

Disinvestment: Changing tracks after multiple speed-bumps

LONG WAY TO GO. With a new policy in place, the govt has embraced a comprehensive approach

Shishir Sinha
New Delhi

When the NDA came to power in 2014 led by Narendra Modi, expectations ran high on privatisation or stake dilution by the government in Central Public Sector Enterprises (CPSEs). It was expected that the legacy of former Prime Minister Atal Bihari Vajpayee in divesting stake in CPSEs will be carried forward. Major achievements of the Bajpayee government were strategic sale of Videsh Sanchar Nigam Ltd, Hindustan Zinc, Balco, IPCL, several ITDC hotels and Modern Food Industries between 1999 and 2004.

However, continuing challenges in divesting stakes or privatising PSEs has led to disinvestment increasingly losing its relevance. The new PSE policy has shifted focus to value creation and improving the profitability of CPSEs rather than obsess over disinvestment or PSU dividend receipts.

PRESENT STATUS

The Interim Budget for 2024-25 had many surprises and one was removing the word 'disinvestment' from the list of capital receipts in the Budget document. This was the fourth major change since the formal process of disinvestment initiated way back in the late 90s and second major change during the 10 years of Modi Government.

The first major change was converting the Department into a Ministry in 2001. Second was converting the Ministry back into a department under the Finance Ministry in 2004. Third change was renaming the Department of Disinvestment as Department of Investment and Public Asset Management (DIPAM) in 2016.

Throughout these years, the Union Budget, whether full or interim, had one permanent head under capital receipt and that was 'Disinvestment Receipts'. How-



MOP-UP. The government has mobilised ₹1,049 crore from the strategic sale of Dredging Corporation of India

ever, now, there is new head 'Miscellaneous Capital Receipts' which includes the erstwhile categories of disinvestment and other capital receipts. "There is no specific estimate for disinvestment in 2023-24 RE," the Finance Ministry said in Parliament.

During 2022-23, the Government realised ₹35,293.52 crore as disinvestment proceeds against the Revised Estimate (RE) of ₹50,000 crore. In 2023-24, ₹51,000 crore was estimated for disinvestment and ₹10,000 crore for other capital receipts.

WHY THIS CHANGE

"Focus is more on value creation rather than just divesting or getting higher dividends," explained DIPAM Secretary Tuhin Kanta

Pandey. According to DIPAM, since the introduction of the New PSE policy in January 2021, the NSE CPSE and BSE CPSE indices have surpassed benchmarks, showcasing returns of 160.49 per cent and 128.66 per cent respectively, until November 2023.

The new PSE policy, announced first as part of Atmanirbhar Bharat in 2020, aims to minimise presence of CPSEs including financial institutions and creating new investment space for private sector.

Post disinvestment, economic growth of CPSEs/ financial institutions will be through infusion of private capital, technology and best management practices. This was expected to lead to economic growth and jobs. Fur-

ther, disinvestment proceeds would be used to finance various social and developmental programmes of the government.

The contours of the new policy shows that there will be more focus on strategic disinvestment, rather than selling shares in small tranches.

At the same time, in order to enhance the value before selling, effort is also to monetise non-core assets. For example, in Air India, while the core business of airline services was sold to the Tata group, non-core assets such as the iconic building at Nariman Point in Mumbai were transferred to an SPV (Special Purpose Vehicle) which later sold some such assets and helped the government earn more.

Also, an important aspect in managing investment in CPSE is continuous dividend. It is said that disinvestment gives the government one-time earning, but if focus is on value creation, there is the possibility of earning more and more through dividend. However, the emphasis now is not on maximum dividend.

"We have not insisted that the government should receive the maximum dividend. We are only saying that there should be a consistent dividend policy and there will be use of resources and wherever we have the capex needs, the equity needs of the capex should be fully met with a reasonable debt, which is consistent with the principles of efficiency and effectiveness," Pandey said.

The big question is what will be the policy stance on investment management when the new government is formed post general election 2024?

