

Economic Editors' Conference, 26.11.2008
Opening remarks by Shri Murli Deora,
Minister for Petroleum & Natural Gas

Friends from the Media, my colleague Shri Dinsha Patel, Secretary, Shri R.S. Pandey, other officials of the Ministry of Petroleum and Natural Gas and the representatives of the Oil and Gas Sector.

2. Ministry of Petroleum & Natural Gas has circulated a background note which contains detailed information on petroleum and gas sector. In the meeting of the full Planning Commission on 20th September, 2008 to discuss the Integrated Energy Policy, our Prime Minister observed that energy is a crucial input in our development and our energy requirement for growth is indeed very large. As our oil import dependence has reached 80%, it is important to undertake optimal exploitation of domestic energy resources with a view to increasing our country's energy security. There is also a need to explore the scope for acquiring energy assets abroad.

3. In the last Economic Editors Conference, we had a fruitful discussion on the various aspects of the oil and gas sector. I take this opportunity to touch upon certain important activities and achievements made by the Ministry and oil and gas companies during the current year.

4. Last year, when we met in November, 2007, the price of Indian basket of crude oil had already crossed \$80/bbl. In a matter of just one year from June 2008, the prices almost doubled to reach an all-time high of around \$142/bbl in July 2008. Even though we had increased marginally the retail prices of petrol, diesel and LPG on 5th June 2008, the under-recoveries of the Oil Marketing Companies (OMCs) during April-September 2008 rose to an all-time high of nearly Rs.93,000 crore. Since then, there has been a decline in the oil prices in the international markets. However, the advantage of lower prices has been partly offset by about 25% depreciation of rupee against dollar since April 2008. Although prices have declined substantially, the international analysts forecast oil prices to remain higher at around \$75-115/bbl in the next year depending on how the present economic recession affects the global demand and supply of oil. This indicates the nature and extent of price volatility and market uncertainty that remain as challenging as before.

5. While the lingering turmoil in the global financial and oil markets is a cause of serious concern, we have to ensure uninterrupted supply of sensitive petroleum products in the country to fuel steady growth of the economy as well as meet requirements of the common man. The background note circulated for this meeting gives details of steps taken towards

this goal. I would like to mention here certain important accomplishments in the last few months.

NELP-VII

Under the NELP-VII Round, the Ministry had received 181 bids for 45 exploration blocks. On 20th November 2008, the government decided to award 44 blocks to the winning bidders. With this, the total number of blocks brought under exploration exceeded 200.

Domestic Oil and Gas Production

Crude oil production from the deepwater block D6 in KG Basin began on 17th September 2008. The block promises to yield a peak production of around 34,000 barrels per day next year and its life is projected to be 11 years.

The Improved Oil Recovery and Enhanced Oil Recovery projects of ONGC are under operation in its 15 largest fields. The cumulative incremental oil gain up to March 2008 has been of the order of 39.8 million tonnes. ONGC expects to extract additional production of 14 million tonnes of oil and 16 BCM of gas from its marginal fields during the current Plan period.

Equity Oil Abroad

During 2007-08, ONGC Videsh Ltd. (OVL) acquired 11 blocks abroad while OIL-IOC consortium acquired one more. Our oil PSUs have extended their oil field acquisition activities to 22 countries. OVL alone produced about 8.76 million tonnes of oil and equivalent gas during the last year.

Refinery Performance

Indian refineries have been performing well in contributing to the domestic availability of sensitive petroleum products as well as in exports. During the first half of the current year, the average capacity utilization of our refineries has been 104%.

The export of petroleum products during the last year increased by 17% over the quantity exported during 2006-07. In dollar terms, the increase was close to 50%. During the first six months of current year, around 18 million tonnes of petroleum products have been exported registering an increase of 43%. Exports accounted for 24% of gross imports of oil and products during 2007-08. Petroleum products continue to be the single largest merchandise export from India.

