CHAPTER – I

INTRODUCTION

Countries of West Asia and Africa are the major suppliers of energy to India. Together, they provide 92.31 per cent of its oil imports. Saudi Arabia and Nigeria are the leading oil suppliers, contributing 24.96 per cent and 15.73 per cent respectively. Energy in fact is central to the producer – consumer relationship. The nature of their energy partnership has undergone change. By acquiring assets and developing joint partnership, India is getting involved in the exploration and production activities of these countries. Acquiring overseas equity oil and gas assets is one of the important components of India's energy security policy. With this concern, Government of India (GOI) has created ONGC Videsh Limited (OVL), a wholly owned subsidiary of ONGC to prospect for oil and gas acreages abroad. Since its formation, ONGC Videsh Limited (OVL) has expanded its activities both in scale and direction. It has emerged as a visible Asian National Oil Company. OVL is actively engaged in West Asia and Africa in the hydrocarbon sector. It is present in Iran, Iraq, Syria, Qatar, Libya, Egypt, Cote D Ivoire, Nigeria* and Sudan (* through OMEL – a JV of OVL & Mittal). These projects are at different stages of implementation. In this study only five projects are analyzed in detail because of their size and progress. These are located in Qatar, Nigeria, Libya, Sudan and Angola. The study aims at, to evaluate the performance of OVL in the regional context with reference to competition and strategic environment in the region. It will also make an attempt to evaluate OVLs policy to acquire overseas energy assets in the context of India's energy security policy.

National Oil Companies (NOCs) are emerging as major players in the world hydrocarbon market. Of the world's proven oil reserves of 1,148 billion barrels, approximately 77 per cent of these resources are under the control of National Oil Companies with no equity participation by the International Oil Companies (IOCs). The IOCs now control less than 10 per cent of the world's oil and gas resource base. IOC's access to equity oil and gas reserves is decreasing over the years, mainly, due to nationalization and tougher exploration and development terms (e.g., size of the block, profit – sharing, etc.). In this back – drop, the rise of NOCs has further enhanced the vulnerability of IOCs. Host governments have been driving tougher bargains and setting terms that are less attractive. Competitive challenges are also coming from several national oil companies that are becoming sophisticated and international players in their own right. However, since the IOCs are already an established player in the international oil market with a huge capital and wide reach, NOCs are finding it increasingly difficult to compete with them. Yet some of the Asian NOCs, leveraging on State support has been able to acquire valuable energy assets (e.g., Chinese company PetroChina is rated the third largest company). The present study analyzes the strategy used by the Indian NOC in competing with the IOCs.

The Government of India (GOI) has conceptualized an energy security policy, which has a strong component of acquiring overseas energy assets. Though, both the government and private companies are encouraged to bid for overseas projects, the state companies have been the major players. Indian Government is encouraging oil PSUs to aggressively pursue equity oil overseas. Development of new fields and additional development of the existing fields through implementation of Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) projects in major fields and medium size fields are being implemented by ONGC & OIL. These include acquisition of oil and gas fields in foreign countries as well as exploration, production, transportation and sale of oil and gas. OVL has 35 projects in 20 countries.

ONGC Videsh Limited, incorporated as Hydrocarbons India Private Limited on March 5, 1965 with an initial authorized capital of Rs. 5 Lac, for the business of international exploration and production. Its name was changed to ONGC Videsh Limited on June 15, 1989. The XI Plan outlay for OVL (2007 – 12) is Rs. 45,334 Crore against Rs. 25,052 Crore during the X Plan (2002 – 07) (ONGC 26 June 2007: 28). OVL has so far made an investment commitment of over US $ 5 billion and has an oil and gas production of 6.34 MTOE (million tones of oil equivalent) and 7.95 MTOE of equity oil and gas in 2006 and 2007 respectively, which is a 25 per cent increase (ONGC 26 June 2007: 28). The study discusses the evolution of OVL and its upstream and downstream activities with reference to its projects in 5 countries of West Asia and Africa. The study focuses on OVL, acquiring overseas assets, as a part of India's Energy Security Policy.

