

Oil and gas PSUs need to be uncaged for survival and growth

UTTAM GUPTA

THE minister for petroleum and natural gas, Ram Naik, strongly believes that the oil and gas sector is of immense 'strategic' importance. Therefore, the government should continue to hold majority equity in ONGC, IOC, GAIL and so on.

Because of this, the department of disinvestment (DoD) has not been able to push through its plans for reforms which involve amongst others, reduction of government of India's (GoI) stake in these undertakings to minority.

When, Mr Naik talks of strategic importance, he has perhaps, at the back of his mind the overriding need for ensuring adequate and uninterrupted supply of oil and gas to ensure sustained and rapid economic growth apart from meeting the requirements of most critical sectors like the railways, defence, airlines etc.

In other words, we should have a reasonably high level of self-sufficiency in their production.

On this criterion, unfortunately, India is far from the goal as in crude, where we are dependent on imports to the extent of 70 per cent of

our requirements and in gas, there is a huge shortfall in domestic production vis-a-vis demand of about 135.0 million cubic metre per day.

In view of this situation, India is vulnerable for meeting its energy requirements — as amply demonstrated by the burgeoning oil import bill in the wake of the steep increase in the international price of crude during the current year — and will continue to remain so unless domestic production capability is increased manifold to meet the ever-rising demand.

The situation will not improve merely by retaining overriding government ownership and control over PSUs. In the past, continued controls have only acted as a drag as amply borne out by virtual stagnation in production of crude during the decade of 90s.

In regard to meeting the needs of the critical sectors, some quarters (including a former prime minister) have expressed doubts that in the event of ownership and management control passing into private hands, supplies to these could be affected.

Any such fear is imaginary to say the least. Can we ever contemplate a situation when

Reliance Industries, which currently accounts for about 1/4th of total refinery capacity in the country, refuses to supply?

In this era of globalisation, it is most unlikely that even an MNC will be guided by considerations other than pure business interests. Setting up of projects for exploration and production of oil/gas as well as in the downstream refinery sector involves huge investment.

This can be serviced and reasonable returns ensured only if, production capacities are optimally utilised. Against this backdrop, the possibility of an MNC deliberately suspending supply is ruled out.

The perception that privatisation of PSUs in the oil and gas sector could threaten country's oil and gas security also runs contrary to the government's avowed policy of liberalisation and attracting foreign direct investment (FDI).

Had there been any validity in this argument, it would not have even allowed FDI in this sector. Far from that, at the recently held

Petro Conference, senior ministers even hinted at raising the FDI limit in oil and gas to 100 per cent.

Our energy security can be ensured only by increasing domestic production of oil and gas with a view to achieving a reasonably high level of self-sufficiency in the shortest possible time.

In this endeavour, even as the government will continue to expect PSUs to play a leading role, it also has to depend, in large measure, on the support of the private sector — particularly the MNCs in view of their expertise/experience, technology and resources.

This would require forging of strategic partnership/alliances and joint ventures etc., which can be successful only if, the former drastically change their approach/outlook as well as the working.

The oil PSUs also need to gear themselves for facing intense competition in the wake of imminent dismantling of the administered price regime (APR), further lowering of tariff on imports — as per our commitments under

WTO — and opening of retail distribution to private sector.

In the gas sector also, due to impending deregulation in 2002 (there is even a talk of advancing this to 2001), the monopoly of ONGC and GAIL will come to an end.

The message is loud and clear. For the oil and gas PSUs, it is not merely a question of maintaining their high share in the total energy supplies, but also, surviving the onslaught of impending fierce competition. They will have to take prompt decisions in regard to revamp/modernisation, expansion, measures for improvement in efficiency and reduction in cost, adoption of innovative strategies for marketing and so on.

All this seems to be virtually impossible under the existing highly controlled regime.

Notwithstanding the propaganda about giving 'freedom' and 'autonomy' to PSU managements and even conferment of the so-called 'Navaratna' status on all major oil and gas PSUs, the concerned chief executive officers (CEOs) have to come to the government for approval of all major decisions (bureaucrats ensure this by ingenious drafting of relevant notifications).

They have got used to His Masters' Voice (HMV) for so long that even if full autonomy was given in the 'true sense' (this is theoretical), they will still not be able to ignore it (read HMV).

In a nutshell thus, as long as government's majority holding in oil and gas PSUs remains in tact, these will automatically be covered by a host of controls (no amount of big talk like Navaratnas, can help in changing this reality).

Consequently, the management will remain caged as always in the past. The ability of PSUs to match the might of the private sector, specially MNCs, and play their due role in ensuring continued oil and gas security will remain a distant cry.

It is high time the government comes out of the typical 'socialistic' mindset and takes a decision, sooner than later, to divest majority equity holding in oil and gas PSUs and follow this up by actual disinvestment in a reasonable time frame.

Any delay could prove suicidal for them and will have serious repercussions on the entire economy.

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