WHAT LIES AHEAD

As of now indication is that the Budget might not give much importance to the word 'disinvestment' per se, but the process of more and more strategic sell-off may gather momentum keeping in mind the new CPSE policy. At the same time, effort would also be made to get more and more CPSEs listed (at present just 61 out of 200 plus are listed). Simultaneously, monetisation of non-core assets will gather pace.

All these will help in determining the value in a much more effective way and that, in turn, will help strategic disinvestment. However, strategic sell-off or privatisation has not been easy. Besides, there have been instances of one public sector undertaking buying another. Now, the government has decided to stop this trend and this has also impacted strategic sell-off.

(This is the fifth article in the '10 years of NDA' series)

Hits & Misses



- Divestment of LIC through largest IPO of ₹20,557 crore
- Air India acquired by Tata group company, Talace Private Limited
- New PSE policy notified in February 2021

- Strategic sale not complete in BEML, Shipping Corporation, CONCOR etc
- BPCL's sale called off due to lack of bidder interest
- Disqualification of top bidder derails sale of Pawan Hans, Central Electronics

EXPERT SPEAK.

'I do not expect much progress on genuine disinvestment'

Shishir Sinha

New Delhi

Anil Kumar Sood, Professor, Institute for Advanced Studies in Complex Choices, talks about the NDA's strike rate on the disinvestment front.

How do you rate the disinvestment process?

Rating is very subjective, but I would give it a 3.

The aggregate capital receipts from disinvestment or strategic divestment have constituted about 2.0 per cent of the Central Government's non-debt revenue and capital receipts during the last 25 years. For example, the disinvestment receipts during this period have been a little over ₹5 lakh crore, that is about ₹20,000 crore per year.

Sometimes, these are not even true disinvestments that involve the sale of a PSU to a private sector firm. For example, ONGC bought HPCL shares worth ₹36,000 crore from GOI during 2018. In a case like this, the divestment allows the fiscal deficit to be lower, as the debt shifts to a public sector firm. It does nothing more than that.

**Has disinvestment lost steam?**

We do not have much to divest at this stage, as some of the PSUs have not been doing well, e.g., BHEL, BSNL, etc. The valuations of some of the large PSUs are stretched. The question, therefore, is which of our business families have the ability to raise equity to finance these large corporations or the ability to raise large amount of debt?

What is the road ahead?

I do not expect much progress on genuine disinvestment. Global firms are unlikely to be interested in investing in areas where the political influence continues to be high — energy, banking, telecom, etc.

I also expect that the government will hesitate to create private sector monopolies by handing over PSUs at poor valuations to Indian business families.

Finally, it makes limited economic sense to privatise at a stage when we need additional private sector capex to accelerate economic growth. A mere exchange of money from the private sector to public sector for balancing government books or show that we are privatising to bring efficiency is of limited value to the country.

India eyes monster gas grid across South Asia

India will connect its north-east gas grid with the national grid in the next 2 months

Rituraj Baruah

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NEW DELHI: One giant gas grid led by India and spanning Bangladesh, Nepal, Bhutan, and Myanmar may be a reality in the near future, transporting the clean-burning fuel across borders to homes, factories, and industrial enterprises across South Asia.

India will connect its north-east gas grid with the national grid in the next two months, and plans to extend and integrate it with the grids of the four neighbours, two people aware of the development said. Plans to connect Sri Lanka and Myanmar are also in the works.

“The plan for gas grid inter-connectivity is still in the works. If the plan takes a concrete shape, Myanmar, Bangladesh, Nepal, and Bhutan would be connected with India’s national gas grid via the north-east gas grid,” one of the two people said



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on condition of anonymity.

Connecting the gas grids would broaden India’s energy relations with the neighbours and speed up energy transition in the region, as India leverages cross-border energy trade as part of its neighbourhood-first policy. India currently has bilateral connectivity with Nepal and Bangladesh to supply petro-products; and another multi-product pipeline is in the works.

