CHAPTER – VIII

CONCLUSIONS

Richly endowed with oil and gas, the significance of West Asia and Africa is likely to grow in view of its energy reserves. As the energy supplies in other regions are becoming less viable, oil and gas from West Asia and Africa has become ever more critical. The world's energy needs would be well over 50 per cent higher in 2030 than today (IEA WEO 2007: 5). Much of this projected demand is expected to come from the Asian consumers. The demand coming from 'China and India together account for 45 per cent of the increase in demand in this scenario' (Ibid). Japan is dependent on overseas imports. "Japan currently imports over 75 per cent of its oil from OPEC countries primarily from the Persian Gulf producers. Even more significantly, two countries, the UAE and Saudi Arabia account for 65 per cent of Japanese imports" (Soligo & Kenneth May 2000: 17). This makes Japan one of the old consumers in the West Asian energy market. While, China's expanding economic growth is responsible for its increasing demand. Its "oil demand is projected to grow at an average rate of 3.8 per cent during the period 1996 – 2020, increasing consumption from 3.5 million barrels per day (mb / d) to 8.8 mb / d. Natural gas demand is expected to grow at an average annual rate of 11.7 per cent over the same period, increasing consumption from 0.7 to 9.5 trillion cubic feet (tcf)" (*Energy Demand and Supply in China*: 5).

While India's energy demand rose from 2.8 mb/d in 2007 to 3 mb/d in 2008. To meet this huge demand India has to rely on the West Asian and African sources for its future energy needs. India's energy needs are among the fastest growing in the world and since India is dependent on imports for nearly 70 per cent of its petroleum requirements, energy security has become a prime concern for the Indian policy makers. Nearly 60 per cent thereof comes from Saudi Arabia, Nigeria, Kuwait and Iran. Of the 35 oil and gas properties in 20 countries, OVLs assets in West Asia are Iraq (Block 8), Iran (Farsi Offshore Block), Qatar (Najwat Najem Offshore Structure) and Syria (Al Furat Project) and in Africa – Egypt (North Ramadan Block (Block 6), Libya (Block NC – 189, Block 81 – 1 & Contract Area 43), Sudan (GNOP, Block 5A, Block 5B & Pipeline Project), Nigeria (OPL 279 & OPL 285) & Nigeria JDZ (Block 2). The growth of these projects, promotes OVLs further investment in the region Thus, failure cannot be attributed to OVLs success. Hence, the first hypothesis – **West**

Asia and Africa are significant region in India's policy of acquiring assets in overseas energy market is proved.

The search for oil in India began in 1866 in upper Assam and oil was struck at Digboi in 1889. One of major initiatives taken towards enhancing the energy security is to acquire oil and gas equity abroad and participating in producing or acquiring prospective properties. The largely state – owned, ONGC dominates India's energy sector. ONGCs total assets in 2005 amounted to about \$ 19.81 billion and its profits for 2004 were \$ 2.16 billion (Ganguly 2007). Since 2001, the ONGC, through its international arm ONGC Videsh Ltd. has increased attempts to purchase offshore oilfields to suffice to India's energy needs. ONGC Videsh Limited (OVL) is a wholly – owned subsidiary of the ONGC, formed in 1996, when its parent company decided to focus solely on managing its oil and gas assets in India and founded OVL to look after the overseas business. OVL has a long term target of acquiring 1.2 mb/d of equity oil and gas overseas by 2025, OVL is currently working towards the goal of 400,000 b/d by 2010.

The study shows that OVL has made limited gains. For instance, ONGC Mittal Energy Limited (OMEL) won two blocks OPL 209 and OPL 212 in Nigeria. In 2003, OVL bought the Talisman's 25 per cent stakes in the GNPOC in Sudan. The GNPOC succeeded in the construction of the pipeline from the Heglig and Unity fields to Port Sudan on the Red Sea. In 1997, the Sudanese Government granted another concession for Block 5A to the Swedish company Lundin having a JV with PETRONAS, OMV (Austrian oil and gas company) and Sudapet. In 2001, the consortium was also granted concession for Block 5B. In 2003, Lundin sold its interest in Block 5A (67.875 per cent) to PETRONAS (in Block 5B, PETRONAS has 39 per cent stakes) and OMV sold its interests in Blocks 5A (24.125 per cent) and 5B (23.5 per cent) to ONGC Videsh. In Block 5A and Block 5B, Sudapet has 8 and 13 per cent stakes respectively. ONGC Videsh have invested in three blocks (GNOP, 5A & 5B) in Sudan, hence having more than 50 per cent (approx.) of participating interest (PI) in the country's oil and gas industry. ONGC Videsh acquires 49 per cent stakes in two onshore exploration blocks i.e. NC - 188 and NC - 189 in Libya, while the Turkish Petroleum Overseas Company (TPOC) a subsidiary of Turkish national oil company holds the rest of 51 per cent participating interest. In 2005, OVL won Block 81 - 1

