OVERSEAS ACQUISITIONS OF ENERGY ASSETS BY INDIA

Submitted by: Arvind Maharajan **Date:** 14.12.2010

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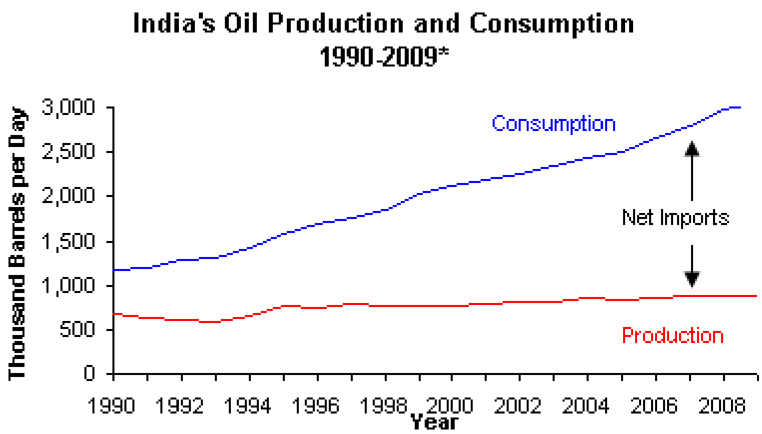
1. Need of the hour

The Indian sub-continent has been undergoing an accelerated growth in the recent past. In spite of the global economic slowdown, the average growth rate of India's gross domestic product (GDP) during the period 2006-09, was about 8.6 per cent. The corresponding average growth rates of net national income and personal disposable income were 14.5 per cent and 14.7 per cent, respectively.

India's per capita energy consumption is 383 Kg of Oil Equivalent (KGOE) as against the world average of 1,737 KGOE, which indicates a significant potential for growth in the demand for energy. As per the Integrated Energy Policy of the Planning Commission, Government of India, India's energy need is expected to grow four-fold from 433 Million Tonnes of Oil Equivalent (MTOE) to around 1,856 MTOE by 2032. However, India depends largely on imports with over 75% of oil and 16% of gas consumption being imported. The Government of India is keen to increase per capita consumption of energy to raise living standards in the country.



Source: U.S Energy Information Administration

Higher economic growth is driving income growth, which in turn is driving up industrial investment and fuel consumption. In general, demand exceeds supply and there is a broad-based energy shortage, which is either met by imports or remains unmet.

2. **"Acquiring" Energy Security**

India is rich in culture, diversity and in population too. But when it comes to natural resources, the picture is not that colourful. This dearth in natural reserves has not stunted our consumption or our accelerated growth in any way. In order to bridge the huge gap between production and consumption, and achieve all the ambitious plans proposed by the National Electricity Policy the government needs to ensure sufficient supply of energy resources under all circumstances and make the country energy secure. This can be achieved by increasing our resource base.

Acquiring energy assets abroad is the most sensible thing to do to achieve energy security. As part of its energy security strategy, India has forged new ties with Russia, Iran and China and built partnerships with Burma and Venezuela. The country has also carefully entered into cooperative relationships with several oil producing countries in Africa and in the Middle East. India has also allowed public sector companies such as ONGC and OIL to secure ownership of oil and gas fields and companies overseas. ONGC has acquired equity stakes in the oil fields in Iran, Iraq, Sudan, Libya, Angola, Burma, Russia, Vietnam and Syria. India is looking at Kazakhstan as an important emerging exporter of oil and gas. Kazakhstan is among the top ten countries in the world in terms of explored oil and gas reserves. The country depends significantly on overseas funding to develop these resources, which offers investment opportunities to India.

3. **The Pioneer and The Followers**

The game of overseas energy acquisitions began with the formation of ONGC Videsh Limited (OVL) in 1989. The main objective of this 100 percent subsidiary of the flagship national oil company was to help the country achieve energy security. The primary business of OVL is to prospect for oil and gas acreages abroad including acquisition of oil and gas fields, exploration, development, production, transportation and export of oil and gas.

Following the foray of OVL into acquisition of energy assets abroad, other upstream and even downstream players in the oil & gas sector had started acquiring energy assets in other nations. A few companies that have been actively involved in this game of acquisitions, other than OVL would be:

- Oil India Limited (OIL)
- IOCL
- BPCL
- Reliance (RIL)
- HPCL
- GAIL
- Cairn India

Today we see that even coal sector companies have started acquiring energy assets overseas. For example, **Adani** group's deal in acquiring Linc Energy's coal mines in Australia for Rs 12,600 crore in August this year, is the largest seen so far. Also, **Coal India Limited** (CIL) has made ambitious plans of overseas acquisitions.

