

Commentary

Regional Energy Cooperation: Opportunities to Enhance the Saudi-India Relationship

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India sees Saudi Arabia as a valued partner for its energy security and investment requirements

Saudi Arabia and India, two of the fastest growing economies globally, play important roles in South Asia and the Middle East, respectively. Saudi-India relations have started to acquire a strategic dimension owing to the countries' growing business opportunities, rising investment and close cooperation on security. In particular, India sees Saudi Arabia as a valued partner for its energy security and investment requirements, while Saudi Arabia sees India's constantly growing energy market as an investment opportunity. Therefore, the energy collaboration between Saudi Arabia and India, both G20 member countries, is expected to prosper in the future. This could help them achieve their desired outcomes presented in the Make in India¹ and Saudi Vision 2030² initiatives. This commentary reflects on the past, present and future energy collaboration between Saudi Arabia and India. It also highlights the new opportunities for them to work together on energy, given the rapidly growing global market. Such collaboration could help both countries mitigate climate change and achieve their respective United Nations Nationally Determined Contributions and net-zero targets. This commentary also focuses on the areas in which India and Saudi Arabia could enhance their cooperation, including the security of crude oil supply and demand, and other energy investment opportunities.

Introduction

Saudi Arabia and India enjoy friendly relations based on centuries-old economic and sociocultural ties. The countries are members of multilateral groups such as the G20 and important players in their respective regions. After India's independence in 1947, the diplomatic relationship between the two countries started to gain momentum. However, the breakthrough moment came in 2006 when King Abdullah bin Abdulaziz Al Saud visited New Delhi. During his visit, India and Saudi Arabia signed the Delhi Declaration. It provided the framework for strengthening bilateral relations, including in such areas as trade, energy, business, security and defense (Ministry of External Affairs 2019).

To cement their relationship, the prime minister of India visited Riyadh in 2010, during which the countries signed the Riyadh Declaration. This declaration envisaged founding a "new era of [their] strategic partnership" (Ministry of External Affairs 2010). Further, during the visit of India's current prime minister, Narendra Modi, in 2016, King Salman conferred the Kingdom's highest civilian honor on Prime Minister Modi, indicating the importance Saudi Arabia attached to its relations with India (Quamar 2018).

The visit of Crown Prince Mohammed bin Salman to India in February 2019 solidified the continued relationship between the two nations. During his visit, it was announced that the Kingdom would invest approximately \$100 billion in India from 2019 to 2021. Six further agreements were signed in the fields of investment, tourism and housing. An agreement was also signed

¹ The Make in India initiative, launched in 2014 as part of a wider set of nation-building initiatives, was devised to transform India into a global design and manufacturing hub.

² Saudi Arabia's Vision 2030 was introduced in 2016 to achieve governmental operational excellence, improve economic enablers, and enhance living standards by accelerating the implementation of primary and digital infrastructure and engaging stakeholders.

to pave the way for Saudi Arabia to join the International Solar Alliance (ISA) in New Delhi (International Solar Alliance 2019). In 2019, Prime Minister Modi visited Riyadh again at the invitation of King Salman, signing the landmark Strategic Partnership Council Agreement. This agreement led to the establishment of a high-level council to steer the Saudi-India relationship. Another 12 agreements were signed across several fields, including energy, security, strategic petroleum reserves, and small- and medium-sized industries, to further cement the bilateral ties (Ministry of External Affairs 2019).

However, the changing global energy dynamics and both countries' efforts to mitigate climate change, especially after the announcement of their respective net-zero targets at COP26 in Glasgow in 2021, has raised the importance of them agreeing on the future of their bilateral energy cooperation. India's status as the world's third-largest energy consumer and sixth-largest economy could offer new trade and investment opportunities for Saudi Arabia as part of its Vision 2030 plan. India also perceives Saudi Arabia as a reliable partner for its energy security, especially in the supply of crude oil (Business Standard 2019).

