

INDIA-U.S. ENERGY TIES: ENDING PROTECTIONISM

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It is time for India and the United States, the world's leading democracies, to become full-fledged energy partners. Doing so will go far toward making the U.S. and India true strategic partners and driving cooperation on a host of issues from climate change to maritime security. With President Obama having accepted Prime Minister Modi's invitation to be the Chief Guest at this year's Republic Day celebrations, now is the time for the U.S. and India to make progress on energy across the board.

However, a full energy partnership will require policy adjustments on both sides. For the U.S., this will mean changing policies that are clearly protectionist in regard to the export of liquefied natural gas (LNG) and oil. In regard to LNG, the U.S. has one set of export standards for countries with which the U.S. has free trade agreements and another far more onerous set for India and other countries with which the U.S. does not have such agreements. While some in the U.S. favor discrimination on environmental grounds (on the theory that hindering exports of LNG will deter fracking), economic protectionist factors are paramount. Opposition in the U.S. Congress to change has come from northeastern representatives who believe that exports will lead to increased gas prices for home heating and cooking. A coalition of companies in gas intensive manufacturing also has opposed change supposedly to keep gas cheap for their own use.

However, the independent NERA study commissioned by the U.S. Department of Energy has shown that any adverse effects on U.S. prices and availability will be negligible and far outweighed by the economic benefits to the country. Under these circumstances, it is particularly egregious for the U.S. to preach the value of free markets internationally but maintain such discrimination.

U.S. law presently prohibits crude oil exports. This prohibition protects a small group of U.S. companies that want to keep the refining business for themselves. However, this prohibition likewise makes little economic or foreign policy sense. The U.S. does not presently have the capacity to refine all the light sweet crude (the primary type from fracking) it produces. India has capacity to refine this type of oil, yet export of crude oil to India and other countries is prohibited.

India presently needs to import large portions of fuel supplies including about 80% of its oil, 30% of its natural gas, and almost 20% of its coal. These percentages can be decreased by a judicious mix of energy conservation, removal of unjustified bureaucratic roadblocks, and economic reforms that will attract domestic and international

investment in the energy sector. However, significant energy imports cannot be eliminated within any reasonably foreseeable time frame. "Energy independence" is an attractive political slogan in almost any country. However, it is basically just a slogan and no substitute for policy that can alleviate India's immediate energy crisis.

With estimates of India's "stranded" electricity capacity (capacity not operating at all or at less than peak efficiency because of a lack of fuel) running at some 50,000 megawatts or even higher, India needs an international energy policy that reflects its true interests. This means that India should take a more proactive role in working with like-minded nations and organizations to reach its energy goals. Not only should India align itself with the International Energy Agency, but also it should put renewed emphasis on engaging to help remove regulatory constraints that limit energy availability, such as the U.S. system for limiting exports of gas and oil.

Across the board energy cooperation means engaging on all types of energy in regard to the availability, affordability, security, and environmental impact of each energy source. President Putin came to India recently with energy promises focused on hydrocarbons and civil nuclear power. However, the irony is that the United States, not Russia, is the world's leading producer of natural gas. It was the United States, not Russia, that worked so hard to open the door to Indian international civil nuclear participation. And the U.S. has poured billions of dollars worth of subsidized loans into India to help India meet its solar power goals.

In regard to solar energy, India should follow the non-discriminatory solar development policy instituted by Prime Minister Modi when he was Chief Minister of Gujarat. Under this policy, there is no "local content" rule that discriminates against U.S. and other foreign suppliers. Upon the Gujarat model being adopted nationwide, progress can be made toward the enhanced Modi goal of 100 gigawatts of solar-generated electricity by 2030. Further, the current U.S. WTO complaint against India (a needless irritant to relations) can be withdrawn.

Both India and the U.S. place economic growth as "job number one" on their national agendas. Modi has launched a "Make in India" initiative to position India in manufacturing as it is in services and provide jobs to the millions of young Indians entering the work force each year. Modi is acutely aware that his initiative cannot succeed unless India has enough energy to keep the lights on and power both manufacturing and transportation. Presently, it does not.

The Modi government has made a good start with the decontrol of the price of diesel, changing the formula for pricing domestically produced natural gas, and other measures. But further reforms are needed. As Modi has recognized by designating some \$4 billion for measures to assure collection of electricity bills, no energy system can work where approximately a third of electrical power is either not paid for or outright stolen.

India does not need more studies and advice. It needs action in the form of end to end solutions. The U.S. can be a major partner in such efforts by helping to mobilize from both public and private sectors the capital, equipment, and technology to address specific aspects of India's energy crisis.

U.S. engagement with India using a holistic approach is far more likely to achieve climate change and strategic goals than simply viewing the Indian energy crisis through the lens of climate change.

President Obama recognized this as recently as June 2013 in his Climate Change Action Plan. There he lauded natural gas, nuclear, and even clean coal as well as renewables as parts of U.S. leadership on international efforts to address climate change. This makes sense with India where about two thirds of its energy comes from dirty coal and even dirtier non-commercial biomass. But lately this broader and deeper approach seems to have slipped with India.

In spite of considerable attention by both nations, U.S.-India energy engagement still presents a great, underutilized opportunity for bringing the United States and India closer together as strategic partners. Obama's visit to India to serve as Chief Guest for Republic Day 2014 provides a golden opportunity for the United States and India to seize this opportunity. 🌸

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