

COMMENT

Energy: The Iranian Factor

YET ANOTHER BOUT OF HIKE IN OIL prices is in the offing as all government-run oil companies including India's oil major—Indian Oil Corporation, have decided to raise petrol prices by Rs 9.6 a litre if excise duty is not cut or they are not adequately compensated for the daily loss which seems staggering, they are suffering. They are also talking about decontrolling diesel-price regime. Oil remains the sacred cow for both the union government and state governments to mop up revenue by way of taxing domestic consumers at every turn of international crisis. With America blocking India's favourable condition to import Iranian oil, a turmoil in Indian economy cannot be anything but normal. In truth India's precarious dependence on imported oil to fuel growth is likely to produce disaster in the coming days.

The US is asking countries that import oil from Iran to cut the quantities so that pressure mounts on Iran from all directions. Presently India, China and Japan are major importers of Iranian oil. They account for 45 percent of Iran's exports. Reportedly, the US and Japan have reached an agreement under which Japan will reduce its imports by 11 percent. Notwithstanding public statement by Finance Minister Pranab Mukherjee to the contrary, Government of India has also reportedly asked Public Sector Undertakings to cut imports from Iran by 10 percent. Whether this has been done under US nudging is anybody's guess. Europe has already stopped importing oil from Iran. Unsold stocks of oil are mounting with Iran. Pressure is undoubtedly mounting on the Iranian people but whether this will translate into agitation for- or against the Government is to be seen. The Iranian people had occupied the American embassy in the seventies in similar circumstances.

In these uncertain circumstances the question before India is whether to cut imports from Iran or not. First point is regarding energy security. It will be difficult to meet the shortfall due to reduced imports from Iran. And Indian companies will have to purchase oil at higher price. Also, politically India may lose foothold on Afghanistan. It will be difficult for India to sustain her influence in Afghanistan against the combined pressure of Pakistan and Iran. Japan is placed differently than India on this count. It is likely to face no defense fallout of an anti-Iran posture. India stands to gain enormously from Iran's offer to accept 45 percent of the payment in rupees. This will help boost Indian exports and help bridge increasing current account deficit. Then US is the last word and India is going to oblige Uncle Sam.

Throttling supplies from Iran will lead to increase in price of oil unless Saudi Arabia steps in a big way to pump out equivalent amount of oil in addition to present production. An increase in price will affect all oil importing countries, including most OECD countries, adversely. At the

same time it will be equally beneficial for the oil exporting countries including Venezuela, Nigeria and Russia.

For all practical purposes India is facing the tradeoff between energy consumption and energy security head on. Increased consumption will endanger security; and increased security can only be got by reducing consumption. □□□

[contributed]