



India, GCC and the Global Energy Regime

Exploring Interdependence and Outlook for Collaboration

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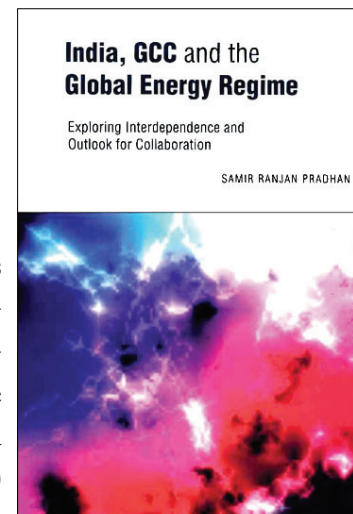
Publisher: Academic Foundation, 2008

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In the light of growing energy demands, fluctuations in oil prices and a concerted effort by countries to manage their demands for oil according to the changing international scenario, research studies on the constantly evolving global energy regime are significant. The book under review, *India, GCC and the Global Energy Regime – Exploring Interdependence and Outlook for Collaboration* authored by Dr. Samir Ranjan Pradhan, is one such effort. A trained economist whose key focus has been on issues of energy security, particularly the energy regime in India and its relationship to the GCC, Dr. Pradhan offers an informed analysis of the key issues of this debate. He provides a comprehensive analysis of the global oil and gas regime, the changing patterns of the petroleum industry over the years and the contemporary discourse on global energy security. The key focus of the book, however, is the emerging models of interdependence in the energy sector. Against the backdrop of the rise of the Asian economies as the leading oil consumers in the world and the role of the Gulf States as the primary suppliers

of oil, the analysis looks at the specifics of oil trade between India and the Gulf Cooperation Council (GCC) highlighting their growing interdependence and trade relations. The main objective of the book as outlined by the author is to study the emerging pattern of interdependence between the consumers and producers. More specifically the book explores evolving patterns of interdependence between India and the GCC and the ensuing energy related tendencies and implications for bilateral relations along with regional connotations.

The book explores the structural shifts and transformations in the global oil regime which are in effect redefining patterns of trade, pricing etc. Bringing to fore key features of the contemporary discourse, the author explains that oil prices are no longer set by the seller alone but by assorted factors and actions of various market participants; instead



of traditional OPEC versus non OPEC rivalry, it is now a trend to focus on patterns of trade. The location of the demand market has also shifted from the Atlantic to Asia – India and China in particular. There is now what is referred to as the *demand heartland* comprising Asian economies of Japan, China, India, S.Korea and the ASEAN and *resource periphery* that includes Siberia, Russia, Central Asia, Iran and the Gulf states. Unlike previous decades, oil consumers are no longer at the receiving end of the oil exporting countries' constant changes in prices and uncertainties in supply. The rising demand for oil and the constant effort by importers to reduce their reliance on a limited number of suppliers, coupled with the discovery and increasing exploration of alternative sources of energy, particularly natural gas, have significantly tipped the balance in favor of the importers. However, it is also true that oil and gas continue to be in great demand and the countries with strategic reserves of this precious commodity continue to exert considerable influence. As noted by the author, "this mutual vulnerability of both the exporters and importers is being regarded as the major indicator of the prospect of global oil and gas business in the coming years."

The six chapters cover topics such as: the transition of the global oil and gas regime; the changing patterns of global energy trade; the pattern of energy interdependence developing between India and the GCC; issues of energy security and vulnerabilities and the competition-interdependence dilemma in Asia and its implications for India's Gulf strategy.

The evolution of the global oil and gas regime can be traced back to the discovery of oil in the early part of the 20th century. Four clear periods of world oil history have been identified which highlight the changing patterns of trade.