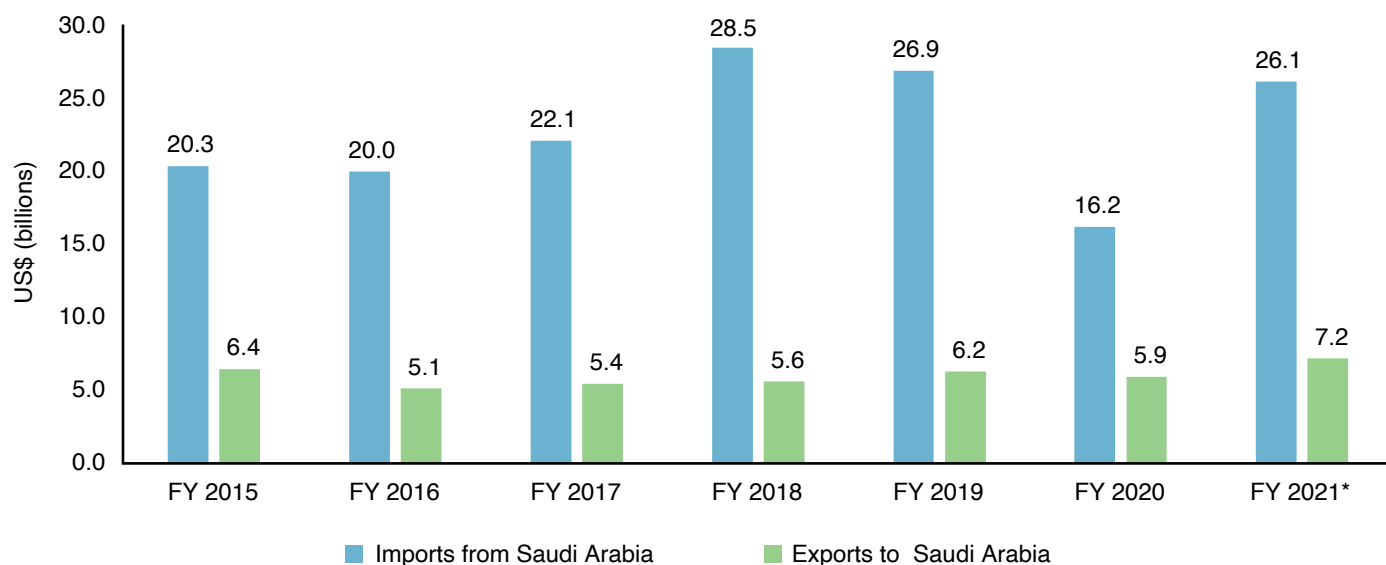
Background

Trade and Energy

In the first three quarters of 2021, India was Saudi Arabia's second-largest trading partner after China (General Authority for Statistics 2021). In the 2021 financial year³, Saudi Arabia's exports to India grew to \$26.2 billion, an increase of 61.4% from 2020; India's exports to Saudi Arabia were \$7.2 billion, an increase of 22% (Figure 1) (Ministry of Commerce and Industry 2022).

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Figure 1. Trade between Saudi Arabia and India.



Source: Department of Commerce, Government of India.

