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Energy market prone to West Asia crisis

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Escalating tensions threaten to derail markets which had just begun stabilising after Covid-19 and Ukraine war; India needs to diversify its energy sources

IN THE PAST three months, central banks in the US, UK, and Europe have started cutting interest rates as inflation moderates. Even in India, there are strong currents that the Reserve Bank of India's (RBI) Monetary Policy Committee will also lower interest rates. India's foreign exchange reserves were at an all-time high, crossing over $700 billion, which started dwindling when oil and other commodity prices began rising.

While India navigated the previous two shocks relatively unscathed, the big question is whether it can continue to exhibit strong economic fundamentals and fend off the upheaval in the global markets that the tensions between Iran and Israel will likely cause.

Impact of increasing tension in West Asia

The immediate impact of the rising tension between Iran and Israel is already visible. Prices of commodities oil and gold increased while stock market indices fell. These variations might be short-lived, with commodities and indices historically showing resilience in the longer term, but the economic impact tends to last for the medium to long term.

Gold prices are a key economic indicator in times of crisis. As it is a safe-haven investment, gold demand increases during geopolitical disturbances, which leads to a price increase. Recent developments have led to spot gold prices touching a record high of $$2,649.69 per ounce (or ₹78,583.76 per 10 grams) last week, a 37% year-on-year increase. The purchase of gold by various central banks in the last few months had already kept prices high, but now, with tensions in West Asia, they have soared to record highs.

The BSE Sensex, on the other hand, dropped 1,800 points in a single day trade, eroding shareholders' wealth and shaking investor confidence. It lost another 800 points the next day, a fall of 3% in the first three to four days of the escalation of tensions between Iran and Israel.

It is estimated that foreign investors withdrew around $1.8 billion from the Indian market. While the market could regain value, as seen after the Russia-Ukraine crisis, the immediate withdrawal of investments could impede the growth of non-conventional sectors like renewable energy.

High coal prices and supply crunch during the earlier global disturbance led to a power crisis and increased prices of industrial output

The last few days also witnessed a massive rise in oil prices. The Indian crude basket that averaged $73.24 per barrel on September 30 has already touched $75.22 per barrel on October 4. This is expected to increase as supply constraints loom, given that West Asia is a key oil-exporting region.

One estimate suggests that Brent crude oil, which closed at $77.62 per barrel on October 4, could increase by $20 per barrel. This surge in oil prices does not augur well and could lead to inflationary pressures on the Indian economy. Oil imports have already cost the exchequer $60 billion or approximately ₹5 lakh crore till August for FY25. This could massively increase with high oil prices, which, if passed on to consumers, will lead to a domino effect across the economy.

The depreciating rupee is a double whammy for an oil-importing country like India. The central bank intervention, for now, has helped maintain the rupee value below the 84 per dollar mark. However, the RBI may struggle to maintain support if the West Asia crisis escalates. While already at a record low, any further depreciation in the rupee will make imports more expensive, including of oil, 85% of which India imports. It will also increase the cost of borrowing again, potentially impeding investments in new energy schemes and non-conventional sectors.

Energy commodities to become pricier

The most visible impact on the energy sector is the increase in prices of coal and liquefied natural gas (LNG), both of which touched unprecedented highs during the immediate aftermath of the breakout of the Russia-Ukraine war. The high prices impact power and industries, which, if prolonged, can lead to an economic slowdown and environmental harm due to industries switching to dirtier fuels.

High coal prices and supply crunch during the earlier global disturbance led to a power crisis and increased prices of industrial output.

The worst impacted commodity is LNG. Geopolitical disturbances have made the already volatile natural gas markets more fragile, raising concerns in the narrative about the feasibility of natural gas as a bridge fuel. The fuel can no longer be viewed as a low-cost alternative.

While the LNG futures today are not showing a massive increase, the recent surge in oil and gold prices, which have had a progressive impact on LNG prices, indicate an upcoming price rise. These variations in LNG pricing, especially hikes, impact price-sensitive buyers like India the most.

Clean energy can help alleviate high energy prices

Energy commodities are sensitive to geopolitical disturbance. India, which depends highly on imports for all its fuel needs, needs to diversify its energy sources and increase the deployment of renewable energy to maintain energy security and affordability. Shifting of peak demand to solar hours, low prices achieved on firm and dispatchable renewable energy tenders, falling prices of battery energy storage systems, and other new technologies are already encouraging signs for renewable energy deployment. The right strategy would be to build on this for energy security.

