

India and Israel Look to Energy to Diversify Ties Too Dependent on Defense Sales

Saurav Jha | Wednesday, Jan. 24, 2018

Israeli Prime Minister Benjamin Netanyahu's visit to India last week came at a tense time, or so it seemed. In late December, India voted in favor of a resolution at the United Nations General Assembly rejecting the Trump administration's unilateral recognition of Jerusalem as Israel's capital. Then, in early January, just two weeks before Netanyahu's trip, India's Ministry of Defense scrapped (<https://www.bloomberg.com/news/articles/2018-01-03/india-cancels-500-million-missile-deal-with-israel-s-rafael>) a \$500 million deal with Israeli defense contractor Rafael to import Spike anti-tank missiles and later produce them under a license in India.

But Netanyahu's government downplayed New Delhi's vote at the U.N. before his six-day visit, and in India he appeared to salvage the missile deal in direct discussions with Prime Minister Narendra Modi, who reportedly agreed to buy a reduced number of Spike missiles (<https://www.haaretz.com/israel-news/.premium-india-missile-deal-reflects-brave-new-world-of-arms-sales-1.5749777>). India has been Israel's largest market for defense exports.

Since Modi made his own high-profile trip to Israel last summer, the first by a sitting Indian prime minister, the two conservative leaders have brought their countries closer together, promoting their own public chemistry as a sign of a stronger strategic partnership.

Beyond the canned optics—Modi and Netanyahu posing together on a beach in Tel Aviv in July, or Netanyahu being met personally by Modi at the airport in New Delhi last week—India and Israel are hoping such meetings help revive bilateral trade, which has stagnated in recent years

(<https://www.reuters.com/article/us-israel-india-missiles/israel-india-guided-missile-deal-back-on-track-netanyahu-idUSKBN1F62DS>) when defense sales are excluded. So they are now eying energy cooperation, particularly for oil and gas exploration in Israel's Mediterranean waters, with the potential for Israel to become another energy supplier to India. This has implications for India's ties with other states in the Middle East, such as Iran and even Syria, although India will continue to try and compartmentalize its regional relationships.



Israeli Prime Minister Benjamin Netanyahu and his wife, Sarah, are greeted by Indian Prime Minister Narendra Modi, New Delhi, Jan. 14 2018 (AP photo).

After reaching a peak of \$5.19 billion in 2011, bilateral non-defense trade between Israel and India had fallen to \$4.16 billion by 2016. It mainly included diamond exports from Israel and services exports from India. In an attempt to diversify, both sides have tried to deepen the economic relationship by cooperating in other areas, such as agriculture, water and science and technology, as Modi declared during his visit to Israel last year. One main objective is to introduce Israel's "dryland farming" technology to drought-prone regions in India. Last week, Netanyahu and Modi visited one such dry farming area under development in Modi's home state of Gujarat.

While probably useful for boosting the incomes of farmers, this may not lead to much of a spike in bilateral trade. And despite an Israeli push for a free trade agreement that has been in the works since 2010, no real movement is expected anytime soon. Although Netanyahu brought some 130 Israeli CEOs with him to India, the lack of direct flights between the two countries will continue to constrain business-to-business ties.

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Meanwhile, despite agreements on cybersecurity and uninterrupted counterterrorism cooperation, security ties, driven by defense deals, are plateauing, too. This is mainly due to the fact that Israel does not develop big-ticket air or naval platforms that India might seek for co-production or further development. Beyond the mooted anti-tank missile deal, other joint missile projects are underway, though, and India still sees Israel as the best bet for fast-track purchases of items such as new assault rifles and torpedoes.

But it's clear that, optics aside, India and Israel need a new area of high-value engagement. That's why the most significant of the nine memorandums of understanding that Modi and Netanyahu signed last week was the one between India's Ministry of Petroleum and Natural Gas and Israel's Ministry of Energy for cooperation in the oil and gas sector. What makes this pact noteworthy is the fact that a consortium led by the Indian state-owned energy giant Oil and Natural Gas Corporation was one of only two global entities (<https://www.reuters.com/article/us-india-israel-oil-exclusive/exclusive-india-to-bid-for-israel-oil-and-gas-exploration-blocks-minister-idUSKCN1BF19D>) to participate in the auction last year for Israel's oil and gas exploration blocks in the Eastern Mediterranean. It is also set to participate in a second round of bidding later this year. If the Indian consortium wins, liquefied natural gas facilities may be used to ship natural gas to Indian import terminals, or India may enter into swap arrangements with Egypt, Israel's main supplier of natural gas.

Energy cooperation between Israel and India is certainly going to be watched closely in Iran, which has been delaying India's bids to develop its Farsi and Farzad B gas fields and waiting for better terms. While the Israeli discoveries in the Eastern Mediterranean may not be large enough to offset what India is eyeing in Iran, they will increase India's bargaining power—as well as Israel's bargaining power with India over New Delhi's own ties with Tehran.

There is another potentially more significant impact for India in the Middle East: how growing Israeli ties affect its relationship with Syria. Indian companies are currently vying with other international competitors for a share of future reconstruction contracts in Syria, as the Assad regime looks ahead to a postwar settlement. Syria has also announced its own offshore gas exploration plans, which it says will begin in 2019 (<https://af.reuters.com/article/commoditiesNews/idAFL8N1OD4SB>). Before the civil war, in 2010, Oil and Natural Gas Corporation's international subsidiary, ONGC Videsh, was exploring gas blocks in eastern Syria and had interest in bidding

(https://www.rigzone.com/news/oil_gas/a/90505/syria_puts_8_onshore_blocks_on_the_table/) on future Syrian offshore blocks in the Mediterranean. After Modi's trip to Israel, though, the Assad regime signaled (<https://www.hindustantimes.com/world-news/syria-hesitant-about-india-s-role-in-reconstruction-after-modi-s-israel-visit/story-qrCg8r1UGcTvtYrsNknOKK.html>) that it may shut Indian companies out of reconstruction contracts, a threat that could also limit India's role in Syria's gas sector. But at the same time, with competition from Israeli oil and gas, the Syrian government may have to take India's outreach more seriously, even as China seeks to corner reconstruction contracts in Syria, too.

India's wide-ranging interests will keep it tied to a policy of what it calls “de-hyphenation” in ties with various Middle Eastern actors, meaning it will deal with countries in the region on a discrete, individual basis. This is evidenced by Modi's forthcoming visit to the West Bank. Israel, for its part, will pursue its own diverse policy in Asia, with due weight given to its largest trading partner in the region, China. But Israel and India will keep looking for mutual advantages, wherever they can find them.

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