

## **1. Sharp Fall in Oil Prices is Opportunity for India to Increase Stockpile**

### **Context:**

- Oil prices continue to decline globally, with crude hitting multi-decade lows, as global demand evaporates.

### **Slump in Oil Prices:**

- The Economic Consequences of COVID-19 are going to be drastic for India and the world. Global oil markets have been severely disrupted.
- While WTI does not feature in India's basket, Brent Crude Oil, which does, is trading around \$25 a barrel, the lowest in 18 years
- Given India's growth aspirations and lack of self-sustaining oil production, a sharp reduction in oil prices is a bonanza.
- Normally, reduced oil prices would translate into surplus for the consumers and a fiscal bonus for the government through increased tax collections.
- However, given that the demand for petrol has slumped, those gains will not accrue right away.
- But India should look at this as an Opportunity to strengthen its energy security by buying oil and filling up our Strategic Petroleum Reserves (SPR)
- Considering that India was the third-largest consumer of energy in the world, as well as the third-largest importer of oil in 2018, we are particularly vulnerable to oil price fluctuations.
- The dramatic reduction in oil prices offers a once-in-a-generation opportunity for us to fill up our reserves in an extremely cost-effective way.

### **What is Strategic Petroleum Reserves?**

- To ensure energy security, the Government of India had decided to set up 5 million metric tons (MMT) of strategic crude oil storages at three locations namely, Visakhapatnam, Mangalore and Padur (near Udupi).
- These strategic storages would be in addition to the existing storages of crude oil and petroleum products with the oil companies and would serve as a cushion during any external supply disruptions.
- In the 2017-18 budget, it was announced that two more such caverns will be set up **Chandikhole in Jajpur district of Odisha and Bikaner in Rajasthan** as part of the second phase.

- The construction of the Strategic Crude Oil Storage facilities is being managed by **Indian Strategic Petroleum Reserves Limited (ISPRL)**, a Special Purpose Vehicle, which is a wholly owned subsidiary of Oil Industry Development Board (OIDB) under the Ministry of Petroleum & Natural Gas.

### **Concerns regarding SPR:**

- In India, the SPR arrangement between the oil refineries and the Union or state governments is not specified well, though most of the refineries that hold stock are publicly-owned companies
- In fact, a breakdown of which refineries hold SPR and in what form (crude or refined) or information about where they are located is not Publicly Available.

### **Steps need to be Taken:**

- Introduce transparency and accountability in relation to the SPR. The procedures, protocols and facts about Indian SPR storage require greater public and parliamentary scrutiny.
- There should be timely and reliable dissemination of information
- SPR reserves are meant to be used in emergencies, where time is likely to be of the essence.
- The SPR mobilisation process could be made more efficient by laying out designated roles for different agencies to avoid redundancies in times of crisis. There should be role and process clarity regarding SPR mobilisation.
- In order to mitigate risks better, **India should look to Diversify its SPR Holdings.** Diversification can be based on geographical location, storage location, and product type (oil can be held in either crude or refined form).
- Storage and Transportation costs Could be saved by Diversifying Geographically

### **Conclusion:**

- Energy is vital to India's aspirations for growth. The sharp fall in the price of oil presents an opportunity for the Union government to increase its SPR stockpile and achieve a Degree of Energy Security.

**Source: The Indian Express**