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

Presented by
Juli A. MacDonald

Washington, DC
May 4, 2007
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.

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

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.

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Enabler</th>
</tr>
</thead>
<tbody>
<tr>
<td>▸ Domestic regulations (e.g., price controls), constraining financial resources</td>
<td>▸ Introduction of competition in Indian energy sector</td>
</tr>
<tr>
<td>▸ Direct day-to-day management</td>
<td>▸ NELP</td>
</tr>
<tr>
<td>– Government control over board of directors</td>
<td>▸ Freedom to pursue opportunities outside India</td>
</tr>
<tr>
<td>– Production targets and annual targets</td>
<td>▸ Streamlined approval processes</td>
</tr>
<tr>
<td>▸ Approval processes for domestic and overseas investments</td>
<td>▸ Rising ceiling for approval process</td>
</tr>
<tr>
<td></td>
<td>▸ Pressure to finance investments from global markets</td>
</tr>
<tr>
<td></td>
<td>▸ Oil diplomacy</td>
</tr>
<tr>
<td></td>
<td>▸ MOUs with major suppliers and consumers</td>
</tr>
<tr>
<td></td>
<td>▸ Set frameworks for pipeline discussions</td>
</tr>
<tr>
<td></td>
<td>▸ Multilateral fora to build international stature</td>
</tr>
</tbody>
</table>
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.

**World Oil Reserves In 2004**
- 1,036,163 MMbbl
- 259,400
- 9,045

**World Oil Production in 2004**
- 83,005 mbbl/d
- 7
- 557

**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.

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