OVL is undertaking these projects as joint partners with public and private companies. With OIL, it is engaged in financing the E & P activities through their own generated internal resources or financing through loans. OIL – IOC combined has an exploration block in Libya apart from being OVL partners. OVL has signed an MOU with the Mittal Group for leveraging their presence in some hydrocarbon rich countries such as Kazakhstan. Indian private companies are also acquiring energy assets in different overseas markets. It is expected that, equity oil abroad may lessen India's dependence on a few suppliers and increase it's inter - dependence on a global basis. However, OVLs collaboration with other NOCs, IOCs or the private oil companies has been received with apprehension.

The performance record of OVL has been of mixed in nature. While it has a few success stories like in Libya, Sudan, Nigeria, etc., it has lost some valuable assets. Its failures in Kazakhstan and Angola brought it under severe scrutiny. It lost to Chinese National Oil Companies in their bid to acquire a foreign oil company, PetroKazakhstan, a $ 3.3 billion Canada - based firm with all its assets in Central Asia. This was followed by another acquisition by CNPC to purchase oil and pipeline interests in Ecuador from EnCana, a Canadian natural gas giant. The $ 1.42 billion deal marked the second time in a month that the Chinese outbid ONGC in the competition for overseas asset acquisitions. Indian oil companies have failed in many more or managed to acquire marginal stakes in others. For instance, it lost a bid to acquire Royal Dutch / Shell's 50 per cent interest in Block 18 offshore Angola, with reserves of one billion barrels, after the Chinese government offered the Angolan government a 17 - year, $ 2 billion loan at a low (1.5 per cent) interest rate along with the offer to build hospitals and electronics manufacturing factories. The Indian government was also prepared to support OVL by offering $ 200 million to help build a railway, but this was dwarfed by the Chinese package. The failure of OVL to outbid CNPC, raises many questions. Did OVL loose because of its own limitations to face the competition or the Chinese pursued aggressive package? OVL has been facing constraints of size and competition in bidding for these deals. Besides, China has been using its strategic clout in clinching deals. The centralized command economy of China has provided the Chinese companies an advantage over India's. China has also been factoring its state – to - state relations in making of these deals. The present study examines the leverage that India enjoys in the region and its relationship with the region. It will also go into the details of looking at OVL's policies and its decision making process. It will evaluate the impact of government policy in its performance by looking into the degree of autonomy enjoyed by it. The performance of OVL has been analyzed by looking at its strengths and weaknesses with the help of SWOT analysis.

Rationale of the Study

Given India's dependence on external oil suppliers, the role of OVL in India's energy security has become vital. Its performance is crucial for India's energy security hence, requires critical analysis and appraisal. OVL has been growing but with mixed results. In West Asia and Africa it is the principal Indian company, hence, the future energy relations between India and West Asia & Africa are going to be significantly influenced by OVL's performance.

The study analyzes the performance of OVL in selected countries of West Asia and Africa with the help of SWOT analysis. India enjoys historical and civilization linkages with the region which indeed provides a source of strength but the legacy as baggage also acts as cause of weakness. Indian companies are trying to act together, to increase their leverage. For instance, several Indian firms are joining their assets to increase their chances in the bidding game, with some success. In order to leverage India's buying power. OVL had teamed with other domestic oil companies like IOC, OIL and GAIL as well as multinational companies such as British Petroleum, Exxon-Mobil, British Gas and Sodeco of Japan in overseas projects. The thesis does a micro – study of OVLs strategy and its performance towards acquiring overseas assets in Qatar, Nigeria, Sudan, Libya and Angola. With SWOT analysis, attempt is made to identify the difficulties in these five countries by factoring the threat factor in the analysis.

