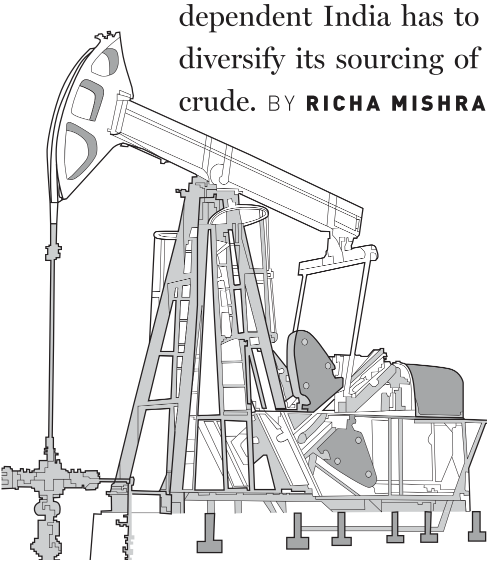
Infographics: V. Srinivasan and L. Balamurugan

Look beyond Iran

With the geopolitical situation dictating the flow of crude oil, import-dependent India has to diversify its sourcing of crude. BY **RICHA MISHRA**



Iran is India's friend, and geographical proximity makes it easier to source crude oil from that country. But Western economic sanctions on Iran have exposed India's fault line—excessive dependence on any one region or country for crude oil supplies.

Those within the government and outside believe that there is an urgent need to have alternative sources of crude oil. If China can do so, why cannot India?

In fact, diversification of the source of crude was raised in the Parliamentary Standing Committee on Petroleum and Natural Gas (2012-13) report, "Long-Term Purchase Policy and Strategic Storage of Crude Oil". It said, "Concerted efforts should be made by the Ministry for Petroleum and Natural Gas and the public sector undertakings to minimise dependence on any single country or region to ensure that [the] country's crude oil supplies do not get adversely affected in case of geopolitical problems in any region...."

IMPORT DEPENDENCE

India meets 80 per cent of its crude oil requirements through imports and is heavily dependent on West Asia for its supplies. In fiscal 2012-13, 79 per cent of the total crude oil imports came from West Asia. During this period, India imported crude oil worth more than Rs.6.7 lakh crore.

Industry observers point out that political unrest in any of the producing regions can cause supply disruptions. Considering the turmoil in West Asia and North Africa in the past three years, it has become imperative to reduce reliance on West Asian oil.

Dilip Khanna, partner, oil and gas practice, Ernst & Young, says, "Iran has been offering favourable trade terms to India [given the historical trade relationship], which includes allowing Indian refiners to pay in Indian rupees for crude oil and extending 90-day interest-free credit." The recent exchange rate volatility had resulted in savings of $2 a barrel for Indian refiners on processing Iranian crude, he said. However this benefit may end when banking restrictions on Iran are lifted.

Diversification is the key for higher-complexity refineries, which can make better refining margins by processing heavy, sour crude oil sourced from countries such as Venezuela and Canada.

India's refining capacity has leapfrogged from a modest 62 million tonnes a year in 1998 to about 215 million tonnes now. By the end of the 12th Plan (2017), the total refining capacity is expected to touch around 271.2 million tonnes and is expected to go up to 332.9 million tonnes during the 13th Plan.

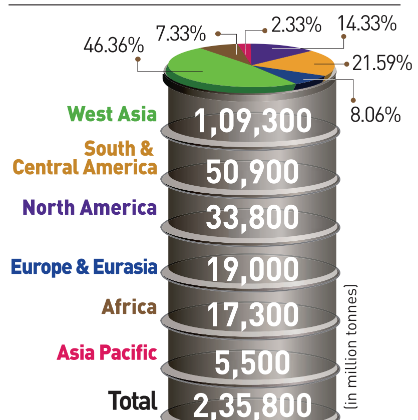
The pricing of oil

Crude oil is priced using a market-based formula in which the price of a certain variety of crude oil is set as a differential to a certain marker or reference price. The emergence and expansion of the market for crude oil allowed the development of market referencing pricing of spot crude markets such as West Texas Intermediate (WTI), Dated Brent and Dubai. The price of a barrel of oil is dependent on both its grade—determined by factors such as its specific gravity and its sulphur content—and location. WTI is a light sweet crude oil used as a benchmark in oil pricing, and its properties and production sites make it ideal for being refined in the United States.

(Sweet and sour refers to the level of sulphur, an undesirable impurity. Sweet crude contains less sulphur and sour contains more.)

Brent is also a sweet light crude oil, though not as light and sweet as WTI, and is sourced from the North Sea. Dubai crude has the highest sulphur content and is the heaviest. WTI and Brent are traded on the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange, London, respectively.

