Many participants in the oil and gas industry will have experienced *déjà vu* as oil prices have once again crashed, this time due to the destruction of demand associated with COVID-19 and the price war between Russia and Saudi Arabia.

What path lies ahead for the industry in the coming months and years? In this alert, we set out a few thoughts (and some questions) to help oil and gas companies navigate the current landscape.

### Operational disruption and supply chain risk

Oil and gas activities are generally considered essential activities by governments and have been mostly exempt from the lockdown measures.

However, continued operations will likely become increasingly difficult due to workforce shortages as employees are infected by the coronavirus and the practical difficulties in many cases of social distancing. Companies should, therefore, be prepared to operate skeleton crews to continue operations, with disruptions expected for the maintenance, inspection, repair and replacement of equipment and drilling activities.

Operators will also need to consider:

- third-party contractors who work on-site and the alignment of COVID-19 policies and
- the prospect of sealing off wells as a result of the reduced number of personnel on drilling rigs falling below the level required by health and safety regulations and the reasonable and prudent operator standard.

As regards supply chain disruption, thought beyond the initial supplier in the supply chain will be required to identify who has supply chain risk, as disruption among second-tier and third-tier suppliers could ultimately affect both service companies and operators. For a comprehensive outline of how to protect yourself from supply chain disruption, please see our summary.

### Force majeure

As the situation deteriorates, many industry participants are reaching for the force majeure (FM) provisions in their key contracts to excuse failure to perform or to exit. Whilst these are typically designed to cover a situation where contractual performance is impossible, difficult or onerous to perform as a result of exceptional events outside either party’s control (for example a global pandemic), relying on a FM clause is very heavily dependent on the factual circumstances and the drafting of the specific clause. The choice of the contract’s governing law will also influence the availability of FM and similar reliefs including possible change of law relief.

Depending on the situation, there are also likely to be several steps that a party seeking to claim FM should take in order to maximize its chances of success, for example:

- identify the specific measures (as opposed to coronavirus in general) and evidence the actual impact these measures have had on it;
- mitigate the impact of such measures; and
- submit the contractually required notices on time.

In addition, it is important to note that inability to pay, changes in market conditions and economic hardship associated with contractual performance are generally excluded as grounds for FM relief in common law jurisdictions. For a global guide to FM and international commercial contracts, please see our summary here, and for a guide to the application of FM to the US energy sector, please see our summary.
As instability and uncertainty increase, so will the number and types of disputes due to businesses becoming unable (or unwilling) to perform existing contractual obligations. For an overview of the implications of COVID-19 for the future of dispute resolution, please see our summary.

**Counterparty credit**

We expect a renewed focus on credit risk associated with counterparties as financial stress flows through the sector. This suggests that an extension of payment terms and innovative financing structures, which leverage stronger balance sheets and help sustain weak counterparties while mitigating creditors’ risk (e.g., through share and/or asset security), may again become prominent.

**Government support**

As energy supply is generally considered a matter of national interest, measures are increasingly being implemented at a national level to provide some relief to the local oil and gas industry from the adverse impact of COVID-19.

We have summarized in an appendix to this alert the measures taken to date by the following key producing countries: Angola, Argentina, Australia, Brazil, Canada, China, Colombia, Egypt, Equatorial Guinea, Indonesia, Mexico, Mozambique, Norway, Pakistan, Russia, Saudi Arabia, South Africa, the United Arab Emirates, the UK and the US.

For an overview of key measures to support employment and the economy being taken by governments in response to COVID-19, please see our Government Intervention Schemes Multi-Jurisdictional Guide, available here.

The COVID-19 pandemic is shattering long-held assumptions about the global economic and political order, with a clear shift towards direct government involvement in national economies and an increased risk of nationalization worldwide. For a comprehensive report on the global nationalization risk, please see our report available here.

**Borrowing base financing facilities**

The fall in the oil price will put many upstream producers into default under their borrowing base facilities at the next borrowing base redetermination. Producers may be sheltered from the risk of payment default for as long as any commodity price hedges remain in place and are in the money.

Lenders will have to decide whether to either:

- waive the default (typically as part of a debt restructuring on the basis of “amend and extend”); or
- enforce their security rights.

In light of the 2014/15 price slump, given the practical difficulties and risks associated with enforcement, we expect lenders to opt for the former in most circumstances.

