IMPORTANCE OF INFORMATION TECHNOLOGY (IT) KNOWLEDGE IN BROKERING OF OIL AND GAS IN INTERNATIONAL BUSINESS

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DECLARATION AND COPYRIGHT

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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

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ABSTRACT

Study Objective: The objective of this study is to look at the key competencies of a successful broker mainly the IT knowledge and its importance in the brokering competence of Oil and Gas business. The study is to analysis if there is a relationship between Information Technology (IT) Knowledge and Broker Information Technology (IT) competence in Oil and Gas business transactions.

Design/methodology/approach: This research used a descriptive approach which employed the quantitative research method in collecting and analyzing data via questionnaire to study the relationship between IT knowledge and brokers’ competence.

Findings: The study is conducted using SPSS version 20.0 by using frequency analysis, One Sample t-test and Pearson Correlation test to determine relationship between the importance of IT knowledge and the various IT specific areas which demonstrate broker competencies.

Results: The results demonstrate a significant relationship between IT knowledge and broker competencies; however as IT knowledge is important the data shows the brokers may not be competent enough to use it for successful Oil and Gas business transactions and may require further training for greater development.
ABSTRAK

Kajian Objektif: Objektif kajian ini adalah untuk melihat kecepatan utama broker yang berjaya terutamanya pengetahuan IT dan kepentingannya dalam kecepatan pembrokeran bagi perniagaan Minyak dan Gas. Kajian ini adalah untuk analisis jika terdapat hubungan antara Teknologi Maklumat (IT) Pengetahuan dan Broker Teknologi Maklumat (IT) kecepatan dalam Minyak dan transaksi perniagaan Gas

Design / metodologi / pendekatan: Kajian ini menggunakan pendekatan deskriptif yang bekerja kaedah penyelidikan kuantitatif dalam mengumpul dan menganalisis data melalui soal selidik untuk mengkaji hubungan antara pengetahuan IT dan kecepatan broker.

Penemuan: Kajian ini dijalankan dengan menggunakan perisian SPSS versi 20.0 dengan menggunakan analisis kekerapan, Satu Contoh ujian-t dan ujian korelasi Pearson untuk menentukan hubungan antara kepentingan ilmu IT dan pelbagai bidang IT tertentu yang menunjukkan kecepatan broker.

Hasil: Keputusan menunjukkan hubungan yang signifikan antara pengetahuan IT dan keupayaan broker; Walau bagaimanapun pengetahuan IT adalah penting data yang menunjukkan broker mungkin tidak berkeupayaan untuk menggunakanannya untuk Minyak dan Gas transaksi perniagaan yang berjaya dan mungkin memerlukan latihan kepada pembangunan yang lebih besar.
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CHAPTER ONE
INTRODUCTION

1.0 Introduction

The Oil and Gas industry is an ever growing industry as it is one of the most sought after commodity in the world. This industry is considered to be the biggest sector in the world in terms of dollar value and is a global powerhouse employing hundreds of thousands of workers worldwide as well as generating hundreds of billions of dollars globally each year (Van Vactor, 2010). Regions which house major National Oil Corporations (NOCs) are so essential in contributing to significant amounts towards national GDP towards the downstream sector of Oil and Gas business.

Downstream sector of Oil and Gas industry is defined as operations that processes and stores, markets and transports crude oil and natural gases. The downstream sector includes all oils refineries and petrochemical plants, petroleum product distribution via affiliated retail outlets and natural gas distribution companies and inner operations (Perks, 2012). The various products marketed are petrol, diesel, jet fuel, asphalt, lubricants, plastics, fertilizers, antifreeze and even pharmaceuticals and cosmetics.