As early as 2005-06, India had floated the idea of LNG connectivity with Myanmar and Bangladesh; however, in 2013, China

and Myanmar agreed on a gas deal, after which India dropped its plan. Now, along with the revival of the plans, India is also looking at a larger regional connectivity across the South Asian countries except Pakistan.

Harsh V. Pant, vice president, studies and foreign policy at Observer Research Foundation said: “Several concerns are being raised that South Asia is one of the least interconnected regions. In the past few years, India has taken up several initiatives to improve the connectivity as seen in the push for power grid con-

nectivity with other South Asian countries. Gas grid connectivity across the region may be instrumental in bringing together the countries. Such an initiative serves India’s interests at multiple levels,” Pant said.

Developing the natural gas ecosystem gains significance as gas is considered a cleaner fuel compared to crude oil and coal, and policy makers see it as a transition fuel in the move towards renewable energy. The use of gas in mobility and electricity is expected to continue in the intermediate period amid the longer-term transition towards renewable energy.

Once the petroleum ministry finalizes the proposal, it would be taken up by the external affairs ministry, a second person said. Following that, the government will reach to the neighbouring countries.

Queries mailed to spokespersons of the petroleum and external affairs ministries remained unanswered.

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TURN TO PAGE 6



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India plans to link its gas grid with South Asian neighbours

FROM PAGE 1

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Riya Sinha, research associate, Centre for Social and Economic Progress, noted that given the strategic significance of such regional connectivity projects, India is mostly looking at developing the projects bilaterally and supporting the financing to the largest extent possible, without bringing in multilateral agencies.

Currently a gas pipeline network of around 23,500 km is under operation in India, and around 12,000 km pipeline is approved and under construction. Recently, Prime Minister Narendra Modi said India's gas sector is expected to attract investments of \$67 billion in the next 6-7 years.

The plan comes against the backdrop of China's bid to co-opt countries into its One Belt One Road initiative.

Big Oil beating Big Tech before OPEC meet

GEOFFREY MORGAN & NATALIA KNIAZHEVICH
April 2

BIG TECH MAY be driving the stock market, but after a blow-out first quarter, big oil would like a word.

After finishing 2023 in the red as the broader market soared, energy stocks have started 2024 with a sharp rally that has them beating tech indexes this year. Specifically, the closely watched Energy Select Sector exchange-traded fund, or XLE, is up more than 13% since the start of January while the Nasdaq 100 Index has gained just 8.7%. Rising oil is helping, as West Texas Intermediate crude broke above \$80 a barrel in mid-March for the first time since

US energy stocks ETF outperforms Nasdaq 100 in the first quarter



Source: Bloomberg

November and held there.

“Most investors coming into 2024 weren’t expecting anything out of energy,” Roth analyst Leo Mariani said by phone. But the stocks “roared back like a

lion with an awesome March.”

Energy led the the S&P 500’s 11 market sectors last month, rising more than 10% compared with the next closest group, utilities, at 6.3%, and the

3.1% gain in the broader index. Following that performance, energy investors are now looking to the April 3 OPEC oil-market monitoring meeting for clues on crude’s direction, which could add fuel the rally or cause it to stall. “Right now, investor sentiment could go either way,” Pickering Energy Partners chief executive officer Dan Pickering said. He likened energy’s first-quarter to the beginning of a binge-worthy TV show. “A number of people 1.5 episodes in, trying to commit to whether they binge this season—and Q2 may be the point where you say, I’m staying up all night.”

Some of that will depend on what OPEC+ members say this week, particularly if they signal plans to hold the line on previously announced voluntary cuts

through the first half.

“I think at this point, the market is expecting OPEC to maintain restraint,” Hennessey Funds portfolio manager Ben Cook said by phone. He likened the OPEC meeting to a Federal Reserve decision, where the outcome may be expected, but the messaging is equally important.

