CHAPTER - VI
OIL & GAS ASSET ACQUISITION INITIATIVES ABROAD

Introduction:

One of the corner stones of India’s strategy for ensuring energy security has been our concerted effort to acquire Oil & Gas assets abroad. Daniel Yergin in his paper “Ensuring Energy Security” published in Foreign Affairs considers this as one of the important steps in diversification of supply. For India, as Energy independence is not a viable option, the strategy of acquisition abroad is essential part of the Energy strategy. However, as a number of writers have pointed out, India is a late starter in this field, when we consider our neighbour, the Republic of China which started the acquisition programme much earlier and today is far ahead in the race. We will therefore examine the Chinese strategy in details

The Chinese Strategy:

According to analysts “China’s huge population that represents a third of the world and its unprecedented economic growth have resulted in the country’s supplies of food, energy, and metals and minerals falling far short of demand”. This has prompted China in the recent years to step up efforts to acquire farmlands, oil fields, and mining assets abroad.

The world’s second-largest economy has the largest population in the world at 1.36 billion and it is expected to rise to 1.4 billion by 2050. The population boom has forced China to source a vast portion of its food and energy needs from abroad. This massive industrialization has resulted in massive demand for energy (coal, oil, and gas). Economic development in China has become a major driving force of global commodity prices. China’s overseas acquisitions of mining assets are to ensure a stable supply of raw materials for its key manufacturing sector.

Chinese Strategy on Energy Security:

Though there are many writers on the Chinese strategy of acquisition of energy assets abroad, we will in the main follow one of the most authentic sources i.e. the International Energy Agency.

China, it is often said, is in a similar position as of India, except for the scale and size of the problem. Hence it is necessary for us to review their strategy and action in detail
based on information available in the public domain. Our analysis and review is based as stated earlier on a report by International Energy Agency, *Overseas Investments by Chinese National Oil Companies: Assessing the drivers and impacts.* (IEA, 2011)

**Why invest abroad?**

According to the authors of the IEA report, the Chinese oil fields are aging, their reserves to production ratios (R/P ratio) are low, and domestic oil production is nearing its peak. This results in China being entirely dependent on the international oil market to meet incremental oil demand. China became a net oil importer in 1993. For the past two decades, China has experienced strong economic growth, and recently became the second-largest economy in the world. Even during the recent financial and economic crisis, according to reports, China managed to achieve 8.7% GDP growth in 2009, and 10.3% in 2010. To achieve and sustain high growth, China requires huge quantity of energy and infrastructure to meet the growing domestic consumer demand, as well as for exports. This has stimulated output from heavy industry, which in turn has given further push to spending on energy intensive infrastructure and buildings.

The associated demand for fuel used to transport goods and to provide the growing fleets of private vehicles (China became the largest auto market in the world in 2009), as well as the rising demand for petrochemical feedstock, has kept upward pressure on oil consumption. China’s hunger for energy, in particular its expanding oil imports, contrasts with the recent fall in demand exhibited by major industrialized countries, which were hit by the recession in the recent times. According to IEA research, almost half of global oil demand growth in the next five years will come from China (Figure 6.1). IEA projections show China importing 79 per cent of the oil it consumes by 2030, and accounting for a larger increment in oil demand than any other country (Figure 6.2). Hence the projected story of China (without any major breakthrough in their domestic oil and gas sector,) seems similar to that of India.
IEA estimated that most of China’s projected oil imports would continue to come from a small number of countries. In 2009, the top ten crude oil suppliers to China (in order of import volumes) were Saudi Arabia, Angola, Iran, Russia, Sudan, Oman, Iraq, Kuwait, Libya, and Kazakhstan. As many other oil importers, China relies heavily on suppliers from the Middle East with 47 per cent of its total imports in 2009 originating from there. That high degree of reliance is unlikely to change, even though China has been diversifying supply to Africa, Central Asia, Latin America and Russia, where their National Oil Companies
(NOCs) are seeking to expand their upstream activities. The acquisition binge of China in the overseas is perhaps a result of its drive to enhance and improve its portfolio of energy sources and investments in oil and gas equity abroad.