Malaysia’s oil and gas industry began with the discovery and production of oil in Sarawak in 1910 and now lead to the bedrock of the industry leading to investment of Shell, ExxonMobil and now Malaysia’s own Petronas. To date, Malaysia has 28.35 billion of oil reserves which contribute to 1.2 per cent of the world’s natural gas reserves as well as a current production rate of 730,000 barrels of crude oil products daily (Ir. Razahwata, 2005). Petronas is now the leading oil and gas company headed by the Government of Malaysia in the South East Asian market as being the most profitable in the Asian market as listed by Forbes.
The Oil and Gas industry creates various job opportunities, employed hundreds of thousands of people yearly. Primarily in the downstream sector of the industry, oil broker play an important role in the distribution of oil and gas globally. An oil broker is a paid intermediary who arranges and facilitates transactions involving the purchase and sale of oil and gas products. In most cases, these brokers are licensed securities traders and some often work at market exchanges while majority conduct their business over the telephone or via the internet (TECHNIP, 2007).

1.1 Background of the Study

Oil and Gas has grown to be the most sought commodity in the world as it has many uses. Crude Oil uses include production of gasoline, heating oil and diesel fuel, petrochemical feedstock for manufacturing chemicals, synthetic rubber and plastics, jet fuel, propane, and asphalt. Natural Gas uses include electric power generation, industrial uses, residential use, commercial use lease and plant fuel consumption, pipeline and distribution and vehicle use (Szilas, 2010).
The US Energy Information Administration (EIA) recently reported in its International Energy Outlook 2013 that world energy consumption will jump 56% in the next 30 years and will be driven by growing demand in developing countries. It is forecasted that China and India will be a major driver due to its rising prosperity. The EIA projects increased consumption of all oil and gas sources well through 2040. Fossil fuels will remain the main supply of energy usage worldwide (Flether, 2013).

From Table 1, EIA forecast total world energy use to increase to 630 quadrillion btu (quads) in 2020 and up to 820 quads in 2035, from the current 524 quads in 2010. Energy consumption in countries outside the Organization for Economic Cooperation and Development is expected to increase by 90%, bolstered by strong, long-term economic growth. However for countries within the OECD, this increase is expected to be 17% because of the slow pace of economic growth. Countries such as China and India will remain in the forefront due to high economic growth and increased consumption. EIA also forecast that fossil fuels i.e. crude oil will continue to supply nearly 80% of the world’s energy demands.
well into 2040. The liquid share of the world marketed energy consumption is expected to fall to 28% in 2040 from 34% in 2010 in favor of natural gases as an environmentally safer alternative, but is expected to remain the largest energy source nonetheless (Xu, 2013). Due to rising global consumption, there will be a massive demand for Oil and Gas which will require a developed downstream of oil brokers with skilled competence profiles to facilitate the transaction of Oil and Gas trading globally.

1.2 Discussion on Relevant Issues

The successful transaction between Buyer and Seller in the Oil and Gas business largely depends on the competence of the oil broker (Ernst & Young, 2012). Thus, a broker requires a certain competence profile to be able to conduct Oil and Gas transactions successfully. It is essential for a successful broker to understand commodity knowledge in the form of technical knowledge, production of oil and gas, logistics of delivery, seller and buyer information as well as documentation such as Non-Circumvention, Non-Disclosure Agreement (NCNDA). Furthermore, brokers must be familiar with the brokering process with involves a series of documents which consist of Letter of Intent (LOI), Irrevocable Corporate Purchasing Offer (ICPO), Soft Corporate Offer (SCO), Full Corporate Offer (FCO), Contract, Proof of Funds (POF) and Proof of Product (POP), Payment terms (MT 199, MT 103), Logistics, Commission structures (Buyer and Seller) and IMFPA. Each has its own precise role in the series of documentation which is essential in the means of successful oil and gas transactions. The oil broker should also familiarize themselves with banking knowledge in the sense of banking rules, banking terms and transactions as well as the commission payment methods because all oil and gas transactions are done mostly via bank to bank. As Oil and
Gas is a global business, oil brokers need to understand International contracts such as its definition, International versus Local in terms of ICC terms and regulations.

Essentially as this business is done online via the internet, oil brokers need to familiarize themselves with software’s like Skype, PDF programs, Microsoft Office programs and many more that are important tools in the day to day usage of oil brokers. Local internet providers and hardware also play an important role in conducting of online Oil and Gas brokering.

