



Oil Major - Disadvantages

Why in news?

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In the budget 2017-18, Finance Minister has proposed to create an integrated public sector oil major, which would match the performance of international and domestic private sector oil and gas companies.

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Why the merger was opposed in the past?

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- In 2004-05, **V Krishnamurthy committee** recommended that rather than creating a mega entity in the sector, it would be better to strengthen the structure of the state-owned oil companies, through policy measures and improvement in managements.

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- The rationale behind the idea of mergers was to achieve operational synergies and to trim costs. This would eventually mean **cutting the jobs** and boosting profitability.

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- But the decision against mega merger was based on cases of restructuring and acquisitions in the global oil industry, where only **29% of such transactions has led to the higher returns** for the shareholders.

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- They also said, the major cause for the failure of mergers was the handling of people working in many of these firms.

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- Then there is also the **danger of monopolies and cartels** being created in the industry - that would inhibit the competition.

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- Each Indian PSU oil companies are operating in distinct areas such as process of refining or exploration. So, disturbing this goes against the

normalcy.

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- In 1995, a reform group gave a similar view. They said a giant entity in the sector wasn't something desirable, since it could mean **destabilisation of some of the companies and the industry** besides creating problems for consumers.

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- In 2014, another committee was tasked with working out a road map for **reducing India's import dependency** in the hydrocarbon sector by 2020.

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- It made out a case for empowering and strengthening national oil companies and to strengthen the board processes with greater accountability and autonomy.

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- In short, the costs far outweighed the benefits which could arise from a possible merger.

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Source: The Indian Express

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