* From April 2021 to January 2022

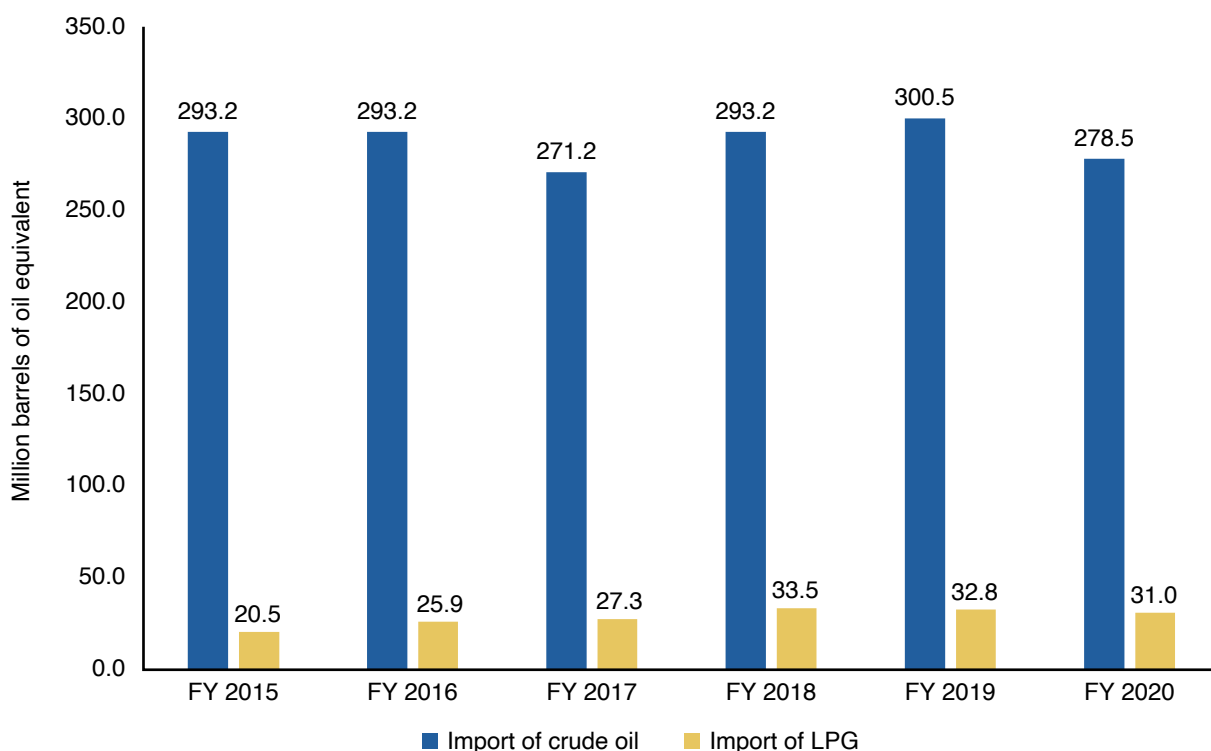
³ In India, the government's financial year runs from April 1 to March 31 the following year.



Energy dominates the countries' bilateral trade. In 2021, crude oil accounted for approximately 53% of India's imports from Saudi Arabia; nearly 20% of India's exports to Saudi Arabia comprised petroleum products (Ministry of Commerce and Industry 2022). In 2021, India exported \$7.2 billion worth of commodities to Saudi Arabia, including rice, refined petroleum and cars (The Observatory of Economic Complexity 2022).

India's import basket mostly comprises crude oil imports, and Saudi Arabia is India's second-largest supplier of crude oil after Iraq. Although Saudi Arabia had traditionally been India's leading crude oil supplier, Iraq took first place in 2017-2018. Iraq had already been the main oil supplier to India since 2017, displacing Iranian and Venezuelan crudes, which are currently under United States (U.S.) sanctions. Further, India has sought to diversify its crude slate, and hence, crude imported to India from Iraq has risen over recent years. In 2020, India imported an estimated 1,404.7 million barrels of crude oil (approximately 3.85 million barrels per day), and Saudi Arabia provided 19% of these imports (278.5 million barrels; Figure 2).

Figure 2. India's crude oil and liquefied petroleum (LPG) gas imports from Saudi Arabia.



Source: Department of Commerce, Government of India.

Note: LPG = liquefied petroleum gas.

Liquefied petroleum gas (LPG) imports from Saudi Arabia have been instrumental in supporting India's social welfare policies. The supply of LPG in rural areas has helped reduce the use of biomass in the country, thereby helping it progress toward meeting its climate commitments (Ministry of External Affairs 2021). In 2020, India imported approximately 100 million barrels of oil equivalent (boe) of LPG (0.27 million boe per day). Saudi Arabia accounted for 25% of these imports (31 million boe).