Russia’s decision to cut production could push Brent crude to \$100 a barrel this year, JPMorgan analysts led by Natasha Kaneva wrote. It’s currently trading in the high \$80s and could reach the \$90s by May, they wrote.

Amid that bullishness, some investors are snapping up shares in mid-sized oil producers, which offer more torque to the rising commodity price.

—BLOOMBERG



Brent hits \$89 a barrel on fresh supply threats

LAURA SANICOLA
April 2

GLOBAL OIL BENCHMARK

Brent on Tuesday rose above \$89 a barrel for the first time since October, albeit briefly, as oil supplies faced fresh threats from Ukrainian attacks on Russian energy facilities and escalating conflict in West Asia.

Brent futures for June delivery were trading up \$1.35, or 1.5%, at \$88.76 a barrel after touching a peak of \$89.08.

US West Texas Intermediate (WTI) crude futures for May rose \$1.27, or about 1.5%, to \$84.98 after touching a peak of \$85.46, also the highest since October.

A Ukrainian drone struck one of Russia's biggest refineries on Tuesday in an attack that Russia initially said it repelled.

Russia's Astrakhan gas processing plant, controlled by energy giant Gazprom, also halted production of petroleum products after a repair-related stoppage on March 30, the company said on Tuesday, confirming an earlier report from Reuters.



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A Reuters analysis of images showing the impact of the attack suggests it hit the refinery's primary oil refining unit, which accounts for about half of the plant's total annual production capacity of 340,000 barrels per day (bpd), though it did not appear to have caused serious damage.

Russia, among the top three global oil producers and one of the largest exporters of oil products, has been contending with a spate of Ukrainian attacks on its oil refineries and has mounted its own attacks on Ukrainian energy infrastructure. — REUTERS



CURSOR How to ensure India's green power revolution doesn't also wreak ecological damage

Have RE Without the Havoc



T K Arun

As India races to achieve the target of drawing half its energy from sources other than fossil fuels by 2030, this very green energy drive also threatens to harm its fragile environment, as power producers scramble to create pumped storage hydroelectric projects. This calls for urgent policy intervention.

The ideal solution is to separate RE production from storage, and charge some hydel specialists with the task of building adequate pumped storage capacity in environmentally benign ways across locations, facilitating transmission of green power across the country for such storage and draw-down.

Adani Green Energy is building the world's largest RE project in Khavda, Gujarat, putting in place 30,000 MW of wind and solar power generation capacity. The project's scale is such that it warrants backward integration. This is in addition to Adani's existing wind and solar capacity of 10 GW. Other Adani companies are building photovoltaic panels and wind turbines, and also smelting copper on a large scale to provide high-quality electric connectivity such a project calls for.

Other companies are ramping up solar, wind, hybrid wind and solar projects across the country as well, as policy promotes India's energy transition.

RE's major drawback is its intermittency. The sun does not shine at night and does not shine bright enough in mornings, evenings and on cloudy days. The wind does not blow at the same speed all the time. So, RE produces a lot of power in relatively short periods and has periods of low-to-nil power production. The solution, evidently, is to store the power when it is being produced, and then draw down the stored power when power generation dips.

The long-term solution would be green hydrogen. Use the power generated by the sun and wind and use it



How green will be our valley

to split water into hydrogen and oxygen. The hydrogen produced in this fashion is labelled 'green', distinct from grey hydrogen produced by reforming natural gas with steam. CO₂ is produced in this process, both when water is heated to produce steam, and when the oxygen in water combines with carbon in methane to release hydrogen. When CO₂ so released is captured and stored, this grey hydrogen is labelled 'blue hydrogen'.

Hydrogen has the property of combustion, as occupants of the hydro-

Separate RE production from storage, and charge some hydel specialists with the task of building adequate pumped storage capacity in ecologically benign ways



gen-buoyed airship Hindenburg found out the hard way. This property makes hydrogen a fuel in its own right. It can be burned to produce heat, the heat, in turn, used to produce steam, and the steam, to turn a turbine to produce power; much like natural gas, but without any carbon emissions.

