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Low Oil Price can Fund India's Growth

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Brexit has come out to be yet another foe for the oil producing nations. The gradual price gains in the beleaguered crude oil market have been hammered down again.

The fast changing petroleum world order is forcing nations to churn out new growth strategies. United States, once scared of the 'Peak Oil' and 'End of Cheap Oil' phenomena, has made an unimaginable comeback as the top oil producing country in the world through its shale oil production. In the process it also triggered a glut of oil that threatens to submerge the economies of many oil producing nations. Economies like Venezuela, Iran, Libya and Russia etc are gasping for breath and striving to stay afloat. Brazil, Canada and Saudi Arabia have also gone cold. The price wars often lead to losses for the industry. The fight for market share between 'Sheikh and Shale' has done the same to the petroleum industry. The crude oil price that hovered around $100 per barrel during the period 2011-14, fell drastically in this process and is currently languishing around $48. Low prices have forced companies to defer project spending worth $200 bn, implying lower supplies of oil in future. Venezuela, the country with highest proved reserves of oil, is unable to earn adequate revenue to keep its producing oil fields operational. Oil producing nations are looking for ways to wriggle out of the clutches of economic distress. Ramifications of very low prices could be many, as diverse as crippling renewable energy industry, currency wars and tumultuous global financial markets. Wonder what will happen to global financial markets if Saudi Arabia withdraws its savings from US Treasury?

Recently, stung by the rising fiscal deficit due to falling oil revenues, Saudi Arabia, the largest oil exporting nation, has declared to end its addiction to oil. Deputy Crown Prince Mohammed bin Salman declared “We will not allow our country ever to be at the mercy of commodity price volatility or external markets.” The new strategy comes in terms of transforming Saudi Arabia into a global investment power through raising the capital of its public investment fund to 7 trillion riyals ($2 trillion) from 600 billion riyals ($160 billion). Though much of the detail about how this is to be achieved is yet not available, but, disinvestment of Saudi Aramco, by less than 5 per cent, is on cards.

Increased avenues of oil supply for India

India finds itself in a sweet spot in the global economy today. When the world is reporting gloom from all around, India has managed to secure an enviable growth of 7.6 per cent in 2015-16. This makes it the fastest growing economy in the world. Further, the ageing and slowing China has enabled India to be adjudged as fastest growing crude oil consumer in the world through 2040. It would be adding 6 million barrels per day (mbpd)of demand compared to 4.8 mbpd for China. Last year, India consumed around 4 mbpd of crude oil and this year, it is expected to surpass Japan as the third largest crude oil consumer of the world. Saudi Arabia can certainly be a close ally for India to satisfy the additional oil demand. Even, in the depressed oil price regime, let us note that Saudi Arabia continues to pump more oil. With increased supplies from Iran and Iraq, Saudi will find it only more difficult to market the additional oil it pumps. Innovative strategies are being adopted by these countries to market their oil. In Feb 2016, UAE’s Abu Dhabi National Oil Company (ADNOC) decided to store crude oil in India’s new 1.5 million tonnes-Mangalore strategic petroleum reserve. It is reported to be used as a wholesale storage capacity and will be sold to the Indian refiners whenever needed. The ‘Asian Premium’ that Indian refiners had to pay has already been removed. India has already taken steps to diversify its portfolio of oil imports, Russia being one of the beneficiaries. Russia too has been showing a more benevolent face in order to sell oil and stakes in oilfields. This is quite a contrast to the stern attitude it showed during the high oil price regime. India can hope for getting a good deal from Saudi Arabia in such circumstances. Saudi has also been the largest supplier of crude oil for India for pretty long. It supplied as much as 40 mt of crude oil (20 per cent of crude oil import of India) and 3 mt of LPG(28 per cent of LPG import) during 2015-16. Recent visits by our Prime Minister and Petroleum Minister to Saudi makes a strong case towards that.

Investment flows into India

The developed world largely constructed its infrastructure during cheap oil period. India is indeed fortunate that the energy prices, which once seemed to remain menacingly high, have eased adequately to fuel its infrastructure growth. This is an opportune moment for India to further strengthen the ties with Middle East countries for getting investments in Indian refineries, petrochemicals, ports and other infrastructure. Saudi Arabia, in its pursuit of becoming global investment power can’t ignore India as an investment destination. The Saudi budget of 2016 is stated to have a spending cut of 13.8 percent from 2015, despite that, as per Barclay’s, the country is expected to reach a budget deficit of 12.9 percent of GDP in 2016. Saudi Arabia desperately needs to augment its income and India happens to be the fastest growing economy. Among the BRICS, India is the only one recording higher growth. Rupee has done better than most currencies in recent past. India also needs huge amount of investment to finance the 'Make in India' plans. So, the stage seems to be set for good synergistic relationship between the two countries. India has already benefitted in low oil price regime through lower inflation, fiscal deficit and current account deficit, it further seems to be benefitting from the increased avenues of oil supply and investments into the country.

About Dr. V.P.Singh

Dr Vikas Prakash Singh is the Program Director of PGPM (Energy) at, Gurgaon. Dr Singhdid MBA, specializing in Energy, from University of Houston, USA and did his PhD from University Business School, Panjab University, Chandigarh. He has more than 20 years experience in socio-economic research and teaching. He has conducted more than 20 management development programs for leading organizations in Energy domain like Central Electricity Authority (CEA), IOCL, Shell and Cairn etc. He has several publications including articles on Energy sector in leading business newspaper. Prior to joining Great Lakes, DrSingh was Head of the PhD Program at University of Petroleum & Energy Studies. He has also headed their Economics and International Business Departments.

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