Being an International Businessman, there is a mix of various cultures and races. Oil brokers must have a certain soft skill which involves communication skills in terms of spoken and written skills, listening skills, attitude and values system as well as certain business ethics to involve better cooperation between international oil brokers. Oil and Gas transactions do not end with the transfer of funds between Buyer and Seller but also involves the shipping as well. A competent oil broker should familiarize themselves with logistics terms and regulations i.e. Free on Board (FOB), Cost Insurance Freight (CIF), CNR and CFR. The type of shipping vessels should also be taken into account as the transfer of various types of Oil and Gas requires specialized shipping vessels.

In this Global Business, oil brokers should be updated with the latest market trend and market demands especially the growing and developing countries such as China and India. Oil brokers should also have a certain sense of global level awareness in world affairs which include political situation, war and natural disasters which have major implications toward Oil and Gas supply and demand. They also have to take into account the environmental impact of Oil and Gas business and take into consideration Green Technology and Political wills.

Lastly, oil brokers should understand National Oil and Gas Laws and Regulations within their respective countries and internationally as well. This is to ensure successful transactions of Oil and Gas into and out of their respective countries legally. A Malaysian oil broker should familiarize themselves with the Petroleum Development Act (PDA) Malaysia, 1974 which is
an act to provide for exploration and exploitation of petroleum whether onshore or offshore by a Corporation in which will be vested the entire ownership in and the exclusive rights, powers, liberties and privileges in respect of the said petroleum, and to control the carrying on of downstream activities and development relating to petroleum and its products; to provide for the establishment of a Corporation under the Companies Act 1965 or under the law relating to the incorporation of companies and for the powers of that Corporation; and to provide for matters connected therewith or incidental thereto. The PDA license allows the broker to export Petronas Oil and Gas out of the country.

1.3 Problem Statement

The availability of IT infrastructure allows brokers to do Oil and Gas trading efficiently to cater to the supply and demand. In the age of globalization, Oil and Gas remains a world business and is growing rapidly as it still remains a very sought after commodity. For Malaysia, Oil and Gas business is one of the nations' money contributors and IT infrastructure is very much established.

However, the competence in terms of IT knowledge for a broker may not be there. This will prevent effective Oil and Gas dealings and participation amongst global brokers. It may be very much due to the lack of awareness of the possibilities of using IT as a brokering tool. Basically, we have the tools but do not know how to use it.

Therefore, it is essential to gauge the current level of IT knowledge amongst brokers now and to see what needs to be improved upon. It is important to view the current awareness level IT knowledge as a brokering tool. The competence of a successful broker is vast but IT
knowledge is important because it will be a valuable asset in the future of Oil and Gas business. Oil and Gas brokering also is a personal interest of mine and I hope to venture into this business in the foreseeable future.

1.4 Objectives of the Study

1.4.1 General Objectives

The general objective of this study is to study the overall brokering process of Oil and Gas business. This leads to view the overall brokering competence profile of a successful broker to do Oil and Gas brokering. Lastly, a general look into the global and national outlook of Oil and Gas business.

1.4.2 Specific Objectives

The specific objective of this study is to look at the key competencies of a successful broker mainly the IT knowledge and its importance in the brokering competence of Oil and Gas business. This is done via a specific research questionnaire and collection of data on the competence profile of IT knowledge on my target group of professional Oil and Gas brokers.

1.5 Significance of the Study

By doing this research, it will show the importance of IT knowledge and its current level of awareness in terms of importance in current Oil and Gas business. Thus, by increasing it awareness, it will show the area of improvement required by Oil and Gas brokers to
successfully go about their work. It will also enable much more successful business dealings between Oil and Gas brokers to successfully bridge buyers and sellers and cater to the world's supply and demand which benefits the world economy.

1.6 Scope of the Study

In this study, an in-depth look into the Information Technology (IT) sector of the competence of a successful oil broker is implored. Information Technology (IT) is the application of computers and telecommunication equipment i.e. the internet, phone to store, retrieve, transmit and manipulate data, often in the context of a business or in this case related to Oil and Gas Global business (Williams, 2013). The study aims to view the competence profile of oil brokers to use the tools of IT i.e. Skype, Email, Adobe PDF, Microsoft Office etc. to develop the Oil and Gas Global business and improve their competence in successfully closing Oil and Gas business deals and transactions.

