



**The Rise of Asia's National Oil Companies:
Competitive Issues and Geopolitical Implications**

**India's National Oil Companies Emerging as
Commercial Actors in the International Energy
Market**

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Roadmap

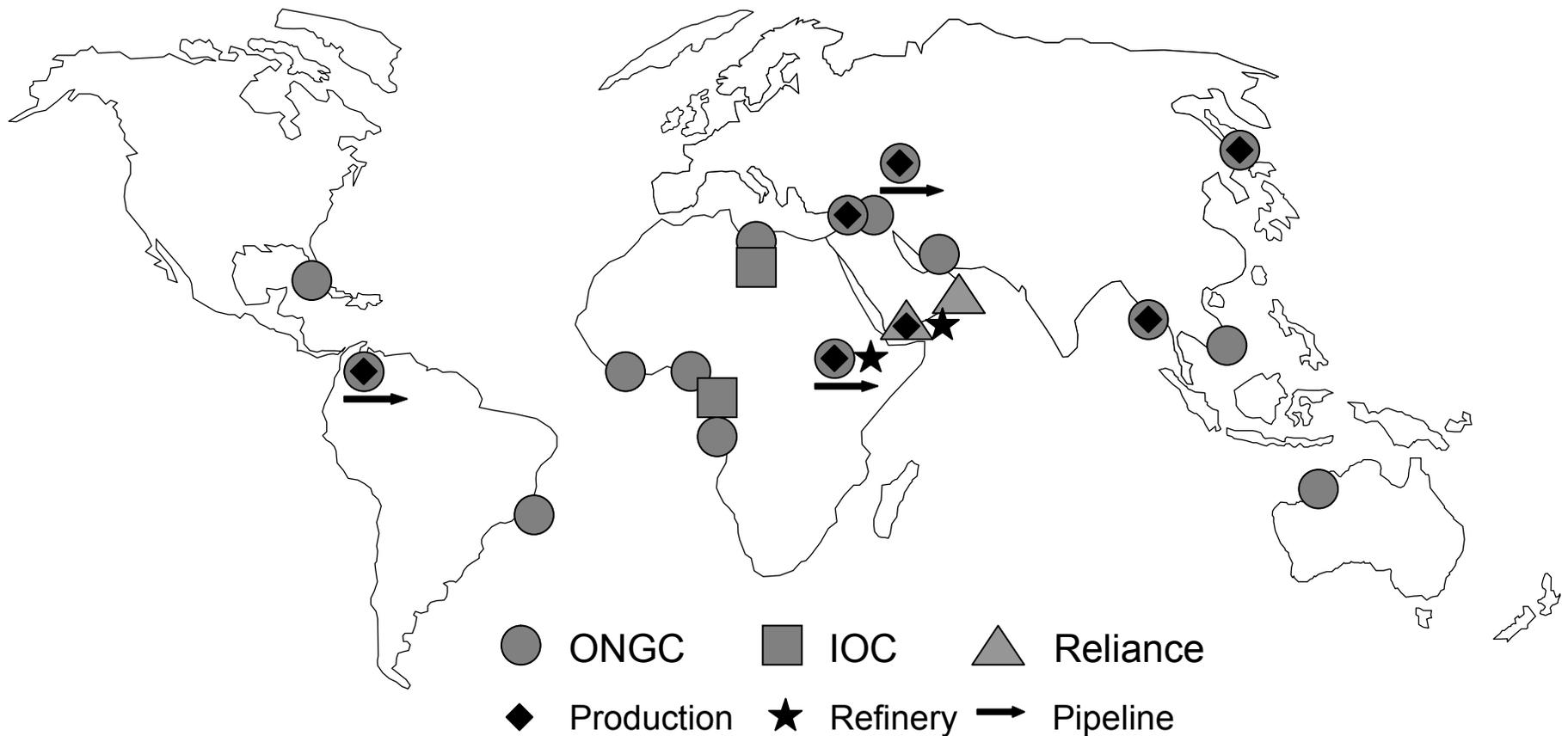
- ▶ Summary of Global Energy Strategies
- ▶ Role of GOI—Constraint or Enabler
- ▶ Impact on the international energy market
- ▶ Role in Energy and National Security Agenda

The paper focused on two of India's largest state-owned companies and one commercial company.

