

Efforts to reform oil and gas sector slip through the cracks

FOCUS AREA. A holistic approach and a robust backup plan are needed to address the challenges

Richa Mishra
Hyderabad

When the Narendra Modi-led NDA government came to power in 2014, the advantage of low oil prices gave it an opportunity to bring in the desired reforms in the sector.

Reforms were implemented but instead of facilitating ease of doing business, the industry feels it has created an atmosphere of “unease” due to bureaucratic hurdles and frequent policy shifts.

It is a common knowledge that fuel price is a dominant factor when political parties seek vote — promises of subsidies or cheap fuel price always make it to the debates and discussions through the years.

In his inaugural speech at Urja Sangam 2015, Modi highlighted the nation's dependence on imports and emphasised on working together to achieve energy security.

He urged all stakeholders to increase domestic production of oil and gas to reduce import dependence from 77 per cent to 67 per cent by 2022. He further said import dependence should be brought down to 50 per cent by 2030.

But the reality today is that more than 80 per cent of the oil demand and more than 50 per cent of gas demand is met through imports.

At the valedictory session of the same summit, the then Finance Minister Arun Jaitley had said the focus should be on oil and gas exploration. He also added that the government was trying to explore long-term financing mechanism for infrastructure projects.

Before debating further let us see what has happened in the 10 years of the NDA:

MARKETING

Cooking gas price in India is one of the lowest globally, even lower than producing nations, according to the Ministry of Petroleum and Natural Gas. On auto fuel side there was a major shift to BS-



REFINING BOOM. India is the fourth largest refiner in the world. From a capacity of 215.07 mtpa in 2014, today it has a capacity of 256.8 mtpa IGN RAO

VI — reducing sulphur emissions by 80 per cent vis-à-vis BS-IV levels. There has also been a growing number of States and UTs which are becoming kerosene-free.

NATURAL GAS

The focus is on city gas distribution networks — both piped natural gas and compressed natural gas.

Revised guidelines were issued in April 2023 for pricing of domestically produced natural gas, but it is still not fully decontrolled.

EXPLORATION

Adopted in 2016, the Hydrocarbon Exploration and Licensing Policy (HELP) is an exploration and production policy that replaced the New

Exploration Licensing Policy (NELP).

REFINERY EXPANSION

India is the fourth largest refiner in the world. From a capacity of 215.07 mtpa in 2014 today it has a capacity of 256.8 mtpa.

GOING GREEN

National biofuel policy, focus on ethanol blended petrol programme, biodiesel blending programme and bio-ATF, green hydrogen.

ON GLOBAL STAGE

An area where the NDA regime in its second term excelled was how it navigated through the geo-political tension and managed to get cheap Russian oil. India has

diversified its crude oil sources from 27 countries in 2006-07 to 39 countries in 2022-23.

At the inauguration of India Energy Week 2024 in February, Modi said India is the world's third largest energy, oil and LPG consumer. He said India is the fourth largest LNG importer and refiner and the fourth largest automobile market. He also underlined the rising demand for electric vehicles in the country and estimated doubling of the nation's energy demand by 2045.

Modi highlighted the increase in production of domestic gas due to the government's reforms and said efforts are being made to take the percentage of gas in the primary energy mix from 6 to

15 per cent. This will see an investment of about \$67 billion in the next 5-6 years.

Despite all these measures, India is still not in a comfortable position.

This is mainly because the sector is largely influenced by politics, particularly the retailing business. For example, though on paper retail price of petrol and diesel is deregulated — to be revised daily in sync with global price shifts — when elections come, the price remains flat. Thus, when the revision happens it makes a dent in the pocket of the consumer and the fiscal math of those in the business goes for a toss.

On the exploration side, although a conducive fiscal regime was created, investors are cautious as there has been instance of government interventions which has not been favourable for the players to venture into this high risk space.

A deterrent has also been the non-inclusion of oil, gas and key petroleum products HSD, MS and ATF under GST.

Windfall tax levy on domestic producers is another eye sore, as it impacts long-term investment plans. It is rightly said, always expect the unexpected in the oil and gas industry and always have a backup plan.

To ensure energy security, strategic oil storage capacities are need of the hour. Despite its good intentions, the NDA regime, in its two terms, has moved at a slow pace in this area. India has strategic oil reserves of about 8-9 days which is dismal when compared with its growing demand.

The NDA, which in its first term enjoyed soft oil prices, now faces volatile oil and gas market.