4. Acquiring the "Black gold"

"As we head to war with Iraq, President Bush wants to make one thing clear: This war is not about oil. It's about gasoline."

— ***Jay Leno***

Unfortunately, not all countries can afford to have such aggressive and barbaric plans to acquire the Black gold, at least not India. India being a much more civilized and peace loving country, took the non-violent route to acquire the black gold, and thus began the game of acquisitions of energy assets abroad by India.

4.1 ONGC Videsh Limited

ONGC Videsh Limited (OVL) was rechristened on 15th June 1989 from the erstwhile Hydrocarbons India Private Limited, which was incorporated on 5th March, 1965. Over a period of time, OVL has grown to become the second-largest E&P

Company in India both in terms of oil production and oil and gas reserve holdings. The primary business of OVL is to prospect for oil and gas acreages abroad including acquisition of oil and gas fields, exploration, development, production, transportation and export of oil and gas. OVL is a wholly-owned subsidiary of **Oil and Natural Gas Corporation Limited** (ONGC) - the flagship national oil company of India.

Starting with the exploration and development of the Rostam and Raksh oil fields in Iran and undertaking a service contract in Iraq, a major breakthrough was achieved by OVL in 1992 in Vietnam with the discovery of two major free gas fields, namely LanTay and LanDo, in partnership with British Petroleum and Petro-Vietnam. The success carried on thereafter. In 2001, OVL acquired 20% stake in Sakhalin-1 project in the far east of Russia. In January 2009, OVL completed the acquisition of Imperial Energy Corporation Plc – a UK based Company having its exploration and production assets in Tomsk region of Western Siberia, Russia with an investment of over USD 2.1billion.

The company, adopting a balanced portfolio approach, maintains a combination of producing, discovered and exploration assets, working as operator in 17 projects and joint operator in 5 projects. OVL produces hydrocarbons from its 9 assets, namely, Russia (Sakhalin-I and Imperial), Syria (Al-Furat Project), Vietnam (Block 06.1), Colombia (Mansarover Energy Project), Sudan (Greater Nile Oil Project and Block 5A), Venezuela (San Cristobal Project) and Brazil (BC-10); 6 projects are in development phase and 23 are in the exploration phase.
OVL's international oil and gas operations produced 8.87 MMT of O+OEG in 2009-10 as against 0.252 MMT of O+OEG in 2002-03. OVL's overseas cumulative investment has crossed USD 10 billion.

OVL currently owns assets in CIS & far-east, Middle-East, Africa and Latin America.

4.1.1Assets

CIS& Far-East:

Vietnam:

OVL owns 3 blocks in Vietnam. Their details are as follows:

Block 06.1:

- Block 06.1 is an offshore Block located 370 km south–east of Vung Tau on the southern Vietnamese coast with an area of 955 sq km.
- OVL with 45% PI, British Petroleum (Operator) with 35% PI and PetroVietnam, a Vietnamese Government-owned entity with 20% PI, have developed the Lan Tay field in the Block.
- The field started commercial production in January, 2003. During 2009-10, OVL’s share of production from the project was 1.967 BCM of gas and 0.042 MMT of condensate as compared to 1.848 BCM of gas and 0.046 MMT of condensate during 2008-09.
- OVL’s share of the development expenditure was approx USD 230 million till 31st March, 2010.

Block 127:

- Block 127 is an offshore deepwater Block, located at water depth of more than 400 meters with 9,246 sq km area in Vietnam.
- The PSC for the Block was signed on 24th May, 2006. OVL holds 100% PI in the Block with Operatorship.
- Exploration was done in July 2009 to a depth of 1265 metres and no hydrocarbons presence was detected. As there was no hydrocarbon presence, the Company has decided to relinquish the block to Petrovietnam.
- The Company has invested approx USD 68 million till 31st March, 2010.

Block 128:

- Block 128 is an offshore deepwater Block, located at water depth of more than 400 meters with 7,058 sq km area in Vietnam.
- The PSC for the Block was signed on 24th May, 2006. OVL holds 100% PI in the Block with Operatorship.
- A well had been identified and the rig was deployed on the location in September 2009. The well could not be drilled with the rig as it had difficulty anchoring on the location. The drilling activity was terminated and it is planned that the location shall be drilled in 2011.
- The Company has invested approx USD 45 million till 31st March, 2010.