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Oil India first PSU to reduce arbitration after advisory

Oil India's decision will narrow the volume of arbitration that the government engages in

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Oil India Ltd will be the first state-owned company to implement the finance ministry's advisory to opt out of arbitration in public procurement contracts if the disputed value exceeds ₹10 crore, according to two people aware of the matter.

The oil exploration company aims to reduce the number of such disputes by tightening monetary limits in procurement contracts. Oil India will roll out the changes in the procurement contracts it signs with domestic suppliers within a month.

Oil India is trying to reduce its financial burden after the amount that it set aside as contingent liabilities for arbitration and litigation cases almost doubled in FY24. While this will be the first codified limit set on arbitration in India by a government entity following the finance ministry's push, experts said it could result in more cases ending up in already overburdened courts.

The first step in the plan to cut down Oil India's long-winding arbitration cases, which are a burden on its treasury, is to reduce the number of such cases by chipping away at the monetary limits in the commonly used contractual conditions, the people said.

"We are looking at following the finance ministry's office memorandum in spirit by narrowing the possibility of taking on arbitration in procurement cases. There have been internal discussions about this, and within a month or so, we will be ready with amendments to our GCC (general conditions of contract) for domestic public procurement," one person said on condition of anonymity.

The person said Oil India may even set a limit of less than ₹10 crore to opt out of arbitration, narrowing the limit suggested by the finance ministry.

Oil India will roll out the changes in the procurement contracts it signs with domestic suppliers within a month.
BLOOMBERG

Oil India had pending litigation and arbitration over claims worth ₹112.91 crore in FY24, almost double of ₹59.7 crore in FY23, in cases raised by contractors, according to the company's annual reports. These amounts are listed as contingent liabilities, which may be payable if the courts or arbitrators rule against Oil India. The company does not disclose the number of its litigation or arbitration cases.

Email queries sent to Oil India and the ministries of law and justice and finance on 9 October did not elicit a response till press time. Arbitration is a common element in dispute resolution clauses of public procurement contracts and is used to decide how parties will resolve a feud. Setting an upper limit means government entities will not engage in arbitration when the dispute value is over ₹10 crore, as per the finance ministry advisory dated 3 June.

General conditions in contracts have long had a lower limit for arbitration. A party may resort to arbitration only when the disputed value is above a specific amount. Oil India's decision to cut the upper limit for arbitration, however, will narrow the volume of arbitration that the government engages in.

However, with reduced arbitration, disputes related to procurement are likely to be pushed to the courts, which are already dealing with burgeoning pendency of cases, according to experts. According to the National Judicial Data Grid, Indian district courts had 5.68 million pending civil suits as of 10 October.

Experts said there is a no statutory bar to settling a dispute by mediation even if there is an arbitration clause in the contract.

"Mediation and arbitration should have been seen more harmoniously as means to encourage alternative dispute resolution, as opposed to resorting to litigation where we currently have over 5.1 crore cases pending adjudication," said Arush Khanna, a partner at Numen Law Offices in New Delhi. According to Shaneen Parikh, partner and head of international arbitration at Cyril Amarchand Mangaldas, the finance ministry advisory does not recognize that while it may take two to three years to get an arbitration award, the time taken to obtain judgment from a court can be anywhere from five to 20 years.

"And even after that, there is a first appeal, a second appeal, and recourse to the hon'ble Supreme Court. Therefore, by any calculation, an arbitration is quicker," Parikh said.

The government's recusal from arbitration would also send a signal to foreign parties even though the finance ministry's advisory confines itself to domestic contracts, according to arbitration lawyers.

"It will have a cascading impact across the board (and border). Pitching for foreign investment by encouraging international arbitration while reposing little faith in the Indian arbitration landscape is preaching something you don't practice," said Khanna. "As a stakeholder, one can only hope that these guidelines are revisited and solutions paving the way for India's pursuit of becoming a hub for international arbitration can be worked."

Mint reported on 24 June that arbitration professionals were irked by the finance ministry's advisory and asked for it to be recalled.