1.7 Limitations of Study

This study has various limitations which must be addressed in order to overcome them and successfully complete the study. A limitation of the study is the population sample for this study. This is mainly because the network and population of Oil and Gas brokers is limited or small. Oil and Gas brokering is a very unique and difficult task which involves expertise in certain field and certain competence. However, in order to make the data more valuable, the questionnaire is sent out to Oil and Gas brokers with various years of experience around the world which makes the data quantifiable.
Since there is less time, the time to obtain the data is also limited. Therefore conducting interviews is also difficult to get first-hand information from the brokers themselves. The Oil and Gas brokers themselves are individuals, who are always on the go, travelling, and may not have the time to be interviewed and also complete the questionnaire in time. There is also no physical group, organization of Oil and Gas broker network to forward the questionnaire too, therefore it is very time consuming to address the questionnaire to each individual Oil and Gas broker.

1.8 Conclusion

The field of Oil and Gas is forever a growing and sought after market due to its high demand and high usage around the globe. This is why as an introduction; the industry is discussed as a whole and its demand in the market. Therefore, it is essential for the brokering of Oil and Gas in International Global Business be done professionally to cater to the high demand of Oil and Gas commodity through the brokers via Oil and Gas transactions.

Being a Global business, the usage of IT will help enhance the business and improve its efficiency. This is why this study is conducted to study its significance and also the competence of the brokers to use it within their job expertise. The study will provide a better scope as to how IT plays an important role in the success of an Oil and Gas transaction.
2.0 Introduction

The future of the oil and gas industry is changing. For over a century, this industry lead the global market as one of the growth in production to supply a largely Western-driven market, as well as competition from private companies to access to reserves. Since 2005, oil prices have maintained at a permanently high level as it remains a valuable commodity. Alternative industries are capturing some demand for transport such as industries producing more efficient engines, vehicles, ships, aircrafts and alternative fuels industries. These new technologies are providing more diversity however uncertain opportunities remain for producing 'unconventional' oil and gas in various parts of the world. The oil and gas industry still has opportunities for private-sector companies in the traditional oil-exporting countries where this industry is and remains the under state monopoly, but generally remains in the jurisdiction and cooperation with the state-controlled oil and gas company (Mitchell, 2012).

2.1 What is International Oil and Gas Brokering

The Oil and Gas industry is divided into two categories which are upstream and downstream. Oil and Gas brokering or trading represents the downstream sector of the entire Oil and Gas industry. International Oil and Gas brokering is defined as the trading of Oil and Gas resources i.e. Crude Oil, Mazut, JP54, D2, D6 Diesel, LNG, LPG and many more on a Global scale amongst various companies managed by representatives of the Buyer and Seller following the basic module of Supply and Demand (Wright, 2008). Basically, the Buyer or
Re-Seller approaches a Seller Company; often a representative of an Oil and Gas refinery in order to enquire to purchase a certain commodity through various sets of contracts and agreements. Once agreed and verified genuine, the price of the commodity is paid and lift able by the Buyer or Re-Seller. The business thus becomes global due to increasing demand and abundance of supply found in certain countries and this in turn affects the price of the certain commodity based on availability, creating a global platform for the business.