Banks have strengthened their balance sheets significantly since the 2008 financial crisis, which may give them more scope to support borrowers through this period. Conversely, those banks looking to reduce their exposure to the resources sector, in response to the climate change emergency and the energy transition, may look hard for an exit from distressed loans.

**Distressed M&A**

Consolidation through the acquisition of distressed assets is a textbook response to slumps in the industry; and some did it successfully following the 2014/15 price fall. Given the speed, scale and volatility of the crisis, it is premature to gauge the buy side interest. In many countries, governments have tightened their oversight of foreign investment rules to protect vulnerable domestic companies laid low by the crisis. Foreign acquirers will need to navigate these new rules. For an overview of the countries taking a more stringent approach towards foreign investment, please see our summary here.

Likewise, acquirers should consider whether any government support received by the target comes with conditions that impede any planned post-merger restructuring and integration. As always, understanding the existing debt package and anticipating/negotiating the lender reaction to a new (solvent) buyer will be important, and the absence of contractual protections under the acquisition agreement will need to be borne in mind. Finally, given the practical difficulties of due diligence in the coming months, we wonder whether any buyers will prefer assets they already know and in any countries which they assess as being at lower risk of any second wave of COVID-19.

**Impact on energy transition**

The effect of the oil price crash and COVID-19 on the delivery of governments’ decarbonization agendas remains unclear. The International Energy Agency, EU leaders and various asset managers have all reaffirmed their commitments in different ways to the energy transition. News is also expected from the European Commission over the coming days.

If you would like to discuss any of the issues raised in this alert, please get in touch with your usual Baker McKenzie contact or our dedicated COVID-19 team. Further news, regional law perspectives and other information can be viewed at Baker McKenzie’s Beyond COVID-19 Resource Center.
Appendix

Government measures and support packages for the oil and gas industry

Angola

The government implemented a state of emergency on 27 March 2020 by way of Presidential Decree. The state of emergency has partially suspended rights held by citizens and freedom of movement. Further restrictive measures enacted include:

- the shutdown of industrial units, save for a number of industries including oil and oil support services;
- the general shutdown of shops, except for a number of establishments, including gas stations and services in the national fuel supply; and
- the shutdown of the State’s central and local administration’s public services, save for a number of industries including energy and water services (this includes private tanker supply).

Argentina

Mandatory restrictions on daily life have been imposed in Argentina since 20 March 2020. These include a prohibition on the movement of citizens within the country, with citizens performing activities and services declared essential being exempt from complying with the prohibition. As the government has classified oil and gas activities as essential, companies may therefore continue to operate with minimal personnel to ensure continued operations and maintenance.

Australia

Since 23 March 2020, the Australian government has introduced an array of stimulus packages and concessions worth more than A$300 billion. These are available to struggling businesses and workers. Although some support has been directed to very specific industries (such as the airline industry), many of the measures taken by the government apply equally to all industries including the oil and gas sector. The key measures to date include:

- increasing the instant asset write-off threshold from A$30,000 to A$150,000 and expanding access to include businesses with aggregated turnover of less than A$500 million (up from A$50 million) until 30 June 2020;
- introducing a 15 month investment incentive (through to 30 June 2021) to support business investment and economic growth over the short term, by accelerating depreciation deductions. Businesses with a turnover of less than A$500 million will be able to deduct 50% of the cost of an eligible asset (including plant, equipment and specified intangible assets, such as patents) on first use or installation, with existing deprecation rules applying to the balance of the asset’s cost;
- the Reserve Bank of Australia establishing a three-year funding facility for at least A$90 billion to be lent to authorized deposit-taking institutions at a fixed rate of 0.25%. Banks will be able to obtain initial funding of up to 3% of their existing outstanding credit, with more money on offer if they increase lending to businesses, especially to small and medium-sized businesses;
- the introduction of a subsidy program to support employees and businesses under which eligible employers will be able to access a subsidy of A$1,500 per fortnight per eligible employee to continue paying their employees for up to six months. Employers will be eligible for the subsidy if their business is not subject to the Major Bank Levy and:
  - if their business has a turnover of less than A$1 billion - their turnover has or will be reduced since 1 March 2020 by more than 30% relative to a comparable period a year ago (of at least a month); or
  - if their business has a turnover of $1 billion or more - that their turnover has or will be reduced since 1 March 2020 by more than 50% relative to a comparable period a year ago (of at least a month).

