focused on improving anti-bribery and corruption (ABC) compliance programs than CCOs in any other sector. As global O&G companies explore new regions and expand operations across borders, they are challenged by a complex and dynamic framework of governments, regulations and local partnerships other sectors do not often face. For those operating in high-risk areas, the global regulatory focus on bribery and corruption issues is an incessant drum beat.

Concerns have been amplified in recent years by growing financial penalties and reputational risks. Despite many energy companies investing in improving their ABC programs, almost half of energy CCOs in the survey said they plan to refine those programs further.

Meanwhile, companies across the board are increasingly recognizing the need for real-time detection. As data access and analytics capabilities advance, many are looking to automate monitoring activities, such as analyzing third-party spend.

In fact, energy companies have diverged from other industries with respect to enhancing monitoring and testing overall. Only 46% of energy respondents are planning to enhance such activities, compared with 65% from all sectors.

**Spotlight on ethics and culture**

More than two-thirds of energy CCOs surveyed put refining ethics programs at the top of their list as part of their regulatory and compliance obligations. The #MeToo movement, the power of social media, and public access to real-time data and information, are just some issues pushing CCOs to institute an ethical culture at their companies. Societal pressure on corporations to act ethically spurs them to make an effort to go beyond mere regulatory compliance. As the survey suggests, the potential business impact of ethical misconduct, and increasing board and C-suite belief in the importance of culture, are key drivers behind the corporate world’s growing interest in developing ethics programs.

Nearly a third of energy CCOs seek to better incorporate culture into their compliance efforts. In fact, as per the survey, they consider culture a top-five area for improvement, according it a higher rank than their peers in other industries. They are also more focused on integrating processes, activities and controls that drive an ethical and compliant culture than CCOs from other sectors. This is no surprise given the attention that culture is receiving from boards and other societal stakeholders in the O&G and wider energy sector.

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Findings from the Global CEO Outlook 2019

The fifth annual Global CEO Outlook, KPMG’s flagship thought-leadership program, contains timely insights into the challenges and opportunities for CEOs of the largest corporations from around the world.

Unlike other CEO surveys, KPMG’s report is forward-looking and focuses primarily on the outlook of CEOs for the next three years. With our research partner, Forbes, we surveyed nearly 1,300 CEOs in 11 of the world’s largest economies and 11 key industry sectors (automotive, banking, insurance, investment management, infrastructure, life sciences, technology, telecom, manufacturing, retail/consumer markets, and energy/utilities). The ten core markets are: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, UK and US.

What did CEOs tell us this year?
Two-thirds of all chief executives surveyed believe that agility is the new currency of business. If they fail to adapt to a constantly changing world, their business will become irrelevant.

The environmental, economic and technological headwinds we have seen emerge in recent years are no longer perceived as short-term. While CEOs continue to see exciting growth opportunities, they are set against a complex, volatile and increasingly uncertain environment. To be resilient, organizations need to be comfortable disrupting their business models if they want to continue to grow.

Focus on energy
Three-quarters of CEOs across all sectors cited climate change as a top risk to their organization’s growth. “Climate change has evolved beyond just an environmental issue to a pressing financial one as CEOs are feeling investor and stakeholder pressure to move the world away from a sole reliance on fossil fuels,” said Regina Mayor, Global and U.S. Sector Leader for Energy and Natural Resources at KPMG. “As we continue to consume energy at a record pace, organizations are thinking about ways to incorporate a mix of energy sources, made up of both fossil fuels and renewables.”

Of the 1,300 CEOs surveyed in the 2019 CEO Outlook, 130 were from top global energy companies.

More than 80% of energy CEOs say that they’re personally leading the technology strategy for their organizations, and 79% are placing more capital investment in buying new technologies to improve their organization’s resiliency.

According to the report, while 94% of energy CEOs are confident in their business’ growth prospects, only 65% feel the same way about the global economy. To pursue growth objectives over the next three years, 66% of executives plan to increase investment in disruption detection and innovation processes. Other strategies include setting up accelerator programs for start-up firms, joining industry consortia focused on development of innovative technologies, and pursuing corporate venturing.
CEOs name climate change as the #1 risk to organizational growth

Dynamic risk landscape
Societal concerns over climate change mean that stakeholders—from customers to regulators—are putting increasing pressure on organizations and their leaders to respond.

