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5^{th} WORLD PETRO COAL CONGRESS
PLENARY ADDRESS BY MR. ALBANESE ON 15^{th} FEBRUARY 2015
"*EXPLORATION & PRODUCTION CHALLENGES – A WAY FORWARD*"

1. Thank you, Mr. Chairman. Good Morning, my fellow distinguished members on the panel, participants, ladies and gentlemen.

2. Mr. Chairman, as I read through the programme, I couldn't help but notice the impressive tag line – The World's only Congress on Petroleum-Coal-Gas industries with a focus on Synergy for Energy. I would like to compliment the organizers for their vision of an integrated view of fossil fuels.

3. Oil, amongst the energy basket, is grabbing global attention today. Oil prices have fallen significantly, particularly during the last four months of 2014. Oil prices in U.S. dollars had declined by about 55 per cent since September, 2014.

4. I would like to share with you my perspective on the current international oil environment, its impact and what it means for India.

5. The low oil price regime is largely a result of supply and demand factors with supply side exerting a larger pressure on the oil price trajectory. New supply sources, notably from North America shale oil, have added to this imbalance. It's important to note that this is a classic case study of new disruptive technology impacting markets, but also creating huge new opportunities. These opportunities will not only be in the US, but can transform the Indian Oil Sector.

6. Lower oil prices have major distributional effects in both oil importing and exporting countries. Oil exporters will see significant reduction in their revenue and thus would find it difficult to balance their national budgets.

7. Oil importing countries on the other hand stand to benefit from higher disposable income which results in higher consumption, decrease in the cost of production of final goods particularly for energy intensive industries, lower levels of inflation and an improved external trade balance.

8. Low oil price led cost deflation also imposes significant challenges to the industry. Already we have witnessed a correction in the exploration & production capital expenditure. U.S., as an example, has seen a 16% decline in the number of active

onshore drilling rigs. For our part at Cairn, we are determined to remain cash positive even after capex in these markets.

9. Every few years markets tend to balance itself. Volatility of oil prices is inherently difficult to gauge or forecast. Oil prices tend to deviate significantly given the continuous shifts in supply and demand dynamics.

10. We are all well aware how Oil price volatility impacts the economy. It creates uncertainty in import costs and resultant fuel subsidies. This is a particularly profound problem for large oil importing countries such as India. A large allocation towards subsidies exposes government to significant risks and results in crowding out resources from education, health and other investments required for development.

11. India is blessed with significant untapped mineral resources, including hydrocarbons and can develop these to insulate itself from oil price volatility. In fact, this weak oil market creates an unprecedented opportunity to permanently reduce the cost of oil drilling and extraction in India by encouraging North American oil service companies to India while their order books are weak.

12. Being one of the country's largest industrial investors, Oil & Gas industry offers immense potential to be the powerful engine for renewed growth in the economy. The industry is not only the most important supplier of primary energy but it is also by far the key provider of long-term jobs and the country's biggest payer of corporate taxes. Furthermore, it is the catalyst for excellence in engineering, manufacturing and applied technology.

13. For a nation undergoing transformational changes, a simple and forward-looking policy to encourage investment that maximizes domestic oil and gas production would be a key enabler. I am encouraged to see Government's commitment.

14. The Hon'ble Prime Minister of India in his remarks at the recently concluded India-U.S. CEO Forum had pointed out the significance of a policy driven state and consistency in policy. This then should be our overarching principle for governing business and attracting investments.

15. With the planned development and growth, led by Hon'ble Prime Minister's Make in India vision, there will be an increased consumption of fossil fuels. The policy makers need to develop long-term strategy that will minimize the increasing vulnerability to energy price shocks. And, India has the capacity and the resources.

16. So, while the current outlook on low global oil price is great from India's perspective, the message that I wish to emphasize and communicate today is for Indian policy makers to not let this weaker price reduce the urgency for energy self-sufficiency. History has shown that low oil prices lead to lower investment, which overtime creates new shortages. We should not assume that current oil prices are a permanent gift to the Indian economy, higher prices are likely to return at some point.

17. Investment climate and governance are key determinants for investments. Thus, every effort must be made to remove policy uncertainties as they deter investments. Stable and predictable investment regime is a necessary condition to attract investments.

18. With this larger context, let me share few simple, yet very effective policy measures which can be considered by the Government for reinvigorating India's exploration and production sector.

19. Our operating model should be very simple - efficient and easy governance. Thus, every possible effort must be made to simplify business processes and introduce policies that are easy to administer. Keeping in line with our Hon'ble Prime Minister's vision, we should move towards a governance model which is based on self-certification.

20. Secondly, it is important to adopt an efficient risk-sharing arrangement between government and investor to monetize Nation's Natural Resources. Thus, in designing contracts, adequate care has to be taken to ensure a balanced risk-sharing regime.

21. We should adopt a simple and a progressive outlook for contract extensions. This will enable Companies to efficiently plan and commit significant additional investments to maximize the Nation's resource potential.

22. Low oil prices would compel global oil and gas companies to review their portfolios and re-work their investment strategy. It is expected that investments would be directed to countries which offer stable and predictable policy regime coupled with a balanced risk-reward ratio. Thus, adherence to consistent policies would attract global majors to the benefit of the Nation.

23. The U.S. is a perfect example of this model. Enabling policies together with conducive environment for creativity and innovation has revitalized U.S. hydrocarbon

production. Growth in unconventional natural gas and tight oil production has significantly reduced U.S. dependence on imports. The share of total U.S. liquid fuels consumption met by net imports fell from 60% in 2005 to an estimated 27% in 2014.

24. India too will see a significant improvement in productivity and an increasing willingness by companies to deploy high-end technologies for enhanced oil recovery which would help realize the full economic potential of our country's natural resources. India like the US, should embrace the private sector in fully exploiting unconventional resources.

25. There may be no other industry today that demands a more diverse set of human, mechanical and technological capabilities than the oil and gas exploration and production industry. Thus it is critical that this sector gets the right policy attention so that it can contribute to India’s economic renaissance.

Thank you!