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Market report : oil and gas sector  
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## MARKET REPORT

### Oil and Gas Sector

#### India



Team Canada - Équipe Canada

#### Market Opportunities Assessment

India has relied increasingly on oil imports in recent years. This occurred because energy demand grew rapidly, and India's limited oil reserves were not able to satisfy this demand.

While India accounts for 18% of the world's population, it possesses only 0.5% of the world's oil and gas reserves. Its hydrocarbon reserves are estimated at 17 billion metric tonnes (crude oil and natural gas). Of these reserves, 63% are in the offshore basins and 37% are located in the states of Gujarat, Assam, Rajasthan, and Andhra Pradesh. Proven reserves, however, are only 4 billion metric tonnes, of which an estimated 25% are considered recoverable.

India's crude oil production increased steadily from 0.5 million metric tonnes (mmt) per year in 1960-61 to over 34 mmt in 1989-90. Subsequently, production declined to 26.95 mmt in 1992-93. Over the same time period, consumption increased from 56 mmt in 1989-90 to more than 62 mmt in 1992-93. The difference between production and consumption was made up by imports of crude oil, a major item in the Indian import bill.

The hydrocarbon sector was primarily under government control and supervision through public sector organizations such as the Oil and Natural Gas Corporation (ONGC) and Oil India (OIL) for exploration and production of oil; Gas Authority of India Ltd. (GAIL) for distribution of gas; Indian Oil Corporation (IOC) and around 11 other public sector refineries for refining and marketing of petroleum products. Due to rising demand, however, it has become apparent to the Government that the public sector will not be in a position to finance the staggering investment of \$US 113 billion that will be needed to satisfy this increasing demand over the next 15 years. The Government has recognised that participation by the private sector is crucial to attract the substantial investments needed for the oil and gas sector.

Consequently, the government recently has permitted Indian and foreign firms to participate in exploration of oil and gas reserves, non associated gas fields, and production/refining activities at attractive terms and conditions.

Distribution activities are also gradually being opened up to private participation. Private companies are now allowed to freely invest in new refineries, with the public sector's share in new refineries limited to 26%. Recently, due to the demands by the major foreign oil companies, the government is also considering to permit the oil majors to invest up to 100% in the development and exploration of oil fields.

The market for oil and gas equipment was estimated to be approximately \$US 1.86 billion in 1994, with imports making up roughly half of the total market. Following is a break-down of this estimate for the years 1992-1994:

	1992	1993	1994	Growth (Estimated): 1995-1998
Imports *	585	770	920	20%
Local Production *	890	997	1197	N/A
Exports *	175	210	252	20%
<b>Total Market<sup>+</sup></b>	<b>1,300</b>	<b>1,557</b>	<b>1,865</b>	<b>20%</b>

\* Figures are in \$US.million

+ Total Market is determined by adding Imports to Local Production, minus Exports

The Indian market for oil and gas equipment is dominated by three countries, the United States, Japan, and the United Kingdom with 29%, 20%, and 20% of the import market respectively. South Korea and Singapore each claim 15% of the import market. All other countries combined make up roughly 6% of total imports.

Until very recently, the major importers of oil and gas equipment were the government companies; however, with the recent opening of the market to private companies, there will be a large market for equipment and services in the private sector as well.



*Best Sales Prospects:*

There is a wide scope for direct exports from Canada in the oil and gas sector. At present, the requirements of the Indian oil and gas sector include products like blow-out preventers, hydraulic power tongs, digital seismic units, diamond core bits, well platforms, specialised pumps, well data acquisition systems, casing pipes and tubing, deck cranes, crude injection pumps, and downhole production equipment.

The services sector also offers considerable opportunities, particularly in logging, cementing, management of rigs, pipeline inspection, horizontal drilling and production, and data acquisition.

Numerous Canadian companies are actively undertaking or pursuing business in this sector, including provision of consulting services. Canadian companies are also involved in production sharing of oil fields and transfer of technology for downstream projects to manufacture polyethylene and other related products. Canada has also successfully sold used refineries in dismantled condition to India.

**Market Access**

*Trade Channels:*

Oil and gas equipment can be sold in India through a sales agent/distributor or directly to end-users. Most companies prefer operating through a local sales agent for market entry, sales promotion and for liaising with the government.

The following trade channels operate in the Indian market:

- Manufacturer - supply company - agent - purchaser
- Manufacturer - local liaison office - agent - purchaser
- Manufacturer - purchaser

The first two channels are employed by foreign suppliers and the third channel is normally used by Indian manufacturers. The first channel is useful for small unit value, large consumption items like tooling, valves and pumps, chemicals, etc. The second channel is employed for large value and one-time contracts or purchases. The third channel is more useful when negotiations are long and require quick decisions and high degrees of personal attention.

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In general, foreign firms operating in India use an agent because of the complexity of the purchasing process. Local agents or partners can be helpful in dealing with the bureaucratic work environment of the Indian oil industry as well as in establishing contacts with government agencies and technical personnel on a day-to-day basis. They can also be on hand to obtain tender documents, submit bids, attend tender openings, obtain comparative statements, respond to buyers' questions, and provide after sales service to customers. Agents' commissions vary from 2.5 to 5 percent.

The duty on equipment for the oil and gas sector ranges from a minimum of 10 per cent to a maximum of 60 per cent of the CIF value. There are no preferential customs duties, or waivers of customs duties for suppliers from any country.

To procure major equipment, both the ONGC and OIL float public tenders. The tendering process is often not very transparent and is often plagued by bureaucratic delays. It is not uncommon for these organizations to invite re-bids and seek clarification several times before a tender is finalized. Canadian companies can best deal with this process by exercising patience in the tendering process and by hiring a reputable local agent.

### *Opportunities for Joint Ventures*

As India moves towards its goal of attaining self-sufficiency, there will be a continuing shift from direct imports of products and equipment towards domestic manufacturing through technical and financial collaboration. Canadian companies with state-of-the-art products and technologies would benefit from forging early strategic alliances with potential Indian joint venture partners. An added benefit to entering into a joint venture with an Indian firm is that it will allow the Canadian company to bid with its Indian partner as an Indian bidder.



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