

India Puts Energy Security on Fast Track

by Ramtanu Maitra

On March 5, Venezuela's President Hugo Chávez, who was on a four-day (March 4-7) visit to India, signed six agreements whereby India's state-owned Oil and Natural Gas Corporation (ONGC) Videsh Ltd will now hold a 49% stake in Venezuela's San Cristóbal oilfield, which can potentially produce 100,000 barrels a day. The Indian firm will partner with the Venezuelan state oil company Petróleos de Venezuela SA (PDVSA).

The India-Venezuela oil deal is part of a series of oil and gas deals India has concluded in recent months to ensure the steady supply of oil and gas necessary to maintain a constant rate of economic growth in the future.

There are two basic reasons why India suddenly woke up to the reality of the oil and gas crisis that lies ahead. The Indian growth rate depends heavily on oil and gas availability. All indicators suggest that by 2020, India will need to double its oil and gas consumption, merely to maintain a steady rate of economic growth of 6-7%. If more oil and gas is available, India's annual economic growth can be higher.

On the other hand, India's proven oil reserves are small, and some estimates indicate them to be as low as 5.8 billion barrels, although it is not unlikely that India will find a significant amount of new reserves soon.

In contrast, India's daily oil consumption exceeds 2.2 million barrels per day, and at the pace the economy is growing, within a decade, a supply of 4 million barrels per day would be required to meet consumption needs. India already imports up to 65% of its oil, and according to the International Energy Agency, "India's dependence on oil imports will grow to 91.6% by the year 2020 (by which time India will need in excess of 5.3 million barrels a day)." It is equally relevant to note that the billion-plus Indian population consumes 2 billion cubic feet of gas per day. This is a very small amount, and for comparison, the Pakistani population of 150 million consumes that much. India can easily consume right now an additional 4 billion cubic feet of gas per day.

Delhi has finally come to realize that India's national security depends in part on its ability to procure oil and gas on a daily basis, and its supply has thus begun to figure prominently in physical security. The Indian military, like militaries everywhere in the world, needs an ever-growing amount of oil and gas. That requirement is the basis of both the defensive and offensive undertakings of all three military services.

Not that India needed to be reminded of these facts, but

nonetheless the report, "Mapping the Global Future, An Assessment of the World's Prospects in 2020," by the U.S. government's National Intelligence Council (NIC), says China is expected to boost its energy consumption by 150%, and India by nearly 100%, if they maintain steady growth. "The single most important factor affecting the demand for energy will be global economic growth, particularly that of China and India," says the report, released last December.

Both countries lack domestic resources and need to ensure access to imports. "The need for energy will be a major factor in shaping their foreign and defense policies, including expanding their naval power," says the NIC report, adding that this is likely to prompt China to be more "activist" in the Middle East, Africa, Latin America, and Eurasia.

Instability in Southwest Asia

The second factor that is driving India's oil and gas quest, is the growing instability of Southwest Asia—the most abundant source of oil and gas, at the latest count. Among India's major oil suppliers, three nations—Saudi Arabia, Iraq, and Iran—are in southwest Asia, and two of them are already battling Washington's latest weapon, "democracy"—to maintain their sovereignty. Whispers in Washington's corridors of power suggest Saudi Arabia may not be spared either. Considering what is already happening in Iraq and neighboring countries, and Washington's relentless efforts to bring about a regime change in Iran, as well as in Saudi Arabia, it is only natural that New Delhi and Beijing would embark on a course to ensure a steady supply of oil and gas to carry on their economic progress.

A key figure in developing New Delhi's new strategy, has been India's Petroleum Minister, Mani Shankar Aiyar. His dynamism in pursuing the policy to secure oil and gas supply for generations to come has been extraordinary. He has had the full support of the Indian Prime Minister Manmohan Singh, but individual efforts were still needed to convince a group of small-party politicians, who have little understanding of strategic matters, but are very much present nonetheless at the policymaking level within the ruling United Progressive Alliance (UPA) in New Delhi.

Two-Legged Policy

In its plan to secure a long-term supply of more oil and gas, New Delhi has adopted two basic policies. Its first track is to speed up exploration of India's on-shore and off-shore oil and gas potential. The second track is to obtain a share of oil fields in other oil-producing nations. One element in this second track is not to depend on only one area for oil and gas supplies. This is also the strategy of China. That is why both India and China are seeking part ownership of oil fields in Africa, South America, Central Asia, Southwest and Southeast Asia, and Russia.

Last November, a panel of former Indian diplomats was appointed to advise state-run oil firms on how to buy energy

stakes in Africa, the Middle East, and Central Asia. "We now have some of our most distinguished ex-diplomats, each having had stints in economic diplomacy, to assist us in enhancing India's long-term energy security," Petroleum Minister Aiyar said.

In January, New Delhi announced the fifth round of the New Exploration Licensing Policy (NELP) on the sidelines of the Petrotech-2005 exposition, in the presence of top global oil and gas companies. NELP began in 1997, but the enthusiasm expressed in 2005 is quite different.

Citing this exercise as "The most exciting endeavor to find oil and gas, where most believe that there is none," Aiyar said, "There are 30 billion metric tons (225 billion barrels) of oil and gas to be discovered in this country by you."

So far, however, a fraction of the stated amount has been found. India's petrochemical giant, Reliance Industries, discovered an estimated 14.5 trillion cubic feet of gas in a deep-sea block in southeastern India in 2002.