A comprehensive outline of the “JobKeeper” support scheme is available here; and

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3 The instant asset write-off enables assets to be written-off in the year they are first used, or installed ready-for-use, instead of being depreciated over time.
• to help businesses get through a temporary period of insolvency, the government is temporarily providing higher thresholds and more time to respond to demands from creditors. The minimum total amount of debt to issue a creditor’s statutory demand to a company will be increased to A$20,000 (as opposed to A$2,000 currently), with a creditor to be given six months (instead of 21 days) to respond to the demand. Further, directors will have temporary relief from personal liability for insolvent trading if debts are incurred in the ordinary course of business. A comprehensive outline of the temporary changes to the insolvency landscape in Australia is available here.

Measures are also being undertaken at a state and territory level including payroll tax waivers, small business grants and loans as well as various licensing, government charges and tax waivers for eligible businesses.

The National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA)⁴ has also responded with some measures to ensure the essential supply of energy is maintained:

• for regulatory approvals, NOPSEMA is prioritizing and expediting its assessments of facilities and activities that contribute to Australia’s energy needs in the short and medium term; and
• NOPSEMA has introduced tailored inspection programs and will be monitoring measures taken by duty holders to prevent transmission of COVID-19 among the workforce.

Brazil

The federal government has designated oil and gas production and the production, distribution and marketing of fuels, gas and other oil by-products as essential activities. These activities will be exempt from any measures adopted by the authorities to address the pandemic (e.g., social isolation and quarantine), whilst being required to implement adequate measures to prevent the spread of the coronavirus in the workplace. The federal government has also specified that ancillary activities, support activities and supply chains required for the performance and operation of essential activities will also be exempt from such measures. The government of Rio de Janeiro State, where the headquarters of the majority of the oil companies and oil field service providers are located in Brazil, and which represents almost 80%⁵ of the Brazil oil and gas production, has also adopted the same approach.

The Mines and Energy Committee, with the approval of the National Agency of Petroleum, Natural Gas and Biofuels, Brazil’s hydrocarbons regulator, has suspended plans to hold a licensing round for exploration and production concessions. It is expected that the same will occur for two offerings of production sharing contracts in respect to Brazil’s pre-salt fairway.⁶ Furthermore, the (majority) state-owned oil operator Petrobras has announced plans to decrease oil production by a further 100,000 barrels per day, to 200,000 barrels per day, in an attempt to “strengthen resilience” in light of demand reductions.⁷

Canada

In Alberta, the provincial government has announced relief measures for struggling oil and gas producers. These measures include:

• temporarily waiving fees collected by the Alberta Energy Regulator from the oil and gas industry, which is expected to amount to $113 million;
• plans to extend oil and gas tenures, set to expire in 2020, by one year to provide resource companies more time to raise capital; and
• extending a $100 million loan to the Orphan Well Association to bolster immediate reclamation efforts, decommissioning about 1,000 wells, and starting more than 1,000 environmental assessments.

Further, the Alberta government has agreed to invest approximately $11 billion in the construction of the $8 billion US Keystone XL pipeline project. With the project expected to create 1,400 direct and 5,400 indirect jobs in the province,⁸ the investment represents a significant commitment by the government to support the industry during this difficult period.

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⁴ NOPSEMA is the key regulator of offshore oil and gas projects in Australia.
At a federal level:

- the Canadian government announced a $82 billion general aid package that will provide $27 billion in direct support to individuals and businesses and $55 billion in tax deferrals. Finance Minister Bill Morneau announced that targeted measures to support the oil and gas industry and aviation industry are on their way. Ottawa is expected to announce significant investment in Alberta to clean up abandoned oil wells;
- the COVID-19 Economic Response plan also contains a number of measures directed at economic relief for businesses in sectors such as oil and gas, air transportation and tourism. These include a Business Credit Availability Program, which is a collaboration between Export Development Canada, the Business Development Bank of Canada and private sector lenders and aims to provide credit solutions for individual businesses;
- the Canadian government was expected to announce a multibillion dollar financial aid package for the oil and gas industry last week, and
- while not a form of support, but having immediate impact on the sector, the federal government imposed a carbon tax increase on 1 April 2020 from $20 per ton to $30 per ton.

