Integration of oil & gas majors is best avoided

In his fourth budget speech, Finance minister Arun Jaitley revisited the idea of an integrated oil and gas sector. The idea first made its appearance during Atal Bihari Vajpayee's government in 1998. The proposal was then rejected for encouraging a monopolistic scenario in distribution of essential goods like LPG, petrol, kerosene etc. In 2005, the Krishnamurthy committee formed by the UPA government debunked the idea as it would reduce competition and manpower in the oil and gas sector.

Why, then, did the idea of an integrated oil major surface again in 2017 even after being rejected twice?

Five reasons

Mr. Jaitley stated five major reasons for the same: better capacity to bear higher risks, avail economies of scale, create more shareholder value, make better investment decisions and be more competent globally. From the table, it is apparent that Indian firms are much smaller in size compared with top international oil companies. The Government's track record of consolidating state run firms has not borne good results. The aviation sector suffered a major setback following the merger of Air India and India Airlines in 2007 and has not yet fully recovered. In oil and gas, minimum political interference and liberalisation have proven better in creating more shareholder value compared with integration. ONGC's decision to bail out debt-ridden Gujarat State Petroleum Corporation has been said to be the result of political interference. With oil firms facing such allegations and inefficiencies, giving complete autonomy to one entity can risk the nation's energy security.

Another concern is employment generation. The graph shows that the sector has seen a continuous decline in manpower since FY11. The Krishnamurthy Committee had earlier deduced that such integration will result in manpower reduction. At a time when the government is struggling with job creation, it will be difficult to justify job losses due to restructuring.

The ability of a company to take higher risks depends on the amount of capital it has. The financials of all six major oil PSUs show that they have more than the minimum amount of capital required. Size is also not the only factor that facilitates acquisition of offshore projects. Ireland's Tullow Oil, with a market cap of only $3.62 billion, has expanded in several countries by forming consortia with local oil firms. Therefore, companies should focus on better strategy, techniques and management practices to negate shortcomings of their size. The Indian oil market today has hardly any competition and is dominated by IOCL, HPCL and BPCL. Curbing competition in the past has already adversely affected the aviation and banking sectors.

So, any decision that creates a monopoly in the oil and gas sector must be carefully thought through. An important question here is whether a bigger oil company will help achieve the aims stated by Mr. Jaitley. Or, will it create new problems for the Indian people at large?

(The author is a BJD Member of Parliament and views are personal)

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