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Executive Director of Oil and Natural Gas Corporation, Narendra Kumar Verma, Nicolas Maduro, and PDVSA President Eulogio Del Pino in Caracas, Venezuela, Nov. 4, 2016. © Voice of America

# India-Venezuela Relations: A Case Study in Oil Diplomacy



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## Introduction

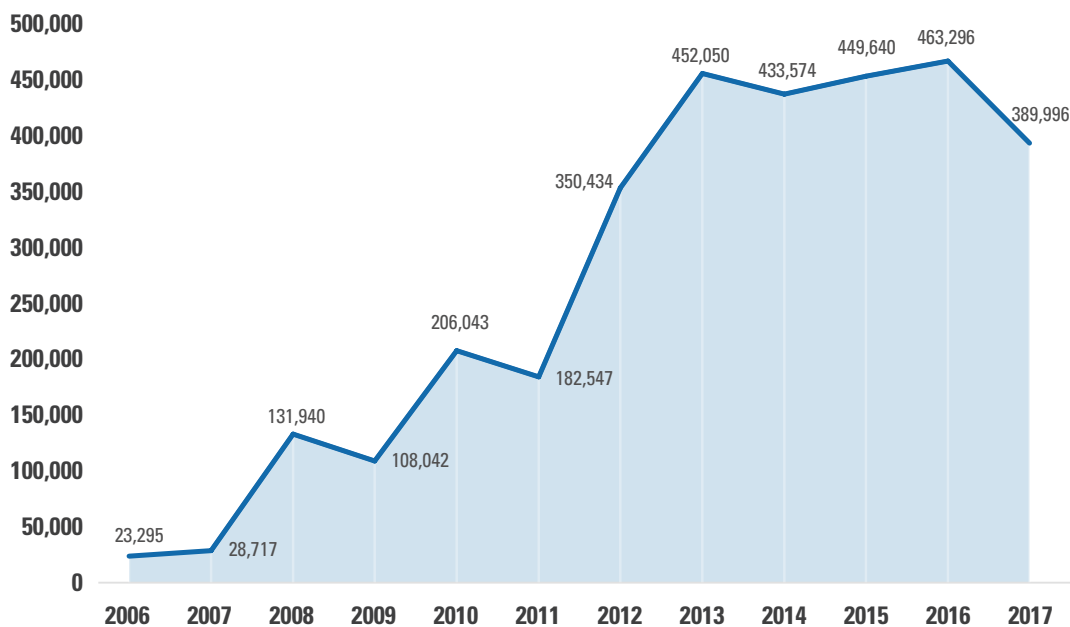
The year is 2007. Iran is India's second-largest source of oil imports, totaling 367,000 barrels per day (bpd).<sup>1</sup> The country is a stone's throw from India, so close that both territories shared a land border before India's independence from the British realm. India's imports from Venezuela are a paltry 28,000 bpd in comparison, not surprising since Caracas is about 10,000 miles from New Delhi.

Cut to 2013. India's oil imports from Venezuela skyrocket to 441,000 bpd, accounting for 12 percent of the country's total oil imports. Meanwhile, imports from Iran plummet to 200,000 bpd by year-end.<sup>2</sup> Suddenly, Venezuela doesn't seem so far away. In February 2019, India is poised to become Venezuela's largest cash market for oil exports, amid recently announced US sanctions.

What caused this rather sudden and unexpected reversal of roles?

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1. Oil import data published by the government of India is available only in million metric tons, while international data on oil trade, company data on oil imports and refining capacity is often provided in barrels per day. To maintain uniformity, all data in million tons have been converted to barrels per day using the online calculator provided by the CME Group, the world's leading derivatives marketplace. As per the group, 1 million metric tons is equal to 20082.191 barrels per day. The calculator is accessible at [https://www.cmegroup.com/tools-information/calc\\_crude.html](https://www.cmegroup.com/tools-information/calc_crude.html).
  2. International Trade Centre (ITC), *Trade Map*, <https://www.trademap.org>.

**Figure 1: India's Oil Imports from Venezuela, 2006–17**  
(quantity, in barrels per day)



Three major factors, pertaining to India, Venezuela, and the United States, coalesced to bring Venezuela closer to India's economic orbit.

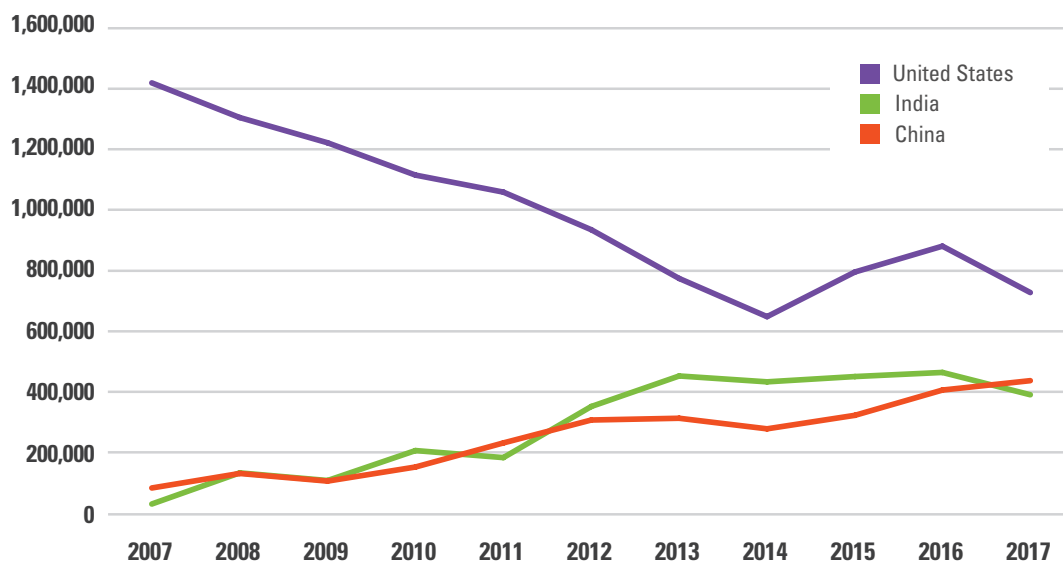
First and foremost are India's rapid economic growth and increasing thirst for oil. The first decade of the 21st century saw India's GDP growing at 7.5 percent on average.<sup>3</sup> This was accompanied by a rising demand for oil, used as transport, industrial or domestic fuel, and allied sectors like petrochemicals, fertilizers and pharmaceuticals. In less than a decade, from 2005 to 2013, India doubled its oil imports from 1.93 million bpd to 3.88 million bpd.<sup>4</sup> India also surpassed Japan to become the world's third-largest buyer of crude oil, behind only the United States and China. Soon public and private oil companies in India began actively to seek new markets that could meet this rising demand. Today, India is also Asia's largest heavy crude buyer<sup>5</sup> and home to some of the world's largest and most complex refineries

3. Calculations based on World Bank GDP data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&locations=IN&start=2000>.

