TOPIC OF THE WEEK

JUN'18 (08 to 14)

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Week: 08th to 14th June 2018

Topic: India receives cheapest LNG from Russia's Gazprom

India on June 4, 2018 received its cheapest LNG (Liquefied Natural Gas) as Russian company Gazprom began shipping natural gas under a long-term deal.

History:
A boom in LNG demand and projects is taking shape in India. Demand for natural gas, mainly from new power generation projects, fertilizer plants, and industrial users, is projected to soar in the world's second most populous nation.

Its paltry domestic output of natural gas mandates that India must import natural gas to meet it expected explosive growth in demand for the fuel. While pipeline imports might seem a logical choice, this is a problematic alternative.

Challenges:
Proposals to bring gas from Oman to the Gujarat coast through a subsea pipeline or from Iran to India, via

Pakistan, have been floated and discussed at length. But the former faces daunting technical and economic hurdles, and given the inimical political relations between the two neighbours, no final decision is forthcoming soon on the latter.

Given the scope of India's expected demand growth and the likely long lead times and other problems associated with various pipeline options, India has settled on a comprehensive program of establishing LNG terminals around the country and expanding its domestic gas pipeline infrastructure to deliver that LNG to market.

Companies including Enron Corp., Unocal Corp., ExxonMobil Corp., TotalFinaElf SA, Royal Dutch/Shell, and BG PLC have expressed interest in setting up facilities for importing and processing LNG.

Gazprom-GAIL India Deal:

State-owned GAIL India Ltd had signed the original deal with Gazprom Marketing and Trading Singapore Pte Ltd (GMTS) on August 29, 2012. Gazprom is a global energy company focused on geological exploration, production, transportation, storage, processing and sales of gas, sale of gas as a vehicle fuel, as well as generation of heat. It is Russia's largest producer and exporter of liquefied natural gas (LNG) and is successfully expanding its LNG sales within the existing Sakhalin II project.

GAIL India, in January 2018, took advantage of Gazprom's inability to deliver LNG from the previously agreed Schtokman project in the Barents Sea and renegotiated price agreed in 2012.

Now, the contracted volume has been lowered from 2.5 million tonnes to 0.5 MT in the first year 2018-19; 0.75 MT in 2019-20; 1.5 MT in the third year 2020-21.

Key Highlights:

- LNG carrier 'LNG Kano', carrying a cargo from Russian supplier Gazprom, ported at Petronet LNG's import facility at Dahej, Gujarat.
- Gazprom supplied the 3.4 trillion British thermal unit (TBtu) of cargo from Nigeria. The LNG cargo was received by Oil Minister Dharmendra Pradhan

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- India will import LNG worth an estimated USD 25 billion during the contract period from Russia. As per the sources, Gazprom is providing LNG at around USD 7 per mmBtu.
- India is pushing towards a gas-based economy by raising the share of environment friendly fuel in the energy sector from current 6.2 percent to 15 percent. India is dependent on imports to meet 45 percent of its gas needs.

Price Comparison with other LNG suppliers:

- The Russian rate is USD 1.5 per mmBtu less than the price at which Qatar's RasGas, India's oldest supplier, used to deliver LNG.
- Russian supplies are also cheaper by USD 1 to USD 1.5 per mmBtu than the LNG sourced from Australia's Gorgon LNG and the United States.

Significance:

India is heavily investing in building LNG import terminals and pipelines to import and supply gas across the country. Local production is rising at a pace not enough to meet the rising domestic demand.

India imports 45% of the total amount of natural gas it consumes. With the government's plan to raise the share of natural gas in the country's energy mix to 15% by 2030 from about 6.5% now, import of LNG is expected to rise.

Natural gas consumption in the country rose 5% to 58 billion cubic meters in 2017-18. The government expects half of India to have access to piped gas for cooking and transport after the new city gas licensing round, which is currently underway.

Conclusion:

The gas supplied by Russia will become important, as will be supplies from the Middle-East, the US and other regions to India. India is the 3rd largest energy consumer and 4th largest LNG importer in the world.

India and Russia have strengthened their energy partnership in the last few years. Russia is the largest crude oil and second-largest gas producer in the world. A consortium led by Russia's Rosneft invested $13 billion last year to purchase a 20 million tonne refinery and a network of petrol pumps in the country. Indian state firms have so far pumped in about $10 billion for stakes in Russian upstream projects in search of energy supply security.

LNG imports from Russia have added a new dimension to the Indo-Russian bilateral relations, particularly in the oil & gas sector.

Suggested Reading:

- ✓ https://www.ogj.com/articles/print/volume-98/issue-25/special-report/indian-lng-projects-boom-in-full-swing.html

- ✓ https://www.jagranjosh.com/current-affairs/india-receives-cheapest-lng-as-russias-gazprom-begins-supplies-1528197125-1

- ✓ https://economictimes.indiatimes.com/industry/energy/oil-gas/india-begins-importing-lng-from-russia/articleshow/64449583.cms

- ✓ http://www.thehindu.com/business/Industry/india-gets-cheapest-lng-as-russias-gazprom-begins-supplies/article24080583.ece