

India's Energy Sector: Where Economics Meets Strategy

Perspectives on India's Growing Global Role in the International Energy Sector and the Intersection with India's Foreign Policy

Presented by
Juli A. MacDonald

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Roadmap

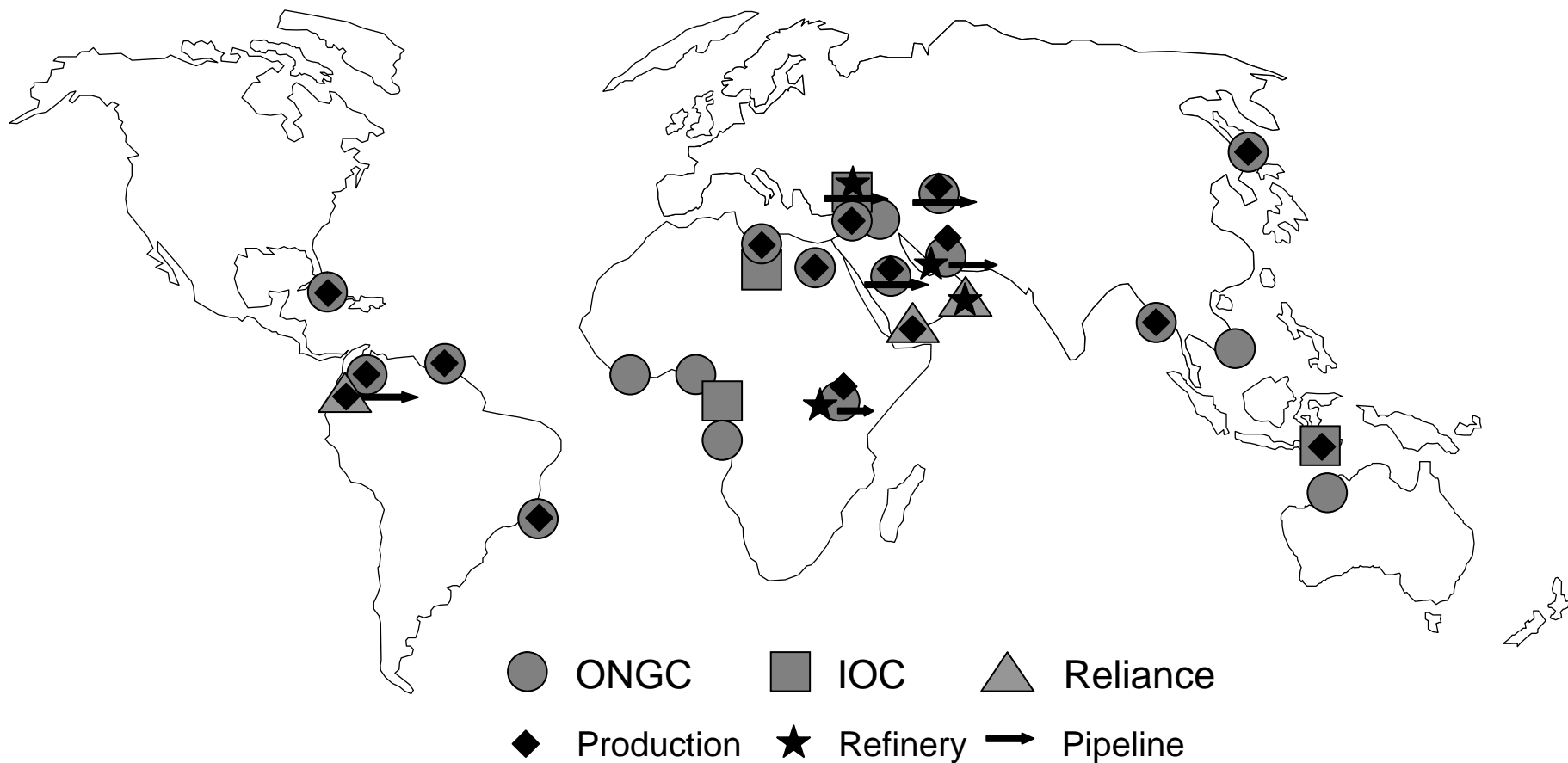
- ▶ Overview of Three Indian Companies
- ▶ Role of GOI—Constraint or Enabler
- ▶ Role of Energy in National Security Agenda

Two of India's largest state-owned companies and one commercial company are leading the country's energy outreach.

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 (data from 2007).

These companies' pursuit of overseas acquisitions has transformed India into a global energy actor.



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

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 important strategic relationships
 - Oil diplomacy
 - Pipeline projects
- ▶ 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
 - Enlarged strategic neighborhood
 - Transformation of Navy

Energy is a complex factor in the Indo-China relationship

- ▶ 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
- ▶ China's position in Indian Ocean is driven by energy and strategic interests; creates context for potential competition

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.
Japan	Seek maritime security for energy transport. Share concerns about China.	Seeks investment in economy and access to technology.	Shared energy security concerns drives nascent military cooperation.
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.