

## **Hydrocarbon Prospects for India in Latin America & the Caribbean 10 May 2016 – PETROFED**

‘Ours is a country that imports 75% of its energy needs for transportation fuel. If I look at oil and gas consumption as 35% of the total consumption, then 75% of that is what is driven by foreign trade, so I have to have a dynamic relationship with the world energy community. We have an average growth of 10% in demand. Diesel consumption grew 7% and Petrol grew 15%, LPG 11%. Demand is now about 183 million metric tonnes. In 2022 this would be 350 mmt and in 2040 it would be 550 mmt.’ (*Interview MOS P&NG – The Hindu - 7/5/16*)

The discovery of Bombay High in 1974, then Bassein, Neelam and other gasfields, spurred ONGC, which rose to the challenge and mastered essential upstream technologies. Today the picture is more complicated. While we can and do use foreign service providers, the essential role, the **conceptual visualisation** for assessing, financing and exploiting reserves is the function of the E&P company. In the field of energy security too much is at stake for our NOCs to fail. Acquisition of oil equity is therefore critical. **The visible hand of the state rather than the invisible hand of the market plays a greater role.**

LAC has proven reserves of about **340 billion barrels of crude oil, 21% of global reserves, and 8 trillion cubic metres of natural gas, around 4.2% of global reserves.**

A saying in Latin America goes: ‘A río revuelto, ganancia de pescadores’: When a river is in spate, fishermen gain.

- **Venezuela** is desperate for revenue and holds the largest reserves in the world. We need to be careful because it still holds funds due

to OVL. Constant political pressure and some innovative bargaining may be required.

- **Brazil** has proven reserves of 15 billion barrels and 60 billion more in the pre-salt offshore. Its NOC Petrobras is over \$ 130 billion in debt, and its ratings having fallen. In February this year, the Brazilian government stripped Petrobras of its automatic monopoly as operator of the country's pre-salt reserves. It is contemplating softening of terms for foreign E&P companies, extending concession periods and extending tax breaks such as REPERTO, a special customs levy on imported equipment for upstream, beyond 2020.
- **Mexico's** reserves are around 115 billion barrels . The reform of the oil sector which opened its upstream to private and foreign investment, will affect the monopoly of the NOC PEMEX, and reduced the ask threshold in subsequent bid rounds, which saw more successful bids from foreign companies.
- **Colombia** has around 2.5 billion barrels of reserves but is facing falling production and is keen to attract more investment. The almost certain peace deal between the guerillas and government should make it possible to open up more areas for exploration that were considered unsafe.
- **Argentina:** According to the EIA, Argentina has over 800 trillion cubic feet of unproved technically recoverable shale gas reserves (more than the 622 tcf located in the U.S.) and 27 billion barrels of shale oil, which is less than only the U.S., Russia, and China.
- **Ecuador** had 6.2 billion barrels of proven reserves in 2011. Its production, however has fallen below 400,000 bpd in 2015. It is

considering opening up new fields and has signed an MOU with OVL but has to reconsider terms for foreign participation.

- **Bolivia and Peru** also hold important reserves, mainly of natural gas. RIL and Jindals had been awarded concessions which were given up.

**OVL** has twelve projects in three Latin American countries:- Brazil (2), Colombia (8), Venezuela (2) and an office in Mexico. Its total investment in LAC till date is estimated at about US\$ 4 billion. By 2016, OVL's share of crude from producing fields in LAC amounted to a little under 50,000 bpd. **BPRL** participates in a 50:50 joint venture in Brazil with Indian private sector Videocon called IBV Brasil Petroleo Ltda. (IBV Brasil). The JV holds participating interest (PI) in 9 deep offshore exploration blocks spread over four concessions in Brazil's offshore basins. Till date four major hydrocarbon discoveries have been made in these blocks. Oil is expected from 2020 and gas thereafter. BPRL has invested over US\$800 million in Brazil, with commitments of over US\$700 million more till 2020.

**Oil India Ltd** holds 3.5% participating interest (PI) in Project Carabobo in Venezuela, in a consortium that includes **Indian Oil Corporation** (with 3.5%) and OVL with 11%.

MoP&NG needs to focus on the following **issues** to be able to coordinate the national effort for energy security in LAC:

**I. Political Orientation:** Political instability primarily affects the energy sector in this region, since it is closely controlled and taxed by the governments.

**II. Infrastructure:** We need to consult closely with our partners in LAC about their requirements and how we can help them.

**III. Regulatory Regime:** With oil prices low, we need to draw up a list of country-specific issues that can be taken up at all levels – technical, bureaucratic and political – to enable our companies to function better.

**IV. Contractual Issues:** Each country establishes its own contractual regime for upstream operators and investors. These must be studied and negotiated carefully.

**V. Logistics and Finance:** Connectivity, banking, fiscal and issues such as double taxation and investment protection agreements need to be examined to facilitate our operations and investment in LAC.

**VI. Training:** Training facilities for skilled manpower, R&D, could be made available for LAC technicians. This could be oriented in terms of language capability as well as specific needs of that region. Similarly, officials and technicians of India's NOCs should be posted and rotated in LAC countries to learn the language, familiarise themselves with the business environment, acquire expertise and make durable contacts in the region for the long term. This will consolidate links with LAC NOCs and governments.

**VII. Institutional Contacts:** These should be consolidated with governments and NOCs in LAC as also with other potential collaborators such as service companies. India should encourage service companies to make India a hub to avail of their technology and expertise. This will give Indian E&P companies greater credibility when bidding or negotiating.

LAC governments are moving away from the model of '**resource nationalism**', under which the government and NOCs demanded higher shares of potential hydrocarbon resources, and even nationalised assets of foreign oil companies. Countries with exploitable reserves are keen to secure Indian investment and import commitments.

This can be turned to our advantage to negotiate and secure favourable terms for upstream investments and *leverage our import commitments from that region to secure oil equity*. India today has refining capacity of around 223 million tonnes. It derives considerable revenue from export of refined products, including to Latin America. Indian refineries are gearing up to process heavier Latin American crudes. The relationship has considerable synergy that can be exploited.

India needs to identify appropriate organizations within that region with which it can establish and maintain links. There was a **Roundtable on Latin America & the Caribbean** held during Petrotech 2014. This needs to be repeated and NOCs and other companies invited to India for this purpose. Our oil majors need to consider joint ventures within themselves and with foreign/local partners. For this a more aggressive and continuous presence is required in the region.

Ministry of P&NG should consider a **Latin America & Caribbean Oil and Gas Initiative**, which can take a holistic view of public and private sector investment, import and technical capabilities, and open an institutional dialogue with NOCs and other potential collaborators in that region, through high level political contacts.