

# **INDIA-EU BTIA: PROSPECTS FOR ENERGY SERVICES**

**Arpita Mukherjee**

**&**

**Smita Miglani**

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# Structure of the Presentation

- Coverage of Energy Services
- Overview of Energy Sector: EU
- Energy Market & Regulation: EU
- Indian Energy Sector
- India-EU Trade, Investment & Collaborations
- Barriers in the EU
- Revised offer of EU
- Expectation from Stakeholders' Consultation

# Coverage of Energy Services

- Difficult to distinguish between goods and services
- Value added to energy goods produced across all energy segments
- Energy services is not covered as a separate comprehensive category in the 'W/120 Classification List'.
- EC has its own classification
  - nuclear materials are sensitive
  - there is no distinction between sources of energy
  - governments have right to regulate

# Coverage of Energy Services...*cont*

- Plurilateral list covers engineering services, integrated engineering services, R&D services, management consulting, technical testing and analysis, services incidental to mining, site preparation work for mining, services incidental to energy distribution, related scientific and technical consulting, maintenance and repair services, construction services, renting of equipment for construction, wholesale and retail trade and pipeline transportation
- EC request to India covers in addition: bulk storage services of liquids or gases, trading and brokering, services related to decommissioning.
  - Closely related to other sectors such as environment

# World Ranking of EU 27 & India: Energy 2007

Fuel	Reserve	Production	Consumption
Coal	9 <sup>th</sup> (5 <sup>th</sup> )	5 <sup>th</sup> (4 <sup>th</sup> )	3 <sup>rd</sup> (4 <sup>th</sup> )
Petroleum	17 <sup>th</sup> (18 <sup>th</sup> )	11 <sup>th</sup> (19 <sup>th</sup> )	2 <sup>nd</sup> (5 <sup>th</sup> )
Natural Gas	11 <sup>th</sup> (20 <sup>th</sup> )	3 <sup>rd</sup> (19 <sup>th</sup> )	2 <sup>nd</sup> (13 <sup>th</sup> )
Nuclear Energy	-	-	1 <sup>st</sup> (10 <sup>th</sup> )
Hydroelectricity	-	-	4 <sup>th</sup> (8 <sup>th</sup> )

# Primary Energy Consumption: EU and India (2007)

Source	EU (%)	India (%)
Oil	40.4	31.8
Natural Gas	24.9	9.0
Coal	18.2	51.4
Nuclear	12.1	1.0
Hydro	4.4	6.8
<b>TOTAL</b>	<i>1744.5 Mtoe</i>	<i>404.4 Mtoe</i>

# Energy Market: EU

- Major global player
- Leader in energy demand management and development of low carbon technologies
- Net energy importer – on an average it imports over 50% of its energy needs, this represents 6% of its imports
- Energy intensity is reducing
- Energy demand is rising – 1-2% per year
- Over 80% of EU's energy use is based on fossil fuels –shift towards renewables
- Wide variation among EU member countries in terms of reserves, production & consumption. Some countries (Malta, Cyprus, Slovenia, Latvia, Estonia) have negligible energy reserves
- Leading energy producers - UK, Germany, Netherlands & Poland.
- Leading energy-consumers - UK, Germany & France

# Major Energy Producing and Consuming Countries: EU

Sub-sector	Production	Consumption
Coal	Germany, Poland, Greece, Czech Republic, Romania	Germany, Poland, UK, Czech Republic, Spain
Oil	UK, Denmark, Italy, Romania	Germany, France, Italy, UK, Spain
Gas	UK, Netherlands, Germany, Romania, Italy	UK, Germany, Italy, France, Netherlands
Hydro	France, Spain, Italy, Sweden, Germany	France, Spain, Italy, Sweden, Austria
Wind	Germany, Spain, Denmark, Netherlands, UK	
Biomass	Finland, UK, Portugal	
Nuclear	France, Germany, Sweden	
Electricity Generation	France, Germany, UK, Italy, Spain	

# Market Structure & Liberalisation

- Historically, large vertically integrated state-owned companies dominated, mainly catering to domestic market in non-competitive environment. Government interventions - subsidies, price setting & volume limits.
- Liberalization, restructuring & privatization began in 1990s
- Key feature: Improved efficiency & transparency in competitive markets within regulated system of energy infrastructure. In times of rising demand, this was envisaged to reduce prices & benefit users in the long term
- EU level initiatives focused on
  - Unbundling
  - Independent regulatory bodies
  - Public service provisions
  - Security of supply

# Energy Policy

- Energy policy is an integral part of the community's economic policy
- EC Directives – common policy framework and timeframe to work toward creating a competitive internal market which would enable efficient use of scarce resources
- Member states have been allowed some flexibility in developing their own plans in line with these Directives (as per their own circumstances & in close consensus with domestic policies).

