



Chairman's Address

8th Annual General Body Meeting on July 31, 2009

Dear Members,

On behalf of the Governing Council and on my personal behalf it gives me great pleasure to extend a warm welcome to you all at the 8th Annual General Body Meeting of your Society. As we gather today, I draw immense satisfaction from the fact that within a short span of its existence, PetroFed with steadfast commitment to the growth and development of India's oil and gas industry has earned a special place of pride for itself.

I trust you have all received the Annual Report and the audited balance sheet for 2008-09 and with your consent, I take them as read.

Economy

The year gone by has been one of the most challenging. The world economy was deeply mired in the most severe financial and economic crisis since the Second World War. The unprecedented financial crisis is widely acknowledged as the worst since the Great Depression. It has shaken the foundations of established economies and, according to the International Monetary Fund, poses a significant threat to the world economic and social development.

According to a recent optimistic assessment, however, world economic recovery has begun in the second half of this year. The World Bank projects global GDP growth to rebound to 2% next year. In developing countries the growth is

expected to be more than twice as high. India has shown remarkable resilience in this downturn. The growth of 6.7% in the last fiscal is much lower than the 9% or more in the previous three years but has still exceeded expectations. It is being said that India's reforms, launched in 1991, have reached adulthood in 18 years and will now blossom in youth. The recent Union Budget's accent on infrastructure development and inclusive growth, appears to reflect the same. On completion of 100 days of the newly elected government in office, one expects greater thrust on action and progress of implementation of the reforms agenda.

Indian Companies in Fortune 500

Corporate India retained its seven companies in the prestigious *Fortune* Global 500 listing during 2009. It is heartening to note that five of these are members of PetroFed in the oil and gas sector. Only one member company, IndianOil, has however, been able to improve its ranking from 116 last year to 105 this year. Two other companies also improved their ranking, namely Tata Steel from 315 to 258 and State Bank of India from 380 to 363. IndianOil leads the listing of Indian companies in the list of the world's largest companies.

Energy

As a result of the economic downturn, the global primary energy consumption growth slowed last year to only 1.4%. All the net growth in energy consumption came from the rapidly industrializing non-OECD economies with the Asia Pacific region accounting for 87% of the growth. China alone accounted for about three-quarters of global growth.

There were, however, hardly any supply constraints as production growth exceeded that of consumption for all fossil fuels, particularly later in the year due to contraction of demand. OPEC production, despite adherence to production cuts, drove increases in the world oil supply. Global oil consumption actually

declined by 0.6% or 420,000 bpd, the first decline since 1993 and the largest since 1982.

The year witnessed refining capacity additions of about 830,000 bpd, mostly in the Asia Pacific region. The combination of increasing refining capacity and lower crude runs led to a fall in global refinery utilization, for the third year running, to 84.8%, the lowest since 2003. Global gas consumption grew by 2.5%, which is below the 10-year average. Renewable energy, however, continued to grow strongly with wind and solar generation capacity increasing by 29.9% and 69% respectively, both above the 10-year average.

In 2009, world oil demand is expected to see continued negative growth of 1.6 million bpd though a gradual recovery in demand is expected by the end of the year. But never before have oil prices witnessed such violent fluctuations as they did during the last fiscal – from a high of over US\$ 145 to a low of under US\$ 40 per barrel.

Indian Oil & Gas Industry

In India the consumption of petroleum products recorded a year-on-year growth of only 3.5% as compared to 6.8% in the previous year. The consumption of 133.4 million tonnes included a 9% growth in MS and 8.4% growth in HSD. Bitumen, Naphtha and NGL as well as LPG were the only other major products which registered growth.

The global volatility in crude oil prices also affected the Indian basket of crudes and the monthly average prices per barrel ranged from US\$ 132.50 in July to US\$ 40.6 in December. When the prices dipped, the Government in two steps reduced the retail selling price of MS by Rs. 10/- a litre and the price of diesel by Rs. 4/- a litre. It is only on the first of July this year, when crude oil prices again went up to US\$ 70 per barrel that the price of petrol and diesel were increased by

Rs. 4/- and Rs. 2/- per litre respectively. The oil marketing companies are still suffering an under recovery of over one rupee per litre in petrol.