(Ghadames basin) with sole rights and operatorship in the 2nd bidding round. OVL would pay a signature bonus of $ 6 million (for Block 81 – 1), while Oil India Limited (OIL) - Indian Oil Corporation (IOC) (have together won Block 102 / 4 in the Sirte basin and) would pay $ 3 million (*Oil majors win oil block in Libya* 10th October 2005). OVL will invest 30 million dollar in exploration of oil in Libya (*OVL to invest 30 million dollar in Libya oil block* 31st July 2003).

OVL has to take approval of the government every time it makes a bid of over US $ 75 million, as the companies keep evaluating and updating bid parameters. OVL has the designated power to bid upto Rs 300 Crore. This amount is dwarf as compared to the Chinese. For e.g., the bids given by the Chinese is huge, like $ 4.18 bn for PetroKazakhstan, beating OMEL. OVLs overall commitment is around US $ 5.16 bn to foreign investments. It has also lost other deals due to its limited funding power. For instance, CNPC bought EnCana assets by adding $ 20 m more than $ 1.4 bn by OVL. "OVL lost out deep - sea exploration Block 15 as its offer of $ 150 million signature bonus to Angolan government was way below $ 902 million winning bid made by Italy's ENI. It was also substantially lower than Chinese Sinopec's bid of $ 750 million and $ 560 million committed by Total of France" (*The Tribune* Thursday, 27th April 2006). This shows how the Chinese have been successful in overseas energy acquisitions, while OVLs growth has been limited by its institutional mechanism and decision making process, giving it limited gains.

OVL has been asking for freedom in bidding for assets abroad and also a rethinking on the mechanism of approval of its investment proposals. For instance, OVL lost in Nigeria (Akpo fields) to the Chinese (CNOOC) inspite of bidding high, when the Indian government said not to invest, as the asset was too risky to invest. The financial limitations of the Indian state are reflected in its overseas energy acquisitions. The Indian government has been pursuing a policy of giving aid and capacity building, but cannot match the investment made by the other countries, especially the Chinese. For instance, in April 2006, the Chinese President signed an MoU for billions of dollars of investment in Nigeria. The MoU included an arrangement for CNPC to take a stake in the Kaduna refinery in return for the right of first refusal on 4 oil blocks (Evans and Erica May 2006: 3). ".....China was awarded preferential rights in bidding for four oil - drilling licences in exchange for $ 4 billion in infrastructure investments, anti - malaria drugs and training for health officials" (Aiyar 1st May 2006).

"..... in January 2006, China signed a $ 2.3 billion deal for the exploitation of a Nigerian oil field. At the same time, the Chinese Government came forward with a $ 2 billion loan for Nigeria. A Chinese company is going to be involved in rehabilitating Nigeria's railways" (Akl 22nd February 2006). In 2008, "the two governments (China – Nigeria) have signed agreements for the construction of schools, hospitals and anti - malaria projects, to be completed within the next two years. For these projects, the Chinese government is going to provide Nigeria with two grants, amounting to a total of N (Naira) 1.9 billion (US $ 11.42 million)" (*China promises investments worth N1 trillion into Nigeria* 7th April 2008). Hence, the vast aid and development packages provided by the Chinese government cannot be compared to the aid given by India. Therefore, the Indian state has its own limitations to promote its oil company, unlike the Chinese and is therefore, not successful in influencing the decision of these countries on asset acquisitions. China's aggressive financial support puts OVL into a disadvantageous position. This has been a weakness for OVL, which cannot clinch deals with the state support policy.

OVLs failures in projects have drawn critical commentaries about its approach and institutional back – up. The performance record of OVL has been of mixed in nature. While it has a few success stories, it has lost some valuable assets. OVL has lost assets in Russia, Sudan, Myanmar, Nigeria and Angola. The failure of OVL to outbid the Chinese oil companies, have raised many questions about OVLs organizational structure. The Chinese won the 50 per cent stakes of the Royal Dutch / Shell group in an offshore oil field in Angola. China provided Angola a $ 2 billion aid package. OVL is dependent on its government for acquiring equity oil overseas. This has been a weakness for OVL, as it has lost many bids due to delays in the decision making from the government of India. Also, there is a feeling that India lags behind China and that therefore, the Chinese companies get the benefit of quicker decision making. For e.g., when OVL lost out to KNOC in Nigeria, the company officials blamed the government for not clearing its $ 1.4 billion bid on time. Although, other sources state that, KNOC won the bid because its offer came with a commitment to invest more in infrastructure. Once OVL goes overseas, it should have freedom to bid. It is found that due to the delay in decision making of the Indian state, other companies like CNPC win the bids, while Indian companies were unable or took more time in deciding on bids.

