

Oil worries back again

The 30% surge in prices since June-end will increase RBI's inflation headache

THE 30% SURGE in crude oil prices since June-end to over \$97 per barrel is bad news for an oil-importing country like India. Should prices rise further, or even stay at these levels, they threaten to stoke inflation and widen the fiscal and current account deficits (CAD). That will most certainly impact growth as the cost of oil intermediates goes up and feeds into the end-prices of user industries. Globally, the potential impact of climbing crude oil prices on inflation has sent the benchmark US treasury yields soaring to 4.6%, a 15-year high. Essentially, the markets are penciling in persistent inflation and, therefore, an extended period of tighter monetary policy than earlier anticipated. Interest rates, this means, will stay higher for even longer.

Back home, the pass-through to retail inflation would, no doubt, be smaller this time around than in previous up-cycles, thanks to subsidies and price control. The government is unlikely to allow the oil marketing companies (OMCs) to raise pump prices of petrol and diesel ahead of the upcoming state elections and general elections next year. Nonetheless, a 10% increase in the price of oil would push up the consumer price index by roughly 0.2 percentage points (ppts) and widen the current account balance by 0.3 ppts. That will make life difficult for the Reserve Bank of India (RBI), which is trying to rein in prices and hold down interest rates so as not to hurt borrowers while, at the same time, encourage private sector firms to invest.

The central bank cannot also be completely detached from the global reality of continuing high interest rates. Moreover, given that high oil prices will pressure the country's external sector, the RBI will also need to watch the currency, now ruling at levels of 83.22 to the dollar. In Q1FY24, India's CAD came in at 1.1% of GDP following which, the deficit for Q2FY24 is estimated at 2.3% and is projected to settle at around 1.8-2% for FY24. The data for the June quarter shows the services trade surplus is smaller than anticipated as is the balance of secondary income. Worryingly, remittances are down both sequentially and year-on-year, at a time when global growth is slowing. Also, the merchandise trade deficit appears to be trending higher in the current quarter compared with the June quarter.

To be sure, India has a strong reserves buffer, but a bigger oil tab is a worry. For more than a year now, we have been consuming Russian crude in large quantities and getting a good deal—the average landed cost of Russian crude in June was just \$68.17/barrel compared with around \$82/barrel from the UAE. Those discounts are no longer available as oil prices are now ruling well above the \$60 cap, the level at which Western sanctions kick in. With Russia insisting that its bills be settled in dollars, India must explore alternative sources of supply, perhaps African nations. The good news is that rupee payment options have opened up for imports from other countries. For instance, the IOC recently settled a bill for purchases from the UAE in rupees. More of such agreements will ease the strain on the current account. Also, dollar inflows from purchases of gilts by active funds, ahead of India's formal inclusion in the JP Morgan EM bond index in June next year, will come in handy.



OIL explores options to bring back millions stuck in Russia

\$150 million currently parked at SBI Moscow branch; legal and tax consultants appointed

Rituraj Baruah & Utpal Bhaskar
NEW DELHI

Oil India Ltd (OIL) has appointed legal and tax consultants to explore ways to repatriate its \$150 million dividend stuck in Russia, the state-run firm's chairman and managing director Ranjit Rath said.

In an interview, Rath said the money is currently parked in the Moscow branch of State Bank of India (SBI). OIL is part of two Indian consortiums that hold stakes in several Russian oilfields in Siberia.

One consortium of OIL, Indian Oil Corp and Bharat Petroresources Ltd holds 23.9% stake in CSJC Vankorneft, the owner of Vankor Field and North Vankor. OIL is also part of another consortium of Indian state-run companies that owns 29.9% of LLC Taas-Yuryakh. ONGC Videsh (OVL) holds another 26% stake in SCJC Vankorneft.

Mint has reported that OVL, Bharat Petroresources Ltd, Indian Oil Corp, and Oil India have around \$400 million in stuck dividend payments from CSJC Vankorneft and LLC Taas-Yuryakh.

The amount is stuck in Russia because of difficulties in transferring money from Russia due to western sanctions on Russian energy companies. "We got the money in the initial days, which was repatriated comfortably. Subsequently, because of



Indian energy firms' dividend payments from Russia are held up due to western sanctions following the war with Ukraine.

the unfortunate incident (Russia's invasion of Ukraine) and the consequential sanctions, the money is safely parked in SBI Moscow," Rath said.

