

Strategic Petroleum Reserve

You get to realise the role a commodity play in our lives when its hard to get. Same thing happened when demonetisation occurred on the night of 8th November 2016. When your ceased to be legal 500 and 1000 tenders were made to be accepted at ROs, LPG depots along with other basic needs like milk et all. India as a country which imports almost 80% of the country's liquids demand, surely needs to take its supply - demand issues seriously.

Based on EIA estimates, India's total liquid fuels consumption in 2015 reached more than 4 million barrels per day (b/d), compared with about 1 million b/d of total domestic liquids production. And it is definitely not a seasonal consumption, the demand for crude oil and petroleum products is going to be increasing and further aggravating the country's oil import dependance. However, the future need not be as gloomy as it looks; the tides can be changed with a stable political situation and really accessible markets.

Fortunately, the government started to work towards it. First move was to diversify its crude oil import states from the existing Middle Eastern countries which accounts for 58% (in 2015) to adding countries like Africa and Latin America in the bucket. Secondly, by using the weak global crude prices on our advantage. Government is spending about Rs 4,948 crore to shore up what are called strategic oil reserves, which can be used in emergencies, if crude imports are disrupted.

The Petroleum ministry carved out a detailed plan in midst of low global crude oil prices and increasing domestic demand to enhance the strategic oil reserve capacity over the next five years. the erstwhile Planning Commission (now NITI Aayog), in its Integrated Energy Policy, 2006, also highlighted supply, market and technical risks as major threats to India's energy security. It recommended that India "maintain a reserve equivalent to 90 days of oil imports for strategic-cum-buffer stock purposes".

With the ultimate goal to have an SPR which would provide 90 days of net import coverage. The Government has indicated its plans to add another 91 million barrels of SPR capacity by 2020 in a second phase. To carry forward the decided and planned goals, the Indian Strategic Petroleum Reserves Limited (ISPRL), a special-purpose legal entity owned by the Oil Industry Development Board, would take the management responsibilities. Presently, under Phase - I program of Strategic Petroleum Reserve of underground rock caverns for storage of 5.33 million tons of crude oil at three locations - Vishakhapatnam (1.33 million tons), Mangalore (1.50 million tons) and Padur (2.5 million tons) have been created.

India is seeking finance the Phase - II of its SPR to speed up construction and filling of its SPR. For Phase - I also, an Expression of Interest has been invited for any one or more compartments of the storage facility at Padur. Also, The United Arab Emirates' (UAE) Abu Dhabi National Oil Company (ADNOC) will store crude oil in India's 1.5 million tonnes - Mangalore strategic petroleum reserve using it as a wholesale storage capacity and sell to the Indian refiners whenever needed.

Although, India has provided investment incentives for foreign investors to store crude oil in its facilities and reduced availability of storage space scenarios are also playing some role. But, companies are waiting for regulatory issues like local taxes and ban on crude oil exports to be settled. Some of the prominent issues of upstream sector are being tried to be tackled by the government. The introduction of HELP and call for revenue sharing model rather than cost recovery model would likely to ease down the pressure on companies w.r.t. drilling costs.

The concept of strategic petroleum reserve is not something which is very new as a concept although late but it will definitely provide a commercial angle. The offered storage options however on lower side will make ISPRL to create its stand in the international oil markets, with the with the option of releasing inventory when prices surge and recharging reservoirs whenever the crude is on a downcycle. The available storage facilities for West Asian refiners would reduce their freight costs to South Asian markets as well. It seems apart from growing demand, India will also make its place as a influential countries in terms of storage capacities.