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Flow of Russian oil stays course in July

Low discounts fail to impact pecking order; continuing reliance on Russian supplies helps prop up GRMs of refiners

S DINAKAR
New Delhi, 28 July

Despite a slew of local refining shutdowns, low discounts on Russian crude and reduction in exports, Russia continued to prevail in India's crude basket in July and displaced Gulf grades and US oil, according to industry sources and shipping data.

Russian oil accounted for close to 45 per cent of India's overall 4.69 million barrels per day in July, marginally higher from 44.4 per cent share in June of 4.6 million bpd of imports, and compared to a 44 per cent share a year earlier, according to market intelligence data from Paris-based Kpler. Russia had a record 46 per cent share of the Indian oil imports market in May 2023.

Cuts in Russian output did not seem to affect supplies to India. Russia's seaborne crude exports in the first half of July declined by around 400,000 bpd compared with June to 3.2 million bpd, data from US group Energy Intelligence shows, reflecting the importance given by Moscow to New Delhi, industry officials said.

The share of West Asian oil, led by Iraq, Saudi Arabia, United Arab Emirates and Kuwait was a combined 38 per cent, around 7 percentage points lower than Russia. Iraqi shipments, India's biggest source of crude until 2022, was around half of Russian oil supplies in calendar year 2023, and fell to the lowest in over four years in July as China and Europe compete for limited supplies, according to ship tracking data. Russian crudes retained their share this month at the cost of US and Iraqi grades. Imports of US oil dropped by 30 per cent to 260,000 bpd this month from 372,000 bpd while Iraqi supplies at 706,000 bpd was lower by around 100,000 bpd from June. The share of US oil dropped by 2.3 percentage points on the month to 5.7 per cent in July and the share of Iraqi oil declined by over 2 percentage points during the period to 15 per cent.

The continuing reliance on Russian supplies helps prop up gross refining margins of Indian refiners, which are facing shrinking cracks on diesel and petrol, and lower marketing margins on fuel sales amid rising crude rates. Bharat Petroleum accounts for about 40 per cent of BPCL's overall crude processing, said company CFO Vetsa Ramakrishna Gupta in the latest analysts call. Indian refiners typically do maintenance in their refineries in July-September, a period of lower demand during the peak monsoon period. Indian Oil's Paradip, Haldia and Mathura, Bharat Petroleum's Bina and Kochi, Nayara's Vadinar and Reliance's Jamnagar will undergo scheduled maintenance during this period, Argus data show, reducing a need for crude oil.

There were two distinguishing factors marking the ascendancy of Russian crude in July. First, discounts on Russian crude have collapsed by more than half to around $4/barrel this month compared to over $10/barrel a year earlier. Second, Russian crude has continued to displace Gulf crudes despite cuts in official selling prices (OSP) by Saudi Aramco—demonstrating the competitiveness of Russian oil. For instance, in May, for which the latest Customs data on import prices are available, Russian barrels to India averaged $83.7 per barrel on a delivered basis compared to $89/bbl for Saudi Arabia.

CHANGING MIX

CRUDE OIL IMPORT

	Price in May ($/bbl)	Volumes ('000 barrels/day) June	July
Iraq	83	799	706
Russia	83.7	2,040	2,100
Saudi Arabia	89	425	594
UAE	91	345	363
US	89	372	260
Venezuela#	68	67	0
Nigeria	97.4	128	36
Overall oil imports	NA	4,590	4,550

#Sanctions reimposed

Sources: Kpler, Indian Customs data

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Ethanol in petrol now primarily from maize, foodgrains

HARISH DAMODARAN
New Delhi, July 28

CEREAL GRAINS HAVE overtaken sugarcane as the primary feedstock for the production of ethanol used in blending with petrol.

In the current supply year (November 2023-October 2024), sugar mills and distilleries supplied 401 crore litres of ethanol to oil marketing companies till June 30. Of that, 211 crore litres or 52.7% was ethanol produced using maize and damaged foodgrains (mainly broken/ old rice not fit for human consumption), while sugarcane-based feedstocks (molasses and whole juice/ syrup) accounted for the remaining 190 crore litres.

This is the first time that the contribution of grains to India's ethanol production has surpassed 50% — from 27.1% in 2022-23, 16.7% in 2021-22, 13.6% in 2020-21, 9.2% in 2019-20, 5% in 2018-19 and zero in 2017-18.

Ethanol is 99.9% pure alcohol that can be blended with petrol. This is unlike the 96% extra neutral alcohol that goes to make potable liquor or the 94% rectified spirit used in paints, cosmetics, pharmaceuticals and other industrial products.

The Narendra Modi-led government has targeted 20% ethanol blending in petrol by 2025. That ratio for all-India averaged 13% this supply year till June, as against 12.1% in 2022-23, 10% in 2021-22 and only 1.6% in 2013-14. In 2023-24 itself, there's been a steady monthly rise: 10.2% in November, 11.2% in December, 12.2% in January, 12.9% in February, 12.8% in March, 12.7% in April, 15.4% in May and 15.9% in June.