4. ITC, *Trade Map*.

5. Lisa Viscidi and Ramón Espinasa, "Latin American Crude Oil Exports," *Energy Working Paper*, Inter-American Dialogue, June 2015, <http://www.thedialogue.org/wp-content/uploads/2015/06/Battle-for-Market-Share-Web-Version-6.1.2015.pdf>.

**Figure 2: Venezuela's Exports to the United States, India, and China**  
(quantity, in barrels per day)



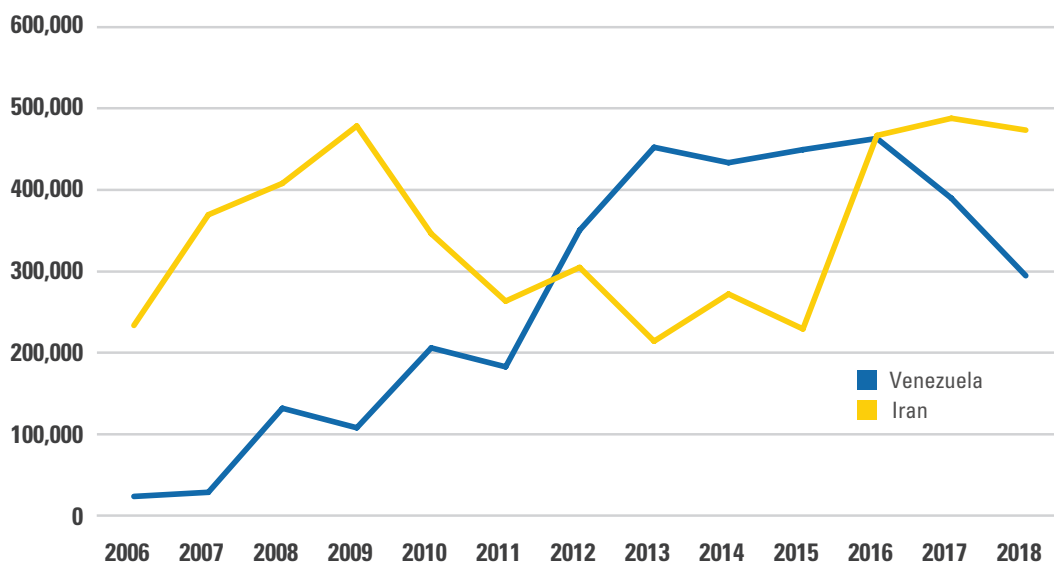
capable of processing heavy crude, with a refining capacity of roughly 5 million barrels per day (bpd), equal to the refining capacity of Germany, France, and Canada combined.<sup>6</sup>

Enter Venezuela, home to the world's largest proven oil reserves, nearly all of which is in the form of heavy crude. In mid-2007, Venezuela's then-President Hugo Chávez seized majority stakes in four oil projects in the Orinoco Belt, causing foreign companies like Exxon Mobil and ConocoPhillips to exit the country. Venezuela's state oil company, Petróleos de Venezuela S.A. (PDVSA), assumed more control of operations in the region. The very next year, by 2008, India suddenly became Venezuela's second-largest export destination, behind only the United States and just a hair's length ahead of China. Evidently, Venezuela was eager to please in India's search for new oil suppliers.

Finally, the United States played an inadvertent role in accelerating Venezuela's trade linkages with India. The mounting pressure of U.S. sanctions on Iran forced India to drastically decrease its oil imports from the Gulf nation. Following U.S. President Barack Obama's first visit to India in November 2010, the Reserve Bank of India (RBI) announced it would stop using the Asian Clearing Union (ACU) to pay for Iranian oil. "Trade transactions with Iran should be settled in any permitted currency outside the

6. BP, *BP Statistical Review of World Energy*, June 2018, 12.

**Figure 3: India's Oil Imports from Venezuela and Iran**  
(quantity, in barrels per day)



ACU mechanism,” noted the RBI in a December 2010 circular.<sup>7</sup> Without the ACU, the threat of U.S. sanctions made it increasingly difficult to settle payments with Iran, leaving a vacuum in India’s oil imports that Venezuela was quick to fill.

Venezuela, which until recently remained in the periphery of India’s economic and political policy, suddenly became a key part of the Indian government’s energy policy in the 21st century. India, too, became vital for Venezuela’s economic survival, accounting for nearly 17 percent of Venezuela’s exports, even more than the country’s exports to China.<sup>8</sup>

## Overview of India-Venezuela Relations

India and Venezuela established diplomatic relations in 1959, with Venezuela opening its embassy in India in 1962.<sup>9</sup> Soon after, in 1968, Indian Prime Minister Indira Gandhi visited Venezuela as part of an eight-country tour of the Latin American and Caribbean (LAC) region and decided to open an embassy in Caracas.<sup>10</sup> However, bilateral ties stagnated for several

7. A.P. (DIR Series) Circular No. 31, Reserve Bank of India, December 27, 2010, [https://www.rbi.org.in/scripts/BS\\_ViewBulletin.aspx?Id=11857](https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=11857).

8. “Country Forecast: Venezuela,” *Economist Intelligence Unit*, November 2018.

9. Ministry of External Affairs, *Annual Report 1961–62*, Government of India, <https://mea.lib.nic.in/?pdf24887000>.

10. *Indira Gandhi in Venezuela (1968–2013): 45th Anniversary of a Historic Visit*, Embassy of India in Venezuela, Los Andes University; Hernán Lucena Molero, Public Lecture on XX1st Century India, <http://www.eoicaracas.gov.in/docs/IndiraGandhiVisit.pdf>.

years after, as India became preoccupied with domestic issues arising from a period of national emergency during the 1970s; and Venezuela, along with several Latin American countries, entered the so-called 'lost decade' of the 1980s, an era marked by high levels of inflation and a serious oil glut, when prices plummeted to less than US\$10 per barrel of oil.

The current phase in bilateral relations began in the early 21st century, with the visit of Chávez to India in March 2005. Chávez's visit marked the first major overture made by Venezuela to court India as a market for its oil exports. Both countries signed several agreements to deepen cooperation in the hydrocarbons sector—not only for India to buy oil, but also for Indian public sector companies to invest in downstream oil projects in Venezuela.

Chávez's visit was followed by several high-level exchanges, primarily between the petroleum ministers in both countries. The business of oil has anchored the India-Venezuela relationship, and will continue to do so for many years to come, given the natural convergence between India, one of the largest buyers and consumers of oil, and Venezuela, which has the largest oil reserves in the world.

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There are some other, albeit smaller, elements to the India-Venezuela bilateral, which include non-oil related commerce such as pharmaceuticals, automobiles, and textiles, but these exchanges have diminished over the past few years due to the domestic crises that afflict Venezuela.

