Focus: TAPI Gas Pipeline Project

“TAPI (Natural Gas) Pipeline Project has the potential of becoming the new 'Silk Route' between Central Asia and South Asia.” These were the opening remarks of Minister of Petroleum & Natural Gas at the signing of intergovernmental & gas pipeline framework agreements for the Turkmenistan-Afghanistan-Pakistan-India (TAPI) in Ashgabat (Turkmenistan) on 11th December 2010. TAPI gas pipeline project has the potential of being a major energy diplomacy success & energy security enhancer for India. While the project in recent months has seen positive developments, critical political, diplomatic, economic & security issues impinge on the finalization & completion of the project.

The Indian gas market is expected to be one of the fastest growing in the world over the next two & a half decades. Presently, in India, the share of gas in energy mix is 9%, while globally it is 24%. The International Energy Agency (IEA) forecasts gas demand in India to increase at 5.4% per annum over 2008-35.

Natural gas use in India started to grow in the late 1970s after the first major gas finds in the western offshore and the development of the first transmission pipeline in the northern region. Till recently, gas demand potential was estimated to be 20 or 30 billion cubic meters (bcm) higher than actual use, as consumption had been constrained by the lack of supply, which was constrained by the declining domestic production.

To address the supply shortfall, the Indian government since the 1990s Government has adopted a twin pronged strategy:

**Increasing Domestic Production:** The New Exploration Licensing Policy (NELP) opened Exploration & Production to private and foreign companies. The recent world-scale gas discoveries in the east coast Krishna-Godavari Basin represent the success of this policy.

**Tapping Import Opportunities:** The Indian Government & Companies seized the gas import opportunities that were unfolded with the advent of LNG (Liquefied Natural Gas) a few years back, by setting up LNG Terminals & entering into LNG import agreements (1st being with Qatar by Petronet LNG). Today, a number of new LNG terminals are being constructed & planned in the country. Moreover, LNG sourcing opportunities have also increased with the decline in the US LNG demand (due to the increase in the shale gas production there).

Another and the traditional means of gas import has been through international pipelines. India has the geographical advantage of having many gas rich Asian countries (Middle East & FSU) as its neighbors. However, till date India has not been able to import gas through this means. Since the 1990s, India has been pursuing diplomatically the prospects of transnational pipeline gas import projects. The three projects for which the Indian Government has had negotiations are:

- Iran-Pakistan-India (IPI)
- Myanmar-India
- Turkmenistan-Afghanistan-Pakistan-India (TAPI)

Despite years of diplomacy, none of these projects have materialized. With India being out of the first two:

- In June 2010 the Iranian and Pakistani governments alone, (without India) finalized a multi-billion dollar deal under which Iran will supply natural gas by pipeline to Pakistan for 25 years beginning 2014.
• Both Myanmar & Bangladesh (the pipeline was to come via Bangladesh) had been exhibiting lack of interest in the project. As such not much progress has happened on this front and project is now on the back burner. On the other hand, while India was negotiating, a pipeline project to China from Myanmar was finalized & construction started in mid 2010.

Coming as a significant change from the dim outlook in this area, in recent months, there have been positive developments on Turkmenistan-Afghanistan-Pakistan-India (TAPI) project front. On 11th December 2010, India signed Inter-governmental Agreement and Gas Pipeline Framework Agreement for the TAPI pipeline with the other partner countries. These agreements laid down the framework for implementation of the TAPI project, issues such as the price of gas and safe delivery of gas were not covered in these agreements & are to be addressed separately.

**Salient Features of TAPI:**
- The deal on the pipeline was signed in 2002 by the leaders of Turkmenistan, Afghanistan and Pakistan. India joined the project in 2008, with Pakistan, India and Afghanistan signing a framework agreement to buy natural gas from Turkmenistan.
- TAPI envisages the building of 1,680 km of pipeline with a total gas capacity of 90 million cubic metres per day (mmmscmd) & India and Pakistan would get 38 mmmscmd of gas each & Afghanistan 14 mmmscmd.
- The project is backed by the US and the Asian Development Bank is the lead partner.
- The expected cost of the project is US$6-7bn.

**Issues crucial to the finalization of the deal:**
- The pipeline would pass through the high risk unstable regions of Afghanistan & Balochistan (Pakistan) and could face a risk of sabotage.
- Price could be a major area of contention. At present Turkmenistan is supplying gas to China at $7.5 per mBtu. It is being conjectured that the price of gas for India would be a mark up over this inclusive of wheeling charges & transit fee to Afghanistan & Pakistan.
- In a major departure from its previously stated policy of the seller delivering the gas at its border (as in the case of IPI), in TAPI India is to take custody of the gas at Turkmenistan-Afghanistan border and will rely on an international consortium for safe transfer of the fuel through Afghanistan and Pakistan.

**Observation:**
With China being way ahead of India in its energy diplomacy & in clinching energy asset & deals, TAPI is a crucial project for India. However, the project is wrought with political, economic & security concerns.

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**Week that was**
- In November 2010 WPI inflation fell to 7.48% from 8.58% recorded in October 2010.
- Indian Crude Basket price rose to US$89.73/bbl on 14th December 2010 from US$85.20/bbl on 1st December 2010.
- Key Policy Rates (As on 2nd November 2010): Bank Rate: 6%; Repo Rate: 6.25%; Reverse Repo: 5.25%; CRR: 6%; SLR: 25%.
- Forex Reserves: US$ 296.4 bn (As on 3rd December 2010)