INDIA'S RISE AND THE GLOBAL POLITICS OF ENERGY SUPPLY: CHALLENGES FOR THE NEXT DECADE

DR RICARDO SOARES DE OLIVEIRA

DEPARTMENT OF POLITICS AND INTERNATIONAL RELATIONS, OXFORD UNIVERSITY

VASANT J. SHETH
MEMORIAL LECTURE

THE ELEVENTH

VASANT J. SHETH MEMORIAL LECTURE

DECEMBER 2008

PUBLISHED BY THE VASANT J. SHETH MEMORIAL FOUNDATION FOR PRIVATE CIRCULATION

I WOULD LIKE TO BEGIN BY THANKING the Vasant J. Sheth Foundation, and in particular Mrs Asha Sheth and Ms Ketaki Sheth, for the great honour of inviting me to deliver the Eleventh Vasant J. Sheth Memorial Lecture. I would like to acknowledge the generous support of the Fundação Oriente in enabling my presence in Mumbai for this occasion.

This is so first and foremost because this allows me to participate in the celebration of the memory of Vasant Sheth, a far-sighted business leader who understood well the workings of the global economy and India's evolving role in it and would surely have faced our unsettling times with a measure of certitude apparently in short supply amongst today's global captains of industry and finance. Secondly, as an expert on the geopolitics of energy, I find it particularly rewarding to voice the following views in a lecture series mainly devoted to India's maritime connections, as the Sea and India's approach to it will be a pivotal dimension of the challenges ahead.

This evening I will speak about one of the most important consequences of India's near double-digit economic growth in recent years, the sharply escalating need for oil and natural gas imports. As you know, India has always been influenced by shifts in international energy markets: major past economic crises were often associated with shifts in the oil import bill, as in 1973-74, 1981 and 1991. But the recent exponential increase means that this dependence on outside sources has deepened considerably in the last decade. This trend will continue in the coming years. India's hunger for energy is, together with growing demand in China and other Asian economies, a major contributing factor to rising demand for energy resources worldwide. Between 1994 and 2003 India's oil consumption increased at a rate of 8.3 percent per year while domestic crude oil production had an annual growth rate of only 2.3 percent. Currently India imports 70 percent of its oil (which is 36 percent of India's overall fuel mix) and this is projected to rise to 90 percent by 2030. India is currently the world's fifth largest importer of oil and will be its third in 2010, while its oil consumption will make it the world's fourth largest consumer by 2010. These are sobering figures indeed.[1]

Upstream oil and natural gas is only a segment of the broader energy challenges facing India. (The other dimensions such as the diversification of energy resources, including renewables and nuclear, the expansion of electricity provision, improvement of demand-side efficiency, and coping with the environmental consequences of growth, are outside the ambit of this talk.) That said this is the segment with the most significant implications for the country's status in the international sphere: how India secures the necessary energy, which presently still means hydrocarbons for the most part, how Indian companies fan out across the world in search of them, and how their government positions itself in regard to this process, will establish patterns of interaction, alliance, friction and enmity with other states that will go a long way to determine the sort of power India will be in the coming decade.

This lecture will examine four questions regarding the insertion of India in the international political economy of hydrocarbons. The first question pertains to the land routes and sea lanes necessary for supplying India with oil and natural gas and the complex relationships with, on the one hand, South Asia's key producer or pipeline transit countries, and on the other, the major Middle Eastern actors in global energy. The second question relates to ongoing Indian

1 In the gas sector 90 percent of demand is still provided for by domestic sources but this is projected to change fast.

domestic energy sector reform, the continuing internationalization of ONGC and other Indian oil corporations. The last point is noteworthy, particularly in view of the fact that Indian enterprises seem to fall short of both the level of technological expertise of Western firms and the limitless state support provided by China to its national oil companies.

Thirdly, perhaps the most vital question is whether India will lean towards a market-based solution characteristic of the industrial world members of the International Energy Agency or instead embrace a "strategic" mindset that prioritises equity acquisitions and the "locking up" of oil by Indian national oil companies, state-to-state deals, and a general disregard for liberal market institutions, as some critics claim China is presently doing. Because of its determinant role as an importer, the way India swings on this question may be crucial in defining the future character of international energy markets.

The fourth and final question is whether India, which only recently and belatedly woke up to the extraordinary effort needed to feed its growth with energy resources, can be counted on as a progressive actor in the international economy of oil. Specifically, I will discuss two scenarios. One is the likelihood of India becoming a stakeholder in reformist agendas that seek to push transparency, good governance, environmental best practices and human rights protection (most of which absent in the leading energy-producing countries worldwide) across the global hydrocarbons economy. The other possible outcome is that India will, in a manner reminiscent of Western practice in previous decades, favour a *Realpolitik* approach that exchanges access to oil for silence or even support of repressive regimes.

:1:
The international context

India's search for energy resources starts at home. The major areas of oil and gas production are the Bombay High and Northeast region and recent discoveries in Rajasthan and the Bay of Bengal point to substantial additional reserves. India certainly has great potential, with 5.6 billion barrels of proven reserves[2] and an estimated 80 percent of territory unexplored for oil and gas. After years of neglect and an investment framework that did not foster international (and arguably, Indian) interest in upstream investment, the last decade has seen some reforms and increased interest in India's hydrocarbons potential. This said it is unlikely that India's domestic resources, however well exploited, will be enough to tackle the country's ever-growing needs. The result has been a mounting of India's international involvement in search of energy imports.

