From Left to right: **Deepak Mahurkar** (Director and Leader of Oil and Gas Industry practice at PricewaterhouseCoopers India), **R.S. Sharma** (Former Chairman, ONGC Limited), **Suresh Venket** (Editor Technology and Special Projects, CNBC TV18), **Shyam Saran** (Chairman, Research & Information Systems for Developing Countries), **Dr. Rajiv Kumar** (Secretary General, FICCI), **Dr. Sanjaya Baru** (Director Geo-economics and Strategy at the International Institute of Strategic Studies)

Fostering India's Energy Needs

To address India's energy needs, Forbes in media partnership with CNBC-TV18 and Hindustan Times organised a symposium on the theme of Winning Partnerships: Towards an effective model for private sector participation in oil and gas production to fuel India's growth and development

Forbes INDIA Presents

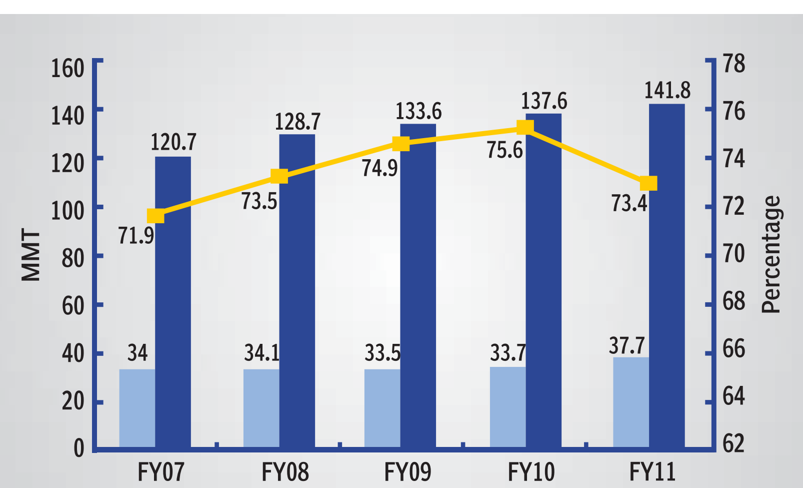
The energy Debate

Media partner

CNBC TV18 hindustantimes

Jehangir Aziz
India Chief Economist, JP Morgan

> **In the future prospectively when we do allow public-private partnership, how is our own natural resources being priced. May that be in mining, electricity whatever it is but in the case of oil and gas it is important. I think that is one area where I think there are still certain degree of skepticism because there needs to be much greater clarity and there needs to be much greater agreement on what is the right contract that the government on the behalf of the citizens of the country are doing with this public private partnership.**



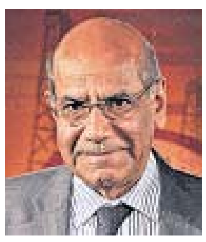
India's rising dependence on oil imports. E&Y report

The issues of energy security have become critically important in the last few years. With global oil and gas prices becoming increasingly volatile, it has become increasingly imperative for India to frame a policy framework that can ensure that its own oil and gas reserves are exploited to and for the benefits of its citizens. India's fragile energy security is under severe pressure from its rising dependence on imported oil, regulatory uncertainty and opaque natural gas pricing policies, small pool of skilled manpower and poorly developed upstream infrastructure and dependence on fossil fuels as the dominant source of energy in the near future. To meet the growing energy demand over the next few years, India will have to enhance its energy security by procuring energy supplies at affordable prices. While the country has surplus refining capacity and is an exporter of petroleum products, major investments will have to be made in the domestic upstream industry.

A more conducive policy environment coupled with an effective regulatory regime is, without doubt, the basis for accelerated growth of domestic energy resources. Energy security needs integrated action by all stakeholders. To discuss, debate and suggest ways of securitising India's energy needs, Forbes in media partnership with CNBC-TV18 and Hindustan Times organised a roundtable on the theme of Winning Partnerships: Towards an effective model for private sector participation in oil and gas production to fuel India's growth and development. The roundtable featured an eminent panel consisting of Sanjaya Baru, Director for Geo-economics and Strategy, International Institute for Strategic Studies; Shyam Saran, Chairman of the Research and Information Systems for Developing Countries and Former Foreign Secretary; JP Morgan India Chief Economist Jehangir Aziz; Former Oil and Natural Gas Corporation Chairman and Managing Director R.S. Sharma; Deepak Mahurkar - Director and Leader, Oil and Gas industry, PricewaterhouseCoopers India; and FICCI Secretary General Rajiv Kumar.

IMPORTS DEPENDENT

Kicking off the debate, Kumar said India is one of the least exploited countries in terms of natural resources globally. "We have just exploited 22-25% of our natural resources. The depth of the exploration is much shallow than what current technologies permit." he argued. Although India has the world's fourth-largest coal reserves, the demand-supply gap of coal has been consistently increasing, with domestic production unable to keep pace with demand.



Shyam Saran,
Chairman of the Research and Information Systems for Developing Countries and Former Foreign Secretary

> **If you have administered price mechanism, which does not take into account the need for ensuring that there should be adequate returns, then obviously expectation that foreign capital will come in or foreign private capital will invest is I think a pipe dream.**

The story is nearly the same in other natural resources as well. India holds just 0.7% of the world's proven oil reserves while accounting for 3.9% of the global oil consumption thus importing nearly 75-80 % of its oil consumed. Similarly, it has 0.8% of the world's proven natural gas reserves, while accounting for 1.9% of the worldwide gas consumption, which results in India importing nearly 20% of its natural gas consumed through LNG.

