SAARC Dissemination Workshop for the Study on "Promotion of the trans-border business of crude oil and POL products in SAARC member states"

Presentation 3: Identification of opportunities for trans-border trade of crude Oil and POL Products

Presenter: CRISIL Research

POL trade balance for SAARC member states till 2030

Petroleum product demand and deficit scenario for SMSs by 2030

'000 tonnes	Petroleum product demand	Domestic production of POL	Deficit/surplus
Afghanistan	4673	4132	-541
Bangladesh (excludes LPG)	13435	11250	-2185
Bhutan	381	0	-381
India	316119	348475	32356
Maldives	1121	0	-1121
Nepal	5982	0	-5982
Pakistan (excludes LPG)	50735	24617	-26118
Sri Lanka	7844	5976	-1868
	Net deficit in the region		**-5840**

Diesel demand-supply scenario for SMSs by 2030

'000 tonnes	Diesel demand	Production	Deficit/surplus
Afghanistan	1459	1859	400
Bangladesh	9961	5063	-4898
Bhutan	273	0	-273
India	133253	154035	20782
Maldives	899	0	-899
Nepal	3547	0	-3547
Pakistan	16034	10984	-5050
Sri Lanka	3674	2135	-1539
	Net surplus in the region		**4976**

- A detailed analysis of crude oil and POL products business across all SAARC member states, including developing a demand and supply outlook till 2030, suggests that other than India, rising demand for petroleum products is expected to keep all the SAARC nations dependent on imports for key POL product (including petrol and diesel).
- Significant refinery capacity additions planned to be undertaken by most of the SMSs, excluding Nepal, Bhutan and Maldives, are expected to limit the overall deficit of POL products in the SAARC region to approximately 6 million tonnes by 2030.
- The trade balance for diesel in 2030, the single largest POL product based on consumption in SMSs, comes out to be positive with net surplus in India, effectively balancing the deficit in other SMSs.
  - Amongst the other POL products, the region is expected to experience significant deficit of LPG primarily on the account of low slate in Indian refineries.

Avenues to meet the demand deficit across SAARC member nations

Crude oil slate of west coast refinery in India

Crude type	Importing from	% of total
Basrah light	Iraq	32.1
Basrah heavy	Iraq	24.8
Castilla	Columbia	20.2
Oman export	Oman	22.9

- The India’s west coast refinery (60 million tonnes capacity) can serve as one of the possible options to supply POL products to other SAARC nations and promote intra-regional POL product trade by 2030.
- This refinery is planned to be set up by IOCL, HPCL and BPCL in a joint venture in Ratnagiri district of Maharashtra, India. Recently, Saudi Aramco and ADNOC of UAE signed an MoU with the Indian oil companies to jointly hold 50% share of the refinery, while India’s IOCL, BPCL and HPCL will hold the remaining 50% stake.
- The refinery is proposed to be configured for producing 16-17 million tonnes of diesel (40-45% of the total capacity). Other products proposed to be produced include petrol, naphtha, ATF, LPG, and by-products for industrial use.
- This refinery can serve as a plausible option for balancing the SMSs demand with other SAARC member nations increasing their stake in terms of investment, crude sourcing or purchase requisition

Country-level savings through promotion of SAARC trans-border trade

Estimated petroleum product slates and prices

Product	Product slate (%)	Price ($/barrel)
LPG	3	92.8
Naphtha	10	86.6
Petrol	15	86.6
ATF	15	88.7
Diesel	45	93.3
Furnace oil	5	65.0
Other by-products	7	

- Assuming a crude oil price of ~$78-80 per barrel, international hub prices of various petroleum products are given in the above table.
- These assumptions broadly translate to a GRM of $8-8.5 per barrel and an overall operating profit of $2,400-2,500 million at current crude oil prices
- From SAARC’s perspective, if each member state contributes towards investing in the refinery or the SAARC Development Fund is utilised to make an investment in the refinery, all member states could benefit by receiving a share in overall profits

	Current exporting country	Alternate source	Expected freight savings ($/tonne)
Maldives	UAE	India's west coast refinery	7.5
Bangladesh	Singapore	India's Numaligarh oil refinery	8.2
Pakistan	Kuwait	India's Bathinda refinery	3.0

