

## CHAPTER – II

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### LITERATURE REVIEW

## **Rise Of National Oil Companies**

National Oil Companies have emerged as major players in the global hydrocarbon market. These companies are playing a vital role in the energy security requirement of their country. These countries are engaged in acquiring overseas assets. The role of NOCs is changing, as there is a tough competition with the IOCs. (Jaffe & Soligo 2007), throws light on the rise of National Oil Companies and the challenge to meet the rising oil demand along with the pressures from domestic priorities. One major reason for the rise of NOCs was to safeguard their natural resources since, most of the energy reserves were the IOCs holdings. For instance, in 1990, 5 largest firms controlled 69 per cent of reserves held by “top 25” and produced 45 per cent of output. And, in 2005, 5 largest controlled 82 per cent of reserves and 88 per cent of output of “top 25” (Jaffe & Soligo 2007). The emergence of NOCs of the consuming states pose questions such as policies and performance of these companies towards the producing states. The investment needed in the global oil sector in the next 30 years is around \$ 2.2 trillion, as sourced by International Energy Agency. The rise of the Asian NOCs has led to an increased competition for the energy resources in West Asia and Africa. The article refers to the close relationship between the NOCs and their respective national governments. The present study will provide awareness on the above mentioned issues.

There is a rising influence and change in the behavior of the National Oil Companies. The NOCs have a close interlocking relationship with their respective governments that aims for foreign investments. At home, these emerging NOCs fulfill important social and economic functions. (Hartley 2007) states that, “of the worlds proven oil reserves of 1,148 billion barrels, approximately 77 per cent of these resources are under the control of NOCs with no equity participation by foreign, IOCs”, which shows the influence and holdings of the NOCs. The report has also compared the NOCs and IOCs, the aim of the latter, we assume is to maximize profits. Hence, all NOCs are in the process of evaluating and adjusting business strategies in accordance with the IOCs.

The National Oil Companies are re - evaluating their business strategies in accordance

with the International Oil Companies in resource rich regions specifically the West Asia & Africa. (Mehden and Troner 2007) addresses the issue of NOCs having important national goals such as return capital to shareholders, creating oil wealth, industrialization & economic development, energy security, etc. An important conclusion relating to a successful NOC is that it needs to evolve in an efficient manner as the country's oil and gas sector matures. The report states, that competition is a powerful tool to promote a desirable evolution in the NOCs behavior.

NOCs from the consuming countries viz. China, India, Japan and S. Korea that have expanded their investments in the world's major energy exporting countries are driving new geopolitical relationships and alliances that will have implications in the years to come. (The National Bureau of Asian Research 2007) states that these investments and the home governments support the Asian NOCs in re – shaping the energy dynamics and give a competitive edge for the IOCs that have traditionally dominated the global oil and gas industry. The world energy market is affected by the mercantilist policies that aim to carve out resources for specific states at the expense of the other states. NOC – NOC affinities and their ability to capture opportunities that the IOCs cannot due to sanctions. The NOCs, specifically Asian will gradually become much more influential players in oil exporting countries of West Asia and Africa.

### **Acquiring Overseas Energy Assets**

The growing oil demand in Asian importing countries is not matched by domestic supply and over the last decade, Asian National Oil Companies (ANOCs) have a rapidly growing stakes in exploration and production projects abroad. (Mitchell and Lahn 2007) explains that the NOCs were created basically after the oil shocks of the 1970s. The report examines the growth and strategic approaches adopted by the NOCs of the consuming countries. Access to some of the oil – exporting countries is limited, e.g. Saudi Arabia, as the local NOCs has an absolute monopoly upstream. In the longer term, although ANOCs are less susceptible than IOCs to risks, they do have a stake in the host country's stability and development, thus raising the local criticism.