Adverse Financial Condition of OMCs

Despite unprecedented rise in the international prices of oil during the year, the Government decided not to pass on the full impact of the increase with a view to protect the interest of 'Aam Adami'. The inflation has since come down to 8.9% for the week ending on 11th November 2008 from a high of 12.9% for the week ending on 2nd August 2008. The growth of consumption of petroleum products in the country during the first half of the year has been a healthy 5%. However, the unprecedented rise in the international oil prices has taken a heavy toll on the PSU Oil Marketing Companies. Their combined under-recovery during the first half of the current year rose to nearly 93,000 crore. Even after providing financial support in terms of discounts by the PSU upstream companies and bonds by the Government, the OMCs had to bear an amount of 21,957 crore which was 36% higher than the amount borne by them for the entire period of the last year. The OMCs have declared a combined loss of Rs.14,431 crore during the first half of 2008-09.

As the internal resources of OMCs dried up on account of selling the sensitive products below costs, they have been borrowing heavily from the market at a higher interest rate. I am told the borrowings of the OMCs have reached Rs.1,19,800 crore by the end of October 2008. This trend needs to be arrested so that OMCs are put back on the track and they continue to serve the country and the people particularly during trying times such as in the recent past.

International Cooperation

In the note circulated by the Ministry, the progress made in our bilateral cooperation with a number of countries has been outlined. I would like to mention certain important steps taken by the Ministry.

- (a) The India-Romania Joint Working Group met in New Delhi in March 2008 and the possibility of Indian companies participating in the modernisation and upgradation of refineries, and GAIL in CNG/ piped gas distribution network, in Romania were discussed.
- (b) The India-Turkey Joint Working Group also explored the scope of Investment by the Indian oil companies in Turkey's pipelines and refineries.
- (c) I took a delegation to Venezuela in April 2008 and a Joint Venture agreement between OVL and CVP of Venezuela was signed to exploit the San Cristobal field in Venezuela. This marked a turning point in our bilateral cooperation with Venezuela.

- (d) Our bilateral cooperation with Colombia has taken shape with an MOU signed between the two countries on 5th September 2008 in New Delhi.
- (e) The Energy Minister of South Africa met me on 16th October 2008 and we have identified a number of areas of cooperation in South Africa's hydrocarbon sector.
- (f) Three weeks back, I took a delegation to Russia on 5th November 2008 to strengthen our bilateral cooperation in oil and gas. Soon after, the India-Russia Joint Working Group met on 7-8 November 2008 in New Delhi and identified areas of investment by ONGC/ OVL in the upstream sector of Russia.
- (g) As regards Iran-Pakistan-India (IPI) Gas Pipeline, the Ministry is pursuing settlement of issues relating to transportation tariff, transit fee, delivery point of Gas to India and price of gas with Pakistan and Iran. It is expected that the meeting between the three countries will be held shortly.

Initiatives towards better customer services

During the year, my Ministry has given thrust to transparency and fair services to the customers. In this regard, the public sector OMCs have been advised to complete automation of retail outlets, which are selling more than 200 KL per month. IOC, HPC and BPC have already automated 4104 ROs till September 2008 covering 60% of the ROs. The remaining ROs are to be completed by March 2009. Another step in improving the efficiency in product delivery system was to instill GPS system in Tank Trucks. By October 2008, OMCs have completed GPS system in close to 26,000 Tank Trucks which is 86.5% of the target. The third party certification of ROs selling more than 100 kilo litre per month by OMCs is in progress. By October 2008, 85.4% of the targeted ROs have been covered under this programme.

Public Grievance Redressal System of OMCs

In order to address effectively the complaints made by the public in regard to supply and distribution of petroleum products across the country, the OMCs have installed Unique Toll Free telephone numbers to register complaints round the clock. These complaints are required to be redressed in a time-bound manner and reported on the websites of the OMCs. This system has become operational from 2nd October 2008 and is aimed at improving transparency and quick resolution of customer problems.

Conclusion

The financial crisis and the emerging economic recession in the US and Europe has been the primary reason for the steep fall in oil prices. But market uncertainties have increased. Therefore, we have to take cautious step in managing our domestic oil economy. My Ministry will continue to work towards evolving effective policy measures to tide over the problems being confronted by the Oil & Gas sector. In this regard, the media has a vital role in informing the public the challenges faced by the Indian economy particularly the oil and gas sector and measures taken by the Government to ensure growth and stability of the economy.