Myanmar:

- In Myanmar OVL owns 5 blocks. OVL is participating in the complete hydrocarbon exploration, production and transportation chain comprising combined Upstream Field development of A-1 and A-3 Blocks, Offshore Pipeline JV Company and Onshore Pipeline Company. OVL also holds a stake in Shwe Offshore Pipeline Joint Venture Company (PipeCo-1) and PipeCo-2 also.
- As per current estimates, OVL's share of investment jointly for Blocks A-1 and A-3 including Pipeco-1 & 2 projects is estimated at about USD 1 billion.
- OVL acquired three offshore deepwater exploration Blocks i.e. AD-2, AD-3 and AD-9 on 23rd September, 2007 in Myanmar. OVL is the operator with 100% PI in all the three Blocks.
- The Company has invested approx USD 24 million in the Blocks till 31st March, 2010.

  (See Annexure for complete details.)

Russia:

Sakhalin-1

- Sakhalin-1 - a large oil and gas field Far East offshore in Russia
- OVL acquired stake in the field in July, 2001. OVL holds 20% PI in the field

- OVL's maximum net cash sink for investment in this project was approved at USD 1,556 million.

Imperial Energy

- OVL acquired Imperial Energy Corporation Plc., an independent upstream oil Exploration and Production Company having its main activities in the Tomsk region of Western Siberia, Russia on 13th January, 2009 at a total cost of USD 2.1 billion. Imperial's interests comprise of seven blocks in the Tomsk region.
- As on 1st April 2010, OVL's share of 2P reserves in the project was 112.871 MMT (O+OEG).
- The Company has invested approx USD 2,335 million till 31st March 2010 in the project.

Middle-East:

Iran

Farsi Offshore Exploration Block:

- Farsi is an offshore exploration Block spread over 3,500 sq km in Persian Gulf Iran.
- The contract for the Block was signed on 25th December, 2002. OVL holds 40% PI.
- OVL's share of investment was approx USD 36 million till 31st March, 2010.

Iraq

Exploration Block-8:

- OVL is the sole licensee of Block-8, a large onland exploration Block in Western Desert, Iraq spread over 10,500 sq km.
- The Exploration & Development Contract (EDC) for the Block was signed on 28th November, 2000.
- The Company has invested approx USD 2 million till 31st March, 2010 in the project.

Syria:

Al Furat Project:

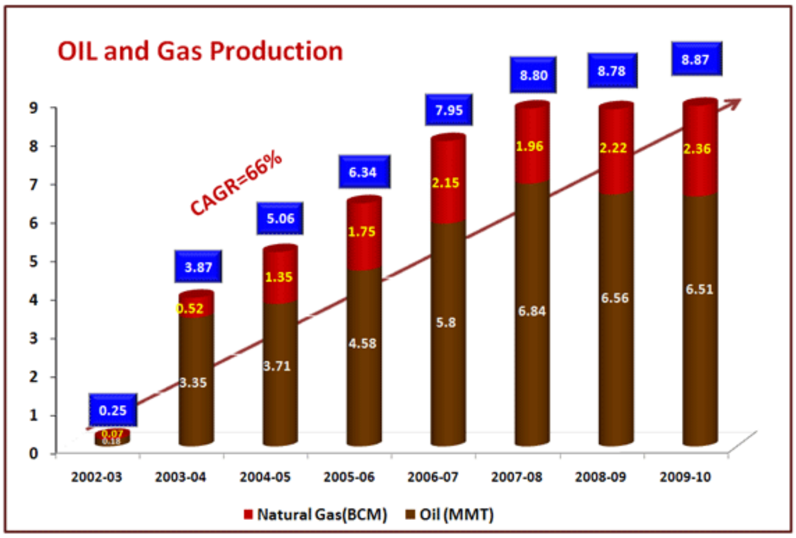
- ONGC Nile Ganga BV (ONGBV) and Fulin Investments Sarl, a subsidiary of China National Petroleum Company International (CNPCI), hold 33.33% to 37.5% PI in four Production Sharing Contracts (PSCs) comprising 36 producing fields in Syria.
- The acquisition was completed on 31st January, 2006.
- OVL had advanced approx USD 223 million towards cost of acquisition.
- OVL's share in the oil production was 0.718 MMT during 2009-10 as compared 0.812 MMT during 2008-09.