According to the reports, in the international media, “National Oil Companies (NOCs) from Asia are increasingly dominating the global mergers (M&A) and acquisitions landscape. For example, the reports point out that “in Mozambique, where in recent years huge quantities of natural gas have been discovered, Chinese and Indian NOCs in 2013, have shelled out a staggering $9.3bn for a slice of the east African country’s hydrocarbon riches as there is a huge potential to export the gas to India/China. Further, it is said that Tanzania is another country which is evolving as a hot spot with large gas discoveries. According to Luke Parker, an analyst at the energy consultancy, Wood Mackenzie, “NOCs [from Asia] are taking a bigger role in M&A activity around ‘upstream’ companies involved in exploration and production. (Quoted in the Financial Times, September 8, 2013) According to him, in 2012, “they spent $50bn on overseas assets, accounting for a fifth of the global upstream M&A market.” (Quoted in Guy Chazan, Financial Times, September 8, 2013) Quoting International Energy Agency, Guy Chazan, states that “due to their decade-long spending spree, China’s overseas equity oil production stood at 1.5m barrels of oil a day in 2011, compared to just 140,000 barrels per day in 2000” (which is roughly the same amount of Indian oil equity now 180,000 barrels per day) Chazan quoting PLS Derrick’s M&A data base further said that, the value of annual acquisitions by Chinese and other Asian NOCs in the global upstream market mushroomed from $1.2bn in 2007 to $45.3bn last year. (Financial Times, Ibid.)

According to IEA, “NOCs most frequently cited objectives for investing internationally are to increase their oil and gas reserves, to expand production, and to diversify their sources of supply.” We have earlier seen that diversification has been one of the methods suggested for ensuring energy security. As IEA notes, “Securing energy supply through international co-operation” was declared to be one of China’s major areas of focus which is seen by many as their way of responding to energy security. (IEA, 2011 Op.cit.)
Motivations for investing abroad | Main strategies used to expand
--- | ---
Expand Oil and Gas Reserves and Production | Diversify energy supply sources and take advantage of new business opportunities
Diversify energy supplies to avoid risks | Target assets to add synergy to existing Assets
Become “international NOC” | Partner with other NOCs and IOCs, build Relationships and diversify risk
Develop an integrated supply chain | Pursue market-for-resources details that exchange access to China’s market for access to resources
Gain technical know-how and streamline Managerial capacities | Utilize strong financial resources and Government policy support


According to IEA, their strategy is not limited by mere acquisition of assets; they also try to build refineries, expand existing refinery capacity and develop infrastructure by building pipelines in the host country. This would help them quickly respond quickly to local markets. Their commitment to host countries helps them in turn to gain credibility and strengthen their relationships. For example, according to IEA, in November 2009, CNPC (China) and PETRONAS (Malaysia) signed a memorandum of understanding (MOU) with Sudan to expand the Khartoum refinery capacity by 50 kb/d by 2013. In exchange, CNPC will gain greater access to upstream projects in the country, in addition to the seven upstream projects it already operates there (IEA, 2011). Notable point here is that Chinese Companies are operating in Sudan despite international criticism of Sudan’s treatment of Darfur. According to IEA, Chinese Companies’ strategy includes cooperation among the other Chinese Oil Companies and also cooperation with International Oil Companies by which they expect to reduce political risks when entering unfamiliar territories. They also bid in partnership to diversify risks. The Indian companies of late have been learning from this approach to compete overseas.

In addition, by forming alliances, the Chinese oil companies are able to gain technical know-how and streamline their managerial capacity. According to IEA, the Chinese Oil Companies do not have technical expertise in deep-water exploration and to remedy the problem, for instance, CNOOC is working with TOTAL S.A. (France) in Nigeria’s Akpo and Egina deep-water fields. (Source: Official website of CNOOC Limited: www.cnooc ltd.com) This knowledge would help them to explore in domestic deep-water reserves. China’s NOCs are also trying to gain experience in LNG projects to enable them to better satisfy the
rapidly growing gas demand in China. They have acquired stakes in liquefaction projects in Indonesia and Australia to gain expertise across the LNG supply chain. (For complete details of Chinese investments abroad, please see: IEA 2011, Op.cit.)