When it comes to securing energy supplies, the world's leading importers have long recognized that the diversification of energy sources is a pivotal element, and accordingly they seek to build a rapport with energy producers worldwide. There are also obvious advantages to having a close relationship with energy producers nearer to home, including lower transport costs and the fostering of interdependence between neighboring economies. I will now discuss the status of India's relations with a number of actual or potential providers of energy. As you will see, the picture provides us with a mix of opportunities and pitfalls.

Three fourths of India's oil imports come from the Middle East (and 23 percent from Saudi Arabia alone) which, at 60 percent of total proven reserves, is also the world's largest concentration of hydro-

2 Source: *Oil and Gas Journal* (2008).

carbon deposits.[3] The domination of the Middle East in international energy markets is mostly accepted as a fact of life in India and elsewhere, and India's relationship with oil producers in the region has been affable for the past decades. However it received no special treatment during difficult moments such as the 1973-74 oil disruptions, a harbinger of difficulties to come. Now that India's rise as an economic power is taken for granted by many in the Middle East, price deals are less and less likely (in fact Asian importers have paid an "Asian premium" to Middle Eastern exporters for most of the past decades). Recent attempts by India to extract price concessions from Middle East producers were rebuffed with the argument that one of the world's leading importers of oil can no longer claim special status with producers. This increase in Indian absolute needs, together with the geopolitical risks posed by excessive dependence on the region and its fragile sea lanes (problems include potential bottlenecks in the Hormuz Straits and increased piracy in the Red and Arabian Seas) are pushing Indian policymakers to rethink their relative dependency on the Middle East and look elsewhere, and closer to home.

Greater South Asia does contain much of the energy resources needed to power India's growth. But for a host of reasons, the region has one of the least integrated economies in the world. The obvious synergies between energy-rich and energy-dependent societies have not yet been realized but India's pressing energy demand has brought these concerns to the forefront of regional politics. Several initiatives have been mooted. Perhaps the most talked about is a longstanding idea, more recently defended by Oil Minister Mani Shankar Aiyar, that of a 2600-km Iran-Pakistan-India pipeline that would secure

3 Source: Energy Information Administration, US Government (2008).

needed energy resources, in the process creating a web of interdependent relations between the two foes that might just usher in peace. The plan seems to have been all but abandoned with the 2006 replacement of Mr Aiyar by Murli Deora, seen as "a familiar figure in Washington" and more likely to "shift in focus".[4] Relations with Iran, which have traditionally been warm, have certainly been tested by the Indian rapprochement with the US.[5] Regardless of rumors that it was Mr Aiyar's enthusiasm for the pipeline that cost him his job, most experts refer to other, more structural reasons. These include Pakistan's unreliability and, more importantly, Islamabad's questionable capacity to preserve the pipeline from disruption in the sundry insurgency-prone territories it would need to cut through. The nature of India-Pakistan relations also affects India's access to, and the reliability of, the immense oil and gas resources of Central Asia as the same issues are raised by a putative TAP (Turkmenistan-Afghanistan-Pakistan) alternative.[6] India's involvement in this vast region is expanding rapidly and includes the country's first foreign military base in Tajikistan,[7] but the impediments to a much needed pipeline link are serious and unlikely to go away in the near future.

It is not just Pakistan. Despite the strong potential for mutually beneficial regional energy partnerships, the track record on India's eastern borders is still poor. The mammoth energy resources of Bangladesh and Myanmar,[8] for instance, have not yet been har-

4 Anita Jain and Khozem Merchant, "Singh replaces petroleum minister in Indian reshuffle", *Financial Times*, 30 January 2006.

5 C. Christine Fair, "India and Iran: New Delhi's Balancing Act", *The Washington Quarterly* 30, no. 3, pp. 145-159.

6 Sanjay Dutta, "TAP as alternative to Iran", *The Times of India*, 13 February 2006.

7 Anand Giridharadas, "Land of Gandhi Asserts Itself as Global Military Power", *New York Times* 22 September 2008.

nessed appropriately, and a shrill nationalism tinged with suspicion towards Indian motives abounds. A lot can be achieved by patient diplomatic work and a measure of shrewd restraint by India. In 1996, for instance, Inder K. Gujral was able to sign a 30-year agreement for the joint management of the Ganges waters with Bangladesh by understanding the anxieties of smaller neighboring states.[9] In this dimension, too, the actions of ex-Minister Aiyar are praiseworthy. Breaking with an Indian tradition of wanting to deal with neighboring states on a bilateral basis (a context in which India's natural regional hegemony is maximized further) Minister Aiyar suggested the creation of a pan-Asian gas grid.[10] Dialogue with other Asian states through the Asian Round Tables and the International Energy Forum has become more frequent and some obstacles are likely to be removed. India's willingness to engage constructively, while important in its own right, cannot transcend real domestic impediments in neighboring states such as their fragile state structures and chaotic or despotic politics. A measure of unpredictability is likely to put a cap on regional energy potential for years to come.

