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Energy Politics India-Bangladesh-Myanmar Relations

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Energy Politics

India-Bangladesh-Myanmar Relations

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India is highly dependent on oil imports, and approximately 70 per cent of India's oil is imported. By 2020 India is expected to import 80 per cent of its energy needs. Expecting an exponential growth in its energy demands from an expanding economy India has been trying hard to secure hydrocarbon energy supplies. Amongst other options, India has been looking eastwards to the extensive natural-gas reserves of Bangladesh and Myanmar, which have become vital for India's economic growth. The geographic proximity of Bangladesh and Myanmar to India makes the import of gas not just convenient, but an economically attractive proposition. In addition, the energy needs of eastern India, particularly the northeastern states, would be better served by gas from Myanmar and Bangladesh rather than from reserves in Iran and other distant fields.

INDIA-BANGLADESH ENERGY POLITICS

Bangladesh has significant gas reserves that India could tap into to meet its energy requirements. As of January 2006, Bangladesh reportedly has five trillion cubic feet (tcf) of estimated natural gas reserves. To encourage natural gas exploration, the government opened the natural gas sector to foreign investments in 1993 and today foreign companies produce 501 million cubic feet per day (MMcf/d) of natural gas from four gas fields. The leading foreign producer is Chevron (previously Unocal), which produces 331 MMcf/d from the Jalalabad and Moulavibazar fields in Sylhet district.

The issue of gas exportation to India was first raised by Unocal which had submitted a gas pipeline proposal to the government of Bangladesh, which included the construction of an 847 mile- (1,363km-) long pipeline from northeastern

Bangladesh (from the Unocal-developed gas field, Bibiyana) to New Delhi. Unocal proposed to export 3.65 tcf of natural gas over a period of twenty years. According to Unocal projections, the government of Bangladesh could have received an estimated US\$3.7 billion (approximately 200 billion Bangladeshi Taka) in revenues and tax receipts.

However, the export of gas to India, including the proposed (now almost shelved) Myanmar-Bangladesh-India transnational gas-pipeline project, is a politically sensitive issue in Dhaka. Internal opinion in Bangladesh is divided over the quantum of gas available for domestic consumption and exports. Indian observers believe the transnational project has the potential to mitigate domestic opposition in Bangladesh towards export of gas to India. They also hope Bangladesh will someday supply its own gas to India by joining an existing transnational pipeline.¹ Conversely, any bilateral (even trilateral) contract/agreement with India continues to come under opposition attack being portrayed as selling Bangladesh's interests to India. Sreeradha Datta argues

If India wants Bangladesh to deliver on the proposed Myanmar-Bangladesh-India gas pipeline project, it should be willing to grant trade concessions to Bangladesh by lifting such barriers

¹ Interview with Sreeradha Datta, Research Fellow, Institute for Defense Studies and Analyses, New Delhi, India, 18 June 2007.

Bangladesh is concerned that India is trying to extend its influence, including economic interests, into Bangladesh.² Adding to this argument, M K Dhar, a former Indian intelligence officer opines that Islamist forces in Bangladesh – wary of India’s intentions – are against any policy, especially of an economic nature, that would benefit India. He argues, Bangladeshi policy-makers will not grant India rights of passage for a transnational pipeline because such a decision/policy will be blocked by Jamaat-influenced senior military and political officials.³

In addition, Bangladesh has been claiming that non-tariff barriers block access of Bangladeshi products, not only to the Indian market, but also to Nepal. At present, Bangladesh’s trade deficit with India exceeds US\$2 billion and despite being urged by Bangladesh, which has reduced its tariffs, Indian authorities have not taken any steps to reduce their existing tariff structure. If India wants Bangladesh to deliver on the proposed Myanmar-Bangladesh-India gas pipeline project, it should be willing to grant trade concessions to Bangladesh by lifting such barriers.⁴ Bangladesh has said that it will consider allowing a pipeline originating from Myanmar if India allows Dhaka a free trade corridor to Nepal and accompanying trade benefits. It has also asked India to remove barriers that exist in trade between the two countries. A section in Bangladesh also wants India to allow purchase of cheap hydropower from Bhutan and Nepal so that the gas reserves of Bangladesh could be conserved.

These conditions have further complicated negotiations over the laying of the pipeline, as free transnational movement through the sensitive ‘Siliguri Corridor’ is not acceptable to India. Bangladesh is fully

aware of this situation. An Indian government statement has this to say about the politicization of the gas issue implied in the Bangladeshi demands, “Bangladesh [has] shown a lack of commitment in entering into a treaty for providing a transit route [for] Indian goods, including the Myanmar-India gas pipeline, through their land, forcing India to consider other circuitous and uneconomical options.”⁵

By establishing long-term, energy-driven, bilateral cooperation India seeks to consolidate its ties with the Burmese military junta. By offering attractive energy deals, India aims to increase its presence in Myanmar and thereby counter the Chinese ‘threat’

However, it now appears that the military-backed Interim Government of Bangladesh has shown an inclination to improve relations with India. On the eve of a visit by External Affairs Minister, Pranab Mukherjee, in January 2007, the Bangladeshi Foreign Affairs Advisor, Iftexhar Ahmed Chowdhury, informed the media, “Let me say unequivocally that this caretaker government wishes to place Bangladesh’s relations with India on a firm footing so that future governments of both countries can build on the progress we make.”⁶ Specifically, with regard to the

² *Ibid.*

³ Interview with M K Dhar, IPS (Retd), New Delhi, India, 13 June 2007.

