Plenary Session 2 on India Rising - Resilience and Reforms

The second plenary session on the topic India Rising – Resilience & Reforms, was chaired by Dr. Arvind Panagariya, Vice Chairman, Niti Ayog and moderated by Mr. Gaurav Semwal, PwC. The distinguished speakers of the sessions included Mr. David Bluemental, Latham & Watkins LLP, Hong Kong; Mr. B.C Tripathi, CMD, GAIL India; Mr. Nizar-Al-Adsani, Deputy Chairman & CEO, KPC and Mr. Atanu Chakraborty, Director General of Hydrocarbons.

Opening the discussion, Dr. Arvind Panagariya, Vice Chairman, Niti Ayog, said that it was surprising but reassuring to know that there are many other developing countries who have had similar struggles but are now taking encouraging steps. “There is a lot of supply side uncertainty but there is no uncertainty for demand in India and is it going to increase at a rapid pace. Niti Aayog is working on a National Energy Policy. This is in lines with the suggestions by Mr. B C Tripathi. Policy will try to push in the direction of deregulation and increase markets play in the energy sector”, he added. On a specific reference to use of natural gas, he said that India was very far below the national global average. “Gas is the next obvious fuel for electricity. It is required to take steps to vitalize the domestic gas production and at the same capitalize on LNG for meeting energy demand”, he said. He added that it was the need of the hour to rapidly expand LPG in rural areas where harmful biomass based energy resources continue to be used.

Taking the discussion forward, Mr. David Bluemental, Latham & Watkins, said, “We need to provide structures to achieve the Government’s goal for energy industry – efficient energy, accessible energy, sustainable energy, secure, stable energy”. Resilience is being built into the regulatory system through measures like shift to pro-investment policy post the 2014 crash. Such initiatives promote robust national oil and gas industry, enable NOCs to ease and allows private and IOCS latitude to operate. This also ensures national content while encouraging application of new technologies and encourage development of deepwater and other high risk high cost unconventional resources.

He cited specific case studies and examples of some countries to make his case. For example -

- Mexico
  o Constitutional change that maintain state ownership of subsoil HC resources but allow ownership of companies to take ownership for resources once they are extracted and to book reserves for accounting purposes
  o Create 4 different types of contacts – service contracts, profit sharing, PSC and licensing
  o Opening of downstream and midstream sector
  o Strengthening of four federal entities

- Indonesia
  o Draft law will improve country’s energy security to counter the change in the country’s Oil & Gas position and decreasing resources
  o Under the new law, Pertamina has the right of first refusal over any new O&G contracts to increase role as a producer

- Argentina
  o New Hydrocarbon Act was enacted in 2014 to encourage long-term foreign oil and gas investment
  o Conditions of investment
    § Extends exploration and production
    § Special concession for unconventional
    § Caps royalties and bonus fee etc.

- Nigeria
  o Adopted the Oil & Gas Industry content development act at promoting the level of participation of Nigerian and local companies
Award not solely on the basis of lowest bidder (Provided local company’s bid does not exceed the lowest price bid by 10%)

Colombia

Ecopetrol used to be NOC/Agency but now the company has now more corporatized the company and separated the regulator by creating a new entity ANH

Addressing the delegates, Mr. B.C Tripathi, CMD, GAIL India said that there were three macroeconomic imperatives for designing:

- Demographic imperative of India
  - Increase in young working population and creating jobs
  - Increasing urbanization.
- Stress on resources – Water and land
- Environmental
  - Find a balance between growth and environment

In this imperative, he proposed five actions to be undertaken on the road ahead –

1. Need of an overarching energy policy monitored centrally which pushes Natural Gas to complement environment. The objective of pushing NG cannot be left to market forces only.
2. Affordability and Price – Create an affordable scenarios of sectoral and cross-sectoral pooling
3. Reforms in downstream structure
4. Regulatory reform for market developments – Create a master energy regulatory with upstream, midstream and downstream to ensure an integrated view is taken. Regulatory process needs to be more vibrant to reflect the ever changing environment and technology. Overarching policy needs to be refined constantly
5. Periodic review of energy regulations to stress test their efficacy and realities of market

Making a strong case for targeting gas in the overall policy framework, he advocated integrating a regulatory objective with overall policies, ascertaining energy consumption points across the gas consumption value chain, prioritizing downstream structure, planning availability of domestic gas and enabling pricing mechanism and synchronization of downstream and midstream infrastructure.

