Indo-Russian Ties in Oil and Gas Enterprises:
A Saga of Warmth and Goodwill

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Prologue

Oil was one of the crucial inputs in India’s build-up following Independence, but its domestic base was negligible and that too entirely in the hands of Western foreign interests who were least interested in India developing its own oil industry, except as an outlet for their own vast oil empire worldwide.

It was here that the Soviet Union came to India’s rescue in a big way not only in oil exploration, production and refining, but also in making available much needed crude oil and refined products at rates below those prevailing in the world market, on rupee payment and barter basis, with loan assistance, technology, equipment supplies, know-how, skilled manpower and so forth. The first three government refineries, based on indigenous crude, came up at Gauhati, Barauni and Baroda, with substantial Soviet help and inputs.

This paper sets out Indo-Russian oil ties, with special reference to the Soviet days and take-off stage for India when help was sorely needed. With several personal glimpses, it interestingly outlines the warmth and goodwill which permeated Indo-Russian relations and dealings in the matter right from the 1950s. India is participating in oil exploration and production in the difficult Russian Far East climes, something that could not have been imagined just a few years ago.

The paper is particularly appropriate at this time, as 2008 has been declared as ‘The Year of Russia in India’, and 2009 as ‘The Year of India in Russia’, by both the countries.

- Editor

Resurgent Russia

The collapse of the former Soviet Union and the moderation of communist ideology in China, changing track towards a market-oriented economy, have been remarkable historical developments heralding a new world order. Western observers started talking of Russia as ‘The sick child of Europe’. History, however, never stands still, and was made again when the new Russian Federation rose like a phoenix from the ashes of chaos and depression after its
newfound saviour, Vladimir Putin, took control as President of the embattled erstwhile world power.

A country, almost bankrupt ten years ago, has now over $500 million in foreign exchange reserves, the third largest after China and Japan. The accretion of enormous new wealth has been driven mainly by the unprecedented surge in world oil prices, which have shot up from around $10 a barrel about a decade ago to nearly $150 a barrel recently, and still continue on the boil. The stupendous rise in overall economic growth would not, however, have been possible but for striking achievements in political stability and sound economic policies. The waste-land of post-Soviet Russia is now a bustling market economy and energy superpower.

Over the past eight years, its economy has leapfrogged from $200 billion to upwards of $1.4 trillion. In terms of Purchasing Power Parity, it is the seventh largest economy in the world, and is set to move up further in the not too distant future and overtake others. Its average per capita income in 2006 was $5780 (India’s $1820). Its Foreign Direct Investment, the most powerful instrument to shape foreign policy, had topped $147 billion by 2007 (India’s $19.5 billion).

In our earlier visits to the old Soviet Union, we could see but few cars on the roads. Taxis were hard to get, though offer to pay cab charges in dollars would produce immediate results. Shopping was not a luxury to be indulged in. Now, the streets in Moscow are overcrowded with BMWs, Mercedeses, Bentleys and other luxury models of the latest vintage. Mega malls with goods from all over the world are teeming with clamorous buyers and gushing cash flows.

The Russian government has had to set up a stabilisation fund to mop up oil duties and oil extraction taxes so as to guard against the economy being swamped by the energy windfall. More than 60% of the federal budget revenues, it is reported, come from oil and gas taxes. Poor infrastructure has indeed been one of Russia’s foremost weaknesses. There are plans for huge investments in basic infrastructure, especially transport. A $570 billion plan has been drawn up to develop road, rail, air and port facilities, until 2015.

**Natural Resources : Russia’s Greatest Blessing**

Russia is blessed with the richest natural resources in the world (estimated at 38%), with a quarter of all forests, 42% of natural gas, 15% of oil, 43% of coal, 50% of vanadium and 100% of iridium. Even after the shrinkage of territory to two-thirds of that of the Soviet Union, it is still the world’s largest country, six times the size of India.

