

# Oil & Gas

## Reflection &

# Outlook 2021



# Owing to lockdown imposed in the view of COVID-19, India witnessed fall in Petroleum consumption for the first time in more than two decades

## The ongoing pandemic has affected consumption as well as production of O&G

Pain Areas

**Reduction in demand:** Due to significant contraction in transportation, the demand of petroleum products was reduced, leading to fall in consumption. According to Bloomberg calculations of provisional data which was published by the Petroleum Planning & Analysis Cell on Oil Ministry, total Petroleum demand declined 10.8% in 2020 from 2019. It touched a five-year low of 193.4 million tons, as per the available data.

**Drop in Production:** For Oct 2020, Crude Oil production reported at 2.568 million tonnes while domestic natural gas production stood at 2,418.88 million standard cubic meters. When compared with production history in Oct

2019, it is 6.24 per cent and 8.41 per cent lower for Oil and Gas, respectively.

**Inadequate Gas Infrastructure:** India's gas consumption growth has struggled for last 8-10 years and absence of a robust pipeline infrastructure is one of the major reasons behind this. The existing LNG terminals of India have combined capacity of approx. 153 MMSCMD, while the current consumption is approx. 77 MMSCMD. There are four more LNG terminal under construction, which will increase the capacity by another 86 MMSCMD. Due to slow growth of pipeline construction, the terminals are underutilized.

Visible Positives

**Urja Atmanirbharta:** To reduce dependency on imports, India has set investment target of US\$ 2.86 billion in the upstream Oil and Gas production, with a target to double natural gas production to 60 bcm and drill more than 120 exploration wells by 2022.

**Foreign Direct Investment:** To attract investment in Oil and Gas sector, the Government has allowed 100% FDI in upstream and private sector refining projects. Also, FDI limit for public sector refining projects has been increased to 49% without any disinvestment or dilution of domestic equity in existing PSUs.

**Building Capacity:** To cut down carbon emission, the

Government has planned USD 66 billion investment in the building of gas infrastructure in the country. The government is targeting to increase the share of natural gas in its energy basket to 15 per cent by 2030 from the existing 6.3 per cent.

**Exploring Alternative Sources:** Under **Sustainable Alternative Towards Affordable Transportation (SATAT)** scheme, Government has planned to rollout 5,000 Compressed Bio-Gas plants across India by 2025. In Nov 2020, MoU was signed between MoPNG and leading oil & gas marketing companies and technology providers to establish 900 Compressed Bio-Gas (CBG) plants across India under the scheme.

## ...but challenges still remain...

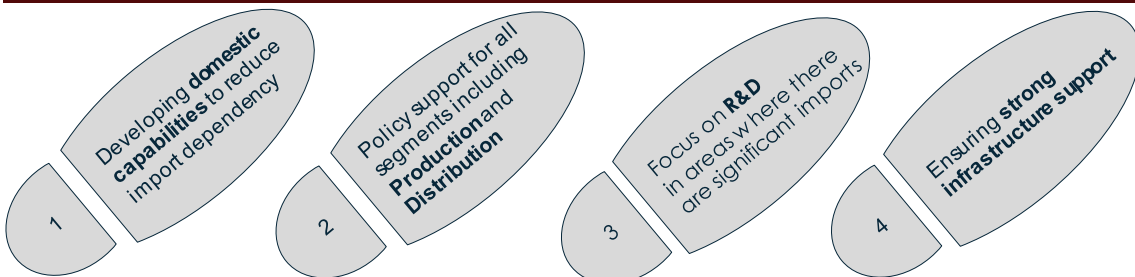
There is a need to increase exploration and production activities. As per IBEF report, Crude oil consumption is expected to grow at a CAGR of 3.60% to 500 million tonnes and Natural Gas consumption is forecasted to increase at a CAGR of 4.18% to 143.08 million tonnes by 2040. To avoid heavy dependency on import, India needs to increase domestic production.

Similarly, LNG imports have increased significantly. In 2012, LNG import was close to 31 per cent of country's

natural gas consumption, which expanded to approx. 52 per cent in 2019. In 2019-20 as well, LNG imports increased by 18 per cent.

