Date: 20/11/15 **ATLANTIC REPORT NO 38/15**

SUB: LIQUID/DRY COMMODITIES SCENARIO/PORT AND OTHER DEVELOPMENTS –INDIA

We give below our report on the subject for your kind info and record:

A) LIQUID COMMODITIES SCENARIO

1) OILTRADERS PREPARE FOR THE NEXT BIG PRICE DROP IN MARCH 2016

Oil traders are preparing for another downward turn in prices by March 2016, market data suggests, as what is expected to be an unusually warm winter dents demand just as Iran's resurgent crude exports hit global markets after sanctions are ended. Crude futures have already lost around 60 percent of their value since mid-2014 as supply exceeds demand by roughly 0.7 million to 2.5 million barrels per day to create a glut that analysts say will last well into 2016. Mild winter weather over the coming months could see weak heating demand in the U.S. and Europe.. This "would likely be the trigger for adjustments through the physical market, pushing oil prices down to cash costs. A recent steep rise in March put option positions tied to a $35-per-barrel strike price in Brent and West Texas Intermediate (WTI) crude suggests traders agree with the bank and expect the major benchmarks to slump in coming months. persistently high U.S. shale oil output that producers aren't allowed to export could overwhelm the country's storage tanks, which are already filled with near-record inventories. Compounding the production glut is an expectation of a mild winter as a result of an El Nino weather pattern, which is expected to limit heating oil demand. The market may also have to accommodate a rapid rise in Iranian oil exports if sanctions are lifted, which many analysts say could happen in the first half of 2016. One option to deal with the glut would be to use crude oil tankers for storage. High tanker rates and a relatively flat price curve make floating storage unattractive for now, however, so analysts say spot prices would have to drop further to make storing crude on ships a viable market strategy.

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2) OIL MINISTRY WANTS CESS ON CRUDE OIL TO BE SCRAPPED OR REDUCED

The oil ministry wants the cess on crude oil to be scrapped or reduced as it is a huge burden on companies in a low price regime and is not being used to develop the sector, but the finance ministry does not relish the prospect of losing about Rs 16,000 crore a year which the levy brings. Oil producers such as Oil and Natural Gas Corporation, Oil India and Cairn India have been lobbying the government to reduce cess that has been hurting profitability since crude oil prices started crashing in the middle of 2014. Prices have plummeted two-thirds since then, but the cess has remained unchanged at Rs 4,500 per tonne. At a recent meeting, top officials at the finance ministry, which collected Rs 15,934 crore as cess on crude oil in 2014-15, sought to know from their counterparts in oil ministry if the loss from the proposed scrapping or reduction of cess could be recovered from an alternative source of taxation. "The aim behind introducing oil cess was to gather additional revenue that could be used to develop the hydrocarbon sector. But for a long time now the entire amount goes directly to the Consolidated Fund of India. The sector gets nothing," an official said, explaining the rationale behind the oil ministry's proposal. But even as the cess may not directly be spent on the cause it might have been instituted for originally, the government does support the sector by partly subsidising state-run oil retailers for selling fuel at below-market rates. A sharp drop in oil prices and a deregulation of petrol and diesel sales have, however, dramatically shrunk the government's oil subsidy burden. The oil ministry also put forward the industry demand of switching to an ad valorem cess, computed as a percentage of the product price, instead of a fixed cess as at present, in order to lower cess burden. The oil producers have been seeking a switch to 8% ad valorem cess that could significantly cut companies' liability.
The finance ministry officials were also lukewarm to a few other proposals by the oil ministry such as including petroleum products in the ambit of goods and services tax and extension of some income tax exemptions to oil and gas companies, people privy to details of the meeting said. The ministries of oil and finance haven't been on the same page on another critical issue lately - gas price premium. Last year, the government had promised to offer a premium on the domestic price of the gas produced from difficult fields but a difference of opinion between the two ministries has long delayed this. It's not unusual for administrative ministries to pitch for fiscal reliefs for the firms in their sector but the finance ministry, as a custodian of national finances, is resistant to ideas that can hurt government revenues.

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3) MRPL AIMS TO START 100,000 BPD CRUDE UNIT FROM SATURDAY (21/11/15)

Mangalore Refinery and Petrochemicals Ltd expects to operate its 100,000 barrel per day (bpd) crude unit, representing about a third of the plant's overall capacity, at a full rate from Saturday. MRPL had shut the crude unit on Friday due to a minor fire inside the vacuum heater, Director of Refinery, told Reuters on Tuesday. "We have taken necessary action ... and we hope to operate the unit at full capacity by Saturday," He said. MRPL operates a 300,000 bpd coastal refinery in southern state of Karnataka.