It is important for India to take full advantage of any opportunities adopting a holistic approach — integrated energy policy. Today, it is a situation where all efforts to energise the sector has fallen between the cracks.

This is the 18th article in the '10 years of NDA' series



Reliance starts trading U.S. oil setting Brent oil benchmark

Reuters
LONDON

India's Reliance has made its first foray into trading a type of U.S. crude oil that underpins the global Brent benchmark in a process run by oil-index publisher S&P Global Commodity Insights, the publisher said.

RIL, operator of the world's biggest refining complex, on Wednesday offered a cargo of WTI Midland in the Platts Market on Close process, known as the Platts window.

It was Reliance's first time offering WTI in the window, Platts spokesperson Kathleen Tanzy told Reuters. A Reliance spokesperson did not immediately respond to a Reu-



ters request for comment.

India, the world's third-biggest oil importer and consumer, is looking to diversify its oil supplies as fresh U.S. sanctions on Moscow threaten to dent Russian oil sales to India, the biggest buyer of Russian seaborne crude.

Reliance made its first oil purchase from Canada's new Trans Mountain pipe-

line last month, trade sources said.

More players have become involved in trading crude that can set the Brent price in the Platts window since Platts added WTI to the benchmark last year.

U.S. WTI Midland is one of six crude-oil grades assessed by Platts that can set the value of dated Brent, part of the wider Brent complex used to price more than three-quarters of the world's traded oil.

The price of dated Brent is set by the cheapest of the six crudes and Midland, by far the largest of the six crude streams, often plays a role in setting its value. The other five are North Sea crudes.

RELIANCE TRADES US OIL SETTING BRENT BENCHMARK



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underpins the global Brent benchmark in a process run by S&P Global Commodity Insights, the oil-index publisher said. It offered a cargo of WTI Midland in the Platts Market on Close process, known as the Platts window, on Wednesday. It was Reliance's first time offering WTI in the window, Platts spokesperson Kathleen Tanzy said. A Reliance spokesperson did not immediately respond to a Reuters request for comment.

Rising heat spurs 19% spike in power sector's gas consumption in 2023

Rishi Ranjan Kala
New Delhi

Natural gas consumption by the power sector rose 19 per cent y-o-y to 8.8 billion cubic metres (BCM) last year, driven by the government's mandate to meet India's rising electricity demand, which is estimated to be growing at 6-7 per cent per annum.

Gas Exporting Countries Forum (GECF), in its annual gas market report 2024, said the world's third largest energy guzzler's consumption increased 15 per cent y-o-y to 65 BCM in 2023 amid a shift from coal to gas in power generation. GECF expects India's natural gas consumption to grow 6 per cent y-o-y to 68.9 BCM this calendar year.

"This rise in natural gas consumption reflects the country's economic rebound and the increasing emphasis on cleaner energy sources, with the declining prices of natural gas making it more competitive," it added.

The power sector accounted for almost 14 per cent of the total natural gas consumed by the world's fourth largest liquefied natural gas (LNG) importer last year. At the end of December 2023, India's LNG imports accounted for about 47 per cent of its total gas requirement. In the power mix, coal led with a 74 per cent share, followed by renewables (13 per cent), hydro (9 per cent), nuclear (2 per cent) and gas (2 per cent) in 2023.

MORE GAS-BASED POWER

Power sector gas consumption surged 19 per cent y-o-y to 8.8 BCM last year, emphasising natural gas's growing importance, the GECF report said.

Summer surge

	Power generation (MU)	Plant load factor (%)	Gas consumed/supplied (MSCMD)
January	1,883.95	10.20	14.64
February	1,753.56	10.52	14.86
March	1,862.48	10.09	14.32
April	2,438.18	13.65	18.52
May	2,829.79	15.33	21.20
June	3,029.30	16.96	23.82
July	2,238.58	12.02	17.41
August	3,620.76	19.44	26.27
September	2,957.84	16.41	21.62
October	3,227.73	17.33	22.86
November	1,647.79	9.14	13.07
December	1,913.56	10.28	14.88
Total	29,403.52	13.45	223.47

Sources: National Power Portal, Central Electricity Authority, Ember, petroleum Planning & Analysis Cell

The sector "mirrored" the growth in gas usage in 2023, which was led by the industrial sector, with pan-India electricity generation rising 7.5 per cent y-o-y to 1,702 terawatt hours (TWh) in 2023, it added. One TWh equals 1,000 gigawatt hours.

