India's Energy Options - Falling Oil Prices

What is the issue?

- Amid widespread demand destruction, the price of Brent crude oil has fallen to around $30 a barrel.
- The COVID-19 pandemic is only enhancing the earlier-observed trends in the market and so, India needs to assess its energy options.

What are the evolving trends in oil market?

- The United States is now a leading oil producer.
- It may become the world's largest oil exporter in just 5 years.
- This is aided by the fact that its crude oil production has increased by 160% since 2008.
- In comparison, the domestic demand has remained steady there.
- India alone has increased its imports of US crude oil 10 times since 2017.
- Major global oil producers agreed on production cuts after considerable effort and expending political capital.
- Russia and Saudi Arabia agreed on production cuts only when the pandemic took hold and affected global demand.
- Even then, they have not made a great difference to the price.
- While Riyadh needs a price of closer to $80 per barrel, Russia is well aware that it needs a price of only $40 to balance its books.
- So, Russia has every incentive to return to production soon, once the global economy moves out of its current depressed stage.
- Given the structural changes, the Indian government should re-examine its assumptions about the country's energy mix.

Is coal an option?

- A major strategic and economic criterion for energy has always been a desire to use bountiful domestic reserves of coal.
- But domestic coal resources are never going to be sufficient, given the inferior quality of the current production.
- Many coal producers in Indonesia and Australia continue to believe that India will have import demand.
- In addition, many existing independent power producers are facing financial trouble.

- Also, only few new plants will be built in the private sector, given the difficulties of obtaining financial closure.
- There is also the impact of more coal mining in densely forested tracts and on local communities in those areas.
- The public health cost to populations near thermal power plants is also a factor.

What then should India's strategy be?

- The structural effects of the changed oil supply dynamics have to be taken into account.
- Oil and gas imports were seen as a dangerous drain on Indian foreign exchange resources.
- It has also caused a dependence upon a few exporters.
- Given all these, it would be wise for the government to re-evaluate its energy plans.
- It already has ambitious renewable energy targets, and it should re-commit to those once the pandemic is over.
- A way could be that thermal power plants should not receive any direct or hidden subsidies greater than those received by renewable power.
- It might also be sensible to re-examine natural gas-fired combined cycle plants in particular.
- Natural gas is cleaner than coal or oil, and its prices will also be lower in tandem with crude oil.
- Until a more extensive physical pipeline system comes into being, a flexible "virtual" pipeline system could be in place.
- The idea is to flatten tariffs for natural gas transport across various modes.

Source: Business Standard

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