China

As the first country affected by the coronavirus and as one of the most impacted, China has taken a wide array of relief measures since early February 2020 to ease the pressure on certain industries including the oil and gas industry. These measures include:

- the Ministry of Finance and the State Taxation Administration issuing several notices to reduce tax burdens for qualified oil and gas companies during the outbreak:
  - a reduction of land use taxes by 50%, port fee charges by 20%, and value added taxes on certain revenues; and
  - extension of carryover losses up to eight years.

The duration of these tax measures has not yet been specified.

- special loans are granted to oil and gas companies producing critical anti-epidemic supplies. These loans can lower financing costs by 1% to 2%. Oil and gas companies, which participated in the Belt and Road initiative, are also eligible for special low-cost financings granted by China Development Bank;
- the price of industrial electricity was reduced by about 5% to help heavy industries lower their operating costs; and
- affected entities are also permitted to either discharge, reduce or defer their social insurance contribution obligations for a limited period of three to six months, as applicable.

Colombia

A 19-day mandatory quarantine started on 24 March 2020, which includes travel bans, border closures, mandatory closures of bars, prohibition of events with over 50 people, and closure of schools. In conjunction with this quarantine, the Colombian National Hydrocarbons Agency (ANH) has:

- suspended its administrative proceedings until 13 April 2020. This suspension could be extended if the Colombian Government extends the quarantine;
- prepared a draft regulation containing measures to mitigate the adverse effects of the pandemic on the oil and gas sector. These measures include:
  - extension of (1) the term of exploration and production agreements and technical evaluation agreements and (2) the time to complete the different phases thereunder, subject to certain conditions being satisfied; and
  - reduction of the amount to be provided as a guarantee under the above agreements.

The ANH has not yet issued a final version of this regulation.

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12 http://www.anh.gov.co/la-anh/sobre-la-anh/normatividad/Documentos%20compartidos/Proyecto%20de%20Acuerdo%20medidas%20transitorias%202020/Publicar.pdf
On 27 March 2020, the ANH also issued new regulation, setting out rules allowing for the transfer of activities or exploration investments between different exploration and production contracts and agreements entered into between private parties and the ANH. The rules enable the transfer of investments and activities performed under one block (covered by an E&P contract) to be transferred and credited to a different block. Contractors can request such transfer in the following circumstances:

- a relinquishment of their rights in the original block;
- their decision not to keep undertaking exploration programs under the original block; and
- events preventing any pending exploration activities under the original block from being undertaken by the relevant contractors (i.e. a force majeure event).

These rules will also apply to territory for which the transferor has not yet signed an agreement with the ANH.

**Egypt**

Energy prices in Egypt for industrial users have been reduced to soften the economic impact of the coronavirus as follows:

- the price of natural gas for industrial use has been reduced to $4.50 per one million British thermal units (BTUs), from previous prices ranging from $5 to $6 per one million BTUs; and
- the price of electricity for heavy and medium industries has been reduced to EGP 0.10 a kilowatt-hour during peak and off-peak periods, down from EGP 1.10.

**Equatorial Guinea**

The Ministry of Mines and Hydrocarbons has offered relief to service companies operating in its territory, by waiving fees, normally charged, for a duration of three months. Other measures to relieve upstream operators and ongoing midstream projects are being considered by the government.

**Indonesia**

Prior to the pandemic, Indonesia had been, for many (but not all) international oil and companies, an exit story, given the maturity of its fields, a highly regulated environment, and a freshly emboldened nationally oil company (PT Pertamina). COVID-19 and declining oil prices and may accelerate this trend. However, in order to mitigate the impact of these on the oil and gas industry:

- SKK Migas, the upstream regulator has been actively working with oil and gas companies to reschedule their work commitments and to focus on low cost production; and
- the Indonesian President issued a rule in lieu of law, pursuant to which income tax rates will be reduced from 25%, to 22% and then to 20%. It unclear whether oil and gas companies opting to freeze their tax rates at the start of a gross split Production Sharing Contracts (PSC) will be able to benefit from these lower rates.