B) DRY COMMODITIES SCENARIO

1) INDIA TO IMPORT 10,000 OF SOYAMEAL

As international prices have dropped sharply below domestic rates, India, which used to be a major exporter of soyameal, has entered into contracts to import around 10,000 tonnes. Indian soyameal is selling at over Rs 35,000 a tonne in the domestic market, while in international markets it is available at less than Rs 31,500 per tonne**.**

2) GOVT ALLOWS POWER PLANTS TO IMPORT COAL WITH HIGHER ASH CONTENT

The government has allowed power plants to use imported coal with higher ash content of up to 25 per cent, a move which will allow power producers to source the dry fuel from more countries and cut generation cost. Power producers are demanding review of the ash content restriction for efficient utilisation of high grade, low-moisture coal imported from Australia, South Africa and Russia. In a February 2013 order, the Environment Ministry had restrained ash content in imported coal up to 12 per cent which, according to the Association of Power Producers, forced power plants in the coastal region to use only Indonesian coal. The Environment Ministry said in its latest order, "It has now been decided that the ash content in imported coal for ultra-mega power projects shall be maximum 25 per cent subject to conditions

C) CONTAINER SERVICES- NIL

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D) PORT DEVELOPMENTS

1) NEW MANGALORE PORT LATEST DEVELOPMENTS

The latest developments of New Mangalore Port as under:

- HPCL is shifting their LPG discharging arms from j.no.12 to 13 and expect to complete this plan in February 2016.
- M/S JSW steel Ltd., Mumbai, planned to import 6.5 MMT of Iron Ore Fines and Iron Ore Lumps from South Africa. They are also planning to bring bigger parcel size vessels for discharging at Mangalore, lightning up to 14 M draft at anchorage through barges and berthing at 14W , the discussion is under progress with the Port Authorities.
- New Jetty construction started for the general cargo planning to a deeper draft berth up to 18 M.
- MRPL planning to export their production of pet coke and sulphor from December 2015 onwards.
- JBF petro chemicals planning to export their Poly Prophelin products from 2016 onwards.
- Mangalore Chemicals and Fertilizers Ltd planning to import abt 1,00,000 Mt of Sulphoric Acid per year.

2) KRISHNAPATNAM PORT FORCE MAJEURE CONDITIONS

Please find attached herewith Circular received from Krishnapatnam Port on the above subject.

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3) STATE-OWNED PORTS TO TURN CORPORATE ENTITIES IN TWO STAGE REFORM

The shipping ministry has drafted a two-stage plan to convert 11 of the 12 ports owned by the Union government into corporate entities from the existing trustee setup in a much-delayed structural reform of these harbours that handle about 57% of the country's overseas cargo shipped by sea. As a first step, these so-called major ports—Chennai, Cochin, Jawaharlal Nehru port, Kandla, Kolkata, Mumbai, New Mangalore, Mormugao, Paradip, V.O. Chidambaranar and Visakhapatnam—will be brought under a new law called Major Port Authorities Act, 2015. Currently, these 11 ports function as trusts under a law framed more than five decades ago called the Major Port Trusts Act 1963. Kamarajar Port Ltd is the only exception in this regard. Kamarajar, which runs the port at Ennore near Chennai, was formed as a company under the companies law of 1956 when it was opened in 2001. The 12 ports loaded a combined 581.34 million tonnes (mt) of cargo in the year to March, clocking a year-on-year growth of 4.65%.

E) OTHER DEVELOPMENTS

1) SHIP OPERATING COSTS TO RISE OVER NEXT TWO YEARS

The cost of operating cargo ships is forecast to rise over the next two years after falling in 2015, according to the latest Ship Operating Costs Annual Review and Forecast 2015/16 report published by global shipping consultancy Drewry. The average decline in ship operating costs across the sectors covered in the report in 2015 was 1.0%, but for ships that are big consumers of lube oils, the decline in overall costs was closer to 2%. Weak freight markets have forced ship owners to trim costs, while they have also been able to take advantage of falling commodity prices and lower insurance costs. "Operating costs are likely to rise in the future, as the scope for further cost cutting is in most cases quite limited. However, the expected increases in 2016 and 2017 are likely to be modest in nature as we anticipate only small rises in the cost of lube oils and other commodities.

F) WEATHER/STRIKE- NIL

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G) INTERNATIONAL HIGHLIGHTS

1) AUSTRALIA APPROVES SHELL'S TAKEOVER BG GROUP

Royal Dutch Shell's planned mega-takeover of British rival BG Group cleared another hurdle as Australia's competition commission said it would not oppose the move amid gas market concerns. It means Shell's 55-billion pounds (USD 84-billion, 79 billion-euros) takeover of BG remains on track for completion in early 2016. BG Group plc confirms that the recommended cash and share offer for the company to be made by Royal Dutch Shell has received unconditional merger clearance from the Australian Competition and Consumer Commission, a BG statement said. Separately, ACCC chairman said the "proposed acquisition would be unlikely to substantially lessen competition in the wholesale natural gas market, in either Queensland or eastern Australia more broadly".

Thanks and Regards

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