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Indian refiners seek term contracts reducing reliance on spot purchases

19 Jul 2023 CW Team

According to sources familiar with the matter, India's public sector refiners, Indian Oil Corporation (IOC), Bharat Petroleum Corporation (BPCL), and Hindustan Petroleum Corporation (HPCL), are actively seeking crude oil term contracts with favourable terms. This move is aimed at reducing the reliance on spot cargoes for their oil imports and diversifying their crude supply basket due to the unpredictable and volatile nature of the international oil market.

India, being the world's third-largest consumer of crude oil, depends on imports to fulfil more than 85 per cent of its requirements. Currently, approximately 70 per cent of the public sector refiners' oil imports are through term deals, while the remaining portion is obtained through spot purchases. Spot contracts involve immediate purchases from suppliers or traders with short delivery cycles, whereas term contracts are long-term agreements with fixed volumes and pricing mechanisms.

In April, the largest refiner in India, IOC, signed a significant term contract with Russian oil major Rosneft. The supply volume was not disclosed. BPCL is reportedly in discussions with Rosneft to finalise a term deal for approximately six million tonnes of Russian crude annually. Additionally, efforts are underway at the government-to-government level between India and Guyana to secure oil supplies from the Caribbean nation, and negotiations are ongoing with Iraq for improved payment terms, as Iraq is already a major crude supplier to India. Last year, IOC also entered into term contracts with Brazil's Petrobras and Colombia's Ecopetrol.

In recent years, Indian refiners had increased their reliance on spot purchases to take advantage of low spot prices when global supplies were abundant. However, prior to 2015, spot purchases accounted for less than 20 per cent of the public sector refiners' oil procurement. Spot purchases are typically beneficial for refiners when supplies are plentiful and prices are declining. However, in times of high price and availability volatility, term contracts provide a more secure supply and an agreed-upon pricing mechanism.

Since Russia's invasion of Ukraine in February 2022, the global oil market has experienced significant volatility. While the volatility has subsided to some extent, concerns have arisen due to recent production cuts by major oil producers in an effort to stabilise crude oil prices. This has led to expectations of a tighter market and higher spot prices in the future.

It is worth noting that India's increased imports of Russian oil over the past 15 months, making Moscow the largest supplier of crude to New Delhi, have primarily been through spot contracts. Russia has offered lucrative discounts to attract buyers, especially after many Western buyers began avoiding its oil. However, Indian refiners' interest in term contracts for Russian crude has grown significantly as the market tightens and competition for discounted Russian barrels, particularly from China, intensifies.

An official from one of the public sector refiners emphasised the importance of supply assurance in a scenario with high oil prices and a scramble for cargoes in the spot market. They stated, "When there is an abundance of oil available at low prices, spot contracts are advantageous. However, in an environment of high prices and fierce competition in the spot market, supply assurance becomes paramount."

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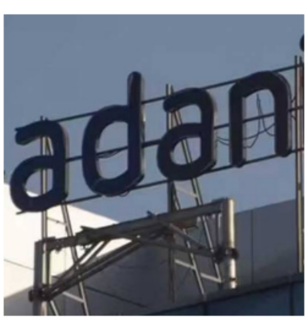

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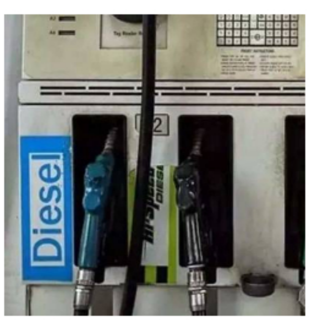

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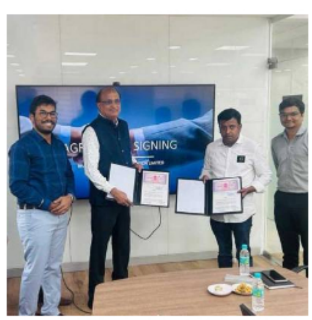

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