



POTEN & PARTNERS

March 12
2021

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POTEN TANKER OPINION



India Goes Shopping

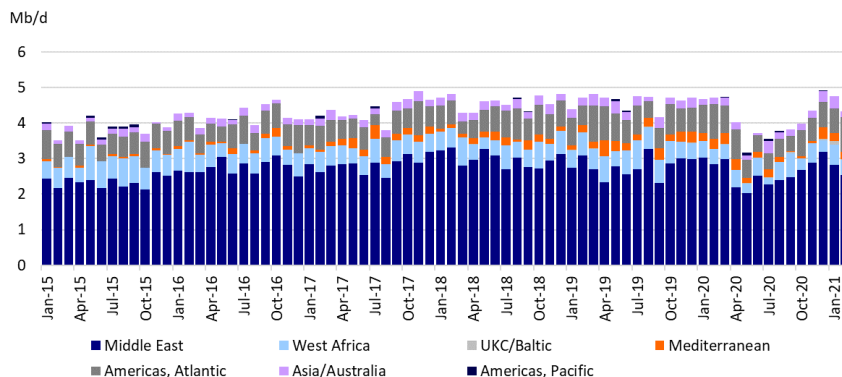
How will India's diversification drive impact crude tankers?

In terms of oil demand and impact on the tanker market, India has long been overshadowed by China. There are two key contributing factors that explain the difference. First, China's economy and oil demand has grown much more quickly in recent decades, partly because they had a much larger population and faster GDP growth. However, that may be about to change. India's population is growing much faster than China's. Various international organizations such as the World Bank and the United Nations estimate that India's current population growth rate is in the range of 1.2-1.3%, while China's population growth has slowed to about 0.5% per annum. At this rate, India's population could overtake China's as early as 2022. By 2030, India's population may be 50-100 million larger than China's. The second reason that tanker owners traditionally follow China's oil demand much more closely than India's is the proximity of the latter to the Middle East. India has traditionally bought the vast majority of its crude from their next-door neighbors in the Middle East. A barrel of crude going from the Arabian Gulf to India generates much less ton-mile demand than the same barrel going to China. That is why the recent reports that India intends to reduce its dependence on Middle East OPEC and buy more crude oil from suppliers in the Atlantic Basin is music to the ears of the tanker owners.

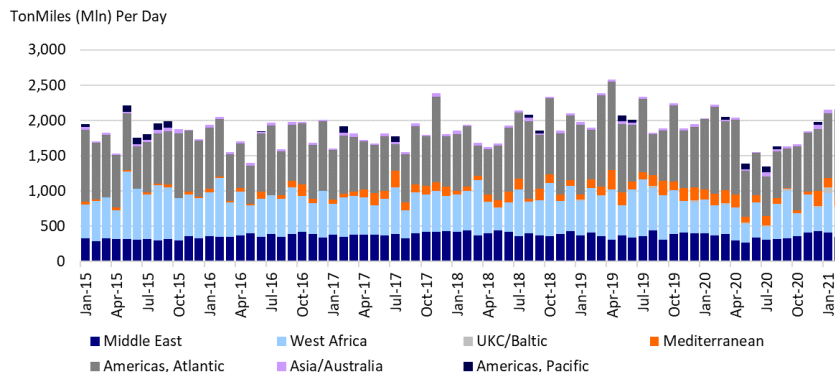
Lloyds List Intelligence oil import data since 2015 shows that India's crude oil imports have grown steadily from around 4.0 Mb/d in 2015 to about 5.0 Mb/d in early 2020, before Covid-19 hit. Oil imports dropped to 3.2 Mb/d in May 2020, before recovering to 5.0 Mb/d by the end of the year. During this 5-year period, the average market share of Middle Eastern producers in Indian imports was 63%. This was also the approximate market share of the Middle East in 2020.

As we mentioned above, the Indian government has asked domestic refiners to speed up the process of diversification of oil imports to gradually cut their dependence on the Middle East. To some extent this seems to be happening already. In the first quarter of 2021, India imported more crude oil from the Atlantic Americas (primarily from the US Gulf), raising their share from an average of 15% to more than 20%. Lower volumes from the Middle East reduced their market share to 56%. The Middle East will likely remain the dominant supplier of crude oil to India because of its proximity (providing delivery flexibility) and because the Indian refineries like to process the medium to heavy Middle Eastern grades. However, even a small change in preferences away from the Middle East towards longer-haul suppliers such as the U.S., Brazil or Guyana can have a disproportionate impact on the tanker markets because of the ton-mile effect.

Seaborne Crude Imports By India - (In M Bbl/day)



Seaborne Crude Imports By India - (In M TonMiles/day)



Source: Lloyd's List Intelligence

While Middle Eastern producers have historically supplied more than 60% of India's crude oil needs, the market share of this region in term of ton-miles is much smaller. Due to their proximity, Middle Eastern producers only represent 20% of India's ton-mile demand. The aforementioned Americas Atlantic generate more than double the ton-mile demand (44%). In the first quarter of 2021, their market share increased to above 50%, while the Middle East only represented 16%. More crude from the U.S. and a resumption of imports from Venezuela as well as from new sources such as Guyana could further boost India's ton-mile demand.

The switch in imports from short and medium haul suppliers to more long-haul producers will likely also mean that Indian refiners will gradually switch to using more VLCCs and less Aframax and Suezmax tankers, especially since the Indian prime minister recently announced a long-term plan to invest \$82 billion in port infrastructure.

Over the coming decade, India will likely become much more important for the tanker market. A growing population and solid economic growth will boost energy demand, while the planned expansion of India's Strategic Petroleum Reserve will also contribute to tanker demand.