Indian government to merge state-run oil firms

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While continuing the previous Bharatiya Janata Party (BJP)-led government's neo-liberal agenda of deregulation and privatisation of state-owned firms, the present Congress-led United Progressive Alliance (UPA) government has decided to sustain and expand the Indian state's virtual monopoly in the oil and natural gas sector.

State control over the country's major oil and natural gas companies, most of them highly profitable, is seen as vitally important to India's bid to secure an increasing share of world oil output. With the full support of the government, India's oil companies have launched an aggressive drive to invest in overseas oil and gas projects and exploration. India also hopes to use its technological advantages to become an oil and natural gas refining hub for the entire region.

Keeping the companies in state hands will facilitate the realisation of the government's ambition to create one or two companies that can be global players in world energy markets. It will also make it far easier to coordinate the company's development plans with the Indian government's geo-political strategy—no small matter, given that oil is one of the principal objects of great-power competition and rivalry.

"We need to strengthen our oil companies in launching them as global firms," Indian Prime Minister Manmohan Singh said at Petrotech 2005, a conference organised by Oil & Natural Gas Corp. (ONGC) in New Delhi in January. "China is ahead of us in planning for its energy security," he warned. "India can no longer be complacent." ONGC is India's largest natural gas explorer. It and other state-run companies face increased competition from China's three biggest oil companies, led by China National Petroleum (PetroChina Ltd.), in bids to drill fields in Russia, the Middle East and Africa. "We need to catch up with China because in whichever country we go, they have a presence—in exploration, refining and in gas," said Proshanto Banerjee, chairman of Gas Authority of India Ltd. (GAIL Ltd.), the country's biggest natural gas supplier.

PetroChina reportedly earned $13.30 billion in profit last year—twice more than the $6 billion combined net income of India's seven state refiners and two oil and gas companies.

To make them more globally competitive and profitable, India's state-run oil and natural gas firms are to be fused into one or two enterprises. The Russian regime of Vladimir Putin has recently pursued a similar policy, with its plans to merge Russia's state-run companies, Gazprom with Rosneft. The Indian petroleum and natural gas minister, Manishankar Aiyer, announced the merger plans publicly at a conference in New Delhi held on January 16. Earlier, he halted the sale of shares constituting a 34 percent stake in Hindustani Petroleum, a state-run company that the previous government had begun to privatise.

John Thorn, chief investment officer at India Capital Fund in Hong Kong, recently noted to Bloomberg.com, "India wants to create a large national champion that it can put on the global map.... India needs the size to compete for exploration assets overseas for which there is significant appetite among Asian countries."

The government's merger plan of Indian public sector oil and gas companies aims to fuse the Indian Oil Corporation (IOC), Oil India Ltd. (OIL), Bharat Petroleum Corp. Ltd. (BPCL), Hindustan Petroleum Corp. Ltd. (HPCL), Oil and Natural Gas Commission (ONGC) and the Gas Authority of India Ltd. (GAIL) with viable permutations and combinations of state-owned refineries in Bongaigaon, Chennai, Kochi, Mangalore and Numaligarh.

India’s four biggest state-owned refiners already control most of the country’s 21,000 gasoline stations, except for the 300 outlets belonging to the Reliance Industries, the only non-state refiner.

As an initial step, the IOC and OIL are already bidding together for oil fields abroad and have secured a license to explore a Libyan oil block, its first successful agreement for joint exploration overseas. Libya, which holds Africa’s largest oil reserves, is seeking massive foreign investment following the lifting of US economic sanctions.

India plans to leverage its state power and diplomatic influence to advance Indian energy interests abroad. A host of Indian ex-diplomats to the Middle East and Africa have been enlisted to act as a Standing Committee for Energy Security, chaired by economist Arjun Sengupta. The Committee will advise the government and the state oil companies on the best course to win oil bids.

The government has accelerated plans for purchasing oil and gas from overseas fields, especially eyeing oil properties in Saudi Arabia, Vietnam, Australia, Myanmar, Bangladesh, Iran, Iraq, Qatar, Kazakhstan, Syria, Egypt, Libya, Algeria, Senegal, Nigeria, Sudan and West Africa.

The Congress-led Government has adopted a five-point programme to enhance its oil production and security, including the setting up of a strategic petroleum reserve to help the country weather a disruption of energy supplies. New oil fields are to be explored within India, especially in deep water and difficult frontier areas. The government sought international bids for 20 new exploration areas offered in India’s fifth auction this year of drilling licences.

By becoming involved in oil and gas exploration and oil infrastructure building and by increasing the capacity of its naval reach in the Indian Ocean, India seeks to secure a dominant position in the region’s oil economy. Aiyar has reaffirmed that India will not limit itself to being a leading energy consumer, but also to being a potential exporter of refined products to south Asia.

Last month, India hosted the first-ever Asian oil ministers gathering. It brought together representatives from the Persian Gulf, China and Southeast Asia to moot the idea of a common platform for Asia’s oil-consuming and oil-producing countries to push for changes in global oil markets. The conference also called for regional cooperation for investment in exploration and strategic storage of hydrocarbons for energy security.