Oil and gas exports from the Russian Federation have reached the astounding level of $800 million a day. Its crude oil output outpaced Saudi Arabia as the top producer in the world in the first quarter of 2008, with a figure 9.5 million barrels per day, ahead of Saudi Arabia’s 9.2 million barrels per day, according to figures recently released by the International Energy Agency. The crude output of the top 10 producers in this period according to the IEA is given in Table 1.
Table 1: Crude Output of top 10 Producers in Quarter 1 of FY 2008

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Output (Million barrels per day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Russia</td>
<td>9.5</td>
</tr>
<tr>
<td>2.</td>
<td>Saudi Arabia (O)</td>
<td>9.2</td>
</tr>
<tr>
<td>3.</td>
<td>United States</td>
<td>5.1</td>
</tr>
<tr>
<td>4.</td>
<td>Iran (O)</td>
<td>4.0</td>
</tr>
<tr>
<td>5.</td>
<td>China</td>
<td>3.8</td>
</tr>
<tr>
<td>6.</td>
<td>Mexico</td>
<td>2.9</td>
</tr>
<tr>
<td>7.</td>
<td>UAE (O)</td>
<td>2.6</td>
</tr>
<tr>
<td>8.</td>
<td>Kuwait (O)</td>
<td>2.6</td>
</tr>
<tr>
<td>9.</td>
<td>Canada</td>
<td>2.5</td>
</tr>
<tr>
<td>10.</td>
<td>Venezuela (O)</td>
<td>2.4</td>
</tr>
</tbody>
</table>

(O) – OPEC Member
Source: AFP

The Historic Role of Vladimir Putin

The spectacular turnaround in Russia is largely the work of Vladimir Putin whose place in history seems assured for guiding the country’s triumphant restoration as an economic super power. It has been said that Russia’s international standing today is even higher than during the best of the Soviet times. The cornerstone of Putin’s policy has been to push for consolidation in strategic sectors under state control, particularly resource extraction enterprises, where Russia is singularly well-endowed. Much of the oil industry, which had been siphoned-off at throwaway prices to private ownership, has been renationalised. Attempts to break up the gigantic natural gas monopoly of Gazprom, one of the world’s most powerful companies, have been firmly quashed. The country’s medium-sized state-owned company Rosneft was built up to become Russia’s biggest oil company through acquisition of the main production assets of the private giant Yukos which was on the verge of bankruptcy tottering under enormous tax burdens. The state has succeeded in turning Energy into a powerful foreign policy instrument, far more than in the Soviet era. European nations have been vying with each other to negotiate deals with Moscow to build new pipelines and offer Russia assets and technologies in exchange for access to its oil and gas fields. The pipeline reach of Russia has become truly phenomenal. As already noted, Russia today exports no less than $800 million of oil and gas every single day.

Indo-Russian Trade Ties: Still a Long Way To Go

According to the noted columnist Vladimir Radyuhin, from whom many of the foregoing facts have been sourced, India is about the only country that does not partake of all the boom taking place in the Russian economy. Indian exports to Russia are barely in the region of $1 billion, which constitutes a mere 0.6% of Russian imports. According to another estimate, trade between Russia and India now hovers around $3 billion, compared to India’s trade with China and the US at around $20 billion each.

Putin has not been slow in appraising the need to infuse new life and vigour into the long standing Indo-Soviet ties in several areas, which had taken a downward dip in the immediate post-Soviet era. The globe-trotting President in his wide-ranging visits to numerous
countries (including for instance countries like Brazil and Saudi Arabia never before visited by a Kremlin leader), made sure India was not neglected in his travels with four to five India visits to ensure that nothing was left for granted and launch concrete steps for attention at the highest level. The year 2008 was declared ‘The Year of Russia in India’ and, 2009 as ‘The Year of India in Russia’. Kick-starting this, the Russian Prime Minister Victor Zabkov flew into India with a massive contingent of top Russian businessmen and cultural troupes, setting a target of $10 billion for bilateral trade by 2010. A comprehensive Economic Cooperation Agreement was drawn up and a forum of CEOs from both countries set up. To dramatize the Russian position, Zabkov declared; “For us, India is a trusted friend. There is a saying in Russia: One old friend is better than two new ones”.