The IOCs have to gain access to the new reserves so that they can enhance their projects and curtail the decline in oil production. The rise of the NOCs and their

venture into the international markets indicates that the IOCs have less access to these resources (less than 25 per cent). (Schlesinger and Giusti 2006), puts forth that the NOCs hold around 77 per cent of the global resources. Hence, even with sufficient capital availability to invest in new projects and new production, the lack of access by IOCs limits their ability to get to these resources. The study also focuses on the recent activities of the NOCs in India and China and their efforts to secure energy reserves in many oil – producing states. However, the participants agreed that the producing countries do not allow equity participation and the NOCs had an advantage. But, the emerging cooperative relationships (e.g. ExxonMobil – Saudi Aramco’s project in China or the possible BP – Sinopec relationship) could redefine the roles of NOCs & IOCs.

Most of the companies are state – owned and controlled, thus focusing on downstream activities. (Keun-Wook et. al. 2007) describes the recent trends of investment in overseas projects by the Asian oil companies, specifically Indian, Chinese, Japanese and Malaysian. (Keun-Wook et. al. 2007), the report is supported with accurate data regarding the investments of these companies into the producing countries. To this, many of the NOCs are pursuing mutual cooperation agreements with several producing countries NOCs. The Asian companies differ in character and scale. It throws light on how some of the Asian initiatives (e.g. CNOOC’s interest in acquiring US company – UNOCAL or INPEXs interest in the Azadegan field in Iran) have been exhausted. Although the interests are widely spread, the oil companies and the major oil projects will be focused in West Asia and Africa.

### **India’s Energy Security**

With world oil prices going through the roof, oil - hungry nations like China and India have been engaged in a desperate hunt for oil acreage across the globe in order to ensure their energy security. Although imports account for 70 per cent of India’s oil needs, this figure is expected to touch 90 per cent in a couple of decades. India’s overseas energy policy came into limelight recently when the Indian oil companies entered and lost to the Chinese national oil companies in a bid to acquire ‘PetroKazakhstan’. These recent losses were a good enough set backs for India’s overseas policy. The article, (Dadwal and Sinha 2005) gives us the same picture.

Although the Indian oil companies have gained success over buying equity shares in Sakhalin – 1 (offshore) project in Russia and the Greater Nile project in Sudan, it has failed in many more and has acquired marginal stakes in others (Indian companies lost bid to acquire Royal Dutch / Shell's 50 per cent interest in Block 18 offshore Angola). The authors state that, in the process of bidding, the Indian oil companies' end up spending more. The then ONGC chief Subir Raha has also argued for more collaboration with China "the current situation is unfeasible – we can't keep fighting" (Dadwal and Sinha 2005). The ability to forge long-term supply contracts is critically important as much as is the capability to enhance energy security through discoveries within the country. The Indian companies should try to act together to increase their leverage.

The importance of petroleum to India's energy needs cannot be overstated. But acquiring energy security is important and in the hands of the NOCs. (Ganguly 2007) states that oil comprises 34 per cent (approx.) of India's energy consumption and has been growing gradually. India's average oil production level for 2005 was 837,000 b/d of which 632,000 b/d was crude oil, with net oil imports of almost 1.7 mil. b/d in 2005 (Ganguly 2007). In recent years, India's energy needs have doubled as a consequence of rapid industrialization and the growth of a vibrant middle class. The study gives out detailed report of the Indian NOC – ONGC and its global ventures in search of energy security. Other Indian NOCs viz. OIL, IOC, GAIL and private companies like Reliance are cooperating and going for JVs for these resources to ensure India's energy security.

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. 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. (Ganguly 2007) gives us a detailed information on ONGC Videsh Limited and its performance supported by data. India's prime NOC – ONGC Videsh Limited, is an arm of ONGC that handles the overseas business. The largely state – owned, ONGC

dominates India's energy sector. ONGC's 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. (Ganguly 2007) suggests that the 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. Today, OVL has 35 oil and gas properties in 20 countries. OVLs assets in West Asia are Iraq, Iran, Syria & Qatar and in Africa – Egypt, Libya, Cote D Ivory, Sudan & Nigeria.