"Due to the heatwave during summer period, which boosted cooling demand, the share of gas in the electricity mix grew significantly. This was the result of the introduction of an emergency directive to address an anticipated shortfall in electricity output during peak power demand in May and June," the report said. The directive mandated that gas-fired power plants operate at full capacity during this period. Later, these measures were extended until November 2023, it added.

India's peak power demand in 2023 rose to a record 240 gigawatts (GW) in September and the Power Ministry expects demand to hit 260 GW in 2024.

Gas trading on exchanges also

reported a healthy growth last year. For instance, the Indian Gas Exchange (IGX) traded around 4.85 lakh million British thermal units (mBtu), or 3.3 million standard cubic meters per day (MSCMD), of gas in 2023, a 16 per cent y-o-y growth. Of the total commodity traded at IGX last calendar year, 3.51 lakh mBtu was domestic ceiling price gas.

Cumulatively 1,424 trades were executed on the country's first automated national exchange for physical delivery of natural gas with maximum number executed in daily contracts followed by monthly, weekly and fortnightly contracts.

HIGHER GAS PRODUCTION

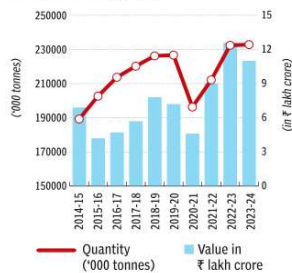
India witnessed a 12 per cent rise in its annual gas production to reach 35.1 BCM in 2023. This rise was predominantly driven by the encouraging government policies adopted to boost domestic production from existing and newly commissioned fields, GECF said.



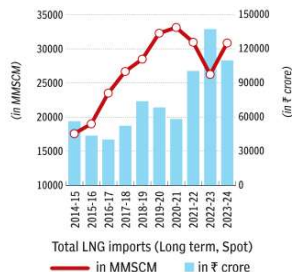
VISUALLY.

Rising imports

Import of crude oil



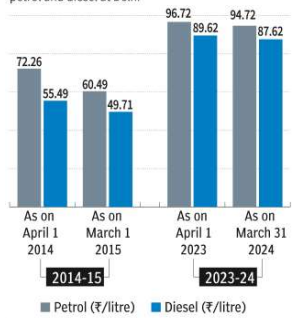
Import of Liquefied Natural Gas



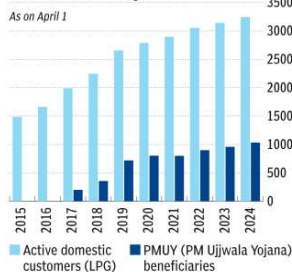
MT: Million tonnes; 1 MT = 1.325 MMSCM
MMSCM : Million standard cubic meter

Consumers face the heat

Revision in retail selling prices of petrol and diesel at Delhi



Ujjwala Scheme helps LPG connectivity



Source: Petroleum Planning & Analysis Cell
Compiled by AJ Vinayak

Russia's Gazprom Reports First Net Loss in 24 Years

Moscow: Russia's state-controlled gas giant reported its first annual net loss since 1999 on falling shipments to Europe and lower prices for the fuel.

Gazprom Group, which also includes oil and power businesses, posted a 629 billion-ruble (\$6.84 billion) loss last year compared with net income of 1.23 trillion rubles in 2022, according to an earnings report published Thursday.

The energy company's shares fell as much as 4.4%, the steepest decline in more than a year, amid market concerns over its dividend prospects. Gazprom's biggest shareholder is the Russian government, whose budget is under pressure amid rising military spending and Western sanctions.



The net loss follows restricted gas flows to Europe — historically Gazprom's biggest market — amid the Kremlin's retaliation for Western support of Ukraine after Russia's invasion in 2022. Meanwhile, plunging gas prices amid mild weather, sluggish demand and brimming inventories contributed to Gazprom's loss. —**Bloomberg**

OIL IMPORTS FROM RUSSIA JUMP TO A NINE-MONTH HIGH IN APRIL

Russian oil flows to India surge as Moscow turns up export tap

SUKALP SHARMA
NEW DELHI, MAY 2

INDIA'S RUSSIAN oil imports jumped to a nine-month high in April as partly impaired Russian refining capacity due to Ukrainian drone attacks nudged Moscow's oil producers to push more discounted barrels for exports, according to vessel tracking data and industry watchers.

Notably, this surge in India's imports of Russian crude came despite the latest round of sanctions by the United States (US) against Russia's oil shipping syndicate, which had led to speculation that Indian refiners could turn extra cautious in taking deliveries. Trade sources, however, said that the sanctions at the most had a marginal and short-lived impact on Russian oil flows to India.

