

## Indian Oil Chairman Singh: 'Demand Is Picking Up'

*State-controlled Indian Oil Corp. (IOC) is India's largest refiner, accounting for 28% of the nation's 5 million barrels per day of refining capacity and holding a 42% share of its retail fuel market. In an exclusive interview with Energy Intelligence, IOC Chairman Sanjiv Singh discusses the challenges facing Indian refiners from the current coronavirus crisis.*

### Q: What is the status of India's oil demand?

A: Immediate demand is looking good. But we need to see how diesel and aviation turbine fuel demand pans out. In the short term, from April to May, we are seeing significant improvement both for gasoline as well as for diesel. There is a nearly 75% increase in volume of diesel and gasoline from April to May. If we compare with last year, same month, then gasoline should be close to 55%-60% [of last year's demand]. Diesel is 65%-70% of last year. Demand is picking up. It had drastically gone down (PIW Apr.24'20). Our refineries were running at 40%-45%. By the end of the month, we should be closer to 80%.

### Q: Do you think there is enough demand to sustain that level of refinery runs?

A: We are not unnecessarily raising the capacity. We are very closely tracking the consumption pattern. The demand is picking up. The refineries are matching the demand.

### Q: In the last fiscal year, India posted a growth rate of 0.2% in product consumption. That was the weakest pace of growth in decades. Will there be growth in consumption in the current financial year?

A: Last [financial] year, until February the overall [fuel product] demand growth was 1.8% on year. But it is just one fortnight of March which resulted in such a dip in the growth. In this particular financial year [Apr 1-Mar 31, 2021], this whole quarter April-June is badly affected. For the remaining nine months to catch up and register a positive growth overall, is probably too optimistic. Our estimate is that there might be a minus 5% to minus 8% dip overall. I mean it is too early to confidently project something for the year. We don't know how the aviation industry will respond. Diesel will be driven by all other sectors. Gasoline, we are confident will come up faster than diesel because it is largely private vehicles and there might be preference from the mass transport to individual transport.

### Q: How has the lockdown impacted your crude oil import plans? You declared force majeure when lockdown began. What is the status of that?

A: When the lockdown started, a lot of things were happening globally. At that time it wasn't clear how everything was going to emerge out. The country had just simply overnight locked down while everything was lined up. We line up at least for the 1½ to two months [ahead] and everything is loaded or ready to go. We had to very quickly cut down our procurement. And incidentally this happened while the oversupply in the market was also happening. So the crude market was already oversupplied and suppliers or crude-producing countries were under pressure to deliver as much as possible. This was happening globally. Although we could reduce or defer a

couple of cargoes, we also declared a force majeure. Each contract is worded differently. We were seeing it with a different angle but we didn't pursue it because we could manage part of our crude cargoes by diverting them to strategic reserves (PIW May1'20). By deferring a couple of cargoes we could manage that. Now I don't foresee any requirement to procure significantly less crude.

### Q: For the full financial year, will you be able to take all the contracted cargoes?

A: A contracted cargo has two portions, one is fixed volume and the other is optional volume. The percentage varies from country to country. Keeping some optional volumes gives flexibility to both the parties, to the buyer as well as the seller. As far as contractual fixed quantity is concerned, we are confident that we can take it, and the optional quantity will be driven by not only our requirement but also prices which we can fetch under the term contract compared with the spot [market]. I don't see any major cause of worry in meeting the contractual long-term quantity.

### Q: India hasn't passed all the benefit of low crude oil prices to consumers. The pump prices are still at levels they were when crude was over \$100 per barrel. Do you think demand for products will be better if prices of diesel and gasoline are cut?

A: The product prices aren't calculated based on crude prices. In a normal scenario, the product prices are indirectly linked with crude or they move in the same direction as crude. For many, many weeks, all products were running below crude. Even today the product prices aren't sustainable. We calculate our retail prices linked with the international product prices. So at a certain level we decide that the fall in product prices is just not practical, is just not reasonable. So we held the prices. After that the government revised duties like excise and the state governments too raised value-added tax [VAT]. While VAT impacted on retail prices, whatever duties were revised, that didn't result in increases in retail selling prices of diesel and gasoline. My opinion is that demand will be driven by requirement, and today it isn't driven by price of the fuel in the market.

### Q: Indian Oil has plans to invest 2 trillion rupees (\$26 billion) over the next five to six years, mainly to raise refining and petrochemicals capacity. Have your plans seen any shift in view of the pandemic?

A: This year, even if there is an overall reduced consumption of fuels, all the projects that we have started or are going to start, will come into operation say after three to five years' timeline. Any minor corrections that are required, that will be taken care of in the configuration within the design itself. It will provide the flexibility so that any variation in demand pattern is taken care of. We had a relook on our plans and I see no major shift from our earlier strategy.