With most of the policy action focused on securitising domestic energy needs through imports, not enough attention has been paid to providing an opportunity and creating a conducive policy environment for enabling private sector oil and gas exploration firms to enter India.

Over the past few years, India's dependence on imported oil has steadily increased as a result of stagnant domestic production and rising demand.

"In my view, we have been unable to attract enough exploration dollars in our country, both onshore and off shore. It should be a huge priority as I think there are enough resources for securing our energy's needs," Kumar added.

The recent depreciation of the rupee raised the cost of crude oil imports for India, which in turn has led to inflationary pressures on the economy. Moreover, rising oil imports have impacted India's trade deficit. From $50.3 billion in 2005-06, India's crude oil and oil products imports have nearly tripled to $140 billion in 2011-12, putting more pressure on the widening trade balance.

PPP MODEL & NELP

While the government's public-private partnership model may not have worked successfully in every area, for multiple factors the government has not been able to attract private oil and gas exploration companies in tapping new blocks.

Being a highly regulated sector till sometime back, the government has also not done enough to facilitate PPP in this segment. "We have not been able to create a regulatory or an incentive regime," said Saran.

Throughout the '80s and '90s, the government tried to entice foreign investment, but price regulation was a seemingly insurmountable barrier for entry of foreign companies. The lack of foreign investment stymied the exploration and production of India's oil & gas reservoirs. Taking these factors into account, the government had in 1997 announced the deregulation of the oil & gas sector and the dismantling of the administered pricing mechanism (APM) in a phased manner over a five-year period. It was hoped that this will not only bring down the control over pricing of petroleum products but will also pave the way for overseas oil and exploration firms to enter the market. However, things haven't panned out the way they were expected to. Price control still persists in the upstream sector. For instance, ONGC doesn't get market price for its crude oil production. "If you have administered price mechanism, which does not take into account the need for ensuring that there should be adequate returns, then obviously expectation that foreign capital will come in or foreign private capital will invest is I think a pipe dream," said Saran.

With NELP, a major thrust was given to bringing in the much needed capital and state-of-the-art technology to exploration sector. NELP was thought to be the panacea in terms of getting not only the dollars but also the big names in the oil and gas exploration segment. More than a decade after and nine rounds of NELP, only 107 oil and gas discoveries have been made so far in 36 blocks. Of these, commercial production of oil and gas has commended from six discoveries in only three blocks. Unfortunately, a skewed fiscal regime coupled with policy uncertainty has resulted in many of the global oil and exploration majors staying off from putting bids in various NELP rounds.

"Over a period of time, what we now observe is that not only the underground risks remain as it is, except for few excellent discoveries, but the above aground environment has also not improved much." said Mahurkar.

Sanjaya Baru,
Director for Geo-economics and Strategy, International Institute for Strategic Studies

> **The crux of the energy security challenge in India is unless we address the price issue, you cannot address the whole issue of investment. Pricing is the key energy security challenge.**
>
> **We should be trying to find production assets, both in India as well as abroad. This is important. But unless it is linked to a more rational pricing system and creating an investment regime that takes care of the uncertainty that we are talking about, we will not go any further.**

RATIONAL PRICING

Pricing has been the single biggest bane of the upstream sector. Higher gas prices are a necessity for the sector. Unless higher prices are given to the producers, private sector investors will not invest.

All the panelists unanimously agreed that the solution to India's energy security and increasing participation from the private sector is by addressing the pricing issues.

"The crux of the energy security challenge in India is unless we address the price issue, you cannot address the whole issue of investment. Pricing is the key energy security challenge," said Baru.

Sharing similar views, Saran said, "there has been a regression in terms of bringing in a rational pricing policy. We should be trying to find production assets, both in India as well as abroad. This is important. But unless it is linked to a more rational pricing system and creating an investment regime that takes care of the uncertainty that we are talking about, we will not go any further."

With the various ministries and government departments related to the energy sector working in silos, it gets all the more difficult to have a comprehensive energy security policy.

Making a strong case for role of market forces in energy security, Kumar said that the need of the hour is to depoliticise the pricing situation. Stressing that pricing should be largely left to the market forces, he said every effort must be made to ensure that there is no cartelisation and monopoly pricing.

MULTIPLICITY OF APPROVALS & POLICY UNCERTAINTY

With nearly 60 different approvals required from eight different ministries for undertaking oil and gas exploration, it is a big challenge for any overseas firm to launch operations in India. This coupled with policy imbroglio has been a major stumbling block for global oil exploration majors to gain a foothold into the Indian market.

"You cannot afford to have policy paralysis for a day longer. In this country, we have perfected the art of managing management by crisis. Next time a crisis hits us, the payoff will be so enormous that we will not be able to come out of it as simply and as quickly as we came out in 1991," Kumar said.

Private investors will come to India only if a conducive environment and reasonable returns are assured to them. Moreover, there has to be no policy uncertainty for the next 8 to 10 years once the investor is allocated risk capital, with investor sentiments extremely low.

It is very critical that the government gives significant incentives to attract risk capital.

The consensus: All panelists agreed that immediate policy action is needed if India is going to achieve any level of energy security in the years to come.

Instead of maximising domestic production, the government is now maximising its profit and revenues. The message is clear and simple: Government should not be in the business of making profits.

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