In conclusion on the Chinese strategy, it may be stated that by partnering with other NOCs and IOCs in overseas ventures, the Chinese companies have been attempting to reduce risks, such as growing nationalism and accusations of blocking resources, posed by working in unfamiliar territories.

**Investment in Transnational Pipelines:**

Another noteworthy aspect of the Chinese strategy in the current times has been heavy investment into building transnational pipelines to diversify oil and gas supply routes. It has invested in pipelines for import of oil from Russia (earlier it had been importing by rail). China has also plans for import of gas from Russia, according to IEA and EIA sources. China has also invested in oil pipeline from Kazakhstan as gas pipeline from Turkmenistan, which actually crosses Uzbekistan and Kazakhstan to reach China’s western autonomous region of Xinjiang. (IEA, 2011) In the recent times, China has also started work on pipelines for import of oil and gas from Myanmar and to transship oil from Africa and the Middle East, avoiding a passage through the Malacca chokepoint. (IEA, 2007; US EIA, 2008) This move will reduce considerably threat of disruption from pirate activity, the risk of oil spills, and even blockage of the transport lanes from shipping accidents. According to Julie Jiang and Jonathan Sinton, “Investments by NOCs in transnational pipelines could provide alternatives to diminish the reliance on the Strait of Malacca and diversify its imports from other sources, such as Russia and Central Asia, to bring oil and gas imports from new routes described in this section.” *(Overseas Investments by Chinese National Oil Companies, Assessing the drivers and impacts, Information Paper, by Julie Jiang and Jonathan Sinton, IEA, February, 2011)*

We have done a comprehensive examination of the Chinese strategy above with the specific intention of (i) India can learn a lot from the Chinese strategy of implementing energy security by adopting an international approach (Going-out Policy) and (ii), this will help us formulate our strategy in this report.

After having examined the Chinese strategy, we will in the following pages, examine the Indian strategy with regard to acquisition of oil and gas assets abroad. This will again be done on the basis of published information by the various agencies of Government of India and the news releases by the Ministry of Petroleum and Natural Gas, Government of India.
India’s Track Record:

According to the Ministry of Petroleum Press releases, (Press Information Bureau, Government of India), the Minister of State for Petroleum & Natural Gas Shri R.P.N. Singh informed the Lok Sabha in a written reply that the total investment made by various oil sector Public Sector Undertakings (PSUs), namely, ONGC Videsh Limited (OVL), Oil India Limited (OIL), Indian Oil Corporation Limited (IOC), GAIL (India) Limited (GAIL), Bharat Petro Resources Limited (BPRL), and Hindustan Petroleum Corporation Limited (HPCL) for acquisition of exploration and production assets overseas as on 30th June, 2011 was Rs.64,832.35 crore (USD 12 billion as on that date). He also said that out of the six PSUs engaged in acquisition of overseas assets, only OVL has producing assets abroad. (Overseas Oil and Gas Exploration by Indian PSUs, Press Information Bureau, MOPNG, Government of India, 11 August, 2011). Oil and gas produced by OVL during the last three years are as under:

