

Refining India's Oil Purchasing Strategy

Why in news?

Government is looking at bringing together the domestic refiners (both public and private sector players) to strategise and negotiate with the oil producers.

What is the present scenario with crude oil?

- International crude oil prices have been consistently surging in October 2021, with an increase of around \$10 a barrel in average prices compared to September.
- The rising fuel prices are creating a huge burden on the consumers.
- It is also denting the country's trade balance, as over 85% of India's crude oil requirements are met through imports.

What has the Standing Committee on Petroleum & Natural Gas (2013-14) recommended?

- Instead of all oil PSUs carrying out purchase of crude oil, it is recommended to form a joint venture company promoted by all interested PSUs.
- This will be entrusted with the work of importing of crude oil required for them in line with their refining specifications.
- This company may be given enough flexibility enjoyed by private sector refineries.
- They can thus carry out their operations including price negotiation, hiring of ships and negotiate better terms on freight etc. which will help PSUs save work relating to imports.

Till July 1998, the entire requirement of crude oil imports was canalised through Indian Oil Corporation (IOC), the sole canalising agency.

Thereafter, private and joint sector refineries were allowed to procure their own requirement of crude oil.

Import of crude oil was further decanalised from April 2002, with all PSU oil companies being permitted to import crude oil independently.

What is the recent proposal?

- The Ministry of Petroleum and Natural Gas has initiated efforts to bring together oil refiners.
- This time the government is attempting to bring all refiners, both public sector as well as private players, together.
- Initially the group will meet once a fortnight and exchange ideas on crude purchases.
- The refiners can form joint strategies and even do joint negotiations wherever they are comfortable.

- There will be no direct involvement of the government as it will just facilitate making of a consortium.
- The deals will be struck by the players with the producers.

What is the significance?

- Purchase of crude oil is a complex process.
- It involves negotiations of contract floating of tenders, shipping arrangements, unloading at ports, transporting to refineries etc, refinery complexity and most importantly the discounts offered by the sellers.
- Also, private sector refiners have more flexibility in their crude sourcing mechanism than a public sector entity.
- So, forming a consortium or a structured body can go a long way in planning the requirement and working out the logistics.
- It can help the entities analyse together the data of the country they want to import from.
- They can better understand the procurement requirements and then order together with stronger bargaining power.
- However, the commercial agreements or deals will be independently struck by the refiners as the purchase order will be separate.
- The concept is still at a nascent stage; the nuances of terms of reference and how it will operate has to be worked out.

Reference

<https://www.thehindubusinessline.com/opinion/refining-indias-oil-purchasing-strategy/article37237791.ece>

