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### **OIL POLITICS: OPPORTUNITIES AND CHALLENGES FOR INDIA**

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The rise of Islamic State in Iraq and Syria has received more attention than any other event in the last one year or so. The social media and internet is flooded with stories from Islamic State. The city of Kobani and Peshmerga fighters have received greater media coverage than the other strategically important areas under IS control. US has highlighted the need to cut funding and fight Islamic State militants and yet most of the oil rich areas under Islamic State control have not been a focus of their attacks. The Lone Wolf attack on Charlie Hebdo magazine office in Paris by three terrorists resulting in the killing of 12 people received more coverage than the massacre of the 2000 by Boko Haram in Nigerian villages. While the focus of the entire world is on the Middle East and Islamic State militants, ignoring the ghastly acts of Boko Haram in Nigeria points towards the follies of the electronic/ new media, propaganda and double standards of the champions of human rights/ world peace. The reason for focus on the Middle East appears to be the presence of oil. Some analysts have termed this as 'No oil, No protection' policy of the world powers.

The steep slide in oil prices amid alleged US-Saudi Arabia conspiracy to damage economies of Russia and Iran and refusal by OPEC to cut down oil production has been intriguing and needs to be studied. China signing oil/ infrastructure/ defence deals with Russia and Iran indicate enormous opportunities. The reduced dependence of the US on Gulf oil due to Shale oil could impact security of oil supply lanes. The drop in oil prices, geopolitical developments and oil politics could have far reaching implications, which are likely to impact India too. Therefore, under this backdrop, this paper would look at possible challenges and opportunities for India.



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### **Secret Oil Deals and the Hidden Agenda**

The significant feature of recent developments has been a steep drop in oil prices in the past six to seven months despite the ongoing conflict with the Islamic State militants, which is intriguing. Crude oil prices have dropped by 60 % sliding down from about \$ 112 per barrel to \$ 45 per barrel. The fall in oil prices has sent the Rouble tumbling down, which has depreciated by over 60 %. The Iranian economy, which is dependent on the sale of oil too, has received a jolt. Similar problems are being faced by other oil producing countries viz. Venezuela.

The developments in the Middle East and the drop in oil prices are shrouded with mystery. The refusal of the OPEC to reduce production despite such a massive slide in oil prices is unusual especially against the background that OPEC has been resorting to reduction in oil production in order to control oil prices in the past. The steep drop in value of the Rouble could set in recession. Similar impact is also seen on the economies of oil producing non-OPEC countries like Venezuela and Mexico. There are allegations that there was a secret deal between US and Saudi Arabia to flood the oil market with an aim to cripple the Russian and Iranian economy. Mikhail Leontyev, Vice President of Russia's state-owned oil giant Rosneft, termed the slide in oil prices as a political conspiracy and asserted that prices can be manipulated and blamed Saudi Arabia's heavy discounts and sale of stolen IS oil at cheap rates through Turkey and Israel as political manipulation<sup>i</sup>. Caspian Strategy Institute analyst Mubariz Hasanov believes that the U.S. and Saudi Arabia alone do not have the power to seriously affect oil prices<sup>ii</sup>. On the other hand, four NYMEX traders filed a lawsuit in Manhattan court in October 2013 against oil majors and trading houses<sup>iii</sup> for colluding and manipulating North Sea Brent Crude Oil markets between Feb 2011 to September 2012, which is a global benchmark for two-third of world's crude oil trade. Therefore, the perception that oil prices in a free market cannot be manipulated has to be taken with a pinch of salt. Russia's and Iran's oil deal with China in Rouble/ Yuan to break the monopoly of the Petrodollar weapon. Saudi Arabia's King Abdullah bin Abdulaziz died on 23 January 2015 and Salman bin Abdulaziz



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took over as new King of Saudi Arabia. The developments in the coming weeks would be significant. However, indications are that there is no likelihood of a major change in Saudi Arabia's oil policy. This would mean that low oil prices may continue for some more time.