The $10 billion target is by no means easy, particularly as the IT sector, India’s major strength, does not have much of a presence in the Russian market. Energy again will be important as India’s oil requirements are shooting up and may increasingly necessitate imports of anything up to 90% of the total needs in the next few years. OVL, ONGC’s external arm, has acquired 20% participating interest in Russia’s promising Far East area in the Sakhalin 1 field. The high quality sweet crude yield in that field made its initial foray into ONGC’s Mangalore Refinery in late November 2006. More exciting is the prospect of participation in exploration and production in Russia’s Sakhalin III field said to contain some 620 million tonnes of oil and 770 billion cubic metres of gas—one of the biggest blocks in the world. Yet another target, recently bruited, is an alliance of OVL with the Imperial Energy Corporation, a British firm with oil producing assets in the Tomsk region of Western Siberia and north-central Kazakhstan. It will be interesting to note that from just a single overseas oil property in 2000-01, OVL is currently present in 38 oil and gas projects in 18 countries including Russia, Sudan, Vietnam, Syria and Colombia.

**Back to the Soviet Days**

It is important to emphasize that India’s energy ties with Russia go much farther back in time. The substantial help from the Soviet Union in the formative years, when the stranglehold of powerful foreign oil interests had to be broken up, can never be lost sight of. It would, therefore, be appropriate to recall some of those related developments.

Even at the turn of the 20th century, the Soviet Union was the world’s largest oil producer. Each of the two Great World Wars was fought on Russian soil for the big prize of oil resources. The Middle East was then nowhere in the picture for oil, except as a prospective reservoir, still largely unexplored and untapped.

It was in the 1950s that the Soviet Union began making its presence felt as an important oil exporter. The thrust was two-dimensional: economic and political. With Western Europe and Japan, the prevailing consideration was economic, viz. to secure industrial and consumer goods the Soviet Union could not produce at home in sufficient quantity and quality, or as cheaply. With the under-developed world, on the other hand, political factors were far more important. The large oil concessions the western companies and powers had managed to grab and monopolize in the oil producing companies were seen as the foundation, on which the edifice of western power and influence had been built up worldwide. What better way to attack this force and bring down western might and influence than through countervailing oil power, which the Soviet Union had in plenty.
Two basic tools were employed by the Soviets to achieve their end: to offer lower prices and also a barter basis of oil for other commodities produced by the importing country. Western analysts believed that Soviet oil was indeed ‘the most important element in the Soviet politico-economic offensive in the Free World’. A report of the US National Petroleum Council said: ‘The ultimate goal of the Soviet Bloc is to expand its political control, destroy freedom and communise the world, and it uses its monopoly of foreign trade to further these objectives’.

**Soviet Offer to India**

In mid 1960, the Soviet Union offered to supply India substantial quantities of low-priced crude oil and accept payment in rupees to be spent in buying Indian goods like tea. At that time, India’s greatest problem was to find foreign exchange, particularly to obtain crude oil and refined products for an economy raring to go at a frenetic pace. Needless to say, nothing could have been more attractive than the Soviet offer.

Despite the longer haul involved from the Black Sea, the delivered cost of crude CIF Bombay was $1.81/barrel, which was $0.25/barrel cheaper than the CIF prices being charged by the foreign oil companies. There was, however, one great hitch. The foreign oil companies simply refused to accept Soviet crude for processing in their Indian refineries. India could find no other home for the Soviet-proffered oil.

The Soviets also offered refined products, kerosene and diesel, again at cheaper prices on rupee payment terms on a barter basis. The foreign oil companies, who were in full control of the Indian oil network, would not touch the Soviet products in their well-entrenched distribution facilities in India, as this would have upset their applecart; the implications for them were, in fact, world-wide and, therefore, more compelling. The Indian government had been extremely tardy in setting up its own marketing network. Even in the Third Five Year Plan (1961-65), the allocation for oil marketing facilities was just a tenth of what the private oil companies had invested. The import bill for refined oil products in the Third Plan was consequently as high as $500 million, which could have been substantially less, had it been possible to accept Soviet oil.