The same applies to relations with China.[11] As we know there is a longstanding strategic friction between the two states, and the

8 Myanmar has the world's tenth largest gas reserves. Bangladesh's are much smaller but the country would be a key player as a transit route to Indian markets. The refusal of Bangladesh to allow this could be dealt with by building a 1575-Km pipeline through Northeast India, but the costs would be much higher. See Srinjoy Bose, "Energy Politics: India-Bangladesh-Myanmar Relations", IPCS Special Report 45, July 2007.

9 Stephen Cohen, *India: Emerging Power* (New Delhi: Oxford University Press, 2002), p. 137.

10 "Aiyar's Dream", *The Economist*, 26 February 2006.

11 China's impact on current debates about security of energy supply is discussed in section 3 below.

potential is clear for this to be heightened by competitive agendas in the energy front. Already there is a worldwide Chinese quest for energy resources that dwarfs even India's substantial efforts. Despite this (or because of it) attempts have been made to try to prevent a scramble for energy and bring Indian and Chinese oil firms together so that energy securing strategies are not pursued "in zero sum terms".[12] This "nascent partnership" has included a Memorandum of Understanding for joint biddings for acreage. This is commendable.[13] Indian and Chinese companies already collaborate in high profile projects such as the Greater Nile Petroleum Corporation in Sudan. In actuality, Indo-Chinese collaboration remains episodic and rivalry much more common, with ONGC suffering far more setbacks at the hands of Chinese agile competitors than from Western oil firms. A naval build-up of both nations in the Indian Ocean is at least partly related to energy security concerns.[14] We have no reason to think that India and China's pursuit of energy supplies will significantly deepen insecurity or mutual hostility. Yet it is likely that the distance that still characterizes their bilateral rapport will affect the potential for collaboration in this crucial dimension, especially in comparison with that achieved by the International Energy Agency member states. The potential for the two countries to fully transcend this is discussed in section three.

12 Ligia Noronha and Sun Yongxiang, "The India-China Energy Dialogues of 2006 and 2007: A Report", *China Report* 44, 1 (2008), p. 50.

13 Siddharth Varadarajan, "India, China and the Asian axis of oil", *The Hindu* 24 January 2006.

14 Robert D. Kaplan, "Power Plays in the Indian Ocean", *Foreign Affairs*, March/April 2009.

: 2 :
Internal reforms

The key actor in the Indian oil and gas sector is ONGC.[15] While there are at least ten major Indian corporations, both public and private, playing an important role in this arena, ONGC towers above them all. On account of lack of time, the thrust of my comments in this section relate to ONGC. Created in the 1950s under the leadership of K.D. Malaviya,[16] the company has long been one of the commanding actors of the Indian economy. As part of the post-1991 reforms, ONGC has been partly privatized but remains 74 percent state-owned, and other shareholders do not play an important role in company governance and its strategic choices.[17] The reforms have also welcomed foreign actors into India despite the absence of a proper statutory framework for the upstream sector.[18] This involvement is fostered by the competitive bidding of the New Exploration Licensing Policy (NELP) and permission for 100 percent Foreign Direct Investment in exploration. Their presence, while growing, is still comparatively small.

Although energy security matters were the source of professional concern to some in the bureaucracy, the military and policy institutes, and India's economic trajectory was progressively bringing them out for a wider audience, they only hit the mainstream with

15 The top companies in exploration and production are, in descending order, ONGC, Oil India Limited (OIL), Cairn Energy, BG Group, Reliance Industries and GSPC-Niko.

16 H. N. Kaul, *K. D. Malaviya and the evolution of India's oil policy* (New Delhi: Allied Publishers, 1991).

17 Foreign institutional investors own 8.3 percent of the company, while individual investors hold less than 2 percent. See Tanvi Madan, "India's ONGC: Balancing Different Roles, Different Goals", James A. Baker III Institute for Public Policy, Rice University, p. 21.

18 KPMG, *India Energy Outlook-2007*, p. 19.

the nomination of Mani Shankar Aiyar as Petroleum Minister in 2004. Aiyar immediately embarked on a hyperactive period of oil diplomacy on behalf of India's oil interests and explicitly referred to oil diplomacy as a strategy to prevent international markets from "control [over] our destiny".[19] At ONGC it is unclear whether many believe in such rhetoric but geopolitics can be good argument with politicians. The company badly wants to expand internationally: as other Asian companies, it sees internationalization as an opportunity to increase profits, gain technical expertise and, most importantly, avoid the stifling and over-regulated internal setting (although this is less so in the upstream than in the downstream). So, for different reasons, the company has followed this with enthusiasm.

ONGC has put forward ambitious national and international plans. Domestically, perhaps its most important plan is Sagar Samriddhi, a venture designed to unlock an estimated 11 billion tons of oil from India's deep waters. But its high profile investments have been mostly abroad where through its overseas arm ONGC Videsh (OVL), the company has invested at least US$5 billion in places such as Myanmar, Russia, Iran, Syria, Venezuela, Angola, Libya, Vietnam and, more problematically, the Sudan.[20]

Despite these and other positive developments, observers have expressed dismay at the course of ONGC in recent years and claim that all things being equal it is not up to the task. Their criticisms are more focused on the meddling bureaucracy than on the company's technical and managerial personnel, even if the latter are not beyond reproach. Points of contention include the unparalleled degree of

19 "Interview with Petroleum Minister Mani Shankar Aiyar", *Seminar* 555, November 2005.

