

OIL PRICE VOLATILITY

Consequences and Policy Responses

- In One YEAR CRUDE PRICE Has Fallen by Half • Next YEAR Likely to be Unique
- China's Demand will Fall • Demand for Europe and Japan likely to be Half
- Indian Energy Demand will Rise • Iranian Supplies will increase
- Indian Imports Bill likely to Drop from S\$ 76.6 Billion to \$ 36.68 Billion

Policy Initiatives Imperative for Government

Full Domestic Price Deregulation? Market price for Domestic Gas?
Reduction of Agricultural Subsidies? Investment in Overseas Assets?

Top Stakeholders and Experts Discuss These Core Issues

at

14th Petro India 2015

2nd February 2016, Hotel Shangri-La, Ashoka Road, New Delhi

You are invited

To Join This Interactive Event and Share Your Views

India Energy Annual Forum (IEF) and Observer Research Foundation present their joint and prestigious annual event 14th Petro India on 2nd February, 2016.

Theme : Oil Price Volatility: Consequences and Policy Responses

Objective

Over the past one year the price of crude oil has fallen by more than half. Benchmark Brent Crude, which used to trade for \$ 110/barrel in early 2014, hovers in the \$ 50/barrel range today. This drop was not preceded by any major alteration in the world economy. Many people are surprised and bewildered by what happened

Historical memory particularly that of economic matters, tends to be short-lived. Similar halvings of oil price have happened in the past: in 1982-83, in 1985-86, in 1992-93, in 1997-98 and in 2001-02. Are the underlying causes of the present collapse similar to those of the past? Are the consequences for India the same this time or are they different?

The next one year will reveal some very interesting developments, perhaps unique in the history of oil. Chinese demand was growing at an annual rate of 6-7% since coming out of the 2008 financial crisis. Pursuant to the current economic slowdown in China, petroleum demand is expected to be in the range of 1-2% for 2015-16. The European Union and Japan will likely see GDP growth of 1-2%, and the United States 2.5 to 3.0%. The energy demand curve, which includes petroleum, will be largely flat in these major economies. In contrast, the IMF predicts 7.5% GDP growth for India. Indian energy intensity closely parallels GDP growth; therefore it is reasonable to expect a 6% to 7% rise in petroleum demand.

What is clear is that the 2014-15 price crash is due to oversupply in the global market, and not due to a constriction of demand (this, however, may not hold true in 2016-17, as the effects of the Chinese deceleration percolate down). Shale oil, deep water oil, and oil from new geological frontiers such as the Brazil sub-salt, have all contributed to taking worldwide production to 96 million barrels per day (bpd). Demand has remained largely static at around 90 million bpd.

With sanctions being withdrawn, Iran has vowed to add 2 million bpd to the world market as quickly as it can. Over the next 5 years Iran intends to ramp up production even more, to 4 million bpd, following rehabilitation of its oilfields. So with global consumption largely flat next year, a disturbing supply situation (for exporters) and a comforting supply situation (for consumers) looms.

How does India fare in all this? Historically, low oil prices have boosted economic growth, particularly for oil importing economies. The enormous expansion of the US economy in the 1950s and 1960s was on the back of \$ 2.50 (or cheaper) oil. In more recent times, the global spurt from 2000 to 2008 was underlain by low oil prices, until rising consumption sharply escalated prices in 2007.

India's import bill for crude oil in FY 2014-15 was \$112.74 Billion. FY 2015-16 will see a drop to \$76.06 billion, a saving of \$36.68 Billion. With this unexpected windfall, the Government of India has quickly thought up ways to disburse this wealth: in infrastructure (highways, ports, etc.), in social welfare projects such as insurance and livelihood schemes for the poor, in mending the balance of payments deficit, and other end uses. What is alarming is that we seem to be making no provisions for a sudden rebound in oil prices, which at some point is inevitable. Providing for the Indian petroleum sector has been singularly absent in the Govt. of India's public policy thinking.

Full domestic price deregulation of all petroleum products, market-determined prices for domestic natural gas, removal or reduction of agricultural subsidies, investment in overseas upstream assets (valuations are low now) are only some of the actions that must be seriously debated and put into practice quickly. An oversupply with low global oil prices has opened a window of opportunity, but that window may close sooner than expected.

Petro India 2015 will consider in-depth the challenges and the consequences for Indian Policy Responses from the Govt. of India. This will determine the future health and success of the sector. The conference will discuss the choices available in front of us and propose to the Government policies for a long-term future.

Organisers

1. INDIA ENERGY FORUM is a unique, independent, non-profit research organization and represents energy sector as a whole. The FORUM's mission is the development of a sustainable and competitive energy sector,

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2. Observer Research Foundation (ORF) is an endeavour to evolve and aid informed policy formulation for building a strong and prosperous India. The expectations of the global community from India are immense as the country is poised to play a leading role in the knowledge age. ORF believes that in the next 25 years India will be on of the world's great economic powers and contribute to a significant transformation in the quality of life of humanity.

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Key-Speakers Invited

Shri Dharmendra Pradhan, Minister of State (IC) for Petroleum and Natural Gas; **Shri Kapil Dev Tripathi**, Secretary, Ministry of Petroleum and Natural Gas; **Shri G.C.Chaturvedi**, Former Secretary, MoP&NG and Chairman, Oil & Gas Group, IEF; **Shri. Sunjoy Joshi**, Director, ORF; **Shri. S.C. Tripathi**, Patron, IEF & Former Secretary, Petroleum; **Shri Ajay Prakash Sawhney**, Director General, DGH; **Shri. D.K. Sarraf**, CMD, ONGC; **Shri. B. Ashok**, CMD, IOCL; **Shri. U P Singh**, CMD, Oil India Limited; **Shri Mayank Ashar**, MD & CEO, Cairn Energy India Pvt. Ltd.; **Shri. Tom Albanese**, CEO, Vedanta Resources; **Ms. Nishi Vasudeva** CMD, HPCL; **Shri. S Varadarajan**, CMD, BPCL; **Dr. Neeraj Mittal**, JS (Mkt.), MoPNG; **Shri. N M Borah**, Former CMD, Oil India; **Shri. Sudhir Vasudeva**, former CMD, ONGC; **Shri. R. S. Butola**, Former CMD, IOCL; **Shri Vikas Kaushal**, Head of Energy, A.T. Kearney Ltd; **Shri Amit Khara**, Mckinsey & Co.; **Shri Deepak Mahurkar**, PWC; **Shri Charles Anthony (Tony) Fountain**, CEO (Ref & Mkt.), RIL; **Shri. Prabhat Singh**, MD & CEO, Petronet LNG Ltd.;

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Target Audience

- Oil & Gas Producers (public & private)
- Project developers (public and private)
- Government policy makers
- Equipment manufacturers and EPC contractors
- Legal and management consultants
- Consumers
- Fuel Suppliers
- Bankers and other lenders
- Other intellectuals

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