India's Oil Diplomacy

Why in news?

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The first shipment of American crude oil to India is likely to reach soon.

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Why is this a big deal?

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- The export of American oil was banned for about 40 years.
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- The ban was implemented in 1975 amid the Arab oil embargo and petroleum shortages.
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- It was lifted by former US President Barack Obama in 2015.
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- Indian PM recently secured a comprehensive review of trade relations particularly in the energy sector with US President, during his visit to the USA.
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- Soon after this, leading Indian oil companies started placing orders for purchasing crude from the US.
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- Notably, Indian Oil Corporation and Bharat Petroleum placed orders for over 4 million barrels, which is soon to arrive.
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What is the need for American shipments?

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- Brent (oil field in the North Sea) is the benchmark crude that serves as a reference price for buyers in western world, and Dubai serves as benchmark for countries in the east.
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- Their prices have become uncompetitive following the production cuts by OPEC.
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- So buying US crude has now become attractive for Indian refiners.
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- Even after including the shipping cost, buying US crude is cost effective for India retailers.
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What is the significance of the move?

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- India, the world's third-largest oil importer, now joins Asian countries like South Korea, Japan and China to buy American crude.
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- By tapping the potential of this alternative supply option, India's over dependence on OPEC for imports comes down.
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- It also opens up new avenues for diversifying India's buying options.
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- Subsequently, on the other hand, it increases India's bargaining power with OPEC members.
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- It has also opened new vistas in the Indo-US ties.
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- It seems to be reducing the impact of uncertainness with global oil prices on Indian economy to a significant extent.
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Source: Business Standard

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