20 See amongst many, R. Viswanathan, "India's Energy Quest in Latin America", *The Hindu*, 31 March 2005.

government micro-management of the company (including senior management travel!) and an internal culture that is not sufficiently merit-based, favoring age over competence when promotion time comes and the nomination of party-connected individuals to senior positions. (These points go beyond ONGC and affect the sector more generally, including the regulatory entities). R. K. Pachauri from TERI bluntly states that "we have not harnessed the best available intellectual resources in planning for the energy sector".[21] Fights between officials with complex reporting relationships (e.g., the feud between Minister Aiyar and Subir Raha culminating in accusations of "insubordination and indiscipline"[22]) have also had a crippling effect. The problem, in a word, is that ONGC's industrial/economic dimension is often held back by the inescapable politics that penetrate the company from all sides of Indian public life. Technically, too, the company is lagging behind in recovery rates and is haemorrhaging professionals, some of them world-class, to the better paid private sector companies. And this is all before one gets to the vexed matter of the subsidy burden that denies the company its profit margin and therefore its capacity to reinvest it. It does not take a de-regulatory fundamentalist to state the plain fact that the state's micromanagement of ONGC has held the company back.

Some of these criticisms are overblown: ONGC remains a serious and capable oil corporation and its new partnerships at home and abroad are likely to expand its expertise, especially in ultra deepwater oil production. And if properly deployed, public ownership by one of the world's leading states can maximize the company's leverage, as shown by the healthier state-firm relationships in countries

21 R. K. Pachauri, "Oil in India's Energy Future", *Seminar* 555, November 2005.

22 Tanvi Madan, "India's ONGC: Balancing Different Roles, Different Goals", James A. Baker III Institute for Public Policy, Rice University, p. 32.

such as Malaysia, Norway and Brazil. The irony of the present situation is that ONGC is getting the minuses of state impingement without the sort of bonuses its Chinese counterparts benefit from. The aforementioned oil diplomacy, while laudable, has been too thinly spread to produce tangible results across the board: too many of the Memorandums of Understanding of 2004 and 2005 led nowhere. And at key moments, the Cabinet has hesitated to support ONGC in its ventures abroad either for fear of political risk or because of the onerous nature of the commitments. Some of these hesitations were for laudable reasons –India can ill-afford to squander precious fiscal resources on foreign adventures of questionable worth- but others were due to sheer inefficiency, with the Cabinet taking months to decide on matters that India's rivals, and not just the proverbial "efficient and undemocratic" China,[23] cracked within days.

The subject of oil sector inefficiency and the failures of political leadership are well-known to this audience so I will not elaborate them further. Suffice it to say that, faced with the challenges outlined in this lecture, it is highly unlikely that timid reforms and tampering at the edges will be enough to equip ONGC and the upstream oil sector regulators and political masters with the tools to succeed at this great game. This is not to say that many things are not changing for the better in India's oil and gas sector, some of them very fast. Nor am I assuming that there is nothing beyond ONGC and the state. Individual private sector players, which I have not talked about in much detail, are not bogged down by the same senseless red tape and are therefore in many areas better equipped to tackle the new demands. But this is a challenge whose scale necessitates accomplished public leadership. Meaningful reform can only start if there is a widely

23 Interview with oil expert, New Delhi, 30 July 2008.

shared diagnostic of how much needs to change. That diagnostic is slowly and reluctantly emerging. The question is whether India's pressing energy demand can afford to wait for it to fully emerge.

: 3 :
Markets and the security of supply

All energy importers seek to achieve "energy security", which they invariably define in terms of availability of oil and gas resources, their affordability, and reliability of the suppliers and the transport routes. More recently, alarm about resource depletion and climate change has made the sustainability of the hydrocarbon economy itself a priority, although there are wide variations between different actors as to how serious they are about this dimension. Of course, availability, affordability, reliability and sustainability are defined in strikingly different ways by different players of the oil game.

For present-day Western countries, the dominant approach for achieving all of these is via the transparent functioning of international energy markets and open investment regimes that allow corporations with the requisite expertise to invest where oil resources are plentiful. Following the 1973-74 oil price hike, industrial oil-importing nations came together to form the International Energy Agency and have since followed a series of policies (e.g., the creation of shared strategic reserves and early warning systems) that have provided consumers with an added lever with which to manage disruptions to supply. In the 1980s and 1990s, low prices for oil and a reduction in resource nationalism in energy-rich countries meant that "liberal market conditions" were on the rise. Conversely, the price hikes of the last five years have meant more power for energy producers and an increase in barriers for investors (often for political reasons like in Russia). This said, however much of a political commodity it may be, oil is still a commodity, trade in a world market with a mostly fixed price.

A different, "mercantilist" approach to energy markets, critics argue, has characterized China's search for energy. The China story is not dissimilar to India's: while it only became an importer of oil in 1993, by 2004 it was the world's second largest importer after the US. This rapid transition and the concurrent dependence on the outside were unsettling for Chinese decision-makers, especially because of the US Navy's overwhelming control of vital sea lanes and the complicated character of the US-China relationship. The Chinese did not of course opt out of international energy markets, but they did their best to go abroad, buy their own acreage via their major national oil companies, and get them to extract hydrocarbons at the source and bring them back to China *outside* market channels. This international strategy led Chinese companies to remote locations all over the world, with a particular impact on Africa.[24] (Of course, the motivation for this was at least partly motivated by the perfectly healthy desire to make Chinese oil companies more competitive and technically able by simply getting them to face reality outside the cozy domestic setting.)