- In addition to earnings from refining margins, considering that the country-level taxation regime for imports and pricing of POL products remains the same, SAARC member states can make significant savings on freight cost while importing from other SAARC nations
- Savings on freight cost has been summarised for each country in the above table
- As Nepal, Bhutan and Sri Lanka import majority of their POL requirement from India, savings in freight for these countries have not been considered. Afghanistan is located close to Iran and is expected to continue to meet its import requirement (if any) from the Middle East

Barriers to POL trade within SAARC member states

Poor intra-regional connectivity

- Inadequate intra-regional transportation networks of road, rail, air and waterways results in high trade costs within the SAARC region.
- India, Bangladesh, and Nepal have showcased interest in addressing this issue at least amongst themselves by building cross-border pipeline routes for ferrying of natural gas and petroleum products

Political tensions between countries

- Inter-state conflicts and the bilateral interests between countries influence trade decisions within the region
- The lack of political consensus between member states has often been a hindrance towards many initiatives taken up by SAARC body to promote trade

Higher trade costs

- It has been observed that despite World Bank's effort of "Ease of doing business" to reduce trading cost, it still remains high in the SAARC region
- Trade costs are high in the region due to the lack of adequate physical infrastructure (roads, rails, ports, etc.), reliable logistics services and the presence of inefficient and outdated border procedures

Ignorance towards informal trade

- A large degree of informal trade is taking place in the SAARC region, particularly between India and its neighbouring countries with India's size, huge border and central location creating difficulties in monitoring
- If informal trade is alleviated, it would result in significantly higher intra-regional trade.

Trade financing

- While the trade finance market has seen the emergence of new institutions and agencies in other developing countries, which has led to facilitation of trade, no significant progress is visible within SAARC Region
- There is, therefore, a need for development of regional trade financing and forming institutions that can facilitate the provision of finance and credit to promote intra-regional trade.

Lack of a common energy database

- The region lacks a common energy database, which is essential for assessing potential trade opportunities within the region.
- Lack of transparency in data and moreover, availability of data creates an obstruction in facilitating trade within the region

Recommendations

Harmonisation of legal and regulatory frameworks

- A single energy regulatory body needs to be developed at the regional level to facilitate coordination in terms of pricing, taxation, promotion of private players, etc., and ensure seamless trade.

Development of a regional business treaty similar to energy treaty

- The SAARC regional energy treaty could be structured in a way in order to minimise the risks associated with energy related regional trade and focus on inter-governmental cooperation in the energy sector

Development of a regional energy trade agreement

- The members of SAARC signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by 2016. However, it has not been able to improve the trade relations of SAARC members.
- member states need to come together to develop an inter-governmental agreement which would define areas where the governments of member states shall commit to work towards regional energy trade, where trade barriers are eliminated in true sense

Harnessing of existing bilateral trade relations for promoting regional trade

- SAARC member nations already have bilateral trade arrangements among them, even though limited to a few members.
- These bilateral trade arrangements can be converted into multilateral trade arrangements. India could become a supplier of petroleum products to each of the other SAARC nations through a common multilateral agreement

Promoting funding of projects through a common development fund and private participation

- The SAARC development fund assume the role of a multilateral financial institution for the region, with active support from member countries
- Deregulation and private investments can pave a long way in development of POL infrastructure and trade promotion, as can be seen in countries like India and Pakistan where deregulation has led to significant improvement in the POL business.

Building an integrated infrastructure

- The west coast refinery planned in India could serve as a regional refinery, to cater to the import requirements of all the neighboring countries
- Joint procurement of crude oil to feed their refining infrastructure will enable SMSs in reaping benefits from economies of scale

Conclusion

The SAARC region comprises some of the fastest growing economies in the world, which would result in strong growth in energy demand, and subsequently, POL demand in future. Even though this region is deficit in crude oil, it can effectively overcome the following barriers to indigenously meet the POL products demand by promoting cross-border trade. The barriers include:

- Lack of adequate finances to fund capital intensive projects
- Lack of proper cross-border infrastructure and cooperation among member nations to facilitate regional trade

Developing a cohesive regulatory and legal structure and promoting private sector participation can help surmount these barriers.

Regional cooperation in trade has resulted in significant economic benefits in certain regions. SAARC has similar potential in terms of earnings and savings. So far, the progress has been limited to bilateral cooperation to promote inter and intra-regional trade in petroleum products. However, political will, coupled with improved harmonised institutional, legal and regulatory framework, and wider opportunities for private sector participation, can accelerate the pace of trade within the region. Such an integrated structure, supported by strong POL intra-regional infrastructure, will pave way for improving the trade scenario within the region.

Thank You