Proven reserves (at end 2012)

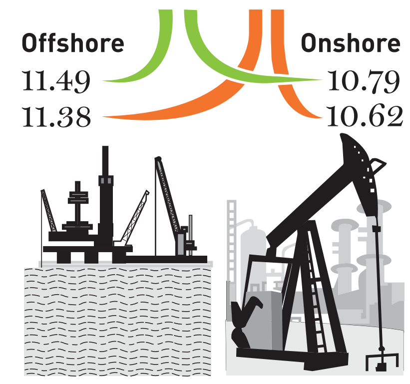


Source: BP Statistics Review of World Energy, June 2013

India's crude oil production

April to October (in million tonnes)

	2012-13	2013-14
ONGC	13.14	13.02
Oil India	2.2	2.1
Others	6.94	6.89
Total	22.28	22.01

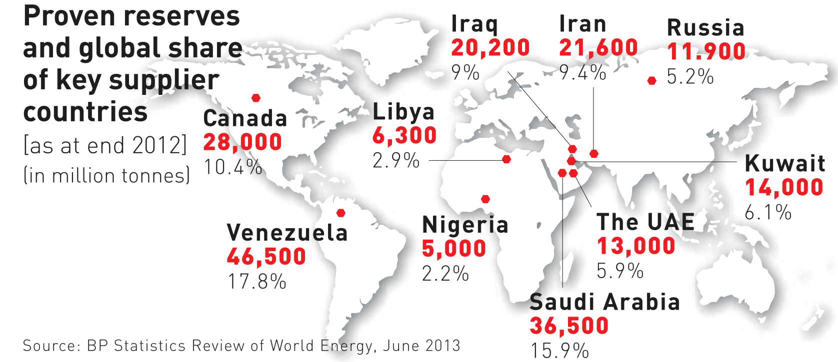


In fiscal 2012-13, India's output was 37.86 million tonnes

Source: Ministry of Petroleum and Natural Gas

Proven reserves and global share of key supplier countries

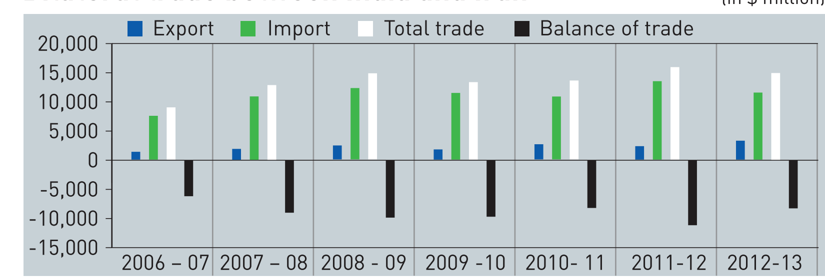
[as at end 2012] (in million tonnes)



Source: BP Statistics Review of World Energy, June 2013

Bilateral trade between India and Iran

(in $ million)



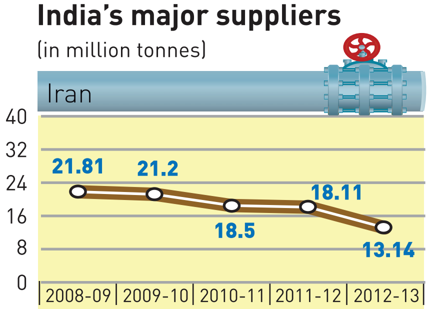
Currently, major **export items from India to Iran** are basmati rice, oilmeals, machinery & instruments, drugs, pharmaceuticals & fine chemicals, meat & preparations, sugar, processed minerals, primary & semi-finished iron & steel.

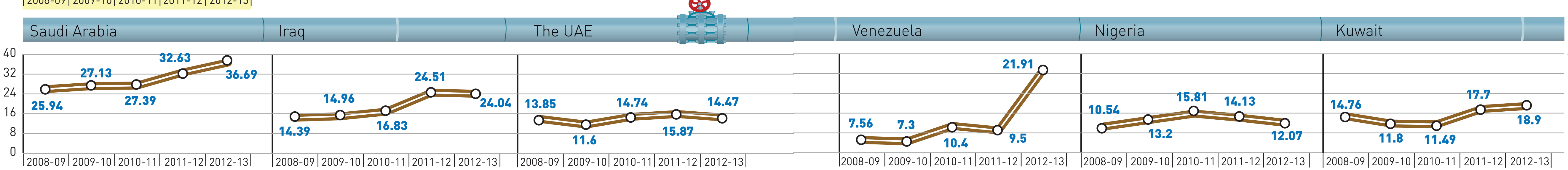
Major items currently **imported from Iran** are petroleum, crude & products, fertilizers, organic chemicals, inorganic chemicals, artificial resins, plastic materials, etc., iron & steel, sulphur & unroasted iron pyrites, fruits & nuts excluding cashewnuts.

Source: DGCIS, Kolkata

India's major suppliers

(in million tonnes)





April to October 2013: Saudi Arabia **23.66**; Iraq **15.31**; Iran **5.27**; Kuwait **12.83**; Venezuela **12.78**

Source: Indian Commerce Ministry trade data