Investment

Saudi investment in India has grown in the last two decades. From April 2000 to March 2021, Saudi businesses invested approximately \$3.2 billion in the Indian market (Department for Promotion of Industry and Internal Trade 2021). Attracting foreign investment is a major objective of Prime Minister Modi's government. He has expressed India's enthusiasm to attract Saudi investment and encouraged "Saudi Aramco, Saudi Basic Industries Corp (SABIC) and other Saudi companies to invest in the infrastructure sector in India and to participate in projects creating mega industrial manufacturing corridors, smart cities, digital India initiatives and startup India programs" (Quamar 2018). Indian investment in Saudi Arabia has also increased, especially after the Bilateral Investment Promotion and Protection Agreement⁴ and Double Taxation Avoidance Agreement⁵ were signed in 2006.

In 2019, the Saudi Crown Prince announced during his visit to India that the Kingdom would invest \$100 billion in diversified sectors such as energy, refining, petrochemicals, infrastructure, agriculture, minerals and mining, manufacturing, education, and health. Further, India's Ministry of Finance signed a memorandum of understanding with Saudi Arabia's Ministry of Energy and Ministry of Industry and Mineral Resources to invest in India's National Investment and Infrastructure Fund.

Apart from these ministry-level investments, Saudi Arabia's petrochemical giant SABIC established a research development center in Bangalore in 2013 with an investment of over \$100 million. Similarly, Saudi Aramco and the United Arab Emirate's ADNOC are jointly participating in the development of the \$44 billion West Coast Refinery & Petrochemicals Project in Maharashtra. However, the project has been delayed until 2025 because of land acquisition issues (Financial Express 2020). In 2018, Saudi Aramco also signed a memorandum of understanding with the India-based Gumpro Drilling Fluids to set up a drilling fluids facility in Dammam, Saudi Arabia (ICRA 2021).

In 2019, it was announced that Saudi Aramco planned to acquire a 20% share in Reliance Industries' oil and chemical business at a value of \$15 billion. However, the deal between Saudi Aramco and Reliance has not yet been completed. Both parties have decided to re-evaluate the proposed investment due to the evolving nature of Reliance's business portfolio and uncertainty following the COVID-19 pandemic. Nonetheless, Reliance and Aramco have a longstanding relationship and continue to look for

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⁴ The Bilateral Investment Promotion and Protection Agreement with various countries was initiated following the liberalization of India's foreign investment regime in 1991 as part of the country's economic reform program.

⁵ The Double Taxation Avoidance Agreement, a tax treaty signed between India and other countries, allows taxpayers to avoid paying double taxes on their income earned (i.e., from the source country and country of residence).

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investment opportunities in India (Nair and Martin 2021). Moreover, the Saudi Public Investment Fund has announced investment of approximately \$1.3 billion in Reliance Retail and \$1.5 billion in Reliance's Jio Platforms.⁶

In 2019, Saudi Arabia became a member of ISA⁷ and is supporting it in fulfilling its mission to deploy solar energy solutions and mitigate climate change. Saudi companies have invested in such new energy technologies, including Alfanar's investment in building a 300-megawatt (MW) wind farm and Aljomaih's investment in building an 80-MW solar park in India (Alfanar 2022). In addition to these investments, Saudi Arabia and India are investing in sectors such as textiles, food security, pharmaceuticals, healthcare, defense and construction.

Similarly, Indian companies are also enthusiastic about investing in diverse sectors in the Kingdom in light of the opportunities that have emerged under Vision 2030. As of 2021, 745 Indian companies were registered with the Ministry of Investment in Saudi Arabia, with investments in a range of sectors exceeding \$2 billion. Furthermore, Indian companies such as Tata Motors and Ashok Leyland have already become major automobile exporters to Saudi Arabia (Arab News 2022).

Future Saudi-India Energy Relations

The rising need to mitigate climate change led to both countries announcing net-zero targets at COP 26, which have been factored into local policymaking, particularly in India. India is the second-most populous country in the world and one of the fastest-growing economies. Rises in income and standards of living have made India the world's third-largest energy consumer and CO₂ emitter after the U.S. and China (The World Bank 2022). Further, energy use in India has doubled since 2000, with 80% of demand still being met by coal, oil and biomass (IEA 2021). India's continued growth in demand for oil imports will make Saudi Arabia's role even more significant since India will need a reliable partner for its energy security, especially its supply of crude oil.