One of the few foreign analysts at that time, who expounded at length on the complex political and economic implications of what the underdeveloped countries had to undergo in securing vitally needed oil, was Michael Tanzer of the US. Commenting on the Soviet crude oil offer to India in his book ‘The Political Economy of International Oil and the Underdeveloped Countries’ (1969), he observed:

“The Soviet crude oil offer (to India) brought into action virtually all the forces involved in oil and energy policy considerations. Because it came at a particularly crucial point in Indian and world history, the offer and its rejection make a fascinating case study in the political economy of international oil. Superficially, the Soviet crude oil offer involved simply the proposal of a deal between two sovereign governments. Below the surface, however, it triggered and involved continuing political and economic struggles among nations and institutions.”
Soviet Help in Oil Exploration and Refining

Till the early 1950s, there were only four oil refineries in India: the ancient midget in far-east Digboi and three foreign-owned refineries, two in Bombay (Burmah Shell and Esso) and one in Vizag (Caltex). In the decade 1957-67, the Indian Government started its own refinery programme in a big way, essentially to process indigenous crude to start with. For Assam crude, the government refineries came up in Gauhati (Assam) and Barauni (Bihar), along with a big pipeline network for crude and products. Western oil interests then dominating the Indian scene could not, of course, be expected to help and it was here that the ready and substantial assistance, forthcoming from the Soviet Union (with help also from Rumania), was of the greatest importance for India’s nascent efforts.

The help came in several ways – finance, planning, technical inputs, equipment, specialist man-power, training programme for Indian nationals, etc. Simultaneously, the Soviets also drew up a detailed plan for oil exploration to serve as a basis for an integrated exploration and production programme. ONGC entered into a contract with USSR for off-shore seismic survey in the Gulf of Cambay, Arabian Sea and on the Eastern Coast. The Cambay gas-field came up quickly in 1958. But the most important oil strike was in the Ankleshwar inland oil-fields in 1960 leading to the setting up of the third government refinery at Koyali (Baroda), again with Soviet help, to process this crude, which happily turned out to be of the highest quality.

Thus, even as India itself acquired the capability and expertise to turn itself into a major force on the world oil scene, the help from the Soviet Union at the take-off stage was a crucial factor.

Crude Oil and Product Imports

At this distant date, it is difficult to visualise what India could have done to meet its growing oil demands with a poor domestic base and severe foreign exchange constraints but for the help from the Soviet Union, not only in oil exploration, production and refining, but also in offering crude oil and refined products at reasonable rates (lower than what could be obtained from the world market), on rupee payment and barter terms with deferred credits.

The momentum for such imports from the Soviet Union picked up from the 1970s. The continuing loan assistance in the 1980s in the energy field may be seen from Table 2.

Table 2: Loan Assistance from USSR and OPEC (1980-1981 to 1989-90)

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<tbody>
<tr>
<td>USSR</td>
<td></td>
<td></td>
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<tr>
<td>Authorisation</td>
<td>485.7</td>
<td>-</td>
<td>1134.0*</td>
<td>2055.5*</td>
<td>1162.7</td>
<td>6210.0</td>
<td>2138.09</td>
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<tr>
<td>Utilisation</td>
<td>32.9</td>
<td>40.0</td>
<td>161.2</td>
<td>175.5</td>
<td>221.1</td>
<td>218.8</td>
<td>536.6</td>
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<tr>
<td>Total OPEC (Saudi Arabia, UAE, Kuwait, Iraq, Iran)</td>
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<tr>
<td>Authorisation</td>
<td>122.7</td>
<td>29.3</td>
<td>82.4</td>
<td>9.0</td>
<td>60.6</td>
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<td>-</td>
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<tr>
<td>Utilisation</td>
<td>45.0</td>
<td>75.3</td>
<td>58.3</td>
<td>37.8</td>
<td>36.2</td>
<td>36.4</td>
<td>57.6</td>
</tr>
</tbody>
</table>

(*): Government account only.  
Source: Economic Survey, 1989-90
Cordiality and Warmth Abounding

The most remarkable feature of the Indo-Soviet relationship was the cordiality and warmth which marked and permeated the way the multi-million oil deals were negotiated and implemented. This was totally at variance from the illusion created in the western world of the boorishness, rapacity and cloak-and-dagger ways of the Russian bear, the stuff of much western pulp fiction and spy thrillers, not to speak of even serious writing. The contracts for imports of crude oil and products from the Soviet Union were regulated through annual negotiations, held alternately in each country. The spirit of give and take was greatly in evidence, with cultural and tourist interactions and attempts to make known each other’s country at a personal level.

