2014 Management Empowerment in the NOCs

Challenges for the State-Owned Oil Company

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Outline

- Current Oil Market in Taiwan
- Financial Performance of CPC and FPCC
- Dilemmas for the State-Owned Oil company
- Time to Reform





Current oil market in Taiwan

Energy security indicator in Taiwan

Energy security indicator	2000	2013
Dependence on imported energy	97.87%	97.58%
Value of energy imports/ Value of total imports	8.94%	24.11%
Value of energy imports/ GDP	3.84%	13.25%

> Structure in Taiwan's oil market

Two oil	State-owned oil company	CPC Corporation, Taiwan (CPC)
companies	Private-owned oil company	Formosa Petrochemical Corporation (FPCC)

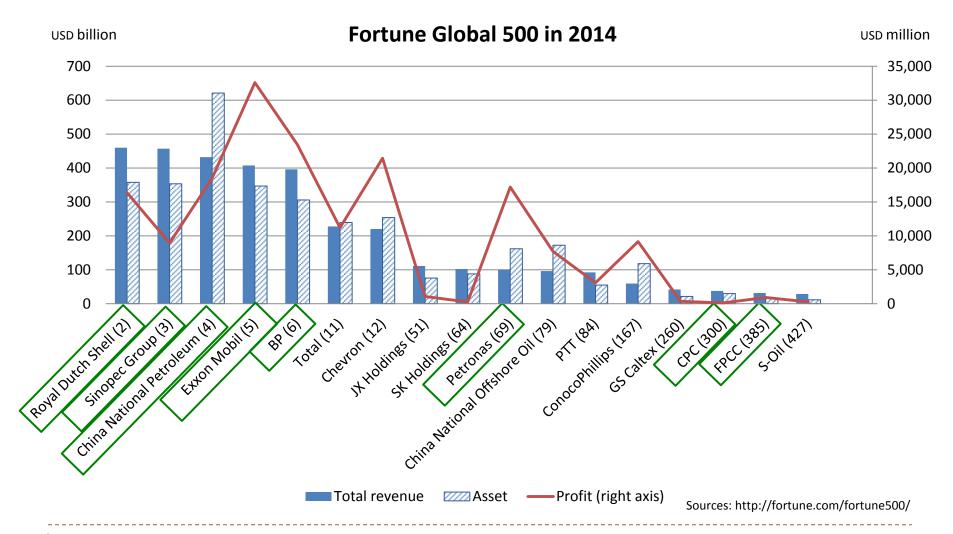
Operation scopes for CPC and FPCC

	Oil company	Туре	Exploration & Production	Refinery & Marketing	Retail	Petro- chemical	Cogeneration
	CPC	Oil	0	0	0	0	
		Gas		0			
③ FI	FPCC	Oil		0			
	Y	Coal					0



Financial Performance of CPC and FPCC (1/2)

CPC and FPCC are both listed in the Fortune Global 500 in 2014.

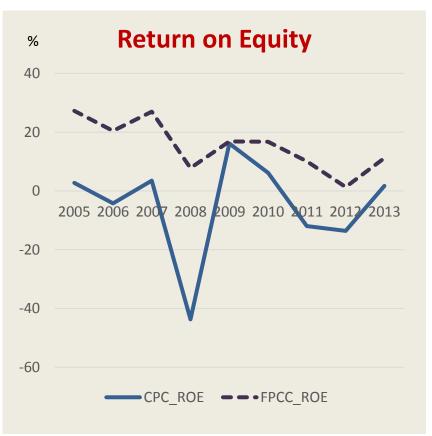




Financial Performance of CPC and FPCC (2/2)

Private-owned company performs better than state-owned company.