"Today, as we speak, around \$150 million is stuck there. But we are confident that it is only a matter of time; it is a temporary restriction. We will be able to (repatriate)... because we are having legal opinion. They are evaluating various other possibilities."

Rath said that although the priority is to get the dividends repatriated, other viable options would also be explored such as reinvesting the money in Russia.

"Right now, the thought process is, we are evaluating multiple options. One is, can we have this invested there or we get it repatriated to our Singapore subsidiary. We are looking at both the options. The other alternative could be, can we have an investment in a similar asset. Is that an opportunity? Right now, we are actually evaluating the possibilities of getting the money repatriated. But, the alternatives are being evaluated," he said. The CMD added: "We have engaged a legal consultant. We have also engaged a tax consultant to guide us on how we do this transaction. We are also talking at a government-to-

government level. So, all the channels are getting worked on." In total, Indian oil and gas companies currently have dividends of around \$600 million stuck in their investments in Russian oil assets.

After Russia invaded Ukraine in February last year, seven Russian banks were removed from SWIFT, a platform used for international transactions. In retaliation, Moscow restricted dollar repatriation from Russia to check volatility in rouble exchange rates.

Indian oil and gas companies have invested around \$16 billion in Russian energy assets. Over the past 18 months, Russia has offered India deep discounts on crude oil, becoming the country's top supplier of the commodity during this period. During April-July this year, import of crude from Russia stood at \$15.74 billion, nearly 127% higher than the \$6.93 billion during the corresponding period of the last fiscal. 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.

India, the world's third-largest oil importer, was getting a steep discount on oil cargoes from Russia till a few months back.

Although Russia's discounts have narrowed down to around \$4 per barrel, its supplies are still higher compared to the traditional oil suppliers in West Asia.

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\$600 mn
total dividends
stuck in
Russia

\$16 bn
invested so far by
Indian oil and gas
cos in Russia





■ Indraprastha Gas Limited achieved record top line and bottom line numbers in financial year 2022-23. In line with the massive push by the government to expand CNG and PNG infrastructure across the country, IGL was able to provide 3.1 lakh new PNG connections in 2022-23.

NOMURA REPORT

OMCs incurring under-recoveries of over ₹7/litre on petrol, diesel sales

SUKALP SHARMA

NEW DELHI, SEPTEMBER 28

THE RISE in international crude oil prices and petrol and diesel margins over the past few weeks has pushed into the red the marketing margins of public sector oil marketing companies (OMCs), which are estimated to be incurring under-recoveries of Rs 74 per litre on sales of the two fuels, according to a recent report by Nomura.

According to industry insiders, high under-recoveries, in effect, dash the hopes of a cut in petrol and diesel prices, at least for the time being.

Under-recoveries refer to the difference between the retail price and the international price of the fuel. As per the pricing methodology followed by the OMCs, petrol and diesel prices should be revised every day based on the 15-day rolling average of international benchmark prices. However, the companies have not revised prices since early April of last year, when global crude oil and fuel prices had surged in the aftermath of Russia's invasion of Ukraine.

"Blended marketing margins declined to -INR 4.7/litre in the week ended 24 September 2023 from -INR 2.9/litre in the previous week, with the OMCs now recording under-recoveries of INR 74/litre on the sale of auto fuels. Blended marketing margins have now declined sharply 80% q-q (quarter-on-quarter) to below normative levels of INR 2/litre in 2Q FY24-TD (July-September quarter till date), as crude prices and products

spreads increased, while retail product prices remained unchanged," Nomura said in a report earlier this week.

After incurring heavy under-recoveries for much of last year, the OMCs were trying to recoup their accumulated losses from 2022-23 (FY23) in the current financial year. There were indications from the government and the OMCs that they could revert to daily price revisions soon as most of their last year's accumulated losses had been recouped. Till a few weeks back, there was anticipation that petrol and diesel prices could soon see a cut.

However, with international oil prices and fuel spreads, or margins, having risen substantially leading to under-recoveries again, the resumption of daily price revisions in line with global rates and reduction in fuel prices may only be a distant possibility. In such a scenario, a fuel price cut can only be achieved if the government cuts taxes on the petrol and diesel, like it did on two occasions over the past couple of years, or the OMCs — Indian Oil Corporation Ltd (IOCL), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) — decide to bear deeper losses at the government's behest.

