

## Crude oil spikes on geopolitical worries



**London:** Global oil benchmark Brent hit \$93 a barrel on Wednesday as the risk of escalating conflict in West Asia threatened to disrupt oil supplies from the region. Brent crude futures were up 1.5 per cent to \$91.23 a barrel. WTI futures were up 1.5 per cent at \$87.94 a barrel. REUTERS

## Govt lowers domestic crude, out-bound diesel & jet fuel windfall levy

**Shishir Sinha**

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The Finance Ministry late on Tuesday lowered the Special Additional Excise Duty (SAED), better known as windfall gain levy on domestically produced crude, to ₹9,050 a tonne from ₹12,100. The change will take effect on October 18.

This decision has been taken as crude prices saw some moderation earlier. The reduction will likely impact oil exploration companies such as ONGC and Oil India.

Similarly SAED or duty on the export of diesel will decrease to ₹4 per litre from ₹5 per litre currently. The duty on jet fuel or ATF has been lowered to ₹1 per litre effective Wednesday, from ₹2.50 per litre, according to a Finance Ministry notification. Export-bound petrol will continue to be in NIL category. Product prices have come down, which is why windfall gain tax has been revised downward. Cutting the windfall levy on diesel and ATF for export will impact Reliance Industries and Rosneft-backed Nayara Energy as primary fuel exporters.

India first imposed windfall profit taxes on July 1, 2022, joining several nations that tax supernormal profits of energy companies. At that time, export duty of ₹6 per litre (\$12/bbl) was levied on petrol and ATF, and ₹13 a litre (\$26/bbl) on diesel. A ₹23,250 per tonne (\$40/bbl) windfall profit tax on domestic crude production was also levied.

The tax rates are reviewed every fortnight based on the average oil prices in the previous two weeks. The domestic producers of petroleum crude, like ONGC, sell their crude at international parity price. As international crude prices rose sharply, these producers made super-normal profits.

## India to account for major share of refinery runs in Asia-Pacific by 2045: OPEC

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India, the world's fourth-largest crude oil refiner, will account for a major portion of refinery runs in the Asia-Pacific (APAC), excluding China, by 2045.

Besides, long-term refining capacity increments in other Asia-Pacific regions (excluding China) is estimated at 7.1 million barrels per day (mb/d), in line with strong demand growth.

India is the single-largest contributor to capacity additions in this region, said the OPEC's *World Oil Outlook 2023* report.

Runs, or the amount of crude oil that a refinery processes over a certain period of time, were close to their pre-pandemic levels in India last year, it added.

The report said that refinery runs in the Asia-Pacific (excluding China) are forecast to increase by around 4.5 mb/d from 16.5 mb/d in 2022 to just above 21 mb/d in 2045.

"This is supported by strong demand growth, of which India accounts for around 60 per cent.

"Utilisation rates are set to peak at around 88.3 per cent in 2025, followed by a gradual decline to about 81.5 per cent in 2045, as new capacity comes online," it added.

The report pointed out that there remains a trend for refining capacities to migrate from developed to developing regions, namely the Asia-Pacific, West Asia and Africa.

The three regions are set to account for the largest share of medium-term capacity additions, representing almost 90 per cent of the total.

### DEMAND GROWTH

Strong demand growth, as



strategies in these regions, are the major drivers behind this trend.

India is expected to add as much as 56.6 million tonnes per annum of crude oil refining capacity in the next seven years, of which, 84 per cent will be through brownfield expansion, while it will add 9 MTPA of refining capacity through greenfield expansion.

At present, the world's third-largest crude oil consumer, India has a cumulative refining capacity of almost 254 MTPA, or a little over 5 million barrels per day (mb/d).

In FY23, Indian refineries processed 5.13 mb/d of crude oil, or 255.2 million tonnes (MT), against 4.85 mb/d or 241.7 MT. In August 2023, the crude pressed stood at 5.28 mb/d or 21.9 MT (provisional), while in April-August in FY24, crude processed stood at 5.25 mb/d or 109.5 MT.

As of September, India had a total crude oil transportation pipeline of 10,938 km, with a capacity of 153.1 MTPA. The refined products transportation pipeline is 22,973 km, with a capacity of 149.3 MTPA.

### EXPANSION MODE

The OPEC report said that India is also expanding its existing facilities and focussing on the petrochemical sector. The country's target is to reach 9 mb/d of refining ca-

# Indians' wanderlust to fuel spending

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Indians will spend \$410 billion on travel and accommodation by the end of the decade aided by a growing economy, swelling incomes and youthful population, a new study said. This is about three times the amount (\$150 billion) spent in 2019, the last pre-covid year of normal consumption.