Table 6.2: Oil and gas produced by OVL

<table>
<thead>
<tr>
<th>Country</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIL (MMT)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sudan</td>
<td>2.728</td>
<td>2.373</td>
<td>2.027</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.370</td>
<td>0.409</td>
<td>0.468</td>
</tr>
<tr>
<td>Venezuela</td>
<td>0.671</td>
<td>0.704</td>
<td>0.757</td>
</tr>
<tr>
<td>Russia</td>
<td>1.929</td>
<td>2.075</td>
<td>2.244</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.046</td>
<td>0.042</td>
<td>0.038</td>
</tr>
<tr>
<td>Syria</td>
<td>0.812</td>
<td>0.718</td>
<td>0.649</td>
</tr>
<tr>
<td>Brazil</td>
<td>-</td>
<td>0.192</td>
<td>0.573</td>
</tr>
<tr>
<td>Total Oil</td>
<td>6.556</td>
<td>6.513</td>
<td>6.756</td>
</tr>
<tr>
<td>GAS (BCM)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>0.372</td>
<td>0.390</td>
<td>0.415</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1.848</td>
<td>1.967</td>
<td>2.249</td>
</tr>
<tr>
<td>Syria</td>
<td>-</td>
<td>-</td>
<td>0.015</td>
</tr>
<tr>
<td>Brazil</td>
<td>-</td>
<td>-</td>
<td>0.013</td>
</tr>
<tr>
<td>Total Gas</td>
<td>2.220</td>
<td>2.357</td>
<td>2.692</td>
</tr>
<tr>
<td>Total (MMT-OEG)</td>
<td>8.776</td>
<td>8.870</td>
<td>9.448</td>
</tr>
</tbody>
</table>

Source: Government of India, Overseas Oil and Gas Exploration by Indian PSUs, Press Information Bureau, MOPNG, August, 11, 2011

Further, the minister had also informed that the target set for oil and gas production from OVL’s producing assets overseas for the year 2011-12 was 6.496 MMT of oil and 2.254 BCM of gas. The targets for investment during 2011-12 are shown in table 6.3 below. (Government of India, PIB, Op.cit) It must be noted here that the investment targets are fixed on the basis of the PSU organization and not on the basis of specific countries.
The Indian private sector has also not been behind in overseas investment. It is reported that Reliance Industries Limited and Videocon are the private sector organizations which have invested abroad with notable success in the US, Brazil and Africa. (“Energy sector will continue to suffer”, *Business Standard*, New Delhi, February 16, 2014)

**Some Recent Developments:**

The Indian PSUs have also started operating in cooperation or in partnership. For example, according to reports in *The Economic Times*, Oil India Limited had paid recently $2.475 billion to Videocon Group for acquiring 10 per cent stake in a giant gas field off Mozambique. OVL had bought an additional 10 per cent stake from the U.S. energy major Anadarko in the same block for $2.64 billion. OVL and OIL had jointly bought Videocon Group’s 10 per cent interest in the Rovuma Area-1 for $2.475 billion. OVL raised about $1.5 billion in one-year bridge loans from foreign lenders to fund its part of the payment to Videocon while OIL raised $900 million in debt for its share. The block is estimated to hold a minimum of 35 trillion cubic feet (tcf) of gas reserves and is also planning an LNG export facility. A unit of Bharat Petroleum Corporation already has a 10 per cent stake in the block, estimated to hold a maximum of 65 tcf gas reserves. (ONGC-OIL pays $2.475 billion to Videocon Group, Oil & Gas news, *The Economic Times*, PTI, Jan 7, 2014)

**Canadian Shale Oil & Gas Acquisitions:**

North America has emerged in the recent times as one of the most prolific producers of natural gas, thanks to the revolution of shale gas production. One of the main reasons quoted for the decline in the price of oil in the recent times (almost 50 per cent) has been production of shale oil and gas in North America. Some of most prolific basins of shale gas are shown in the map below:
Figure 6.3 Basins of shale gas in North America

Canada and USA with their shale gas and tight oil resources, therefore, have emerged as a hot bed of international upstream M&A with major investments. Some of the recent deals (based on presentations made by Messrs. Rothschild to GSPCL, Government of Gujarat) is summarized below):