It is worth noting that the recent Rs 200-per-cylinder cut in cooking gas prices is, at least for now, being absorbed by the OMCs. The government has so far not said in clear terms if at all it plans to foot the bill for the cooking gas price cut by compensating the OMCs at a later date.

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NOMURA REPORT

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SUKALP SHARMA
New Delhi, September 28

THE RISE in international crude oil prices and petrol and diesel margins over the past few weeks has pushed into the red the marketing margins of public sector oil marketing companies (OMCs), which are estimated to be incurring under-recoveries of ₹7.4 per litre on sales of the two fuels, according to a recent report by Nomura.

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SLIPPERY SLOPE

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ONGC inks pact with NTPC Green for renewable energy projects

PTI ■ NEW DELHI

State-owned Oil and Natural Gas Corporation (ONGC) has signed an initial agreement with NTPC Green Energy Ltd to explore setting up green hydrogen and offshore wind projects.

The Memorandum of Understanding (MoU) “will primarily explore the feasibility and setting up of renewable energy projects in various domains,” ONGC said in a statement.

The MoU was signed by ONGC executive director Debdulal Adhikari and NTPC Green Energy Ltd (NGEL) CEO Mohit Bhargava in the presence of ONGC chairman and CEO Arun Kumar Singh and NTPC chairman and managing director Gurdeep Singh.

“The MoU envisages collaboration of the two mega entities in renewable power projects in India and overseas through offshore wind projects and exploring opportunities in the storage, e-mobility, carbon credits and green credits, nuclear, green hydrogen business and its derivatives (green ammonia and green methanol),” it said.

ONGC is India’s largest crude oil and natural gas producer while NGEL is a subsidiary of the country’s largest power utility NTPC.

“Exploring and setting up renewable power assets in India and overseas, ONGC inked a trailblazing MoU with NTPC Green Energy Limited on September 27, 2023.

“Over a period of three years, the MoU will primarily explore the feasibility and setting up of offshore wind projects, green hydrogen and pumped/energy storage projects,” ONGC said in a separate post on X, formerly known as Twitter.

Regulatory boost to self-sufficiency in energy



UTTAM GUPTA

Modi Government is giving considerable policy support for the exploration of hydrocarbons so that investors can earn assured return on their investments

Delivering the 75th Independence Day address, Prime Minister Narendra Modi set the country a target to achieve self-reliance in energy production by boosting the gas-based economy (besides giving a push to electric mobility and hydrogen production). Modi wants the share of natural gas (NG) in the total energy mix to go up from the current around 6 per cent to 15 per cent.

Currently, India imports 50 per cent of its NG requirement. This is because domestic production is hovering around a low of 28.6 - 34 billion cubic metres (bcm) in 2020-21 to 2021-22 (down from a peak of 52 bcm in 2010-11). There is a dire need to give a massive push to domestic output to meet the target. India has 26 sedimentary basins (SBs) covering an area of 3.4 million sq km that could be searched for hydrocarbon resources. Only six of the SBs are under commercial exploitation; these too are sub-optimally utilized.

Hydrocarbon exploration is a highly capital-intensive and technology-intensive business involving a long-gestation period. It is risk-prone especially when it comes to drilling in deep/ultra-deep and high-pressure/high-temperature (D/UD/HP/HT) fields in offshore areas such as the Krishna-Godavari (KG) basin. However, these areas offer maximum promise in terms of reserves.

Multinational companies (MNCs) such as ExxonMobil, Chevron Total etc. which have the technology and resources can be enthused to take long-term bets in the Indian hydrocarbon sector provided the government offers them an opportunity to earn an attractive return on their investment in a 'sustained' basis. This in turn, requires that their efforts in the discovery and development of NG fields don't face regulatory hurdles leading to the commencement of production within a reasonable time frame and that they can sell the gas 'freely' at a 'remunerative' price. In all three areas, the MNCs faced impediments in the past. In recent years, the Modi - government has made significant progress in removing these though, a lot more ground remains to be covered. Let us look at the regulatory landscape.

Nearly 50 percent of SB area or 1.73 million sq km lies offshore. Out of this, until recently 0.69 million sq km lay in the prohibited zone (fondly referred to as 'No go' area) due to security reasons. Now, the incumbent government has released a 0.67 million sq km sedimentary basin lying offshore. This should give a big boost to exploration and production (E&P) activity.