The transaction between Oil and Gas Buyer and Seller normally follows a Standard Operating Procedure (SOP) involving a series of documents and verification by both parties to secure the transaction legally and fairly in the interest of both parties. Standardly, it begins with the Buyer officially submitting a Letter of Intent (LOI) to the Seller who may be a mandate or marketing arm of an Oil and Gas Refinery. The LOI (Appendix B) states the intention to purchase the said Oil and Gas product at certain quantity, rough pricing and also the specification of the product e.g. sulphur or lead content. Once the Seller has approved that they can supply the following product in terms of quantity, price and specification, the Seller then prompts the Buyer to issue an Irrevocable Corporate Purchase Order (ICPO) with the full banking details of the Buyer addressed to the Seller. An ICPO (Appendix C) is a document which is similar to the LOI, however it assures the Seller of the serious intent of the Buyer to issue an Irrevocable document to communicate their intent to enter into a transaction with global companies and also provides their verification of purchasing terms, banking information and company financials. Often, the Seller will prompt for a Banking Comfort Letter (BCL), found in Appendix D, which comes from the Buyer’s bank which indicates and supports the Buyer’s Company by verifying that the Buyer has sufficient funds to proceed with the transaction.
Once the Seller is satisfied with the Buyer’s ICPO and Soft Bank Probe via BCL, the Seller representatives issues a Soft Corporate Offer (SCO), found in Appendix E, which indicates the terms and conditions of the Seller in order to proceed with the transaction which include could include several amendments like payment terms i.e. MT 199, MT 799 and logistic terms such as FOB, CIF whereby the Buyer representatives and Seller representatives discuss and agree upon. To further elaborate on payment terms, Buyer and Seller can agree upon how payment transaction for the product can be made which is suitable for both parties. Bank to bank transactions are often and most popularly used as it is the most secure via Society for World Interbank Financial Telecommunication (SWIFT) method of MT 199, MT 799, MT 760, MT 999 just to name a few. Examples of these payment terms are MT 199 is a message type that is used by financial institutions to send information. MT 799 is known as a Bank Guarantee or Pre-Advise which serves as a guarantee to both parties. MT 760 is known as a verification of freezing fund or block fund as a guarantee of payment. In logistic terms, the commonly used terms are Free on Board (FOB) and Cost, Insurance and Freight (CIF). FOB means that the buyer pays for the transportation of the goods, but the specific terms vary in which both the Buyer or Seller pays for which shipment or loading cost and also where the responsibility lies for the transferred goods. Most importantly determining the liability of the goods should it be lost or damage in transit from seller to buyer. CIF on the other hand, is a trade term whereby the seller is to arrange the carriage of goods by sea to a port of the Buyer’s destination and also provide the buyer with the necessary documents to obtain the goods from the carrier. This often involves extra cost and contracts involving international transportation abbreviated with trade and law terms.

Once the terms are mutually agreed, the Seller issues the signed and sealed procedure in the Full Corporate Offer (FCO), found in Appendix F, and the Buyer then signs as an acceptance
Buyer Bank as a guarantee to their performance to deliver the goods. Sometimes performance bonds are issued earlier by both parties as a security from both Buyer and Seller to perform the task at hand. The Buyer also has the rights for Societe Generale de Surveillance (SGS) inspection and DIP test at the loading port and inspection at the unloading port as well to add further security between both parties. SGS is an independent body which role is to inspect verity, test and provide certification services. The most commonly done test is the DIP test mention above, whereby the SGS inspector dips i.e. takes a sample of the product to verify its genuinity and to inspect if it meets the specification required and agreed upon earlier. However, these terms must be met earlier to ensure payment for such inspections are clearly agreed upon. If all goes well according to procedures and payment is done, the delivery shall commence as scheduled (Van Woenzel, 2012).

2.2 How Information Technology (IT) plays a role in Global Oil and Gas Business

Information Technology (IT) is the development, implementation and maintenance of computer hardware and software systems to organize and communicate information electronically. In a broad point of view, information technology refers to both hardware and software that are used to store, retrieve and manipulate information. The use of IT assist in making global business much more efficient and effective due to the internet and world wide web making the world a smaller place. Companies can now contact with employees and partners around the globe. IT also shrieked the distance and time, simplified the complex business processes.

Information Technology has a great effect on globalization. Globalization has completely altered the way in which the world operates. The barriers that once hindered the ability to
communicate and interact with people from across the globe have diminished. Globalization has ingrained all fields including business, governments, economic and social. It is well-known that the key major driving force behind globalization is information technology and is a key component to global business strategies (Lawlor, 2007).

Information technology was the driver creating the worldwide integration of various global markets that make up globalization, in this case the oil and gas business which include several key countries with rich sources of raw materials and countries and/or companies with financial power. The influential technological advances over the past 30 years are numerous and truly have had a monumental impact on the progression of globalization and business relations.