1. 1901-1950 – The era of early oil concessions through which International Oil Company's (IOCs/Seven Sisters/Majors) penetrated into the Middle East and other resource rich areas, gaining exclusive property rights for exploration, development and production of crude oil. The oil market during this time was considered stable owing to the monopoly of the Seven Sisters. Access to oil was primarily through these 'majors' or 'IOCs.'
2. 1950-1970 - During this period, the global oil industry transformed itself with the formation of the Organization of Petroleum Exporting Countries (OPEC). The formation of the OPEC was essentially a move towards political and economic sovereignty of oil producing states so that they also may have a stake in the export of oil from their territory. This era also saw the emergence of "spot markets" in contrast to long term contracts that existed earlier. This period was characterized by what the author calls a sort of 'resource nationalism' and resentment of 'neo-imperialism'
3. 1970-1980s - This was the phase during which the oil industry in the Middle East became a full fledged capitalist entity integrated in the world market. During this time, market values, oil prices and rents were determined within the international arena and not regionally. The 1973 oil crisis was the highlight of this period with the production cuts introduced by OPEC which had significant ramifications for global oil trade. The role of oil as a political weapon became a reality during this era. The International Energy Agency (IEA), founded during the oil crisis of 1973-74, was created to coordinate measures in times of oil supply emergencies.
4. Post 1980 – This is the period of market domination and liberalization. The majors lost their "oligopolistic" status. The 1980s also saw a decline in the demand for OPEC oil, a decline in oil production in Saudi Arabia both in volume as well as its share in OPEC. It witnessed the growth of local oil companies which now enter into partnerships with big players. In this era, there has also been rising production in high cost producing areas and the reverse in

low cost producing areas due to technological advantages which has affected low cost producing states like Saudi Arabia.

The phase of market domination and the changes it has brought to the global oil regime are a key focus of this volume. The present oil regime is a transformed one with more emphasis on market freedom and a shift in the type of market actors. There is now a decrease in oil demand from the developed North and an increase in the demand for oil from the Asia Pacific region.

The book focuses on the strategic positioning of Asian countries in general and India in particular on the global energy map. Development induced growth in India during the 1990s resulted in higher energy consumption, increasing oil demand and a growing reliance on oil. The process of deregulation of the petroleum industry was completed in 2002 with a significant lifting of curbs by the Indian government on foreign direct investment in the petroleum sector. On the supply side there has been a declining western market share of Gulf oil and declining oil revenues for the Gulf States. However, due to vast reserves and low cost production capabilities, this will stabilize and they will regain their position as key oil supplier.

The GCC countries are also taking steps to offset challenges that they have faced in the last decade owing to price fluctuations and falling revenues. The changes include: encouraging foreign direct investment; exploration of natural gas resources; expansion of domestic economic base and export diversification. There is also a pattern of interdependence between energy and knowledge with an increasing number of Indian universities and knowledge centers contributing to the education sector in the GCC.

The book has dealt extensively with issues of energy security and GCC-India trade patterns highlighting also the import substitution strategy adopted by India. Despite measures to diversify the import sources of oil and gas, the current trends of consumption indicate clearly that the depen-

dence on the Gulf is likely to remain. Potential for competition exists between India and other Asian countries such as China, Japan and ASEAN states, to gain control over oil supplies from the Gulf States. In the light of this, the author emphasizes the need for cooperation rather than competition – the need to work towards an Asian Energy Charter. This would be along the lines of the Energy Charter – an intergovernmental organization promoting energy cooperation which unites 51 European and Central Asian states. The envisioned Asian Energy Charter would facilitate transit of gas through third countries and open up international gas trade in Asia; help in an oil supply crisis through joint management of strategic reserves; facilitate exchange of information on stocks, taxation and rationing proposals etc. Furthering the OPEC idea for a consumer-producer dialogue, the Asian Energy Charter should include the GCC.

The book by Dr. Pradhan is extremely valuable in highlighting the key dynamics of the contemporary debate surrounding the trade of oil and gas. Supported by factual analysis and abundant data, the book offers insights both for the expert as well as the layman. It also provides through an intricate set of maps, India's energy strategy and the various pipeline projects that exist so far and are being planned for the future. Written in clear and lucid language, the text employs the international terminology of the oil industry, enabling the reader to come to terms with often little understood economic phenomena. It also provides crucial recommendations for the future of this industry. While the author has efficiently dealt with the entire gamut of issues in the India-GCC partnership, it would have been helpful if he had elaborated upon the pipeline projects that India is keen to operationalize. Also in the light of recent developments in Indo-US civilian nuclear cooperation, it would have been interesting to reflect on the possible repercussions of this deal on India's future reliance on Gulf oil exports. These issues could perhaps find a place in an updated edition of the volume.