### **Challenges and Opportunities for India**

The drop in oil prices has been a boon for oil deficit developing countries like India and China. The rise of Islamic State and the alleged oil politics in the Middle East have offered new opportunities to the Chinese and they are exploiting these developments to their advantage. The flurry in signing of MoUs/ deals/ contracts on oil exploration/ acquiring stakes in oil fields/ oil supply, infrastructure, technology and development of advanced weapons with Russia<sup>iv</sup>, Iran, UAE, Bahrain<sup>v</sup> and other countries have made China the biggest beneficiary.

The shale oil production by US has reduced its dependence on the Gulf region. India, like many other countries of the world was indirectly enjoying the benefit of US security umbrella to oil supply lanes in the Gulf region. The interest of the US in the region could decrease with increased domestic oil production and reduced dependence on the oil from the Gulf region. It could review or downgrade its security cover to oil supply lanes. India and China, the highest consumers of the energy would be dependent on the Gulf oil for the next decade or so and they would have to protect their oil supply lanes in future. Indian Navy has been providing protection to merchant ships against Somali pirates in coordination with other countries. However, this may not be the case when there is war between two states having air, sea and land forces. Indian needs to have contingency plan for protection of the oil supply lanes during crisis / conflict in the Gulf region. IN along with IAF, may be required to play a predominant role in providing protection to shipping lanes. The en-route air bases, if available, could cut down the transit time and improve response and effectiveness of air operations. Air-to-Air refuellers, Long range fighters, HALE UAV and en-route airfields would be critical for IAF support to IN. Indian Air Force and Indian Navy would have to be equipped accordingly to provide security cover to oil supply lanes.



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The changing global scenario provides a golden opportunity for India. Some of the Gulf countries are looking forward to new alliances for oil exploration. The UAE's 75 year old production concession agreement (since January 11, 1939) with Shell, BP, ExxonMobil, Partex Oil & Gas, and Total) has expired. UAE is looking for partners other than the US and UK, in oil exploration and many Asian countries including China and South Korea would be bidding for the same<sup>vi</sup>. Steep drop in oil prices has made some of the small oil producing companies in Gulf, East Africa and South America economically unviable and they would be looking for partners. This is a great opportunity for India to capitalise on these and build oil bonds. India can take a cue from China and look for partners in Oil, Defence, Infrastructure, Make in India and other high end technology projects. The pro-active actions taken now would help India reap benefits in the long term. The window is small and India should make the most out of it.

### **Way Ahead for India**

- India should take pro-active measures to fast track deals/ MoUs/ projects in oil, advanced technology, make in India and defence, especially with countries looking for partners.
- The manipulation of oil prices is a potent weapon, if big powers and major oil producers decide to collude. India should embed this factor while making oil procurement policy/ deals and may diversify oil procurement.
- Indian Navy may be required to provide security to our shipping lanes in the conflict zones in future and they should be equipped accordingly.
- IAF may be required to support Naval operations by providing airborne surveillance and protection to shipping lanes in future. Air-to-Air refuellers, HALE UAVs and en-route transit bases would be critical in IAF operations.



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***(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])***

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<sup>ii</sup> "Saudi Arabia to pressure Russia, Iran with price of oil", <http://www.aa.com.tr/en/economy/402343--saudi-arabia-to-pressure-russia-iran-with-price-of-oil>, 10 October 2014, Accessed on 17 January 2015

<sup>iii</sup> Claire Milihench, "UPDATE 1-NYMEX traders allege big firms manipulated Brent oil prices", <http://uk.reuters.com/article/2013/11/06/brent-lawsuit-idUKL5N0IR4GV20131106>, November 06, 2013, Accessed on January 17, 2015

<sup>iv</sup> <http://nationalinterest.org/feature/five-ways-russia-could-help-chinas-military-become-even-1000>, August 02, 2014, Accessed on January 21, 2015

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<sup>vi</sup> "What Now? UAE's 75 Yr-Old Production Agreement with Western IOCs Expires ", <http://oilpro.com/post/2149/what-now-uae-s-75-yr-old-production-agreement-with-western-iocs-expires>, Accessed on January 19, 2015