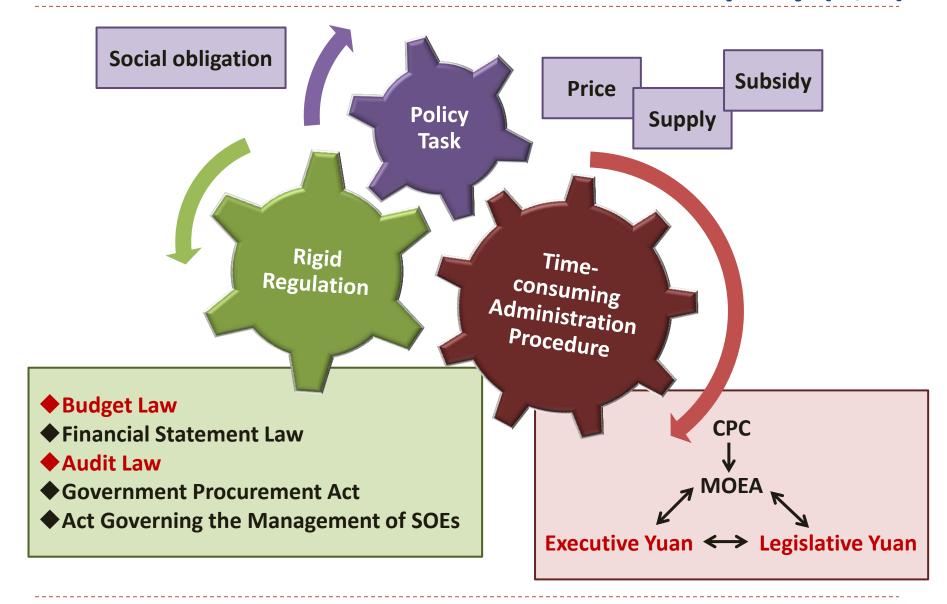




Source: CPC Annual Report 2013; FPC Annual Report 2013

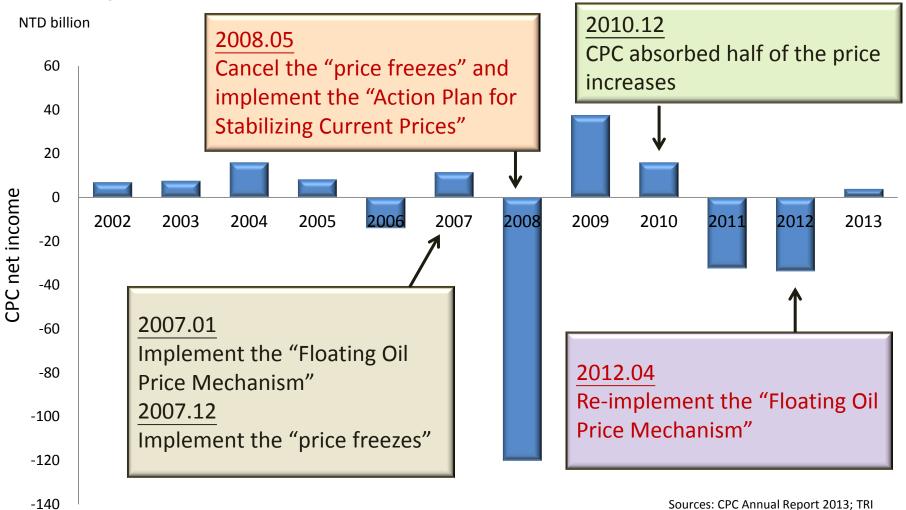


Dilemmas for the State-Owned Oil Company (1/5)



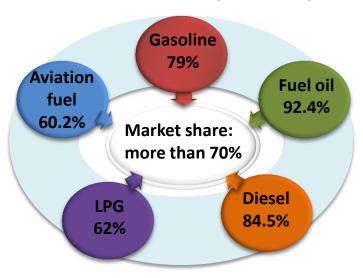
Dilemmas for the State-Owned Oil Company (2/5)

Price side: Stabilize the domestic price level, but sometimes lead CPC to operate at a loss.



Dilemmas for the State-Owned Oil Company (3/5)

> <u>Supply Side</u>: Stabilize the supply of petroleum products and support the domestic industry development.



Source: CPC Annual Report 2013

- CPC's petroleum products are mostly intended to supply the domestic market, and some surplus is exported.
- High domestic market share does not bring high profits, because the domestic petroleum prices are below the international level.
- CPC supplies oil and gas steadily for people who live in the rural areas.

> Subsidy Side: subsidize for some specific groups



Subsidize the public transportation (for example: taxi, bus etc.)