The failure of OVL to outbid CNPC, gives an impression that, OVL has lost due to its own limitations with regards to its purchasing power and the aid package, which dwarfed in front of the Chinese (for e.g., China's aid to Angola, a 17 – year, $ 2 billion aid package at a low (1.5 per cent) interest rate for 50 per cent interest in its Block 18). OVL has been facing constraints of its size, limited profile and tough competition in bidding for these deals. Besides all this, China has also been using its strategic clout in clinching deals. The centralized command economy of China has provided the Chinese companies an advantage over India's. While, India has to depend on its Ministerial favour for clearing every payment made for these deals. China has also been factoring its state – to - state relations in making of these deals. This could be the reason that such setbacks are due to India's late start in the overseas acquisition game and OVL's lacking in availability of financial resources. Thus, the SWOT analysis of these projects show that, though OVL has made some gains, its policy and the Indian energy policy in general will have to be redefined. Hence, the second hypothesis – **OVL as a National Oil Company has made limited gains in achieving broader geopolitical and strategic objectives in the region** is proved.

OVL has been asking for a greater freedom in bidding for oil and gas assets abroad and also a rethinking on the mechanism of approval of its investment proposals. 'OVL lost out deep - sea exploration Block 15 as its offer of $ 150 million signature bonus to Angolan government was way below $ 902 million winning bid made by Italy's ENI. It was also substantially lower than Chinese Sinopec's bid of $ 750 million and $ 560 million committed by Total of France' (*The Tribune* Thursday, 27th April 2006). In order to compete, OVL will have to bid and compete at a much higher level, which is beyond its capacity. The Boards of ONGC and OVL have been delegated powers to make a bid of up to Rs 300 crore. It is quiet obvious, that OVL will have to rethink on credit made available to it for investment and the mechanism of approval of OVL's investment proposals.

According to OVL, "the present mechanism of seeking prior approval of the government (Cabinet Committee on Economic Affairs) every time it makes a bid of over Rs 3 billion (US $ 75 million) or a rebid was constraining as companies keep evaluating and updating bid parameters till the last hour of the submission of the bid as intake of new inputs is a continuous process. Prior to this, the OVL board was empowered to take investment decisions of up to Rs. 2 billion or US $ 50 million. OVL says the two - tier examination and approval of its proposals - first by an Empowered Committee of Secretaries consisting of Secretaries in the Ministries of Petroleum, Finance, Planning, External Affairs, Department of Public Enterprises and Law and than by Cabinet / CCEA did not guarantee its bids remaining confidential" (*The Tribune* Thursday, 27th April 2006). Unlike China's state - owned firms which have access to large foreign exchange and can thereby arrange side payments (for e.g., in the case of the Angolan oilfield acquisition in 2004), OVL has to rely on the decisions taken by the Ministry.

The leading threat the oil companies, e.g., OVL are facing in the region specially in Africa, emanates from the ineffective governance reflecting from the rise of popular discontent, corruption, lack of transparency, human rights violations, etc. for instance, the government of Cabinda (Angola) published its expenditure, which showed how lavishly the money was spent. "In 2003, it spent US $ 2,399,998 in Christmas gifts and US $ 1,820,744 to buy cars from contracts totaling US $ 6,011,000. The local public purse coughed up US $ 120,000 to mow the tiny lawn of the governor's residence, US $ 449,000 in furniture for the local government's office, US $ 80,000 in toys, US $ 85,000 for Miss Cabinda and guess what? The authorities disbursed only US $ 40,000 to support the communes and US $ 87,000 to lend a hand to the three municipalities of the province" (Marques 17th December 2004: 2). The annual cash transfers totaling about £ 10 m were made to Omar Bongo, Gabon's president, while other huge sums were paid to leaders in Angola, Cameroon and Congo – Brazzaville (Henley 13th November 2003). This amount is unaccounted for.

The oil wealth in these countries have not trickled down, which has given rise to people's movements in the region. Consequently, the oil companies have been facing stiff resistance from the local population. The oil wealth has not been used for the development of the people, rather it has been used for personal pleasures by the elites.