Block-XXIV

- Block-XXIV, measuring about 3,853 sq km is an on-land Block located in the central eastern part of Syria.
- The contract for the Block was signed on 15th January, 2004
- OVL holds 60% PI in the Block with IPR Mediterranean Exploration Ltd.
- OVL incurred a capital expenditure of approx USD 29 million till 31st March, 2010.

Africa & Latin America

In the African continent, OVL has acquired assets in Egypt, Libya, Sudan and Nigeria. In Latin America, OVL owns assets in Venezuela, Cuba, Brazil and Colombia. (See Annexure for the asset details.)



Source: OVL

4.2 Bharat Petroleum Corporation Limited

BPCL entered the Upstream sector in 2003 with the aspirations of reasonable supply security of crude, hedging of price risks, to become a vertically integrated oil company and to add to BPCLs bottom-line.

Creation of BPRL:

Considering the need for a focused approach for E&P activities and implementation of the investment plans of BPCL at a quicker pace, a wholly owned subsidiary company of BPCL, by the name Bharat PetroResources Limited (BPRL) with an authorized share capital of Rs 1000 Crores was incorporated in October 2006, with the objective of carrying out Exploration and Production activities.

- The first overseas onshore block was awarded to the BPCL consortium in Oman in June 2006.
- Subsequently, 1 offshore block in Australia and 1 offshore block in the Joint Petroleum Development Area (JPDA) between Australia and East Timor were also awarded to the BPCL consortium. Also, 2 blocks have been acquired through the Farm-in process (1 offshore block in Australia in 2006 and 1 shallow water block in the North Sea in early 2007).
- Further, BPRL has bid successfully for an offshore acreage in the North Sea (UK) in 2008.
- BPRL and M/s Videocon Industries Limited (VIL) jointly bid successfully for the acquisition of 10 deep water exploration blocks (across 4 concessions) in offshore Brazil. These blocks were held by M/s EnCana Corporation, Canada, through their affiliate M/s EnCana Brazil Petroleo Limitada (EnCana).
- In December 2008, BPRL farmed into an offshore block in Mozambique with 10% PI, and in January 2010, farmed into an offshore block in Indonesia.

All the above blocks are in various stages of Exploration. BPRL consortium has drilled 6 wells in 2009, and is planning to drill 12 wells in 2010. A discovery has been announced in the Campos basin in Brazil and also in offshore Mozambique. BPRL has partnerships with some world renowned Operators including Petrobras and Anadarko.

4.3 Indian Oil Corporation Limited (IOCL):

IndianOil is the highest ranked Indian company in the latest Fortune 'Global 500' listings, ranked at the 125th position. IndianOil's vision is driven by a group of dynamic leaders who have made it a name to reckon with. Its business strategy focuses primarily on expansion across the hydrocarbon value chain, both within and outside the country. To enhance upstream integration, IndianOil has been pursuing exploration & production activities both within and outside the country in collaboration with consortium partners.

The overseas portfolio includes eleven blocks spanning Libya, Iran, Gabon, Nigeria, Timor-Leste, Yemen and Venezuela. IndianOil is associated with two successful discoveries in oil exploration blocks, one each in India and Iran. IndianOil also farmed into an exploration block in Gabon along with Oil India Ltd. (OIL) as the operator. In addition, the IndianOil-OIL combine has acquired participating interest in a block in Nigeria. The Corporation, in consortium with OIL, Kuwait Energy and Medco Energy of Indonesia has acquired a participating interest in two exploration blocks in Yemen. As part of consortium, IndianOil has been awarded Project -1 in the Carabobo heavy oil region of Venezuela. To boost E&P activities, IndianOil has incorporated Ind-OIL Overseas Ltd. – a special purpose vehicle for acquisition of overseas E&P assets – in consortium with Oil India Ltd.

4.4 Reliance Industries Limited (RIL)

In April 2010, RIL entered into a joint venture with the USA based Atlas Energy, Inc. (Atlas) under which RIL acquired 40% interest in Atlas' core Marcellus Shale acreage position. RIL has become a partner in approximately 300,000 net acres of undeveloped leasehold in the core area of the Marcellus Shale region in southwestern Pennsylvania for an acquisition cost of $ 339 million and an additional $ 1.36 billion capital costs This joint venture will materially increase RIL's resource base and provide an entirely new platform from which to grow its exploration and production business while simultaneously enhancing its ability to operate unconventional projects in the future.

