



# Whitepaper

## **THE TIME IS RIGHT: Creating Energy Pathways to Link the Gulf & South Asia**



Oil and gas markets are heralded as the beating heart of the Gulf's flourishing economies, but carving out a united infrastructure has always proven more complicated. The outlook is set to become even more convoluted as China and India seek deeper integration with South Asia – incorporating the Gulf, Iran, Pakistan and even Afghanistan and Bangladesh. Despite the multifarious geopolitical hurdles, the negative impact of lower oil prices and long-term rising energy demand forecasts means an integrated framework looks more likely than ever.

#### ASIAN GAME CHANGERS

Dynamic new players from South Asia are entering the already competitive mix, with China, India, Pakistan and a possibly sanctions-free Iran leading the charge. India's determination in the race for energy supply security from South Asia and the Gulf is reflected by Prime Minister Modi's perpetual visits to any country with commodities to sell and a recent 8-day tour across Central Asia. It has not been a smooth road for India, with a recent UN resolution dashing the country's hopes for a natural gas pipeline from the Gulf because the route traversed Pakistan's territorial waters.

Meanwhile, plans for a 2,700km Iran-Pakistan-India pipeline are frequently stalled by political complications. India's concerns are rising around the fact that Asia's emerging hegemon, China, will position its economic and political might to strangle India's energy supplies from the Gulf. India has earmarked the UAE as its gateway to the entire Middle East and total trade between India and the GCC is at around \$270 million.

India is also inviting GCC investors to build refineries, pipelines and wider energy infrastructure on Indian soil to support its long-term goal of becoming a 'refining superpower' by 2025. Meanwhile, eyes are on China's push into South Asia, especially following its large investment in Pakistan's deep-sea port in Gwadar. The site puts China within a stone's throw of Iran's border and in turn, some of the world's largest energy reserves.

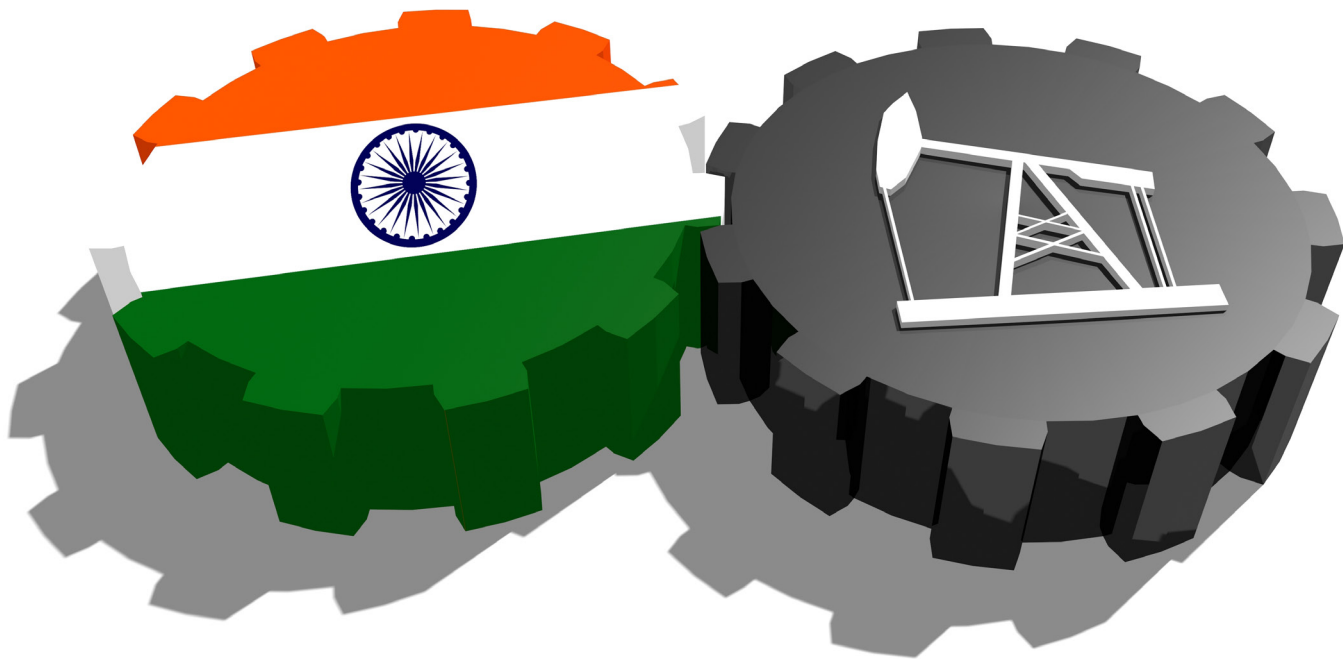
Only time will tell if China, the world's second largest importer of oil and petroleum products, is locking in more supply routes, or if Beijing hopes to use its energy and related infrastructure in South Asia to influence the Middle East's energy