**Table 6.4 Canadian Resource Play Gas Transaction Comparable**

<table>
<thead>
<tr>
<th>Date</th>
<th>Acquirer</th>
<th>Target</th>
<th>Enterprise / Asset Value</th>
<th>EV / Prodn Current</th>
<th>EV / Res. P/OP</th>
<th>% Gas Prod'n</th>
<th>Gas Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-12</td>
<td>Petronas</td>
<td>Progress - revised</td>
<td>$5,800</td>
<td>$129,924</td>
<td>$17.95</td>
<td>84%</td>
<td>$2.40</td>
</tr>
<tr>
<td>Jun-12</td>
<td>Petronas</td>
<td>Progress - original</td>
<td>$5,500</td>
<td>$123,204</td>
<td>$17.03</td>
<td>84%</td>
<td>$2.19</td>
</tr>
<tr>
<td>Feb-12</td>
<td>Undisclosed</td>
<td>Rock Montney gas</td>
<td>$46</td>
<td>$149,032</td>
<td>$3.47</td>
<td>82%</td>
<td>$2.12</td>
</tr>
<tr>
<td>Nov-11</td>
<td>Storm Resources</td>
<td>Storm Gas Resource Corp</td>
<td>$56</td>
<td>$140,750</td>
<td>$23.79</td>
<td>100%</td>
<td>$3.26</td>
</tr>
<tr>
<td>Oct-11</td>
<td>Sinopec</td>
<td>Daylight Energy</td>
<td>$2,965</td>
<td>$75,040</td>
<td>$17.05</td>
<td>65%</td>
<td>$3.04</td>
</tr>
<tr>
<td>Sep-11</td>
<td>Torvaline</td>
<td>Undisclosed</td>
<td>$93</td>
<td>$53,143</td>
<td>$9.29</td>
<td>82%</td>
<td>$3.46</td>
</tr>
<tr>
<td>May-10</td>
<td>Torvaline Oil Corp.</td>
<td>Cinch Energy Corp.</td>
<td>$262</td>
<td>$54,813</td>
<td>$15.19</td>
<td>83%</td>
<td>$3.78</td>
</tr>
<tr>
<td>Aug-10</td>
<td>Surge</td>
<td>Believed to be Encana (Valhualls South)</td>
<td>$75</td>
<td>$103,396</td>
<td>$22.68</td>
<td>63%</td>
<td>$3.16</td>
</tr>
<tr>
<td>Jul-10</td>
<td>Undisclosed</td>
<td>Argory assets at Saxon (Cavanaugh and Montery)</td>
<td>$17</td>
<td>$83,000</td>
<td>$23.95</td>
<td>83%</td>
<td>$3.35</td>
</tr>
<tr>
<td>Jul-10</td>
<td>Pengowith</td>
<td>Monterey Exploration Ltd (Montery)</td>
<td>$375</td>
<td>$62,500</td>
<td>$15.76</td>
<td>84%</td>
<td>$3.37</td>
</tr>
<tr>
<td>Jun-10</td>
<td>ARC Energy Trust</td>
<td>Storm Exploration Inc. (Montery)</td>
<td>$680</td>
<td>$86,993</td>
<td>$15.74</td>
<td>84%</td>
<td>$4.01</td>
</tr>
<tr>
<td>May-10</td>
<td>Paramount Resources</td>
<td>Redcliff Exploration (Montery/Nikunassan)</td>
<td>$69</td>
<td>$80,982</td>
<td>$20.45</td>
<td>69%</td>
<td>$3.61</td>
</tr>
<tr>
<td>Dec-09</td>
<td>ARC Energy Trust</td>
<td>Partnership (Montery)</td>
<td>$100</td>
<td>$90,000</td>
<td>$14.29</td>
<td>75%</td>
<td>$5.41</td>
</tr>
</tbody>
</table>

Total Comparable Gas Deals: 12
Mean: $16,68
Median: $16,41

Source: Presentation by executives from Messrs. Rothschild to Gujarat State Petroleum Corporation Limited, Government of Gujarat

The above table clearly shows that the major oil companies from all over the world are in Canada through their M&A strategy. We will examine India’s efforts in this connection next.

