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'Govt may earn ₹43,000 cr from windfall tax on crude oil, petroleum products'

Our Bureau
New Delhi

The government's tax earning from the imposition of windfall tax on domestic crude oil and petroleum products is expected at around ₹43,000 crore in FY23.

According to ICRA Ratings, the total collection from downstream oil companies such as IOC, HPCL and BPCL is expected at around ₹23,000 crore in the current financial year. Similarly, the government will get around ₹20,000 crore from upstream firms such as ONGC.

Windfall tax, or special additional excise duty (SAED), is revised fortnightly, and is imposed on oil companies making windfall profits due to high global crude oil prices.

DOWNSTREAM FIRMS

"Amid the elevated gross refinery margins (GRMs), the government imposed SAED on certain refinery products w.e.f. July 1, 2022, which has pared the profitability of refiners to some extent.

"The current duty on the export of diesel is ₹7.5 per litre and on ATF it is ₹4.5, and ICRA expects the total collection by the government from these duties to be around ₹23,000 crore in FY23 from downstream companies," said ICRA in a report. The ratings agency expects the profitability of downstream oil and gas players or oil marketing companies (OMC) to face pressures in the near to medium term. ICRA V-P and Co-Group Head (Corporate Ratings), Prashant Vasisht, said retail prices of auto fuels have not been revised for an extended period of time, which has resulted in sizeable marketing losses for OMCs.

IN CHOPPY WATERS. Profitability of downstream oil and gas players may face pressure in the near to medium term, said ICRA

The total collection from downstream oil companies is expected at around ₹23,000 crore, while the govt may get around ₹20,000 crore from upstream firms

The government has already announced a one-time grant of ₹22,000 crore to offset losses incurred on LPG sales.

"However, OMCs have been demanding additional grants to set off marketing losses on auto fuels. Nevertheless, the credit profile of downstream companies is not expected to weaken substantially as credit metrics are expected to remain healthy over the medium term, besides which several incumbents enjoy sovereign ownership and exceptional financial flexibility," he added. As far as the upstream companies are concerned, ICRA said crude oil prices have remained elevated, owing to increasing global demand following recovery from Covid and low capex incurred by upstream companies globally for several years. However, they have seen some softening in the past few weeks from the highs of more than $110 per barrel in March 2022 to around $80-85 at present.

WEAK DEMAND

This moderation has been due to weak demand from China and high inflation and recession in several large economies.

Further, domestic gas prices have also witnessed a cumulative increase of more than 370 per cent over the last three revisions.

These have translated into robust profitability and cash accruals for domestic upstream companies.

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Crude compulsions in the Budget

Strong oil and natural gas prices in FY24 will pressure government finances. Freeing the industry from administrative pricing could be the best way forward

S DINAKAR
18 January

The twin spectres of global recession and sticky inflation, which threaten to trip India's growth prospects in 2023-24, may become a set of triplets with oil and gas prices heading north. Finance Minister Nirmala Sitharaman must be cognizant of a potential uptick in oil and gas rates to make realistic assumptions in the upcoming Budget. More so after Budget estimates for fuel prices this financial year missed actuals by a mile, thanks to the Russia-Ukraine war.

In 2023, crude oil and natural gas rates are expected to stay strong despite a global recession, as China, the world's biggest energy user, emerges from the pandemic-induced lockdowns, Saudi Arabia and Russia-led OPEC+ continue to flex their muscles, and Western sanctions eliminate Russian gas exports to Europe, and send use of LNG higher.

Miscalculations in budgetary fuel price forecasts are fraught with consequences. The government will be forced to accommodate as much as ₹2 trillion in additional spending on fuel and fertiliser subsidies after budgetary estimates made last February fell well short of actuals, as the Black Swan event of Russia's invasion of Ukraine sent crude oil prices to near records, and gas and shipping rates to all-time highs. Surging fuel prices also sent fertiliser subsidies to a record high.

Goldman Sachs forecasts global oil demand to grow by 2 million barrels a day, or by over 2 per cent, in 2023 as China reopens. OPEC expects India's oil demand to be strong this year. That may help European benchmark Brent oil average $98 a barrel in calendar 2023, with second-half prices at $105 a barrel; Brent would average $105 a barrel in 2024, the bank said in a forecast early last month.

"We are bullish on crude prices," said Prashant Vasisht, vice president and co-group head, at ratings agency ICRA. The reopening of China coupled with a reduction in oil release from the strategic petroleum reserves of US and other Western nations are reasons crude prices will rise. Squeezing supplies further is the price cap on Russian oil, Europe stopping fuel imports from Russia and OPEC+ actively managing crude output, Vasisht added. He expects prices to move in the range of $80-$95 a barrel this year.

"In terms of likely oil prices for subsidy assessment, we believe the Indian basket of crude oil could be $80-$85 per barrel for FY24," said Sudhir Kumar, director, CareEdge Ratings. "Increased budget allocation is needed for compensating losses incurred by the oil marketing companies on sale of auto fuels and LPG apart from a one-time grant of ₹22,000 crore," he added.

