Our View: Goodbye to the Asian Premium

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Asia was once the guaranteed market for Middle Eastern crude oil, essentially serving as a piggy bank for producers like Saudi Arabia. The Asian buyers were stuck because high transportation costs prevented suppliers such as Russia, African exporting nations, and the North Sea from competing.

The situation has changed. The competition for Asian buyers has become intense due to the diversion of Russian oil to the area, efforts to break the Middle East monopoly, the rise in US exports, the completion of Canada's Trans Mountain Expansion, and the declining petroleum demand in China and California. The breakdown of the Middle East's dominance could destabilize the global market.

The Asian premium for crude oil has existed for more than half a century. Before 1973, Asian buyers—primarily Japanese oil companies—paid higher prices for Middle Eastern crudes because the supplies they relied on were controlled by European and US multinational oil companies that could and did extract more from them.

In 2018, India attempted to break the premium. India's petroleum minister announced at an international energy forum in New Delhi that China, India, and other nations would coordinate to "voice against the Asian premium."[1]

India's effort to "voice" opposition led nowhere. In fact, as oil prices rose in 2021 Saudi Arabia snubbed the country by refusing to offer price concessions. The *Times of India* reported that "Opec and its allies ignored India's plea to ease production control" despite the Indian oil minister's concern that rising prices would depress his country's economic growth:

> Responding to a question on India's pleas, Saudi energy minister Pirce Abdulaziz bin Salman at a press conference after the OPEC+ decision on Thursday said New Delhi should take some of the crude out of storage that they had purchased at very cheap rates last year.
>
> "With regard to India, very simple. I would ask my friend that he withdraw some of the cheap oil that they bought in April, May and June.[2]

India did not follow the Saudi's orders. Instead, it diversified its oil supplies. As can be seen from the table below, the country reduced the share of its oil imports from Middle Eastern countries from 86 percent in 2011 to 28 percent in 2023.

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[1] Rose McReid, "The Future of the 'Asian Premium,'" IndraStra, April 20, 2018 [https://tinyurl.com/yzdnzuhu].

[2] "Opec ignores India's call; Saudi asks New Delhi to use cheap oil it bought last year," *The Times of India*, March 5, 2021 [https://tinyurl.com/5n7wt6v5].

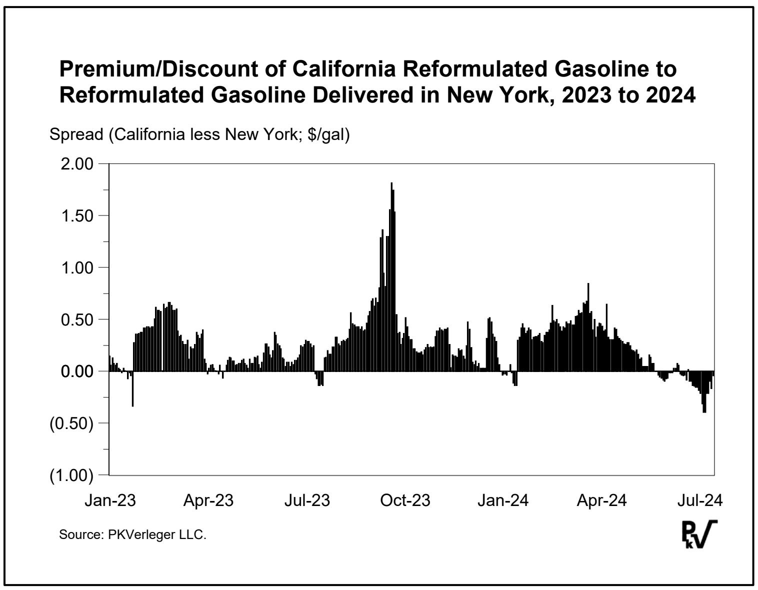
Total Indian and Chinese Crude Oil Imports from Middle East Suppliers (Million Tons) and Middle East Share of Total Imports				
			Middle East Share (%)	
	India	China	India	China
2011	177.9	328.1	86.3	42.0
2015	211.1	422.1	64.7	40.4
2018	211.1	422.1	64.0	43.6
2019	221.7	507.2	32.9	44.4
2023	231.0	563.9	27.9	46.3

Source: *Statistical Review of World Energy*, various issues.

In its efforts to wean itself off Middle Eastern oil, India benefited substantially from the sanctions imposed on Russia after it invaded Ukraine. Russian exports, now blocked from Europe, found a home in India. The volumes to India rose from less than one million tons in 2015 to almost fifty million tons (almost one million barrels per day) in 2023.

The expansion of Canada's Trans Mountain pipeline (TMX) further benefits China and India, posing yet another threat to the Asian premium. China is already importing up to 170,000 barrels per day from Canada with a recent price discount of more than $6 per barrel.

At the same time demand for oil is falling in the Pacific region. Attention has recently been focused on China's economic slowdown. A second slowdown is occurring on the eastern shores of the Pacific as electric vehicles cut into gasoline use in California, Oregon, and Washington. A key indicator of the slowdown can be seen in the sudden decline in California gasoline prices. Historically, spot California prices have traded at a large premium to prices in New York. In recent weeks, though, California prices have slumped to a small discount to New York, as can be seen in the figure here.



The Arab premium seems to be gone for good. OPEC's piggy bank has been broken.