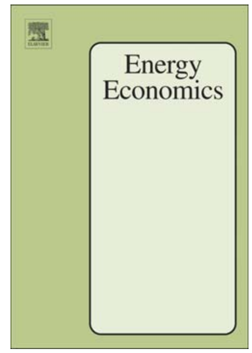

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PII: S0140-9883(17)30379-1
DOI: doi: 10.1016/j.eneco.2017.10.038
Reference: ENEECO 3811

To appear in: *Energy Economics*

Received date: 13 December 2016
Revised date: 20 October 2017
Accepted date: 23 October 2017

Please cite this article as: Cabrales, Sergio, Bautista, Rafael, Benavides, Juan, A Model to Assess the Impact of Employment Policy and Subsidized Domestic Fuel Prices on National Oil Companies, *Energy Economics* (2017), doi: 10.1016/j.eneco.2017.10.038

A Model to Assess the Impact of Employment Policy and Subsidized Domestic Fuel Prices on National Oil Companies

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Abstract

National Oil Companies (NOCs) control international oil markets. Nevertheless, by the end of the 2000s, their share of the industry's total revenues was only thirty-five percent while controlling more than seventy percent of the oil reserves and sixty-five percent of the gas reserves. Conventional financial theory prescribes that the proper management of an enterprise should seek the maximization of the NOCs' profits. However, maximization of profits is not their only objective. Their targets often include non-commercial objectives, such as domestic fuel subsidies and employment. This paper develops a model to assess the impact of domestic fuel subsidies and employment on NOCs performance, which clarifies the trade-offs among non-commercial objectives and NOCs' market value, production, and reinvestment. The model is applied and calibrated to the Colombian NOC to find the financial and operative effects of these non-commercial objectives for different scenarios.

Highlights:

- NOCs control most of the world oil and natural gas reserves.
- On average, revenues per NOC employee are significantly lower than per International Oil Company (IOC) employee.

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