

# Dhaka's energy deal with China setback to India

By Nantoo Banerjee

For nearly two decades, India has been in dialogue with Bangladesh and two of its former prime ministers, friendly Sheikh Hasina and less friendly Khalida Zia, for commercial development of its hydrocarbon fields and purchase of surplus gas which will bring immense economic benefit to both the countries.

India has been ready to bear most of the expenses for the exploration and exploitation of oil and gas fields in Bangladesh and the laying of a network of pipelines to transport gas up to West Bengal. It has also been persuading the Bangladesh government for permission to lay a separate pipeline through Bangladesh to transport gas from Indian gas fields in Tripura.

But, the bitter diplomatic relations between the two neighbours over ceaseless illegal migration of Bangladeshis into the Indian soil over the years and the "shelters" provided in Bangladesh for banned militant groups and terrorists from India had stood in the way of a viable economic cooperation.

Now, almost from no where, China enters the scene and, without a fuss, has struck a huge deal with Bangladesh to help tap its hydrocarbon reserves, lay oil and gas pipelines, set up downstream petrochemical complexes and develop roads and ports to facilitate trade between the two countries. The latest Dhaka-Beijing deal is now giving India a nightmare for geopolitical reasons.

Almost simultaneously, China has put a spanner into India's great expectation to forge a workable economic and diplomatic relationship with Myanmar and its ruling junta government. The reports from Yangon are that Myanmar, which is being lately pampered by India with

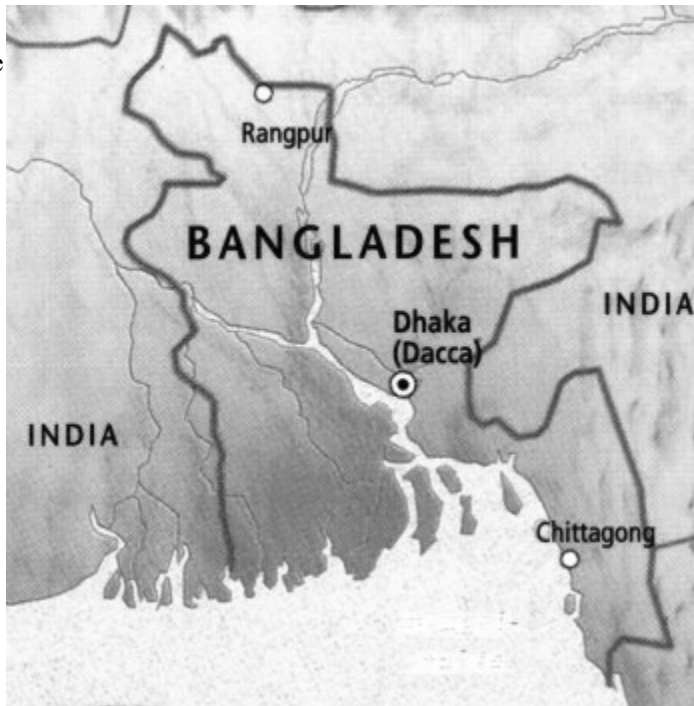
increasing military and economic aid, has committed to China all its offshore gas from Blocks A-1 and A-3 in the Rakhine basin, being developed in collaboration with India's public sector GAIL Limited and ONGC Videsh and South Korea's Daewoo, apparently ignoring the claims of the existing suitors. ONGC Videsh and GAIL together hold a 30 per cent equity stake in the Myanmar venture and have right to a proportionate share of gas to be produced from the two wells. Daewoo is in charge of the operations of the two Blocks and the principal suitor of gas from these wells.

Yangon's somewhat unpredictable military regime seemed to have overruled the existing corporate agreement with the Indian and South Korean companies to strike a counter deal with the PetroChina president, Wang Lihua, committing the supply of 6.5 trillion cubic feet (tcf) of gas to China.

The quantity will represent almost the entire production from the two gas fields. The gas will be wheeled through a 2,400-km pipeline connecting China's Yunnan province with Myanmar's Kyakphyu in the Bay of Bengal. PetroChina will pay Yangon a transit fee of \$150 million annually for 30 years.

Yet, India refuses to learn. Its commercial overtures with unpredictable and autocratic neighbours have been mostly unproductive and even bitter at times. Its Iranian joint venture Kudremukh Iron Ore Company at Karnataka had to be shut off for years as Iran backed out of its commitment in the midst

of the project implementation. The joint venture Irano-Hind Shipping Company failed to meet its projected growth and cargo movement targets from the very beginning. Iran's autocratic rulers never trusted India. Similarly, for nearly half a century, Pakistan has insisted that the resolution of the Kashmir issue (read on Pakistani terms) is central to its relationship



with India. It has not changed its position.

Unfortunately, India, in its desperation to seek energy security for itself, is forced to ignore the history and geopolitical imperatives to forge a commercial alliance with both Iran and Pakistan for a \$ 7-billion-dollar pipeline project, which it has been doggedly pursuing for the last seven years. India has already spent a fortune in terms of time and money, holding high level talks among the prospective partners without much success. The project still remains on the drawing board.

The chances are that China, which is very friendly with both Pakistan and Iran, could again act as a

spoilsport by tying up with them to share the proposed pipeline to transport Iranian gas for itself. If it happens, India's pipe dream may fall flat on its face but only after it has invested a huge amount in the project. If Russia's Gazprom, a global giant in international commerce in oil and gas, can unilaterally shut off supplies to its neighbour, Ukraine, during the latter's peak winter demand on a price revision issue, there is no guarantee that India's Iranian gas supply and transportation deal will remain sacrosanct for time to come. Moreover, such cooperation may lead to India's surrender of its policy independence to Iran and Pakistan on more crucial bilateral and multilateral issues such as nuclear proliferation and the war against terror.

Unfortunately, India does not seem to enjoy much flexibility in selection of either the supply sources of coal and hydrocarbon or the commercial partners in these fields to meet its growing demand supply gap.

Globally, the demand for fossil fuel far outstrips its supply. The emergence of China as the world's second largest energy guzzler, after the United States, is adding to India's increasing sense of insecurity on the energy front. At the current rate of economic growth, India's energy needs will double in almost every six years.

For instance, India's projected

shortfall of gas by 2012 is 165 million standard cubic metres per day, which is equal to the total domestic availability at that time, including those from new fields.

The country's own production of oil at present meets only 25 per cent of its requirement. Even the domestic coal output, its main energy source, is currently 30 per cent short of demand. Moreover, the thermal category coal is mostly of poor quality, having ash content up to 40 per cent or even more in some cases. There is a big shortfall in the domestic supplies of coking coal and steam coal. China, on the contrary, is the world's largest producer of coal, over two billion tones per annum, nearly four times of India's annual output.

China's own production of oil and gas meets more than 50 per cent of its demand.

China is using its growing economic and military might as well as anti-US posture in international affairs to build a strong energy security for itself fostering increasing co-operation with such oil rich countries as Venezuela, Sudan, Iran and Indonesia. India is miles behind China in the oil diplomacy.

The best course for India, under the circumstances, would be to go for equity oil with the more reliable partners with which India has established wide ranging business relations such as the USA, Germany, France, the United Kingdom, the Netherlands, Sweden, Russia and Poland, and others like Japan, South Korea, Mexico, Brazil and Australia.

In any form of security arrangement, trust is the key. After the Bangladesh and Myanmar fiasco, should India rely on Pakistan and Iran for its energy security?

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