

Directors' Dialogue Series

Oil & Gas Sector Outlook (India & Global)



* A. K. Tiwari

Launch of Directors Dialogue by IOD

Directors, the most important arm in the corporate decision making process, need flow of information, effective communication to address not only within the company but, also across the sector. With this key concern the “Directors' Dialogue Series” has been planned by the Institute of Directors. It has been launched with a special focus on the Oil & Gas Sector, in October 2020 and has made an outstanding impact amongst the Directors' fraternity. Subsequently, other sectors i.e. Power/ Energy, Banking/ Financials, Insurance, Pharmaceuticals, FMCG/ Consumer appliances, Automobiles, Construction, Information Technology etc. will also be taken up. This dialogue will enhance Board members to have inter-sectoral understanding to aide their decision making process.

The important take away from the Dialogue were: Directors have to be careful in adopting new technologies so that they lead to sustainable energy transition; Directors will have to take bold decisions in pandemic situation after fully assessing the risks and opportunities.

Oil & Gas Sector Outlook

Global Outlook:

The world is passing through energy transition and evolution of opportunities in different parts of the world. The OPEC and Non-OPEC oil producing nations, as well as consumers and the International community are feeling the urgency of restoring sustainable oil market stability in a collective manner.

The industry dynamics of both supply and demand are pushing various challenges and opportunities in the area of evolving technologies, policies, energy efficiency and shifting energy mix for both, producing countries as well as consuming countries.

The world is experiencing an era of demographic change, having impact on energy mix for both producing and consuming countries, which are seriously impacted by population growth, economic growth, policy changes, technology advancement and oil and gas prices.

India Outlook:

India is the third largest energy consumer in the world after China and USA. India's primary energy demand is expected to grow at a CAGR of 4.2% during 2017-2040, much faster than any major economy in the world. The Oil and Gas sector within the energy mix plays a predominant role, as over one third of the energy requirement is met by hydrocarbons. Economic growth and population growth are the two main drivers for oil & gas demand.

The energy map of India will be driven by seven key points of change, said Prime Minister Narendra Modi in his inaugural address of India Energy Week. The seven key drivers as per the Prime Minister are: "Accelerating our efforts to move towards a gas-based economy, Cleaner use of fossil fuels particularly, petroleum and coal, Greater reliance on domestic sources to drive bio-fuels, Achieving the renewables target of 450 GW by 2030, Increasing contribution of electricity to de-carbonize mobility, moving into emerging fuels, including hydrogen, and Digital innovation across all energy systems."

Amongst commodity imports, share of the Oil & Gas sector has been to the extent of 27 %. Continued imports of Oil and Gas to the Indian economy underscore the need for a robust strategy for assuring supply. Recognising the imperative need for increasing production of Oil & Gas resources, Ministry of P&NG has taken up many initiatives and policy reforms to boost investment in Exploration & Production activities so as to accelerate new hydrocarbon discoveries.

The majority of the new refining capacity expansion is set to be located in developing countries led by Asia Pacific and Middle East. India has a robust refining sector with a refining capacity of 249.37 MMTPA at present. The refining capacity of 249.9 million tonnes exceeded the fuel demand of 213.7 million tonnes in 2019-20, but the demand is likely to rise to 335 million tonnes by 2030 and 472 million tonnes by 2040. The International Energy Agency (IEA) forecasts India's fuel demand

to reach 458 million tonnes by 2040.

Crude oil production in 2019-20 fell 6% to 32.16 million metric tonnes, led by 15.5% decline in fields operated by private players. Production from fields operated by ONGC fell 2%, and those by Oil India Limited declined nearly 6%.

Natural gas production in 2019-20 declined 5% to 31179 million metric standard cubic meters. The drop was sharper at 14% in March, as customer demand declined due to the lockdown shutting transport and industrial activity. For the full year, the deepest production decline of 13% came from fields operated by private players. Gas production from fields operated by ONGC and Oil India Limited fell 4% and 2%, respectively

Energy Policies - Preparing for the Future

The United States of America, European Union, OPEC member countries, non-OPEC countries and India have different evolving energy policies. Indian energy policies are evolving continuously to promote various measures: for investment in its Upstream Sector through HELP policy; clean fuel policy to reduce the mass emission by introducing BS-6; penetration of 100% Electric Vehicles by FY 2030; increasing dependence on enhancing natural gas in energy mix; establishment of Natural Gas pipeline infrastructure, LNG terminals; and distribution network etc.

Ministry of Petroleum & Natural Gas in India has undertaken a series of reforms and new initiatives for the development of the Oil & Gas Sector mainly in the area of Hydrocarbon Exploration Licensing Policy (HELP)/Open Acreage Licensing Policy (OALP), Discovered Small Field (DSF) Policy, Policy to Promote and incentivize Enhanced Recovery Methods for Oil and Gas, Policy framework for exploration and exploitation of Unconventional Hydrocarbons under existing Production Sharing Contracts (PSCs), Coal Bed Methane contracts and Nomination fields, National Bio-fuels Policy 2018, Production of biodiesel from used cooking oil (UCO), Pradhan Mantri Urja Ganga, Expansion of City Gas Distribution (CGD) network etc. in the country.

Continued and sufficient upstream investment remains critical to ensure future supply and there exists oversupply situation for oil & gas sector in the world. With the present prices and demand in energy mix in India, FDI in the sector is not lucrative and an ambitious capex plan is difficult to achieve. The world is facing the same situation for fresh investments in this sector.

Renewables are projected to record the fastest growth rate and penetration of electric vehicles has the potential to reduce oil demand. The Covid-19 pandemic has further worsened the situation in this sector and therefore, strategies for sustainability need to be shaped differently. Further, the pandemic has changed the definition of sustainability with a shift in people focus now towards health & safety, adaptability in abruptly transforming businesses on account of social distancing, communication during non-availability of physical meetings and energy continuity by oil & gas sector maintaining nationwide supplies.

At the same time, the adoption of technologies for operation & maintenance in Oil & Gas sector is a welcome step. But, considering the overall economic scenario 'Is it a sustainable step?' is the question to be deliberated by the Boards. Developing countries like India are overloaded with these innovations. Confusion exists in adoption of various invented technologies under dynamic energy transition scenario. Petrol stations are now turning into energy stations. With the changing transportation behaviour such as car-pooling, car-sharing, use of metros etc., the strategy on refinery expansion and oil sustainability needs to be revisited in the country.

The Board has to set the "Tone at the Top" for organisational culture amidst situation posed by the global pandemic to develop a post-Covid strategy. Besides strategy, the role of the Board further needs a relook on the risk parameters related to people, resources, supply chain disruptions, infrastructure and so on due to impact of the pandemic across the globe.

Specific Governance principles on talent, technology and stakeholder management for the Oil & Gas sector need to be strengthened.

**Mr. A. K. Tiwari is Director (Finance) of GAIL (India) Limited. He has over 38 years of vast experience in the areas of Project Finance, Corporate Finance, Taxation, Treasury, Corporate Accounts, Capital Budgeting, Finalisation of EPC Contracts etc. He is actively involved in Investor Relations and interactions with Analysts fraternity. He is a Fellow of IOD.*

He is Chairing IOD's Directors Dialogue Series. The above piece has been authored by him, as a takeaway from the congregation of Board members of leading organisations in the Oil and Gas Sector, as we drive organisations towards Sustainability amid the Pandemic.