Overall, business rather than politics drives the bilateral. This, more than anything else, dictates the policy position of both countries. They are both in it for the long run, regardless of which political dispensation is in power in either country. Since business is at the forefront, neither country needs to go out of its way to make political appeasements. Testament to this was India's Prime Minister Narendra Modi's decision to skip the 17th Non-Aligned Movement (NAM) Summit, held in Venezuela on 17 September 2016. Although India's Vice President led the delegation to the Summit, it was the first time a serving Indian Prime Minister chose not to attend the NAM Summit since the bloc was founded in 1961.<sup>11</sup>

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11. Nikita Doval, "Narendra Modi Skips NAM Summit, the First Indian PM to Do So," *Live Mint*, [www.livemint.com/Politics/ectxbpHsJ2XUmRkXXqVbpL/Hamid-Ansari-leaves-for-Venezuela-to-attend-17th-NAM-summit.html](http://www.livemint.com/Politics/ectxbpHsJ2XUmRkXXqVbpL/Hamid-Ansari-leaves-for-Venezuela-to-attend-17th-NAM-summit.html). Note: Although Indian Prime Minister Charan Singh did not attend in 1979, he was a caretaker Prime Minister who was in power for less than six months.

## Oil, Oil, and More Oil

Oil, or more specifically, crude petroleum oil, is the cornerstone of India-Venezuela ties. There are very few trade relationships in the world where nearly all trade between two countries is a one-way exchange of just one product—and that is the case for India-Venezuela trade. The export of crude petroleum oil from Venezuela accounted for 98.54 percent of all India-Venezuela trade in 2017–18—in comparison, Venezuela’s export of crude petroleum to the United States forms 71 percent of U.S.-Venezuela trade, with the rest comprising U.S. exports to Venezuela.<sup>12</sup> India’s crude oil import capacity, which reached a peak of 4.33 million bpd in 2017, now far exceeds Venezuela’s export capability.<sup>13</sup>

**1. Imports:** India’s imports of crude oil from Venezuela are partly market-driven, but some other factors are equally if not more important in determining the quantity of imports over the long run:

**a. Heavy crude:** As the name suggests, heavy crude tends to be thicker and denser, with more sulfur, metals, nitrogen, and other contaminants. It is generally defined as oil with an API gravity of 22.3° or less.<sup>14</sup> Extra heavy crude has an API gravity of less than 10°, which means it sinks rather than floats in water. Heavy crude goes through a more complex refining process, where contaminants like sulfur are removed.

In 2009, a U.S. Geological Survey team published a paper estimating “a mean volume of 513 billion barrels of technically recoverable heavy oil in the Orinoco Oil Belt Assessment Unit of the East Venezuela Basin Province; the range is 380 to 652 billion barrels.”<sup>15</sup> Even at a much lower estimate of 224 billion barrels of heavy crude oil, Venezuela’s Orinoco Belt contains about the same amount of oil as all of North America.<sup>16</sup>

Many large Indian refineries are capable of processing heavy Venezuelan crude, which is priced much lower than lighter grades of crude due to the complex refining process it must undergo. The Venezuelan Merey, a heavy crude with an

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12. Department of Commerce, *Export Import Data Bank*, Ministry of Commerce and Industry, Government of India, <http://commerce-app.gov.in/eidb>.

13. ITC, *Trade Map*.

14. Note: API Gravity is the most commonly used index to calculate the density of crude oil and petroleum products, as defined by the American Petroleum Institute.

15. U.S. Geological Survey, *An Estimate of Recoverable Heavy Oil Resources of the Orinoco Oil Belt, Venezuela*, U.S. Department of the Interior, Government of the United States of America, <https://pubs.usgs.gov/fs/2009/3028/pdf/FS09-3028.pdf>.

16. BP, *BP Statistical Review of World Energy*, 12.





Porlamar, Venezuela. September 17th, 2016: Indian Vice President Hamid Ansari greets Venezuelan President Nicolás Maduro at the opening ceremony of the Non-Aligned Movement Summit in Venezuela. © Golden Brown / Shutterstock.com

API gravity of 16°, traded at US\$69.31 in September 2018, a whole 12 percent less than the Brent Crude price of US\$78.80.<sup>17</sup> This poses an advantage for Indian refiners that can turn a profit converting heavy crude to finished products like gasoline or diesel and sell it on the open market. India and Venezuela therefore enjoy a synergy with heavy crude, which matters even more in the long run as technology makes heavy crude easier and cheaper to extract, transport, and refine.

- b. India's diversification policy:** Although India produces a fair amount of oil, at about 803,000 bpd in 2017, this accounts for only about 18 percent of the total oil consumption of 4.46 million bpd, the remainder of which is imported.<sup>18</sup> Historically, much of this oil requirement has been met by the Middle East; the region is so close that goods can transit in as little as three to four days from the Middle East to the west coast of India. In comparison, it can take from 40 to 60 days for a ship to sail from Venezuela to India.

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17. Organization of the Petroleum Exporting Countries, *OPEC Bulletin*, Vol XLIX, No 9, November 2018, [https://www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/OB112018\\_percent20.pdf](https://www.opec.org/opec_web/static_files_project/media/downloads/publications/OB112018_percent20.pdf).

18. BP, *BP Statistical Review of World Energy*, 12.

Naturally, the Middle East is the most important source of oil for India; in 2007, more than 75 percent of India's oil imports came from the region. But it can be a risky proposition to depend on one region for such an important and strategic resource. The government of India thus actively seeks to diversify oil import sources. India's Oil Minister Dharmendra Pradhan said in an interview to *Mint*, a financial daily in India, "Procurement has to be diversified, taking into account the changing geopolitics in the world. I met a representative from the U.S. government recently and I have already asked for oil from them when they start allowing [exports]. We will look to go to Russia and Latin America if that suits our needs."<sup>19</sup>

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This diversification policy has shown rather quick results. In 2014 and 2015, the Middle East only supplied 59 percent of India's oil imports, a whole 16 percentage points less than it did in 2007; Latin American countries like Venezuela, Mexico, and Brazil, as well as African nations like Nigeria and Angola, made up the rest.<sup>20</sup> As India's demand for oil increases, it will open the trade basket for

more suppliers, including the United States, which has already started supplying crude oil to India—in 2017, the United States exported about \$470 million worth of crude oil to India, and that has increased to \$2.6 billion for January to November 2018.<sup>21</sup>

Here too, there is great synergy with Venezuela: in addition to India's diversification of oil import sources, Venezuela needs to capture large new markets given that its largest customer, the United States, rapidly cut oil imports due primarily to an increase in domestic oil and gas production and then to U.S. financial and, subsequently, oil sanctions. U.S. oil imports from Venezuela decreased from 1.4 million bpd in 2007 to about half of that in 2017. The Venezuelan government's *Plan Siembra Petrolera* 2005–2030 (Sowing the Oil Plan) names India, along with other Asian nations like China and Japan, as key markets for export diversification.

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19. Debjit Chakraborty and Rakteem Katakey, "India Plans to Diversify Oil Imports.", *Live Mint*, October 25, 2014, [www.livemint.com/Politics/dtqX201kKrYSwlaNuuH5N/India-plans-to-diversify-oil-imports.html](http://www.livemint.com/Politics/dtqX201kKrYSwlaNuuH5N/India-plans-to-diversify-oil-imports.html).