Hydrogen can be transported with relative ease, converted into ammonia or directly. It can even fuel internal combustion engines, apart from combining with oxygen in an electrolyte inside a so-called 'fuel cell', to produce electricity that can drive an EV without storage batteries.

Green hydrogen is right now expensive. While both Ambani and Adani in India have publicly committed themselves to investment to bring down the cost of green hydrogen to less than a fifth of its current cost, that remains a solution of the future.

Storing the large quantities of power produced by gigawatt-scale RE in batteries will create deforestation and other ecological disasters across the world, as mining escalates to extract the minerals required to make the batteries. That is not a viable solution.

In the short run, pumped storage is the tried-and-tested solution. Use the electricity from renewable sourced that cannot be utilised at the time of generation to pump water to an elevated storage, run the water down a steep incline to drive the blades of a

turbine and generate power. In large hydroelectric projects, the water is accumulated by building a dam across a river and submerging an expanse of land. In a run-of-the-river project, such submergence of land is redundant, and the water drops along a steep mountainside, to develop the force to turn the turbine.

Instead of burdening India's green entrepreneurs with the task of locating and building pumped storage sites, obtain environmental clearance and build them individually. It would be ideal for one or more specialised agencies to take on the job of buying the surplus power from grids into which renewable power is fed when it is generated, and using the power for which there is no immediate offtake to pump water to an elevation in multiple sites that are environmentally benign



Storing large quantities of power

produced by GW-scale RE in batteries will create deforestation and other ecological disasters. In the short run, pumped storage is the tried-and-tested solution

and cost-effective.

NHPC in the public sector and the Jaypee group in the private sector are experienced hydropower companies. They could act as aggregators of surplus power and create distributed pumped storage sites. Instead of turning to fragile mountains inside virgin forests, as hydel developers are wont to, they could explore new sites.

Why can't every high-rise building also house pumped storage capacity? Instead of hunting for new locations on unexplored hills and mountains, why not run pipelines on the sides of mountains on whose slopes motorable roads already snake their way up and down?

This would call for inter-state transmission, or swapping of power, transforming the voltage at several stages, and require centralised coordination. That adds to cost. But this is vital, if India's green power revolution is not also to wreak environmental havoc, and incur the cost of inexpert, non-specialised storage.

DELIVERED VOLUMES IN MAR UP AROUND 6% OVER FEB

India's Russian oil imports flow heavy despite tighter sanctions

SUKALP SHARMA
NEW DELHI, APRIL 2

TIGHTENING SANCTIONS from the United States (US) and other Western powers on Russia's oil trade appear to have had no impact so far on India's Russian oil purchases, with delivered volumes in March rising over 6 per cent over February levels to a four-month high of nearly 1.7 million barrels per day (bpd), accounting for a third of New Delhi's total oil imports for the month, as per preliminary data from commodity market analytics firm Kpler.

In the latest action against oil tankers over alleged violation of the G7 price cap of \$60 per barrel on seaborne Russian crude, the US on February 23 sanctioned Russia's state-owned shipping major Sovcomflot along with 14 tankers associated with it. Indian refiners are now refusing to take delivery of crude transported by Sovcomflot tankers in an evident bid to steer clear of any secondary sanction risk. According to a senior government official, the government does not want Indian refiners to brazenly flout the G7 price cap or get involved in trades that might have sanctions-related risks.

This had led to considerable speculation that imports of Russian oil by Indian refiners

LATEST US ACTION

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could drop. The data for March, however, paints a contrarian picture.

The increase in volumes in March was led by abundant availability of Russia's flagship Urals crude, which has been the mainstay of India's oil imports from Moscow. Following drone attacks on Russian refining assets, around 400,000 bpd of Russia's own refining capacity is offline, which means all that oil — mostly Urals — is making its way to the international market, said Viktor Katona, Kpler's lead crude analyst.

