Dealing with India's Oil Import Dependence

What is the issue?

With India's rising dependence on fuel imports, it has to adopt some strategic measures for it to survive during a crisis and prevent any macro instability.

How dependent is India for oil?

- India imports over 80% of its crude oil and the largest sources are Iraq, Saudi Arabia and sanctions-hit Iran.
- Overall, India’s import dependency in its energy mix has risen sharply from 21% in 2000 to 36% in 2015.
- It could be as much as 50% in 2040 even if energy production domestically grows faster than it has in the past.

What is the current challenge?

- As India modernises its economy, it will move away from older, less dense forms of energy such as biomass to more dense ones.
- But India largely lacks proven resources of oil, gas and metallurgical coal on the scale it requires.
- However, the consequence of this continued dependence for the external balance and for overall macro-economic stability is unwelcome.
- E.g. a spike in the price of oil drives up domestic inflation, stresses the fiscal deficit
- It can also drive India close to a crisis in terms of its balance of payments, as it did in 1991 and nearly did in 2013.

How feasible and effective are other alternatives?

- **Coal** - India does have extensive resources of coal, but not all of the proven reserves are of the quality needed.
- In order to ensure that Indian coal burns relatively cleanly, it would have to be processed or washed.
- But this can greatly add to water stress in the area around a coal plant.
- Areas already short of water, such as say Vidarbha in Maharashtra, can hardly afford a cluster of new coal-fired plants.
- Moreover, the effect of coal-fired plants’ emissions on greenhouse gas concentrations and the direct health effect on people also need to be taken

into account.

- India may well be dependent on coal for many years into the future, but certainly alternatives will have to be found.
- **Renewable energy sources** are a major source of hope, especially as they are currently competitive in terms of variable costs.
- However, solar and wind power are not perfect substitutes for current energy sources, given that they are variable in terms of output.
- Wind farms produce power when the wind is blowing, and solar farms when the sun is shining.

What should India do?

- India will have to think strategically about the effect of continuing import dependence.
- In terms of survival during a crisis, India needs to ensure that there are sufficient reserves on its own soil.
- The strategic oil reserves being set up in cooperation with the UAE and Saudi Arabia are a good step in that direction.
- In terms of preventing macro instability, it must be ensured that the balance of trade becomes healthier.
- India needs to ensure that exports grow sustainably for it to stay confident to pay for imported fuel.

Source: Business Standard

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