ONGC grapples with existential crisis

India's dependence on imported oil and gas is rising steadily but the country's premier exploration conglomerate is running on empty

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It is rare for cabinet ministers to tick off state-owned companies publicly, yet that was what then petroleum and natural gas minister Dharmendra Pradhan did for ONGC.

Speaking at an event on June 29, Pradhan said he has asked India's premier exploration company to find fresh oil acreages fast. "Do it yourself through some joint venture (or) through a new business model. But the government cannot permit you to hold resources for an indefinite time."

The reason for this stricture is India's rising dependence on imported oil and gas. Or, to put it another way, falling domestic production (*see chart: "Crude truth"*), especially from ONGC, which faces a simple problem. A reply in Parliament shows ONGC's share of domestic natural gas production is less than 80 per cent, that of oil is far lower at 66.3 per cent. Analysts peg the per barrel cost at ONGC well-head at \$50, which is incredibly high by global standards, which is less than \$20.

It can still plod on thanks to high global prices — ranging above \$70 a barrel (Brent crude), if not gas. In June this year, S&P Global Ratings assigned an improved earnings outlook for the next 12-18 months for the company (BBB-/Stable) on this account.

Way before Pradhan waded into the debate publicly, the ministry had advised ONGC to sell stakes in oil fields such as the Ratna R-Series as part of efforts to monetise infrastructure to raise cash flows. These are medium-sized offshore fields in the south-west of Mumbai. They cost about ₹472 crore for ONGC to develop in 1983 but production stopped in 1994 because it became uneconomic. There was an in-principle decision made at that time to auction them but has never got done. In a letter written in April this year and signed by Amar Nath, additional secretary in the petroleum and natural gas ministry, the company was advised to hive off its drilling and other services into a separate firm.

Nath sits on the ONGC's board as one of two government nominees, representing its 60.56 per cent shareholding. That he had to send such a mail means the company board is unable to take decisions. The board still lacks a full-time chairman. Subhash Kumar, director (finance), is holding additional charge as chairman and managing director. The Public Enterprises Selection Board has tried for over a year. In the latest beauty parade of nine contestants it found no suitable candidate. So ONGC will remain headless until the board puts up a fresh advertisement for the post.

Thus, ONGC is a company without a clear road map for the future despite its board adopting Energy Strategy 2040 two years ago. It wants to move up the value chain to concentrate on areas where the expected risk-reward payoff offers better growth opportunities, such as aromatic petrochemicals, gas-based power plants and, finally, into renewables. Except in the first, the company is not a leader in any of the sectors nor does it occupy the number two slot. At the current scale of expansion, it does not seem to have the ambition to be so. The ministry itself is, therefore, not sold on this strategy.

The company was born before the high noon of oil sector nationalisation in West Asia, and became India's flag bearer for energy security. Mumbai High Field (formerly Bombay High) was its best strike in 1974. Since then, India has become the world's third-largest oil consumer and the demand-supply equation has changed.

The company is caught in a low flying orbit. As S&P notes, ONGC will maintain prudent capital investments over fiscal 2022, to invest in existing wells and a new discovery in Ashoknagar off the Bengal coast, largely funded with operating cash flows and an encouraging rate of return of 9 per cent, higher than most global peers. But those numbers are modest at about ₹43,000 crore in FY21, down from close to ₹55,000 crore the previous year. It was making the same sort of investments in FY16. For comparison, Sinopec China has an exploration budget more than four times of ONGC's (*see table: "Off the map"*). The S&P Platts table shows in the league of global oil and gas exploration companies ranked by assets the company is fairly puny. RIL, too, is three times ONGC's size.

The company does not have the money to blow up in high-risk wells. But all of India's new finds are high risk. The Indian subcontinent is not only geologically dry for both oil and gas, it makes the little pockets of discoveries impossibly costly, when the world is sitting on massive un-utilised reserves. ONGC's future as an explorer is unclear if it does not have the money to explore. It is one of the reasons its share price languishes.

The company has declared 10 discoveries in its operating averages in FY21. Its best recent find, the Ashoknagar well in the Bengal basin, discovered in 2018, will take years of investment before it reaches commercial production. Meanwhile, for each find, it has to figure out offsetting ways to reduce its carbon footprint, according to the ministry's latest guidelines, to be "completely sustainable and carbon neutral".

When it comes to gas, even here, the company, despite a promising start a few decades ago, has lost leadership. It is constrained by low administered prices and acknowledges this problem publicly. In a note to the stock exchanges, it says: "Despite uneconomical gas prices, ONGC has been aggressively pursuing its deep-water projects in East Coast and a couple of shallow water projects in West Coast... There are certain issues around structure where decisive steps can be evaluated only once the industry is completely under GST regime". Though it is unlikely that the Centre will accede to Assam Chief Minister Himanta Biswa Sarma's request to consider transferring all the assets of ONGC in the Northeastern region to Oil India, the sense of loss of direction is clear.