Information Technology assist in providing inter and intra organizational impact within the same organization or sector/field (Elliot, 2004). In this term, it helps to bridge the gap between the Oil and Gas sectors located geographically in different areas. This helps to inform the market drivers about any update of significance in the Oil and Gas markets which include price fluctuations, shortage of reserves which could be caused by environmental and political factors.

The impact of Information Technology provides a tool between suppliers and customers whereby in a fast-selling high-demand market such as Oil and Gas, allocations can be obtained and purchased within minutes. The tool of IT helps to provide the immediate communication between buyer and seller in order to do the transaction of Oil and Gas business (Tomovic, 2003). Buyers and sellers can communicate effectively with the usage of IT and increase the speed of which a transaction is done.
Information Technology assists in providing formation for technology-partnering alliances, especially with online banking facilities and services. Oil and Gas transactions become much more efficient with buyers and sellers because of the introduction of these banking facilities and services which include online fund transfers, BCL (Bank Confirmation Letters), various transfer modes and many more which are done via online bank to bank transactions through SWIFT codes. A SWIFT code is a standard format of Bank Identifier Codes (BIC) and it is a unique identification code for a particular bank. These codes are used when transferring money between banks, particularly for international wire transfers. Banks also use the codes for exchanging other messages between them (Papa & Elliot, 2009). This method of SWIFT greatly shorten the time in which transactions take to be completed as they quicken the process than the conventional way of Bank Courier which could be lengthy depending on the distance the courier needs to travel around the globe.

IT also helps to build the network of Oil and Gas brokers around the world which in turn fundamentally helps to train and develop the expertise of brokering amongst brokers of different level of experience. This in turn helps them to create greater understanding of the business and build working relationships in order to develop the business and growth for themselves and the companies and bodies in which they represent (Kamel, 2003). IT will help to bridge the gap and bring brokers closer to get to create a detailed network to help the business move much more efficiently and progressively than conventionally as the building of the network and the scope of the business becomes globally aware and reduces response time much more effectively.
Most importantly, before the emergence of IT, Oil and Gas brokering was almost non-existent due to the lack of network. The trading of Oil and Gas only occurred between the big powerhouses who were deeming to monopolize the market as such. But due to the emergence of IT, Oil and Gas brokering can be done even down to an individual level due to low overhead and just with a simple Internet connection and competence skills. IT helps to link and network all parties together to collaborate to allow Oil and Gas transactions to occur to those who need this commodity.

2.3 Issues with Information Technology in Oil and Gas Global Business

Where Information Technology (IT) can be seen as a gift to mankind, it can also be a tool for deception (Senft et. al, 2012). IT tools has been used to produce false documents like Proof of Product and/or Proof of Fund. All this leads to the famous scamming of this business. The very famous or most prominent are the Nigerian scammers that have spread worldwide and lead to tarnish the Nigerian Oil and Gas industry due the omission from other parties (Berne Declaration, 2013).

The main fraud conducted by these scammers is the small upfront payment normally to ‘secure’ the deal or allocation of a certain commodity. Upon the receipt of this fund they disappear from the scene. The Scammers are so professional that they have even ‘clone’ Russian Refinery Websites; down to the personnel name and telephone numbers. They have used IT as a mode of doing scams via phishing. Phishing is known as an activity of defrauding an online user of personal information i.e. financial information, account number by posing as a legitimate company. Mostly these scammers use mobile phone or when you email to their webmail it is directed to the scammer’s email (James, 2005). Thus a small
2.4 Conclusion

Thus, in the past, brokers may be employed by Oil & Gas companies in their marketing arm of their downstream businesses because brokering process was expensive and very exclusive. But with the introduction of IT, the ‘cost of operation’ of brokering is gone down. With globalization the world is much smaller place. As long as a broker has good network in the business then any individual can go into this brokering business.

Thus with appropriate competencies, an individual broker can partake in this business of Oil and Gas. This business is appropriate for retirees of the Oil and Gas industry or those whose who have worked in it. With Universities also providing degrees related to Oil & Gas industry, and then any entrepreneur can venture into such business possibilities. The key is to find the genuine Seller and Buyer from the many fake or false ones.