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ATLANTIC REPORT NO 17/19

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) INDIA LINES UP ALTERNATIVE SOURCES, SUPPLIES MAY NOT BE HIT

India, the second biggest buyer of Iranian oil, has lined up alternative sources to make up for the likely shortfall in supplies after the US decided not to give waiver from its sanctions for buying oil from the Persian Gulf nation. Our crude sources are wide. We have alternative sources lined up to make up for any shortfall," a top source said. US Trump President Donald last year withdrew from the 2015 nuclear deal between Iran and world powers and revived a range of sanctions against the Persian Gulf nation. It, however, granted a six-month waiver from sanctions to eight countries — China, India, Japan, South Korea, Taiwan, Turkey, Italy and Greece — but with a condition that they would reduce their purchases of Iranian oil. India, which is the second biggest purchaser of Iranian oil after China, had agreed to restrict its monthly purchase A top source said India has tied up with a number of suppliers to make up for any shortfall from Iran to 1.25 million tonne or 15 million tonnes in a year (300,000 barrels per day), down from 22.6 million tonnes (452,000 barrels per day) bought in 2017-18. "We have optional volumes (over and above the term contracts) from a number of supplier which we can exercise to make up for any shortfall from Iran," the source said. "We can also go to the spot (or current) market to source crude." "As far as Indian Oil is concerned, supplies will not be a problem. We have already lined up alternative sources," he said adding the impact of the US decision may reflect on global oil prices which may temporarily go up. IOC has the option to take 0.7 million tonne of crude oil from Mexico on top of its committed purchase of 0.7 million tonne during the year. From Saudi Arabia, it has an optional volume of 2 million tonne on top of a term contract of 5.6 million tonne. Similarly, it has optional volumes of 1.5 million tonne from Kuwait and another 1 million tonne from the UAE.

Ashford Centre, 5th Floor, Opposite Peninsula Corporate Park, Shankarrao Naram Marg, Lower Parel, Mumbai - 400 013.
Tel.: +91 22 66677300 Fax: +91 22 24965215
www.atlanticshpg.com
Regd. Office: 124-B, Mittal Court, 224, Nariman Point, Mumbai - 400 021. (INDIA)

1) INDIA LINES UP ALTERNATIVE SOURCES, SUPPLIES MAY NOT BE HIT (Contd)

"We have all the supplies tied up and I think globally crude will be readily available but it is difficult to say what the impact will be on price," the source added. India, the world's third biggest oil consumer, meets more than 80 per cent of its oil needs through imports. Iran in 2017-18 was its third largest supplier after Iraq and Saudi Arabia and meets about 10 per cent of total needs. Iranian oil is a lucrative buy for refiners as the Persian Gulf nation provides 60 days of credit for purchases, terms not available from suppliers of substitute crudes — Saudi Arabia, Kuwait, Iraq, Nigeria and the US.

2) DOMESTIC CRUDE OIL PRODUCTION DIPS 6.1% IN MARCH, NATURAL GAS OUTPUT INCHES UP 1.2%

Domestic crude oil production during March 2019 stood at 2.85 million tonne. This is 6.16 per cent lower when compared to March 2018. Natural gas production during March 2019 stood at 2815.96 million standard cubic meters (mscm) which is 1.20 per cent higher than gas production during March 2018. But domestic refinery production (a measure of the total crude oil processed) during March 2019 was 22.495 million tonne which is 6.51 per cent higher when compared with March 2018. This means higher imports of crude oil and more pressure on the exchequer. Cumulative crude oil production during April-March 2018-2019 was 34.20 million tonne which is 4.15 per cent lower than the cumulative production during the corresponding period of last year. Cumulative natural gas production during April-March 2018-2019 stood at 32873.37 mscm which is marginally higher by 0.69 per cent when compared with the production during corresponding period of last year. Cumulative refinery out pur during the April-March 2018-2019 period was 257.20 million tonne which is 2.09 per cent higher than the cumulative production during the corresponding period of last year. There was lower crude oil production by Oil and Natural Gas Corporation (ONGC) during the period under review due to subsea leakage, electric submersible pump (ESP) problems and loss of production due to the absence of a mobile offshore processing unit. Oil India Limited (OIL) reported lower production during March 2019 due to loss from bandh and miscreant activities in operational areas. There was also less than planned contribution from work over well and drilling wells. Lower natural gas production by ONGC was because of a decline in pressure/potential in some reservoirs. OIL said that there was lower natural gas production because of loss of potential in Deohal area due to presence of CO_2 in production stream. There were also losses from bandh and miscreant activities in operational areas of oil.