There is nothing particularly Asian about resource mercantilism. In fact, the Chinese policies "mirror the classic moves of nations which found themselves in import dependency in the past".[25] There seems to be a tendency for a state to act in a panicky way when its need for

24 Chris Alden, Daniel Large and Ricardo Soares de Oliveira, eds., *China Returns to Africa* (London and New York: Hurst and Columbia University Press, 2008).

25 International Energy Agency, *China's Worldwide Quest for Energy* (Paris: IEA, 2000), pp. 8-9.

oil imports increases fast. Later on, when dependence on outside resources is accepted as a fact of life, oil-importing states get accustomed to engagement with international energy markets. South Korea and Japan, not to mention France, for long tried to secure their separate lines of energy supply. But eventually they realized that this strategy was too onerous and did not have a noticeable effect on their "energy security", so they embraced the market paradigm. Chinese leaders also seem to be coming to this understanding. A recent white paper on the security of energy supply has Beijing assuring the rest of the world that its "worldwide search for oil and gas will be carried out in a spirit of fair play and international cooperation so as not to disrupt sensitive international markets".[26] Of course, this normalization of Chinese energy policies is dependent on how good relations with the US turn out to be: if these decline then energy will be another dimension of the general "securitization" of international politics.

Where does India fit in this polarized debate between open markets and mercantile strategies? Thus far, Indian state actors have played a mostly constructive role in this arena. There are lingering suspicions as to the functioning of international energy markets: Subir Rahar, the former chairman and managing director of ONGC, for instance, said that "what Japan and South Korea did up to the '70s, tying up long term fuel contracts, long term energy contracts, we are doing now".[27]

25 International Energy Agency, *China's Worldwide Quest for Energy* (Paris: IEA, 2000), pp. 8-9.

26 www.cchina.gov.cn/WebSite/CCHina/UpFile/Ffile229/pdf (accessed 2 February 2008).

27 The remark is in the context of China-India energy rivalry and predates a number of bilateral accords in this area. See Ray Marcelo, "India's ONGC eyes $2bn bid for Yukos assets", *Financial Times* 7 January 2005.

Indian decision-makers and oil men mostly understand that the market is inescapable, that oil is a fungible commodity whose prices are globally set, and that therefore it is impossible to be isolated from high prices or the effects of disruption. The Cabinet and the Empowered Committee of Secretaries (ECS), whose approval is mandatory for investments above US$75 million, have been skeptical about limitless price wars for foreign acreage. Chinese companies, on the other hand, have not hesitated to outbid competitors by what critics deride as gross overpayment. The Indian stance is partly because there are real limits to the financial resources it can bring to bear in such competitions, especially vis-à-vis China. A 2006 Planning Commission report noted pointedly that "obtaining equity oil abroad should be mainly looked at as a commercial investment decision" and that, if the amount of money invested in equity oil could be made to generate higher returns in other investments, these should be preferred.[28] Profit rather than geopolitical gains have shaped the international strategies of Indian state players (as mentioned above, private sector players had never accepted the geopolitical reasoning in the first place: they seek profit instead).

This said the situation is still in flux. First, some experts in the field seem to lament the fact that India cannot behave like China and put current Indian strategies down to weakness, the vagaries of India's democratic system and lack of state-oil firm coordination rather than to substantive choices about what sort of international energy market India wants. Interviews and conversations I have conducted in New Delhi on the subject China-India competition in Africa, for instance, are punctuated with frustration at being unable to pursue

28 Quoted in Deepti Mahajan and Ruchika Chawla, "Do India's overseas energy equity investments add to its energy security", *Energy Security Insights* 2, no. 3, October 2007, pp. 10-1.

mercantilist strategies rather than a principled opposition to it.[29] Second, the logic of close bilateral relations with oil producers still holds in India, despite growing evidence that the major oil exporters see India as too large a consumer of oil and gas to merit special access or discounted prices. Third, India's growing geo-strategic clout in the Greater Indian Ocean arena, itself a global public good, means that important dimensions of regional economic flows will become subjected to a "security" discourse. It is also improbable that a longstanding presence in problematic oil-producing states will not implicate India in the local problems, despite protestations that it is above politics. And finally, India's history as a leading light in the Non-Aligned Movement (NAM) and its strong belief in South-South solidarity rhetoric poses a constant temptation not only to put too much faith in these rapports, but to play a distant and ambivalent role in liberal market agendas because of their association with the West (see next section).[30]

Achieving security of supply has rightly become a national security concern for the government. But this can mean many things. If it means the militarization of energy politics, or the building of bilateral relations with oil producers to the detriment of other consumers, or a zero-sum international competition for oil fields, the inevitable result will be the increase in energy insecurity, as desperate individual states seek to protect their own interests first and foremost. For India and other states with fast changing energy needs, it is imperative that two insights are kept at the heart of policy-making: the first is that it is alright to be dependent on the outside world for energy resources, provided one knows how to compe-

29 Interviews and conversations with the author, New Delhi, June-July 2008.

30 Xenia Dormandy, "Is India, or will it be, a Responsible International Stakeholder?", *Washington Quarterly* 30, no. 3 (2007), p. 118.

tently manage this dependency (through the diversification of suppliers and the creation of reserves, but more importantly, the improvement in energy efficiency, the arena in which the biggest gains are achievable). In many cases dependency is inevitable anyway so it is best to embrace it sooner rather than later. Japan, for instance, has for decades now had long distance connections to its main energy sources (and raw materials and even food)[31] and needs to import most strategic resources, including 99 percent of its oil and 96 percent of its LNG.[32] I do not believe the Japanese have been negatively affected by this state of affairs.