In the Union Budget earlier this month the Hon'ble Finance Minister had mentioned that an expert committee will be set up to study the issue of pricing of fuels.

Earlier, your Federation had circulated a thought leadership paper in January 2009 when the crude oil prices were comparatively low titled 'Strike when the Iron is Hot ...' advocating market determined prices for transport fuels. This was followed up by a revised Pre-budget Memorandum.

PetroFed Initiatives

Soon after the new Government took over, the Hon'ble Ministers were personally approached and a detailed briefing was given to the Hon'ble Minister of State for Petroleum and Natural Gas requesting for market determined pricing, fiscal stability in E&P, declared goods status and tax holiday on natural gas, inclusion of oil and gas in Goods and Services Tax to be introduced in 2010, and removal of dual pricing and subsidy only to the deserving through smart cards for LPG and kerosene. These issues were reiterated in a 100 days Agenda for Government for the Oil and Gas Sector submitted to the Hon'ble Ministers for Petroleum and Natural Gas and the Principal Secretary to the Prime Minister. The initiatives taken by PetroFed during fiscal 2008 have been covered in the annual report.

We can rightfully take pride in the fact that the publications and the reports produced by your Federation are valued for their content and quoted by different authorities. The recommendation for kerosene and LPG subsidy administration through smart cards was first suggested by your Federation; so were the changes brought about in NELP VI which registered such an enthusiastic

response. A report on actions for gas market development in the country had also been submitted by the Federation.

The PetroFed Awards for the oil and gas industry announced in 2007 are now in the third year. The 11 awards in 9 categories are in recognition of excellence in various facets of operations of companies operating in India.

During the past four months of this fiscal, your Federation conducted four guest lectures, eight seminars and conferences, including three residential Industry Academia Interface to upgrade the knowledge of teaching faculty. A Nodal Agency for Oil and Gas has been set up by the Ministry of Petroleum & Natural Gas under PetroFed to pursue activities for augmenting availability of talent for oil and gas industry. Several issues of concern to the industry have been taken up with the Government including a paper to the Petroleum & Natural Gas Regulatory Board on the various clearances required at central and state level for setting up or operating pipelines and a need for identification of a nodal officer in every state to facilitate the same.

A study is under finalisation with IIM Ahmedabad on a fiscal regime for the petroleum sector in the context of rising input prices. Another study is planned to be undertaken on the impact of gas market growth on the downstream sector.

An international conference on IOR/ EOR is planned during October 2009 in association with ONGC and the World Petroleum Council. The Federation is also actively associated with the 16th Annual India Oil and Gas Review Summit and International Exhibition at Mumbai in September and the International Environmentally Friendly Vehicle Conference at Delhi in November. An Energy Sector CEOs and Directors Conclave will be held next month in knowledge partnership with BP India, where their Group Chief Economist will analyse the world energy scenario. There are several other events and activities being planned.

Acknowledgements

I would be failing in my duty if I do not place on record our appreciation of the contribution made by Shri S. A. Narayan, former Director (HR), BPCL who was a founder member of PetroFed and a member of the Governing Council. I also take this opportunity to welcome Shri S. Mohan, Director (HR), BPCL who joined the Governing Council from its 17th meeting held on August 8, 2008.

I am also happy to welcome the following four new members who were admitted as members of the Federation during 2008-09:

Punj Lloyd Limited, Great Eastern Energy Corporation Limited, Santos International Operations Pty. Limited and HPCL Mittal Energy Limited.

I once again welcome you all to the 8th Annual General Body Meeting of the Petroleum Federation of India.

Thank you,

New Delhi,
July 31, 2009

S. Behuria
Chairman