Therefore, the institutions in these countries are corrupt in itself. Thus, the organizational structure of OVL and the totalitarian nature of the host countries have together brought limited gains for OVL in the region. Hence, the third hypothesis – **OVLs performance has been impacted by its organizational structure and institutional conditions in the host countries** is proved.

Former ONGC chairman and managing director Subir Raha had then stated, that the bureaucratic red tapism is one of the major reasons for OVLs losing out on deals and was one of the reasons that apparently spurred the public – private partnership (PPP) between ONGC and Mittal forming ONGC Mittal Energy Limited (OMEL), which won exploration blocks in Nigeria. Setbacks have not deterred OVL to progress further, instead they have changed and adapted to the present situation. Forming JVs is one such aspect to face the rising competition. For e.g., since July 2005, OMEL pursued joint exploration projects in Central Asia and Africa. With Mittal having leverage in countries like Malaysia, Indonesia, Central Asia and Angola, this partnership bore some fruits. OMEL was also formed to use Mittal's influence in these countries. Also in January 2006, Shell Exploration and ONGC signed an MoU.

OVL is in collaboration with many NOCs in and outside the country for its international projects. It has also joined hands with the private sector players in the country for its overseas ventures. OVL has signed an MOU with the Mittal Investments Sarl (MIS) forming ONGC Mittal Energy Limited (OMEL) for acquiring foreign oil and gas acerages. Although, OVLs collaboration with other NOCs, IOCs or the private oil companies has been received with apprehension, having a Joint – Venture leverages a company's presence in the host country. Today, JVs have become an important phenomenon. That's how OMEL got assets in Nigeria. It's only the private players that can afford to invest huge amount, specially in the infrastructure development. Collaborating with the private sector company also gives financial leverage to the national oil company, due to the private sector company being profit – making and brings along huge capital. OVLs collaboration with the Mittal's is seen as a new beginning of a series of Public – Private Partnerships (PPPs), also encouraging other private sector players like the Hindujas and Reliance, into the profit – making oil and gas business. JVs also enhance the work culture of the NOCs as they have to buck – up their work systems to match upto the private players. Hence, the JV with the Mittal's is also an opportunity to use its influence in these markets. The above instances show that, the **Public – private partnership is a better strategy for energy asset acquisition** as a hypothesis is proved.

The risk faced by the African countries today are emanate from ineffective governance reflecting in rise of popular discontent, corruption, lack of transparency, human rights violations, etc. It can be further stated that the oil based rentier economies, the authoritative and centralized nature of the state have contributed in alienating the communities. Consequently, many oil companies have been facing resistance from the communities to their operations. Thus, the pressure of governance has oflate made the states to revisit their policy. Among the major changes initiated in energy governance include the role of companies in social engagements. In a more comprehensive sense, the policy of corporate social responsibility (CSR) is advocated as vital strategy for energy partnership between the company and the communities.

Oil dependent states like Nigeria, Sudan, Libya and Angola do manifest similar political traits. There is a lack of accountability, which results to massive levels of corruption with leaders staying in power for decades or becoming presidents for life. Wealth is distributed unevenly among the elites leaving the poor to their status. The oil companies have also not paid much attention to the needs of the local people. Hence, low literacy rates, lack of education and health needs, have fueled insurrections, uprisings and civil wars. In some of these countries, there are neither political debates nor daily newspapers, e.g., Equatorial Guinea. In Angola, where 90 per cent of government revenues come from oil and two - thirds of the populations have no access to clean water, an IMF audit revealed that $ 4.2 billion of oil revenues went missing between 1996 and 2001. In addition to these, the oil corporations have done little to better the lives of the people. The relations between host indigenous communities and the oil companies have been quiet stringent.

Corporate Social Accountability has been viewed as one way of guaranteeing investments and enhance good governance. Efforts to get the oil companies and government to address the growing anger of the local communities have subsequently met with failures. As a result, the extractive industry has been facing grave resentment from the local population. More than in any other sectors, investments in the oil and gas industry have far - reaching social implications for a host country. The western IOCs are pursuing active CSR in the region. For e.g., "The "Shell group of companies has pledged $ 18.5 million for health and development projects in Nigeria. Chevron has also contributed more than $ 140 million to the Niger Delta Development Commission — a government agency with the responsibility of developing the Niger Delta. ChevronTexaco has committed US $ 25 million to support this effort in Angola. It also supports the creation of some 200 farmer associations. The Asian NOCs are also involved in CSR activities, but at a small scale. For e.g., since 1998, CNPC has spent US $ 1.5 million in sending 35 Sudanese students to study at various universities in Beijing" (Hong 3rd September 2007: 14).

