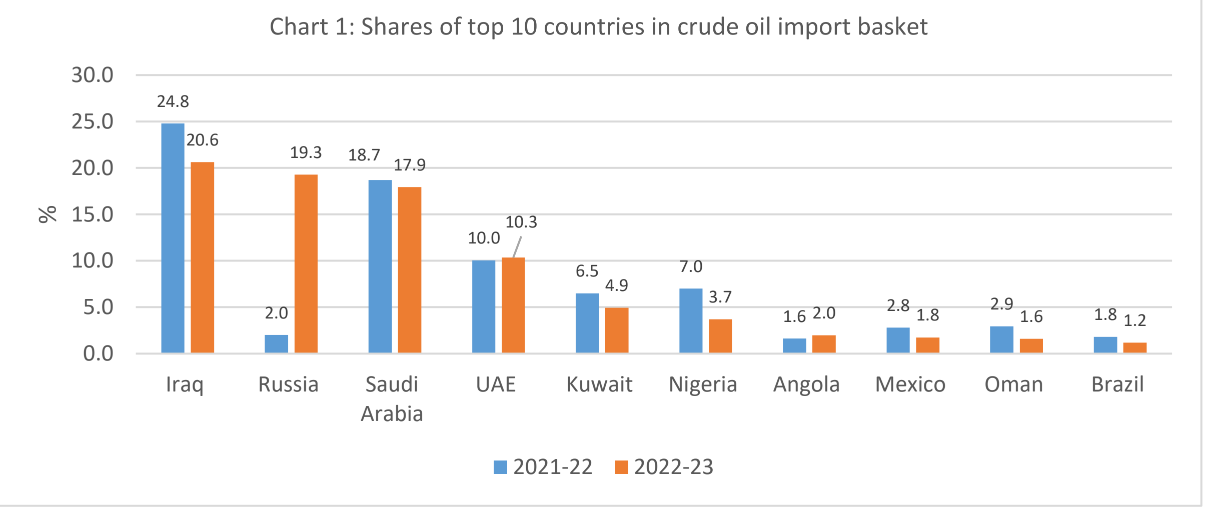
10th May 2023

Gains from Russian Oil

In 2022-23, India imported $ 162.1 bn of crude oil. This involved physical import of 236.6 mn tonnes of crude oil. The price of crude oil was volatile during the year on account of the Ukraine war and ranged from $ 75-130/barrel during the course of the year. This was the time that India struck deals with Russia to import oil on more favourable terms which has proved to be beneficial for us. The foregoing analysis looks at the cost advantage that was to be had by diverting our sourcing plans more towards Russia.

The chart below gives the shares of the top ten countries from where India imported crude oil in the last 2 years. As can be seen in Chart 1 the share of Russia has increased from 2% to 19.3%. This has come at the expense of a decline in share of Iraq, which has been the largest supplier, followed by Saudi Arabia.

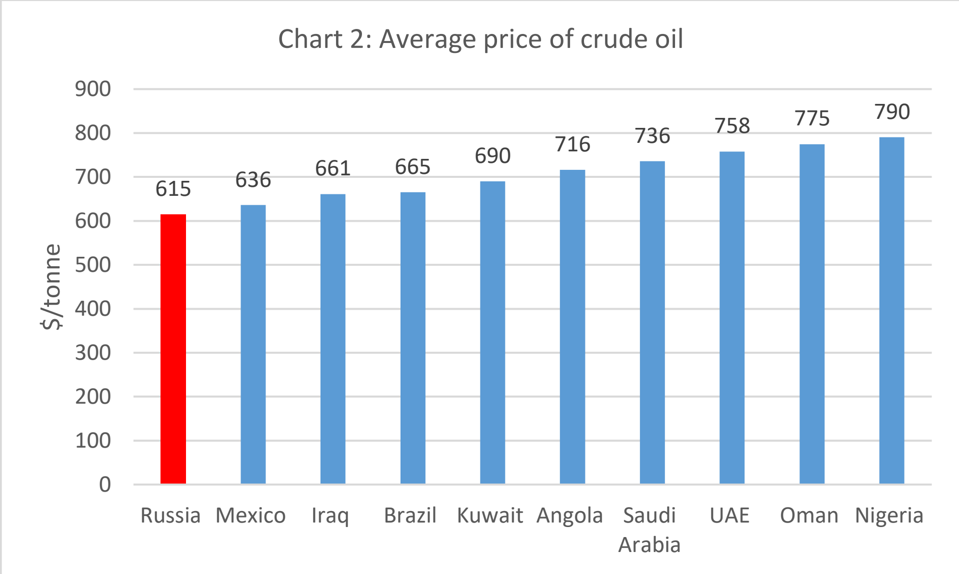


Source: CMIE

What was the price advantage?

