# Asia's oil markets in upheaval as China, India change the game

REUTERS

**A well of Oil and Natural Gas Corp is pictured in an oil field in India.**

REUTERS, *Singapore/New Delhi*

Asia's oil markets are being upended as India's and China's refiners overtake once-dominant buyers like Japan and challenge the United States as the world's biggest consumer.

The shifts are not only establishing new trade routes but are also challenging the way oil is priced in the region as the new players push for more cash cargoes and fewer long-term deals.

China and India's combined share of world oil consumption has tripled since 1990 to over 16 percent, nearing the U.S. share of roughly 20 percent, cementing their status as the main center of global demand growth.

"Asian oil markets are in a tremendous period of flux," said Owain Johnson, managing director of Dubai Mercantile Exchange (DME).

By 2040, China and India could double their share again to a third, analysts say.

One of Asia's rising traders is Indian Oil Corp, which operates 11 refineries with a combined capacity of 80.7 million tonnes a year (1.9 million barrels per day), a third of India's capacity and roughly the same size as Exxon's U.S. refining base.

"Spot crude (trading) gives more flexibility and more variety is available. Last year we raised spot purchases and for this year we are working out a strategy," said its head of finance A. K. Sharma.

The changes come at the expense of western majors, with Shell complaining in December that aggressive trading, conducted by Chinese companies, meant Asian crude prices didn't properly reflect the market.

"Chinese oil companies have become the new power houses in oil trading," said Oystein Berentsen, managing director of crude at Strong Petroleum in Singapore.

Previously, Asia's largest oil buyers from Japan - which once accounted for about 10 percent of global demand - stuck with long-term contracts.

Now, as China and India take the lead, a growing share of trading is done on a spot basis as buyers prioritize cost and delivery flexibility over fixed shipment schedules.

Moreover, thanks to the hefty volumes, the new buyers are able to extract favourable prices. China and India's combined daily net crude imports exceed 10 million barrels, or some 3 million bpd more than top importer the United States.

The new buyers are also bringing new characteristics to the marketplace.

"Indians are more flexible than many of their Asian peers, buying up distressed or stranded cargoes when there's a profitable opportunity," said Ivan Szpakowski, head of Asia commodity research at Citigroup.

"India will become the biggest source of oil consumption growth. Its geography also changes trade flows. If you look at a map, the Middle East is much closer to India than to Japan or China and such shipments are effectively short-haul."

In China, state-owned oil giants have been joined by nearly 20 independent refiners which have been granted import licenses and exclusively buy spot supplies.

Their arrival is changing trade flows through their preference for cheaply-delivered Russian crudes which has helped Russia challenge the Middle East as China's biggest supplier.

Not all is smooth sailing. Richard Gorry, director of JBC Energy Asia, said the rise of these traders is causing "teething problems" as they make their first deals with highly regulated international companies.

In January, a crude cargo sold to an independent Chinese refiner by western merchants Vitol and Mercuria had to be resold after the firm failed to secure financing, while this month another private Chinese company walked away from a deal to buy $680 million of Russian oil, citing "changes in the market" as a reason.

China's national oil firms are also challenging Asia's leading price benchmark, the Dubai Market-on-Close (MoC) by Platts, used to price more than 12 million bpd of crude to Asia, by frequently sweeping up almost all available cargoes, preventing other traders from participating in the pricing process.

To avoid further squeezes, Platts made more crude available in its MoC, and Dave Ernsberger, head of global oil content at Platts, a subsidiary of McGraw Hill Financial, said it "absolutely makes sense" for China to take "a much more pre-eminent role in price discovery."

Still, challengers are circling.

"The old system is no more and the creation of new systems and patterns of behaviours has begun," said Jorge Montepeque, who set up the MoC system for Platts in the 1990s and is now an independent consultant.

Keen to play a bigger part in price creation, China plans to launch Shanghai crude futures.

Other exchanges are also looking to capitalize on the change.

"China is obviously keen to have an ever greater say in pricing. At the same time, Iran is returning to the market. Firms across Asia are looking at new ways of doing business and legacy arrangements are all under review," DME's Johnson said.

FSIBL

**Syed Waseque Md Ali, managing director of First Security Islami Bank, and Quazi Osman Ali, additional managing director, present a donation cheque for Tk 15 lakh to Annisul Huq, mayor of Dhaka North City Corporation, at the mayor's office in Gulshan, Dhaka. The fund will be used for the CCTV surveillance project of the city corporation.**

## Saudi inflation soars to five-year high on subsidy cut

AFP, *Riyadh*

Saudi inflation soared to a five-year high in January after the kingdom made unprecedented cuts to public subsidies and raised fuel prices, a research report said Wednesday.

