

## Emerging Trends in India-U.S. Oil and Gas Engagement

By Sujata Ashwarya

Oil and gas trade is emerging as a new area of engagement between India and the United States against the backdrop of increasingly complementary interests. The emergence of the United States as the world's top oil and gas producer in the last few years dovetails perfectly with India's energy-deficient status and growing demand. With high rates of economic growth and over 17 percent of the world's population, India's energy consumption growth is largely fed by foreign imports of fossil fuels.

While the increasing supply and demand are the obvious drivers of this upward trend in trade, the contours of energy ties have been fleshed out in the India-US Strategic Energy Partnership (SEP) launched in April 2018. The trade component of the SEP envisages the sale of oil and gas to India from the burgeoning shale rigs in the United States.

According to BP Statistical Review (June 2019), "the U.S. achieved a unique double first last year [2018], recording the single largest-ever annual increases by any country in both oil and gas production." The Energy Information Administration (EIA) projects that the United States will export more energy than it imports by 2020.

Launched in April 2018, the US-India Gas Task Force is one of the early schemes under the rubric of the SEP, and is designed to support the development of a partnership between Indian and American gas companies, so as to propel India's natural gas production using advanced technology and innovation. The SEP's focus on gas ties sits well with Prime Minister Narendra Modi's thrust for clean fuels to drive India's economic growth and to curb the huge pollution afflicting Indian towns and cities. The Indian government plans to boost the consumption of natural gas from seven percent now to 15 percent by 2030.

In this context, it is reassuring that India's state-owned GAIL (Gas Authority of India Ltd.) received its first liquefied natural gas (LNG) cargo in March 2018. Under a 20-year sale and purchase agreement (SPA), GAIL will import 3.5 million tons (mts) of LNG per year from U.S. exporter Cheniere Energy's Sabine Pass liquefaction facility in Louisiana. GAIL has also signed a contract to import 2.3 mts a year of U.S. LNG from Dominion Energy's Cove Point plant.

During a high level commercial dialogue between the two countries in February 2019 to advance trade and investment, Indian private gas importer Petronet LNG signed an initial agreement with Tellurian Inc. to invest in its proposed Driftwood project. If Petronet manages to invest \$500 million or more, it will be able to import one million tons of LNG annually over the life of the project. The United States has urged India to formulate a market-friendly gas policy and initiate reforms in the sector starting with the unbundling of GAIL's gas marketing and piped transportation ventures so as to boost trade and investment in the gas sector.

Once former U.S. President Barack Obama lifted the ban on U.S. oil exports to India in 2015, India-US oil trade started to solidify. While there is evidence of export of around 550 thousand tons of oil in the

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financial year 2008-09 (and miniscule volumes in 2012-13 and 2015-16), the first substantial exported volume of 10.4 million barrels came a decade later. It is only in 2018 that U.S. oil supply registered a continuous monthly offload on Indian shores and a progressive increase in quantity of supply in the latter half of the year. In 2018, instead of the previous episodic volumes, U.S. crude freight was unloaded on Indian shores every month, with the quantity of supply increasing substantially in the latter half of the year.

A surge in shipments from the United States has outpaced India's oil imports from the Iranian suppliers since November 2018, when Washington re-imposed sanctions on Iran's oil sector, lifted or waived under the Joint Comprehensive Plan of Action (JCPOA). During April 2018-March 2019, U.S. oil supplies listed a record 69 million barrels, a seven fold jump in year-on-year exports (12.6 million barrels) from the previous year. The EIA data reveals U.S. oil supply to India doubled to 12.9 million barrels in March 2019 and close to 11.8 million barrels in April 2019 – thus opening a stable channel for India to diversify suppliers.

India also stopped buying oil from Venezuela when the United States imposed sanctions on Venezuela's oil industry in late January 2019 so as to avoid collateral or secondary sanctions on the financial sector. In the fiscal year 2018-19, the Latin American country delivered more than 121 million barrels of crude, the fourth largest supply in India's crude import basket.

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U.S. Secretary of State Mike Pompeo, while visiting India in June 2019, assured Indian refiners of adequate and uninterrupted oil supplies from American exporters. In fact, the special focus of Mike Pompeo's visit to New Delhi was U.S. fossil fuel exports to India, which is emerging as a vital element in India-U.S. energy cooperation. Evidently, the value of crude import from American suppliers has shot upward six fold from \$610 million in 2017-18 to \$3.6 billion in 2018-2019 – it remains robust at \$547 million as of April 2019, according to the commerce ministry's data.

However, refining American oil, which is sweet and light (low sulphur content and high API gravity), is a huge challenge to the Indian refiners inured to heavy crude from the Middle East (especially the Iranian supply). Additionally, light crude is more expensive than heavy crude – as it produces a higher percentage of gasoline and diesel fuel – which is laying further costs on the Indian exchequer.

The increase in trade of petroleum products represents another possibility on the horizon of U.S.-India energy ties. As China gives up American LPG procurements in favor of those from the Persian Gulf in the context of the trade war, rising Gulf LPG prices advance the competitiveness of the commodity from U.S. shores.

The politics underlying the ballast in India-U.S. energy trade cannot be ignored if the goal is to institutionalize a long-term engagement. Prepared with an 'America First' slogan and protectionist conceptions of trade, the Trump administration has identified India as among the many countries with which it must reduce its trade deficit and is pressuring India to open up her large market for American goods.

Though the U.S. trade deficit with India is a fraction of that with China, Indian purchases of oil and gas from the United States are expected to contribute to balancing out that deficit. However, a clash between rising U.S. protectionism and India's own quasi protectionism can exacerbate tensions to the detriment of emerging reciprocity on energy issues.

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