It is possible that the Indonesian government will row back from its drive to push for PSCs and move back to a cost recovery regime. In addition, the government has hinted at:

- changes in the environmental regime, which may make permitting and the risk of non-compliance both easier and predictable; and
- a potential dilution of Indonesia’s strict liability regime.

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14 The ANH is the grantor of exploration and production rights in Colombia.
15 Prime Minister Decree No. 744 of 2020.
16 https://www.offshore-technology.com/comment/egypt-covid-19/
17 Prime Minister Decree No. 781 of 2020.
**Mexico**

In Mexico, the government has suspended the terms and deadlines to be presented to the National Hydrocarbons Commission from 23 March 2020 until 19 April 2020. This means that the terms and deadlines, for the purposes of the proceedings or acts processed or, should be processed, before the National Hydrocarbons Commission will not elapse. The actions covered by the suspension include, but are not limited to:

- receipt of documents and reports, procedures, actions;
- initiation, substantiation and resolution of procedures;
- notifications, summons, requirements;
- requests for reports or documents; and
- challenges.

Likewise, both the Energy Regulatory Commission and Ministry of Energy have suspended the terms and deadlines for the periods between 24 March and 17 April 2020 and between 25 March and 19 April 2020, respectively. Consequently, any actions, notifications, requirements, requests or promotions presented to the administrative units of both entities will be deemed to have been carried out until 20 April 2020. With respect to the Ministry of Energy, urgent acquisitions, leases and services procedures will be excluded from the suspension.

**Mozambique**

The government declared a state of emergency for a 30-day period starting 1 April 2020 by presidential decree. This has placed restrictive measures on certain rights and the movement of citizens (including the partial closure of borders), with services considered as essential remaining operational during this period. While oil and gas is not expressly a designated “service” under the presidential decree, it is possible that gas could fall within services pertaining to “water, power and fuel supply”. That said, the gas industry will undoubtedly be impacted by such restrictive measures.

**Norway**

In Norway, the Petroleum and Energy Ministry has issued for consultation its proposal to scale back the number of additional blocks it intends to offer in this year’s latest round for acreage, with the intention “to plan for the future”. Norway’s state-owned operator Equinor announced capital expenditure cuts as part of its £3 billion COVID-19 action plan, and set up a department with the aim of preserving production and the jobs it supports in the North Sea.

**Pakistan**

Pakistan is currently in an ongoing lockdown with restrictions on public movement in place until 14 April 2020. The government has decreed that oil and gas-related operations are essential services. Oil and gas personnel, whether for domestic or foreign operators, may therefore continue operating as normal wherever possible.

**Russia**

The Russian government has so far focused efforts on containing the coronavirus and dealing with the immediate impact on health. It is considering minor measures to support small and medium-sized companies and the population. There have been calls by the oil and gas industry for tax breaks, but the government has shown no sign of considering any support measures for the sector to date.

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22 Presidential Decree no. 11/2020, as ratified by Law no. 1/2020
Saudi Arabia

Saudi Arabia has implemented two stimulus packages totaling SR 120 billion riyals to support its domestic economy,25 with emphasis placed on strengthening the domestic banking sectors and supporting private sector businesses. Saudi Arabia has not announced specific measures or funds for the energy sector at this time.26 However, the state-owned operator Saudi Aramco has announced a reduced capital expenditure, expected to be between SR 93.75 billion riyals to SR 112.5 billion riyals.27

South Africa

The South African government has declared a national state of disaster and adopted containment measures, including social distancing and a nationwide lockdown in place until 16 April 2020. Interim relief measures are being implemented, but will not be available to all sectors at present. In particular, the government has announced a series of steps to support individuals and small businesses, with the Department of Small Business Development finalizing a “SME Support Intervention” comprised of the following:

- the Debt Relief Fund, which will provide relief for existing debts and repayments. Over R500 million has been made available to the Debt Relief Fund; and
- the Business Growth/Resilience Facility, which will enable continued participation by small and medium businesses in supply chains. To qualify for funding, businesses will need to meet the government’s definitions of micro, small and medium enterprises.28

The Industrial Development Corporation, along with the Department of Trade, Industry and Competition, has put together a package of more than R3 billion for industrial funding. Funding will be available only to South African-owned businesses,29 with a significant portion of the funding to be allocated to providing working capital to ensure energy security by supporting suppliers.

