The good news: the Cairn-Vedanta deal, on hold for almost a year now, is almost certain to go through now since Cairn Energy Plc has decided there's little to be gained by taking on the government. So when the Group of Ministers (GoM) meets later this week to review the deal, chances are it will give Cairn Energy Plc the go ahead to sell a 40% stake in Cairn India to Vedanta Resources Plc. Late Monday, Vedanta announced that the two companies had agreed to an 'adjustment' in prices, taking the cost of the deal down from $6.65 bn to $6.02 bn. Since the cost of agreeing to the government proposal—that Cairn India allow the royalty payments by ONGC to be considered an expense—is going to be around $1.2 bn (based on the current oil price of $100 per barrel) on an NPV basis, it would appear Cairn Energy Plc and Vedanta Resources Plc have agreed to split the costs. The government stands to lose around $800 mn if royalty payments are to be expensed as this will lower profits and hence the government's share as well.

As has been pointed out by FE on various occasions, if ONGC had a problem with its contract to pay all the royalty on oil produced while it owned just 30% of the joint venture (JV) with Cairn India, it should have gone in for arbitration in exactly the way Cairn India has—Cairn makes the cess payments on the oil produced but has gone to the arbitration court arguing the payment has to be made by ONGC under the original contract. Indeed, for ONGC, going in for arbitration would have been pretty much a win-win situation. The original deal, which is a loss-making proposition for ONGC (the 30% dividends it gets from the JV are less than the 100% royalty it pays), was signed when ONGC was the Oil and Natural Gas Commission and directly under the formal control of the petroleum ministry—so even if ONGC the company lost the arbitration, the government would have to make good the loss it caused to Oil and Natural Gas Commission. If Cairn agrees to allowing royalty payments to be expensed, ONGC will no longer be out of pocket on the deal.

The bad news is that the sign global investors are getting is that the government has no problems playing the heavy and ignoring the legitimate business interests of investors. That's not a great situation to be in at any time, much less when foreign investors seem to be losing some of their interest in the country.