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# TODAY'S ANALYSIS

## (05 September 2024)

### TOPICS TO BE COVERED

- PM MODI'S VISIT TO BRUNEI
- WHY OIL PRICES REMAIN SUBDUED?
- INDIA'S OIL IMPORTS FROM RUSSIA
- MCQs



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## PM MODI'S VISIT TO BRUNEI

**Prime Minister Narendra Modi began a landmark two-day visit to Brunei Darussalam on September 3, 2024.**

This visit is the **first bilateral trip by an Indian Prime Minister to Brunei** and is significant as **both nations celebrate 40 years of diplomatic relations.**



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## KEY HIGHLIGHTS

### 1. Arrival and Welcome:

- **Date:** September 3, 2024
- **Details:** PM Modi arrived at **Bandar Seri Begawan Airport** and was warmly received by Sultan Haji Hassanal Bolkiah and Crown Prince Al-Muhtadee Billah.
- **Significance:** The visit is **historic** as it marks the **first bilateral trip by an Indian Prime Minister to Brunei.**

### 2. Objectives of the Visit:

- **Focus Areas:** The visit aims to **explore new areas of cooperation in sectors including defense, trade, investment, energy, space technology, health, capacity building, culture, and people-to-people exchanges.**
- **Diplomatic Engagements:** PM Modi will meet with Sultan Haji Hassanal Bolkiah and other members of the Brunei Royal family to deepen bilateral relations.

### 3. Historical Context:

- **Past Interactions:**
  - Modi and the Brunei Sultan **first met in 2014 during the ASEAN Summit in Nay Pyi Taw and again in Manila in 2017.**
  - **The Sultan's previous state visits to India were in 1992 and 2008.**

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- **Previous Indian Visits:** In 2013, then **Prime Minister Manmohan Singh** visited Brunei for the **ASEAN-India Summit**.

#### 4. Economic and Cultural Ties:

- **Indian Community:** Approximately **14,500 Indians** live in Brunei, working in various sectors including **oil and gas, construction, and education**.
- **Defense Cooperation:** Indian naval and coast guard ships have regularly visited Brunei, and Indian defense companies participated in a recent Defense Industry Exposition in Brunei.

#### 5. Diplomatic Significance:

- **40th Anniversary:** The visit coincides with the **40th anniversary of diplomatic relations between India and Brunei**.
- **Support for Indian Policies:** Brunei has **supported India's 'Look East' and 'Act East' policies**, playing a significant role in ASEAN engagement.

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### OVERALL ANALYSIS:

- **Bilateral Relations:** The visit to Brunei emphasizes India's commitment to strengthening ties with ASEAN nations and advancing cooperation in various sectors.
- **Strategic Importance:** The visit aligns with India's Act East Policy and the Indo-Pacific Vision, reinforcing its strategic partnerships in the region.
- **Diplomatic Strategy:** Modi's engagements reflect a multifaceted approach, combining high-level diplomatic meetings with cultural and community interactions.

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## WHY OIL PRICES REMAIN SUBDUED?

Recently, **oil prices** have shown some **volatility** due to a **political dispute in Libya**, which **has significantly curtailed the country's oil output**.

### KEY FINDINGS:

- On **early Friday**, Brent crude oil futures were priced slightly over **\$80 per barrel**, marking a **5% increase from a week earlier**.
- However, **prices have since dipped back below this level**.
- Despite ongoing geopolitical issues in the **Middle East and Libya**, oil prices remain **relatively calm compared to recent historical averages**.

### FACTORS CONTRIBUTING TO SUBDUED OIL PRICES

#### 1. Ample Global Oil Supply:

- Current Supply Dynamics:** The global oil market is well-supplied. Key oil-producing countries, including **Brazil, Canada, Guyana, and the United States**, are ramping up **production**. This increase **counters the production cuts imposed by the Organization of the Petroleum Exporting Countries (OPEC)** and its allies, who have **reduced output by approximately five million barrels per day (bpd), or about 5% of global demand**.

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- **Impact of Supply on Prices:** The substantial oil supply available in the market helps to restrain prices. According to Jim Burkhard from S&P Global Commodity Insights, the **ample supply, even with geopolitical concerns, has minimized their impact on prices.**

## 2. Geopolitical Factors:

- **Libya's Political Crisis:** Libya's ongoing political turmoil has led to a significant **reduction in oil production.** The power struggle between the internationally recognized government in **Tripoli and the rival administration in eastern Libya, which controls most of the oil fields, has led to the shutdown of more than 60% of the country's oil production,** amounting to approximately 750,000 bpd.
- **Market Reaction:** Despite these disruptions, the **global oil market has only experienced a modest price increase,** reflecting that the shutdown represents less than 1% of global oil supplies. **Analysts expect that the political standoff will either resolve quickly or continue impacting the physical oil market,** potentially driving prices higher if the disruption persists.

## 3. Expected Increase in Oil Production:

- **OPEC's Production Plans:** In June, **Saudi Arabia and its allies within OPEC agreed to gradually reintegrate up to 2.5 million bpd back into the market starting**

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**in October.** The decision's execution will be closely monitored, as it is critical for balancing global supply and demand.

- **Saudi Arabia's Concerns:** Saudi Arabia faces a delicate balance. **While there is pressure from member countries like the UAE, Iraq, and Kazakhstan to increase production to justify their investments,** a rapid increase could potentially overwhelm the market and depress prices.