Until hitherto, E&P firms were getting lease rights for short tenure though extendable by 10 years for gas/oil & gas fields and by five years for oil fields. They had to go to the bureaucrats to seek approval for an extension of the lease which came in the way of undertaking long-term investment commitment.

Now, the government has granted E&P rights over the entire economic life of the allotted fields (this could extend up to 30 years, even beyond depending on the available reserves and the pace of their exploitation) instead of the extant system of allowing extensions. This will enthuse global firms to undertake long-term investment bets as they know for sure in



TEAM MODI HAS IDENTIFIED 22 PROCESSES FOR WHICH SELF-CERTIFICATION OF DOCUMENTS BY CONTRACTORS IS ACCEPTED

(The writer is a Policy Analyst, views are personal)

advance that they will get to operate the field for their entire economic life

The government has passed the Forest (Conservation) Amendment Bill, which says that seismic surveys (it is done in the initial stage to determine evidence of economically viable hydrocarbon resources below the ground) won't be treated as a non-forest activity. This implies that explorers would be granted prompt access to forest areas, thereby saving time spent on seeking permits.

Under the Hydrocarbon Exploration and Licensing Policy (HELP), also known as the Open Acreage Licensing Policy (OALP) launched in 2017, E&P firms are allowed to pick up a block of their choice unlike the earlier New Exploration and Licensing Policy (NELP) (launched in 1999) wherein they had to accept what the government offered. Besides, under OALP, an operator gets a composite license to search for hydrocarbon in whatever form; for instance, if it is 'shale gas', she won't need a separate license for extracting it.

For long, E&P efforts were hamstrung by cumbersome procedures, multiple approvals and bureaucratic red tape. Approvals were needed at every stage viz. preparation of field development plans (FDP) including its revision, and extension of the contract, drilling wells, conducting tests to determine the commercial viability of the field, annual work program (AWP), laying the pipeline, reviewing production and so on. As many as 37 processes and procedures were required to be followed by a firm-awarded block under NELP.

Team Modi has substantially liberalised and de-bureaucratized the approvals. It has identified 22 processes for which self-certification of documents by contractors is accepted. Besides, it has provided for pre-approved clearance of blocks which will substantially cut the time lost in taking approvals. The government is also keen to opt for globally recognised and accepted dispute resolution mechanisms and play-based exploration.

Moreover, the 'revenue sharing' model under the OALP (currently in vogue) allows the operator to share an agreed percentage of the revenue with the Government of India (GOI) unlike the production sharing contracts (PSC) under erstwhile NELP wherein she could fully recover the cost incurred in exploration and development of the field before sharing profits with the GOI. The former does away with an additional layer of approval which was intrinsic to the latter wherein the costs incurred at every stage were subject to official scrutiny.

Coming to the selling of NG and realisation therefrom, in respect of gas from fields given under HELP/OALP, the operators are allowed freedom of pricing and marketing. This is a big positive for E&P firms that are being allotted fields under this policy. Furthermore, supplies from the so-called marginal fields (there are a total of 149) previously with the central PSUs viz. ONGC and OIL auctioned to private entities during 2020/21 are also eligible for freedom of pricing.

However, supplies from the so-called Legacy fields which account

for the bulk of the current gas supply are subject to government control over price as well as the marketing of the produce. The Legacy staff includes fields given to ONGC/OIL on a 'nomination' basis, those given under NELP and pre-NELP blocks. There are two price ceilings.

One, call it 'normal' price. Based on the recommendations of the Kirit Parikh committee and in force from April 1, 2023, this price expressed on a per million British thermal units (Btu) basis is arrived at by taking 10 per cent of the monthly average of the Indian crude basket in the preceding month and notified every month. The price thus calculated is subject to a price band of US\$4-6.50 per Btu.

Second, there is a 'premium' price applicable to the difficult fields. These are deep/ultra-deep and high-pressure/high-temperature fields (the high-profile KG-D6 operated by Reliance Industries and neighbouring KG-DWN-98/2 operated by ONGC fall in this category). Technically though the price of NG flowing from these fields is market-determined, this is subject to a ceiling linked to the prices of alternate fuels, viz., fuel oil, naphtha and imported LNG.

