

Reliance imports of American gas make much strategic sense

Ethane is a better source of polymers and the US would be pleased



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Reliance has an ethane cracker in Dahej, Gujarat, to produce ethylene. BLOOMBERG

From Ottawa to Beijing, US President Donald Trump's trade war has made many enemies. But it has also won America some allies. Asia's richest tycoon is preparing to welcome US cargo originally meant for China but re-routed to India. The ship that Mukesh Ambani of Reliance Industries Ltd is waiting for is laden with ethane. This colourless, odourless component of natural gas is shipped in liquefied form in special carriers such as *STL Qianjiang*, which is on its way from the US Gulf Coast to Reliance's terminal in Dahej, Gujarat, where the company has an ethane cracker to produce ethylene, used for plastic products.

The unit, completed in 2017, made Reliance "the first company to globally conceptualize large-scale imports of ethane from North America as feedstock," it said in a press release back then. Eight years later, that foresight may come in handy to India's trade negotiators. "Stop obsessing over your \$43 billion trade deficit with us," they might like to tell their counterparts in Washington, as both sides try to close a trade deal ahead. "We're going to buy your gas."

Ambani bet on North American ethane more than a decade ago. His father Dhirubhai Ambani, the empire's founder, was the original "Polyester Prince." And although the son has ventured into new areas and added \$57 billion in retail and digital services, the annual revenue from the legacy oils-to-chemicals business is still bigger at \$74 billion.

Historically, Reliance and other refiners have cracked naphtha—obtained by distilling crude oil—to make ethylene. The conversion efficiency is low at around 30%, compared with 80% for ethane. But since crude oil had to be imported anyway to produce motor spirits, it made sense to use it for making polyester and other polymers. Ethane, which on an energy-equivalent basis is half as expensive as naphtha, hasn't been popular until now. In fact, Qatar didn't even bother to separate it from the natural gas it supplied to India. But even that is changing. Under a new agreement with India's Oil & Natural Gas Corp (ONGC), QatarEnergy will only provide 'lean' gas. If the buyer wants ethane, it will have to pay for it. ONGC recently entered into a deal with Mitsui OSK, which will build, own and operate two large carriers for the state-owned firm to import ethane. Here, too, Ambani wrote the template. Reliance co-owns a fleet of six such vessels. It now wants to lay a 100-km pipeline to bring ethane from the terminal to another of its processing units in Gujarat. New

capacities for ethane cracking are coming up, too, including by GAIL.

It isn't clear if imports of American feedstock will expand indefinitely. Just how much more ethane could Reliance and others handle? After all, it's still an oil-centric economy they serve. But if the dependence grows, it could alter India's fuel economics. For one, state-owned refiners may become unprofitable dumping grounds for West Asian crude. Any residual use for the naphtha they churn out alongside transport fuels won't compensate for the loss of its central role in making everything from polyester and detergents to fertilizers, cosmetics and pharmaceuticals.

Oil is on extra time in India. A third of the vehicles sold last year by its largest carmaker run on compressed natural gas. To manage pollution, and reduce dependence on imported fossil fuels, New Delhi has mandated the addition of 20% bio-ethanol in gasoline. Mass EV adoption will further reduce petrol demand. Even so, a government-controlled firm is setting up a 9-million-tonne-a-year crude refinery in Andhra Pradesh. I suspect that this project is going ahead because the state, eager to attract capital and create jobs, is offering lavish subsidies. Otherwise, the investment case is weak.

Reliance plans to add three more ethane carriers to its fleet. Both the US and India may gain from a closer friendship. While the trade war with China is on pause, the fate of US ethane still hangs in limbo. Although India can't match the much larger Chinese appetite for cracking ethane, it can absorb some of the oversupply. The White House would get to brag about how its trade policies are making America great again. Ambani will manage to fight off pressure on his margins by shifting to a cheaper feedstock.

Ivanka Trump and Jared Kushner were among the attendees at wedding celebration last year of the youngest of Mukesh Ambani and his wife Nita's three children. Then Trump met Ambani and Nita at his pre-inauguration party. This fall, Nita Ambani will take over New York's Lincoln Center for a 'Slice of India' weekend.

Making a mark as a big buyer of American ethane may not draw the attention of *Vanity Fair*. But the White House will surely take note.

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