The British oil and gas firm Cairn Energy has announced oil discoveries in the desert state of Rajasthan, including its Mangala field with an estimated 650-1,100 million barrels of oil reserves. Several smaller discoveries have also been reported. Last September, the state-owned GAIL (India), in association with the Gujarat State Petroleum Corporation (GSPC), struck oil in the Cambay basin in Gujarat. The recoverable reserves, based on initial testing results, are estimated to be approximately 10 million barrels, with an upside potential of 50 million barrels.

The deep-water oil blocks being offered now are spread in the Bay of Bengal (two blocks on the east coast of India, and two more near the Andaman Islands), and the Konkan Kerala offshore in the southwest. Hoping that the Bay of Bengal will emerge as the North Sea of South Asia, Aiyar said that this round of NELP production would provide employment to those rendered redundant in the North Sea (where production has plummeted 60% in the last ten years).

In securing the exploration and operational rights, the Indian objective now is to triple the annual flow of oil from India's overseas energy assets to 20 million barrels by 2010. Over the same period, domestic output from India's mature fields is expected to rise from 30 million barrels to 50 million barrels annually. It is evident that securing foreign reserves will not ease India's dependence on imported oil much.

Anchoring on Russia and Iran

In India's efforts in the coming period to shift its oil-dependency strategy, India-Russia relations will play a significant role. Reports indicate India and Russia will work together in a series of energy deals, part of a pact which could see India invest up to \$20 billion in oil and gas projects in the Russian oil and gas fields. On the agenda are oil and gas extraction as well as transportation deals, to be led by Russian energy giant Gazprom and India's ONGC. It is reported that India is keen on buying a 15% stake in oil unit Yu-

ganskneftegas.

Another equally important partner in the Indian efforts in the future will be Iran. Prior to Iranian Foreign Minister Kamala Kharrazi's recent visit to India, the two countries had signed a far-reaching energy agreement in January 2005, whereby Iran agreed to sell India 7.5 million tons of liquefied natural gas (LNG) a year for 25 years. In return, India agreed to participate in developing Iran's oil fields and extracting some 100,000 barrels of oil per day from them. Kamal Kharrazi, in his Feb. 21 speech at New Delhi, described that deal as "one of the most significant results of the strategic agreements reached by the two countries so far."

In Southwest Asia, India's Reliance Industries has acquired a deep sea oil and gas block in the Gulf of Oman, and is looking for oil assets in Qatar, Iran and Saudi Arabia. "We have got one deep water block in Oman. The block is believed to hold crude oil and condensate reserves," a top company official told reporters. The acquisition in Oman is the second oil and gas block Reliance has acquired outside India. It holds a 20% stake in exploration Block 9 in Yemen, where a significant oil discovery has already been made

In the east, the government of Myanmar and Daewoo of South Korea have agreed to associate with the Indian consortium, comprising GAIL (India) Ltd and ONGC Videsh Ltd, for exploration and production in the A3 block in offshore Myanmar. This block, adjacent to the gas-bearing block A1, has a high potential for hydrocarbon finds.

Trans-Asian Gas Grid

It is evident that New Delhi is keen to participate more widely with the Asian nations in the distribution of natural gas. Speaking at the Third Asia Gas Buyers' Summit in New Delhi recently, the Indian Petroleum Minister said, "We are talking of a national gas grid, but must also think of an Asian gas grid. In Asia we have the possibility of linking each other, not only through trade and investment, but also by a gas pipeline network which has immense potential. Gas can be piped off when required and yet flow."

In a subtle hint to China to conceptualize the pan-Asian gas grid, Aiyar indicated that the proposed Indo-Iran gas pipeline, through Pakistan, can be extended to northern Myanmar and southern China to provide China an access to Iranian gas.

Dwelling on the possibilities of linking the Caspian gas to Lebanon and Egypt through a series of pipelines, Aiyar said most of the Asian countries, like Japan, Korea, China, and India, which are the biggest buyers, are all flush with foreign exchange which can be used for this purpose. "The Pan-Asian approach to gas is the solution and a dialogue should begin on this front," Aiyar said. He also pointed out on that occasion that India is looking at investment opportunities in Saudi Arabia, Vietnam, Australia, Myanmar, Bangladesh, Iran, Iraq, Qatar, Kazakhstan, Syria, Egypt, Libya, Algeria, Senegal, Nigeria, Sudan, and West Africa.

By accepting the challenge of securing oil and gas supply

as a priority, India will have to begin to shift the focus of its foreign and military policies. Safeguarding the country's oil routes and accessing natural gas will soon be important elements in India's policymaking process. Currently, Saudi Arabia, Russia, Norway, Venezuela, Iran, and Iraq are India's largest oil suppliers. Securing those oil routes would mean expansion of naval power. The alternative is natural gas, and two of the largest gas reservoirs in the region are in Iran and Turkmenistan. India's medium-to-long-term goal is to gain acceptance as a regional power. Its rivalry with Pakistan over Kashmir has prevented India from securing gas from either Iran or Turkmenistan. As a result, it is most likely New Delhi will have to formulate fresh concepts as to how to nullify Pakistani hostilities.

The process may also encourage a closer collaboration with China, as pointed out recently by the ONGC chief Subir Raha. Raha favors Indo-Chinese agreement on where to bid, with the winner swapping or sharing recoverable reserves. "There are many permutations, but agreement will cap spiraling prices, which only benefit sellers." He says he has won over Indian officials, whose suspicion about China had once ruled out any accommodation. "My talks with executives at Chinese companies also suggest they understand."

In Sudan, for example, ONGC holds a one-fifth share in a producing field where the concession leader is the China National Petroleum Company (CNPC).

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