The government's efforts to cut down on arbitration comes against the backdrop of the law and justice ministry working to amend the Arbitration and Conciliation Act, the nation's key law on arbitration. To be sure, the finance ministry also suggested resolving disputes using mediation instead of arbitration, months after passing the Mediation Act in 2023.

For an extended version of this story, go to livemint.com.

DISPUTE RESOLUTION

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IndianOil hosts Indane XTRATEJ HORECA Meet

IndianOil recently hosted the Indane XTRATEJ HORECA Harmony Meet at JW Marriot, Kolkata, bringing together the city's leading hoteliers, restaurateurs, and caterers. The event's Chief Guest, Master Chef Sanjeev Kapoor, the Brand Ambassador for Indane XTRATEJ graced the occasion.

BUSINESS STANDARD SEC-II, Delhi, 11.10.2024
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Oil gains after 2-day decline

IN RECOVERY MODE

Brent crude spot

Date	$/bbl	1-day change (%)
Oct 8,'24	77.8	-4.6
Oct 9,'24	77.1	-0.8
Oct 10,'24	78.2	1.4

Source: Bloomberg

Oil rose after a two-day decline as traders watched for an Israeli response to Iran's missile attack early last week, while US crude stockpiles expanded the most since April.

Brent rose above $77 a barrel and West Texas Intermediate was close to $74. The market remains on edge after Israeli Defence Minister Yoav Gallant said on Wednesday the response "will be deadly, precise and above all surprising," while Iran has warned it's ready to launch thousands of missiles if needed. Markets were relatively steady after US consumer price data came in slightly hotter than expected. Traders have been looking for signs that inflation and growth may stay high, leaving less room for interest-rate cuts. Oil has been jolted by the hostilities in the West Asia, with volatility soaring and hedge funds adding more net-long positions. **BLOOMBERG**

Nearly ₹3L-cr in oil industry cess yet to be utilised

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NEW DELHI: The Union government has so far collected about ₹3 lakh crore as oil industry development cess since 1974-75 but transferred only ₹902.40 crore to the Oil Industry Development Board (OIDB), the body formed to administer a yet-to-be created Oil Industry Development Fund (OIDF) to finance energy projects, according to government and industry data.

According to OIDB, a total ₹2,76,004.58 crore cess was collected till 2022-23 in about five decades, but most of the amount could not be spent on the development of the oil industry in want of OIDF. While the section 15 of the Oil Industries (Development) Act, 1974 empowers the government to levy a cess on indigenously produced crude oil and natural gas, it also mandates for creation of a dedicated fund to boost the sector. The government is yet to create OIDF even after five decades, two officials aware of the development said, requesting anonymity.

"Total accumulated cess amount as on date would be in excess of ₹3 lakh crore, which includes about ₹18,500 crore collected in 2023-24," one of the officials said.

Initially, the cess was charged at a specific rate of ₹60 per tonne. Gradually, the rate was raised to ₹4,500 per tonne. In March 2016, the government decided to shift from the specific rate to an ad valorem rate of 20%, the official said.

Cesses are collected for specific purpose only, hence creation of a dedicated fund for the board is the mandate of the 1974 law, he said. "The Act must be followed in letter as well as in spirit and the entire cess amount should be transferred to OIDF rather than keeping the same in the Consolidated Fund of India (CFI). A dedicated fund would help in focused financing of energy projects, which is required to meet growing energy needs of the economy, which is all set to become the fourth largest by FY25," the official added.

OIDB and ministries of petroleum and finance did not respond to an email query on this matter.

In the absence of any dedicated fund as proposed in the Act, the cess amount is automatically credited to the CFI, the second official said. He, however, added that the demand to create a separate dedicated fund is not justified when the government already supports energy projects from the Union budget. "Even otherwise, the section 16 of the Oil Industry Development Act, 1974 stipulates that the cess collected as an excise duty shall first be credited to CFI and the government would allocate an appropriate sum to OIDB as and when required to meet its objectives," he explained.

According to OIDB data, the board last received ₹95 crore from the government in 1991-92, taking the total amount to ₹902.40 crore since the inception of the cess. The objective of OIDF was to be used "exclusively to provide financial assistance to the organisations engaged in development of the Indian oil industry," the first official said, adding that cesses are levied for dedicated purposes.

