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Crude price spike brings back subsidies but India wins at oil diplomacy

PTI
feedback@livemint.com

A wild swing in international oil prices in 2022 brought back indirect fuel subsidies in India in a setback to reforms, but the nation won at crude diplomacy as it refused to succumb to western pressures and continued to buy oil from the cheapest available source.

International oil prices have been turbulent in the last couple of years. It dipped into the negative zone at the start of the pandemic in 2020 and swung wildly in 2022—climbing to a 14-year high of nearly $140 per barrel in March 2022 after Russia invaded Ukraine, before sliding on weaker demand from top importer China and worries of an economic contraction.

But for a nation that is 85% dependent on imports, the spike meant adding to already firming inflation and derailing the economic recovery from the pandemic.

So, state-owned fuel retailers Indian Oil Corporation (IOC), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) froze petrol and diesel prices for the longest duration in at least two decades. They stopped daily price revision in early November 2021 when rates across the country hit an all-time high, prompting the government to roll back a part of the excise duty hike it had effected during the pandemic to take advantage of low oil prices.


Oil prices dipped into negative zone at the start of the pandemic in 2020 and swung wildly in 2022 — climbing to a 14-year high. REUTERS

The freeze continued into 2022 but the war-led spike in international oil prices prompted a ₹10 a litre hike in petrol and diesel prices from mid-March before another round of excise duty cut rolled back all of the ₹13 a litre and ₹16 per litre increase in taxes on petrol and diesel effected during the pandemic.

That followed the current price freeze that began on 6 April and still continues. The result was while consumers were insulated, the three firms suffered a combined loss of ₹21,000 crore in the first half of the 2022-23 fiscal year, and reforms took a backseat. However, the government has already sanctioned ₹22,000 crore to make up for losses the three firms incurred on holding cooking gas LPG prices in the past two years and a similar dole is expected for fuel in the coming Budget.

With increased imports of Russian oil, India saved about ₹35,000-40,000 crore in foreign exchange outgo

Meanwhile, the government slapped a windfall tax on domestically produced crude oil and on the export of petrol, diesel and jet fuel.

Oil Minister Hardeep Singh Puri, however, scored big when he guided India's response to western curbs on Russia to punish it for the war in Ukraine. Despite the pressure, India increased imports from Russia, making it its top oil source towards the year's end. With Russian oil being available at discount after being shunned by some western countries, India saved an estimated ₹35,000-40,000 crore in foreign exchange outgo.

Also, Puri's push ensured that the target of mixing ethanol in petrol was achieved ahead of schedule.

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Spot LNG procurement in Asia falls: Report

New Delhi: Spot procurement of liquified natural gas (LNG) by Asian countries has declined with the bulk of supplies being diverted to Europe amid the Russia-Ukraine conflict and the consequent volatility in the global energy market, said a report by S&P Global Commodity Insights. Demand for LNG in Europe has risen with the European Union shunning Russian energy supplies or placing restrictions in retaliation for Moscow's invasion of Ukraine. SAURAV ANAND

ECONOMIC TIMES, Delhi, 3.1.2023
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ONGC Should Pursue Speed, Not Perfection: Chief

Co needs to make discoveries faster, and must not waste resources chasing perfection, says Arun Kumar Singh

Sanjeev.Choudhary
@timesgroup.com

New Delhi: Oil & Natural Gas Corp should pursue speed, not perfection, its new chief has told senior executives, outlining his strategy that includes enabling a culture of openness, forging partnerships with global majors for difficult fields, making IT as important as drilling to the organisation, and promptly outsourcing to fill the in-house talent gap, if any.

"Let us not waste resources chasing perfection. Speed is more important than accuracy in the phase ONGC is now, where we need to make the discoveries faster. Of course, safety procedures remain paramount," chairman Arun Kumar Singh told the executives at a recent meeting, according to people in the know.

Singh is trying to infuse a sense of urgency in the state-run explorer, which has drawn criticism for years for its struggles to boost output, delayed projects and limited exploration success.

The government-appointed Singh, a former head of Bharat Petroleum Corp, the chairman of ONGC last month after keeping the country's largest oil and gas producer without a full-time head for nearly two years. The government order was unclear on the appointment of the managing director. Traditionally, at ONGC, the positions of chairman and the managing director are held by the same person.

Singh encouraged employees to bring in fresh ideas and problem-solving approaches and shed risk aversion for faster decision-making. "We need to usher in more openness, even if it encourages criticising ONGC to a limited extent to enable improvement," he said.

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ARUN KUMAR SINGH
Chairman, ONGC

"Executives need to be fearless as long as they have a clean intent. Even discretionary decisions can be justified if we can articulate the reasons and record those reasons." Singh has placed a big emphasis on moving fast and tapping into global pools of talent and technologies for that.