Indian refiners imported a total of 1.96 million barrels per day (bpd) of Russian crude oil in April, the highest since July of last year, and nearly 19 per cent higher than volumes imported in March, as per provisional ship-tracking data from commodity market analytics firm Kpler.

Russia accounted for 40.3 per cent of the total 4.86 million bpd of crude oil imported into India in April. This is the first instance in seven months of Moscow having a share of over 40 per cent in New Delhi's oil imports. Russia's share had declined to around 33 per cent in the past four months from the peak level of nearly 46 per cent seen in May 2023, the data shows.

"The first wave of Ukrainian drone strikes (on Russian refining infrastructure) in late January-early February has pushed (Russia's) seaborne oil exports to



Russia accounted for 40.3% of the total 4.86 million bpd of crude oil imported into India in April. *File*

3.8 million bpd, so some 300,000 bpd higher than the 3.5 million bpd average of November 2023-February 2024. Not having the ability to refine that much domestically, Russia's oil producers have exported those surpluses and consequently Indian buyers had more to buy from," said Viktor Katona, head of crude analysis at Kpler.

Limited impact of sanctions

The US has over the past few months sanctioned a number of vessels for evading the G7 price cap of \$60 per barrel on Russian seaborne crude, apart from sanctioning a few fleet operators and vessel owners. Notably, Russia's state-owned shipping major Sovcomflot and 14 related tankers were sanctioned by the US in the last week of February.

Following that, Indian refiners had started refusing deliveries on Sovcomflot tankers in an evident bid to steer clear of any secondary sanction risk. The pause, however, was short-lived as the Sovcomflot tankers have started discharging

crude at Indian ports after India received more clarity on the scope of the latest sanctions.

According to industry insiders, Indian refiners are still avoiding tankers explicitly sanctioned by the US and its allies, but are not following any blanket ban on Sovcomflot tankers, as was the case initially after Washington announced the latest round of sanctions.

Ship tracking data shows that at least two Sovcomflot tankers discharged oil at Indian ports over the past week. To be sure, India buys Russian oil on a delivered basis, which means that the responsibility of arranging shipping and insurance for the cargoes rests with the Russian suppliers and Indian buyers have no liability on that count.

"Seemingly, even direct sanctions are not a problem, especially as Russia's shipping and India's maritime regulatory services start to align," Katona said.

India's shipping regulator last week approved a few Russian insurance firms for providing ma-

rine insurance cover to tankers. Using services of such insurers would ensure that the cargoes are not subject to the G7 price cap. The price cap regime was introduced in December 2022 and prohibits export of Russian seaborne crude at over \$60 per barrel if the trade involves Western shipping or insurance services. Service providers in coalition countries are dominant players in the global shipping industry.

Discounts matter

Supply of the medium-sour Urals crude—Russia's flagship crude grade and the mainstay of India's Russian oil purchases—to Indian refiners touched a record high in April at 1.54 million bpd, accounting for nearly 79 per cent of India's Russian oil imports. Evidently, the price differential between Urals and competing crude grades from India's traditional West Asian suppliers was significant enough for Indian refiners to prefer the Russian grade.

In April, India's oil imports from Saudi Arabia fell to a seven-month low of 0.61 million bpd, which was 20.2 per cent lower than volumes imported in March. Similarly, April import volumes from Iraq were down by a fourth on a month-on-month basis at 0.88 million bpd.

Prior to the war in Ukraine, Iraq and Saudi Arabia were the top two suppliers of crude oil to India. But as the West started weaning itself off Russian energy supplies following Moscow's February 2022 invasion of Ukraine, Russia started offering discounts on its crude and Indian refiners started snapping up the discounted barrels.

FULL REPORT ON
www.indianexpress.com





Russian oil in mind, Taliban plan regional energy trade hub

REUTERS

KABUL, MAY 2

THE TALIBAN has agreed with Kazakhstan and Turkmenistan to build a logistics hub in western Afghanistan aimed at making the war-torn nation a major logistics point for regional exports, including oil from Russia to South Asia, the country's commerce minister said.

Following a meeting between representatives of the three countries in the Afghan capital last week, Taliban acting commerce minister Nooruddin Azizi told *Reuters* that technical teams would draw up a written agreement within two months on the formal plans for the hub, which all three countries would invest in after six months of talks.

As foreign aid to Afghanistan

falls and the agricultural economy is marred by drought, its officially unrecognised Taliban government has faced questions over how to fund development and avoid economic stagnation.