As suggested in National Infrastructure Pipeline, there is a need to bring policy reform and ensure complete separation of roles between the marketer and transporter of Natural gas, to make sure reduction in the intra sector conflicts and help in expedition of the delivery of projects by reducing lean times.

## ...and the agenda for 2021 should include a focused approach on...



## Big ideas: Upgrading domestic supply chain to develop *Atmanirbharta*, including upstream, midstream and downstream reforms

### 1 Dedicated agency for pipeline infrastructure development across country

India currently has a pipeline infrastructure of over 45,000 kms including both Oil and Gas Pipelines. In order to achieve the ambitious target of increasing the use of Natural gas in primary energy mix to 15% by 2030 from the existing 6%, the transportation infrastructure needs to be expanded.

While under the PNGRB a lot of ground has been covered in the way of successful bidding of multiple rounds of CGD and adding on to the total pipeline in the country, there is still an absence of a long-term vision for the sector. The long-term plan for the development of Oil and Gas Infrastructure needs to be envisioned in tandem with

the national development plan of building smart cities, filling the demand supply gap, ease of mobility of oil and gas and access for all.

Being mindful of the multitude of challenges and absence of a long-term vision and frame-worked policies for the sector, there is a need to have a dedicated pipeline infrastructure development agency for oil and gas sector, which should have mandate to design long-term vision, define projects, license, and maintain the transportation of oil and gas through pipelines across India, as a part of PNGRB.

### 2 Transformation of Supply Chain

In current scenario, when consumption has hit a record low, it is essential for upstream companies to identify nodes in the value chain and ensure swift implementation of the same. Some of the areas can be –

- **Digital supply chain:** By investing in large-scale digitization, the O&G companies can have better tool for decision making, higher operational efficiency and can reduce dependency on skilled individuals.
- **Last mile connectivity:** With the Government's decision to open fuel delivery sector for start-ups, various OMCs have started roping in fuel delivery partners. The market for this segment is expected to
- **Cost Optimization:** It is essential to identify the areas across value chain where significant cost reduction can be achieved without affecting key functions.
- **Shared business services:** Identifying suitable areas where shared services can be adopted, leading to flexible working conditions and optimization of cost.

be around Rs 1,500 to 2,000 crore in coming 12-18 months. The pathbreaking solution has potential to generate huge employment, increase efficiency and growth of the fuel market, and improve quality of life in remote areas.

### 3 Exploring Shale Gas Prospects of India

In India, the sedimentary basins of Cambay, Krishna Godavari, Cauvery and Damodar Valley are the most prospective basins for carrying out shale gas activities. The Energy Information Administration (EIA), report confirms that amount of shale gas in place for India is 584 TCF, out of which technically recoverable shale gas is around 96 TCF.

As per an IBEF report, Great Eastern Energy Corp (GEECL) will invest US\$ 2 billion over the next ten years in West

Bengal to explore shale gas reserves.

There is a need to explore and develop Shale Gas reserves of the country. As there is huge disparity in estimated resources by various agencies, India needs to focus on exploration activities and design suitable policies for the same. Shale Gas reserves can be developed as alternative hydrocarbon sources and can support country in becoming independent in terms of energy needs.

## Big ideas: Upgrading domestic supply chain to develop *Atmanirbharta*, including upstream, midstream and downstream reforms

### 4 Developing new markets for increasing Natural Gas Consumption

Government of India has taken plenty of steps for supporting consumption of Natural Gas. According to PNGRB, with successful completion of 10<sup>th</sup> CGD round, natural gas will be available in 228 Geographical Areas, across 27 states and union territories. Along with this, 70 per cent of the country's population and 50 per cent of its geographical area will have access to Natural Gas. PNGRB is further preparing for 11<sup>th</sup> round of CGD allocation as well.

However, though it has covered more cities with every CGD allocation round, India's gas consumption growth has struggled for last 8-10 years. In 2010, the growth in gas consumption was 11 per cent, which has come down

to 2.5 per cent growth in FY 2018-19.

Government has identified this issue and initiated multiple reforms. Along with CNG, Govt. is pushing for use of LNG as a fuel in trucks and buses. To improve availability of LNG on highways, around 100 LNG pumps have been planned on the Golden Quadrilateral connecting the four metros as well as the North-South, East-West highway corridors and in mining blocks.