20. ITC, *Trade Map*.

21. Ibid.



- c. Reliance Industries:** As India's largest private company, currently ranked 148 in the Fortune Global 500, Reliance Industries Limited (RIL) is the most important player in India-Venezuela trade, accounting for an overwhelming majority of Venezuelan crude oil imported by India. RIL operates the largest single-location refinery in the world, in Jamnagar, Gujarat, on India's west coast, where it operates a crude oil port just 10 miles from the refinery.

From 2005–08, RIL expanded its oil refinery in Jamnagar in partnership with the U.S.-based Bechtel group, a leading global engineering and construction company, at a cost of more than US\$6 billion. The Bechtel website notes the following:

*Jamnagar is much more than a pair of giant refineries. It's a massive, integrated manufacturing complex that also boasts aromatics and a petrochemical plant, a power generation system, a port and terminal complex, and access to a pipeline network. Construction of the second refinery required over 200,000 engineering and supplier documents, more than 1.9 million cubic yards (1.5 million cubic meters) of concrete, some 13 million feet (4 million meters) of piping, and 4,400 pieces of major equipment. The work site itself covered an area larger than London.<sup>22</sup>*

Besides the sheer scale of the refinery, another major advantage RIL receives is the increased profit margin by leveraging the light-heavy crude differentials, given that the complex refinery can process practically all types of crude oil. Only a small subset of global refining assets are capable of processing heavy Venezuelan crude, due to the high capital and operating costs involved.

RIL entered the India-Venezuela trade scenario unequivocally in 2010: due to the threat of U.S. sanctions on Iranian oil imports, RIL chose not to renew its contract of 100,000 bpd from Iran and promptly increased its Venezuelan imports from 59,000 bpd in 2009 to 182,000 bpd in 2010.<sup>23</sup> This was only the beginning.

In 2012, RIL's Executive Director PMS Prasad flew to Caracas to sign a long-term heavy crude oil supply contract with PDVSA. The terms: PDVSA will supply between 300,000 to 400,000 bpd of crude oil to RIL for 15 years. This was a

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22. Bechtel Corporation, *Expansion makes Jamnagar the world's largest oil-refining hub*, <https://www.bechtel.com/projects/jamnagar-oil-refinery/>.

23. Thomas Strouse, *Iran-India Oil Trade in Jeopardy*, PBS Frontline, January 25, 2011, <https://www.pbs.org/wgbh/pages/frontline/tehranbureau/2011/01/iran-india-oil-trade-in-jeopardy.html>.

clear win-win deal. The RIL 2012–13 annual report notes that “the agreement provides RIL with security of supply and allows it to optimize around that supply while providing PDVSA a material Asian end user market.”<sup>24</sup> By virtue of these large quantities, much of the crude is shipped in very large crude carriers (VLCCs) capable of carrying up to 2 million barrels of oil, aptly termed as ‘supertankers,’ at a reasonable wholesale price.

The real twist, though, is this: after Venezuela sells its heavy crude in supertankers at a bulk rate, RIL processes the oil at its refinery and exports finished products such as gasoline and diesel to foreign markets as far flung as the United States and Brazil. This is made possible due to the highly complex

nature of RIL’s twin refineries, which can process practically any grade of crude oil into gasoline or diesel. Over the years, RIL’s refineries have processed nearly 150 different grades of crude oil.<sup>25</sup> As a result, RIL’s gross refining margin (GRM) was \$11.9 per barrel in 2017, about US\$5.5 more than the benchmark Singapore refining margin. An article in August 2017 notes that there are three key reasons for RIL’s high GRM, “One, the complexity of its twin refineries at Jamnagar, Gujarat. Two, the company’s smart crude sourcing strategy, and three, the freedom to alter its

product mix according to market demand (and supply).”<sup>26</sup>

Reliance’s twin Jamnagar refineries can process 1.4 million barrels per day, or roughly 2 percent of the world’s refining capacity, almost the same refining capacity of all of Canada.<sup>27</sup> And that’s not all: RIL is nearing completion of yet another expansion project in Jamnagar, dubbed J3, which would increase capacity to about 2 million barrels per day.<sup>28</sup>

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24. Reliance Industries Limited, *Annual Report 2012–13*, [http://www.ril.com/getattachment/14066af0-f5b6-46ed-9370-7386fa924b12/AnnualReport\\_2012-13.aspx](http://www.ril.com/getattachment/14066af0-f5b6-46ed-9370-7386fa924b12/AnnualReport_2012-13.aspx).

25. Reliance Industries Limited, *Sustainability Report 2015–16*, [http://www.ril.com/DownloadFiles/SustainabilityReports/RILs%20Sustainability%20Report%202016%20\(Two%20page%20view\).pdf](http://www.ril.com/DownloadFiles/SustainabilityReports/RILs%20Sustainability%20Report%202016%20(Two%20page%20view).pdf)

26. Kalpana Pathak, “How Reliance Industries manages to keep its refining margins high,” *Live Mint*, August 21, 2017, <https://www.livemint.com/Industry/PKRwfdKDwdknLPP4ShElkO/How-Reliance-Industries-manages-to-keep-its-refining-margins.html>.

27. Reliance Industries Limited, *Annual Report 2013–14*, [http://www.ril.com/AnnualReport/download\\_centers/RIL%20AR%202013-14%20-%20Review%20of%20Operations.pdf](http://www.ril.com/AnnualReport/download_centers/RIL%20AR%202013-14%20-%20Review%20of%20Operations.pdf).

28. Reliance Industries Limited, *Annual Report 2017–18*, <http://www.ril.com/ar2017-18/pdf/ril-annual-report-2018.pdf>.

Besides RIL, only one other Indian company, Essar Oil, currently buys Venezuelan crude oil, albeit in smaller quantities. Essar Oil, founded in 1989 as part of the private Essar group, was acquired by Rosneft in 2016 for a record US\$12.9 billion and renamed Nayara Energy in 2018. It was a win-win situation, propelled by market forces: the Essar group sought a foreign buyer to absorb some of its massive debt, and Rosneft was looking for a way to enter the Indian oil market. The acquisition helped the Essar group repay some US\$21 billion in debt over the past two years. The company buys crude oil from several Latin American countries, including Mexico, Venezuela, and Brazil. Despite this new Russian ownership, there is no Russia-India-Venezuela trilateral dialogue or relationship to speak of—India enjoys a strategic and historical relationship with Russia, and would be hesitant to bring Caracas into the mix. However, renewed U.S. sanctions on Iranian oil imports could push Nayara Energy gradually to replace Iranian oil with Venezuelan crude in the long run.

**2. Investments:** The oil exchanges between India and Venezuela go beyond transactional imports and include a strategic imperative from the Indian government to participate in joint exploration and downstream projects in Venezuela's vast oilfields. These strategic investments are part of a long-term strategy to secure India's energy needs.