Azizi said the new hub was part of broader efforts to take advantage of Afghanistan's strategic location, once a thoroughfare for the ancient Silk Road trade route, lying between South and Central Asia and sharing borders with China and Iran.

"Based on our discussions, a logistics centre is going to be established in Herat province, which can connect the north to South Asia," Azizi said, adding that the Taliban were eyeing the millions of tons of oil they expected Russia would be selling in coming years to South Asian countries, particularly Pakistan, to pass through the new hub.

Share of Russian Crude in India's Imports Rises to Nearly 40% in April

India imported 1.78 million barrels a day of crude oil from Russia in April, up 19% from March



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New Delhi: Russia increased its share in Indian crude oil imports to nearly 40% in April from 30% in March, closing in on its all-time peak of 42% last July, as higher global oil prices pushed Indian refiners to increase intake of discounted Russian barrels to reduce their average crude purchase cost.

Indian refiners imported 1.78 million barrels a day (mb/d) of crude oil from Russia in April, up 19% from March, according to energy cargo tracker Vortexa. This exceeded China's import of 1.27 mb/d and Europe's 396,000 barrels per day (bp/d) of seaborne Russian crude in April.

Russia supplied more oil to India than its next three top suppliers — Iraq, Saudi Arabia, the UAE — put together in April.

India's overall crude imports, however, dropped 8% month-on-month to 4.5 mb/d in April. Imports from Iraq, the second-largest supplier, dropped 31% to 776,000 barrels per day (bp/d) while the supply from Saudi Arabia fell 6% to 681,000 bp/d. The UAE's exports to India fell by 40% while those from the US reduced by 15%.

Iraq's share in Indian imports fell to 17% in April from 23% in March while that of the UAE declined to 6% from 9%. Russia's share in April was higher than the average of 35% in 2023-24.

"India's imports of Russian crude in April rose to a nine-month

high. Higher Russian crude exports in Feb/Mar as well as lower imports by Chinese refiners have made available more volumes for Indian refiners," said Serena Huang, analyst at Vortexa.

High global oil prices are driving up Indian refiners' appetite for Russian oil as it helps lower their average crude purchase costs, said an industry executive. Higher oil prices are already weighing on Indian refiner's profits, with Indian Oil, the nation's top refiner, reporting a 52% drop in its fourth-quarter profit.

Brent, the international crude benchmark, is around \$85 per barrel, reflecting the current physical demand-supply situation and the geopolitical premium due to the Middle East conflict.

Urals, the flagship Russian crude, is available at a discount of \$7-8 per barrel to Brent on a free-on-board basis. Discount narrows to about \$2-3 per barrel on a delivered-at-port basis, the preferred mode of Russian crude purchase by Indian refiners. Urals made up 89% of India's Russian oil purchases in both April and March.

Indian private sector refiners — Reliance Industries and Nayara Energy — accounted for 45% of all Russian crude imports in April. Nayara Energy is partly owned by Russian energy giant Rosneft.



Shell smashes forecasts in Q1 with \$7.7-billion profit

RON BOUSSO
London, May 2

SHELL REPORTED FIRST-QUARTER profit of \$7.7 billion on Thursday, exceeding expectations as disruption to Red Sea shipping and Russian refining boosted oil trading and liquefied natural gas production rose.

The company said it will buy back a further \$3.5 billion of its shares over the next three months, at a similar rate to the previous quarter. Its dividend remained unchanged.

Shell's cash flow rose by 6% from the previous quarter to \$13.3 billion reflecting strong operational performance, particularly in its liquefied natural gas division, which together with trading helped to offset a

Gazprom falls to first annual loss in 20 yrs

KREMLIN-OWNED GAS GIANT Gazprom said on Thursday it plunged to a net loss of 629 billion roubles (\$6.9 billion) in 2023, its first annual loss in over 20 years, amid dwindling gas trade with Europe, once its main sales market.

—REUTERS

decline in natural gas prices that weighed on earnings of rivals including Exxon Mobil and Chevron last week. "Shell delivered another quarter of

strong operational and financial performance, demonstrating our continued focus on delivering more value with less emissions," CEO Wael Sawan said. Analysts had expected first-quarter adjusted earnings of \$6.46 billion, against \$9.65 billion a year earlier.

The firm had posted \$7.3 billion in the fourth quarter of 2023, boosted by strong LNG trading results. Shell's shares were up 2.4% at 1435 GMT, compared with a 0.4% fall in the broader European energy index.

