

NOTE

OIL TRAP

Bharat Jhunjunwala writes :

The importance of oil in preserving national sovereignty has been highlighted by Editor of *Newsweek* Fareed Zakaria in his essay "How to Escape the Oil Trap." Zakaria contends that the most important issue for America's foreign policy is to reduce the domestic consumption of oil. That would lead to the decline in the global price of oil and have the following consequences: (1) The cash obtained by Saudi Arabia and Iran which gets into the hands of terrorists will be reduced; (2) Autocratic governments like those of Saudi Arabia will not be able to bribe the Wahabi imams and suppress demands for democratic reforms; (3) Iran would not be able to fund its nuclear programme; (4) President Putin of Russia will not be able to destroy competing centres of power or continue the 'disastrous' war in Chechnya; and (5) President Hugo Chavez of Venezuela will not be able to 'rebel' against American influence. The success of American foreign policy, therefore, says Zakaria, will depend upon the reduction in the consumption of oil by America. The logic applies to India as well. Dependence on imported oil weakens India's ability to withstand global political pressures. For example, India would have less compulsion to make nuclear deal with America; and it be less threatened by refusal by Arab states to supply oil in a situation of war.

Easy availability of oil prevents the development of alternate sources of energy. This writer had an opportunity to study the working of Gobar Gas plants in Village Shyampur near Haridwar some time ago. Till mid-nineties about 50 Gobar Gas plants were in operation successfully for more than twenty years. Then LPG Gas Cylinders became available at low price. Farmers found it easier to cook food with LPG than with Gobar Gas. They were saved the work of having to mix gobar with water to be fed into the plants, drying the slurry, maintaining the pipe lines and water supply, etc. They closed the gobar gas plants. This alternate source of energy was dismantled because comparatively cheaper LPG became available then. The same applies to wind, solar, micro-hydel, and bio sources of energy. Easy oil distracts attention from these sources and traps policy makers into imports.

The cost of solar power at present is about Rs 8 per KwH. But the true price of equivalent energy produced from imported oil will be about Rs 10 per KwH presently. It is, therefore, economic to tap solar power.

But the policy of subsidizing imported oil prevents this. Energy produced from oil that costs Rs 10 is being used profusely while solar energy that costs Rs 8 is not being produced.

The burden of oil bonds purchased by the Government will ultimately devolve upon the people. Oil companies are issuing bonds that are, in fact, junk. Oil companies are suffering huge losses but this is cleverly hidden in the accounts of both the companies and the Government. Normally bonds are issued against some assets. A company may issue non-convertible bond to raise funds for setting up a factory. The bonds are then backed by the assets in form of the

factory. But the oil bonds have no such assets to back them. These bonds are like junk shares. □□□