- a. Energy security policy:** In June 2017, the government of India published a "Draft National Energy Policy," outlining everything from the country's energy demand and rural electrification to regulators and overseas engagements.<sup>29</sup> The report underlines some key elements of government policy that remain pertinent to Indian investment in Venezuela, and states that "in the recent past, there has been an overwhelming success in securing oil and gas assets by our companies, and this number is set to increase. This will be effectively used to acquire assets and also seek beneficial energy supply contracts. Imaginative purchase contracts will be struck that give us price and volume flexibility."

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*The investments by large Indian public oil companies in Venezuela must be seen in this larger context of energy security.*

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29. NITI Aayog, *Draft National Energy Policy*, Government of India, June 27, 2017, [https://niti.gov.in/writereaddata/files/new\\_initiatives/NEP-ID\\_27.06.2017.pdf](https://niti.gov.in/writereaddata/files/new_initiatives/NEP-ID_27.06.2017.pdf).





BANGALORE, KARNATAKA, INDIA, APRIL 23, 2018: Cars filling petrol/diesel in an IndianOil petrol bunk, on a sunny day. © AjayTvm / Shutterstock.com

Venezuela fits well into India's national energy policy. The investments by large Indian public oil companies in Venezuela must be seen in this larger context of energy security. They also give India a deeper understanding of the on-the-ground realities in Venezuela, especially at times of political and economic crises.

- b. OVL, the largest investor:** ONGC Videsh Limited, or simply OVL, is the overseas arm of the Oil and Natural Gas Corporation (ONGC), India's premier public oil and gas exploration and production company. OVL has invested in 41 oil and gas projects across 20 countries, including 11 projects in Latin America that contribute 30 percent of OVL's oil production.<sup>30</sup>

In 2008, OVL acquired a 40 percent participating interest in the San Cristóbal oilfield in the Orinoco region, with PDVSA holding the remaining 60 percent stake in the joint venture Petrolera IndoVenezolana. Given that OVL is a public

30. Oil and Natural Gas Corporation Ltd, Press Release, <https://www.ongcindia.com/wps/wcm/connect/hi/media/press-release/mou+signed+between+ongc+videsh+and+co+ordinating+ministry+for+strategic+sectors+++ecuador>.

company, the deal was facilitated by the Government of India, namely by Oil and Gas Minister Murli Deora, the first Indian oil minister to visit Caracas. OVL agreed to invest US\$354 million and redevelop the field to increase production from the current 20,000 bpd to 40,000 bpd,<sup>31</sup> in order to “pump 232.38 million barrels of crude over 25 years.”<sup>32</sup>

This was followed by a much bigger acquisition: a three-member consortium of Indian public companies invested in Venezuela’s Carabobo-1 oil block, including an 11 percent stake for OVL (for US\$1.33 billion),<sup>33</sup> and 3.5 percent each for Indian Oil Corporation and Oil India Limited (for US\$454 million each).<sup>34</sup> Since all three are publicly-owned companies, India’s Cabinet Committee on Economic Affairs approved an initial investment of US\$2.18 billion in March 2010. It is difficult to overstate the sheer magnitude of this strategic investment: the Carabobo-1 oil field holds an estimated 31 billion barrels of oil reserves, making it the fourth largest onshore oil field in the world,<sup>35</sup> and the investors have been granted a license term of up to 40 years<sup>36</sup> to take advantage of this fact. In comparison, the United States holds 50 billion barrels of oil reserves.<sup>37</sup>

Carabobo-1 began production in 2012–13 with a modest 27,000 bpd and OVL shipped its first cargo of 1.2 million barrels by the supertanker BungaKasturiDua to Reliance Industries in July 2014.<sup>38</sup> This is a good example of two Indian companies working together to secure oil supplies from overseas, with OVL as the producer of oil in Venezuela and RIL as the buyer and refiner.

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31. Oil and Natural Gas Corporation Ltd, *Annual Report 2007–08*, 41, [https://www.ongcindia.com/wps/wcm/connect/a69de1d6-d32e-43eb-a913-3347a31a31d7/2007\\_08.compressed.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-a69de1d6-d32e-43eb-a913-3347a31a31d7-m4xPlyk](https://www ONGCIndia.com/wps/wcm/connect/a69de1d6-d32e-43eb-a913-3347a31a31d7/2007_08.compressed.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-a69de1d6-d32e-43eb-a913-3347a31a31d7-m4xPlyk).
  32. Sujay Mehdudia, “OVL, PDVSA of Venezuela to form joint venture,” *Live Mint*, April 10, 2008, <https://www.thehindu.com/todays-paper/tp-business/OVL-PDVSA-of-Venezuela-to-form-joint-venture/article15200687.ece>.
  33. Oil and Natural Gas Corporation Ltd, *Consolidated Accounts, Annual Report 2011–12*, [https://www.ongcindia.com/ongcIndia/files/Annual\\_Report\\_2011-12/Consolidated%20Accounts%20for%202011-12.html](https://www.ongcindia.com/ongcIndia/files/Annual_Report_2011-12/Consolidated%20Accounts%20for%202011-12.html).
  34. Ministry of External Affairs, “India-Venezuela Relations,” *Briefs on India’s Bilateral Relations*, Government of India, [http://mea.gov.in/Portal/ForeignRelation/11\\_Venezuela\\_November\\_2017.pdf](http://mea.gov.in/Portal/ForeignRelation/11_Venezuela_November_2017.pdf).
  35. Carabobo Oil Project, hydrocarbons-technology.com, <https://www.hydrocarbons-technology.com/projects/carabobo-oil-project/>.
  36. Oil and Natural Gas Corporation Ltd, *Annual Report 2011–12*, [https://www.ongcindia.com/ongcIndia/files/Annual\\_Report\\_2011-12/Directors%20Report.html](https://www.ongcindia.com/ongcIndia/files/Annual_Report_2011-12/Directors%20Report.html). Note: the initial license term is for 25 years, and can be extended for another 15 years.
  37. BP, *BP Statistical Review of World Energy*, 12.
  38. Oil and Natural Gas Corporation Ltd, “Press Release: ONGC has notified 6 Oil & Gas discoveries • Declares results of Q1 FY’15; PAT up by over 19 percent (Q1-to-Q1),” <https://www.ongcindia.com/wps/wcm/connect/en/media/press-release/press-release-ongc-has-notified-6-oil-and-gas-discoveries-declares-results-of-q1-fy-15-pat-up-by-over-19-per-q1-to-q1>.



The Carabobo-1 venture was expected to reach a peak production capacity of 400,000 bpd by 2016–17, but this has been inevitably delayed by the various domestic crises plaguing Venezuela. OVL's management expects to reach this target only by 2020–21 or even later.<sup>39</sup> Despite OVL's earnest and strategic entry into Venezuela, and its nearly US\$2 billion investment commitment in the country, the company has faced various setbacks, in the form of unpaid dividends and rapidly falling production levels. However, in the long run, these may end up being only temporary speed bumps. Venezuela considers OVL an important strategic investor and is likely to repay the dividends owed to the company once the country's economy recovers. Similarly, to the extent that oil production stabilizes over the coming years, OVL is bound to ship more oil from its San Cristóbal and Carabobo-1 ventures to companies like Reliance Industries in India.