However, Chinese oil companies also have strong state support, which also funds and aids the region, thereby gaining good – will and a possible bid for their oil companies. For instance, China has offered to invest US $ 1 billion to build Nigeria's railway system, that brought goodwill. This indirectly has helped its oil company to win the bids. "Between 1955 and 1977, China sold US $ 142 million of military equipment to African countries, and trade expanded to touch a record $ 817 million in 1977. China's trade with Africa grew at 700 per cent in the 1990s to touch $ 55 billion by 2006" (Ramachandran 13th July 2007). "In 2004, China's Eximbank approved a $ 2 billion (at 1.5 per cent interest rate) line of credit to Angola, ….. to rebuild Angola's infrastructure, ruined by the 27 - year civil war that ended in 2002" (Wolfe 20 March 2006). The loan will be used for infrastructural projects like building roads, railway, etc. The above mentioned illustrations clearly mention the significance of the China – Africa trade relations, which came as assistance and helped the oil companies to acquire bids.

There are series of Chinese aid and investments. For e.g., the Benguela Railway is being refurbished for $ 300 to $ 500 million and to refurbish two other rail lines, government buildings and a new airport in Luanda (Ibid). In 2005, Chinese Vice Premier Zeng Peiyan visited Angola ….. with $ 6.3 million interest free loan and a pledge to invest $ 400 million in Angola's telecommunications sector, and $ 100 million to upgrade the Angolan military's communication network (Horta 23rd June 2006). Also, in April 2006, the Chinese president signed an MoU for billions of dollars of investment in Nigeria. "The MoU included an arrangement for CNPC to take a stake in the Kaduna refinery in return for the right of first refusal on 4 oil blocks. CNPC won the blocks in May with a commitment to invest $ 2 billion in the refinery" (Evans and Erica May 2006: 3). ".....China was awarded preferential rights in bidding for four oil - drilling licences in exchange for $ 4 billion in infrastructure investments, anti - malaria drugs and training for health officials" (Aiyar 1st May 2006).

"..... in January 2006, China signed a $ 2.3 billion deal for the exploitation of a Nigerian oil field. At the same time, the Chinese Government came forward with a $ 2 billion loan for Nigeria. A Chinese company is going to be involved in rehabilitating Nigeria's railways" (Akl 22nd February 2006). In 2008, "the two governments (China – Nigeria) have signed agreements for the construction of schools, hospitals and anti - malaria projects, to be completed within the next two years. For these projects, the Chinese government is going to provide Nigeria with two grants, amounting to a total of N (Naira) 1.9 billion (US $ 11.42 million). In another agreement, N (Naira) 8.5 billion (US $ 5 million) will go to the supply, installation and commissioning of Global Open Trunking Architecture (GOTA) security communications between a telecoms firm, ZTE and the government. In all, the Chinese government has signed agreements with Nigeria to invest over N (Naira) 1 trillion in the African country's economy" (*China promises investments worth N1 trillion into Nigeria* 7th April 2008). There are numerous examples of the Chinese state support to the region, thus building state – to – state relations.

In comparison, the Indian package lacks attractiveness and sound pale in front of the mega – bids of the Chinese such as $ 4.8 bn for PetroKazakhstan. ONGC VL has committed around US $ 5.16 billion to foreign investments in total since 2000, roughly a half of CNPC's estimated committed investment over the same period (Paik, Keun – Wook et. al March 2007: 19). Similar to the Chinese, who have encouraged its three oil companies, namely CNOOC, Sinopec & CNPC to acquire overseas energy assets, Government of India (GOI) should also launch its other oil PSUs in the acquisitions game. These investments would not be alone sufficient, state support is essential in clinching the deals. China has been investing billions of dollars in form of infrastructure and aid. China is also not involving in the domestic politics of these governments. By acquiring a policy of financing least developed countries, China definitely holds a first place to win these deals.

As compared to the IOCs, the NOCs are new comer's with a small profile. Yet, they are doing their efforts in pursuing societal engagements. However, their CSR policy is at the infant stage of its formation. OVL is pursuing a policy of CSR as a strategy for a sustainable energy partnership, but that is not enough. Thus, it needs to be mentioned here that the Indian government's role is very crucial in establishing a state – to – state relations with these countries, as is done by other companies like the Chinese, thus, bringing a good – will for OVL. Hence, it will be pertinent to state here that, **for sustainable energy engagement, OVL needs to have a pro – active policy of Corporate Social Responsibility, synchronizing with India's policy in the region**, is a proved hypothesis, as CSR alone will not help OVL to clinch deals. It needs state support for capacity building in the region.