It might be better if the company were to just import gas or even oil. Its subsidiary ONGC Videsh already has a product pipeline that is 32.34 per cent of ONGC's domestic production in FY19. ONGC as a trading company could realise more value than digging up dry wells.

Crude truth

S&P Platts Top 250 Global Energy Ranking	Rank
ONGC	11
Indian Oil	19
Reliance	14

National oil companies	Country	Exploration budget ($bn) 2017
Petrochina	China	32
Equinor	Norway	10
Gazprom	Russia	25.8
ONGC	India	11.1
Petrobras	Brazil	15.1
Petronas	Malaysia	10.3
Rosneft	Russia	17
Sinopec	China	14.7

Source: Natural Resource Governance Institute, National Oil Company Database, 2019
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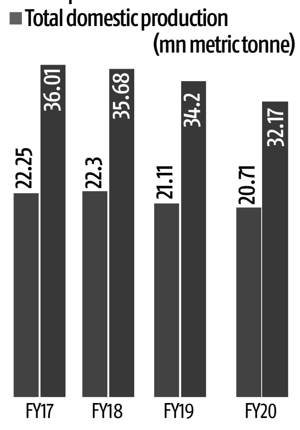
OFF THE MAP

ONGC oil production trend



Source: Parliament reply, ONGC

ON THE JOB

Disproportionate fall in urban male jobs

MAHESH VYAS

A comparison of the quarter ended March 2021 with the quarter ended March 2020 provides a view of how India dealt with the Covid-19 shock. The quarter ended March 2020 reflects the position before the shock and the quarter ended March 2021 was the position at the end of a year since the shock. Using quarterly data removes the noise in monthly data, if any, and making year-on-year comparisons removes the effects of seasonality, if any.

One problem with using the March 2020 quarter as a pre-Covid quarter is that it wasn't entirely free of the effects of Covid. The virus had started curtailing activities by late February and finally, the nationwide lockdown began on March 24, 2020. In January 2020, employment was estimated at 410 million. This dropped to 406 million in February and then to 396 million in March that year. Therefore, using the quarter ended March 2020 as a pre-Covid quarter is to understate the pre-Covid conditions. With this caveat, it may be noted that employment during the quarter ended March 2020 was 406 million.

In the quarter ended March 2021, employment is estimated at 399.7 million. Therefore, one year after the onset of Covid, India was left with a shortfall of 6.3 million jobs. Note that this is not the loss of jobs during the year of the Covid pandemic. That is a much bigger number. Many of the lost jobs came back. Our interest is in the situation before and after the shock. We find that all jobs could not be recovered. The net shortfall is of 6.3 million jobs, implying a loss of 1.5 per cent of the jobs.

The second wave of Covid hit India exactly a year after the first. This one cost India an additional 13.3 million jobs. Employment dropped from 399.7 million in the quarter ended March 2021 to 386.4 million in the quarter ended June 2021. So, compared to the pre-Covid March 2020 quarter, India today faces a loss of a massive 19.6 million jobs.

It is not entirely fair to compare the 13.3 million jobs lost in the second wave with the 6.3 million jobs lost in the year since the first wave. Experience tells us that many of the jobs lost initially do come back eventually. Employment at the end of the quarter ended June 2020 was a whopping 78 million lower than it was in the March 2020 quarter. But, that massive shortfall has been largely made up for, leaving a shortfall of only 6.3 million as of the quarter of March 2021. Similarly, the 13.3 million shortfall seen in the first quarter of the second wave will be narrowed in the coming quarters.

Arguably, urban male jobs are the better quality jobs and their disproportionate loss could imply a greater fall in income than witnessed so far

While many of the lost jobs will come back, the current loss is huge and its impact on the households that have suffered because of this cannot be captured in the cold statistics rolled out here or in the comfort that jobs will come back eventually. Many of those who got their jobs back or found alternative jobs got these at lower wage rates. Household incomes have fallen a lot more than employment has.

The gender distribution of job losses in the second wave is somewhat ominous. First, a simple structural fact — nearly 90 per cent of the jobs are held by males. Women account for only about 10 per cent of the jobs, but they made for 23 per cent of the loss of jobs a year after India was struck by Covid. As of the quarter of March 2021, of the 399.7 million jobs, women accounted for only 41.8 million jobs. But, of the 6.3 million jobs lost over the preceding year, women accounted for 1.5 million lost jobs.

