Our View: India Drives the End of the Asian Premium

Philip Verleger
February 12, 2024

Those who follow oil focus primarily on producers and suppliers. Past proposals to create buyer cartels or other consumer attempts to decrease oil prices have been discounted or ridiculed. Market followers' attention stays riveted on oil producer actions, especially those of Saudi Arabia. They give little or no consideration to buyers.

Those selling oil cannot afford to be so myopic. For years, Saudi Aramco has carefully adjusted its pricing formulas as needed. It also has used its geographic location and large reserves to extract an "Asian premium" from buyers there.[1] As this month began, however, the company surprised observers by not raising its Asian formula as expected. Argus Media provided the details:

> Suddenly, it's all about market share in Asia. The Saudi decision to keep most official formula prices stable for March-loading cargoes—instead of increasing them as commonly followed metrics suggested—adds further weight to a possible shift in the country's marketing policy. Riyadh faces growing competition from other supply sources and has ceded share in its bid to balance the market and support prices.[2]

The data are compelling. Again, the Asian premium seems to be over.

The Energy Intelligence Group expressed the same view:

> Saudi Aramco kept the official selling price (OSP) for its crude to Asia steady this month, surprising market players that had expected sales prices to rise.
>
> State-controlled Aramco cut 20¢ per barrel off the March loading Asian formula price for its heavier Arab Medium crude and trimmed 5¢/bbl from the price for Arab Extra Light. The OSPs for Aramco's other crudes were unchanged from the previous month.
>
> Some market sources told Energy Intelligence they saw Aramco's move as a push for market share. Saudi Arabia and other Opec-plus producers face stiff competition this year from increasing supply from producers outside the alliance at a time when global demand growth is thought to have slowed following the post-pandemic recovery.[3]

---

[1] *Tilak K. Doshi and Neil Sebastian D'Souza, "The 'Asia Premium' in Crude Oil Markets and Energy Market Integration" in Yanrui Wu, Fukunari Kimura, and Xunpeng Shi (eds.),* Energy Market Integration in East Asia *(Routledge, December 2013) [http://tinyurl.com/2brj5caf].*

[2] *"Opinion: Customer relations," Argus Media, February 9, 2024.*

[3] *Freddie Yap, "Steady Saudi Price Surprise Asian Buyers," Energy Intelligence, February 6, 2024 [http://tinyurl.com/z65e3ayy].*

India's emergence as the key source of growth in global oil demand contributed to the Saudi change in attitude. As Bloomberg noted,

> The world's third-biggest oil importer behind China and the US, India is set to be the single largest source of global oil demand growth between now and 2030 thanks to a booming economy, growing middle class and youthful demographics, according to the International Energy Agency.[4]

Unlike China, India takes an aggressive approach to oil buying. For example, it increased its purchases from Russia after the United States and European Union banned that country's exports to take advantage of lower prices. This allowed it to cut its buying from the Middle East. In a CNBC interview, India's energy minister proclaimed that the world had benefited from India's actions:

> India keeps global crude prices affordable by buying oil from Russia, India's energy minister said.
>
> "The world is grateful to India for buying Russian oil. It's not that they don't want us to buy Russian oil," India's Minister of Petroleum and Natural Gas Hardeep Singh Puri told CNBC's Sri Jegarajah on the sidelines of the India Energy Week conference in Goa.
>
> "If we start buying more of the Middle Eastern oil, the oil price will not be at $75 or $76. It will be $150," he added.[5]

India's aggressive strategy will likely be copied elsewhere in Asia, the primary market for Middle Eastern oil. China's economic slowdown and that nation's decisive move to cut fossil fuel use will further limit the growth of demand for Middle Eastern crude. This drop and Russia's need for alternative markets will make the global oil world more competitive.

Saudi Arabia's belated decision to enter the competitive fray will probably not restore its market dominance. Instead, oil producers confront a situation where this power is more equally distributed between buyers and sellers.

In 2022, Middle Eastern suppliers captured fifty-four percent of the Indian market, which dropped to around forty-five percent in 2023.[6]

These shares will decline further in 2024 and 2025 as more Canadian oil enters the Asian market (see our February 5 *Notes at the Margin*). The UAE will also be putting additional supplies on the market. According to a February 4 comment published by the US Energy Information Administration,

---

[4] *"India Relaxed About OPEC+ Cutting Oil Output, Minister Says," Bloomberg, February 9, 2024 [http://tinyurl.com/54xvpr74].*

[5] *Lee Ying Shan, "'World is grateful': India keeps oil prices cheaper by buying from Russia, Indian oil minister says," CNBC, February 8, 2024 [http://tinyurl.com/5n9bzwz3].*

[6] *Verma (see note 6).*

> The UAE national oil company, the Abu Dhabi National Oil Company (ADNOC), has set a target to increase crude oil production capacity to 5 million b/d by 2027, moving up its earlier 2030 target by three years, according to the Middle East Economic Survey.[7]

The country's current output is 2.9 million barrels per day.

We expect the UAE to push more oil into the Asian market. Iran will also likely pursue Chinese buyers to avoid the sanction impacts.

The increased supplies into an Asian market that will likely stagnate in 2024 due to China's economic woes raises the possibility that the Asian premium will vanish permanently. Indeed, the market-share battle between exporters such as Canada, Iraq, Russia, Saudi Arabia, and the UAE could create an "Asian discount" in which buyers there pay less for crude than Atlantic Basin customers. The struggle for market share could even drive prices below $60 per barrel.

In the end, oil price stability will probably depend on Saudi Arabia. The Saudis supply approximately twenty-three percent of the imported crude processed in Asia, perhaps over six million barrels daily. Maintaining the current price range between $75 and $80 could require them to reduce exports by five to ten percent. Whether they will accept a smaller market share remains to be seen. India is forcing the issue.

[7] *US EIA, "United Arab Emirates invests to meet 2027 oil production capacity goal," Today in Energy, February 5, 2024 [http://tinyurl.com/56zffxuv].*