### **ONGC Videsh Limited In West Asia And Africa**

At present, Indian national oil companies own equity in upstream projects in at least 20 countries outside India. (Keun-Wook et. al. 2007) discusses the OVLs activities and its regional distribution of OVL along with other NOCs in foreign upstream projects. The report is supported with data regarding the investments in Africa and the West Asia region with operator and total no of investments. The report also refers to the 'Techno – Economic Approach for Africa – India Movement (TEAM – 9)' under which it extends 'lines of credit' (LOCs) through the Export – Import Bank of India (Exim Bank) to the underdeveloped resource rich nations. (Ganguly 2007) also talks of ONGC – Mittal joint venture 'ONGC Mittal Energy Limited (OMEL) in 2005 that hopes to break through the bureaucratic processes and learn from the private sector and strengthen their bids as infrastructure provider. OVLs efforts have been supported wholeheartedly by the Government of India, which has allowed OVLs exclusive empowerment in 2000. Hence, providing OVL a single window clearance for overseas upstream projects irrespective of investments involved. OVL today is the second largest E & P company in India by reserves, only second only to ONGC.

India's involvement in overseas projects is expanding. In search of energy, the NOCs, primarily OVL is having a strong foothold. OVL was born as 'Hydrocarbons India Ltd.' in 1965 and was renamed 'ONGC Videsh Ltd.' in 1989. OVL has an objective of acquiring 60 million tones of oil equivalent (mtoe) / yr by 2025, with 20 mtoe / yr to be achieved by 2010. The critical importance of overseas acquisition of oil and gas

equity in India's oil security framework was recognized in the Hydrocarbon Vision 2025 document. (ONGC Annual Report 2005 – 06) highlights some of the first hand information. (ONGC Annual Report 2005 – 06) states that ONGC has secured equity participation in 9 oil and gas assets in 7 countries. Its gas and oil equivalent gas (OEG) increased from 5.063 MMT to 6.339 MMT, up 25 per cent. Regarding new acquisitions, the company OVL has got the block 81-1 in the second bidding round in Libya with 100 per cent participation interest. The agreement was signed on 8 December 2005. Similarly, OVL has also won blocks in Syria, Sudan and Nigeria in 2005, 2006 and 2006 respectively. The other countries in West Asia & Africa that OVL has invested are Cote D' Ivory, Iran, Iraq, Egypt and Qatar. The report also gives details about the joint ventures with other companies.

Indian NOCs are very active in West Asia and Africa, the two major resource rich regions. ("Indian oil and gas sector: An update performance trends") gives its readers some important information regarding OVLs presence in West Asia & Africa. In the absence of a clear - cut long term policy on sharing of recoveries, the scenario is unlikely to change in the short to medium term, if global oil prices remain stable. Despite this uncertainty, an overseas acquisition by OVL is expected to gather further momentum in the short term, given the quest for energy security. Continuing with its acquisition strategy, during 2005 - 06, OVL made acquisitions in Nigeria, Egypt, Qatar, Libya and Syria. With these acquisitions, the company has a presence in 21 projects as of March 31, 2006, which also includes one pipeline project. Of these 20, four are producing projects, viz. Sudan, Vietnam, Sakhalin I and Syria (the Syrian asset was acquired as a producing asset in January 2006), 12 are in the exploration and 4 in the developmental stage. Thus, the energy market of West Asia and Africa is very crucial for the global stakeholders at large and India's energy security in precise.

### **SWOT Analysis**

SWOT analysis is a method used to evaluate a company's business venture. The SWOT analysis technique is accredited to Albert Humphrey, a business and management consultant. The present research is based on the SWOT analysis of the projects and is a method for understanding the decision – making for all businesses. SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. The

SWOT analysis provides a good framework for reviewing the strategies pursued by any business organization. Identification of SWOTs is essential and is extensively used for analyzing the potential areas of growth for a particular organization. SWOT analysis is a powerful technique for understanding the Strengths and Weaknesses of an organization, and, the potential Opportunities and Threats it faces.