Indians are keen on non-traditional accommodation such as hostels, campsites, vacation rentals and chalets, the study by Booking.com with knowledge partner McKinsey & Company said. The average daily rate and the number of room nights booking in alternative accommodations is nearly twice that of hotels and managed chains, with the highest increase in average daily rates for niche



alternative accommodation such as country houses and boats. But the figure is higher since alternative accommodations at present have a much smaller base.

"A large part of the growth in travel will come in the form of alternative accommodations and the shift in the way people book from offline travel bookings to online will continue.

Today, we are very bullish on the 'India opportunity', largely because the country has one of the youngest populations around the world and the country's GDP is one of the fastest growing," said Santosh Kumar, country head, Indian subcontinent and Indonesia of Booking.com, owned by the Netherlands-based Booking Holdings.

One of the prime drivers is India's growing middle-income population. The number of households earning \$35,000 annually is expected to increase five-fold over the next 10 years, driving a boom in discretionary spending, the report said. Unsurprisingly, the number of lodging units in India may also double to 290,000 units during the same period.

The number of aggregate trips is expected to rise from 2.3 billion to about 5 billion during the period. Demand will be catered to by the 1,600 aircraft the country will have by then, compared with just 659 in 2019.

India is the fastest growing aviation market in the world with a projected growth in air trips by 7-8% between 2023 and 2030. To match the growing demand, Indian airlines have placed record orders for over 1,000 aircraft.





## ONGC, OIL to gain as govt cuts windfall tax on crude oil

IANNS / New Delhi

The central government has reduced the windfall tax on domestic crude oil with effect from October 18 from Rs 12,200 a tonne to Rs 9,050 in its fortnightly review which will benefit upstream oil companies, including ONGC and Oil India Ltd (OIL).

The windfall tax on petroleum crude was raised to Rs 12,100 a ton from Rs 10,000 with effect from September 30 as oil prices at the time had soared to \$95 a barrel. Oil prices came down but have started heading north again in the wake of the Israel-Hamas conflict.

The windfall tax on aviation

**The windfall tax on ATF has also been cut from Rs 3.50 a litre to Re 1**

turbine fuel has also been cut from Rs 3.50 a litre to Re 1 and that on diesel from Rs 4 a litre to Rs 3 which is expected to benefit the downstream oil refiners that export petroleum products.

The government first imposed the windfall tax on crude oil producers in July last year and extended the levy on exports of gasoline, diesel and aviation fuel after private refiners started making gains from robust refining margins in overseas markets, instead of selling at home.

# Russia back as top oil supplier in August

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Russia continued to be the largest oil supplier to India in August with imports worth \$4.15 billion, according to data from the commerce ministry.

It was 23.15% higher than imports in July and on a year-on-year basis, the Russian imports more than doubled from \$1.93 billion in August 2022.

India's total oil import bill during the month rose 28.27% to \$11.49 billion from \$8.96 billion in July. Higher imports from Iraq and Saudi Arabia supported the overall rise in supplies.

Imports from Iraq and Saudi Arabia were valued at \$2.33 billion and \$2.07 billion, higher by 32% and 47% respectively compared to July. However, compared to August 2022, supplies from the two countries were around 40% lower.

The increase in imports comes amid a rise in discounts offered by Russia, analysts said.

In terms of quantity, Russian oil's share in the Indian crude oil basket stood at 39%,

## Russian boost

Russia has emerged as the largest supplier of oil to India in the past 20 months.



Source: Ministry of Commerce and Industry

SATISH KUMAR/MINT

accounting for 7.63 million tonnes out of the 19.54 million tonnes imported by India in August.

Russia has emerged the largest supplier of oil to India in the past 20 months with offers of discounted oil amid sanctions from the West in reprisal for its invasion of Ukraine.

In FY22, Russian oil accounted for only 2% of India's total oil imports; in FY23, it made up around one-fourth of the 235.52 million tonnes of crude oil imported by India. It now

stands at 39%.

Imports increased despite output cuts announced by Russia in a bid to lift prices. Oil prices which have declined from the multi-year highs reached last year, increased again in August and September amid extended supply cuts by the OPEC+ and its key members Russia and Saudi Arabia.

The Indian crude oil basket which averaged \$80.37 per barrel in July surged to \$93.54 in September. On 17 October, the basket price was \$91.03 a barrel. At

the time of writing, the December contract of Brent on the Intercontinental Exchange (ICE) was trading at \$91.43 per barrel, higher by 1.70% from its previous close.

A recent report by Moody's Investors Services said that a rise in feedstock cost and stagnant retail fuel prices could weaken the profitability of oil marketing companies.

The OMCs' marketing margins, the difference between their net realized prices and international prices, have already weakened significantly from the high levels seen in the quarter ended 30 June 2023, the report said.