#### 4. Slowing Demand:

- **China's Role:** Global oil demand is projected to grow by about one million bpd in 2024, a significant decrease from the previous year's growth. **This slowdown is largely due to reduced consumption in China, which has historically driven a substantial portion of global oil demand increases.**
- **Shift to Electric Vehicles:** China's transition to electric vehicles (EVs) is expected to reduce diesel and gasoline demand in the coming years. The International Energy Agency (IEA) notes that **without the rise of EVs, global oil demand would be around 800,000 bpd higher.**

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## INDIA'S OIL IMPORTS FROM RUSSIA

India's imports of Russian crude oil, which have been a major component of its oil supply, experienced a decline in August compared to July's near-record levels.

This decrease is attributed to a combination of factors including:

- Reduced oil demand due to the **refinery maintenance season** and
- A **decrease in the availability of Russian oil for export.**

### INDIA'S TOP CRUDE SUPPLIERS

Source market	August oil imports	Change vs July	August market share
Russia	1.80 mn bpd	-14.5%	39.9%
Iraq	0.85 mn bpd	6.7%	18.8%
Saudi Arabia	0.55 mn bpd	-16.6%	12.2%

Source: Kpler

### THE OIL IMPORT IN NUMBERS

- **August Data:** India's imports of Russian oil fell by **14.5%** in August, reaching 1.80 million **barrels per day (bpd)**. This drop was a result of both lower demand and

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reduced availability of Russian crude for export. **Despite the decline, Russian oil still constituted 39.9% of India's total crude oil imports for the month.**

- **Overall Oil Imports:** India's total crude oil imports also saw a decline of 0.32 million bpd, settling at 4.52 million bpd for August.

## EXPECTED TREND IN THE COMING MONTHS

- **September Outlook:** Oil imports, including those from Russia, are **expected to remain subdued in September due to refinery maintenance shutdowns.** However, imports are projected to recover in October as refining capacity returns to normal levels and the festival season drives up fuel demand.
- **Future Production:** Russia is also expected to experience its own period of refinery maintenance, which may impact oil availability. **Nevertheless, oil imports from Russia are likely to increase again in October,** contingent upon the outcome of these maintenance activities.

## CHANGES IN SUPPLY FROM OTHER SOURCES

- **Iraq:** India's imports from Iraq, its **second-largest oil supplier,** increased by 6.7% sequentially to 0.85 million bpd in August. Iraq's market share of India's oil imports rose to 18.8% in August, up from 16.5% in July.

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- **Saudi Arabia:** Conversely, oil imports from Saudi Arabia declined by 16.6% sequentially to 0.55 million bpd. Saudi Arabia's market share decreased to 12.2% from 13.7% in July. The decline is partly due to the higher cost of Saudi crude compared to Russian and Iraqi oil.

## HISTORICAL CONTEXT & PRICE SENSITIVITY

- **Historical Suppliers:** Prior to the Ukraine conflict, Iraq and Saudi Arabia were the **top suppliers of crude oil to India**. The West's shift away from Russian oil post-2022 invasion led to increased Russian crude imports, facilitated by significant discounts offered by Russia.
- **Urals Crude:** Urals crude, a medium-sour oil from Russia, remained a **major component of Indian imports**. In August, 1.26 million bpd of Urals crude was imported, making up 70% of the total Russian oil imports to India.
- **Price Sensitivity:** India, as the **world's third-largest consumer** of crude oil with an import dependency exceeding 85%, remains highly sensitive to oil prices. Despite shrinking discounts on Russian crude, Indian refiners continue to buy Russian oil due to the overall cost benefits associated with large volumes.

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## MCQs

1. Consider the following statements and mark the correct one:

1. PM Modi is the first ever PM of India to visit Brunei.

2. The visit of PM Modi will impact India's Act East Policy.

(A) Only 1

(B) Only 2

(C) Both 1 & 2

(D) Neither 1 nor 2

**Ans. (B)**

2. Consider the following statements and mark **how many** of them are correct?

1. Brunei & India established diplomatic relations in 1984.

2. Brunei is important for India from its Indo Pacific vision.

3. Brunei is a member country of ASEAN.

(A) Only 1 statement is correct.

(B) Only 2 statements are correct.

(C) All the statements are correct.

(D) None of the statements are correct.

**Ans. (C)**

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3. Which of these factors are responsible for subdued oil prices in 2024?

1. Decreasing demand of oil due to a shift towards EVs.
2. Geopolitical Conflicts.
3. Supply Chain disruptions
4. Oversupply of oil.

(A) 1, 2 & 4

(B) 1 & 2 only

(C) 1, 3 & 4 only

(D) All of the above



**Ans. (A)**

4. Which country has been India's top supplier of oil in 2023-24?

(A) Iraq

(B) Saudi Arabia

(C) Russia

(D) None of the above

**Ans. (C)**

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5. Consider the following statements and mark the correct one:

1. Saudi crude oil is costlier than the Iraqi crude oil import for India.
2. India's less than 80% of petroleum consumption is imported.

- (A) Only 1
- (B) Only 2
- (C) Both 1 & 2
- (D) Neither 1 nor 2

**Ans. (A)**



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