The Consumer Price Index (CPI), which reflects movements in the cost of living, rose 4.3 percent in January compared with the same month a year earlier. That compared with 2.3 percent in December, said Riyadh-based Jadwa Investment, citing official figures.

"The recent reform to energy prices meant that housing and utilities and transport were the main sources of inflation as they accelerated sharply in January," Jadwa said.

Transport sector inflation jumped 12.6 percent year-on-year last month, the highest level in 21 years, the report said.

In a bid to counter a record budget deficit due to sharp declines in oil prices, Riyadh raised fuel prices by up to 80 percent in December. It also cut subsidies to electricity, water and other services.

The world's top crude exporter posted a budget deficit of $98 billion last year and is projecting a shortfall of $87 billion in 2016.

Oil prices lost about 70 percent of their value since they began to slide in June 2014.

Jadwa said housing and utilities inflation doubled from the previous month to 8.3 percent year-on-year in January.

## Tata calls for flying abroad restriction to be scrapped

REUTERS, *New Delhi*

Indian conglomerate Tata Sons, part-owner of airline Vistara, said on Wednesday that a rule restricting new carriers from flying overseas should be scrapped because it gives an unfair advantage to foreign airlines that now dominate international air travel.

Under the government's so-called "5/20 rule", Indian airlines must be operational for five years and possess 20 aircraft before they can fly abroad.

The controversial rule, which the government is reviewing, has split Indian airlines between older carriers that can fly abroad and newer entrants like Tata's Vistara, which launched in 2015, that want to tap into lucrative overseas routes but cannot.

Tata said the rule had allowed foreign airlines, led by Gulf carriers like Etihad and Emirates, to capture 70 percent of international traffic.

"The rule is discriminatory to Indian airlines as foreign airlines that do not meet these criteria are allowed to operate in Indian skies, but Indian airlines cannot enjoy reciprocal rights," Tata said in a statement.

Vistara is a joint-venture between Tata and Singapore Airlines. Other newer entrants into India's fast-growing aviation market include AirAsia India, part of Malaysia-based AirAsia, which also opposes the rule.

India's bigger carriers include InterGlobe Aviation's IndiGo, Jet Airways and Air India.


STANDARD CHARTERED

**Abrar A Anwar, chief executive of Standard Chartered Bank Bangladesh; Aditya Mandloi, head of retail banking, and Md Hayat Khan, finance controller of Ocean Paradise Hotel and Resort, attend the opening of an ATM booth of the bank on the premises of the hotel in Cox's Bazar.**

## PM tells drought-stricken Thailand to cut rice production

AFP, *Bangkok*

Thailand's prime minister on Wednesday told farmers to cultivate less rice to help the country manage its intensifying water crisis, as experts called this year's drought the worst in decades.

Prayut Chan-O-Cha, the junta leader who grabbed power in a military coup two years ago, said his administration was working on a 20-year strategy to diversify the country's agricultural sector, which has long relied on irrigation-intensive rice production.

Thailand is one of the world's top rice exporters, but four consecutive years of below-average rainfall has drained water reserves and left irrigation channels in the heart of the country dry.

Many rice farmers are currently unable to muster enough water to plant second crops, shaving their incomes and plunging many into debt.

"We have to find measures to motivate rice farmers to change to other crops (than rice)," Prayut told reporters on Wednesday, adding that management of Thailand's "limited" water resources must be at the core of agricultural planning.

Thailand is expected to produce around 25 million tonnes of rice this year, he added, without revealing how much less rice will be grown in the coming years.

Water reserves across the country have dipped below last year's levels, which were already considered a record low, according to the irrigation department. Anond Sanidvongs, a Thailand-based climate expert, said 2016 is shaping up to be the driest in decades.

"The drought problem this year is probably the worst in 40 to 50 years," he told AFP.

Agricultural policies are often divisive in Thailand, with rice and rubber farmers pushing hard for subsidies.

The country's vast network of rice farmers in the north and northeast form a political bloc that has voted for governments led by, or aligned to, billionaire ex-premier Thaksin Shinawatra for more than a decade.

His sister Yingluck was ousted by the 2014 coup but is still wildly popular among rice farmers.

She faces a decade in prison over a rice subsidy scheme derided by critics as a populist handout to her support base.

Yingluck insists her subsidy was an effort to assist poor farmers long-ignored by Bangkok's arch-royalist elite.

They draw support from southern rubber farmers who have taken a hit as global commodity prices plunge.