



Energy Security Dialogue

Do equity investments contribute to energy security?

(June 08, 2007; New Delhi)

Substantial investments have been made by a number of companies (both national and international oil companies) in equity assets abroad. Divergent views exist on whether these investments are driven only by commercial factors or whether they also enhance the country's energy security. For instance, the Integrated Energy Policy attaches substantial amount of risks (country, political and logistic) to equity investments abroad. However, this has not stalled efforts made by ONGC Videsh Limited (OVL) to acquire equity abroad. In 2005-06, OVL acquired nine oil and gas assets in seven different countries and increased its oil and gas reserves from 197.94 million tones of oil equivalent (MMTOE) in the previous year to 206.19 MMTOE.

Investment in equity abroad is not restricted to only the oil and gas sector; a similar trend has been observed in the coal sector. In March 2007, the Tata Power Company Limited (TPCL) acquired equity stakes in two major Indonesian thermal coal producing companies, PT Kaltim Prima Coal and PT Arutmin Indonesia. The investment has been done for the upcoming power projects of the country on the western coast of India. Such investments are expected to increase in the future. Hence, issues related to the contribution of equity investments aboard to energy security will emerge in the coal sector also.

The two key objectives of the dialogue were:

- To assess the merit of acquiring equity assets abroad for enhancing India's energy security
- To understand the decision making process undertaken for acquiring equity abroad

Key takeaways

- One view articulated at the dialogue suggested that the objective of equity investments is to get good returns, and therefore investments abroad cannot be seen to be enhancing energy security. Concession agreements abroad have very strong sovereignty clauses, which could require the company to leave the host country in the event of change in political and economic conditions and policies.
- In contrast to this view, it was suggested by some stakeholders that equity investments should be seen in a larger strategic context. The presence of a

- national oil company in another country creates opportunities for enhancing economic engagement with the host country and improving diplomatic ties.
- According to OVL, the decision to invest in a block/country is based on techno-economic parameters. Countries are short listed on the basis of their geological profile, reserve growth potential, the terms and conditions offered, and ease of entry.
 - Since the blocks available are limited to certain conflict-prone regions, risk assessment is an important element of decision-making.
 - China has employed a broad strategic perspective to view overseas equity acquisition – these investments are part of China’s initiative to build strategic alliances, and hedge risks emanating from its inimical security relationship with the US. There are some differences, however, between Indian and Chinese national oil companies, which impact their relative competitiveness. Political support to companies from the government is much higher in China than in India and Chinese companies have access to cheap sources of capital for financing deals.
 - Overseas investment in coal could enhance India’s energy security in a bigger way as compared to overseas investments in oil and gas blocks. Coal reserves are located in relatively more politically stable regimes. Also, coal is more difficult to trade than oil and hence more likely to be brought back into the country from blocks where we have an equity stake.
 - India needs to recognise that energy security is not a stand-alone issue but needs to be looked at as part of its overall international strategy. Specifically, India needs to carry out long-term projections of the country’s growth and resource requirements and systematically evaluate political risks.