**Indian investment in Canada for securing LNG supplies:**

The Indian Oil Corporation (IOC) has made a foray into Canada. IOC is the country’s biggest refiner and fuel retailer and it has plans to acquire a minority stake in a Canadian shale gas and liquefied natural gas project for about $1 billion. According to the discussions in our workshop, and as per the statements of officials with direct knowledge in the matter said that the company was in advanced talks of negotiations for the assets that include a 10 per cent stake in Progress Energy Resources Corporation. Malaysian oil major Petronas had acquired Progress Energy last year for about $5.2 billion. Progress Energy has shale gas assets in northeastern British Columbia and its sister concern, Pacific North West LNG is planning to build an LNG export facility on Canada’s west coast, according to news reports.
Progress Energy is producing more than 350 million cubic feet gas per day in northeast British Columbia and northwest Alberta. IOC’s proposed acquisition would be the third major overseas acquisitions by India’s state-run oil firms in the current financial year involving deal size of $1 billion and more. As per reports, India is focusing on acquiring stakes in producing oil and gas fields and exploration blocks abroad to secure fuel supply for the energy deficient country, which imports 80% of crude oil it processes.

Similarly, though smaller, acquisitions have been made by GAIL too. GAIL has a 20 per cent stake in Carrizo Oil’s Eagle Shale gas assets in Texas, US, and has also signed to import 3.5 million tons of liquid gas, called LNG, from Cheniere Energy’s Sabine Pass shale gas project in Louisiana and also from Cove Point project in the East Coast of USA. GAIL is eyeing for relaxation in LNG export policy of US before tying up more gas for meeting growing energy demand back home. Sabine Pass is the one among the seven LNG projects coming up in the US that has permission to export to nations with which Washington does not have Free Trade Agreement (FTA).

It is thus evident from the above discussion that Indian majors particularly the national PSPUs have been at the forefront of trying to implement the strategy of acquisition of Oil & Gas assets overseas to enhance India’s oil security and would have spent till date USD 14 billion (as compared to USD 100 billion or more of Chinese investments till date). As we have seen in the earlier chapters, production from these investments (equity oil & gas) is roughly 10 MMTPA oil equivalents, compared to India’s total crude oil net import needs of roughly 130 MMTPA that is roughly 80% of its requirements. This production is woefully short of ensuring long term “energy security” in the form of “equity oil or gas”.

**Financial Outlays Needed:**

Let us now examine the annual financial outlay that would be required to reach 2/3 mmbbl/day equity oil. On the basis of the estimates, if we are to acquire 2-3 mmbbl of equity oil with a profile of 15 years, we need to spend roughly USD 200-300 billion over the next 10 years (assuming USD 15-20/bbl acquisition cost). Thus a minimum spending of USD 20 billion per year would have to be allocated only for acquisition purpose.

Our current gross oil and gas import bill would be USD 150 bn per annum and it would double it if not treble, over the next two decades depending upon (a) demand increase for oil, (b) future oil prices, and (c) Indian Rupee depreciation. (The recent price fall to the extent of almost 50 per cent has not been taken into consideration, which would be analyzed later on) Against this, if we spend USD 15-20 billion per annum for acquisition of assets abroad through the Indian NOCs we would get oil/gas at cost price. Additionally,
about 30-40 per cent of the profits would also accrue to the NOCs, according to the experts who had participated in our workshops.

We will now look at the questions with regard to future course of action.

The questions that confront us are:

- Is this pace and manner of acquiring oil & gas assets sufficient to enhance India’s long-term energy security?
- What are the key issues and challenges that India faces in trying to acquire Oil & Gas assets abroad?
- Are there any policy prescriptions that need modification?

In the following paragraphs we seek to develop our analysis of these three key questions:

Is the pace and manner of asset acquisition sufficient?

It is evident that there has been some progress in the appetite and ability Indian oil majors in acquiring overseas assets. But compared to the Chinese track record in this area it is woefully inadequate and falls short of the requirement of enhancing India’s strategic energy security through ownership of “equity oil” abroad or “equity gas” for that matter. It is imperative that over the next decade or so, or earlier at least 20-30% of India’s oil imports and gas imports should come from such equity oil and gas assets that are owned by Indian investors (oil majors or private companies) and this percentage can be further enhanced to 50% by 2030/2035. The strategic benefits of this are obvious:

