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The Fall of Asian Premium, And the Rise of New Energy Corridors

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According to the latest Refinitiv Eikon data, the Western sanctions on Russian and Iranian crude have caused cheap fuel to be channeled into Asia, leading to a decline in the long-standing trend of Asian countries paying more for energy than Europe.

Analysts and officials in consumer countries have used the term *"Asian Premium"* to refer to the higher prices paid by Asian importers for oil from major exporters like OPEC members, who are primarily behind this discriminatory pricing mechanism, which is used to subsidize Western buyers at the expense of Asian buyers. This phenomenon has been observed for several decades, with prices for OPEC-pumped oil often being 10-15% higher in Asia than in other regions. But, reducing the *"premium"* for Asia due to the sanctions can be seen as an economic boost, an unintended consequence. Additionally, the sanctions have resulted in an increase in the price of natural gas for Europeans.

> *It's safe to say that some major consumers in Asia, most notably India and China, are the major winners of the sanctions.*

- Ole Hansen, Head of Commodity Strategy, Saxo Bank

As per Kpler's data, Russia's increased crude sales to Asia have resulted from Western sanctions, with the amount sold being more than double that of the previous year ending in January. Iran, also under US sanctions, has increased its exports to their highest level in three years, with China being the largest buyer.

Refinitiv Eikon data shows that Europe is selling crude oil to Asia at a discount of minus $24, while it is being sold at a price a few dollars below the benchmark dated Brent in Europe. However, some anonymous industry sources suggest that the discount could be narrower, ranging from $10 to $15 per barrel.

If a refinery in India that processes 200,000 barrels per day; buys crude oil at a discount of approximately $15 per barrel compared to its European rival, it would save around $3 million per day on its purchases. This would result in savings exceeding $1 billion on an annual basis. Earlier in February, Hardeep Singh Puri, India's oil minister, said the country would keep buying from Russia if prices *"continue to be good."*

Certainly, China and India have benefited greatly from this ongoing development, and they still continue to benefit even as the discount has decreased. However, concerns arose when the European Union was planning to enforce a ban on importing Russian crude and also implement a pricing system in collaboration with the G7 to ensure adequate supply in the market. There was a fear that the pricing system would not serve its intended purpose.

It is particularly significant that Asian buyers are collaborating with Russian insurance and shipping companies based in the United Arab Emirates (UAE) to provide coverage for shipments that their Western counterparts would reject. This has been occurring even before the price cap was established.

Besides that, Western insurers can only provide coverage for Russian oil if it sells below the cap, and there is scant information regarding the proportion of total exports for which coverage has been provided to date. Nevertheless, there are always alternatives, and the UAE is emerging as one of them, with traders, insurers, and shippers all able to transport crude wherever it is required.

Parallel Developments

1. India's Reliance Industries Limited. has relocated most of its oil traders from Mumbai to Dubai, executing a 2021-announced plan that now coincides with the city's increasing

prominence as a commodities hub following Russia's invasion of Ukraine.

2. Rosneft, the largest oil producer in Russia, and Indian Oil Corporation, the largest oil refiner in India, agreed to use the Asia-focused Dubai oil price benchmark in their most recent agreement to deliver Russian oil to India. The decision by the two state-owned companies to abandon the Europe-dominated Brent benchmark is part of a shift in oil exports from Russia to Asia in post-Ukraine invasion scenarios.