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2) VEDANTA'S EXPANSION PROJECT IN RAJASTHAN GETS GREEN NOD

Mining moghul Anil Agarwal's Vedanta Ltd has received environment clearance for the expansion of its oil and gas operation in Rajasthan that would entail an investment of Rs 12,000 crore, according to an official circular. The proposal is to expand onshore oil and gas production from the existing 3,00,000 BOPD (barrels oil per day) to 4,00,000 BOPD and 165 mmscfd (million standard cubic feet per day) to 750 mmscfd from the 'RJ-ON-90/1' block located in Barmer and Jalore districts, Rajasthan. The Union Environment Ministry gave the final clearance to the proposed expansion project after taking into account recommendations of an in-house expert committee. The environment clearance (EC) is, however, subject to compliance to certain conditions. The EC certificate has already been issued to Vedanta Ltd, the document showed. The estimated project cost is Rs 12,000 crore. The company aims to implement the project in a phased manner during seven years. The project involves oil augmentation to produce up to 4,00,000 BOPD and 250 MMSCFD of associated gas from the oil field and natural gas augmentation to produce up to 500 mmscfd. Total area of the oil and gas block is 3,111 sq km. Out of it, the project presently covers an area of 1,501.7 hectare in Barmer and Jalore districts. Additional 150 hectare of land in Barmer district will be used for the proposed expansion, the company said in its proposal. The 'RJ-ON-90/1 block' comprises of Vedanta Ltd and state-run ONGCNSE -0.24 % for hydrocarbon exploration, development and production activities in the block, while Cairn Oil and Gas division (part of Vedanta Group) is the operator of the block.

B) DRY COMMODITIES SCENARIO

1) COAL IMPORTS JUMP 9% TO 234 MT IN FY19

India's coal import increased by 8.8 per cent to 233.56 million tonnes in 2018-19, according to a report. Coal imports were at 214.61 MT in 2017-18, according to provisional data by mjunction services, based on monitoring of vessels' positions and data received from shipping companies. Mjunction, a joint venture between Tata Steel and SAIL, is a B2B e-commerce company that also publishes research reports on coal and steel verticals. "India's coal and coke imports during 2018-19 through 31 major and non-major ports are estimated to have increased by 8.83 per cent to 233.56 million tonnes (MT) (provisional) as compared to 214.61 MT (revised) imported in 2017-18," it said. Non-coking coal imports were at 164.21 MT in FY2018-19, about 13.25 per cent increase over 144.99 MT recorded in FY2017-18. Coking coal import was almost flat at 47.73 MT compared to 47.22 MT in 2017-18. "The double-digit growth in thermal coal imports during 2018-19 was on expected lines and caused by the coal shortage at power plants until recently. In contrast, the bearish trend in steel consumption and prices, especially during the fourth quarter, restricted coking coal import," mjunction MD and CEO Vinaya Varma said.

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1) COAL IMPORTS JUMP 9% TO 234 MT IN FY19- (Contd)

"Thermal coal import is likely to remain subdued in the near term, but may rebound if PLF (plant load factor) in thermal power plants goes up post-monsoon," Varma added. Coal imports during March 2019 were at 19.93 MT (provisional), against 18.02 MT in the corresponding month of 2017-18. Coal Minister Piyush Goyal had earlier urged state-run Coal India to pledge self-sufficiency in production to eliminate import of the dry fuel. The government has set a target of 1 billion tonne of coal production by 2019-20 for the mining major, but is considering relaxing the timeline.

C) CONTAINER SERVICES-NIL

D) PORT DEVELOPMENTS

1) NEW MANGALORE PORT TRUST REGISTERS TEPID TRAFFIC GROWTH IN 2018-19

New Mangalore Port Trust (NMPT) handled 42.5 million tonnes (mt) of traffic in 2018-19 as against 42.05 mt in 2017-18, recording a growth of 1.07 per cent. Cargoes such as crude oil and containers contributed significantly to the traffic during 2018-19. The total crude oil handled at the port increased to 27.57 mt in 2018-19 as against 24.90 mt in the previous fiscal. Of this, crude handling for ISPRL (Indian Strategic Petroleum Reserves Ltd) stood at 0.70 mt during 2018-19. It was not there in 2017-18. During 2018-19, the cargo handled for OMPL (ONGC Mangalore Petrochemicals Ltd), a subsidiary of MRPL (Mangalore Refinery and Petrochemicals Ltd), witnessed a growth of 14.20 per cent. NMPT handled 1.01 mt of OMPL cargo during 2018-19 as against 0.88 mt in 2017-18. The coal cargo handled by the port came down by 3.01 per cent during 2018-19. NMPT handled 6.46 mt of coal during 2018-19 as against 6.66 mt in the previous fiscal. Of this, the share of coal handled for UPCL (Udupi Power Corporation Ltd) stood at 2.19 mt (2.49 mt) during the period. The IOP (iron ore pellets) cargo came down by 4 per cent during the fiscal. The port handled 2.27 mt of IOP cargo for KIOCL Ltd (formerly Kudremukh Iron Ore Company Ltd) during 2018-19 as against 2.37 mt in 2017-18. The container cargo handled at the port recorded a growth of 13.95 per cent in terms of TEUs (twenty-foot equivalent units) and 10.10 per cent in terms of tonnage. The port handled 1,31,613 TEUs of containers during 2019-19 as against 1,15,498 TEUs in the previous fiscal. In terms of tonnages, it stood at 1.91 MT (1.74 MT) during the period.