The Thesis Aims to:

- Analyse the place of West Asia and Africa in India's policy of acquiring overseas energy assets;

- Examine India's policy of acquiring overseas assets in India's Energy Security and the role of OVL in Qatar, Nigeria, Sudan, Libya and Angola;
- Outline OVLs profile and strategy in Qatar, Nigeria, Sudan, Libya and Angola; and,
- Have a critical appraisal of OVL's performance in Qatar, Nigeria, Sudan, Libya and Angola.

Hypotheses

- West Asia and Africa are significant region in India's policy of acquiring assets in overseas energy market.
- OVL as a National Oil Company has made limited gains in achieving broader geopolitical and strategic objectives in the region.
- OVL's performance has been impacted by its organizational structure and institutional conditions in the host countries.
- Public – private partnership is a better strategy for energy asset acquisition.
- For sustainable energy engagement, OVL needs to have a pro-active policy of Corporate Social Responsibility, synchronizing with India's policy in the region.

Research Methodology

The study is based on primary and secondary sources including government and oil companies' publications, reports, working papers and seminars. Strengths, Weaknesses, Opportunities and Threats (SWOT) method has been used to undertake a micro - study of OVL's strategy with reference to specific projects in Qatar, Nigeria, Sudan, Libya and Angola. OVL's expansion in 20 countries underlines its strength. However, its differential performance needs to be evaluated with reference to specific projects. Apparently, the failure of OVL in some of the projects could be attributed to its weaknesses related to its size and organizational structures, including its decision making process which is influenced by government interventions. Countries in West

Asia and Africa are looking for multiple players in the market. These open opportunities for OVL, despite being a latecomer. It is further enhanced by the strategic leverage enjoyed by India in selected West Asian and African countries, besides the sentiments against IPO's and in favour of South – South solidarity in the region. The huge profile of established IOC's, their lobbies and their long standing in the region, restricts the entry of the Indian Oil Companies. Further, the aggressive engagement of China in general and its companies CNPC and Sinopec in particular have been affecting India's success rate and will continue to do so in coming years. Having examined Strengths, Weaknesses, Opportunities and Threats of OVL in these five projects, the study makes an attempt to outline strategy for its success.

Outline of the structure of the Thesis:

Chapter I – Introduction, gives a clear exposition of the subject, its rationale and outline of the thesis.

Chapter II - Literature Review: "India's Policy Of Acquiring Overseas Energy Assets: A Study of ONGC Videsh Limited In Select West Asian And African Countries", provides a review of the limited available literature on the subject.

Chapter III - West Asian and African Hydrocarbon Resources and India's Overseas Energy Policy, provides an overview of West Asian and African energy market, geopolitics of energy in the region and acquiring energy equity as India's energy policy.

Chapter IV - Overseas Equity Assets in India's Energy Security Policy and OVL, studies the rationale of India's equity policy and the role of ONGC Videsh. It also examines the public – private partnership between OVL and other NOCs / IOCs. This is attempted by going into the genesis of OVL and detailing its profile in the region.

Chapter V - OVL success stories in Qatar, Nigeria, Sudan and Libya, attempts to evaluate the four major projects undertaken by OVL and which are rated as success stories of OVL. The chapter analyzes these success stories with the help of SWOT analysis.

Chapter VI - OVL's failure in Overseas Projects: A Study of Angola, focuses on

OVLs projects in Angola and to find out its weaknesses to negotiate with the projects. This is also looked upon by examining the role of the Indian government in this project.

Chapter VII – OVLs Overseas Energy Engagements: Strategy for Sustainable Partnership, attempts to analyze the rationale and effectiveness of CSR policy in making the energy partnership sustainable. It also examines CSR as a factor in making India's energy engagement in the region sustainable.

In chapter VIII – Conclusions, attempt has been made to summarize the OVLs strategies and performance in Qatar, Nigeria, Sudan, Libya and Angola.
