

## 7 CHAPTER

# *Oil Diplomacy and India's Energy Diplomacy*

*After reading the chapter, the reader will be able to develop an analytical understanding on the following:*

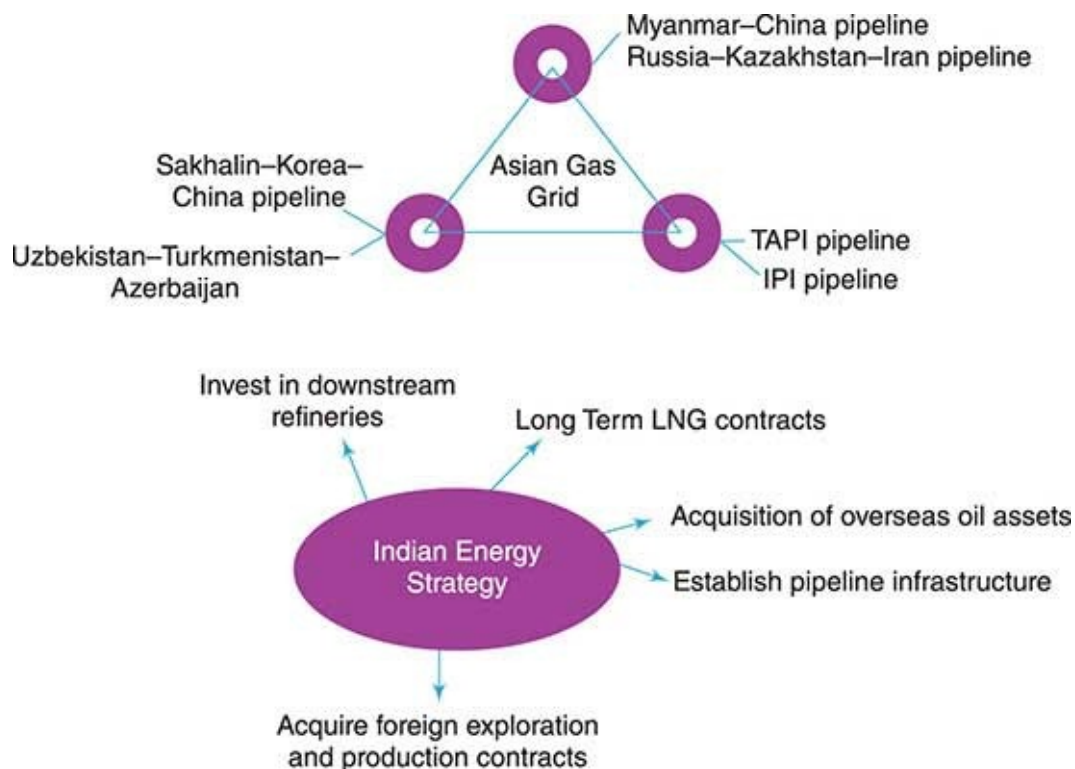
- Indian sources of energy
- Energy as component of foreign policy
- The strategy of diversification
- Burmah, Caltex and Standard Vacuum
- British impact on oil foreign policy
- Socialization of oil sector
- Russia – Ruble agreement
- Domestic development of refineries
- OVL assets acquisition strategy
- Oil diplomatic outreach policy
- Gas and LNG imports
- Nuclear research and fuel supply