United Arab Emirates (UAE)

The UAE has introduced several stimulus packages valued at a combined AED 126 billion ($34 billion) to ease the growing economic effects of the coronavirus pandemic. As with Saudi Arabia, much of the emphasis of the packages is on strengthening the domestic banking sector and supporting private sector businesses. There is no specific measures or funds for the energy sector at this time.30 However, the Abu Dhabi National Oil Company has issued a notification to its supply chain calling for discussions to achieve procurement cost reductions.31 This is a clear mitigation measure in response to the pandemic.

UK

To help tackle the impact of COVID-19 on oil and gas workers in the UK, the government has included oil and gas workers in the list of key workers whose children will be prioritized for access to education, to enable their parents to continue working, and allowing operations to continue at offshore facilities. However, further action will be required to prevent job losses and skill shortages in the UK offshore industry. RMT, the UK-based offshore energy workers’ union, has urged the British government to devise an offshore strategy (as already done in Norway) to help operators and contractors of exploration projects on the UK continental shelf.

The Coronavirus Act 2020, which contains the UK government’s emergency powers to respond to the pandemic, became effective on 25 March 2020 (for an overview of the impact of the emergency legislation on various sectors, please see our summary here). The Chancellor also recently set out a package of temporary measures32 to support businesses during the pandemic, including a pledge to reimburse 80% of wages for non-working employees. All UK businesses will be eligible for a deferral of VAT that will apply from 20 March 2020 until 30 June 2020, and income tax payments due in July 2020 may be deferred until January 2021. Those businesses in financial distress and with outstanding tax liabilities may be

31 https://www.offshore-technology.com/comment/adnoc-seeks-cost-savings-oil-prices/
eligible to receive support with their tax affairs through the HMRC’s “Time to Pay” service. A new financing facility from
the Bank of England will also help support liquidity among larger companies, with the bank buying short-term debt to
allow companies to finance their short-term liabilities.

From a consumer perspective, the UK government’s Department for Business, Energy and Industrial Strategy reached
an agreement with domestic energy supply companies, setting out measures to support energy customers impacted
by COVID-19.33 These include ensuring prepayment and pay-as-you go customers remain supplied with energy and
supporting all customers in financial distress.

US

The US government has not announced measures to assist the oil and gas industry at this time. However, on 27 March
2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act provides $2
trillion in economic stimulus to families and businesses impacted by the COVID-19 pandemic. It has been described as a
“wartime level of investment” and sets aside $500 billion for loans to businesses affected by the coronavirus, including
$25 billion for passenger airlines, $4 billion for cargo airlines and $17 billion for companies deemed critical for maintaining
national security. It also includes:

- a $454 billion fund for a new lending agency; and
- a $350 billion in loans and small grants to small businesses.

The CARES Act provides an opportunity for companies with less than 500 employees to borrow up to $10 million to aid
in making payroll and mortgage payments. The government may forgive this loan if certain conditions are met. This is a
program worth considered for smaller oil and gas companies.

A comprehensive outline of the CARES Act is available here.

The US Department of Energy has suspended plans to buy crude oil for the nation’s Strategic Petroleum Reserve (SPR),
the supply of petroleum held by the Department of Energy for emergency fuel, due to a requested $3 billion in funding
for the project failing to materialize in the economic stimulus package. The original request for the proposal outlined
plans to purchase the first 30 million barrels of US made crude oil for the SPR out of a total of 77 million barrels.34
However, commentary has suggested that the Trump administration is actively exploring the Department of Energy’s
budget in order to fund the purchase.35 Furthermore, the Trump administration recently engaged in discussions with Saudi
Arabia and Russia, and President Trump is scheduled to meet with some of the largest US oil companies on 3 April 2020,
to discuss measures to help the oil and gas industry.

Recently, the Cybersecurity and Infrastructure Security Agency issued guidance clarifying that petroleum workers and
natural and propane gas workers, including refining and petrochemical manufacturing, are included as part of the
essential critical infrastructure workforce.36 As such, employees in the oil and gas sector are exempt from “stay-at-home”
orders being put in place across the nation to combat the spread of COVID-19. Exempt companies, however, are required
to comply with social distancing recommendations to the extent practical to do so.

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Workers-03-19-2020.pdf