## Bilateral Ties in the Context of Venezuela's Domestic Crises

The recent crises in Venezuela have enveloped all aspects of society and inexorably affected Caracas' foreign relations. This is manifest in pending dues to foreign companies, mounting foreign debt, the migration of more than 3 million Venezuelans, international sanctions, and closures of international manufacturing units such as Goodyear Tire, Kellogg, and Bridgestone.

Naturally, the spill over has had an impact, even if temporary, on India-Venezuela ties as well.

- **“Staggering drop in [oil] production”:** Venezuela has reached record low levels of oil production. Estimates suggest that the country produced an average of 1.92 million bpd of oil in 2017, which fell further to 1.3 million bpd in 2018. This is far lower than two decades ago when production stood at 3.24 million bpd.<sup>40</sup> This has had a temporary impact on India's imports of Venezuelan oil. From 2012 to 2017, India imported on average 424,000 bpd of crude oil from Venezuela each year—which comes down to an average of roughly 35,000 bpd per month. In 2018, as per data available through October, India's average monthly import has decreased to 29,400 bpd, a 16 percent drop.<sup>41</sup> This is a surprisingly moderate reduction in imports,

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39. Oil and Natural Gas Corporation Ltd, “ONGC Limited Q2FY15 Results Conference Call,” November 14, 2014, [https://www.ongcindia.com/wps/wcm/connect/23d5994f-7660-4f6c-87c3-e0624c8a7e0c/TranscriptQ2\\_FY15.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-23d5994f-7660-4f6c-87c3-e0624c8a7e0c-lZnqQly](https://www.ongcindia.com/wps/wcm/connect/23d5994f-7660-4f6c-87c3-e0624c8a7e0c/TranscriptQ2_FY15.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-23d5994f-7660-4f6c-87c3-e0624c8a7e0c-lZnqQly).

40. Rocio Cara Labrador, “Venezuela: The Rise and Fall of a Petrostate,” Council on Foreign Relations, November 30, 2018, <https://www.cfr.org/article/venezuela-rise-and-fall-petrostate>.

41. Calculations based on data from UN Comtrade (<https://comtrade.un.org>) and ITC Geneva Trade Map (<https://www.trademap.org>).

considering that Venezuela's overall production has dropped by 51 percent in the last three years.<sup>42</sup>

Nevertheless, this decrease in production levels has had a direct impact on Indian investors like OVL. Production in the Carabobo-1 oil block, where OVL has an 11 percent stake, currently stands at about 24,700 bpd, only 6 percent of the expected peak capacity of 400,000 bpd.<sup>43</sup> The company's latest 2017–18 annual report notes the following:

*Venezuela's staggering drop in production, where production has fallen by more than 500,000 bpd in the past one year and is projected to drop by another 600,000 bpd by December 2019, is a more near-term threat to the stability of global oil markets. While the list of countries posing geopolitical risk is largely Middle-East dominant—the biggest risk in terms of significant oil supply disruptions comes from Iran (on account of possible re-imposition of sanctions by the United States) and Venezuela (with its rampant decline in production from its aging fields and state of severe sovereign economic crisis).<sup>44</sup>*

Incidentally, the United States announced in November 2018 that it will reinstate sanctions against Iran. However, India is included in a short list of countries exempt from these sanctions—at least for a temporary period of time, so imports can be gradually reduced over the medium term.

- **Pending dues:** The economic crisis in Venezuela has had a severe impact on foreign firms operating in Venezuela. Due to strict foreign exchange controls, companies are unable to repatriate money from Venezuela. The country owes US\$3.78 billion to foreign airlines<sup>45</sup> and another US\$5 billion to international pharmaceutical companies.<sup>46</sup> Indian pharmaceutical companies also form a part of the latter group

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42. Oxford Economics, *Country Economic Forecast Venezuela*, December 5, 2018.

43. U.S. Energy Information Administration, "Venezuela Analysis," <https://www.eia.gov/beta/international/analysis.php?iso=VEN>.

44. Oil and Natural Gas Corporation Ltd, *Annual Report 2017–18*, [https://www.ongcindia.com/wps/wcm/connect/0e5d4885-2465-4454-b1c7-cad6566c8fff/ar201718.pdf?MOD=AJPERES&CONVERT\\_TO=url&CACHEID=ROOTWORKSPACE-0e5d4885-2465-4454-b1c7-cad6566c8fff-mmzgbbv](https://www ONGCIndia.com/wps/wcm/connect/0e5d4885-2465-4454-b1c7-cad6566c8fff/ar201718.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=ROOTWORKSPACE-0e5d4885-2465-4454-b1c7-cad6566c8fff-mmzgbbv).

45. International Air Transport Association (IATA), "Press Release 34: Governments Urged to Address Airline Blocked Funds, June 5, 2018, <https://www.iata.org/pressroom/pr/Pages/2018-06-05-02.aspx>.

46. Kejal Vyas, "Cash-Strapped Venezuela Offers to Pay for Medicines With Diamonds," *Wall Street Journal*, January 4, 2018, <https://www.wsj.com/articles/cash-strapped-venezuela-offers-to-pay-for-medicines-with-diamonds-1515061800>.

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*OVL is also owed money from dividends declared between 2009 and 2013 for its stake in the San Cristóbal oil field. The total amount due is US\$537.63 million, and only US\$88.42 million has been received so far.*

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and are unable to repatriate US\$350 million from Venezuela.<sup>47</sup> Four Indian pharmaceutical companies, Dr. Reddy's Laboratories, Glenmark Pharmaceuticals, Claris Lifesciences, and Sun Pharmaceutical Industries, have been lobbying since 2013 for a solution to this issue.

Besides Indian pharma companies, OVL is also owed money from dividends declared between 2009 and 2013 for its stake in the San Cristóbal oil field (no further dividends have been declared since). The total amount due is

US\$537.63 million, and only US\$88.42 million has been received so far.<sup>48</sup> PDVSA even offered to sell an additional 9 percent stake in the San Cristobal project as a means of repayment, but OVL refused this stopgap offer.

## Not Much Beyond Oil

Besides the oil relationship, India and Venezuela enjoy a moderate commercial and cultural relationship that has grown over the past 50 years since establishing diplomatic ties.

In commercial terms, India's exports are negligible, reaching a peak of US\$252 million in 2012, making Venezuela only the 86th largest export destination for India. Pharmaceutical products, cotton, machinery, and chemicals constitute the large majority of Indian exports to the Andean nation. Due to the lack of medicines in Venezuela, a handful of Indian pharmaceutical companies set up offices in the country,<sup>49</sup> including some of the largest companies from the sector such as Sun Pharmaceuticals, Dr. Reddy's Laboratories, and Glenmark Pharmaceuticals.

