

Associate Paper

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The Complex Geopolitics of India's Growing Energy Needs

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Key Points

- India's vast energy demand and growing import dependence are creating complex regional and global geopolitical relationships.
- Growing energy links to Russia are indicative of that trend but are also of potential concern to governments such as the United States.
- The US sanctions on Iran and a narrow focus on boosting exports have also jeopardised the great potential for productive American energy links with India.
- Delhi's energy connections with Beijing are based mostly on competition, though some, albeit complicated, opportunities exist for co-operation, particularly on the infrastructure front.

Summary

India's growing energy co-operation with Russia, including proposed Arctic developments, illustrates the considerable geopolitical implications of its vast demand and growing import dependence and include Delhi's likely role at the centre of climate-focused international diplomacy. India's ability to achieve optimal economic and strategic outcomes in its growing energy-based ties depends on a range of other factors. They include the extent to which it can effectively participate in international commodity markets and the challenges posed by the corresponding energy-influenced aims of other countries in its orbit, most prominently the United States and China.

Analysis

At their October 2018 summit, Indian Prime Minister Narendra Modi and Russian President Vladimir Putin reaffirmed their commitment to bilateral [co-operation on energy matters](#), including a pledge to jointly develop oil and gas projects in Russia's Arctic shelf and Pechora and Okhotsk Seas. It was accompanied by joint commitments on nuclear and renewable energy and followed the commencement of liquefied natural gas (LNG) shipments to India in June this year under a new long-term contract between Russian gas producer Gazprom and Indian utility GAIL.

The announcements illustrated how India's vast need for reliable and diversified energy supplies to meet its complicated development goals is having an impact on its international relations. Those actions are also of great significance to the strategic priorities of other countries, most prominently the United States and China, whose intensifying regional competition places significant focus on retaining or gaining support from Delhi and/or neighbouring governments. Intensifying matters is the extent to which China and the US have, in recent years, become the largest sources of, respectively, demand- and supply-side disruption to energy markets and their associated geopolitics.

At 753.7 million tonnes of oil equivalent, India had the world's [third-largest](#) energy demand in 2017. Though still one-quarter of the Chinese level and one-third that of the US, it is growing much faster than either of those. Owing to a more energy-intensive development pathway, India is expected to [outpace](#) Chinese growth before 2030. In contrast to other countries of similarly large landmass and coastline, India is poorly endowed with identified deposits of commodities such as oil and gas that, elsewhere, have traditionally been key to achieving advanced development. Its resource poverty has, in turn, been magnified by [policies that restrict](#) domestic and international exploration and subsequent development.

While an enduring reliance on domestically-sourced coal and biomass has, until now, provided it with some insulation from the complex global geopolitics surrounding fossil fuel imports, India is increasingly moving in that direction. By one estimate, its imports of all forms of energy are [expected to rise](#) from 36 per cent of primary consumption to as high as 55 per cent by 2040. One key factor influencing that will, however, be the degree to which India can exploit its comparatively high endowments of clean energy sources and meet ambitious targets such as a quadrupling of renewable capacity by 2022. While progress there has already been impressive, Delhi still [needs to make](#) a 'host of technical, policy and regulatory improvements' to do so. Nonetheless, the fact that key energy exporters will track how the Indian energy mix evolves is assured, as has been seen already in a [major report](#) prepared for the Australian Government this year.

The trajectory of India's energy market will be more than a matter of economic opportunity for other governments. It will also be a critical factor in future efforts to fight runaway climate change. As was made clear in an alarming 2018 [United Nations](#) report, the pursuit by India of living standards similar to those of China, let alone the fully-developed world, will mean wide-scale planetary destruction if based upon current patterns of greenhouse gas emissions intensity. Despite that, most reliable projections still see the country becoming increasingly integrated into traditional global energy markets, even for coal. A key factor is

the growing importance of fossil fuels in industrial and transport applications, even as power generation breakthroughs continue to occur. Hopes for positive global climate outcomes under this scenario thus hinge on low emissions breakthroughs in both supply chains and consumption.

India also stands to be exposed to a new level of geopolitical intrigue should it continue down its current pathway, though what that will look like is also open for increasing debate. A key element in challenging established notions there has been the continued growth in US oil and gas production, which now leads on both. That, in turn, has led to a weakening of the market power and geopolitical control enjoyed by the likes of the Saudi Arabia-led Organization of the Petroleum Exporting Countries and Russia. That loss, however, has been more recently contested through the increasing co-ordination of production levels by such parties.