76% of all CEOs surveyed say their organization’s growth will depend on their ability to navigate the shift to a low carbon, clean technology economy.

Top threats to growth:
- Environmental and climate change
- Disruptive technology
- Return to territorialism

Conflicting global outlook
Energy CEOs are confident in the underlying fundamentals and growth prospects of their businesses, but this confidence is not matched by their views on the global economic outlook.

94% of energy CEOs are confident in their own business’s growth prospects over the next 3 years. However, only 65% feel the same way about the global economy.

Leading in uncertain times
To build a resilient enterprise that capitalizes on disruption, energy CEOs are pressuring their organizations to change and adapt continually.

60% say that acting with agility is the new currency of business and being too slow risks bankruptcy.

66% plan to increase investment in disruption detection and innovation processes.

Changing from within
Energy CEOs are embracing a new way of thinking about talent, workforce strategy, and the need for upskilling.

80% are personally leading the technology strategy for their organization.

79% are making more capital investment in new technologies to improve their organization’s resiliency.

85% plan to upskill employees to new digital capabilities to develop a more effective workforce.
Price volatility and its impact on the oil and gas sector


https://assets.kpmg/content/dam/kpmg/ar/pdf/pg-industria-del-pg-tendencias-para-2019-eng.pdf This report relied upon the following sources:

- World Bank Commodity Price Data –Pink Sheets– and World Bank Commodity Price Forecast
  - MINEM 2018
  - COMTRADE statistics

Adoption of renewable energy sources in response to climate change


Fostering passion for an oil and gas career among millennials


Building robust ethics and compliance frameworks a key priority


i USD/barrel

ii Million British thermal units

8 https://www.ipcc.ch/sr15/chapter/chapter-1/
11 https://gulfnews.com/uae/environment/bright-outlook-for-uae-renewable-energy-sector-1.1551779126693
13 https://www.forbes.com/sites/forbestechcouncil/2018/06/28/meeting-millennial-expectations-in-these-four-areas-of -technology/#672a288d4f4c
17 https://advisory.kpmg.us/content/dam/advisory/en/pdfs/purpose-driven-work.pdf
KPMG Lower Gulf Limited provides audit, tax and advisory services to a broad range of domestic and international clients across all sectors of business and the economy. We work closely with our clients, assisting them to mitigate risks and highlight opportunities.

Established in 1973, KPMG Lower Gulf now consists of approximately 1,300 staff members, including more than 100 partners and directors, across six offices: Dubai (three), Abu Dhabi, Sharjah and Muscat. The KPMG member firm in the United Arab Emirates, along with the member firm in Oman, form KPMG Lower Gulf.

KPMG is widely represented in the Middle East and also has offices in Saudi Arabia, Bahrain, Qatar, Egypt, Kuwait, Jordan and the Lebanon. As well as having many of the region’s leading organizations and government-related entities as its clients, KPMG in the Lower Gulf has been party to numerous milestone engagements in the Middle East.

KPMG Lower Gulf is part of KPMG International Cooperative’s global network of professional member firms. The KPMG network includes approximately 207,000 professionals in over 153 countries around the world. KPMG in the UAE is well connected with its global member network and combines its local knowledge with international expertise, providing the outstanding sector and specialist skills required by our clients.

KPMG was the first major firm of its kind to organize itself along industry lines – a structure which enabled us to develop in-depth knowledge of our clients’ businesses and provide them with an informed perspective.

KPMG Lower Gulf is closely collaborating with Abu Dhabi Global Market Academy (ADGMA), the Abu Dhabi Human Resources Authorities and Abu Dhabi Accountability authorities to deliver the program, Pre-Audit Qualification Training (PAQT). Initially run over the next three years, in its first year it will provide more than 90 UAE nationals with the essential knowledge and training in relation to audit that will equip them to succeed in this field, and thus contribute to the growth and development of the local economy.