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India's Efforts to Boost Exploration May Not Pay Off

India is pursuing a new policy to boost exploration and production, but there are doubts as to whether it will make much of a difference, given the country's huge population, its rapidly growing economy and its relatively meager endowment of oil and gas resources. For decades after its independence from British rule in 1947, India left exploration in the hands of Soviet-style state-owned companies. However, this resulted in only only one big oil discovery, the Mumbai High offshore field, which is operated by state-controlled ONGC and has been producing since the 1970s. India started to liberalize its economy in the 1990s. At the end of that decade it rolled out the New Exploration Licensing Policy (Nelp), which opened the door for private-sector participation in exploration. Overseas companies like BHP Billiton, Santos and Gazprom participated in the Nelp bid rounds and picked up stakes in several blocks. However after sporadic exploration efforts, they mostly concluded that India was a barren place to look for oil and gas (EIF Oct.23'13). Out of the 254 blocks awarded during the nine Nelp rounds that were held, 157 have been relinquished or are awaiting approval to be relinquished. In addition to poor prospectivity, companies have also been frustrated by India's bureaucracy (EIF Jul.9'08). Of the 88 Nelp blocks that are operational today, more than two-thirds are held by domestic state-run companies. Licenses for nine blocks still have to be finalized.

The heavy concentration of acreage in the hands of a few state-controlled companies has meant that less than a quarter of India's sedimentary basins — which cover 3.14 million square kilometers — have been well explored. The International Energy Agency estimates that India has 34.4 billion barrels of recoverable oil resources but just 5.7 billion bbl of proven reserves. In the case of natural gas, it puts the country's recoverable resources at 8.8 trillion cubic meters and its proven reserves at 1.4 Tcm. India desperately wants to improve its energy security and is aware that its reliance on imports makes its economy vulnerable. Prime Minister Narendra Modi's government wants to attract sufficient private investment to double domestic oil and gas production over the next six years. That would help Modi achieve his target of a 10% cut in oil and gas imports by 2022 — when India will celebrate the 75th anniversary of its independence — and halve them by 2030. With these goals in mind, Oil Minister Dharmendra Pradhan used buzz words such as "transparent" and "investor-friendly" as he unveiled India's new Hydrocarbon Exploration Licensing Policy (Help) to potential upstream investors in Houston earlier this month ahead of an auction of exploration blocks to be held in July. "There has never been a better time for market entry in India," Pradhan told the IHS Markit CeraWeek conference.

Help has changed the fiscal regime by shifting to a revenue-sharing model, as opposed to the previous practice of sharing profits after development costs are recouped. The new policy also gives producers the freedom to market and price the hydrocarbons they produce. It creates a uniform license for conventional and unconventional hydrocarbons and introduces a system under which any company can bid for any block throughout the year, thereby dispensing with formal bid rounds. The government is also creating a national data repository with assistance from Halliburton. BP CEO Bob Dudley told EI Finance sister publication Petroleum Intelligence Weekly recently that the company is "very encouraged" by the new policy. However, he added that the UK major would like additional assurances from the government before making a decision on additional investment in gas resources off India's eastern coast, where it is working with local partner Reliance Industries. BP spent $7.2 billion to acquire 30% stakes in almost two dozen blocks held by Reliance Industries in 2011 (EIF Aug.17'11). However, the partners have since relinquished most of those blocks and are now left with just four.

Analysts question whether Help can put much of a dent in India's energy imports. The country currently produces 722,000 b/d of oil and 87 million cubic meters per day of gas, versus oil imports of 4.3 million b/d and gas imports of 67 MMcm/d. Domestic production has declined from 765,000 b/d of oil and 143 MMcm/d of gas in the financial year ended March 2012. Anupama Sen, senior research fellow at the Oxford Institute for Energy Studies notes that the country's upstream sector is dominated by a handful of companies that have made little progress in stepping up exploration and production activity. Sen told EIF that the government should complement the Help reforms by introducing measures to monitor companies that are awarded acreage in order to make sure that they adhere to the timeline for meeting commitments under their licenses. Sarah Ladislaw, director of the Energy and National Security Program at the Center for Strategic and International Studies in Washington, said the new Help policy is likely to have only a modest impact at best. "Domestic needs that can be met by any new production will only be a fraction of India's consumption needs as India's resource base limits the potential for domestic production," she wrote. ■