The finance ministry must also prepare for elevated LNG prices, which meets nearly half the country's gas demand. LNG will continue to stay strong despite Europe's benign winter, analysts reckon. Overflowing gas inventories in Europe will dry out this summer, and Russian gas will not be available this year for refills.

"The realignment of global LNG trade structure following the Ukraine crisis has led to skyrocketing LNG prices in CY 2022," said Hetal Gandhi, director-research, CRISIL Market Intelligence and Analytics. "While we expect the prices to correct, they will remain elevated."

"The tightness in LNG prices will continue till 2025-26," Vasisht said.

Indian policymakers set a conservative $70 per barrel as the price of crude oil in the budget for the 2022-23. The price set for natural gas, a feedstock for fertiliser makers and city gas utilities, is typically pegged to the price of domestic supplies, fixed by the government twice a year. The rate of gas under the administered pricing mechanism (APM), the bulk of India's local supplies, averaged $2.3 per million British thermal units (MMbtu) in 2021-22 fiscal, the basis for estimates in the Budget.

Let us see by how much fuel prices deviated from government estimates. The Indian crude basket, which represents the average of Oman & Dubai benchmarks for sour grades and physical cargoes of Brent for sweet grades in the ratio of 75-25, averaged $96 a barrel in the April-January period on a monthly basis, according to oil ministry data. The average for the 2020-21 fiscal, based on which the government sets the budget rate, was $79 a barrel. So New Delhi's forecast was off by $26 a barrel, or by 27 per cent from current levels.

The Budget forecast for domestic gas prices, which are fixed based on global gas benchmarks like Henry Hub, TTF and NBP, is a third of current levels at $7.3 per million Btu.

The variation in oil and gas prices from budgeted estimates have burnt a hole in government finances. "The spike in natural gas prices has resulted in the subsidy bill to double in fiscal 2023 (against budgeted Rs 1.05 trillion)," said Gandhi. Subsidies on urea may now exceed ₹2.2 trillion, a fertiliser industry official said.

Recently oil minister Hardeep Puri mentioned $82 a barrel as a reference point for current prices of petrol and diesel, $14 a barrel lower than the average crude rates this fiscal. The government earmarked a little over ₹20,000 crore to compensate state-oil refiners for a part of their losses, incurred from selling petrol, diesel and LPG below market rates.

But that may be inadequate. The retail prices of auto fuels have not been revised for an extended period of time, which has resulted in sizeable marketing losses for oil marketing companies, ICRA said in a new report. IOC, BPCL and HPCL have posted a combined net loss of around ₹21,200 crore for the April-September period, excluding ₹22,000 crore they are yet to receive from the government to compensate for losses from LPG sales. Oil companies are further expecting ₹50,000 crore from the government to compensate for a freeze in petrol and diesel prices for the past eight months, according to industry officials.

Prime Minister Narendra Modi's government, which faces key state polls and a general election next year, will be hard pressed to let fuel prices move higher. Policy tweaks in the gas sector — including imposing a ceiling on APM gas prices, capping gas trading margins, and letting fertiliser companies procure LNG via the Indian Gas Exchange — will mitigate urea subsidies in the upcoming Budget. But, in the long term, price controls imperil exploration — leaving the nation even more susceptible to volatility in global fossil fuel rates, and increasingly dependent on foreign suppliers.

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STRESS TESTS FOR THE FM

- Global recession and sticky inflation, which threaten to trip India's growth prospects in 2023-24, will be compounded by high oil & gas prices
- Budget estimates for fuel prices this year missed actuals by a mile, thanks to the Russia-Ukraine war
- The variation in oil & gas prices from budgeted estimates have pressured government finances
- The reopening of China coupled with a reduction in oil release from the strategic petroleum reserves of US and other western nations, are reasons why crude oil prices will rise this year
- The finance ministry must also prepare for elevated LNG prices, which meets nearly half the country's gas demand
- In the long term, price controls imperil exploration — leaving the nation even more susceptible to global fuel rates, and increasingly dependent on foreign suppliers

Oil prices up around 2% on China recovery hopes

ROWENA EDWARDS & JULIA PAYNE
London, January 18

OIL PRICES ROSE on Wednesday to their highest since early December on optimism that the lifting of China's strict Covid-19 curbs will lead to a fuel demand recovery in the world's top oil importer.

Brent crude futures were up \$1.58, or 1.84%, to \$87.50 a barrel by 1458 GMT. US West Texas Intermediate (WTI) crude futures rose \$1.83, or 2.28%, to \$82.01. Both were at their highest since early December. China's economic growth slowed sharply to 3% in 2022, missing the official target of "around 5.5%" and marking its second-worst performance since 1976.

But the data still beat analysts' forecasts after China

started rolling back its zero-Covid policy in early December. Analysts polled by *Reuters* expect growth to rebound to 4.9% this year. The lifting of restrictions in China is set to boost global oil demand to a record high this year, the International Energy Agency (IEA) said on Wednesday, while price cap sanctions on Russia could dent supply.