The second insight is that, as global claims for energy resources mount in the years to come, India needs to be an active participant and shaping force in international energy markets, guaranteeing the global free flow of oil (e.g., by further enhancing its commendable work in securing the Indian Ocean's sea lanes) and preventing the primarily commercial character of oil exploration and production from being politicized beyond repair. First and foremost, it should do to others what it wants others to do to itself, and therefore contribute towards global rule-making that enhances rather than diminishes the workings of the market. This takes me to my last set of comments.

31 Kenneth Pyle, *Japan Rising: The Resurgence of Japanese Power and Purpose* (New York: Public Affairs, 2007), p. 57.

32 E. Graham, *Japan's Sea Lane Security* (London: Routledge, 2006).

: 4 :
India and the governance of energy markets: stakeholder or free-rider?

In many ways, India's leading companies are active within global reformist agendas in areas such as corporate social responsibility and anti-corruption. ONGC, for instance, was an early signatory to the UN's Global Compact of socially responsible firms and has signed an anti-corruption Memorandum of Understanding with Transparency International, the campaigning NGO. These reformist agendas were peripheral to the workings of global energy markets for the past century and interactions between energy exporters and importers were essentially premised on Realpolitik. This started to change in the past decade, especially in the West where activist civil society actors as well as the media paid increasing attention to the complicity of their own governments and oil companies in human rights violations and regime sustenance in some of the world's most despotic states. There is plenty of hypocrisy to this new-found morality as western countries demonize some (admittedly unpleasant) regimes while doing business with others but the intrusion of at least the rhetoric of normative concerns into the international energy economy is here to stay.[33] With a vibrant and proud tradition of democracy, one would expect India to have few problems with these developments.

However, Indian experts and politicians active in this field are of two minds about how far Indian foreign policy should go along this route. The sort of moralizing that explicitly comes with the

33 Thorsten Benner and Ricardo Soares de Oliveira, "The Good/Bad Nexus in Energy Governance", in Andreas Goldthau and Jan Martin Witte, eds., *The Global Governance of Energy Markets* (Washington, DC: Brookings Institution, forthcoming 2009).

reformist agendas is not welcomed by India, which sees in it echoes of western pretensions to superiority. India does not want to sacrifice otherwise good relations with the likes of Iran: the solution to business challenges, some say, is for India to "further fine-tune its commercial bids to the way business is done in the host country",[34] which means accepting oil-rich states as they are rather than as they should be. Indian officials also find the sort of conditionality put forward by western states patronizing and unacceptable in relations between sovereign states. This ambivalence does not work only at the normative level. Pointing to western double standards in dealing with different energy producers, many Indian observers have noted that Western states are forcing an overly demanding agenda on non-Western companies (e.g., by preventing them from offering non-market incentives to clinch deals or demanding overly strict terms of engagement with questionable regimes). The effect of this may well be to push competitors into a playing field that will neutralize their competitive advantages such a willingness to invest in rough locations. It is not surprising that there are few Indian enthusiasts for reform of long-standing features of the energy economy.

This skepticism has resulted in India's de facto non-commitment to a prominent role in the reformist agendas and some realist turnarounds in established policy. The results of this realist shift are equivocal. In the case of Myanmar, India has shifted from vocal support for democracy until the early 1990s to a pragmatic engagement with the Rangoon generals since. Yet "Indian oil and gas companies have been repeatedly outbid by Chinese firms in recent deals".[35] In the case of Sudan, India, together with China, Malaysia and assorted

34 Ravi Batra, "USA, China and India: the oil stakes", *Seminar* 555, November 2005.

35 Bose, "Energy Politics", p. 3.

Middle Eastern States, has been instrumental in providing the Khartoum regime with the fiscal lifeline the West has denied it. The benefits for India are nonetheless modest while its exposure to international criticism, which thus far has zoomed in on China, is mounting. This may also occur with Indian investment bids in locations as disparate as Angola, Kazakhstan and Nigeria if Indian investors do not put some space between themselves and questionable incumbents.[36]

Yet hesitation and non-commitment are still the norm here. Many examples could be given. ONGC has not endorsed the Extractive Industries Transparency Initiative (EITI) a forum of companies and states which despite well-meaning rhetoric puts little burden on members to the extent that many corrupt oil states have signed up. This is an undemanding PR winner which the company has strangely avoided committing itself to. Everywhere, India has gone out of its way to show that it respects its oil-producing partners to the point that what happens in their backyard is none of India's business. The problem is that it is, very much so. An erratic government can expropriate at will. A company associated in the minds of the poor with a tyrannical regime can become the target of insurgents, as Chinese corporations are finding out in Ethiopia, Sudan and Nigeria. A tainted connection with a violent state may destroy the carefully cultivated image of a company with global aspirations and listing in major stock exchanges. It is very much in India's own long-term interest that the rules that preside over the governance of international energy markets are as robust as possible and that they do not result in the empowerment of disruptive actors.