# EU Directives

- **Energy Directives:**
  - Single Market for Electricity and Gas
  - Energy Efficiency - reduced carbon emissions, promotion of renewable energy, promotion of bio fuels, energy performance of buildings
  - Security & Safety – minimum stock of crude oil/petroleum products, health and safety standards (nuclear)
- **Other Directives:**
  - Public Procurement Directive
  - Directive on Recognition of Professional Qualifications
  - Directive on Services Market Integration

# Liberalisation so far: Its impact

- Liberalisation is on-going
- Market is yet to be harmonized – extent of liberalisation varies
- UK, Denmark, Spain, Sweden have liberalised to a great extent, but new East-European countries, Greece & Portugal have a long way to go
- Germany & France undergone difficulties in implementation due to domestic resistance
- Some countries were granted derogations in gas & electricity market opening.
- Post liberalisation there have been mergers and consolidation - rise of global companies

# Liberalisation so far: Its impact....*cont*

- All EU member states have national regulatory authorities
- European Regulators Group for Electricity and Gas
- EU-wide harmonization of network access and condition for usage
- Increased transparency and information sharing
- Mixed impact on prices
- More choice for consumers
- Post-liberalisation, EU is one of the most efficient energy markets – proponent of greater liberalisation in WTO and bilateral agreements

# Indian Energy Sector

- One of the fastest growing economies - increasing energy needs
- India is world's 7th largest producer & 5<sup>th</sup> largest energy consumer accounting for about 2.5% & 4% of world's annual energy production & consumption
- Net importer of fossil fuels
- Low per capita energy consumption
- Focus is energy security, sustainable development and efficient use
- Liberalisation since 1990s - fairly liberal FDI policy, few restrictions
- Still strong presence of government

# India-EU Trade, Investment & Collaborations

- India and EU are net energy importers with common goals of energy efficiency, energy security, sustainable development.
- They have similar resource endowments but trade complementarities exist in energy services
- EU's Trade in Energy Services
  - Enhanced intra-EU trade due to grid interconnection and pipeline connectivity (Mode1)
  - Only a few foreign multinational have presence in the EU, EU companies have established world-wide presence
  - Energy Charter Treaty, Energy Cooperation Agreements
- India's Trade in Energy Services
  - Limited cross-border trade
  - Need foreign investment and technology in sectors like E&P, Indian companies are venturing into foreign markets
  - Substantial part of trade is inter-governmental - Joint Working Groups

# India-EU Trade and Investment

- Disaggregated data on India-EU bilateral trade in energy services not available – primary survey of 52 respondents engaged in India-EU trade
- The EU is one of the major investors in the Indian energy sector
  - Share of energy sector (petroleum, power, non-conventional energy and coal production) in total FDI inflows (US\$ 82300.49 million) between April 2000 and Nov 2008 was 6.63% and it was the 4<sup>th</sup> largest sector in terms of FDI inflows
  - Share of energy sector in total inflow of FDI from EU was 5.2% (FDI inflows from EU was US\$ 16,244.70 million) and it ranked 6<sup>th</sup> among the sectors that received FDI from EU.

# EU Companies in India

- Most EU companies in India are large multinationals and many (Shell) have presence in different segments of energy
- Larger presence in oil and gas (E&P), renewable sector, consultancy
  - Oil and Gas: Indian PSUs need foreign technology
- No specific form of entry – wholly-owned subsidiaries, joint ventures, consortiums, representative office
- Other EU companies and large Indian companies are their major competitors
- Get projects through competitive bidding
- Satisfied with Indian partners and workforce
- Have plans for diversifying and expanding operations in India
  - Unsaturated market, availability of high-skilled workforce at competitive prices, workers flexible to adopt technologies

# Indian companies' views

- Only a few Indian companies have operations in EU (example, Suzlon Energy Limited)
  - Huge opportunities in S. Asia, unsaturated domestic market, saturated EU market, similar resource endowments, not explored EU markets as part of international business plans, barriers in EU.
- Some are exploring EU markets for selling products
- Collaborations with EU companies in India and third country markets, collaboration between Indian software companies and EU energy companies (Alstom and Infosys)
- Hire European experts for specialized services – petroleum engineers, geologists, geophysics specialists, etc.
- Strengths of EU companies – technology, R&D, managerial expertise and finance
- Weakness – high processing and manpower cost

# Government Initiatives

- At the 5<sup>th</sup> India-EU Summit in Hague, energy was recognized as a key area for cooperation
- Joint Working Groups in sectors like Coal
- India-EU Energy Panel was established in 2005
  - Working groups on renewable energy/energy efficiency; clean coal technologies; India's participation in ITER project

# India-EU Areas of Collaborations

- Renewables, energy efficient technologies, technological assistance and transfer, human resource management, training, R&D, IT
- Collaboration among SMEs
- Easy sourcing of materials and reduction of import duties on equipments
- Joint bidding in third country

# India-EU Areas of Collaborations.....cont

- Sector wise areas of collaborations
  - Coal: clean coal technologies, coal liquefaction technology (UK & Germany); underground mining (thick seam mining-France, UK, Poland); thermal power generation; mine safety & rescue (Poland); underground coal gasification
  - Oil and Gas: deep water E&P technology, gas hydrates, underwater pipelines (Netherlands), oil processing technologies
  - Renewable: rural electrification, biofuels
  - Power: transmission and distribution networks

