

A new option to resolve JV disputes

PETROLEUM Resolution Envoys (PRE) provides a service to assist resources companies resolve disputes with joint venture (JV) partners, buyers and suppliers, before they become a drain on financial and human resources. PRE identifies key issues, reviews supporting documentation, provides risk/reward metrics and assists management with negotiations and mediation for settlement.

Geoff Widmer and Vivek Chandra started the business this year and say it is for the entire resources industry. Geoff Widmer says, "Given our experience in oil and gas as well as in the mining sector, we realized there are always niggly little issues with JVs.

"These arrangements are for the long term and companies engaged in JVs cannot let issues fester, leading to strained or even bad relations. Issues tend to arise when dealing with stranded assets or non-core assets or where there has been a change of board with new directors not having the same interest in resolving issues.

"Experience tells us companies end up spending a lot of money in legal fees and obtaining opinions but seldom end up getting commercial solutions. We want to help prevent companies going through the costly process of taking disputes to mediation or arbitration. Before they get there we want to sit down with the parties, look at the agreements, examine what was there and come to a solution."

Geoff Widmer says his background has been around JV management, evaluation, writing commercial agreements and thinking about how resources are produced. Vivek Chandra is experienced in resources. He was educated and trained in America, and has worked with companies in commercial areas. "He and I came from different sectors and were having a coffee one day when we realized we could offer an important service in helping resolve these issues by leveraging off our core competencies," Geoff Widmer says.

"My basic activities involve evaluation, commercial negotiations and helping companies realize value for their stranded assets or brown assets. My corporate development work involving legal agreements and accounting, naturally blends into being able to help companies. We take an independent view and utilize 'shuttle diplomacy' - we have to come up with a solution that may not suit the other party or even both parties. Both may not get their own way but it is a compromise, a custom solution that costs them a lot less in the long term. It ticks the box in terms of avoiding bad JV relationships and keeps the board happy because they have a resolution at a reasonable cost.

The earlier you can nip the problem in the bud, he says, the less it can grow to become a major issue. "If they fester they lead to people digging themselves in to entrenched positions that are very hard to change and which involve them then having to talk to lawyers, moving into mediation and possibly arbitration. It can also lead to a disconnect within companies."

Vivek Chandra has established a presence in Singapore where a lot of arbitration is occurring and where South East Asian companies tend to go for this purpose. Geoff Widmer says, "Vivek has recently taken the exam to be a Fellow at the Singapore Institute of Arbitrators where he is already a member. He has a Masters in Commercial Law and is working on his Doctorate in International Law. As well as Australia we see ourselves operating into Singapore relatively quickly, serving South East Asia where JV disputes are more prevalent owing to the mix of cultures and company practices.

"We will ensure we carefully manage growth. When we take on a role we want to do the job quickly and efficiently with a concentrated effort. It's like a 24/7 activity where you go in, get yourself quickly up to speed, come to an understanding, shuffle back and forth between the parties to see how they feel about different models, and then solve the issues. This kind of role has a shelf life because if it drags on people start questioning the value of the service. If a board wants to think about how they exit a situation, we can also help them but that is an extension of the primary role of PRE."

During boom times he says companies don't look at JVs because they want to do everything themselves and are prepared to shoulder risk. "But when things get tight, like in the present down cycle, companies focus on maximizing margins, keeping costs under control, having good definition of reserves and minimizing or sharing risks, which means more JVs, offtake agreements, M&A and partnerships.

"The Chinese will play a major role in this process as their companies are cashed up. With China aiming to reduce the monopolies of state-owned enterprises (SOEs) through shareholder partnerships and more liberal activities, we will see more companies spreading equity. When SOEs have shareholders they will have to take into account risk and as part of this scrutiny, JVs need be managed properly.

"It is important in a down cycle when people seek partners that they have an agreement that is right from the outset - it must be customized and all partners need to be walked through it completely so they comprehend it, understand all requirements involved and the risks, in order to protect their respective positions. Also, when companies have established JVs we can help solve the issues that arise," he says.

"The initial response has been encouraging and people are talking about us through the networks we have linked with, which is a good launching pad for the marketing campaign we have started and for our business to succeed into the future," Geoff Widmer says.

www.petroleumenvoys.com