Shell's chemicals and products divisions, which include refining and oil trading, registered a more than threefold rise in adjusted earnings from the previous quarter to \$2.8 billion. —REUTERS

Weak Q4 has IOC on the backfoot

Ashish Agrawal
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Shares of Indian Oil Corp Ltd (IOC) recovered partially on Thursday, rising over 2% after dropping 4.4% on Tuesday after the state-run company announced its March quarter (Q4FY24) results. The Indian stock market was shut on Wednesday on account of Maharashtra Day.

Investors were disappointed that IOC's standalone Ebitda fell as much as 32% year-on-year in the quarter, even as its revenue was down just 2.5%. Ebitda is earnings before interest, tax, depreciation and amortisation.

While the drop in profitability seems large, it is primarily because of inventory accounting—not an unusual feature for state-run Indian oil marketing companies (OMCs).

However, the Street was broadly expecting IOC to see an inventory gain last quarter thanks to the steep sequential rise in oil prices.

"IOCL surprisingly reported a significant impact from crude inventory loss of ₹2,390 crore/\$2.2 per barrel in Q4, despite the sharp rise in end-of-period crude prices by \$9.4 per barrel," said



IOC's standalone Ebitda fell as much as 32% y-o-y in the Mar quarter. BLOOMBERG

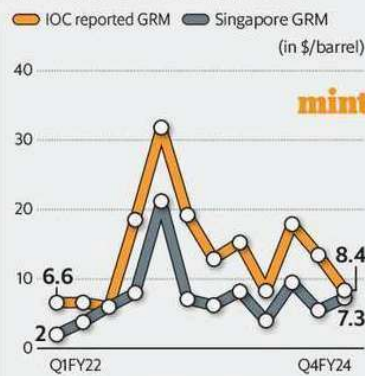
Hemang Khanna, analyst at Nomura Financial Advisory and Securities (India) in a report on 1 May.

For perspective, the brokerage had factored crude inventory gains of ₹1,400 crore/\$1.3 per barrel.

Accordingly, IOC's reported gross refining margin (GRM) in Q4 came in at

Moving in tandem

Indian Oil's margin largely moved in sync with benchmark Singapore GRM, which is forecast to drop in FY25



Note: GRM is gross refining margin; it is calculated as the difference between the weighted average price of products and crude oil price

Source: Company, Motilal Oswal Financial Services

PRANAY BHARDWAJ/MINT

\$8.4 per barrel, missing analysts' estimates.

Moreover, IOC's marketing segment failed to compensate for the weak showing by the refining business, leading to muted Q4 results. Even so, IOC's FY24 performance is nothing to sneeze at, with standalone Ebitda rising by

212% year-on-year to ₹69,400 crore despite core GRM (adjusted for inventory gain/loss) dropping to \$11.4 a barrel during the year from \$20 in FY23.

What gives? To start with, on the profitability front, the company had a favourable base.

Secondly, the marketing segment delivered a strong performance.

According to Nomura, FY24 Ebitda benefited from the recovery in auto fuel marketing margins to supernormal levels of ₹4.90 a litre versus a negative ₹5.40 a litre in FY23.

Investors have taken note. In the past year IOC's shares have gained about 111%. But sharp upsides could well be capped as IOC faces near-term pressures in both its key segments.

As analysts from Kotak

Institutional Equities pointed out, Q1FY25 is set to be dismal for OMCs, given the sharp correction in refining margins over past few weeks and the return of auto fuel under-recoveries since the recent price cut amid higher crude prices.

Meanwhile, the Ebit (earnings

before interest and tax) loss of IOC's petrochemicals business widened in Q4FY24, hurt by lower margins. But the business is currently too small to move the needle for the company, accounting for about 3% of FY24 consolidated gross segment revenue.

IOC plans to double its petrochemicals capacity by FY27. It has also increased its focus on other related businesses such as renewables.

This would not only derisk it from the fluctuation in oil prices but also help its green push.

Revenues from these have doubled between FY22 and FY24 although their share in the total is still less than 5%.

Overall, IOC has enough cash and managed to lower its net debt in FY24, which should help with its diversification push.

For now, investors should keep tabs on the resumption of daily revisions of petrol and diesel prices after the general elections.

This should bring comfort on marketing margins.

MUTED GROWTH

IOC's reported gross refining margin in Q4 came in at \$8.4 per barrel, missing analysts' estimates

IOC's marketing segment failed to compensate for the weak showing by the refining business