COMPANIES	Ownership Government	Ownership Others	Reported Sales	Market Capitalization	Investment Focus	Overseas Instrument
Oil and Natural Gas Corporation	74%	26%	\$10B USD	\$41.9B USD	Integrated; focus on upstream and building downstream positions	ONGC Videsh Ltd
Indian Oil Corporation	82%	18%	\$41B USD	NA	Integrated; focus on downstream refining and securing supply for refineries	Special purpose vehicles
Reliance Industries	N/A	100%	\$19.9B USD	\$24.8B USD	Integrated; focus on refining and upstream integration	Reliance E&P DMCC

Sources: Company annual reports, Oil & Gas Journal, Energy Intelligence Group, JS Herold

India's national oil companies' pursuit of overseas acquisitions has transformed India into a global energy actor. The investments of ONGC, IOC, and Reliance span 19 countries on five continents.



Indian companies are pursuing a range of strategies to build an international presence.

ONGC/OVL

- ▶ Pursuing aggressive upstream acquisition-led strategy
- ▶ Selling on international market and sending crude to Indian market
- ▶ Linking downstream investments to upstream opportunities
- ▶ Leveraging partnerships with private international companies
- ▶ Leveraging commercial relationships with other sectors
- ▶ Partnering with other national oil companies

IOC

- ▶ Pursuing a modest upstream acquisition strategy in partnership with ONGC and others
- ▶ Buying crude to feed domestic and foreign refineries
- ▶ Increasing its downstream assets overseas—with aim toward serving regional markets
- ▶ Leveraging partnerships with private international companies to gain access to niche expertise
- ▶ Partnering with other national oil companies

Reliance

- ▶ Pursuing an incremental upstream expansion strategy
- ▶ Purchasing long-term contracts to feed domestic refineries
- ▶ Leveraging partnerships with private international companies
- ▶ Partnering with other national oil companies

Government oversight influences company operations less today than in the past. On balance, the influence it wields has helped Indian companies transform into competitive commercial players.