The most disproportionate loss of jobs because of the first wave of Covid-19 was among urban women. Urban women account for about three per cent of total employment. But, they accounted for 39 per cent of total job losses. Of the 6.3 million jobs lost, urban women accounted for a loss of 2.4 million.

This is not how it played out in the second wave. Urban women suffered the least loss of jobs. The burden of job losses has shifted to men. During the April-June 2021 quarter, urban males faced a disproportionately higher loss of jobs. Urban males account for about 28 per cent of the total employment in India. They accounted for a lower 26 per cent of the loss of jobs till March 2021. But, in the quarter ended June 2021, their share in total job losses was higher at 30 per cent.

Arguably, urban male jobs are the better quality jobs and their disproportionate loss could imply a greater fall in income than witnessed so far. It is also likely that women are often the second earning member of a household. The loss of jobs among women more often than not implies a fall in income but not a complete loss of income. But, a loss of job among men often implies complete loss of livelihood. This greater loss of urban male jobs is worrisome. The impact of this on income will be known when the income data for the quarter are released in November 2021.

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How Japan's state of emergency will affect the Tokyo Olympics

MARI YAMAGUCHI
Tokyo, 12 July

REUTERS

A virus state of emergency began Monday in Japan's capital, as the number of new cases is climbing fast and hospital beds are starting to fill just 11 days ahead of the Tokyo Olympics.

Here's a look at the state of emergency and how it will affect the Olympics.

What restrictions are there?

The six-week emergency is Japan's fourth since the pandemic began and will last until August 22. The main target of the new state of emergency is alcohol served at bars and restaurants as authorities want people to stay home and watch the games on TV and not gather in public.

DECODED

Japan has weathered the pandemic better than many other nations, logging about 820,000 cases and 15,000 deaths

Like past emergencies, most of the measures are requests because the government lacks a legal basis to enforce hard lockdowns. Authorities have recently given themselves more power to issue binding orders for businesses to close or shorten hours in exchange for compensation. They can also now fine businesses that violate those orders.

The new state of emergency requests that restaurants, bars, karaoke parlours and other entertainment outlets either close or not serve alcohol. It asks liquor stores to suspend business with restaurants and bars that defy the request, but liquor stores say that would hurt their business ties.

Schools will stay open during this emergency, while theme parks, museums, theaters and most stores and restaurants are requested to close at 8 pm.

Tokyo residents are asked to avoid nonessential outings, work from home and stick to mask-wearing and other safety measures. Measures for the general public are non-mandatory.

What areas does it cover?

The latest state of emergency covers Tokyo's nearly 14 million residents, while less-stringent measures focusing on shortened hours for restaurants and bars affect 31 million other people in nearby cities of Chiba, Saitama and Kanagawa that are home to some Olympic venues.

The measures also cover Osaka, which was hit hard by a virus surge in April, and the southern island of Okinawa.

How will this affect the Olympics?

The state of emergency will cover the entire duration of the July 23-August 8 Olympics and its main impact will be in barring fans from stadiums and arenas in the Tokyo area.

While the state of emergency mainly covers Tokyo, Olympic officials have decided to bar fans from events hosted in Tokyo's three neighbouring prefectures, while allowing limited fans at other outlying venues. Soccer events in Hokkaido and baseball and softball games in Fukushima, however, will also bar fans due to virus concerns.

The games have already been postponed from 2020 by the pandemic, and fans from abroad were banned months ago. With the new restrictions, the games will now be a largely TV-only event.

How bad is Japan's virus situation?

Japan has weathered the pandemic better than many other nations, logging about 820,000 cases and 15,000 deaths.

But the situation has grown more serious in recent weeks, and Tokyo hit a two-month high of 950 new cases on Saturday. Experts have warned that the delta variant, which is thought to be more contagious, is spreading fast in offices and classrooms and without tough measures the numbers could skyrocket by August.

About 16.8 per cent of the population has been fully vaccinated, a number that has picked up since May but is still far short of where officials hoped to be before the Olympics. Younger people are largely unvaccinated.

Will the public comply?

Experts worry whether the latest state of emergency requests will be followed when many people are already fatigued by the restraints and grown less cooperative.

Health Minister Norihisa Tamura has said that effectively preventing people from going out drinking amid the festive mood of the Olympics will be a headache. Young people are already gathering in streets and parks to drink after restaurants and bars close at 8 pm. Tokyo metropolitan officials have started nighttime patrolling to chase them away.

Experts say Japanese roaming around during their summer vacations and the Olympics could be a greater risk than athletes and other participants whose activity will be closely monitored.

The Associated Press