In contending with energy dependencies, India is beset by some unique challenges compared to the likes of major consumers, China and the US. Its more pronounced and persistent development deficits have, first and foremost, created challenges around necessary infrastructure provision and a high level of sensitivity to commodity prices. Coupled with a weakening rupee, an oil price above US\$80 per barrel, as occurred earlier this year, led to widespread [public protests](#). Such problems have been compounded by the difficulties that the government has experienced in liberalising [domestic pricing](#) regimes.

On a more positive note, the gas deal with Gazprom followed the renegotiation in GAIL's favour of a 2012 contract, including an initial 80 per cent reduction in volume and a more [beneficial](#) pricing formula. It represented a newfound flexibility in a well-supplied market, in which India also began sourcing LNG from Australia and the US, in addition to Qatar. Its companies have similarly renegotiated terms with those partners and turned towards taking more spot cargoes over long-term contracts.

Vigilance around energy ties to Russia, in particular, might still be required, given Moscow's long record of highly-politicised trade with its European customers. Here, the monopolistic characteristics of Gazprom's gas pipelines have threatened both the energy and economic security of trading and transit states and the sanctioning ability of those opposed to Putin's foreign policy. It is notable in this respect that India and Russia have also discussed building the world's most expensive pipeline, valued at US\$25 billion, to transport [Siberian gas](#). Any resulting concern will likely remain low-level, however, given India's growing exposure to shipborne LNG, as well as its past inability to advance transnational pipelines from Turkmenistan and Iran, not least as a result of geopolitical tensions with key transit country, Pakistan.

Hardwired energy links with Moscow are nonetheless already in place, most prominently in the form of Russian oil giant Rosneft's 2017 [purchase](#) of 49 per cent of Indian refiner Essar Oil. At US\$13 billion, it was the largest-ever foreign investment of any kind, either in to India or out of Russia. Coupled with the prospect of Arctic co-operation and the suggestions of joint activity in third-party countries raised at the October meeting, it appears to be of most strategic cost to the US, which is intent on isolating Moscow at the same time as bringing Delhi further into the fold. From a US perspective, the alignment of interests might only

have been worse had a bid by China's CEFC Energy to take a sizeable 14.6% share of Rosneft not [fallen through](#).

Regardless, American concerns around many points of the Russia-India energy nexus are likely to persist. They might, in the future, also potentially run afoul of the Donald Trump-era Countering Adversaries of America through Sanctions Act. Washington has, however, not made the task of winning Delhi's support any easier by reimposing energy-related sanctions on Iran, which has become the third-largest provider of India's crude oil supplies since the 2015 nuclear deal with Tehran. In contrast to the US groundwork that helped to facilitate that original agreement, Trump has paid little attention to the effect that reimposing sanctions will have on key Iranian customers. Washington has also [attempted](#) to cut Tehran's output in a somewhat undersupplied market, owing to rising demand, disruptions to key producers such as Venezuela, and fresh doubts about the ability of OPEC to easily make up for any shortfalls.

Along with several other countries, India has been fortunate to gain a short-term US sanctions waiver, allowing it to maintain Iranian crude imports at about 70 per cent of [previous levels](#). Coupled with a recent oil price drop to about US\$65 per barrel, this may relieve some concern about the effect of Washington's sanctions on its energy security, but it will, however, be tested once the extension expires in just six months' time. What is most frustrating from the bilateral perspective is the degree to which energy might have otherwise built bilateral co-operation; a fact which was acknowledged in the US-India [Strategic Energy Partnership](#) of August 2017. A key question hanging over its success is whether the US can move past its current overweening and often unrealistic focus on using such ties to boost its own exports alone.

Given some of the challenges outlined above, India's longer-term energy security would appear be better served by the US extending its expertise on creating policy frameworks at the upstream (production), midstream (transport and storage) and downstream (consumption) levels. Moves to better accommodate India in the broader US-led institutional system around energy security would also be beneficial. It is positive in that respect that Delhi last year became an associate member of the International Energy Agency, though whether such groupings, and their commitments on such issues as transparency, can adapt to meet the needs of developing countries, and vice-versa, remains an open question.

In the absence of its full induction into such processes, Delhi has instigated a number of its own arrangements involving other countries also seeking beneficial energy policy co-ordination and asset integration. This includes its moves to form a regional [oil buyers' club](#) that would seek more beneficial terms from OPEC, in particular. It has also advanced a proposal for a South Asian Association for Regional Co-operation (SAARC) Energy Initiative with aims that include the facilitation of cross-border [gas networks](#), the likes of which have been of immense benefit for supply and pricing outcomes in North America. Also already in place or proposed for the future are Indian [plans](#) for the development of LNG terminals, power projects and power grids in Myanmar, Bangladesh, Sri Lanka and Mauritius.

