PIECING TOGETHER THE MULTISTAKEHOLDER JIGSAW

A CASE STUDY OF INDIA'S DEVELOPING GAS MARKET

Key Words: Developing Markets -Regulation -NOC

More than half the total population on our climate -stressed planet is yet to taste the fruits of economic prosperity and the atte ndant quality of life it brings. Over three billion people located in the d eveloping countries of Asia, Afr ica and Latin America face the formidable cha llenge of balancing the ir developmental aspirations with an environmentally responsible and sustainable growth trajectory . This implies that this vast and growing segment of humanity has to be able to access clean andsustainable energy forms to fuel its t ransition from deprivation to prosperity . Natural gas, the relatively cleaner and abundant fossil fuel could turn that challenge into an opportunity for developing countries.

But natural gas i s a fuel whose potential is latent not least because gas marke ts are still at a nascent stage in developing countries. Until recently, t he perceived lack of fungibility of natural gas and the huge investments required to build the network infrastructure required for reach ing this fuel to markets ha d subdued gas mark et development in these countries. However, in recent times, two crucial developments have brought gas to the front -burner, as it were. First, d eclining liquefaction cost made possible by the relentless march of the technolog y juggernaut has made LNG a v iable option for gas -starved countries . Second, aggravating climate change concerns are rendering investments in gas infrastructure worthwhile. In the circumstances, natural gas will no longer remain the marginal fuel that it used to be in the 20 th century .

In India, for over four decades, natural gas has powered industries and homes. As feedstock used in fertilizer industry, it has contributed to the country's food security. Yet, until recently, gas remained only a marginal fuel in India's energy basket p rimarily because domestic production was limi ted and transnational pipelines failed to materialize for one reason or another despite sustained efforts . Two LNG terminals – one of them a merchant facility – serv e just to supplement domestic supply. Gas inf rastructure developed slowly in keeping with this situation.

That scenario is set to change. With the discovery of substantial gas deposits in its territorial waters o ff the eastern coast, natural gas is set to become an important component of India's ene rgy basket. As domestic production goes up from early 2009 , development of an extensive trunk pipeline network connecting far -flung regions of this vast country would be a natural corollary . Trunk pipelines are being built across the country at a furious pace. The prospect of gas availability in the near future has already provided an enormous i mpetus for the development of city gas distribution (CGD) networks in nearly a hundred towns and cities. Bidding has commenced for licensing CGD networks. Construc tion of new LNG terminals will no longer be constrained by the lack of pipeline infrastructure and domestic gas demand, especially with the prospect of LNG prices cooling off in tandem with crude prices. More LNG terminals, hitherto delayed, are expected to be built as new cargoes become available , substantially augmenting domestic gas su pply. In short, like Prometheus, India's gas markets have finally been unbound.

But merely unbinding the shackles is not enough. Gas markets have to be incentivized by ap propriate policies, pricing and prudent regulation. On the one hand, i nvestors – NOCs, domestic private investors and IOCs have to be gently nudged with policies that offer a modicum of investor comfort through assurance of reasonable returns while on the other, consumer interests have to be balanced by promoting competitive markets. This requires a delicate balancing act. While pricing freedom is assured to the producer by the terms of upstrea m contracts, how does one ensure competitive pricing in a mark et that is essentially served by a duopoly? Can the regulator create an environment that promotes more shippers in the system even as production remains the preserve of one or two players? In a situation where a single entity dominates – albeit through its affiliates - the entire value chain from upstream to transmission pipelines to CGD, what devices are available to the regulator, government and the market itself to create a modicum of competition and prevent restrictive trade practices?

My proposed paper , a case study of gas market development in India, willaddress these and other relevant issues and critically examine the respective roles of multiple stakeholders. The case study will focus on the following:

1. The role of government as policy maker which is often at variance with the role of government in its capacity as majority shareholder in NOCs . How are these contradictions resolved?

2. The role of NOCs and that of IOCs and other investors etc in this evolving market scenario.

3. In 2007, India set up an independent regulatory body expressly to regulate downstream sector. The responsibilities of the regulator include, incentivizing investments through appropriate regulations, licensing gas networks through competitive bidding process, dispute resolution et c. My paper will analyze the role of independent regulator in providing level playing field to investors through appropriate regulations . It will also examine the effectiveness of the regulator in mimicking competitive markets in what is essentially a mono poly network service.

4. The role of multilate ral agencies in providing policy, consultancy and financial support to potential investors in gas businesses .

5. The role of municipal a nd local governments in incentivizing CGD network s through speedy RoU clearance s and other supporting measures.

6. The role of civil society organizations and more importantly, of the judiciary, which in response to public interest litigation has been a major catalyst to gas market development in India's national capital. it was India' s apex court that ordered public transport in the national capital Dehi to switch from polluting diesel to clean gas.

The paper will rely extensively on documents to support its hypotheses and build and buttress its arguments. Government policy documents, committee reports, regulatory records, consultant reports where available and court orders and other relevant materials will be used in the analysis.

****