2) VOC PORT TRUST PLANS THIRD CONTAINER TERMINAL

VO Chidambaranar (VOC) Port in Thoothukudi plans to have a third container terminal with current handling capacity set to reach its maximum by end of this fiscal at the two private terminals. However, the Port Trust is in a fix on identifying the right concession model to be offered to the new operator considering that two different models — royalty and revenue share — are already in vogue at the Port. PSA SICAL Container Terminal, which runs a container terminal since 1992, operates on a royalty-based model while the Dakshin Bharat Gateway Container Terminal (DBGT), operating since 2014, is on a revenue-sharing model. Together, the two terminals are expected to reach maximum capacity of 1.2 million TEUs (twenty foot equivalent units) by the end of this financial year, thus warranting a third terminal.

E) OTHER DEVELOPMENTS

1) WILL NOT EXTEND SANCTIONS ON CHABAHAR PORT PROJECT: US TO INDIA

The US Department of State has informed India it will not be seeking to extend sanctions on the Chabahar port project, in which India has heavily invested — both financially and diplomatically. Apart from increasing India’s trade with nations in the Persian Gulf, the Chabahar port is also the starting point of the international north-south transport corridor (INSTC), and the US wants to see trade benefits reach Afghanistan and central Asia via the route, a senior foreign affairs ministry official said on Wednesday. “Both sides had discussed the Chabahar issue comprehensively in September last year, when the 2+2 dialogues were held in the presence of US Secretary of State Mike Pompeo and US Defence Secretary Jim Mattis. Now, Washington DC has reiterated its position of not putting investments made by India into the development of the Chabahar port into the sanctions list,” he added.

2) UAE’S ADNOC INKS PACT WITH INDIANOIL

The UAE’s state-run oil company ADNOC has signed a long-term sales agreement with the Indian Oil Corporation for its high-quality base oil ADbase. Indian Oil will use the ADbase oils to manufacture high-end engine oils for India’s automotive sector, the Abu Dhabi National Oil Company (ADNOC) said. We look forward to working with IndianOil and to increase supply of ADbase to the Indian market, said Ahmad Bin Thalith, acting Senior Vice- President of Refined Products Sales, in ADNOC’s Marketing, Supply and Trading Directorate.

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F) WEATHER/STRIKE- NIL

G) INTERNATIONAL HIGHLIGHTS

1) BP SHIPPING: SIX NEW STATE-OF-THE-ART LNG VESSELS

British Partner, British Achiever, British Contributor, British Listener, British Mentor and British Sponsor have all joined the BP Shipping fleet. Each ship can carry a cargo of LNG equivalent in volume to 69 Olympic sized swimming pools and they deliver this low carbon energy to customers with 20% less CO2 emissions when compared to industry benchmarks. BP Shipping has more than 30 years' experience operating LNG ships. When BP Shipping designed the vessels to support IST operations, they had to consider operational flexibility, energy efficiency and new and more challenging port calls and canal transits. Enabling technology, ship/shore compatibility and increased ship manoeuvrability were key focus areas. The technology on-board these vessels places BP Shipping as a technical leader in LNG transportation. Don't just take BP Shipping's word for it, the ships have been proven to exceed expectations in terms of operational flexibility, efficiency and reduction of waste. From a business benefit perspective, the ships are already confirmed as being 25% more efficient than industry benchmarks at the time of contract award and they are the first BP Shipping LNG carriers to be accredited under BP's Advancing Low Carbon programme. International Gas within IST is our primary customer and feedback from them has been excellent. Tom Pollock LNG Analyst told us: " Based on analysis of gas trials data we are now seeing a reduction in fuel consumption when compared to our previous Helios award winning LNG carriers, the Gem Class." Fuel consumption is a major contributor to running costs and this is a huge saving amounting to approximately $20 million less spend per ship per year.

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