Alcohol production involves fermentation of sugar using yeast. In cane juice or molasses, sugar is present in the form of sucrose that is broken down into glucose and fructose. Grains contain starch, a carbohydrate that has to first be extracted and converted into sucrose and simpler sugars, before their further fermentation, distillation and dehydration to ethanol.

FINANCIAL EXPRESS
READ TO LEAD

'Among the petroleum items, crude oil could be brought under GST first'

High duty on gold was distorting market: CBIC Chairman

HIGHER DUTY on gold was not only fueling smuggling but also causing market distortion and revenue loss, as it led to imports in non-bullion forms under various free trade agreements (FTAs) where they qualified for lower or even nil rates, Central Board of Indirect Taxes & Customs (CBIC) Chairman **SANJAY KUMAR AGARWAL** said in an interview with SOUMYARENDRA BARIK and RAVI DUTTA MISHRA. Agarwal stated that tariff rationalisation is undertaken with an objective to promote domestic manufacturing and boost exports and that the roadmap to bring petroleum products under the ambit of the Goods and Services Tax (GST) regime could start with crude oil as it would help integrate the entire petroleum product supply chain. Edited Excerpts:

Photo: @PIB_India

THE EXPRESS INTERVIEW WITH SANJAY KUMAR AGARWAL
CHAIRMAN, CENTRAL BOARD OF INDIRECT TAXES & CUSTOMS

What was the reason for a sharper than expected gold duty reduction?

The duty rate on gold has been reduced after it was temporarily increased in 2022 due to specific circumstances. It was a temporary move. Once those circumstances changed, the rate was lowered again. We noticed that there was a tendency to bring gold in non-bullion form under different FTAs where those forms were entitled for concessional rates and even nil rate. This prompted certain import restrictions too. Besides, the expected revenue increase did not materialise, and smuggling rose, fuelling illegal activities.

What should be the roadmap for bringing petroleum products into GST?

Crude oil could be the first item brought under goods and services tax (GST), followed by natural gas. Although carving out compressed natural gas (CNG) may lead to complications, it can be considered. The reason is that crude oil goes into refineries as a feedstock and bringing crude oil in GST will integrate the entire supply chain. Subsequently, other fuel items used in transportation can be included under GST.

The Standing Committee on Chemicals and Fertilisers recommended lowering GST on fertilisers. Your thoughts?

This can be reviewed by the rate rationalisation committee.

Such changes often have significant revenue implications. If revenue decreases, it must be recovered or compensated elsewhere. Large rationalisation exercises must be revenue neutral.

If too many items have lower rates, taxes on demerit goods used by affluent classes may increase. But the distinction between items used by different classes are blurring. Earlier cars were used by the affluent class now the car ownership is increasingly moving to the middle class.

What are the possible areas for future duty reductions?

Our proposals are based on a clear thought process: tariff barriers should be lowered where we want to prioritise domestic manufacturing. If an item is covered under the Phased Manufacturing Programme (PMP), then duties will be adjusted according to the PMP. For export-oriented industries, we are looking at ways to make their products more competitive internationally. We will conduct a thorough review with these objectives in mind and consider proposals as they come.

Very elaborate exercise was carried out to review the rates this time too because there are certain items which are imported under conditional exemption notifications. Now in the law also, there is a requirement to review such conditional notifications within a set period.

So that exercise will be carried out in respect to notifications which otherwise would be lapsing on March 31, 2025.

What is the rationale for reducing duty on mobile phones?

Initially, the duty on mobile phones was zero, and everything was imported. Some manufacturing began, but with minimal value addition. Everything was assembled and sold without significant value addition.

Then the government included this sector in the PMP, implementing a graded duty structure, increasing duties to 20 per cent on mobile phones and printed circuit board assemblies (PCBA). PCBA accounts for 55 per cent of a mobile phone's cost. If PCBAs are manufactured, assembled, or populated domestically, value addition occurs here, even if some parts are imported. This approach deepens the value chain. As a result, production has risen significantly, reaching Rs 4.1 lakh crore last year. Exports are increasing, with India producing more mobile phones for export. Despite higher production, PCBA imports have declined, indicating domestic production. The objective is being met.

Chargers now, in 100 per cent cases, are being produced in India. Maybe some specific mobiles have to be exported to European countries where the pins are different and the export is not in such volumes that we start manufacturing those kinds of charges. In such cases, charges in limited quantities for export purposes only are being imported.

Why were duties on telecom equipment, components raised?

To encourage the manufacturing of PCBAs for telecom equipment, we need to maintain a slightly higher rate, to incentivise domestic production. We hope this will be as successful as it has been for mobile phones.