⁴ Interview with Datta, n. 1.

⁵ Siddharth Srivastava, “India grapples with energy issues,” 24 March 2007, *Asia Times Online*, <http://www.gasandoil.com/GOC/news/nts71589.htm>, accessed on 13 June 2007.

⁶ Anand Kumar, “Bangladesh: Visit of Indian Foreign Minister Gives Fresh Impetus to Bilateral Relations,” *Bangladesh Monitor – Paper No. 8, South Asia*

transnational pipeline project, the Foreign Affairs Advisor told reporters, after returning from a recent visit to Myanmar: “We are ready to negotiate for allowing the pipeline if Myanmar sells gas and India agrees to buy...We’ll obtain best possible advantage through negotiations – we’ll get revenue.”⁷

Bangladesh stands to benefit in a number of ways by construction of the Myanmar-Bangladesh-India gas pipeline. These include:-

1. Revenue earnings of an estimated US\$100 million per annum by granting a right of passage to the pipeline, and on account of wheeling charges for the gas transmission through Bangladesh; an investment of about US\$150 million inside Bangladesh for the pipeline construction.
2. A pipeline would also ensure the future energy security of Bangladesh – in the event of exhaustion of Bangladesh’s gas resources, the country would be able to import gas from Myanmar from the latter’s huge natural gas reserves.

As far as incentives are concerned, India may opt to increase the amount of transit fees to Bangladesh to secure the latter’s cooperation, as in the case of the Iran-Pakistan-India gas-pipeline project

Analyses Group, 26 February 2007, <http://www.saag.org/%5Cpapers22%5Cpaper2151.html>, accessed on 15 June 2007.

⁷ “Dhaka to resume talks on tri-nation gas pipeline,” New Age, 1 May 2007, <http://www.newagebd.com/2007/may/01/front.html>, accessed on 20 June 2007.

INDIA-MYANMAR ENERGY POLITICS

Myanmar has the world’s tenth largest and Southeast Asia’s largest gas reserves, estimated at more than 90 tcf with experts saying the country has sufficient reserves for more than 30 years.⁸

In 2006, India lost a potential tri-national deal when Myanmar declined gas supply to the Myanmar-Bangladesh-India pipeline. Instead, Yangon (the then capital of Myanmar) signed an agreement with the Hong Kong-listed Petrochina, under which Myanmar’s Ministry of Energy agreed to sell 6.5 tcf from A-1 block (Rakhine coastline) reserve via an overland pipeline to China for a period of 30 years.⁹

Much of the urgency behind India’s current drive to secure and diversify its sources of oil and natural gas is due to the fear of falling behind China. In fact, Indian oil and gas companies have been repeatedly outbid by Chinese firms in recent deals. In the last three years, India’s Oil and Natural Gas Corporation Videsh Limited (OVL) has been trumped by Chinese firms in Kazakhstan, Ecuador and Angola.

Moreover, as many observers argue, the Myanmar option should be seen within the context of increased Chinese political and military presence in that country. By establishing long-term, energy-driven, bilateral cooperation India seeks to consolidate its ties with the Burmese

⁸ United States Geological Survey, “2005 Minerals Yearbook: Burma,” June 2007, p. 7.1, available at <http://minerals.usgs.gov/minerals/pubs/country/2005/bmmyb05.pdf>, accessed on 10 July 2007; “Year 2007: MPRL and China Heighten Burma’s Energy Sector,” *The Shwe Gas Bulletin*, Vol. 2, Issue 7, February 2007, available at <http://www.ibiblio.org/obl/docs4/SGB02-07.pdf>, accessed on 10 June 2007.

⁹ Anand Kumar, “Myanmar-Petrochina Agreement: A Setback to India’s Quest for Energy Security,” Paper No. 1681, *South Asia Analysis Group*, 19 January 2006, <http://www.saag.org/papers17/paper1681.html>, accessed on 15 June 2007.

military junta. By offering attractive energy deals, India aims to increase its presence in Myanmar and thereby counter the Chinese 'threat'.

From India's perspective, however, the above-mentioned proposal to transport gas from Myanmar by a pipeline through Bangladesh had to be shelved because of unreasonable demands from Bangladesh and because Myanmar opted to sell its gas to China instead.

