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Unstable world energy market worries India

India has to tread cautiously to protect energy security amid growing global order uncertainty in fossil fuels

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The unstable world energy market, volatile prices and uneven supplies may have repercussions on India's energy security. The first to take the hit is the GAIL LNG deal followed by Russian demand for payment in the UAE dirhams converted in dollar terms.

The GAIL's troubles are traced to the German energy regulator taking over Gazprom Germania, which operates gas to storage and supplies to industries. The move followed Gazprom moving out of the subsidiary so that it could continue business without attracting sanctions. It has led to the default in delivery of five cargoes as per a 20-year-deal agreed in 2012 for 2.5 million tonne LNG a year.

It is dicey on oil supplies as well though Russian oil in April was about 10 per cent of India's oil basket. As much as 40 per cent of the Russian oil has been bought by private refiners—Reliance Industries and Rosneft-backed Nayara Energy.

Russian Rosneft is dithering on supplying crude oil to two Indian state refiners, BPCL and Hindustan Petroleum, as it has committed sales to other customers. The stoppage of supply becomes a problem for GAIL, which meets 50 per cent of the nation's LNG needs. It is scouting for alternative fuel. But it faces the problem of Russia stopping supplies to Gazprom Marketing & Trading that owned the future gas contracts for supplying to Gazprom Germania and other subsidiaries. It used to supply from the Yamal LNG facility. After Russia's stoppage of supplies, Gazprom GM&T initially managed supplies from its floating international portfolio.

As prices rose to $40 a unit and supplies to Europe became lucrative, it diverted supplies leaving GAIL in the lurch. In fact, the prices are so high that Gazprom Germania is said to have margins after paying damages under the take-or-pay clause. The GAIL has the option to take legal recourse but it is cumbersome, may take years and would not address the problems of the Indian consumers.

The GAIL has long-term liquefied natural gas (LNG) supply contracts from the US to Australia supplementing domestic gas supplies though it may cost a bit more in the prevailing circumstances. Prior to the war, the US LNG used to cost one-third of the price of gas available in the spot or current market.

GAIL has a 5.8 million tonnes per annum LNG contract with US suppliers. These are all linked to the US gas market, where the current rate is $10 per million British thermal unit. In comparison, the spot price of LNG in Asia is between $37 and $40 per million British thermal unit.

The GAIL and the petroleum ministry are scouring the markets for ensuring the supply. The Asian LNG prices are rising with intense demand from Japan, Korea and India. Trading activity in the Asia

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ONGC, OIL & GAIL win 6 of 8 oil blocks State-owned ONGC, OIL and GAIL have walked away with most of the eight blocks offered for exploration and production (E&P) of oil and gas in the OALP-VII bid round. ONGC has won three blocks in the OALP-VII round, while OIL has won two. GAIL walked away with one block in Rajasthan, while Sun Petrochemicals has won the remaining two blocks, according to information posted by the Directorate General of Hydrocarbons. The government, in the meanwhile, has launched the next bidding round, expecting around $700 million of investment in the 10 areas on offer.