

Energy as a bargaining chip in US trade talks

While dealing with the US on tricky trade issues, India will have to deftly play the energy card

CAPITAL IDEAS.



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The Valentine week saw the Indian and the American heads of states meet in the US and 'energy security' was a key topic of discussion. So will energy be used as a tool to sort out ticklish tariff issues between the two countries?

Prime Minister Narendra Modi's visit came soon after Donald Trump was sworn in on January 20. Some see it as a smart move by the Indian Prime Minister to get straight to the negotiations.

The joint statement issued by the two countries after the meeting states, "The leaders agreed that energy security is fundamental to economic growth, social well-being and technical innovation in both countries."

They underscored the importance of the US-India collaboration to ensure energy affordability, reliability, and availability and stable energy markets. Realising the consequential role that the US and India play as leading producers and consumers in driving the global energy landscape, the leaders re-committed to the US-India Energy Security Partnership, including in oil, gas, and civil nuclear energy, it said.

They also underscored the value of strategic petroleum reserves to preserve economic stability during crises and resolved to work with key partners to expand strategic oil reserve arrangements. "In this context, the US side affirmed its firm support for India to join the International Energy Agency as a full member," the statement read.

There was also a mention of their

commitment to the US-India 123 Civil Nuclear Agreement by moving forward with plans to work together to build US-designed nuclear reactors in India through large scale localisation and possible technology transfer.

More importantly they reaffirmed their commitment to increase energy trade and to establish US as a leading supplier of crude oil and petroleum products and liquefied natural gas to India.

THE IMPLICATIONS

What does this mean? Will it be used as a tool for negotiations?

Today, the US is already among the top suppliers of oil and gas to India. India also exports refined products to the US.

GAIL (India) Ltd in 2011 had signed a 20-year LNG supply contract with Sabine Pass Liquefaction LLC, a unit of Cheniere Energy Partners, for supply of 3.5 MMTPA natural gas, which commenced in 2018. The company also signed a terminal service agreement with Dominion through its subsidiary GAIL Global (USA) LNG LLC for booking 2.3 MMTPA liquefaction capacity in the Cove Point LNG liquefaction terminal project, located at Lusby, Maryland.

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According to Lauri Myllyvirta, lead analyst, Centre for Research on Energy and Clean Air, "Energy will play a crucial role in any attempt to ward off Trump's trade measures, and is the most obvious place to start if Trump is looking for another quick deal he can boast of, but no one can predict what will work with him."

"It's hard to see any advantage for India from any commitment to buy the US fossil fuels, other than improving the bilateral relationship and avoiding trade measures by the US. To the extent that imports from the US replace the imports from Russia that have been reduced by the recent stricter sanctions, it of course reduces reliance on Russia and India's role in propping up Russia," he said.

According to Vandana Hari, founder of Vanda Insights, which tracks energy markets, "Trump's threat of reciprocal tariffs is big for India, considering the trade gap between the countries and India's sizeably bigger levies on imports from the US. But a few things need to be kept in mind here are: India is lower down the list of the US' trade partners that Trump is prioritising to get even with, so there's some time to negotiate."

"Second, even the more serious threats — the 25 per cent tariffs against Canada and Mexico for instance — actually morphed into deals, which is what Trump really wants. Prime Minister Modi was trying to pre-empt and prevent the ugly tit-for-tat threats by getting straight to the negotiation part. Offering to buy more US crude and LNG is an obvious bargaining chip for India. But it's a price-sensitive importer," she said.

And rightly so. The landed cost of oil from the US will be at least \$2-3 a barrel higher, according to traders.

"The landed cost of US crude is higher than comparable grades as it incurs

higher freight cost. Promising increased LNG imports makes more sense, as those are long-term deals and buys India some time to manoeuvre," Hari said.

Pulkit Agarwal, Head of India Content (cross commodities) S&P Global Commodity Insights, says, "The US has gained impotence as a formidable supplier for oil and LNG, while India too has gained prominence as the growth driver for both global oil and LNG imports in the last few years. The energy trade between India and the US is thus poised to grow naturally."

OIL: US VS RUSSIA

There is anecdotal evidence from the first Trump administration too on the push for oil buying, which was then picked up by Indian refiners mostly on the merit of economics, Agarwal said.

"The fate of the US oil flow changed thereafter post Russian invasion of Ukraine as Europe which shunned Russian oil, picked up US crude oil heavily instead, while India found the lowest value crude oil supplier in Russia. With the recent sanctions-induced hiccups in Russian oil flows, US oil flows could be a viable diversification option for Indian refiners," he said.

In a price sensitive Indian market, Indian refiners will be driven by the economy factor. Besides, it will depend on how fossil fuel will be sourced — on delivery or pick up basis. Russia sells to Indian refiners mostly on delivery basis which means that chartering of tankers and associated procedures are the responsibility of the supplier. And here in comes in negotiations for final price.

While taking bets on Trump's next move is just as risky predicting oil price, the buck will stop with the best negotiator. According to industry observers, Indian refiners have mastered this craft.