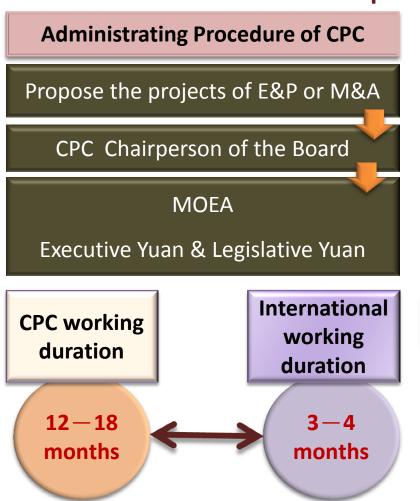
Provide LPG subsidy for the low-income households

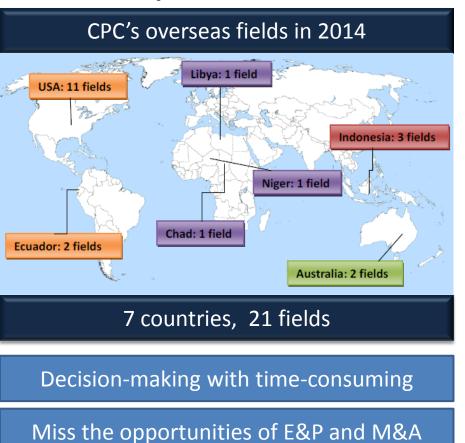




Dilemmas for the State-Owned Oil Company (4/5)

Time-consuming administration procedure: Upstream E&P activities are the main source for the profits of oil companies, but.......





Hard to expand the investment scale



Dilemmas for the State-Owned Oil Company (5/5)

> Rigid regulations restrict the autonomy, limiting the profitability and

prospect of CPC.

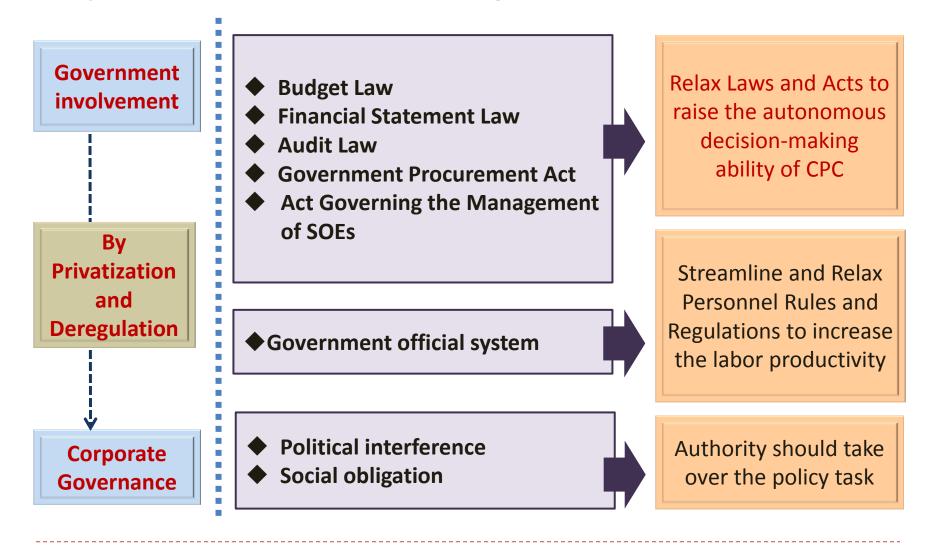


- Lack of autonomy
- **◆** Lack impetus to progress and upgrade
- Lack of crisis awareness
- **♦** No incentives to attractive high-skilled labors
- Lack of international competitiveness



Time to Reform (1/2)

Separate administration from management.





Time to Reform (2/2)

- Remove internal and external constraints
- Corporate governance
- **♦** Focus on business performance and profitability

Efficiency & Flexibility

Autonomy

- **♦** Diversify the financing source
- Integrate & simplify the administrative procedure
- Engaging in overseas E&P projects aggressively
- Grasp the investment opportunities timely and efficiently
- Support the domestic market and expand the international markets
- **Future**
- Raise overseas competitiveness and influences
- Sustainable development with sound financial structure
- ◆ Construct an international and diversified energy group



THANK YOU