While these energy co-operation plans remain nascent and subject to numerous obstacles, they are instantly noteworthy from a geopolitical perspective for their intimate – and complicated – relationships with other countries, particularly China. In the case of the buyers' club, Delhi is logically seeking to co-operate with Beijing as the other dominant Asian energy consumer. In its ties with neighbouring countries, the Indian Government is alternatively able to compete with China for regional influence at the same time as serving its own energy security needs.

It is unfortunate from the co-operation perspective that China and India can offer each other little in the way of traditional trade-based energy security, with those resources that they do produce typically consumed domestically; any related investment is similarly limited. The most significant energy exchange has, instead, been technological and related to coal and solar power generation, which is also contentious in inviting Chinese [domination](#) of Indian domestic industrial capacity. One oft-raised option for meaningful improvement has been the joint development of oil and gas projects in other countries, which, although the subject of bilateral Memoranda of Understanding from 2006 and 2012, has produced [few notable results](#).

A *Global Times* article from 2017, reported in the Indian [media](#), revived the prospect of co-operation from the Chinese perspective and included suggestions of joint construction of cross-border pipelines. Despite some need to question Beijing's intentions, it remains an interesting proposition given India's difficulties in this space and a corresponding level of Chinese success. Beijing's strength on infrastructure facilitation has also already contributed to India's energy security in at least one notable case. That is the aforementioned Gazprom LNG shipments, which are being sourced from the [Yamal LNG project](#) in the Russian Arctic that was partly financed by China's Silk Road Fund.

Also notable for Delhi is Beijing's obsession with creating energy infrastructure that can help to avoid the transit chokepoint of the Strait of Malacca and the congested South China Sea. Both are susceptible to disruption via piracy, military blockade and other threats. Based on those points, increased bilateral infrastructure provision to serve both markets could – theoretically – help to reduce some Chinese anxiety. It would be of benefit to Delhi if it helped to reduce Beijing's pursuit of actions that either jeopardise Indian energy security or Delhi's wider strategic objectives. Those include a dominance of Central Asian oil and supplies and associated pipeline construction and more recent building tied to the Belt and Road Initiative (BRI), including ports and China-connected [energy infrastructure](#) in Pakistan, Myanmar and elsewhere.

There is certainly a complex calculus around co-operation on energy matters in view of Delhi's larger opposition to Beijing's regional strategy. An entry point on infrastructure would, however, not be out of keeping with past policies, which even saw India listed as the eighth-highest recipient of BRI-linked funding as of January 2018.¹ At the same time, Delhi is likely to maintain its focus on South Asian regional energy integration regardless. It benefits

¹ Balhuizen, A., 'China's Belt and Road Initiative, Episode Two: A Vision Encased in Steel', BHP, 26 September 2017, <<https://www.bhp.com/media-and-insights/prospects/2017/09/belt-and-road-initiative>> and additional information provided to the author of this paper, 25 January 2018.

in that respect – and in a wider Indo-Pacific sense – from the trend of Beijing’s energy-related actions meeting rising pushback in the host countries. Nepal and Pakistan, for example, have [opposed](#) BRI hydropower projects seen to be offering them unfavourable terms. It also extends once more to Russia’s courting of Indian investment, which responds to Moscow’s own concerns around overdependence on Chinese capital. Completing the picture further afield is case of [Vietnam](#) courting Indian energy firms to explore for and develop petroleum resources in its South China Sea exclusive economic zone, which represents a joint commitment to achieving energy security as well as to challenging Beijing’s expansive claims.

Attempting to reach definitive conclusions as to the future trajectories of energy-related international relations is a fraught process, given the highly fluid nature of global energy production and consumption. That is heightened in an era of rising concern around climate change and geopolitical disorder. One near-certainty for India is, however, that it will continue to have pervasive and globally-significant energy needs. Even if India is able to more successfully seek domestic solutions to those needs, it will create geopolitical shockwaves given the now established expectations of new demand opportunities among suppliers. It will also move associated trading issues – including potentially heightened contestation with China – more and more into technological and associated spaces. A final corollary of India’s immense energy task is, however, that it guarantees the country’s enduring relevance to the world’s governments and institutions and heightens Delhi’s political agency in its future dealings with those.

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