Marketing margins on diesel have turned negative since August while petrol margins have narrowed considerably over the same period as international prices increased.

The oil market has turned volatile in the past one week post the attack by Hamas in Israel and the subsequent attacks by Israeli defence forces on the Gaza strip.

The Israel-Hamas conflict and possibilities of further instability in West Asia, a major source of oil for the world, has raised concerns in the oil market.

**The increase in Russian oil imports comes amid rise in discounts offered by Russia**



# Russian exporters stuck with \$8 bn in local Vostro accounts

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**R**ussian exporters, including state-backed entities, are likely holding about \$8 billion currently in Vostro accounts set up to facilitate trade in Indian rupees, two people familiar with the developments said.

Some of the Russian money is invested in Indian securities, but most of it remains in Vostro accounts due to a lack of investment opportunities in India for Russians and continued volatility in exchange rates.

"It is difficult to say the exact amount in the Vostro accounts since some transactions are very complex. However, the figure is likely closer to \$7-8 billion than \$30-40 billion," said the first person cited above, who didn't want to be named.

A Vostro account is a bank account held by a domestic bank on behalf of a foreign



Indian refiners are using a mix of currencies to settle most of their Russian oil purchases. AFP

bank.

The foreign bank can use its Vostro account to conduct transactions, including forex settlements, cross-border payments and investments in the domestic market.

So far, Russian funds (in rupee) have been invested in Indian government treasury bills, since such funds are not allowed to be invested in corporate debt according to regu-

lations.

*Mint* reported on 9 August that Russian funds worth about \$10-12 billion are estimated to have been invested in Indian government treasury bills in the year ended 31 March 2023, after a surge in trade deficit led to higher surpluses in the Vostro accounts.

Indian refiners, which are importing Russian crude, are using a mix of currencies, including yuan, to settle most of their Russian oil purchases. However, both countries were discussing trade in local currency, which is yet to take off because of currency volatility and high trade deficit.

Meanwhile, Russia is looking to invest in different kinds of Indian government securities,

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# Russian exporters stuck with \$8 bn in local Vostro accounts

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as repatriating money is currently not an option, said the second person.

"Russia would ideally like to invest in new technologies. But, much of the intellectual property rights of these technologies are with the West (especially the US). So, it is investing in government securities," the person added.

The Reserve Bank of India (RBI) allows investment of excess balance from Vostro accounts in payments for projects and investments, treasury bills and government securities.

However, experts said the Russian investments are likely in short-term government securities, as their exporters would like to take back the

money lying in India at the earliest.

"The yield difference between long-term bonds and short-term ones like treasury bills are barely 30-50 basis points," said Venkatakrishnan Srinivasan, managing partner at Rockfort Fincap LLP, a financial advisory firm.

So, it makes no sense for Russians to invest in long-term government securities, as they would want to take back the money sooner than later, added Srinivasan.

Since the start of the Ukraine-Russia war, Moscow has swiftly risen to become India's fourth-largest exporter, primarily driven by its oil exports.

India's imports from Russia grew nearly fivefold in the last financial year to \$46.2 billion.



RBI has approved 34 applications of different Russian banks for opening rupee accounts with Indian banks. MINT

However, payment issues remain a bottleneck between the two countries.

Spokespeople for the finance ministry, the commerce ministry, the RBI and the Russian embassy didn't respond to queries.

During FY23, India had a \$43

billion trade deficit with Russia, which left their exporters with large surpluses in their Vostro accounts in India.

Indian refiners are using a mix of currencies, including yuan, to settle most of their Russian oil purchases. However, both countries were dis-

cussing trade in local currency, which is yet to take off because of currency volatility and the high trade deficit.

"At the moment, Russia cannot take back the money because the exchange rate is a challenge for them. Dollar payment to Russia is possible via the Society for Worldwide Interbank Financial Telecommunication (SWIFT) mechanism, which is blocked (for Russia)," Federation of Indian Export Organisations director-general Ajay Sahai said.

"Besides, the entire Russian manufacturing has come under sanction. So, even if an Indian company has the machinery

required by Russia, they won't be able to supply due to sanctions," he added.

The RBI has approved 34 applications of different Russian banks for opening rupee accounts with Indian banks to facilitate two-way trade in the

**Rupee accounts have been opened by Russian banks in 14 Indian commercial banks**

backdrop of Western sanctions.

The rupee accounts have been opened by Russian banks in 14 Indian commercial banks, including UCO Bank, State Bank

of India, HDFC Bank, Yes Bank, IDBI Bank, Punjab National Bank, Axis Bank and Canara Bank.

*Shashank Mattoo contributed to this story.*