There should be constant monitoring of these efforts in order to increase share of Natural Gas in country's energy basket.

### 5 Inclusion of Petroleum Products within GST and Simplification of Tax Regime

While the Government included some of the petroleum products such as Kerosene, Liquefied Petroleum Gas and Naphtha within the ambit of GST, five products, Crude Oil, Natural Gas, Petrol, Diesel, and Aviation Turbine Fuel were temporarily excluded. This requires O&G companies to comply with both the old and the new tax regimes. Also, tax credit cannot be transferred between the two systems leading to stranded levies.

Input tax credit enables an oil producing company or a refinery to deduct the tax already paid on inputs like

equipment purchase, and crude oil etc., at the time of paying the tax on the final output. As most of the core petroleum products have been kept outside the ambit of GST, the tax credit which could have been availed, can't be availed under the new tax regime. The petroleum industry demands to resolve this longstanding issue around cross utilization of Goods and Service Tax (GST) input tax credit.

*Government has rightly identified Oil and Gas as one of the priority sectors and there is a high focus on building capacity in the industry.*

*Strategic importance of development of Oil and infrastructure has been realized. There is a need to design an infrastructure blueprint with pre-defined milestones. Also, attracting private investment and expertise is need of the hour.*

*To achieve the vision of Energy Security, high priority shall be given to increase domestic production as well as identifying substitutes.*

*It is also essential develop new markets for cleaner fuels like Natural Gas, to remain true to the commitments made under the Paris accord of reducing Carbon emissions.*

## Exploring alternative sources and achieving #UrjaAatmanirbharta will be priority for 2021

### Few key questions that will need executable answers



*How to attract private investment and private players in building world class infrastructure with specific milestones?*



*How to channelize the ongoing efforts in the direction of alternative fuel sources in order to have more efficient, cleaner and sustainable fuels?*



*Trained Manpower v/s Shared Services v/s Supply Chain Digitalization v/s Cost Optimization – How to strike a balance and build an ecosystem which thrives on the synergy and generates desired results?*

### ...and what policy / budget clauses can enable implementing the above

Government of India has announced several policies like Open Acreage Licensing Policy (OALP) and Coalbed Methane (CBM) to attract investments in the sector. Recently, reforms like unified tariff regime for inter-connected cross-country gas pipelines and Natural gas marketing reforms have been announced by the Government.

In addition to these efforts, some of the below mentioned areas need to be addressed to achieve our desired outcomes -

- A dedicated **infrastructure development agency** should be formed under the existing regulatory regime with an objective to support consumption milestones and attract private players in the sector.
- For pipeline transpiration, there is a need to ensure complete unbundling in the roles of marketer and transporter for Oil and Gas commodities, in order to achieve greater transparency in licensing, contracting, and ascertaining accountability.
- There is a need to support new **markets for cleaner fuels**, including Natural gas. Financial incentives should be given to help development of markets for next-gen fuels. .
- **Ease of Doing Business** – establishing single window system for accessing guidelines, sharing information, providing approval etc. regarding regulatory requirements

### What to look out for in 2021

1. Growth in consumption and production of Oil and Gas: With the Government unveiling the template for market-based price discovery of Natural Gas, a push for gas-based economy is expected.
2. With market exclusivity period coming to an end for CGDs in Mumbai, Delhi and other areas, the consumers shall have a choice to select from available gas suppliers. This shall ensure better offerings in terms of services and price.
3. Changes in policy regime to ensure higher consumption of Natural Gas
4. Investment in infrastructure, in particular for Natural Gas pipeline, to achieve the objective of "One Nation One Gas Grid". An important milestone in this direction has been achieved in the very first week of Jan 2021 with Hon'ble Prime Minister dedicating Kochi-Mangaluru natural gas pipeline to nation.
5. Digital interventions by O&G players across value chain
6. Steps to ensure lower dependency on Oil and Gas imports, including LNG
7. Success of programs promoting alternative fuel sources like CBG (SATAT), Hydrogen, Shale Gas etc.

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'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

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The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organisations.

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