**Special session One: ‘Defence Cooperation for Energy Security’**

**Energy Security and Military Co-operation in the Indo-Pacific**

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**Projected Energy Demands in the Indo-Pacific:** Globally, energy markets are going through a set of transitions. Within this context of rapid change, Asia has emerged as the driving force in key areas of the energy business. While Asian countries are making significant progress in the shift to a low carbon economy based on renewable energy sources and electrification, demand for hydrocarbons is forecast to increase in the region for decades ahead.

The Indian Ocean Region (IOR) already hosts key international trading routes and is vital for global energy security. Countries in and connected through the region, notably the Gulf, are among the the world’s largest exporters and importers of energy products. In the decades ahead the IOR’s significance for local, regional and global energy markets is projected to increase significantly, especially for the countries of the Asia-Pacific.

Natural gas has emerged as a key energy source in the transition away from oil to renewable energy sources. According to the International Energy Agency (IEA), global demand for natural gas is forecast to grow at an average of 1.6 percent, reaching just over 4,100 billion cubic meters over the next five years, with emerging Asian markets as the main demand driver.[[1]](#footnote-1)

As demand for gas is rising, LNG is progressively taking a larger share in the global gas trade, especially in Asia. The LNG trade as a share of the total gas trade is forecast to rise from a third in 2017 to almost 40% in 2023. When all of Asia is considered, according to the IEA, LNG sales in the region will rise to 75 percent of all LNG sold globally, from 72 percent in 2017. Chinese demand for natural gas will rise by almost 60 percent between 2017 and 2023 reaching 376 billion cubic meters (bcm). This includes a rise in its LNG imports to 93 bcm by 2023, from 51 bcm in 2017. The continued rise in the LNG market will have significant impacts on trade flows, pricing structures and global gas security.

While natural gas demand will rise, oil will continue to be a key energy source in the region. Asia is set to account for the majority of new global demand for oil and crude imports in the next 25 years; to transport rapidly growing populations, ship goods and make plastics. According to the IEA, crude oil import needs for Asia are forecast to rise from 9 mb/d to around 30 mb/d by 2040, with new demand in China, India, and South East Asia more than offsetting declines in Japan and South Korea.[[2]](#footnote-2) The Middle East will continue to be the dominant exporter to Asia, but growing demand and declining supplies from traditional suppliers will see Asia taking crude supplies from across the globe.

China has already emerged as the world’s largest crude oil importer in 2017, and its oil demand is projected to rise further by 4.6 percent, hitting 600 million tonnes in 2018. Following close behind is India, with a projected increase of 4.3 percent in its oil demand in 2018. Indeed, India is becoming a pivotal player in energy markets, with scenarios pointing to India accounting for almost a quarter of the rise in global energy use up to 2040.

With the increase in demand and rise in prices, competition for affordable, accessible and secure energy supplies is likely to intensify. This will mean expanding volumes of energy being sourced from regions of the Indian Ocean, and beyond, and being transported across the IOR. The importance of the IOR for the energy security of countries in the Indo-Pacific region is already feeding into shifting regional geopolitics and defence policies.

**Energy Security and the Indian Ocean:** From the end of the Second World War to the late 2000s, first the UK and then the United States served as the main security guarantors for trade and safety on the high seas in the Indian Ocean. Although the military presence was concentrated in the Arabian Sea/Gulf of Aden/Red Sea portion of the Indian Ocean, this proved sufficient to ensure the smooth functioning and security of trading routes and energy supplies from the Gulf.

Currently the Indian Ocean accounts for 40 per cent of the total energy shipping trade in the world – some 36 mb/d - and 64% of global oil trade, and notably is a major supplier to European and Asian markets. The Indian Ocean energy route is particularly crucial for Asian countries due to their heavy dependence on energy imports from the Middle East and Africa. Currently the Middle East and Africa account for 63% of oil and 50% of LNG imports to Asia.

The rise of piracy off the Horn of Africa from the late 2000s, saw the arrival of new naval forces in the region. The deployment of the Chinese PLAN from 2008 has proved to be a gamechanger in the region. In recent years, there has been a steady build-up of military force along the Horn of Africa littoral, with numerous military and logistics facilities, and in the maritime domain around the Horn.

Currently, the United States, France, Italy, Japan, Turkey, the United Arab Emirates maintain military bases and ports on the Horn of Africa/Red Sea littoral, with several other countries reported to be planning to open facilities. Reflecting the growing importance of Asia-Pacific to Europe, leading European military nations (France and the UK) are looking to strengthen their presence ‘east of Suez’ in the coming years, including through the deployment of carrier strike groups to the region.

China’s interest in the economies of the littoral countries of the India Ocean, and its commitment to counter security challenges at key choke points, has in recent years been supplemented by a focus on developing and protecting sea lines of communications (SLOCs) that pass through the Indian Ocean via the development of key infrastructure (notably ports) within the context of the ‘Road’ dimension of the Belt and Road initiative, and via the build- up of blue water capabilities for and modernisation of the People’s Liberation Army.