SWOT analysis is widely used for planning and assessment. (Harrison) states that the SWOT analysis is quite simple, and one should keep the process simple – avoid complexity and over – analysis. SWOT analysis is more than increasing of issues. (Harrison), the article states that, Strength is a resource or capacity that can be used effectively to achieve the objective. Weakness is a limitation, fault or defect of the project. Opportunity is a favorable situation or environment for your organization. And, Threat is a danger for your project. The article gives a detail account of SWOT analysis and its significance in consolidating the organizations project. The article will help to keep the analysis on track, avoid piling of issues and keep the analysis simple and to the point.

SWOT analysis is simple method to analyze an organization. Its role is to identify where resources are available or lacking so that strengths and weaknesses can be spotted. It needs no extensive training or technical skills. (Mehta, S. 2000), explains that the SWOT analysis is flexible and can enhance the quality of an organizations strategic planning even in the absence of extensive marketing information systems. Internal issues are the firm's strengths and weaknesses, while external issues refer to opportunities and threats. (Mehta, S. 2000), the chapter gives in detail information, as a key test to ask a strength or weakness from an opportunity or threat is to ask, "Would this issue exist if the firm did not exist?" If the answer is yes, the issue should be classified as external. This chapter in *Marketing Strategy* gives its readers important aspects on SWOT analysis. Strengths, is meaningful only when it is useful to satisfy a customer need. When this is the case, that strength becomes a capability. Also, invest strategically in key areas to convert weaknesses into strengths and threats into opportunities. The present study will help in keeping the analysis of this research flexible, thereby enhancing the quality of work.

The SWOT analysis is an important tool designed to understand the decision -- making of all business houses. The SWOT analysis measures a business unit. (SWOT analysis), explains that a SWOT analysis is a perspective of a company. SWOT analysis is used to assess a company's position in the market, its commercial viability, a business idea, entering a strategic market, an opportunity to acquire assets, JVs that enhance the company's market value, etc. While, its strength can be its management, likely returns, strategic location, etc. Its weaknesses can be its lack of competitive strength, cash -- flows, decision making, etc. Its opportunities could be its global influences, partnerships, etc. And, threats can be economic volatility, non -- transparency, popular protests, competition, etc. The article gives an idea of the use of SWOT analysis and its significance in drawing company's (OVLs) evaluation.

Strengths and weaknesses are confined to the internal workings of a company, while opportunities and threats refer to the external factors. (Kyle, Bobette), looks at both the internal and external factors while uncovering opportunities and threats. The article goes the traditional text book approach by going deeper into the industry dynamics, so that the company can be understood better. It says, often opportunities arise as a result of changing business environment that would affect the SWOT analysis. For e.g., a customer, competitor, or supplier goes out of business or merges with another company. With the demise of many pure -- play "dot coms", examples of this abound (Kyle, Bobette). As each went out of business, opportunities arise to gain the defunct business customers. Thus, the SWOT analysis increases the company's effectiveness. The article gives a different picture of SWOT analysis and its use in establishing new opportunities for OVL.

A SWOT analysis provides information that is essential for a company and its growth. "Strengths are the internal factors. Weaknesses are, which areas might the organization improve? What opportunities exist in the environment, which will propel the organization? External factors, beyond an organizations control, which could place the organization mission or operation at risk" (Benito, Carlos A.). The author also suggests that, SWOT analysis can be very subjective and two people rarely come -- up with the same final version of SWOT. This helps the research in trying to find the most genuine issues of strengths of OVL, institutional weaknesses, possible opportunities for OVL and the threats that the company perceives.

The present thesis uses SWOT analysis to understand the planning and strategy adopted by OVL, its position in the market, commercial viability and to evaluate its policies in Qatar, Nigeria, Sudan, Libya and Angola. Using a SWOT analysis, will help to understand its Strengths by inquiring into OVL as a company, what advantages it has over others or like India's booming economy. While, its Weaknesses can be understood through its lack of freedom, etc. Opportunities can be realized as OVL has been venturing out to secure equity oil and gas and has been successful in many projects. With the SWOT analysis, attempt is made to identify the difficulties in these five countries by identifying the threats it perceives.

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