



powered by bluebytes

Saturday, June 21, 2014

Clear policy cobwebs (also see in [Jpeg](#))

Publication: Financial Chronicle, Journalist: Vikas Srivastav, Edition: Delhi/Hyderabad/Mumbai/Chennai/Bangalore, Page No: 13, Location: Fullpage, Size(sq.cms): 754

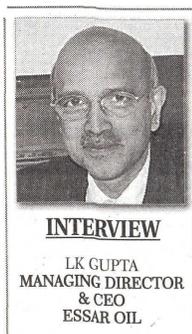
Highlight Keywords

[Share News](#)Export Options > [PDF](#)[JPEG](#)[Advance PDF](#)[Qualify Article](#) [Click](#)

FINANCIAL Chronicle



Essar Oil and Gas



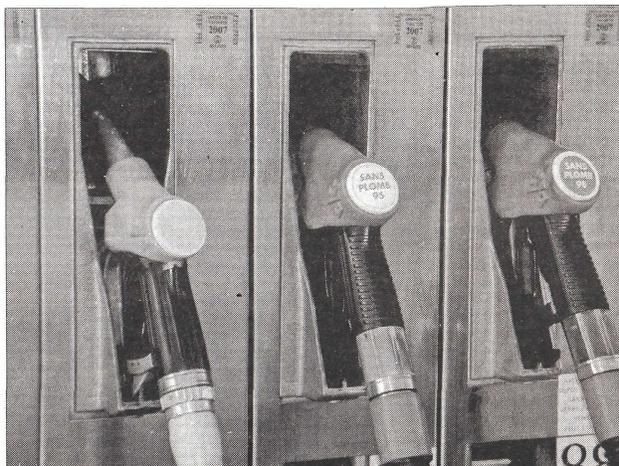
Clear policy cobwebs

What are your expectations from the new government at the Centre? What should be its priority regarding issues crippling the oil and gas sector?

The new government has come at a time when the retail prices of diesel have virtually reached the international price parity. The government should quickly deregulate the diesel prices so that there is a level-playing field among private and public marketing companies and the consumer get the benefit of competition. It will also promote a more efficient use of diesel. The government will also have to look at the pricing of gas as a priority. All over the world, gas prices are market linked. It is illogical to link domestic crude to market prices, but not the gas. Market-linked prices would create better opportunities for explorers and heighten the activity in the segment. It would lead to exploration in various north-eastern regions acquired during nine rounds of auctions. Once the availability increases, the market-linked prices would automatically stand corrected and promote efficient use of gas.

There was a lot of confusion about policies and companies found it difficult to initiate new projects especially in the E&P business. How important are the new government's decisions like disbanding of GoMs/EGoMs and plans to make India a manufacturing hub?

The government decision to disband all the groups of ministers (GoM) and empowered groups of ministers (EgoM) is an extremely good step. It shows there is an ownership of the government, which was missing during the previous regime. There are two ways of doing a work: one is to own the responsibility



OIL ISSUES: Company participation in owning retail outlets would increase to around 5-10% of the total outlets

responsibility is now fixed and the people would be held responsible in case. The government has also sent a strong message to the bureaucrats that any bonafide decision would be protected and they would not be pulled up after retirement. This is the best form of government. It will ensure that there are fewer layers and timely implementations are effected. The classic example is the power plants without coal linkages or natural gas supplies, when India has the fourth largest coal reserves in the world and also large natural gas reserves. Still we are paying higher prices by importing them. If we have to set up a manufacturing base and make India the hub, there are three basic necessities: cheap electricity, capital and land. We have problems in all three segments. Unless that is resolved our dreams of making India a manufacturing hub cannot be fulfilled. ...

mmBtu and supplied around that price. We are the victims of our own actions. At present, there are only three major importers of LNG — Japan, India and South Korea. As Japan is making efforts to shift towards coal and nuclear, South Korea and India would be left as major importers. If India stops importing today, the price of natural gas would drop substantially, maybe to \$8-10 per mmBtu immediately. We should ensure improvement in production at our fields, and all help and support is extended to the sector. The government will have to remove the confusion in policies related to cost recovery, profit sharing and the pricing of gas. If the gas price is hiked, but not notified, it sends a wrong signal to investors globally. It is desirable for the government to take a clear stand on all issues concerning the sector on a long-term basis. In the refining sector also, the government has to work on promoting more environment-friendly fuels

dian refineries still import about 85 per cent of its crude oil requirements. Hence promotion of efficient fuels must be a national priority.

□ In the downstream segment as well the deregulation of diesel is long-awaited, though the under recoveries have hurt upstream PSUs like ONGC, OIL and GAIL and also impacted the performance of downstream companies on account of higher interest cost on borrowings. Complete deregulation of diesel is a must even if the deficit becomes zero in the next couple of months due to 50 paise hike every month. The deficit could be breached if rupee depreciates and crude prices shoot up. The deregulation of LPG and kerosene can be separately worked out over a period of time as it concerns the poor and down-trodden. However, limiting the number of LPG cylinder per household and linking the bulk diesel to market have improved the situation in the past one year. It is a

scenario, especially for fresh vegetables, does not support high cost of low-priced organised retailers. Many of them have shrunk their fresh foods section, with minuscule presence in the market. The traditional format rules would continue to rule since it is very effective for everyone in the value chain, even if it is inefficient.

It may be noted that convenience store formats are leading retailers across Asia, largely because they give a very high value of convenience. High population density leading to crowded markets and roads and parking woes are some of the hassles customers love to avoid, especially while buying daily essentials. Fresh food is a challenge for large retailers in this country.

□ What other steps are required to make the public sector refineries more efficient and increase their GRMs? Also, what would be your plan to take on the competition with the wide network of PSU retailers once diesel gets deregulated?

It may not be entirely true to assume that the public sector refineries are not efficient. In the last few years most of these refineries have either upgraded or have expanded capacities to take the best fuel mix from around the world. They have improved their complexities and are now fully competitive. But few of them will find it difficult to compete in the coming years not because of management but due to their configurations that are old and good to serve as per the hardware.

As regards to retail venture, we will have to prepare ourselves for a strong competition. We have identified various regions across India and various models and formats where the company participation in owning the outlets would increase to

of the decision and the work and complete it on time, and second is to set up a committee where no one owns the responsibility for the decision taken. In the last couple of years, we have seen the latter as the modus operandi. The decision to scrap the EGoMs will ensure that

How can India come out of the current mess in the oil and gas sector?

Today we are in an unfortunate situation of importing gas at \$16-\$18 per mmBtu (million metric British thermal unit), when it can be produced at less than \$8 per

by assuring proper compensatory pricing for recompensing the incremental investment. Besides, the levy of excise duty at a much higher rate on premium quality petrol and diesel needs to be withdrawn forthwith, as

misconception that hiking the diesel price by Rs 5 a litre in one go would cause inflation as the transportation cost per 500 km for onion or potato would not increase by more than 10 paise per kg. The current

around 5-10 per cent of the total outlets, which till date were based on the franchisee model.

vikassrivastav
@mydigita*fc.com

The price of natural gas and diesel needs to be market linked and production of domestic fuel ramped up to reduce dependence on costly imports in the immediate term, said Essar Oil's managing Director and CEO, LK Gupta, in an interview with Vikas Srivastav. Excerpts:

