



Realizing India's promise in igniting LNG demand towards a cleaner energy future

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Unlocking the gas potential for India

India is now clearly a major swing demand in the global hydrocarbon trade. This paper and associated presentation will relate the opportunities for the liquefied natural gas (LNG) industry and for the Indian government to further unlock the natural gas, potential for India, keying in on the following points with supporting references and insights.

Recognizing the versatility of gas

India is heavily import dependent on hydrocarbons, with close to 80 percent of its oil and 43 percent of gas needs met by imports. A key to net reduction in India's hydrocarbon import dependency is actually through much higher contributions of natural gas, which would support growing a base of more diversified solutions. Apart from being substantially cleaner than coal and commercially available liquid fuels, natural gas is also more versatile as a resource. However, the merits of natural gas have not been adequately recognized to date.

Reversing a falling contribution in the energy mix

Despite gas growing in absolute terms, contribution has dipped from a high of 12 percent 5 years ago to only 6.5 percent at present, and in contrast to the global average of 23.8 percent. From a sectoral standpoint, gas is seen as an extension of oil and clubbed with it in fiscal policies. The unfortunate consequence of this has been exclusion from the GST regime in India since in India's federal structure the states have been opposed to the inclusion of oil from which they derive very substantial tax revenues.

Outlook for gas is stronger, indicators of change

Even as the share of gas in India's energy basket has fallen considerably in the past few years due to declining domestic production, all major players are betting on India's gas share to increase sharply in the coming years, especially with the price outlook on LNG. Some indications are already visible.

— Increased imports and interest in market making:

Imports of LNG have steadily risen over the years from about 7 bcm in 2006 to about 21 bcm now. More starkly, in April 2016 the imports grew by 45 percent as compared to April 2015. The sharp and sustained growth has caused India to become a magnet for international suppliers, and many of them are evolving new strategies for penetrating deep into the Indian market, not just as suppliers but also as market makers.

— Infrastructure investment:

Concomitant with increased imports is terminal capacity increases. A string of investment commitments to terminals along the eastern and western seaboard is set to enhance India's terminal capacity to three times the present level within a relatively short 5 year time frame.

— Further growth:

Recent long term supplies contracted by the major Indian players such as IOC and GAIL have fueled current growth. Future growth is expected to propel demand well beyond current levels, especially in the 2020–2025 time frame, where on the back of anticipated economic growth, Indian energy consumption is set to increase and a move to cleaner energy sources will also become imperative.

— **Unlocking physical and structural constraints:**

Growth can be fueled by unlocking constraints of pipeline infrastructure, pricing and contractual rigidities in end use markets, and lack of liquidity in the wholesale gas markets. Despite having become one of the largest gas markets in the world, the structural rigidities in the market are very substantial, hindering its growth and making it difficult for international and Indian players to commit investments. This has been affecting the upstream investments in particular, but also the midstream and downstream infrastructure creation and market development.

The government seems to have recognized this and is pushing reforms energetically through the new sector policies. The new Hydrocarbon Exploration and Licensing Policy is intended to kickstart upstream investments but, also as a consequence, open up the gas pricing framework that has been prone to government interference and control in the past.

An integrated LNG market development blueprint is needed

Concrete measures would be required for opening up the markets and taking the policy intent to actual results. There is recognition that the lack of liquidity causes high prices, suboptimal use and underinvestment in the sector. There is also a realization that the upstream, midstream and downstream segments can no longer be progressed in isolation. For the country to truly benefit from the positive interest in the sector and reduce the costs for consumers, this integrated market development blueprint has now become a necessity.

India can become a mainstay of demand and help ensure that global gas prices are sustained at acceptable levels for further LNG investment, especially in light of the large supply that is forecast in the next 4-5 years. The industry, by working with the Indian players and with the government, can help ensure that the promise that exists in the market is turned to reality.



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