It must be noted that the India-Myanmar deal – with its US\$1 billion, 950 km Myanmar-Bangladesh-India gas pipeline at stake – fell through (at least for the time-being) at the same time that China was raising its presence in Myanmar. Three state-owned Chinese companies are presently exploring in off-shore blocks awarded to them by Myanmar's Ministry of Energy in the Arakan area: the China National Petroleum Corporation (CNPC), the China Petroleum and Chemical Corporation (SINOPEC) and the China National Offshore Oil Corporation (CNOOC).¹⁰

These failures prompted the Indian External Affairs Minister, Pranab Mukherjee, to raise the pipeline issue during his recent visit to Myanmar in January 2007. Myanmar says it remains willing to supply gas to the proposed tri-nation gas pipeline from other gas blocks if Bangladesh and India succeeded in ironing out their political and economic differences.

The Myanmar authorities have conveyed this message also to Mohona Holdings Limited, a Bangladeshi company that in 1997 initiated the project to carry natural gas from Myanmar through Bangladesh to India. As mentioned previously, on 1 May 2007, Bangladesh Foreign Affairs Adviser Iftekhar Ahmed Chowdhury re-launched the project stating that his country "agreed

if Bangladesh continues to thwart India's bid to secure energy from Myanmar, then, India should, without further delay, implement the more expensive option of importing gas through a direct 1,575km pipeline from Sittwe port in Myanmar through Aizwal, Silchar-Guahawti-Siliguri (in Assam and West Bengal) to Gaya in Bihar, linking it to the Haldia-Jagdishpur oil pipeline

to negotiate for allowing the pipeline if Myanmar sells gas and India agrees to buy."¹¹ The pipeline would cost US\$1 billion, and it is estimated that India would pay Bangladesh US\$100-120 million to allow right of passage.¹²

Even if the project materializes its cost will increase. If the Myanmar authorities want to sell gas to India, 150km of additional pipeline will have to be built to reach the gas to India. The earlier project was designed to bring gas to India from Myanmar's A-1 block, which is closer to Teknaf in Bangladesh. At present, the available gas is farther away in the A-2 block. Myanmar has also served notice to India that in case of further delay it might finalize similar deals with South Korea, Thailand or even Japan. China in any case is always willing to buy more.

¹⁰ "Gas and oil from Africa and the Middle East will pass through Myanmar," *AsiaNews.it*, 4 May 2007, <http://www.asianews.it/index.php?l=en&art=9167&theme=1&size=A>, accessed on 25 June 2007.

¹¹ See n. 7.

¹² "Gas and oil from Africa and the Middle East will pass through Myanmar," n. 10.

CONCLUSION

By failing to resolve the Indo-Bangladesh political stalemate, India risks losing out to Chinese firms (and other energy-hungry nations in Southeast Asia). Therefore, Indian officials should weigh and reconsider the prospects of accepting (or rejecting) Bangladesh's demands. With regard to the Bangladeshi trade deficit, the lifting of trade barriers will not cost the Indian exchequer much; in fact in the long-run, it may help cement prospects of greater bilateral cooperation, particularly concerning security issues. Given that Nepal buys electricity from India, Indian officials deem Bangladesh demands for access to Nepalese electricity supplies absurd; however, if India is to secure Bangladesh's cooperation, Indian officials must meet their counterparts to address this issue. As far as incentives are concerned, India may opt to increase the amount of transit fees to Bangladesh to secure the latter's cooperation, as in the case of the Iran-Pakistan-India gas-pipeline project.

Conversely, if Bangladesh continues to thwart India's bid to secure energy from Myanmar, then, India should, without further delay, implement the more expensive option of importing gas through a direct 1,575km pipeline from Sittwe port in Myanmar through Aizwal, Silchar-Guahawti-Siliguri (in Assam and West Bengal) to Gaya in Bihar, linking it to the Haldia-Jagdishpur oil pipeline.

Whether it exports or not, Bangladesh is going to run out of natural gas supplies within, at most, fifty years. Regional cooperation is a major component of an efficient allocation of resources, as many energy resources yield optimal benefits when exploited by two or more countries based on their respective comparative advantage in gas production, processing, marketing and distribution. Effective and appropriate regional cooperation could thus be one possible means to ensure long-term energy security for the South Asian region in general and Bangladesh in particular. If Bangladesh were to

cooperate with India, it would not only lead to the realization of a South Asian energy grid, but also facilitate multilateral cooperation between countries at the regional levels.

A gas-pipeline network in South Asia would also allow Bangladesh to import future supplies from member countries. It is therefore in Bangladesh's long-term interests to actively situate itself in the emerging South Asian (and Southeast Asian) energy grid as a supplier, delivery agent, and consumer.



Like Pakistan, Bangladesh must realize that there are many economic benefits of a transnational pipeline including increased investment, employment generation, and accretion of revenue

Finally, taking a cue from the Iran-Pakistan-India gas pipeline project, Bangladesh should carefully study the Pakistani motive/rationale in granting India access to Iran's gas reserves. Like Pakistan, Bangladesh must realize that there are many economic benefits of a transnational pipeline including increased investment, employment generation, and accretion of revenue.