Living as we do in an argumentative society (to use Amartya Sen’s fine phrase), we were perhaps nonplussed by some of the aspects of the Soviet closed society at that time. Separate visas were required for each city or area to be visited and movements of all foreigners, it was said, were closely watched and monitored by the unseen eyes of Big Brother. We avoided discussing our strategies within the confines of our hotel rooms, having been warned these might be wired and bugged. During meetings in the Soviet oil headquarters, we were not allowed to use the telephones in the same meeting rooms and had to be escorted to a specific place, probably equipped with facilities for monitoring. On a comic note, I was taken by surprise once, when I got a gentle tap on the shoulder in the toilet room of the Moscow oil headquarters by a Russian flunky and warned not to stray anywhere, even into a toilet, without being escorted. But these were small matters. Our Soviet friends were not even conscious of anything being strange or annoying to us and had nothing to show but bonhomie. To cite another instance, when a Russian official handling India’s oil contracts spoke rather rudely to our Chairman about some perceived irregularities on our part, our Chairman took this up with his counterpart in Sojuneftexport, and the very next moment, the erring Russian official was taken off the India desk. No questions asked.

We used to get kerosene from the Soviets at a much lower price than diesel, even though kerosene in the international market (dual purpose, useable also as ATF) was much costlier than diesel. This was of immense help to us, as kerosene has always been sold in this country at heavily subsidised prices. The Soviets, for their part, were quite happy because of their professed interest in helping the poor people using kerosene.

Another advantage we used to enjoy was of the Soviet’s bearing the extra cost of haulage from the Black Sea vis-a-vis the Arabian Gulf ports. A stalemate once developed, when they shifted their pricing point to the Mediterranean as the Arabian Gulf postings, had got much lower. We were not prepared to agree, as it involved us in considerable extra financial burden. For the Soviets, the move was part of their global policy and they could not relent. Negotiations went on over five different sittings at different intervals, during which the Soviets agreed to some temporary accommodation so as not to disrupt supplies. Fortunately, there was a happy ending when the Mediterranean and Arab Gulf prices evened out. This is just another example of the extent of spirit of Russian accommodation, contrary to the commonly held belief of Russian rigidity and intransigence in their dealings. At a difficult stage in the negotiations, the Chief of Russian Oil Sojuneftexport (SNCF) himself intervened asking us not to lose heart as something would turn up as an acceptable solution. That is exactly what happened.
On a personal note, I would like to recount that during a subsequent visit to Moscow, which happened to be my last, I was somewhat taken aback when the Chief of SNCF came hurrying down to our exit to say he had just been advised of my impending retirement and he wanted to bid goodbye personally, and present a memento as a token of cherished memories of working together.

**Enlarging Ties: Brighter Days Ahead**

This paper is confined to oil, which has formed a significant part of Indo-Russian ties, dealings and co-operative help. The need is, of course, seen to diversify the trade basket and promote co-operation in several other sectors like minerals, diamonds, transport, infrastructure and high technology, quite apart from critical defence tie-ups.

The China National Petroleum Corporation struck deals worth some $8 billion from 1993 to 1997, and invested $15 billion in the past ten years. India has been a late starter in acquisitions abroad in oil and gas, but the geo-politics of oil and oil diplomacy in working with other countries on a global basis is a game well-learnt with appreciable results. The promise for the future is far greater both in extent and technology. Memories of the timely help from the Soviet Union, particularly in the formative years, where India began its great adventure and had to shake off the yoke of foreign multi nationals as recalled in these pages with specific reference to oil and Russia, will long endure. The declared year of Russia in India and of India in Russia is just a timely reinforcement of the need for a sustained level of still greater cooperation in the forthcoming years. That the Russians are more than eager in this direction is amply clear. So also the need for India to avail of all the assistance that it can get from other countries. India and Russia have an impressive record of mutual cooperation, which is bound to strengthen in the future.

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*Men love to wonder, and that is the seed of science.*

– Ralph Waldo Emerson