Tata Motors, part of the Tata conglomerate and one of the world's largest producers of vehicles (producing 1.08 million vehicles in 2016,<sup>50</sup> roughly equal to Italy's total vehicle

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47. Shine Jacob, "Venezuela knocks on FinMin, State Bank of India doors for rupee trade," *Business Standard*, 29 May 2018, [https://www.business-standard.com/article/economy-policy/venezuela-knocks-finance-ministry-sbi-doors-for-rupee-trade-with-india-118052801326\\_1.html](https://www.business-standard.com/article/economy-policy/venezuela-knocks-finance-ministry-sbi-doors-for-rupee-trade-with-india-118052801326_1.html).

48. PTI, "OVL declines Venezuela's offer for additional stake in oilfield," *Financial Express*, September 9, 2018, <https://www.financialexpress.com/industry/ovl-declines-venezuelas-offer-for-additional-stake-in-oilfield/1307239/>.

49. Although five Indian pharmaceutical companies set up offices in Venezuela, only one remains in the country today, Dr. Reddy's Laboratories. See <http://www.eoicaracas.gov.in/page/companies/>.

50. OICA, *World Motor Vehicle Production 2015–16*, <http://www.oica.net/wp-content/uploads/World-Ranking-of-Manufacturers.pdf>.

production of 1.10 million in the same year)<sup>51</sup>, announced in 2014 that it would open its first overseas assembly plant for passenger cars, surprisingly, in Venezuela.<sup>52</sup> The plan has so far been stalled and looks unlikely to move forward anytime soon.

Despite these minor mishaps, diplomatic ties have always remained cordial, in both the pre- and post-Chávez eras. This is due to the efforts of the Indian Embassy in Caracas, which has over the years bridged the large geographical distance between India and Venezuela by galvanizing interest through academia, yoga, dance, and other cultural activities. The Indian Embassy in Caracas maintains the Indian Cultural Centre and launched the Indian Association in Venezuela in 2003 to promote Indian culture in Venezuela. Several Indian spiritual and cultural centers are present in Venezuela, ranging from the Hare Krishna and Sai Baba temples to yoga and Ayurveda groups. Several thousand Venezuelans (including Venezuelan leader Nicolás Maduro) are followers of Sai Baba of Puttparthi, a fact that was palpable as the National Assembly of Venezuela “honoured Sai Baba with a unanimous resolution in 2011 following his passing away and hailed him as one of the greatest Mahatmas, Spiritualists, Humanists of India and the world.”<sup>53</sup>

There is also some academic interest in Venezuela about Indian culture and history. The University of Los Andes in Mérida and Central University of Venezuela in Caracas both have had India study centers for more than a decade now, and they occasionally hold seminars and lectures on Indian history, Mahatma Gandhi, and contemporary topics like “India as an Emerging Power.”<sup>54</sup> The Law Faculty of the University of Santa María in Caracas more recently opened an India study center in homage to Dr. BR Ambedkar, an Indian jurist widely credited as the principal architect of the Indian Constitution.

While cultural, diplomatic, and people-to-people ties remain cordial, things have certainly slowed down over the past decade due to the crises in Venezuela. India’s Ministry of External Affairs notes that “performances of Indian dance and music troupes used to be regularly sponsored through ICCR (Indian Council for Cultural Relations). However, the last such cultural troupe came here in 2009.”<sup>55</sup>

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51. OICA, *2016 Production Statistics*, <http://www.oica.net/category/production-statistics/2016-statistics/>.

52. Roudra Bhattacharya, “Tata Motors gears up for South American drive with first car plant in Venezuela,” *Financial Express*, July 24, 2014, <https://www.financialexpress.com/archive/tata-motors-gears-up-for-south-american-drive-with-first-car-plant-in-venezuela/1273111/>.

53. Embassy of India, *India-Venezuela Cultural Cooperation*, Caracas, Venezuela, <http://www.eoicaracas.gov.in/page/cultural/>.

54. Ministry of External Affairs, “India-Venezuela Relations,” *Briefs on India’s Bilateral Relations*, Government of India, November 2017, [http://mea.gov.in/Portal/ForeignRelation/11\\_Venezuela\\_November\\_2017.pdf](http://mea.gov.in/Portal/ForeignRelation/11_Venezuela_November_2017.pdf).

55. Ibid.

## India-Venezuela Relations in the International Context

There is merit in looking at India-Venezuela relations through an international context, primarily by trying to answer two questions:

- Where does India stand among Venezuela's most important international partners?
- What is Venezuela's place in the larger context of India-Latin America relations?

To answer the first question, there is a vast sea of difference that separates India's relationship with Venezuela from Caracas's 'allies.' Unlike the cases of Russia, Cuba,

and China, India's bilateral relationship with Venezuela is anchored in energy security, and the political relationship remains secondary. Regime changes and domestic political issues are unlikely to cause any real friction in the India-Venezuela relationship.

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Today, Russia, China, and Cuba remain important political allies for the Maduro-led socialist government, while New Delhi maintains an arms-length distance when it comes to politics. Even though former Venezuelan President Hugo Chávez visited India in 2005, no Indian Prime Minister or External Affairs Minister has visited Venezuela since 1968. Instead, it is India's oil minister that interacts more frequently with Venezuela.

Russia and China have a much deeper relationship with Venezuela, especially through military exchanges and loans (especially China, which has provided approximately US\$60 billion to Venezuela).<sup>56</sup> However, India does not have a military relationship with Venezuela, and shows no sign of lending Caracas any funds.

There is reasoning behind India's largely apolitical relationship with Venezuela. In the long run, it would be counter-productive for India to insert itself politically in Venezuela. Even the oil relationship has little political input: it is instead determined in large part by global market forces and private Indian oil companies like Reliance Industries. Just as India has

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56. Kevin P. Gallagher and Margaret Myers, "China-Latin America Finance Database," Inter-American Dialogue, 2017, [https://www.thedialogue.org/map\\_list/](https://www.thedialogue.org/map_list/); and Stephen B. Kaplan and Michael Penfold, "China-Venezuela Economic Relations: Hedging Venezuelan Bets with Chinese Characteristics," Latin American Program, Woodrow Wilson Center, February 2019.



stayed away from the high-power proxy war in Syria, it will most likely continue to remain outside of the political arena in Venezuela as well.

In the larger context of India-Latin America relations, Venezuela is rarely portrayed front-and-center, and remains secondary to Brazil and Mexico in terms of its importance to India.

For instance, India and Brazil elevated their bilateral relationship to the level of a “strategic partnership” in 2006 during the visit of India’s Prime Minister to Brazil.<sup>57</sup> It is India’s largest trade partner in Latin America, with bilateral trade at US\$8.5 billion in 2017–18; a large majority of Indian investment in Latin America is centered in Brazil, with nearly 100 Indian companies from the pharmaceutical, automobile, IT, agribusiness, and engineering sectors established in the country; finally, Brazil is also the largest Latin American investor in India.<sup>58</sup> Additionally, India and Brazil enjoy a natural alliance through the BRICS and IBSA platforms<sup>59</sup>, which include frequent summits at the level of heads of government—something no other Latin American country enjoys.