In his remarks and presentation, Mr. Nizar-Al-Adsani, Deputy Chairman & CEO, KPC, said, “Leadership and people of Kuwait share great love for India and it augurs well for future energy relationships. India’s energy and economy is one of the best in the world. India has always been a top trading partner for Kuwait and is the fourth largest crude suppliers. Future prospects for collaborations are there but there is need to create a win-win situations.” Speaking on KPC’s excellent business relationships with Indian Oil, Essar, Reliance and ONGC, he praised India’s skills in R&D, skilled labour, medicine, etc.

Reiterating KPC’s commitment to invest in energy security while complying with environment (COP21 commitments), he spoke about India’s interest in exploration and petrochemicals. “In Kuwait, India can invest in the infrastructure sector”, he added. Presenting a glimpse into the Kuwaiti hydrocarbon sector, he said that Kuwait has invested US$ 70 billion in the last 3 years and would invest over US$ 100 billion globally in the next five years. “The objective is to find avenues for Kuwaiti hydrocarbons.”, he reiterated. He made a strong case of Kuwait 2020 strategy which includes increasing oil production capacity from 3 million barrels/day to 4 million barrel/day, increasing refining capacity with clean fuels (low S) primarily for exports.

In his address, Mr. Atanu Chakraborty, Director General of Hydrocarbons, said, “India needs to take steps to reduce import dependency for crude oil. Indian Oil demand is expected to grow from 140 Mtoe in 2013-14 to 318 million Mtoe in 2021-22. However, our production is expected to grow from 62 Mtoe to 68 Mtoe during the same period. To reduce our crude inputs by 10% till 2020, we need to produce incremental crude production (37 Mtoe) as we are producing currently. NOC’s have 80% of the current reserves and the remaining 20% is with the PSC companies. NOC’s account for 70% of the oil production and 80% of the gas production. They also have the lion’s share with respect to mining leases Both public and private sector have an important role to play.

Highlighting key issues faced by E&P sector in India, he mentioned heavy regulation, micro management and red tapeism, multiple licenses for conventional and unconventional resources, poor
reserves, insufficient data, lack of freedom in pricing and poor market access, lack of Infrastructure and fiscal incentives and inadequate incentives in difficult areas. Advocating strong regulatory reforms, he proposed new schemes such as thinner regulatory stance of government. Hydrocarbon Exploration and Licensing Policy (HELP) to improve ease of doing business, change from production sharing to revenue sharing contract model, reduce regulatory administration, change in bidding model and move to an ‘Online Model ’ to improve efficiency and transparency. Open Access Licensing Policy (OALP) dependent on creation of National Data Repository (NDR) and extension of PSC and resolution of pending issues through policy reforms. He added that measures were needed to expand reserves to increase the appraised seismic area and increase availability of reliable data, invoke a National Seismic Programme to undertake a fresh appraisal in all sedimentary basins in all India, re-assess prognosticated hydrocarbon resources of India and shift towards Open Data Policy.

He added that pricing and marketing access has completely been opened up due to new domestic gas pricing guidelines and complete freedom for pricing and marketing crude oil. Infrastructure is coming up through joint development of contract areas besides development of common infrastructure and new pipeline. This has been aided by steps such as multiple fiscal incentive – No oil cess in HELP, DSF 2016 and new reforms for difficult areas. He added that India's OGRS scores (independent survey by IHS) is expected to make the most notable gains in the upstream sector attractiveness in Asia Pacific by 2021 and success of DSF points out towards the success of all these set of initiatives

Moderating the discussion in the second Plenary Session, Mr. Gaurav Semwal, PwC, said, “India’s primary energy requirement is going to grow to 1,500 mtoe which is 2.2 times the current consumption. More importantly, almost 46% of this demand has to be imported which creates imperatives for policy makers. Various upstream initiatives include HELP (Hydrocarbon Exploration Licensing Policy), DSF (Discovered Small Field rounds), pricing for HP/HT fields and PSC extensions for small and medium sized fields. Many of these initiatives are aimed at reducing Indian import dependence. On the downstream side, many steps to realize India’s ambitions of becoming a refinery hub including PCPIRs, proposal for a mega refinery by OMCs, price decontrol etc. Indian also started one of its kind Direct Benefits Transfer scheme in the world as well as other initiatives such as UJJWALA. Similarly, implementation of BS-VI standards in 2020 is also a step towards cleaner fuels. Steps to encourage development of gas grid and infrastructure in India have also been taken. These include new CGD allocations and viability gap funding (VGF) for gas pipelines”, he added.