"Let us not waste time developing in-house resources and then do exploration/production in certain areas. Time is precious. An outsourced resource is also a resource. Hire the best, be it manpower or any other resource," he said.

Technology adoption and the need for speed require the company to do a mix of in-sourcing and out-sourcing, Singh said. "The golden rule for ONGC now is to hire one for every two retirements; and if required, outsource one." Singh also stressed deepening the role of digitalisation in operations. "IT in ONGC should be as prominent as drilling," he said, adding that automated systems were more reliable. Collaborating with the best-in-class is important for quick success, the chairman said, adding that there was a great opportunity to partner with global majors in deep-water.

ECONOMIC TIMES, Delhi, 3.1.2023
Page No. 5, Size:(7.81)cms X (6.56)cms.

Centre Hikes Windfall Tax on Locally Produced Crude

New Delhi: The Centre on Monday increased the windfall tax on domestically produced crude oil to ₹2,100 per tonne from the existing ₹1,700.The revised tax rate is effective from January 3.

The windfall tax on aviation turbine fuel has been hiked to ₹4.5 per litre from the existing ₹1.5 per litre, as per a notification issued by the Central Board of Indirect Taxes and Customs.

The windfall tax on high-speed diesel for exports has been reduced to ₹5 per litre, and along with the cess, it will be ₹7/litre.

In its last revision, the Centre had slashed windfall tax to ₹1,700 per tonne from ₹4,900 per tonne.

The special additional excise duty on petrol continues to remain unchanged at 'nil'.

India imposed the tax in July, joining nations that tax super normal profits of energy companies. The Centre had maintained that the levy was introduced in view of the windfall gains made by domestic crude producers and refiners due to high global crude and product prices. The tax rates are revised fortnightly. —**Our Bureau**

BUSINESS STANDARD, Delhi, 3.1.2023
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RAJASTHAN

₹6,200 crore pumped into oil sector

ANIL SHARMA
Jaipur, 2 January

Fresh or new investments of ₹6,200 crore have been made by companies in the petroleum sector in Rajasthan, a senior state government official said.

"In all, investments of over ₹22,838 crore are being made by four companies in a phased manner. Of this, work on over ₹6,200 crore has started," Rajasthan Additional Chief Secretary (Mines and Petroleum) Subodh Agarwal said.

Agarwal said four companies in the petroleum sector had signed agreements on investment during "Invest Rajasthan".

Cairn Vedanta signed a proposal for ₹20,000 crore, Oil India for ₹663 crore, Oil and Natural Gas Corporation for ₹1,050 crore, and Focus Energy for ₹1,125 crore.

Cairn Vedanta has started exploration and other development works in the PML and PEL blocks in Barmer and Jalore. Work on around ₹5,671 crore has been done.

Similarly, Focus Energy is doing investment works of ₹113 crore in the Jaisalmer block.

The official said that ONGC had invested more than ₹212 crore in exploration and production. It is ₹144 crore for Oil India.

Agarwal said with this exploration and mining had started apace and, at the same time, direct and indirect employment was being generated.

BUSINESS LINE, Delhi, 3.1.2023
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Is public sector capex really rising?

UNEVEN TREND. While the Centre's capex growth has spiked in the past 18 months, that of States and CPSEs are lagging

Nikhil Gupta

During the past 18 months, Central Government capex (capital spending less loans and advances) has surged notably — it increased 52 per cent YoY in H1FY23 after posting around 70 per cent YoY growth in FY22. In H1FY23, the Centre's capex amounted to ₹3.2 trillion, which was higher than the annual capex bill of FY21 (or any previous year); it stood at around 60 per cent of FY22 capex.

The Centre's capex spiked to 2.3 per cent of GDP in FY22 and rose further to 2.5 per cent in H1FY23, from a steady level of 1.5 per cent of GDP in the 2010s decade. The foundation of the trending 'imminent capex revival' narrative is strongly driven by this spike in the Centre's capex.

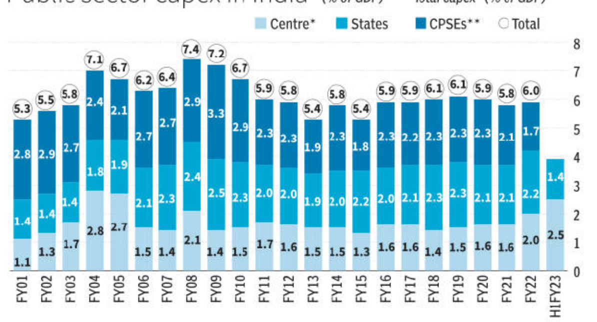
Nevertheless, the Union Government is only one branch of the public sector. Central Public Sector Enterprises (CPSEs) and State governments also constitute the public sector. CPSEs are of special relevance for this analysis because, in its bid to make fiscal math more transparent and relevant, the Government has shifted a portion of its off-book transactions into the fiscal accounts over the past 2-3 years.

