



# 2011 TRENDS

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**INDIA**

## **OIL AND GAS EXPLORATION**

Oil and natural gas provide India with 40 per cent of the country's primary energy requirements and are vital to industries such as manufacturing, petrochemicals and fertilizers. Foreign suppliers provide India with approximately 75 per cent of the crude oil it requires, and it is expected that India's dependency will rise to 90 per cent by 2025. In order to reduce this demand-supply gap, the Government of India has employed strategies to attract private-sector investment in domestic oil and gas exploration. One of these strategies is the National Energy Licensing Policy (NELP). Through NELP, the Indian government awards exploration blocks to private-sector bidders. Several successful exploration and hydrocarbon discoveries have been made under the NELP regime including over 87 oil and gas discoveries. In the last round of bidding (NELP VIII), 33 blocks were awarded, with Oil and Natural Gas Corporation obtaining over half of the licences. Bidding for NELP IX has already begun, with the government offering 34 exploration blocks in 10 sedimentary basins. Parties seeking to invest in the energy sector may benefit from the Indian government's continued interest in oil and gas exploration.

## **GREEN POWER**

With nearly 1.2 billion inhabitants and rapidly growing electricity demands, the Government of India is looking to have a diversified energy-resource base in nuclear and solar power in order to meet its ongoing energy requirements. In the last few years, India has increased investments in nuclear energy and has been seeking out opportunities to engage in trade of nuclear fuel and technologies with other countries. The nuclear co-operation agreement signed between India and the United States in 2008 ended the embargo on sales of civilian nuclear technology to India. As part of this deal, India's parliament passed a bill in 2010 enabling foreign firms to build reactors to supply India's atomic energy market. Recently, India has signed an agreement with France for the supply of nuclear power stations. Canadian and Indian parliaments are also expected to ratify a nuclear power agreement that will allow India to access Canadian nuclear equipment and technology.

The Indian government is also looking towards long-term growth in the country's solar energy market. Last year, the Ministry of New and Renewable Energy announced it would spend C\$20-billion in its Solar Mission plan. This project aims to generate a 20-gigawatt grid of solar power by 2022. The plan is to make use of solar-powered equipment for hospitals, hotels and government buildings and to encourage the use of solar lighting systems in villages and small towns with micro financing. As the implementation process for the first phase is underway, India is expected to seize this opportunity in order to establish local manufacturing facilities. It is expected that Indians will commoditize the solar field and then export it in due course. Investors seeking out renewable energy investment opportunities may benefit from the Indian government's increased focus on clean technology sectors.

## **SUSTAINABLE AGRICULTURE**

Despite the large influxes of urban migrants, more than 70 per cent of India's population remains rural, and the pressure on farming resources continues to intensify. As half the country's residents are tied to agriculture for a livelihood, the rainy season remains the lifeblood of the Indian agriculture sector and has a huge effect on poverty and, as a consequence, economic policy. Agricultural production has been low in recent years due to poor rainfall, and as a result, the Government of India has renewed its efforts to improve farm productivity. This has resulted in opportunities for companies with innovative technologies that can create more sustainable farming practices. In 2004, the government began to subsidize micro irrigation technologies that enabled farming to continue in resource-stricken parts of the country. The market for these new irrigation systems is now growing steadily and is providing opportunities for businesses to help farmers improve their crop yield through development in areas such as water source management, fertilization and agronomical guidance. Investors looking to invest in India's agricultural sector should take note that while India's agricultural sector is experiencing growth, progress is still subject to bad weather, general underinvestment and higher prices.

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## FREE-TRADE NEGOTIATIONS BETWEEN INDIA AND CANADA

Canada and India have made progress in recent months towards fostering investment and trade liberalization between the two countries. Negotiations have been underway to establish a Comprehensive Economic Partnership Agreement between India and Canada. A joint study estimated that an agreement could increase GDP in each country by approximately C\$6-billion and increase trade between the two countries by 50 per cent. India stands to benefit from the diverse range of Canadian exports including minerals, forest products, seafood products, manufactured goods, machinery, construction materials and environmental technologies. Canadian enterprises that may benefit the most from this agreement include companies in the energy services, mining, engineering, environmental services and financial services sectors. Corporations and stakeholders looking to increase their presence in the Canada-India business corridor may have the ability to influence the strategies and objectives of the Canadian and Indian governments as negotiations are still at a preliminary stage.

## AUTOMOTIVE INDUSTRY

From two-wheelers to trucks, tractors and commercial vehicles, the Indian automobile industry has experienced significant growth in recent years. With the Indian middle class earning higher income per capita, more people are able to own private vehicles including cars and two-wheelers. It is projected that India will become the seventh-largest vehicle-producing country in the world by 2016. While the automotive sector is still trying to recover fully from the global economic downturn, the country is experiencing growth in the industry at a rate of 15 per cent per annum, with growth in domestic sales at 13 per cent. These figures are expected to double over the next five years. Along with vehicle sales growth, India has also become an important sourcing point for automotive components for European and North American markets. The last decade has seen an influx of some of the world's largest automotive manufacturers including Ford, Mercedes Benz, Fiat, Toyota, Hyundai, Nissan, Audi, Skoda and Suzuki. Several large motorcycle companies have also established a presence in India. Investors should note, however, that one of the biggest challenges faced by the Indian automotive industry is ensuring that growth is accompanied by strategies aimed at mitigating the adverse impact of vehicles on the environment.

## METALS AND MINING INDUSTRY

In recent years, India's demand for non-ferrous metals, including copper, zinc, aluminum, nickel, as well as raw materials like iron ore and coal, have scaled to new heights. India's increasing demand for these metals is largely driven by growth in infrastructure investment, as the Indian government plans to double spending on highways, airports, railways, ports and power plants to C\$1-trillion over the next five years. Expansion of the automobile industry, as well as the consumer durable goods sector have also impacted the demand for metals and mining resources. During the last fiscal year, domestic steel demand has risen by eight per cent and is forecasted to increase up to 10 per cent during the next fiscal year. Tata Steel, which currently enjoys 40 per cent of the auto grade steel market in India, is setting up a joint venture with Nipon Steel of Japan. JSW Steel is also tied-up with JFE Steel Corporation of Japan.

Indian mining companies have also been scouting for iron ore and coking coal assets overseas in order to diversify steelmaking. Last year, India's largest iron ore miner National Mineral Development Corporation signed a deal with Russia's top steel producer, OAO Severstal, to set up a two-million-tonne plant in the southern state of Karnataka. A subsidiary of Tata Steel has entered into a joint venture agreement with New Millennium Capital Corp. (NML) to develop the Direct Shipment Ore (DSO) project in Canada. NML, located in the province of Newfoundland and Labrador and the province of Quebec, holds the world's largest undeveloped magnetic iron ore deposits. Although negotiations for the DSO project are still underway, production is expected to start this year. Companies seeking to invest in India's rapidly growing mining and metals industry should be cautioned that the industry faces increasingly stringent environmental regulations and companies are under pressure to develop cleaner and more efficient technologies.