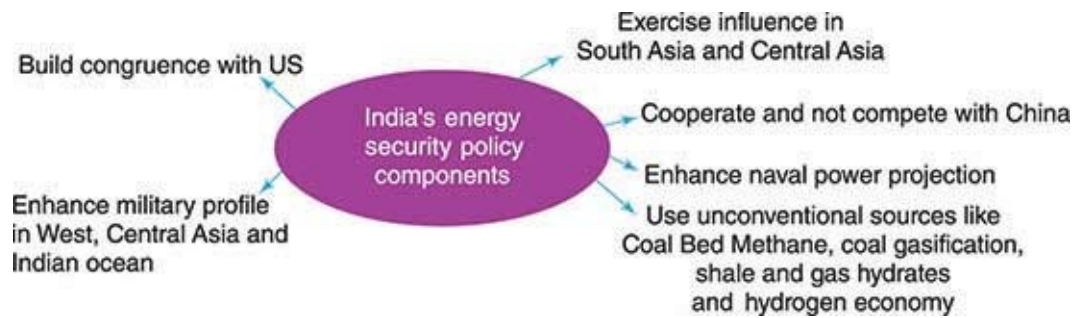
In India, a number of energy sources are used. Each source has an individual ministry for developing that specific energy source. Key sources include coal, oil, gas, hydropower and nuclear power. India imports oil, coal, gas and uranium. India being dependent on oil that is largely exported from outside means global factors shall impact India's Energy Policy (EP). After the end of the Cold War, as India adopted an open economy and as its growth rate increased, the energy consumption also increased. The domestic sources could no longer meet the increased consumption, forcing India to import more oil and thus making energy security an essential component of Indian foreign policy. The collaboration between domestic bureaucracy, foreign policy practitioners and political executives began to give shape to the strategies to achieve India's energy security. To achieve energy security, the government has adopted diversification of energy supplies as a primary policy. It has also resorted to the use of Indian firms, including the PSU ONGC Videsh Limited (OVL) to invest in overseas oil and gas ventures.

The oil policy India followed after it became independent was based on its colonial legacy. The imprint of British policy was at its maximum on oil policy. The oil that used to come to India also controlled by the US firms Caltex and Standard Vacuum. During this period, a majority of the refineries were owned by western firms and oil to these refineries came from Iran, Saudi Arabia, Indonesia and Kuwait. From the 1960s, India established institutions for a socialist economy and developed proximity to the USSR, which led to a

change in its oil policy. India had issues with foreign refineries and suppliers. As per a contract with the USSR in 1960, India imported Russian oil. The Indian government decided to build PSU refineries with help from the USSR and Romania, and signed Rupee–Ruble agreement for payments.

The western companies were not allowed to increase their influence and expand in India and 1976, the Indian government succeeded in nationalising of Burmah–Shell and Caltex, thus ending the reliance on western firms. India also began to continue oil imports from the USSR and West Asia. As the Cold War ended, India opted for a liberalised and open economy and began needing more resources as its domestic consumption began to increase. Consequently, India began to import oil from Africa and South East Asia. To enhance energy security, OVL was given permission to purchase assets abroad to undertake oil exploration. The OVL began to become prominent in Sudan, Vietnam and Sakhalin. An aggressive Indian diplomacy, coupled with support from political executives and domestic bureaucracy began to secure energy for India. The OVL today has exploration and oil development going on in Libya, East Timor, Iran, Iraq, Syria, Nigeria and Brazil. The OVL also competes with China in bids internationally. Good historical relations between India and a majority of these countries worked in India’s favour. In 2006, India signed an agreement with China where both have decided to not to compete but cooperate in overseas oil asset acquisition. There has been an extension of diplomatic outreach to all oil producing nations by India. However, at times, due to limited resources and delayed government response, the OVL loses bids to others, otherwise having achieved tremendous success. India, in recent times, has also taken steps to emerge as a net exporter of petro products by augmenting oil refining infrastructure in its territory. This helps save foreign exchange and boost petro product exports. Shall has emerged as a new resource in India’s energy security matrix and India has decided to import it from US.





Oil has always dominated the Indian energy industry but off-late, gas has also become important. India has been dependent upon foreign suppliers for gas. It imports gas as LNG while the Department of Atomic energy makes efforts in indigenous production in the field of nuclear energy. Canadian-Indian Reactor Uranium System (CIRUS) and CANada Deuterium Uranium (CANDU) dominated the initial years of Indian nuclear research. After India's Pokhran-1 testing in 1997, the NSG and NPT created embargos of any foreign supplies to India. For the Tarapur plant, however, the US continued its support till 1982 and the French agreed to supply fuel beyond 1982. China and Russia supplied fuel for Tarapur till 2001. In 1988, Russia also decided to agree to supply India with two 1000 Mega waltz Light Water reactors but Russia's collapse in 1989 prevented the agreement from materialising. The agreement was finally executed in 1998 and reactor construction began in 2002 and finished by 2012. Due to the testing of Pokhran-I and II, the embargos were still in place and India was prohibited to import Uranium. The domestic nuclear programme, therefore, could not achieve its aims. In 2005, as the US-India nuclear deal progressed, the embargo was lifted and NSG trade restrictions came off in 2008. Since then, the doors of nuclear commerce have been open for India.