The IEA report followed a projection from the OPEC for Chinese oil demand to grow by 510,000 barrels per day (bpd) this year. **REUTERS**

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‘Oil demand may see high on China’s COVID-19 reopening’

Two wild cards dominate this year’s oil market outlook — Russia and China, says IEA; agency points out driver of 2023 GDP, oil demand growth will be timing, pace of China’s recovery

Reuters
LONDON

The lifting of COVID-19 restrictions in China is set to boost global oil demand this year to a record high, the International Energy Agency (IEA) said on Wednesday, while price cap sanctions on Russia could dent supply.

“Two wild cards dominate the 2023 oil market outlook: Russia and China,” the energy watchdog said in its monthly oil report. “Russian supply slows under the full impact of sanctions (while) China will drive nearly half this global demand growth even as the shape and speed of its reopening remain uncertain.”

Weak industrial activity and mild weather helped cut oil demand by close to a million barrels per day in OECD countries in the last quarter of 2022. But despite likely mild recessions in Europe and the U.S., China’s expected reopening is set to fuel rebounds in nearby Asian economies and see it take the lead from India as the leader in oil demand growth.

“The pre-eminent driver of 2023 GDP and oil demand growth will be the timing and pace of China’s post-lockdown recovery,” the IEA said.

The main growth in oil supply is set to come from the U.S. as output from the OPEC+ group will decline.

All eyes on China

Russian supply slows under the full impact of sanctions, while China will drive almost half the global demand growth

- Weak industrial activity and mild winter helped cut oil demand in OECD countries
- Main growth in oil supply is set to come from the U.S.
- Output from the OPEC+ producer group will decline, led by Russia

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Oil gains 2% on hopes of recovery in China

Reuters
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LONDON

Oil prices rose on Wednesday to their highest since early December on optimism that the lifting of China's strict covid-19 curbs will lead to a fuel demand recovery in the world's top oil importer.

Brent crude futures were up $1.58, or 1.84%, to $87.50 a barrel by 1458 GMT. US West Texas Intermediate (WTI) crude futures rose $1.83, or 2.28%, to $82.01. Both were at their highest since early December. China's economic growth slowed sharply to 3% in 2022, missing the official target of "around 5.5%" and marking its second-worst performance since 1976. But the data still beat analysts' forecasts after China started rolling back its zero-covid policy in early December. The lifting of covid-19 restrictions in China is set to boost global oil demand to a record high this year, the International Energy Agency (IEA) said on Wednesday, while price cap sanctions on Russia could dent supply.

The IEA report followed a projection from the Organization of the Petroleum Exporting Countries for Chinese oil demand to grow by 510,000 barrels per day this year after contracting for the first time in years in 2022 because of covid containment measures.

MILLENNIUM POST, Delhi, 19.1.2023
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SUPPLEMENTARY DEMANDS FOR GRANTS

FinMin seeks expenditure proposals for final batch

OUR CORRESPONDENT

NEW DELHI: Ahead of the Budget session of Parliament, the finance ministry has sought expenditure proposals for the second and final batch of Supplementary Demands for Grants from various ministries and departments.

The final batch of Supplementary Demands for Grants for 2022-23 is proposed to be placed before Parliament in the ensuing session, the ministry said in an office memorandum.

The two-part Budget session of Parliament will commence on January 31 and the final Supplementary Demands for Grants is likely to be presented in the second leg of the session.

The cases that would be eligible to be incorporated under such demands include those where advances from the Contingency Fund of India have been granted.

Besides, payments against court decree would be included as well as cases where the finance ministry has specifically advised moving the supplementary demand in the winter session, the memorandum said.

"While processing proposals for supplementary Grants, the Grant controlling authority must invariably identify savings within the Grant so that the infructuous or inflated Supplementary Demands are weeded out and the eventuality of surrender after obtaining Supplementary Grant is avoided," the memorandum added.

The final batch of Supplementary Demands for Grants for 2022-23 is proposed to be placed before Parliament in the ensuing session, the ministry said in an office memorandum

The proposal for Supplementary Demand for Grants may be projected after a thorough and objective assessment of additional requirements of funds, it noted.

"All ministries/departments have been requested to contain the expenditure within the approved Revised Estimate ceilings," it said.

According to the memorandum, the proposals in complete form justifying supplementary demands to be included in the final batch should be forwarded to the Budget Division of the finance ministry by February 10, 2023.

Last month, Parliament approved the first batch of supplementary demands for grants permitting the government net additional spending of over Rs 3.25 lakh crore, which included over Rs 1.09 lakh crore towards fertiliser subsidy payout.

This additional spending was over and above the proposed amount in Budget 2022-23. As per the Budget, the government estimated a total expenditure of Rs 39.45 lakh crore for 2022-23 as compared to Rs 37.70 lakh crore for the previous fiscal.

Besides, approval for Rs 80,348.25 crore was cleared for meeting expenditure of the food and consumer affairs ministry mainly towards giving free foodgrains to the poor.

Approval was given for expenditure of the Ministry of Petroleum and Natural Gas towards payments of LPG subsidies to oil marketing companies and LPG connections to the poor under the Pradhan Mantri Ujjwala Yojana, among others, totalling Rs 29,944 crore.