

Gas demand deflates despite price fall

The slowdown could impact India's net-zero targets

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Last month, Russia's Novatek CEO Leonid Mikhelson told the St Petersburg International Economic Forum that he sees Asia as the target market for its new liquefied natural gas (LNG) projects, and not Europe. Demand will grow in Asia, including in China and India. "These are the target markets for our projects," Mikhelson said.

China has been promising this year for LNG but Mikhelson's optimism is not reflected in India's—the world's most price sensitive major market for LNG—waning appetite for gas.

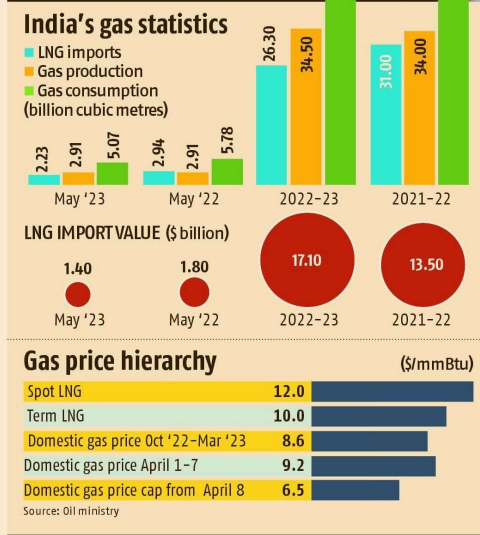
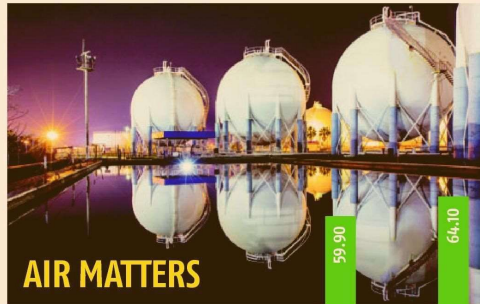
India's natural gas ambitions are tripping even though imported LNG prices have been tanking this year. An 80 per cent reduction in spot LNG rates from records set in 2022 in the aftermath of the Ukraine war should have revived India's gas consumption, and enabled its LNG import terminals to work full steam.

Instead, overseas purchases of the fuel have dropped. Imports in the first quarter of financial year 2023-24 slid from a year earlier, with May LNG purchases crashing 24 per cent and gas use sliding 12.4 per cent during the period, according to oil ministry data. Cumulative consumption of gas this financial year declined 3.4 per cent from the previous year. The drop in demand comes amid lower LNG spot prices, and resumption of relatively cheaper term cargo supplies by SEFE, a former Russian state-owned Gazprom unit, to state-run gas distributor Gail India.

In June, overseas purchases of the fuel declined by 6 per cent from a year earlier, according to data from Paris-based commodity data intelligence agency Kpler (oil ministry data for LNG for June will be available later this month).

That compares to China's LNG imports surging 40 per cent in June from a year earlier, according to an International Energy Agency official.

The decline in India's gas use is not a recent trend. Imports have been falling for the past three financial years, initially because of the pandemic and later due to last year's record high spot LNG prices. LNG imports in FY23 declined 15 per cent from a year earlier at 26 billion cubic metres. Total gas demand for FY23 was down 6 per cent on the year to



60 billion cubic metres, though India's economy grew more than 7 per cent. India depends on imported LNG to meet around 45 per cent of its needs, but dependency is poised to jump for lack of domestic discoveries.

The stakes are high. Over ₹2 trillion of investments in gas infrastructure are riding on India's rising gas consumption. Also at stake is Prime Minister Narendra Modi's vision of gas accounting for 15 per cent of India's energy mix by 2030 from 6 per cent now. Of greater concern is the fact that gas is integral to India's net zero goals. Typically, one would expect India's net zero goals to be largely defined by renewables and electrification of transport. That's partly

true. Natural gas is poised to play the role of the transition fuel globally — from China to Europe. Power, industry and transport need affordable gas to transition to a lower emissions scenario because hydrogen and battery storage technologies are nascent and expensive. Electricity generation contributes to a third of India's emissions, followed by industry at 28 per cent, agriculture at 18 per cent, and transport at 9 per cent, according to McKinsey. "While the government has invested significantly to promote natural gas consumption in the domestic market, the current conditions do not make achievement of gas targets feasible by fiscal 2030," said Hetal Gandhi, director, research, Crisil Market Intelligence. She referred to lack of adequate domestic gas, slow progress of pipeline projects halving capacity utilisation of LNG import terminals, and high global gas rates.

Indian LNG imports are falling because some buyers still find LNG at \$10-\$11 per million British thermal units (MMBtu) expensive, industry officials said. Rajesh Kumar Mediratta, CEO, Indian Gas Exchange, said that while prices of LNG dropped sharply from last year's levels, they are still expensive compared to liquid fuels such as fuel oil or naphtha.

Demand will surge once LNG prices moderate further, he said, though he expects LNG rates to increase to \$15/MMBtu this winter. A Petronet LNG official said prices of LNG in the \$6-\$7/MMBtu range are affordable for refineries and chemical plants, which account for one-fifth of LNG use. It does not make economic sense for them to use gas at \$10/MMBtu when crude oil is trading at around \$70 a barrel, the official said. For instance, the usage of Petronet's 5 million tonnes a year Kochi LNG import facility is low because three of its main users switched to alternate liquid fuels since last year.

India's city gas demand, which underpins the country's gas use in the future, revived only after the government capped the prices of domestic gas produced from older areas at \$6.5/MMBtu from April, 24 per cent lower from the September-March level of \$8.57/MMBtu. Both term and spot LNG are trading at \$10-\$12/MMBtu levels.

LNG rates, thus, must be in the ballpark of India's price cap to spur gas use, a Gail official said. "While we expect prices to correct, they will remain elevated, thus capping the growth of natural gas demand in the medium term of two years, especially from the industrial segment," Gandhi said.

Despite elevated gas price levels, Indian officials are sanguine about the prospects for the fuel. Indian gas demand may increase as much as 7 per cent this financial year due to strong economic growth, Gail Chairman Sandeep Gupta said recently. Crisil expects India's domestic gas use to increase by 8 per cent this financial year, supported by city gas demand.

These forecasts are predicated on the fact that three new fertiliser plants have started operations, Mediratta said. IGX, India's only natural gas trading platform, will offer a separate contract for LNG supplies to fertiliser users. The commissioning of Adani-Total's Dhamra LNG import facility will also spur demand from steel plants and industries in eastern India, Mediratta added.

But for any potential gas demand to turn real LNG rates must near halve, or, crude oil prices must cross \$100 a barrel for India's price conscious consumers to use the lesser polluting fuel.

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