

ASSOCHAM Eco Pulse Study

The Crude Economics

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**Prepared by:
GAURAV SHARMA
ASSOCHAM RESEARCH BUREAU**

Meltdown in the crude prices could save India a whopping USD 17 billion in the crude oil import bill: AEP

India could save a whopping USD 17 billion in the crude oil import bill on account of the plummet in crude oil prices, currently hovering between USD 110-120 per barrel after nearly touching USD 150 per barrel, stated an ASSOCHAM Eco Pulse (AEP) study.

The Study estimates that the oil import bill for the current fiscal would have soared to USD 125 billion had the crude oil prices remained at the level of USD 145 per barrel. However, with the reversal in the direction of price movement, the import bill for crude oil would be restrained to USD 108 billion, assuming the prices average out USD 120 per barrel for the last three quarters of the fiscal 2008-09. In the fiscal 2007-08, the import bill for crude oil was USD 67.98 billion.

The AEP study titled **“The Crude Economics”** stated that crude prices have shed almost 25 per cent since reaching their all time high of USD 147.27 per barrel. Considering the government estimates of 5-6 per cent rise in the volumes of crude oil import bill to around 129 million tonnes this year, there would be a jump of 58 per cent in the crude oil import bill from fiscal 2007-08.

The softening crude oil prices may come as a respite to the burgeoning current account deficit growing at an alarming rate mainly due to the rising crude oil bill. Trade deficit for the first quarter of the fiscal (April-June 2008) widened 42 per cent on account of a 50.2 per cent rise in the oil imports. The oil import bill for Q1 '08 stood at a whopping USD 25.5 billion on top of USD 17 billion in the same quarter last fiscal.

“The economic forces at play in; shrinking demand and improving supply facilities may cool down crude oil prices further which would lead to a narrower than estimated current account deficit. It’s a good positive sign for the economy” said Mr. Sajjan Jindal, President, Assocham.

From 2006-07, the Indian crude oil import grew 9.11 per cent in volume terms and a staggering 40 per cent in dollar terms for the fiscal 2007-08. This upsurge in the crude import bill was on account of a steep rise in the Indian basket price from USD 62.4 per barrel to USD 79.2/barrel.

According to the AEP study, oil prices, after reaching the all time high of USD 147.27 per barrel on July 11, have nosedived mainly on account of correction in demand, easing supply conditions and stronger US dollar.

The Oil demand in US, the biggest oil consumer has fallen sharply from 20.7 million barrels per day (mbpd) in 2007 to 19.88 mbpd in the first quarter of 2008. The OECD-European countries have followed suit with a slowdown in demand for oil from 15.28 mbpd in 2007 to 15.24 mbpd in the first quarter of 2008.

On the supply side, Saudi Arabia, the largest oil producer has planned to raise production to 9.7 mbpd, its highest level in 27 years. With minor hiccups in the supply condition because of the geopolitical tensions, the outlook remains bright, unless the oil cartel OPEC, controlling 78 per cent of the world oil reserves, decides to cut down production in order to put brakes at the declining crude prices.

Strengthening US dollar has also played its role in cooling down the crude price. The greenback has appreciated by as much as 6 per cent versus Euro in the last three months.

The average Indian basket price of crude oil, comprising Oman-Dubai sour (high sulphur) grade crude and Brent dated sweet (low sulphur) crude in 61.4 : 38.6 ratio, was USD 119 per barrel for the first quarter of the fiscal 2008-09. However, for the coming quarters in view of the demand-supply dynamics, the Indian basket price is set for a big downfall.

The International Energy Agency (IEA) has estimated the oil demand for India as:

OIL DEMAND for INDIA (in million barrels per day)	
Q1 2008	3.19
Q2 2008	3.13
Q3 2008	2.85
Q4 2008	3.17
2008	3.08

Source: IEA oil demand estimates for India, July 2008

IEA has also trimmed the projected growth in global oil demand from 2.3 per cent in January 2008 to just 1 per cent by July 2008.

The US Energy Information Administration has projected the global demand and supply of oil as:

WORLD DEMAND-SUPPLY OF OIL

DEMAND / SUPPLY (in mbpd)		Q1 2008	Q2 2008	Q3 2008	Q4 2008	2008
WORLD DEMAND	OECD	48.5	47.5	48.5	49.4	48.5
	Non- OECD	37.2	38.0	38.1	38.5	37.9
TOTAL		85.7	85.5	86.5	87.8	86.4
WORLD SUPPLY	OPEC	36.8	36.9	37.5	37.3	37.1
	Non- OPEC	48.9	49.0	49.7	50.0	49.4
TOTAL		85.7	85.9	87.2	87.2	86.5
BALANCE (Demand - Supply)		0.0	-0.3	-0.6	0.6	-0.1

Source: US Energy Information Administration, July 2008

The world oil supply is estimated to be slightly higher than demand for the first three quarters of 2008 hence the prices are expected to cool down further right till the end of 2008.