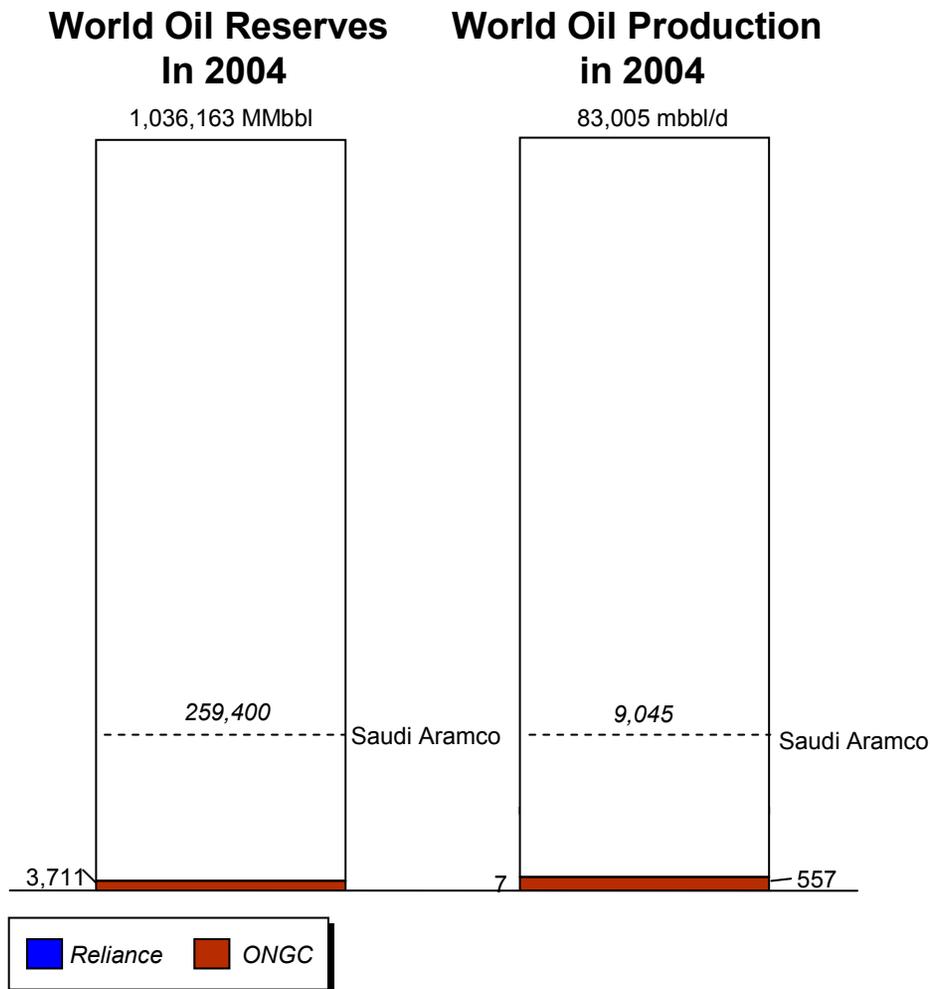
Constraint

- ▶ Domestic regulations (e.g., price controls), constraining financial resources
- ▶ Direct day-to-day management
 - Government control over board of directors
 - Production targets and annual targets
- ▶ Approval processes for domestic and overseas investments

Enabler

- ▶ Introduction of competition in Indian energy sector
 - NELP
- ▶ Freedom to pursue opportunities outside India
 - Streamlined approval processes
 - Rising ceiling for approval process
 - Pressure to finance investments from global markets
- ▶ Oil diplomacy
 - MOUs with major suppliers and consumers
 - Set frameworks for pipeline discussions
- ▶ Multilateral fora to build international stature

National companies' growth strategies are padding their overseas portfolios and increasing their interactions with national and private companies, but this strategy has little impact on today's market.



Relatively Minor Players in International Energy Market

- ▶ India's overseas production accounts for
 - ▶ less than 1% of world production in 2004
 - ▶ Less than 5% of India's total oil and gas imports in 2006, even with recent increases in production
- ▶ Need to secure commercial funding will keep Indian companies away from risky deals
- ▶ Indian companies don't receive coordinated support from Indian government (e.g., aid packages and loans)
- ▶ However, expect to see more Indian companies pursuing overseas opportunities

India's energy acquisitions help meet energy security objectives but have not been integrated into its national security strategy.

- ▶ National companies play a facilitating role in many of India's most important strategic relationships
- ▶ Overseas investments contribute to supply diversification but do not enhance energy security
 - Threat of disruption remains
 - Overseas energy assets engender new military and security challenges for the Indian military
 - Only the Navy has begun to examine the strategic implications of India's overseas interests
- ▶ India's energy strategy underscores compatible and conflicting interests with China as both countries pursue a greater share of the global market
 - National companies see benefits from cooperation with Chinese companies
 - National security community view competition for resources as inevitable

Energy plays a facilitating role in many of India's most important strategic relationships.

Partner	Compatible Energy Interests	India's Other Priorities	Energy's Facilitating Role
United States	India needs nuclear technologies. U.S. needs want markets.	Integrate in international community. Form strategic partnership with U.S.	Energy provides a rationale for nuclear deal that delivers integration and partnership.
China	Both countries need to grow their share of the world oil market.	Keep pace with China's influence. Maintain beneficial relationship.	Energy cooperation shows China and India gain when they work together.
Saudi Arabia	India needs oil. Saudi Arabia needs markets and diversification ops.	Maintain visas for million-plus foreign workers and protect their rights.	"Criss-cross energy investments help build relationships." <i>Fmr Secretary</i>
Iran	India needs gas. Iran needs markets and international support.	Gain access to Central Asia. Contain Sunni extremists in Afghanistan and Pakistan.	Pipeline negotiations provide a framework for interaction.
Brazil	India needs offshore capability, ethanol. Brazil needs business.	Coordinate with ally for UN Security Council expansion. Promote business ops.	Pledges of energy cooperation signal productive relations.