36 See, e.g., "Chinese beat India for Kazakh oil fields", *International Herald Tribune* 23 August 2005.

This leads me to pose a broader question: when it comes to the future of energy markets, will India play the role of stakeholder or will it be a free-rider, benefiting from channels kept open by someone else, rules enforced by someone else, and costs borne by someone else? As the scholar C. Raja Mohan put it, "one of the greatest challenges facing Indian foreign policy is shifting from the emphasis on autonomy to an emphasis on responsibility".[37] At this stage, India is playing a positive role. What one wishes is for that role to grow in a substantive way to include the joint setting and enforcement of international norms. Current examples include an increasingly fruitful dialogue with the International Energy Agency based on the sharing of statistical information as well the pan-Asian dialogues mentioned above. India is also converging with strategies that are long-standing in the major oil importing nations, as exemplified by the creation of a strategic reserve in Mangalore (estimated to be operational in 2012).

Other lessons come harder. Indian decision-makers are being disabused of the idea that resource nationalism in hydrocarbons-rich countries, with its attendant bids at raising costs for foreigners or even expropriating them, is something that happens to westerners only. In the short-term Indian investors may indeed benefit from the goodwill of petro-states at odds with the West and in need of balancing against it (see the case of Asian companies in Venezuela or, more to the point, Sudan). In the long run, oil companies of the developing world will be just as likely to face the complexities of firm-state relations. Brazil's oil company Petrobras, for instance, was unable to avoid nationalization of its Bolivian assets despite a shared "nonaligned" discourse. As already mentioned despite Minister Aiyar's

37 C. Raja Mohan, "India's Quest for Continuity in the Face of Change", *The Washington Quarterly* 31, no.4, pp. 152.

entreaties for the creation of a "sense of Asian identity"[38] India cannot claim a special status with its Middle East suppliers.

There is another assumption that has long underpinned Indian oil sector decision-making over the past decades and may well have to be revisited: this is the notion of an absolute match of interests as well as feeling between India and the OPEC states. This may have been so historically, and it is true that India has healthy bilateral rapports with many of these states. However it is growingly apparent that India, as one of the world's oil *importing* nations, shares much with other major oil-importing states, including those in the West and East Asia, and that the interests of some OPEC states (especially those like Venezuela and Iran that are more concerned with maximizing short-term gains than working towards a functioning international market) are often very different from India's. The realization is finally dawning that, as an up-and-coming economic power, India's interests may conceivably no longer *automatically* be coterminous with those of energy importers and, more generally, with developing world states simply because they are of the developing world. This goes against the received wisdom of an important strand of postcolonial India's foreign policy. It is also generally resisted inside India, except in the rarefied circles that are positively enthusiastic about the India-US rapprochement. Yet the coming to terms with India's new power will have to encompass both the shouldering of new responsibilities and the sidelining of foreign policy received ideas unsuited for today's fast changing world.

38 "Interview with Petroleum Minister Mani Shankar Aiyar", *Seminar* 555, November 2005.

I would like to end by thanking this audience once again for your interest in following my brief comments on a subject of utmost significance. While many dimensions of the matter have been dealt with in a hurry and some have not been given the attention they would have deserved in a longer address, I hope I have made the case for its importance. I am also aware that these are very contentious issues but am heartened by the fact that vigorous debate is taking place right now in India as how best to address it. Furthermore, there is no shade of opinion that I have voiced today (and many that I have not) which are not represented in India's vibrant corporate, academic and policy communities. The challenges are there but India is in a good position to tackle them if it accepts their urgency. Above all, Indian decision-makers must avoid what the scholar Sumit Ganguly fears is "a sense of complacency" towards the tests posed by the country's economic rise.[39] This is particularly so in the context of the current economic downturn, which has already resulted in a plunge of oil prices from US$147 last July to US$47 in December 2008. There is a risk that those in positions of influence may now feel that this matter is less pressing. If this were to be the case, they would be sorely mistaken. The oil prices of the last five years are based on fundamental shifts in oil demand rather than fiddling with supplies as in the 1970s. The medium-term scenario once this painful crisis passes is a return to voracious demand in the industrial world, with emphasis on Asia's economies. And throughout, despite the possibility of advances in renewable energies and the nuclear option, hydrocarbons will go on providing a lion's share of our energy needs. How India faces up to these challenges will define, to a remarkable degree, not only India's economic fortunes but the world's as well.

39 Sumit Ganguly and Majeet S. Pardesi, "India Rising: What is Delhi To Do?", *World Policy Journal* Spring 2007, p. 17.

THE FOUNDATION TRUSTEES

THE FOUNDATION TRUSTEES

THE FOUNDATION ACTIVITIES

THE VASANT J. SHETH MEMORIAL FOUNDATION is dedicated to education, welfare, health, conservation and publishing initiatives in maritime related areas. Founded in 1993 in the memory of Vasant J. Sheth, the Foundation has funded and supported several projects. In this endeavour, the Foundation pools in resources, both human and capital, from different sections of society, which go a long way in fulfilling its objectives.