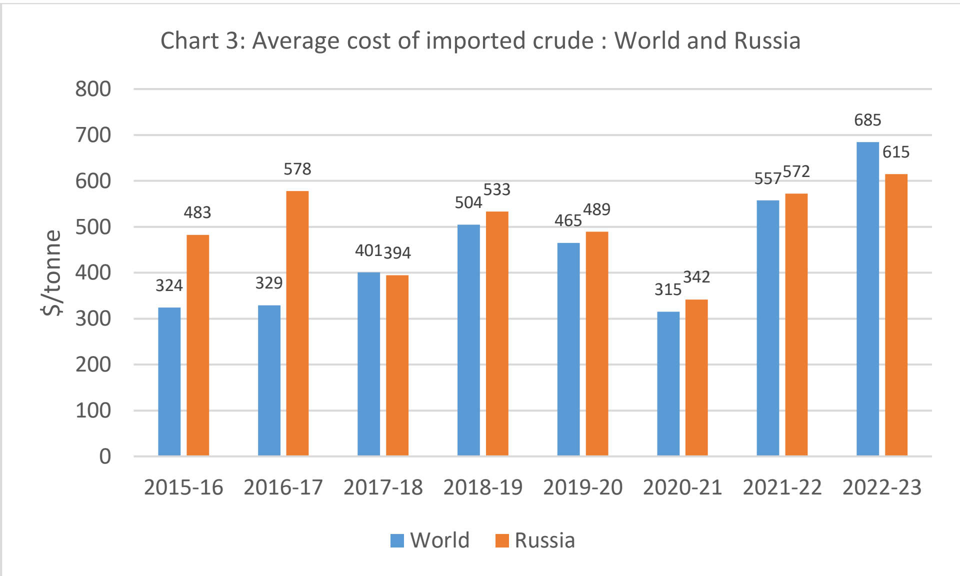
The chart below gives the average price of crude oil at which we imported crude oil from these leading countries in 2022-23. Care must be taken while interpreting these numbers as imports are reckoned throughout the year by forward contracts and hence the sourcing of oil from different countries would be at different points of the oil price cycle which was volatile. The numbers are nonetheless indicative of the cost advantage that was to be had on a general basis by importing from Russia.

As can be seen below in Chart 2 oil came in at the lowest cost in 2022-23 from Russia. The average price of procurement ranged from $ 615/tonne from Russia to $ 790/tonnes from Nigeria. Oil from Iraq, which is the largest supplier averaged $ 636/tonne and was 3.5% higher than the Russian price. The average cost of procurement of crude of or India was $ 685/tonne with 4 countries supplying at less than this average – Brazil, Mexico and Iraq besides Russia. If Russia is excluded from the basket, the average cost for India would work out to $ 704/tonnes. The importance of the oil deal with Russia can be gauged from this average price differential. The overall savings on account of Russia increasing its share to 19.3% has led to savings of around $ 5 billion equivalent (data on the currency used for trade with Russia is not available).



Source: CMIE

The broader issue for India is the 'what happens when the war ends'. Presently the benefit from Russia has been engineered by the ban put by the west on Russia for virtually all trade. Russia has not been the cheapest source of oil in the past as can be seen from Chart 3. While there will be attempts to renegotiate contracts with Russian companies at favourable prices, given the supply constraints for all oil producing countries, the same may not be possible all the time. In the past the price from Russia tended to be higher than the average price that India was paying and it was mainly due to the unusual conditions that this benefit was obtained.



Source: CMIE

With OPEC unlikely to increase output during the year, crude oil price will be driven by demand conditions. A mild slowdown in the west, which is what is being expected today would mean that there can be an increase in demand for oil. As long as this demand comes from USA and is satisfied internally there would not be any untoward pressure on overall demand. The China factor however has potential to exert upward pressure on prices. There are also limits to which India can import from Russia at a lower price and the discounts procured in 2022 would tend to decline as the latter seeks to repair its economy. While share of imports from Russia has increased to 19.3% it is unlikely to go significantly higher in the coming years. The gains would accrue in case there are rupee payments made which would reduce the pressure on the forex market.

At the consumer level it has been seen that prices are relatively unaffected by the movements in global prices and the parties that get involved are the governments and OMCs both when prices go up or down. Hence the inflationary impact has been muted ever since the retail prices of petrol and diesel were frozen.

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