**Q: What is the status of the Ratnagiri joint-venture refinery planned with Saudi Aramco and Abu Dhabi National Oil Co.?**

A: Our original MOU [memorandum of understanding] had expired. The partners are going ahead with renewal of the MOU. It should happen anytime. We are still very positive about the refinery. The issue still remains the land. The state government [of Maharashtra, where the refinery is to be built] is busy in handling the present [coronavirus] crisis situation. A lot of things have been done, like design configuration. So the moment the land issue is sorted out, we should be able to move ahead.

**Q: In the last decade, India was locked in a race with China in acquiring equity oil and gas overseas. Do you think that strategy will change now since markets are expected to remain well supplied and prices under control?**

A: When prices are low, while return on such assets will be low, the cost of acquisition will also be low as the assets will be available at much cheaper cost. Irrespective of the price, it is an economical decision which will have to be taken. Today, when we will be evaluating such options, we will be evaluating considering the cost as well as the return, which will be based on the future value of the project. Strategically, it doesn't change only because the crude oil prices have gone down. We will be evaluating [acquisitions].

**Q: What impact can low oil and gas prices have on India's energy transition plans?**

A: Energy transition is driven by a few factors. Climate is a very strong driver. If anyone says that now conventional oil and gas is cheaper and it will impact energy transition, I don't think so. What will happen is that with time the use of fossil fuels will become more efficient. Both the engine and the fuel will become more efficient. The fuel basket may also change. While in lot of other countries, especially OECD countries and Europe, energy transition is moving away from gas. India's energy transition is moving toward gas. I don't think low oil or gas prices will change our strategy on energy transition.

**Q: What is the energy transition path that IOC will be taking?**

A: We don't know where the oil prices will settle. But definitely they will settle at lower level because of the global demand. If conventional fuels become cheaper, then it leaves more money in the hands of energy companies so that other options can be pursued in more rigorous ways.

**Q: You own the 5 million ton per year capacity Ennore LNG import terminal. What are your long-term plans on LNG? Will you be building more terminals?**

A: We are constructing a gas pipeline at Ennore LNG terminal which, but for this pandemic, would have been completed this December. We are still targeting to complete it this financial year [by end-March 2021]. With this, the utilization of our terminal will improve drastically. We have also booked capacity in different terminals. The country today has enough capacity and has

plans to increase it further. I think there is a lot of infrastructure coming up not only to import gas but also to distribute it. LNG use will increase in industrial, transportation as well as the domestic sector.

**Q: Is it time to enter into long-term LNG contracts?**

A: We are already in long-term contracts [IOC has a 12.5% stake in Petronet, which has term contracts with Qatar and Exxon Mobil]. The only thing is that today the definition of long-term contract has changed. Today a three to five-year contract is considered a long-term contract. The existing long-term contracts are impacted by whatever formula we follow. These are crude indexed. Because of the slope or formula we follow, even if the oil prices are low, the long-term gas prices remain higher for India. While everyone looks at \$1.75-\$1.8 per million Btu price of LNG, including shipping, liquefaction and other costs, the landed cost of LNG is still high. Also if you compare spot versus long term in India, there is a significant difference. We will see if there is a need to enter into term contracts.

**Q: India had been diversifying its crude basket, largely dependent on the Middle East, to buy as far as from Russia and the US. Under the current circumstances where Middle East crude is abundant and cheap, do you think India needs to change that strategy?**

A: We have a [term] contract for Russian crude, which is fairly flexible, and the US [term] volumes are low. Apart from these contracts, we buy crudes from these countries in spot tenders also. Of late we have seen that Middle East crudes' OSPs [official selling prices] are coming at a discount rather than a premium. While going for the term contract, apart from the prices, the assurance of supply, the security of crude supply is also very important. Middle East contracts are on a yearly basis so if we want to buy more we can change the proportion of the optional volume under contract.

**Q: Will the pandemic have any impact on your capital expenditure plans?**

A: The short answer is No. We have done our review and this year we don't see any change happening. We are committed to our plan, which is a little more than 260 billion rupees. On long term also, we have full confidence on domestic demand. A few years down the line we again see the country back on track and probably this time it will be a much more coherent and stronger domestic country, from the demand point of view. So we don't foresee any major shift in investment plans.

**Q: What is the biggest challenge for the refining industry?**

A: The crack [spreads] are abnormally low. In my lifetime I have never seen the cracks so low. This time we saw diesel, gasoline, jet, all cracks low. How can we sustain the refining industry if all the products are being sold at a price which is lower than crude? I am sure things will get corrected. This is not a sustainable kind of situation, not only for Indian refiners but also for any refinery in the world.