- Equity oil comes to investors at cost as opposed to market price (i.e. the exploration, development and production costs), thus it would cost India USD 40/50/bbl of imported as opposed to USD 110/bbl at current prices.
- Equity oil is a right to the oil/gas and it is not a contractual commodity sale. Thus the resources are effectively “owned” or “entitlement” in the relevant jurisdiction. This makes the Indian Oil Companies much more valuable.
- One can pace the development (if there is full ownership) according to the requirements of the off-taker.
- The oil/gas can be swapped or sold in other jurisdictions to optimize the logistical constraints and costs but benefits would still accrue to the parent balance sheets
- Long term Equity gas gives much better control over exporting LNG at competitive prices that are delinked from the local market or crude prices

Thus our conclusion on this account that while there has been some pick up in our strategy
of acquisition of overseas Oil & Gas assets, there has to be further acceleration of this strategy so as to ensure 30-50% of India’s imports are met through these equity Oil or Gas ownership and the benefits blow directly or indirectly into the Indian economy through India balance sheets and profit and loss accounts.

What are the Issues and Challenges?

What are the main issues and challenges confronting Indian players when they set out to acquire assets abroad? If we go by the sequence of the asset acquisition process and try and identify some of the key lessons related to successes and failures we can perhaps identify some of the issues and challenges more accurately:

<table>
<thead>
<tr>
<th>Process</th>
<th>Key Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of assets</td>
<td>The national oil companies almost entirely rely on consultants and investment bankers to bring leads and then screen them for further action. There does not seem to be a permanent resource base for addressing this activity. However, setting up of OVL has been a step in the right direction by ONGC. The proactive identification of assets for acquisition and development of a permanent institutionalized mechanism is still at a nascent stage. The approach to appointing investment bankers should also be significantly professional with adequate incentives for them to bring deals on to the table for Indian NOCs.</td>
</tr>
<tr>
<td>Technical Risk Mitigation</td>
<td>While ONGC and Oil may have internal experts to carry out initial due diligence, the likes of IOC, BPCL and HPCL have to rely more in external technical consultants. These consultants are mostly from US/Canada or UK - and it takes significant time to select these consultants through a bidding process. The requirement of good technical expertise in India to assist in independent technical due diligence is the need of the hour. As the Chinese experience shows partnering with the IOCs would also go a long way in mitigating technical and operating risks of difficult projects and also lead to learning for the Indian NOCs.</td>
</tr>
<tr>
<td>Commercial Risks</td>
<td>While financial and commercial due diligence is relatively straightforward still there is a need for internationally reputed and locally adept consultants—which requires retaining a panel of such consultants and appointing them at short notice. The Indian NOCs have to take a flexible approach and adopt a more strategic perspective when carrying out such commercial risk evaluation and factor in the long term needs and prospects of hydrocarbon assets. The emphasis should be to acquire assets with minimal exploration risks and hence ensure that the oil and gas produced is marketable or it can be brought to India with adequate supporting infrastructure.</td>
</tr>
<tr>
<td>Professional Bidding &amp; Valuation</td>
<td>Indian bids are almost every time beaten by the Chinese. More often than not the bidding strategy and sometimes the price is available in the news press immediately after or even the board meeting - thereby jeopardizing and undermining the price bids for assets in an international competitive bidding scenario. The need to professionalise the bidding process and ensuring the secrecy of the process is paramount. Also there may be a need to also evolve a pragmatic bidding philosophy that ensures more bids are successful and competitive vis-a-vis the Chinese. Lower cost of financing and strategic understanding of the market is thus paramount.</td>
</tr>
<tr>
<td>Financing Challenges</td>
<td>So far most of the Oil &amp; Gas majors’ acquisitions have been funded through balance sheet resources. But the need of the hour would be to have non-recourse acquisition financing for larger acquisitions and to obtain international bank financing. While SBI has played a major role in some of the energy acquisitions in the past, the need of the hour is to enhance the capital pool through leveraging the limited equity base and roping in more international financing for the acquisitions. However without mitigation of commercial and political risks such bank financing may totally dry up or be entirely reliant on the parent’s guarantees- thereby limiting the ability to fund large acquisitions. A sovereign fund from India can go a long way in ensuring this problem is addressed permanently.</td>
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<tr>
<td>Mitigating political risks</td>
<td>The above statement of assets held by India majors overseas brings out the diversity of the geographies and consequently the diversity of the political risks that such investments face in the currently turbulent world. Civil war is Libya, Syria, South Sudan; Chinese threats on South China sea, political action in Indonesia on coal pricing, Venezuelan political upheavals, Nigerian insurgency are all but instances of such events. Even issues around oil and gas exports from US and Canada and the roles of DOE, FERC and NEB (Canada) lend considerable uncertainty. While there has been some discussions on political risk mitigation - by concerned OVL - there is hardly any policy framework from Government of India to indicate the appropriate responses and strategy to mitigate political risk events that jeopardise large investments.</td>
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</table>
Policy Prescriptions for enabling Asset Acquisitions:

It is suggested, based on the above that a comprehensive policy framework be evolved for the oil majors’ asset acquisitions abroad:

• Ensuring a smooth and professional conduct of the whole process including appointment of advisers and technical due diligence - without such a framework - more often than not the asset acquisition efforts would fail to achieve the desired result and there may be unexpected outcome and failures. The government policy should allow considerable freedom and flexibility in this area – so as to ensure that the Indian entities are much more proactive and fast in their decision making.

• Developing strong Indian capability for upstream asset appraisal - and ensuring that foreign expertise is utilized only at an advanced stage to understand key technical features. Without a strong local professional support it is extremely difficult for Indian entities to always rely on foreign technical experts. The policy makers can encourage setting up of a dedicated professional entity for this purpose - and man them with technical as well as commercial experts dedicated purely to the task of assisting the asset acquisition initiatives of India entities.

• Ensuring availability of a basket of financing in USD from Indian banks or sovereign funds that go towards financing these acquisitions. This basket of financing can be made available from key Indian banks, from the sovereign reserves of India (through RBI), or through a specialized fund dedicated for this purpose of asset acquisition. The policy makers and planners should expedite the setting up or allocation of this fund from sovereign or quasi sovereign sources so as to facilitate large scale asset acquisition initiatives.

• Developing a strong framework of insuring the investments against political risks and political action (nationalization, expropriation, war, other disruptions, or biased action etc.) so that the large investors and banks funding these are insulated from the risks of these making them open their purse strings with less hesitation for e.g. for sub investment grade countries like Mozambique or Tanzania, and protect the investments from political action in countries like Syria, Libya, Iraq or Iran. The policy makers need to develop (in consultation with international multilateral bodies as well as bilaterally) a framework that ensures that political risks affecting Indian investments abroad in the energy sector are fully mitigated. Government to Government agreements and protocols are also necessary.

Our analysis showed that through we have an active asset acquisition plan abroad; our competitors beat us in the race very frequently. To encourage more successful bids,
therefore, we may have to take certain measures as an extension to the above suggested measures to reduce risk perception on the part of the investors. It is suggested that:

- Create a fund for a guarantee programme: Set aside a $5 billion fund for providing guarantee to the investors against political risks in the countries where investments in oil and gas assets are to be made.
- The Fund could also be used to guarantee against currency turmoil, external aggression and internal disturbances. This is expected to improve confidence level of the Indian investor to pursue “go abroad” policy more rigorously.
- Guarantees could be provided to both the private investor from India as well as to our National Oil Companies.

It must also be stated that perhaps this is the best time for more vigorous asset-acquisition programme, as the recent downward trend in prices of oil has made many of the fields uneconomic at the moment but would turn out to be advantageous in the long run. It is therefore recommended that we may look for energy assets in the US and Canada for acquisition. Similarly, Africa is a highly promising region. For example in addition to the discoveries in a number of countries in Africa, it is expected that Kenya, especially Uasin Gishu region could be an important player in future. This is another region, therefore, worth concentrating for acquisition, as Kenya has problems of trained manpower for maximizing the advantage of new discovery.

In the next chapter we will examine issues and challenges pertaining to cross-border gas pipelines.
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