# Barriers in the EU

- Due to limited presence there is a lack of awareness about barriers
- Not a harmonized market – divergent regulations
- Failure to adhere to deadlines for transposing Directives into national law (EU Takeover Directive 2004/25/EC on common takeover rules was not translated into member state law by the deadline of May 20, 2006. Non timely enforcement of Gas Directive)
- High level of market concentration (Belgium, France, Germany) – cross border takeovers, mergers and acquisitions – now it is more difficult for smaller players from countries like India to operate. Moreover, government have strategic interest in some of these companies.
- Member states adopt specific measures to keep out foreign operators – Strategic sector in Spain and France; developing country and protected market for natural gas by Cyprus

## Barriers in the EU .....cont

- Limited third party access/network capacity – new entrants wishing to transit their gas through Germany to other markets face a complex process for booking capacity
- High cost of network - France (gas)
- Congestion of national grids, different transmission fees
- Stringent shipment norms and restrictions on import of equipment/raw materials (Italy)
- Regulated access to gas storage facilities (Belgium, Italy, Spain), partial access (UK, Poland), negotiated access (France, Germany)
- Sub-sector wise residency and nationality requirements: residency requirements in the UK for oil and gas exploration blocks, in Austria only natural persons can own shares in an engineering company. Foreign investors face difficulties in renewing residency permits in Lithuania.
- Local content requirement – In Spain for wind power development – use certain amount of locally produced wind turbines

## Barriers in the EU .....cont

- Government procurement
  - All member states have not implemented the government procurement Directive
  - The Directive itself discriminates against bids with less than 50% EU content (that are not covered by an international or reciprocal bilateral agreement) and allows EU authorities to apply a 3% price difference to non-EU bids
  - Member states have their own practices
  - In some member states, governments subsidize local firms or give them tax benefits
  - Non-Transparency (Austria, Czech Republic, Portugal)
  - Contracts below certain threshold level are not covered (Czech Republic)
  - Cumbersome documentation – Greece

## Barriers in the EU .....cont

- EU versus non-EU treatment: Non-EU investors have to obtain license and special approvals in mining sector of Greece
- Restrictions on ownership of real estate
- Work permits and visas are under the purview of member states – respondents pointed out that they did not have problems in getting short term visas but the problem was in extending the period of stay
- No specific procedure for recognition of qualifications or evaluation of foreign degree
- Rigid labour laws, high level of unionization, high wages and minimum wage requirements (Germany)
- High social security contribution (Belgium)
- Stringent environmental regulations increases costs
  - Environmental emission goals implementation, allocation methodologies and cap setting are yet to be harmonized and permits are sometimes given away rather than auctioned.

## Barriers in the EU .....cont

- Specific quality certification requirements
- Restrictive driving license (Italy, Belgium) restricts marketing
- Cumbersome bureaucratic procedures, bribes and corruption
- Tax regimes vary - EU members negotiate their own bilateral investment and taxation treaties
- Requirement of local language
- No real technology transfer- low-end sub-contracting

### **Discussion with EU policy makers highlight the following:**

- Barriers to entry are more prominent in countries like Hungary, Italy, Poland, Czech Republic which are still deciding on issues of ownership unbundling
- Countries such as Bulgaria has partnership restrictions prescribed by law. These are difficult to remove.
- Stringent requirements for import of materials and equipment, local staffing requirements – restrict inflow of subsidized goods/services from countries like China

# EU in the WTO

- Coordinator of Plurilateral Request in energy – apparently has an offensive interest
- Individual member states have imposed various barriers
  - Italy, Portugal, Cyprus, Malta, etc. kept mode 1 unbound for engineering and integrated engineering services
  - Only few members offered full commitments in R&D on natural sciences under Modes 1,2 and 3
  - CSS and IP are mostly unbound
  - Mining engineers have to be natural persons (Spain and Portugal);
  - Restrictions on non-EC surveyors in France, in Germany there is nationality requirement for publicly appointed surveyors
  - Only four members (Hungary, Latvia, Lithuania and Slovenia) offered partial commitments in services incidental to energy distribution
  - All member states have kept mode 1 unbound for pipeline transportation

# Expectation from Stakeholders Consultation

- Share your experiences
  - What kind of collaborations/joint ventures are happening between Indian and EU companies and in which sectors/sub-sectors?
  - With which EU countries and in which sectors/sub-sectors we can potentially collaborate?
  - What are the key strengths of EU companies *vis-a-vis* other global players?
  - What kind of threats do you perceive?
  - What kind of barriers are you facing in the EU or likely to face?
- What are our key concerns - outdated technology, low-end work, competition
- Do you think that harmonization of technical standards will benefit? If yes, in which areas?
- Specific professions in which India would like greater market access



**Thank You!!!**