"If one is to look at the Urals numbers alone, the 1.35 million bpd of Urals that Indian refiners bought in March is the highest since July 2023," Katona said.

Importantly, the strong oil

flows from Russia to India show that Russian oil exporters have been able to arrange tankers that are not sanctioned, and therefore, are welcome at Indian ports.

Russian oil is bought by Indian refiners on a delivered basis, which means that chartering of tankers and the associated procedures are the responsibility of the oil supplier. Indian buyers pay the all-inclusive landed price of crude and have no involvement in the shipping of the oil, which keeps them largely insulated from possible price cap-related complications. While a lot of crude deliveries on Sovcomflot tankers are now evidently shifting to China — the other big buyer of Russian crude — the massive so-called opaque fleet of tankers involved in Russian oil trade is likely to keep Moscow's oil flowing to India. Broadly speaking, the opaque tanker fleet refers to vessels of unclear ownership involved in crude oil and petroleum products trade of suppliers under sanctions or restrictions of various degrees from international powers, particularly the US.

With major Western fleet operators loath to get involved in the oil trade of these countries, little-known operators from countries like Greece, Turkey, Russia, and tax havens like Marshall Islands, Liberia, and Panama have emerged as the key players in the

so-called shadow fleet network. Additionally, ship-to-ship (STS) transfers of Russian oil are also picking up, particularly in waters off Oman's coast. STS transfer refers to transfer of cargo between ships positioned alongside each other, either while stationary or underway.

"Indian buyers are buying their cargoes of Russian crude on a delivered basis, meaning they don't have anything to do with the ship's chartering and insurance ... the Russian seller could just as well use a sanctioned shuttle tanker to bring the crude from the Russian port of loading, and then do a ship-to-ship transfer and then deliver the cargo to the Indian port aboard a non-sanctioned vessel," Katona said, adding that more STS activity is expected in the coming weeks.

Indian refiners ramped up Russian oil purchases in the aftermath of Moscow's February 2022 invasion of Ukraine. As the West started weaning itself off Russian energy supplies, Russia began offering deep discounts on its crude oil, which Indian refiners began lapping up. Prior to the war in Ukraine, Russia was a marginal player in India's oil imports, but is now New Delhi's biggest source of crude ahead of traditional heavyweights Iraq and Saudi Arabia.



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and speed up energy transition in the region, as India leverages cross-border energy trade as part of its neighbourhood-first policy. India currently has bilateral connectivity with Nepal and Bangladesh to supply petro-products; and another multi-product pipeline is in the works.

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India, EEU bloc officials hold talks to start negotiation for FTA

Press Trust of India

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NEW DELHI: Senior officials of India and the five-nation Eurasian Economic Union (EEU) bloc held detailed discussions last month to formally start negotiations for a free trade agreement to boost economic ties, an official said.

The five members of the EEU are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.

The official said two feasibility studies have already been conducted on the proposed agreement.

In such agreements, two or more trading partners either eliminate or significantly reduce customs duties on the maximum number of goods traded between them. These agreements provide greater



These agreements will provide more market access to Indian goods and services. GETTYIMAGES

market access to Indian goods and services.

“Senior officers of both sides have met on March 28 here and have discussed formally starting talks for the FTA,” the official said.

An industry expert said

domestic exporters from sectors like engineering goods, electronics and agriculture can get an edge from the agreement.

Russia is the top trading partner of India in the bloc, with bilateral trade worth \$49.4 billion in FY23.

India's exports to Russia stood at \$1.14 billion in 2022-23, while imports were \$46.2 billion due to an increase in crude oil imports.

The bilateral trade with Armenia, Belarus, Kazakhstan, and Kyrgyzstan was \$134.26 million, \$111.81 million, \$641.62 million, and \$56.56 million, respectively, in 2022-23.

A similar agreement was signed by India and the European Free Trade Association (EFTA). The members of this bloc are Iceland, Liechtenstein, Norway, and Switzerland.