Education: Initiated a Shipping Management Programme at the Indian Institute of Management, a first of its kind in business education; donated books and computers to the Indian Institute of Management Studies and Research, Goa; funded an Offshore Management Development course at the School of Synergic Studies, Mumbai; and seminars: *Ancient & Medieval Ports of India* and *Accident Prevention on Board Ship and the* ISM *Code*. Set up the Mumbai Maritime Gallery. Funded the documentation of maritime heritage sites in Gujarat, Tamil Nadu, West Bengal, Orissa, and Kerala. Supported a girls' hostel in a coastal village school at Kelshi in Maharashtra. Awarded the Vasant J Sheth gold medal for academic excellence and annual scholarships at Tolani Maritime Institute near Pune, Sri Venkateswara College of Engineering near Chennai and The Great Eastern Institute of Maritime Studies, Lonavala. Supported a project implemented by SWATI in Surendranagar district, Gujarat, for the school-going daughters of saltpan workers.

Welfare: Funded medical facilities including an orthopaedic and burns ward in the Red Cross Hospital, Alang; supported the Gujarat Maritime Board to set up the Safety, Welfare and Training Centre;

improved the Seaman's Ward in St. George's Hospital, Mumbai; financed toy libraries for fishermen's children across the country; non-formal education programmes for street children in Mumbai and a health project in the Sunderban. Facilitated the rehabilitation of families in Anumanthaikuppam, a Tsunami affected village in Tamil Nadu and co-sponsored an ambulance for the Indian Red Cross Society Hospital in Alang, Gujarat.

Conservation: Formed the Maritime Heritage Foundation with the Indian Navy and other NGOs to conserve and restore historical maritime monuments. Funded a mangrove conservation project and donated a van equipped with audio visual aids to the Bombay Natural History Society (BNHS). Supported the Sea Turtle Interpretation Centre at Rushikulya, Orissa and hatcheries along the Konkan coast, Maharashtra. At Chowpatty Beach in Mumbai, restored and beautified the space around the British-built storm signal. Supported the BNHS in a coastal biodiversity awareness programme for the Indian Navy and the Coast Guard. Funded a research and education project implemented by Srushtidnyan on marine eco-systems in Mumbai.

Publications: *In His Own Words*, a collection of Vasant J. Sheth's letters and speeches; *Tramping to success: the story of The Great Eastern Shipping Company Limited* by Dr S. N. Sanklecha; *Oceans Omnibus*, a book on oceans and ocean life for young people in collaboration with Centre for Environment Education; *Shipping Management: Cases Concepts*, a compilation of case studies for a shipping management course published by the Indian Institute of Management, Ahmedabad; *Maritime Law of India*, a book and CD by Bhandarkar Publications; *Great Eastern Trade: Other Times, Other Places, (Maritime Trade in the first millennium* AD) by Professor Romila Thapar; *Ethical Obligations of Business Enterprises*, by

Soli J. Sorabjee, Attorney General for India; *Swimming to Antarctica: The Mount Everest of Swims* by Lynne Cox, the world's best long-distance cold water swimmer; *The Relative Maritime Technologies at the time of the European Encounter: The Causes of the Conquest of India* by Rear Admiral Raja Menon (Retd), a prominent naval historian; *The Crisis of India's Wilderness* by Valmik Thapar, a tiger conservationist and *Cultural Practices of Indian Sidis Through the Prism of Indian Ocean Maritime Connections* by Dr Helene Basu a distinguished German anthropologist; *Bombay Boston: Commercial and Cultural Encounters in the Age of Sail* by Dr Susan S. Bean, Curator of South Asian and Korean Art at the Peabody Essex Museum in Salem, Massachusetts, USA.

VASANT J. SHETH MEMORIAL LECTURE

THE VASANT J. SHETH MEMORIAL LECTURE IS AN annual event to honour the memory of Vasant J. Sheth whose working life was intertwined with the seas, initially through overseas trade but mostly through shipping. In 1947, he founded The Great Eastern Shipping Company Limited and remained a tireless proponent of the Indian shipping industry till his death in 1992.

The Vasant J. Sheth Memorial Lectures aim to stimulate public awareness on various issues by presenting speakers from diverse disciplines. Previous speakers have included a diplomat, a policy maker, an economist, a historian, a legal expert, the world's greatest cold-water long-distance swimmer, a prominent naval historian, a world-renowned conservationist, an anthropologist and a museum curator. The transcribed text of the lecture is published as a monograph and distributed to institutions and individuals in India and overseas.

VASANT J. SHETH MEMORIAL FOUNDATION

GREAT OFFSHORE LIMITED

ENERGY HOUSE • 81 D. N. ROAD • MUMBAI 400 001

TEL +91 22 6635 2284 • FAX +91 22 2267 2989

EMAIL
vjsmf@greatship.com

WEBSITE
www.vasantshethfoundation.org

RICARDO SOARES DE OLIVEIRA

Dr Ricardo Soares de Oliveira is a University Lecturer in Comparative Politics (African Politics) at the Department of Politics and International Relations, Oxford University. He is also a fellow of St Peter's College, Oxford and is with Berlin's Global Public Policy. He has worked in the field of governance and the energy sector for the World Bank, the European Commission, Catholic Relief Services, and the Democratic Institute for International Affairs and the French Ministry of Defence. He is the author of *Oil and Politics in the Gulf of Guinea* (Columbia University Press, 2007), *China Returns to Africa: A Rising Power and a Continent Embrace* (with Daniel Large and Chris Alden, Columbia University Press, 2008) and a contributing author to *Bottom of the Barrel: Africa's Oil Boom and the Poor* (Catholic Relief Services, 2003).