The respective commitments made by Saudi Arabia and India are forging a new pathway for enhancing this bilateral relationship. Several areas of cooperation present themselves in oil and gas, technological development, climate change mitigation and the knowledge transfer of available technologies, as discussed below.

⁶ Jio Platforms is an Indian telecommunications company.

⁷ The ISA was conceived as a joint effort between India and France to mitigate climate change using solar energy solutions. It was conceptualized on the sidelines of the 21st Conference of Parties (COP21) in Paris in 2015.

Oil and Gas

With India's growing energy consumption, especially gasoline and diesel, domestic demand for crude oil is expected to increase by 50% by 2030 compared with an estimated global rise of 7% (Choudhary 2021; IEA 2021). Saudi Arabia can strengthen its energy relationship with India by providing crude oil, as the latter wants to maximize its strategic petroleum reserves as quickly as possible. Since Iraq does not have the financial resources to invest in refining, retail and storage leasing in India like Saudi Aramco can (Dania 2020), Saudi Arabia could regain its market leadership in India. This could be achieved through investment deals with Indian refinery giants such as Reliance Industries and state-owned oil enterprises such as Indian Oil, Bharat Petroleum and Hindustan Petroleum, which could then lead to more purchases from Saudi Arabia.

India is also seeking to increase the proportion of natural gas in its power sector and replace diesel with liquefied natural gas (LNG) in the freight sector, especially for heavy-duty vehicles (The Hindu 2021). To promote the usage and distribution of LNG, the Indian government has added LNG imports into the Open General Licensing⁸ category. The LNG initiatives in India open another potential market for Saudi Arabia as it seeks to bolster its position in the global gas and LNG sector (Arab News 2018).

Carbon Capture, Utilization and Storage

In 2021, during the Saudi Green Initiative Forum, Crown Prince Mohammed bin Salman revealed the roadmap for Saudi Arabia's energy transition and aim to achieve carbon neutrality by 2060. Speaking at the same forum, Energy Minister Prince Abdulaziz bin Salman said the Kingdom will reduce its emissions by deploying carbon capture, utilization and storage (CCUS) and direct air capture, among other technologies (Saudi Green Initiative 2021; IHS Markit 2021). India also identified CCUS as a priority area in its Second Biennial Update Report submitted to the United Nations Framework Convention on Climate Change (UNFCCC) (MoEFCC 2018). Further, Tata Steel commissioned India's first plant for CO₂ capture from blast furnace gas in Jamshedpur, India. Tata Steel is the country's first steel company to adopt a carbon capture technology that extracts CO₂ directly from blast furnace gas (TATA Steel 2021). However, the uptake of CCUS has been relatively slow in India, primarily because of concerns about geological CO₂ storage as well as the high cost and uncertainty surrounding such technology (Goldar and Dasgupta 2022).

⁸ This means LNG is deemed to be freely importable without restrictions and without a license, except when regulated by the provisions of the policy or any other law.





The Saudi-India partnership in CCUS-related R&D could accelerate in the future, especially when the G20 summit will be held under the Indian presidency in 2023

This offers the potential for a Saudi-India collaboration in the field of CCUS. Saudi Arabia is one of the leading members of Clean Energy Ministerial's CCUS Initiative,⁹ which India could join in the future (Clean Energy Ministerial 2021). India and Saudi Arabia could thus collaborate to drive down CCUS costs and aggressively accelerate its implementation globally through technological innovation. The countries could also jointly identify new commercial models and strategies to enable the research, development and deployment of next-generation CCUS technology. Moreover, India could play a leading role in the deployment of CCUS technologies by encouraging a conducive regulatory environment for Saudi investors in joint commercial projects. Indeed, the Saudi-India partnership in CCUS-related R&D could accelerate in the future, especially when the G20 summit will be held under the Indian presidency in 2023.

Climate Change Mitigation

At COP26, Prime Minister Modi announced India's commitment to reach net-zero emissions by 2070. As part of its pathway to net-zero, India announced that 50% of its energy mix will be sourced from renewables and that the country aims to install 500 gigawatts (GW) of renewables by 2030 (Bhatt, Sergeeva, and Efirid 2021). As of December 2021, India had a renewable energy installed capacity of 105 GW, meaning it is poised to become a global leader in renewable energy installations (Sinha 2019).

