



## Fragmented and fitful: India's energy diplomacy

Pramit Pal Chaudhuri

Since the 1991 introduction of economic reforms that signalled the end of a highly regulated, socialist economic system, India has struggled to inject market reforms into its energy sector. This has not been an easy process and the recently elected Narendra Modi government is just the latest regime to announce ambitious plans for reform. There are numerous reasons for this having proved to be such an onerous task: natural resources are treated as government assets, energy regulation is divided between the federal and state governments, and the domination of inefficient state-owned enterprises has resulted in a sector shot through with corruption and political interests. Strong populist traditions also mean that there is an entrenched policy of fuel subsidies and energy price

controls which has led to chronic underinvestment in power infrastructure and technology. Even where there has been considerable Indian private sector involvement, notably in natural gas, there has been a sense that policies are determined by influence-peddling.

The degree to which these domestic policy issues overwhelm the debate on the Indian energy sector cannot be underestimated. New Delhi gives only fleeting consideration, normally just rhetorical, to the external aspect of its energy policies. Another reason why the country's foreign policy and energy security do not overlap is that, barring the 1970s OPEC oil crises, no international energy rupture has shocked its political system sufficiently for it to integrate external policies with domestic energy reforms in a systematic manner. India's external

energy policy has therefore revolved around peripheral or transient issues. Attempts at energy diplomacy have been moved forward in fits and starts and are easily trumped by domestic political considerations.

### The purchase of overseas assets

There has been a constant political refrain, repeated recently by the Minister of State for Petroleum and Natural Gas, that India's energy security can be assured by the buying of oil, gas, and more recently coal, assets overseas. This narrative argues that this will provide both security of supply and fuel price stability, while easing India's chronic balance of payments problems – fossil fuels are the country's largest import. This belief has been strengthened by China's more aggressive quest for foreign resources.

But India's actual policies have been designed to constrain such asset buying. The state-owned oil and gas firms are financially squeezed by large subsidy payments, but are required to raise funds in the capital market and must realize fixed returns on their investments. While New Delhi does use diplomacy to facilitate such purchases, the result is that India's overseas energy assets are about a tenth those of China's. A 2010 Confederation of Indian Industry study concluded that India's overseas equity oil holdings translated into 65 million tonnes (Mt) of oil in 2009–10, versus 800 Mt for China. Similar figures arise for the amount of money invested by Indian versus Chinese firms in most years. The last Indian Prime Minister, Manmohan Singh, an economist by training, insisted that overseas energy purchases should be seen as purely commercial decisions. The current Modi government has spoken of the need to buy such assets, but has not reversed any of the regulations that constrain state-owned firms.

.....  
**'INDIA'S OVERSEAS ENERGY ASSETS ARE ABOUT A TENTH THOSE OF CHINA'S.'**  
 .....

The Indian private sector has generally not been active in this field, though recent overseas oil and gas acquisitions by Essar and Videocon (two of India's large private sector energy firms) in Africa (most notably Mozambique), and off Vietnam's South China Sea coast, may indicate a growing appetite. Their activities, however, have no strategic content and New Delhi's role in concluding private sector deals is often minimal. Private Indian firms have been far more active in buying coalfields in Africa, Indonesia, and Australia, reflecting the dismal shape of domestic coal production.

The Modi government has begun exploring the possibility of using foreign policy to reform longstanding distortions

in India's energy system. For example, spurred by the tight-oil revolution, India has sought to shift from the JCC price for its natural gas imports and adopt cheaper Henry Hub prices. Hence its efforts to try and secure an open-ended US commitment for gas exports to India and a new dialogue with Japan on the issue of Asian gas pricing. Attempting to rejig the global gas market is something new for India. At present, this is an effort that is unlikely to succeed – given the country's dependence on Qatar and the lack of an integrated gas market at home (due to a lack of infrastructure).

### Investments in power

Since economic reforms began in 1991 there have been successive waves of foreign investment in India's power sector, in answer to various policy promises and market-friendly legislation enacted by state and central governments. New Delhi has encouraged this because it cannot hope to generate sufficient capital at home for the enormous investments India needs, and will continue to need, in this sector. Commerce Ministry figures show that US\$9.27 billion worth of FDI entered the power sector during the period April 2000 to August 2014 – a figure that would not include institutional equity investment.

The record of such foreign investment, however, has been mixed. The initial investments in the 1990s came to grief because New Delhi was unable to introduce the market-based electricity prices needed to make the foreign-funded power projects viable.

More recently, the previous Manmohan Singh government encouraged a huge expansion of gas and coal-fired power plants. But the government's inability to provide promised domestic coal and gas supplies at rates lower than those prevailing on international markets has left the current Modi government with thousands of Megawatts of idle power capacity and billions of rupees in bad debts.

Foreign investment is presently more interested in the renewable energy field – notably wind and solar – a flow of capital that has only accelerated since Modi has been elected.