policy. Others argue that economic drivers are the sole reason behind China's push, as Beijing tries to build an 'Economic Corridor' that encompasses a wide array of businesses outside the energy spectrum. Pakistan simply marks the first pit stop; its geographical position between the Middle East, Iran, India and China places it as a strategic emerging hub.

Next door, there is budding appetite to build energy infrastructure – pipelines, specifically – in Afghanistan's stable regions. But all these objectives require considerable financial and political backing; China's integral involvement is inevitable.

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## IRAN'S BOLD AMBITIONS

Iran's pending re-emergence onto the global energy stage could shift the dynamic. Tehran has made it clear through global headlines that the country hopes to boost current oil production from around 3.1m b/d to 4m b/d almost immediately after sanctions are lifted and then to 5.7m b/d shortly thereafter. But Tehran's vague schedule means it remains to be seen whether either target is realistic. Sitting on the world's second largest natural gas reserves, Iran could also play a pivotal role in a united energy infrastructure as a supplier and as a conduit for India's access. But this will take considerable time as Iran has consistently had to import gas, and the development of the South Pars field – the world's largest gas field – is often delayed.

Tehran must first establish itself as a credible LNG exporter before it can expect to widen its client base, as Qatar did in the nineties. It also has to reverse the damage caused by its failure to deliver on particular projects, such as its dispute with Dana Gas over a supply agreement that ended up in an international tribunal last year. There should be more clarity over whether Iran can reliably supply the pending gas agreements with Pakistan, Iraq, Oman and others when sanctions are fully lifted.

## STEP-BY-STEP

Geopolitics is oft the cause of stagnating oil and gas projects in the GCC and beyond. But some ideas have successfully navigated the political minefield. This is most clearly highlighted by the modern infrastructure at Fujairah. It has leveraged its strategic location on the South-South energy corridor to become a trading hub that could soon rival behemoth hubs like Singapore and Rotterdam.

Other success stories include the launch of the Dolphin pipeline in 2007, which connects Qatar, Oman and the UAE in a bid to tackle the GCC's chronic gas shortage – the region's first cross-border refined gas transmission project. The popularity of LNG imports and the war to ring fence market share will continue to rise as the high fiscal costs are offset by the political flexibility it offers.

'Floating pipelines' are generally a safer alternative to multi-billion dollar attempts to lay pipelines across many borders. Supply in what is a volatile region can easily be redirected to peaceful ports. For example, embattled Yemen's access to a gas supply lasted months longer than supply from the beleaguered oil fields, as Yemen LNG stored an urgent supply offshore its port city of Aden.

Qatar, the world's biggest LNG exporter,

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is still building regional trade ties, having signed export contracts with Kuwait, and potential long-term deals are brewing in Pakistan and Jordan. Many more Gulf countries are on Qatar's hit list; Oman and Bahrain, plus Saudi Arabia if the oil giant opts to preserve its oil and use gas instead for power generation. But India, like all countries in the South Asian belt, says LNG is only one piece of the energy jigsaw and it must be complemented by land-based pipelines and facilities. India proposes a pipeline to serve its northern population could track from the Middle East to India, from Central Asia to India, even Russia or Myanmar to India.

But proposals are still only ideas, words scribbled on pieces of paper circulating energy ministries across the Gulf and South Asia. Action is the missing ingredient. ■

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