Saudi Arabia has also pledged to reach net-zero by 2060 and has committed to reducing its methane emissions by 30% and its annual carbon emissions by 278 million tonnes by 2030 (Alturki 2021). Crown Prince Mohammed bin Salman has announced that the country plans to invest \$187 billion in climate change mitigation actions during the 2020s (Saudi Green Initiative 2021).

The framework agreement of the ISA, to which Saudi Arabia is a signatory, could create a platform for collaboration with India on renewable energy projects, especially solar. This relationship could also foster technology exchanges and R&D opportunities. Other collaboration opportunities for the Saudi-India relationship include green finance, green inventions and CCUS. With India seeking to move away from coal and Saudi Arabia looking to diversify its energy portfolio, there are increasing investment and collaboration opportunities for joint ventures in clean energy technologies.

Further, to cement the knowledge transfer between India and the Kingdom, SABIC, the world's third-largest chemical company, has opened an innovation and technology facility in Bengaluru, India (The Economic Times 2013).

⁹ Clean Energy Ministerial's CCUS Initiative is a global forum to share best practices and promote policies and programs that encourage and facilitate the global transition to a clean energy economy.

Knowledge Transfer

Saudi Arabia is transitioning toward a new knowledge-based economy. For example, Mahindra Susten¹⁰ has commissioned a 405 MW project in Saudi Arabia by driving energy transition in its member countries (Mahindra 2020); this is an initiative under the umbrella of the ISA's guidelines. As Saudi Arabia diversifies from a petroleum-based economy to a knowledge-based one, the country's competitiveness and performance will increasingly depend on its domestic technological innovation (Khorsheed and Al-Fawzan 2014). India and Saudi Arabia could also collaborate at the government and institution levels by focusing on technologies, human capital and resources-based issues. For instance, Saudi Aramco has expanded its presence in India by opening a new Asia office to engage in new areas of R&D, engineering and technology. Hence, Saudi-India knowledge-sharing initiatives could promote continuous policy dialogue and peer learning between the countries in the field of energy.

Conclusion

Saudi-India energy relations have evolved into a strong bilateral linkage that is gradually acquiring more importance. The two nations share strong trade links historically, and both these emerging economies aim to diversify their energy portfolio to achieve sustainable growth. Moreover, against the background of their ambitious climate change commitments and energy transitions, the collaboration between the two countries on energy is becoming even more important.

Saudi Arabia is a key actor for India's future energy requirements and energy infrastructure investments. India is also one of the major economies with which Saudi Arabia wants to forge strategic partnerships as part of its Vision 2030. Hence, the prospects for their bilateral relationship look promising, and its potential is immense. This enhanced relationship is expected to lead to a flow of investment and stronger energy cooperation between the two countries.



The prospects for India and Saudi Arabia's bilateral relationship looks promising, and its potential is immense

¹⁰ Mahindra Susten is the leading solar services contractor in India.

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About the Project

As the pace of economic growth in China moderates, India looks set to become the largest fast-growing economy and its demand for imported oil and gas is likely to increase. India's move toward low carbon public transport and the pace of its adoption of smart mobility will influence its oil demand growth, as will its adherence to global climate commitments. This project analyzes the economic, institutional, and policy determinants of energy demand in India and South Asia. KAPSARC is engaged in understanding the primary catalysts for India's changing energy demand, and evaluating the significance of its energy policies and security strategies for Saudi Arabia and the global community. The analysis will help provide a more in-depth and comprehensive understanding of domestic Indian energy challenges and the policies that are designed to address them. The project also investigates the global consequences of changes to India's energy markets, producing policy-relevant insights. In line with KAPSARC's broad objectives, the project aims to assist stakeholders outside India to understand the consequences of decisions taken by Indian policymakers.

About KAPSARC

KAPSARC is an advisory think tank within global energy economics and sustainability providing advisory services to entities and authorities in the Saudi energy sector to advance Saudi Arabia's energy sector and inform global policies through evidence-based advice and applied research.

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