Modi has sought to leverage Indian foreign policy to bring in more overseas capital and technology in the power sector, especially in the form of aid or subsidized loans, from countries including the USA and Japan. As multilateral finance institutions such as the World Bank and the ADB have increasingly shifted their focus to renewable energy, India has signed up with new Chinese-dominated multilateral financial institutions (such as the Asian Infrastructure Investment Bank and the New Development Bank) in part because of their willingness to consider fossil fuel-based investments.

### Nuclear energy – a thorny foreign policy issue

The most successful foreign policy accomplishment of the previous Manmohan Singh government was to persuade the USA to lift international sanctions against India's nuclear power sector, a process that began in 2005 and was completed in 2008. This was in anticipation of an expansion of nuclear energy from the 5.7 Gigawatts (GW) of installed capacity at present to 63 GW by 2032.

However, in 2010 India passed a nuclear liability law whose provisions on component suppliers' liability were out of sync with international norms and considered too onerous by suppliers. US firms were unable to sell their reactors and other equipment to India, as were almost all nuclear power firms. New Delhi has struggled to find a compromise that does not require new legislation. The latest such gambit is to set up a national insurance pool to cover the liability – and to have the cost partially financed by the Indian government. This issue has also affected Indian component manufacturers, who



have been reluctant to provide nuclear parts since the law has been passed.

Modi has warmed to nuclear power since he came to office. But uncertainty – over its cost due to onerous liability legislation, the shadow of Fukushima, and a general reticence towards nuclear power by India’s religious right – has meant that reactors have, so far, not been a priority. However, there is a growing sense that the prime minister’s climate change ambitions will only be possible if nuclear is added to his energy agenda.

**Hydroelectricity – opportunities for South Asian energy cooperation**

Since 2008 India has invested in developing the infrastructure for hydroelectric power in the mountain kingdom of Bhutan and buying back the power. Bhutan exports about 6000 kilowatts a year, earning about US\$250 million. New Delhi has sought to persuade Nepal, which has an estimated 40 GW of economically viable hydroelectric potential, to accept a similar model, but it has been hampered by Kathmandu’s political instability and a broader Nepalese suspicion regarding India’s intentions. India has smaller dam plans with Myanmar, but these are designed to help stabilize the insurgency-ridden border area between the two countries. Ambitious plans for a pan south Asian regional power grid have been encouraged by the Asian Development Bank, but have thus far yielded very slow progress thanks to a paucity of connecting infrastructure and, until recently, to India’s lack of a single national power grid – every south Asian nation connects to the other via Indian

territory. India’s National Thermal Power Corporation (NTPC) has also been pursuing the possibility of power cooperation with Sri Lanka, again with little effect.

**The promise of renewables**

India began taking wind power seriously in the late 1990s and the past decade has seen the country install over 21 GW of wind power. Two successive national solar power missions have been launched since 2010 – both programmes have attracted considerable overseas assistance, but have been bedevilled with regulatory and grid linkage issues. Nonetheless, India is negotiating a 1 billion euro soft loan from Germany and even larger loans from the World Bank.

Prime Minister Modi, however, is an enthusiastic devotee of renewable energy, especially solar power. This partly reflects his personal interest in climate change but also the electoral dividends he earned from promoting solar power when he ran the state of Gujarat. Two-thirds of India’s 900 MW of photovoltaic capacity was built in Gujarat under Modi’s rule. While his government has focused on reviving the coal-fired power system, this seems to be seen as a short-term economic necessity. Modi’s speeches are largely about renewables.

In his two major bilateral foreign policy visits – Japan and the USA – Modi has made investment, technological assistance, and financial help in solar energy a core part of the joint statement. It formed a key part of Barack Obama’s visit to India in

January and is likely to be the focus of Modi’s upcoming visit to Germany.

Modi’s government has also massively upped the target for solar power to an improbable 100,000 Megawatts by 2022. In addition, he has ambitious plans for off-grid solar, using that as the electricity gateway for the 300 million Indians who are without power. Renewable energy is also integrated into his plans for smart cities, reviving manufacturing and addressing climate change in general.

.....  
**‘PRIME MINISTER MODI IS AN ENTHUSIASTIC DEVOTEE OF RENEWABLE ENERGY, ESPECIALLY SOLAR POWER.’**  
.....

The government’s energy policies are still a road under construction. The many problems, both regulatory and financial, that bedevil the Indian domestic energy sector, together with the prime minister’s own bias towards renewables, means that medium-term Indian energy diplomacy will be about leveraging overseas capital and technology to resolve these problems on the home front. New Delhi has had relative success on this front, especially in terms of overseas interest in the country’s nascent renewable energy sector. India continues to endorse the idea of fossil fuel security rhetorically, through the purchase of assets overseas, but official restraints on state-owned energy firms, and the commercial objectives of private Indian firms, will probably continue to limit this policy in real terms. Notably, there has so far been no change regarding India’s outward passivity on political developments in the Persian Gulf – its predominant source of oil and gas imports.

