

Time to fill up India's strategic oil reserves

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Strategic Petroleum Reserve

India's energy consumption is rising, and it is highly dependent on imported crude oil. According to recent estimates, oil import dependence was 77 per cent in 2012; it is forecast to rise to 81–91 per cent by 2027, and reach 96 per cent by 2047 ('Least Effort' Scenario, India Energy Security Scenarios, 2047). In recognition of the risk of interruption to physical supplies, India began working towards a Strategic Petroleum Reserve (SPR) in 2008. The first phase of its oil storage facilities, with a capacity of 5.3 million tonnes (Mt) (38.85 million barrels) is

likely to be ready for commissioning in the first half of 2015; construction on the second phase, with a capacity of 12.5 Mt (roughly 90 million barrels) has been approved by the government. The facility is being constructed by Indian Strategic Petroleum Reserves Limited (ISPRL), a 'Special Purpose Vehicle' owned by the government's Oil Industry Development Board. While the cost of construction of the first phase has been US\$635 million, the second phase is likely to cost US\$2.2 billion.

Strategic Petroleum Reserves (SPR) guard against short-term energy supply disruptions and are therefore considered

a leading way of enhancing a country's physical supply security. IEA member countries are required to keep minimum oil stocks equivalent to 90 days of oil imports. Although oil stocks are generally not released to manage oil prices (the IEA's intention is to stabilize the market and release stocks only in case of physical shortages), it may be possible to use the stored oil to offset a spike in oil prices, especially for developing countries which have administered oil prices.

Energy supply disruption and releases of strategic reserves

The IEA collectively responded during

The decision on how to finance the initial cost of oil purchase is therefore one which is based on a perceived assessment of the future price of oil. It is clear that the Indian government is looking to defer the cost of oil purchase to leverage the time value of money, which is short-term thinking. While the government's concern on financing the initial cost of oil purchase is genuine, the advantages of initial filling of crude oil storage tanks using government funds will far outweigh the costs in the long run. Many options exist for the Indian government to fund this oil purchase, and other countries have done so already.

- ISPRL could approach banks for a loan to fund this investment. Such a

loan could be backed by guarantees from the Indian government and the arrangement would allow ISPRL to borrow at lower interest rates than those prevailing in the market, due to sovereign backing.

- Bonds could be issued by the stockholding agency (ISPRL) to raise money from the domestic or international market. Such bonds could have government backing and may be sweetened with additional tax breaks to attract large institutional investors.

The running expenses for maintaining storage facilities will be small in comparison with the initial cost of oil purchase and can easily be funded from the central government budget, although options exist to levy either

a fee on downstream Oil Marketing Companies (OMCs), or a direct tax on the final product (which will eventually be paid by the customer).

Importance of energy security

In the present scenario, the building of strategic oil reserves by India is an important component towards achieving 'energy security' in both the physical and fiscal sense. Market conditions have offered a unique opportunity to Indian energy planners to fill the strategic storage facilities with cheaper crude oil. India should ride on this crest of low oil prices and inch towards matching the emergency response mechanisms which are mandated for IEA member countries.