China aims to reinforce its presence in the IOR through economic and strategic partnerships with the various littoral/island nations, notably Pakistan. The growth of Chinese economic, diplomatic and military engagement in the IOR has prompted concerns in India that its traditional regional role is being supplanted and that the country is being encircled in a ‘string of pearls’ of mixed-use commercial/military facilities stretching across Indian Ocean to the Horn of Africa.

In 2017, China inaugurated its first overseas military base in Djibouti. In response to China’s growing presence, India, under Prime Minister Modi, has sought to reinforce the country’s position in the IOR, including through a reorganisation of naval forces, a commitment to increase military capabilities in the region, and emphasising India’s role as a net security provider in the IOR.

*IOR Non-Traditional Threats:* The China-India competition has brought back into focus the question of strategic lines of communication and in particular the issue of the security of key choke points, which are critical for energy security in the Indian Ocean due to the high volume of oil and LNG traded through their narrow straits: the Strait of Hormuz (the world’s most important oil chokepoint accounting for 20% of global supply), leading out of the Persian Gulf; the Strait of Malacca (35% of global seaborne oil supply) linking the Indian Ocean and energy markets in the Pacific; and the Bab el-Mandab, connecting the Arabian Sea and the Red Sea through to the Suez Canal to European markets.

The threat of an interruption to global trade and energy routes has already been highlighted by the conflict in Yemen, and the rise of non-state actors armed with anti-ship missiles, sea mines and even short-range rockets. In July 2018, Saudi Arabia suspended oil exports through the Bab-al Mandeb after Houti rebels targeted Saudi oil tankers, raising concerns about the disruption to supply, the impact on oil prices on international markets, and insurance costs for shipping. Approximately 5 m/bd of oil pass through the Strait daily.

*IOR Traditional Security Threats:* The entry into the Indian Ocean of the Chinese PLAN and the subsequent growth of that presence has prompted India into a new military posture in the Indian Ocean. Sino-India rivalry is not, however, the only state-to-state military threat in the IOR. The Indian Ocean contains several sub-regions involving active and potential state-to-state conflicts: India-Pakistan; Iran and the Gulf States; the Yemen conflict; and conflicts on the Horn of Africa; as well as militarised tensions in other areas. In recent years, the build-up of foreign forces along the east African littoral has highlighted the militarisation of key choke points in the region. Most analysis suggests that the militarisation of the IOR will continue in the years to come, including a growing PLAN presence.

**Emerging IOR Regional Security Architecture and Energy Security:** The Indian Ocean region is being fundamentally affected by the shifting economic and energy, political and military dynamics created by the rise of Asia. Reflecting the growing trading and energy supply importance of the IOR for countries in Asia, the region has experienced a significant securitisation and, in key areas, even militarisation in recent years.

The securitisation of key choke points in the IOR, has seen new, ad hoc, forms of cooperation emerging and the creation of new mechanisms, *inter alia* the Djibouti Code of Conduct, to improve maritime security. There is also improved coast guard cooperation developing in some areas, and initiatives to enhance maritime awareness, counter terrorism, protection of fish stocks, to prevent drug and people smuggling, and to develop the Blue Economy.

The Indian Ocean lacks developed regional security institutions. Currently, the Indian Ocean Rim Association (IORA) with 21 members and 7 dialogue partners offers the most comprehensive regional organisation, although its activities have been to date relatively modest. Reflecting the need to develop key sub-regional forums, the European Union has launched an initiative to establish a platform for Red Sea security issues, covering both littorals, and beyond.

At the same time, there is an active discussion about more conventional defence alliances, notably in regard to the revival of the ‘Quad’ format. Concern, however, about having to choose sides in a struggle between China, on one side, and India, the United States, Japan, Australia and other western powers, on the other, is limiting the evolution of defence cooperation in the IOR. As is uncertainty about the reality of the Quad and what if might offer.

In India there is a debate about whether its security policy should seek to balance China or hedge with multiple relations. At the same time, a question mark hangs over US leadership and even its interests, notably regarding energy as the US emerges as a leading oil and gas exporter in its own right, and as a result possibly less concern with the stability of the Gulf region. Considerable ad hoc, bi-lateral security cooperation is advancing in the region, and regional players (the Gulf) are having big impacts, notably in the Horn of Africa/Red Sea.

Looking ahead, given the global and regional importance of the IOR a strong military presence, either in the form of the US Navy or a coalition of international forces, will be required to guarantee the security of Indian Ocean sea lanes and choke points and the safe passage of the global energy trade in the region.  At the same time, the largely uncontrolled build-up of military forces in the region, often motivated or justified in response to security threats, brings with it risks of growing state-to-state tensions and the potential for arms races. This points to the need for new regional security structures and agreements (codes of conduct), efforts to bring external military forces in the region within existing regional security structures, as well as increased transparency, military to military contacts and confidence building mechanisms.

1. *Gas 2018: Analysis and forecasts to 2023*, International Energy Agency, 2018. [↑](#footnote-ref-1)
2. ‘WEO Analysis: A Sea Change in the global oil trade’, *International Energy Agency*, 23 February 2018 [↑](#footnote-ref-2)