- Additionally, RIL has farmed out 20% PI in the blocks Borojo North and Borojo South in Colombia
- 30% PI in block 18 and 25% PI in block 41 in Oman.
- RIL now has 13 blocks in its international E&P portfolio including 2 in Peru, 3 in Yemen (1 producing and 2 exploratory), 2 each in Oman, Kurdistan and Colombia, 1 each in East Timor and Australia; amounting to a total acreage of over 93,500 sq. kms.

4.5 <u>Oil India Limited (OIL) :</u>

Keeping in perspective the Indian Government's liberalisation policy and the dismantling of the Administered Pricing Mechanism, OIL expanded its business activities both within and outside the country, adding hydrocarbon related ventures like gas based power generation to its portfolio.

OIL is actively pursuing opportunities to acquire producing E&P assets, exploration acreages, etc. in Africa, Middle East, South East Asia, South America, CIS countries and Russia, and is willing to associate with reputed companies to jointly fulfil this objective.

5. <u>Acquiring Coal:</u>

Currently we are witnessing a race amongst various Coal sector companies to acquire coal mines abroad and enrich their resource base. We shall look into one of the biggest deal closed by Adani Enterprises and the ambitious plans of CIL.

5.1 Coal Videsh:

- "Coal Videsh" has been formed by Coal India Limited with the intent of acquiring energy security for the nation. CIL is pursuing acquisition of coal assets abroad through Coal Videsh.
- CIL has established a joint venture company ICVL with NTPC, SAIL, RINL and NMDC for acquisition of thermal and metallurgical coal outside India.
- CIL has also formed a wholly-owned subsidiary in Africa called "Coal India Africana Limitada (CIAL) in Mozambique.

CIL is pursuing a strategy for expanding its business globally by:

- Making equity investments in brown-field and green-field coal mining projects.
- Evaluating the process for selecting the coal companies as prospective strategic partners.
- Evaluating proposal for acquisitions in Australia, US and Indonesia has commenced the due diligence process.
- Earmarking Rs.60000 Million for the acquisitions of international coal assets.

5.2 Adani Enterprises:

- The Adani group has immense experience in Trading and especially in Coal trading. It is already the largest coal importer of India and to create synergistic growth, diversified from the conventional trading to value enhancement through asset ownership by buying coal mines and entered the mining business and integrated the business opportunities.
- **Adani Mining** operations today are spread in three countries – India, Indonesia and Australia. Apart from opening a new area of business, the mining operations in coal have ensured fuel security for the various thermal power projects currently being executed by Adani Power Limited.
- In one of the largest coal mines deals by an Indian group, Adani Enterprises bought the Australia-based Linc Energy's coal assets for about Rs 12,600 crore in a cash and royalty deal. The deal involves an

immediate cash payout of 500 million Australian dollars (about Rs 2,100 crore), besides an additional payout of an estimated Rs 10,500 crore over next 20 years in royalties to Linc. Adani will pay a royalty of 2 Australian dollars on every tonne of coal mined over the next 20 years to Linc under the purchase agreement inked by its subsidiary, Adani Mining Pty.

6 Recommendations by CII

CII has come with a few recommendations on how to deal with this game of acquisitions strategically.Key recommendations of the study are:

- **Greater autonomy to Indian PSUs –** creation of a core team and a well defined strategy for timely decision and fund allocation to acquire energy assets overseas,
- **Sovereign energy fund** for financial support to Indian companies **–** providing much needed confidence to compete in the global oil and gas asset market,
- **Domestic Joint Venture** for overseas investments to create financial leverages required to successfully bid for overseas investments,
- **Promotion of private companies** to enhance energy acquisition to expand India's competitiveness in international arena,
- **Capacity building** in resource rich countries by creation of a sound oil and gas infrastructure, and
- **Energy diplomacy** through deepening political exchanges as well as economic & commercial linkages with energy surplus countries.

7. Conclusion

Though India is actively acquiring assets and making progress it should be noted that Chinese companies spent a record US $ 32 billion in 2009-10 for acquiring energy assets overseas versus India's single US $ 2.1 billion investment by ONGC for the same period. India produced 8.8 million tonnes of oil and gas from its overseas assets in comparison to China's production of 800 million barrels of oil and gas from its overseas assets for the same period. India is also facing an uneven contest to close the gap with China, which is dipping into US $ 2.5 trillion of foreign currency reserves to buy stakes in oil and natural gas fields, compared with India's US $ 250 billion in for in foreign exchange reserves.

Therefore in conclusion it can be stated that India needs to engage energy rich countries in a very strategic manner backed by its energy diplomacy and foreign policy for ensuring continuous availability of commercial energy at competitive prices to support economic growth and achieve energy security.

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