The Comptroller and Auditor General of India (CAG), in its financial audit repot no 4 of 2020, also pointed at this matter. "Due to non-transfer to OIDB, the cess was retained in CFI. As a result, there was no assurance if the cess was used for the purpose for which these were collected," the report said.

ECONOMIC TIMES, Delhi, 11.10.2024

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Oil Use Falls for Second Straight Month in Sept

Sanjeev Choudhary

New Delhi: India's oil consumption fell for a second straight month in September, which would weigh on global crude prices that are already under pressure from ailing Chinese demand.

India, the third-largest oil consumer and importer, has been seen as a key source of global oil demand growth, especially given the Chinese economic struggle. India accounts for about 5% of the global demand, compared to China's 15%.

If India's oil demand growth also falters after China, it would further pressure oil prices, said an industry executive. Lower crude prices would bring down import bills and boost refiners' margins.

Brent, the global crude benchmark, has risen 10% in a month to about $78 per barrel but is still down about 14% from six months ago. This is when OPEC+, a group of about two dozen oil-producing countries led by Saudi Arabia and Russia, has kept about 5% of the global supplies off the market. The cartel's plan to gradually return the restricted supplies to the market may further pressure prices.

India's consumption of refined petroleum products fell 1.6% y-o-y in September, driven by a surprise 1.8% contraction in diesel demand ahead of the festive season

India's consumption of refined petroleum products fell 1.6% year-on-year in September, driven by a surprise 1.8% contraction in diesel demand ahead of the festive season, according to the oil ministry data. In August, total refined products consumption fell 2.6% and diesel declined 2.5% year-on-year. Diesel sales have grown 1.7% annually in the past five years. Diesel accounts for 38% of the volume of all refined products consumed in the country.

Petrol, India's second-most used fuel, sold 3% more in September, about half the average annual growth rate of 5.8% in five years.

The decline in vehicle sales has affected the sales of diesel and petrol, an industry executive said. Passenger vehicle sales fell 19% year-on-year in September while commercial vehicle sales declined 10.5% and two-wheelers 8.5%.

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GAIL

DAINIK BHASKAR, Delhi, 11.10.2024
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जिप की जमीन पर खुलेंगे पेट्रोल पंप, सीएनजी स्टेशन

भास्कर न्यूज | पटना

बिहार के 38 जिलों में स्थित जिला परिषद में 8582.81 एकड़ जमीन खाली है। 40% जमीन पर अवैध निर्माण है। जबकि 60% जमीन में गड्डा, जल जमाव सहित बेकार पड़ा है। ऐसे में अब जिला परिषद खाली जमीन को लीज पर देगी। इसपर जमीन पर पेट्रोल पंप, सीएनजी स्टेशन, होटल, मैरेज हाल, सामूहिक भवन, स्कूल, दुकान, शॉपिंग मॉल सहित अन्य निर्माण होगा। खाली जमीन से होने वाली आय से सड़क, नाली, सामूहिक भवन का निर्माण किया जाएगा। इसके साथ ही जिला परिषद में विकास के कार्य भी खाली जमीन से होने वाले आय से होगी। इसके लिए पंचायती राज विभाग द्वारा योजना बनायी जा रही है। जो 2025 तक शुरु हो जाएगा। नगर परिषद के जमीन को खेती और कॉमर्शियल इस्तेमाल के लिए लीज पर दिया जाएगा। इसके लिए विज्ञापन जारी किया जाएगा। जिसमें सबसे अधिक बोली लगाने वालों को लीज पर जमीन दी जाएगी। इस दौरान खेती के लिए 3 से 5 वर्ष और पेट्रोल पंप, सीएनजी स्टेशन सहित अन्य के लिए 30 वर्ष निर्धारित किया गया है। होटल, मैरेज हाल, शॉपिंग मॉल के लिए 50 से 60 वर्ष का लीज रहेगा। 30 वर्ष के लीज के दौरान 5 वर्ष का किराए एक साथ जमा करना होगा। जबकि 50 से 60 वर्ष के लीज के लिए सिक्योरिटी मनी दो गुना जमा करना होगा। जैसे मौजूदा समय में प्रति एकड़ जमीन का मूल्य 10 करोड़ रुपए है, तो लीज लेने वालों को 20 करोड़ रुपए जमा करना होगा।