Even as the committee has recommended de-regulation of difficult gas fields' price by January 1, 2026, and that of normal price by January 1, 2027, the government is silent on this. Having substantially liberalized the regulatory space, besides removing the remaining hurdles, Modi needs to take the next logical step of unshackling marketing and pricing for supplies from the Legacy fields.

‘Russia sells oil to India 30% above price cap’

Moscow/New Delhi: Russia is selling oil to India at nearly \$80 per barrel, some \$20 above the Western price cap, traders said and *Reuters* calculations showed, as tight global oil markets help Moscow generate strong appetite for its exports. Russia’s main export grade Urals has been trading above the \$60 per barrel Western price cap since mid-July amid output cuts by OPEC+ producers, including Saudi Arabia and Russia. REUTERS

एक साल की ऊंचाई से मामूली नीचे आया कच्चा तेल

रॉयटर्स

लंदन, 28 सितंबर

कच्चे तेल की कीमतें गुरुवार को इस अनुमान से नीचे आ गई कि पश्चिम की अहम अर्थव्यवस्थाएं महंगाई पर लगाम कसने के लिए ब्याज की दरें ऊंची बनाए रखेंगी।

ब्रेंट क्रूड फ्यूचर कारोबारी सत्र में एक साल के सर्वोच्च स्तर पर पहुंचने के बाद 66 सेंट घटकर 95.89 डॉलर प्रति बैरल पर आ गया। नवंबर का वायदा शुक्रवार को एक्सपायर होगा। दिसंबर का ब्रेंट अनुबंध 66 सेंट घटकर 93.71 डॉलर प्रति बैरल पर रहा।

अमेरिका वेस्ट टेक्सस इंटरमीडिएट क्रूड फ्यूचर 76 सेंट घटकर 92.92 डॉलर प्रति बैरल पर रहा, जो कारोबारी सत्र में अगस्त 2022 के बाद पहली बार 95 डॉलर प्रति बैरल से ऊपर चला गया था।

कारोबारी सत्र में कच्चे तेल की कीमतों में बढ़ोतरी ने कम आपूर्ति और इन्वेंट्री में गिरावट को प्रतिबिंबित किया। विश्लेषकों ने ये बातें कही।

चूंकि ब्रेंट की कीमतें 100 डॉलर प्रति बैरल की ओर बढ़ रही हैं, ऐसे में चिंता में इजाफा हो रहा है कि केंद्रीय बैंक ऊर्जा की ऊंची कीमतों के कारण बढ़ने वाली महंगाई पर लगाम कसने के लिए ब्याज दरें ऊंची बनाए रख सकते हैं।

जेड. कैपिटल मार्केट्स के नईम असलम ने कहा, निवेशक जानते हैं कि तेल की ऊंची कीमतें अर्थव्यवस्था को परेशानी में डालने जा रहा है और आर्थिक गतिविधियां कम होगी, ऐसे में लंबी समय तक ब्याज दरें ऊंची बने रहने का डर है।

अमेरिकी क्रूड स्टॉक पिछले हफ्ते 22 लाख बैरल घटकर 41.63 करोड़ बैरल रह गया। सरकारी आंकड़ों



से यह जानकारी मिली।

ओकलाहोमा के भंडार में कच्चे तेल का स्टॉक 2.2 करोड़ बैरल से ज्यादा घटा है, जो जुलाई 2022 के बाद का सबसे निचला आंकड़ा है।

इससे पहले सऊदी अरब और रूस साल के आखिर तक तेल उत्पादन में संयुक्त रूप से 13 लाख बैरल रोजाना की कटौती की घोषणा कर चुके हैं। ये देश ओपेक समूह का हिस्सा हैं।

रूस की तरफ से तेल निर्यात पर पाबंदी शायद ही जल्द हटाई जाएगी और देसी बाजार के स्थिर होने तक यह पाबंदी बनी रहेगी। यह जानकारी टास न्यूज एजेंसी ने गुरुवार को दी और उसने रूस के ऊर्जा मंत्री का हवाला दिया। ऊर्जा मंत्री ने कहा, रूस ने अपने ईंधन निर्यात पर पाबंदी की वजह से होने वाली कमी की भरपाई के लिए ओपेक से कच्चे तेल की आपूर्ति में संभावित बढ़ोतरी पर चर्चा नहीं की है।