The entire borrowing (totalling ₹650 billion each in FY21/FY22REs) by the National Highway Authority of India (NHAI) has been taken on the books by the Centre in FY23, thereby boosting the Centre's capex and hurting that of CPSEs. It is, therefore, tricky but important to carry out apple-to-apple comparison.

Further, the Central Government also allocated more than ₹1 trillion as loans and advances to States in FY23 (and about ₹800 billion in FY21 to the Railways), which must be excluded. At the same time, we must include States' capex. As many as 27 States (except Goa) and one Union Territory (Jammu and Kashmir) provide timely provisional monthly fiscal accounts, which help to prepare informed analysis of their financial positions.

Therefore, one must include capex of

Public sector capex in India (% of GDP)



*Excluding equity infusion into Air India in FY22 **Excluding spending by the Department of Food & Public Distribution
#Excluding loans & advances Source: CGA, CAG, CEIC, Union Budget documents, MOFSL

CPSEs and States with the Central Government capex to arrive at the overall public sector capex (ideally, one must also include States' PSEs; however, it is not possible due to lack of data). Further, CPSEs' data is available only on an annual basis (in the Union Budget documents), unlike monthly data for the Centre and States.

A combination of the Centre, States and CPSEs suggests that the public sector capex stood at 6 per cent of GDP in FY22 (with provisional data of the Centre and States and FY22 revised estimates for CPSEs). This was slightly lower than 6.1 per cent of GDP each in FY18 and FY19 but higher than 5.8 per cent of GDP in FY21 (see Chart).

Based on the available monthly data, the rise in the Centre's capex in H1FY23 was largely offset by meagre capex growth for States.

This is because while the Centre's capex increased to a 14-year high at 2 per cent of GDP in FY22 (excluding equity infusion into Air India), capex was broadly unchanged for States at 2.2 per cent of GDP and declined to at least a two-decade low of 1.7 per cent of GDP for CPSEs (excluding spending by the Department of Food and Public Distribution).

Can this change in FY23? Based on the available monthly data, the rise in the Centre's capex in H1FY23 was largely offset by meagre capex growth for States. The States' capex grew only around 2 per cent YoY in H1FY23 (with a contraction in Q1FY23) v/s 52 per cent YoY growth in the Centre's capex.

In other words, while the Centre's capex increased to an 18-year high of 2.5 per cent of GDP, States' capex was just 1.4 per cent of GDP in H1FY23. The combined capex of the government (Center + States), thus, stood at 3.9 per cent of GDP in H1FY23, lower than 4.2 per cent of GDP in FY22 but higher than 3.7 per cent of GDP in the pre-Covid period. CPSEs' capex is expected to decline for the third consecutive year in FY23BE to only 1.4 per cent of GDP.

CAPEX TARGET

During the past three years, States have been able to achieve less than 75 per cent of their capex target (at only 26 per cent of BEs in H1FY23). Even if we assume an achievement of 80 per cent of capex target by States in FY23 and Centre's achievement of its BEs (it has already achieved 52 per cent in H1FY23), the public sector capex would fall to an eight-year low of 5.7 per cent of GDP in FY23E.

Overall, there is no doubt that the Centre's capex has spiked during the past 18 months or so. However, it is very likely that the re-classification of capex away from CPSEs has contributed to this surge. The share of the Center in public sector capex increased to 34 per cent in FY22 and may rise further to 39 per cent in FY23E (going by the above-mentioned estimates) from just about a quarter in the pre-Covid period. At the same time, the share of CPSEs has fallen to just 29 per cent in FY22 (from 38 per cent in the pre-Covid period) and could decline further to 24 per cent this year. All-in-all, an analysis of one part may be misleading if it is extrapolated to the whole. There are a few areas where extremely good and consistent data is available. The opportunity to conduct an accurate analysis and arrive at appropriate conclusions must not be lost.

The writer is Chief Economist at Motilal Oswal Financial Services Ltd

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Oil price spike brings back subsidies but India wins at crude diplomacy

PTI ■ NEW DELHI

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The freeze continued into 2022 but the war-led spike in international oil prices prompted a Rs 10 a litre hike in petrol and diesel prices from mid-March before another round of excise duty cut rolled back all of the Rs 13 a litre and Rs 16 per litre increase in taxes on petrol and diesel effected during the pandemic.

That followed the current price freeze that began on April 6 and still continues. The result was while consumers were insulated, the three firms suffered a combined loss of Rs 21,000 crore in the first half of the 2022-23 fiscal year, and reforms took a backseat.