Mexico, too, has become increasingly important for India over the past decade. In September 2007, during the visit of former Mexican President Felipe Calderón to India, both countries labelled their relationship a “Privileged Partnership.” More recently, India-Mexico bilateral trade reached a peak of US\$7.7 billion in 2017–18, more than India’s trade with Canada or Turkey. India today exports more cars to Mexico than it does to any other country; and India has also been the third-largest export destination for Mexican crude oil since 2011, after only the United States and Spain.

Besides, there is rarely talk of Latin America in the political corridors of New Delhi. For instance, as India’s Ministry of External Affairs illustrates in its organogram, the LAC region is managed by the Minister of State for External Affairs, akin to a Deputy Foreign Minister.<sup>60</sup> Most other countries and regions, including Europe, South Asia, South East Asia, North America (only the United States and Canada), East Asia, and West Asia come under the purview of the Minister of External Affairs. Even India’s Prime Minister rarely visits Latin America. Of Modi’s 94 international trips through December 2018, only three have been to Latin America, making it the least visited region. Two were to attend multilateral summits—a

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57. Ministry of External Affairs, *India - Brazil Joint Communique*, Government of India, September 12, 2006. <https://mea.gov.in/bilateral-documents.htm?dtl/6335/India++Brazil+Joint+Communique>.

58. Data obtained by Embassy of Brazil in New Delhi.

59. BRICS is an acronym for a multilateral forum consisting of five nations (Brazil, Russia, India, China, and South Africa), while IBSA is a tripartite grouping of India, Brazil, and South Africa.

60. Ministry of External Affairs, *Organogram of the Ministry of External Affairs*, Government of India, updated on October 29, 2018, [https://mea.gov.in/Images/amb1/MEAOrganogramnov\\_2018\\_new.pdf](https://mea.gov.in/Images/amb1/MEAOrganogramnov_2018_new.pdf).



Puntofijo, Venezuela. © Shutterstock.com

BRICS Summit in Brazil and the G20 Summit in Buenos Aires—and one was a cursory four-hour visit to Mexico to lobby for a seat in the Nuclear Suppliers Group. In comparison, Modi visited Africa nine times, Central Asia eight times, and even Oceania three times.

## Going Forward

It is evident that oil is of paramount importance to the India-Venezuela relationship. This became even more pronounced in the face of declining U.S. imports of oil from Venezuela and India's rising demand for petroleum. Nevertheless, we should note that the India-Venezuela bilateral is unlikely to expand much beyond oil.

For Venezuela, and more specifically the current *chavista* regime, India is not an ideological ally and is unlikely to go out of its way to support Caracas in matters of state and foreign policy. India will remain an invaluable commercial partner for Caracas, as a buyer of oil and supplier of priceless foreign currency in a rapidly plummeting economy.

For India, at least for the short term, Venezuela is only a supplier of oil. But it is becoming a problematic supplier of late due to declining production levels. Besides oil, New Delhi does not see any other strategic imperative in engaging Caracas—it would be ill-advised for India to take any political policy position vis-à-vis Venezuela, especially regarding the

ongoing political crises in the country. In light of U.S. sanctions imposed on PDVSA on 28 January 2019, Venezuelan oil exports to the United States could dry up, leaving a shortfall of up to 500,000 bpd that Venezuela exported to the United States before sanctions were imposed. In this scenario, the two private Indian oil companies that currently buy Venezuelan oil, RIL and Nayara Energy, could gradually increase their imports from Venezuela. However, given that both conglomerates, Reliance and Essar, have important business relationships with the United States, it is unclear to what extent they would alter their patterns of trade with Venezuela in response to any pressures from the U.S. government.

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In some ways, it is advantageous for both countries that the relationship is not burdened by ideology. This is unlike Venezuela's allies China and Russia, who remain close to the current administration. But oil will continue to flow from Venezuela to India in roughly similar measures regardless of the party in power in either country.

In the short term, due to Venezuela's near-total economic collapse—with an economy shrinking by 9.9 percent in 2018, inflation at 1,365,323 percent and oil output possibly falling below 1 million bpd in 2019<sup>61</sup>—India will have to look elsewhere to make up the shortfall in oil supplies. But in the long run, the fortunes of both countries are inescapably tied together. Venezuela's economy is bound to recover eventually, especially if global oil prices rise in the short and medium term. According to a December 2018 report by Oxford Economics, the country's GDP is forecast to grow by 4.6 percent and exports by 11.9 percent in 2021.<sup>62</sup> This potential economic recovery, coupled with increased oil production, will be favorable to India-Venezuela ties and most likely result in an increase in Venezuelan oil exports to India.

Venezuela forms an integral part of India's overall energy security policy, which includes cooperation with other oil-producing nations in Africa (such as Nigeria and Angola) and Central Asia (like Kazakhstan and Azerbaijan). As a result, African countries now account for about 18 percent of India's total crude oil imports.<sup>63</sup> In the long run, New Delhi's energy diplomacy with Africa and Central Asia is likely to run parallel to India-Venezuela

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61. Oxford Economics, *Country Economic Forecast Venezuela*, December 5, 2018.

62. Ibid.

63. Department of Commerce, *Export Import Data Bank*, Ministry of Commerce and Industry, Government of India, <http://commerce-app.gov.in/eidb>

ties, without having a negative impact on the bilateral. Oil produced from these regions tend to be of lighter grades, and are therefore priced much higher than Venezuelan heavy crude. Moreover, these countries possess much smaller reserves of crude oil—even Nigeria, which currently exports nearly as much oil to India as Venezuela does, has 37 billion barrels of oil reserves, only about 12 percent of Venezuela’s oil reserves.<sup>64</sup>

Despite India’s dire need to increase the proportion of renewables in its energy matrix, petroleum oil will continue to be indispensable at least for another half-century. Even the most ambitious estimates by the government of India put India’s oil import demand between 7.19 million bpd and 9.34 million bpd by 2040, assuming that renewables account for a full ten-fold increase from their current level in the energy matrix.<sup>65</sup> If Venezuela is to continue to provide roughly 10 percent of India’s oil needs in 2040, this means exports would have to increase from the current average of 4.24 million bpd to between 702,000 bpd and 924,000 bpd. This alone should provide impetus for both countries to maintain a stable and cordial relationship.

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64. BP, *BP Statistical Review of World Energy*, June 2018, 12, <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review/bp-stats-review-2018-full-report.pdf>.

65. Calculations based on the *Draft National Energy Policy* published by the Government of India, [https://niti.gov.in/writereaddata/files/new\\_initiatives/NEP-ID\\_27.06.2017.pdf](https://niti.gov.in/writereaddata/files/new_initiatives/NEP-ID_27.06.2017.pdf).









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