Stocking Petroleum

Why in News?

The Indian government has decided to boost the petroleum stocks in strategic reserve of India.

Why this decision was taken?

- On April 1, the Brent crude oil was traded at a low price that was under $25 a barrel.
- Now the price of a barrel in the international market has rebounded.
- However, it is still almost $22 a barrel cheaper than the average of the past year, which was $57.70 per barrel.
- Therefore, one should make use of this low price situation and buy more oil barrels to stock up the nation's petroleum reserves.

What is India's storage capacity?

- India's storage capacity in its strategic petroleum reserve is at under 40 million barrels.
- This low capacity would not be convenient at this point.
- This would satisfy Indian demand for less than 10 days.
- However, there is space for only about additional 15 million barrels at oil-storage farms located in Mangalore, Vizag, and Padur.

Where the additional oil will come from?

- The government had made efforts to tie up with West Asian oil producers (The Gulf) to have them store their own oil on Indian soil.
- The government continues its attempts to buy over 5 million barrels from the United Arab Emirates and over 9 million barrels for Padur.
- It has directed the state-owned refiners to deal with the collapse in domestic demand.
- Therefore, these refiners operate at 50% capacity by storing their excess crude oil supplies in the strategic petroleum reserve.
- Details of how these refiners will be compensated are as yet unclear.

What is the current significance of storage?

- Storage is at a premium at the moment since across the world, oil facilities are filling up.
- The global storage capacity is over 6 billion barrels, but only 1.6 billion barrels worth of capacity is empty at this point.
- A shortage of storage capacity has forced some producers in the US to lower their prices below zero (i.e.) paying people to take away their oil.
- South Korea and China have been proactive in recent years in building up their oil storage capacity.

What should India prove?

- **Increasing the Capacity** - India has planned to build its additional storage capacity of almost 50 million barrels.
- This capacity would take India to just over 20 days' worth of imports in its reserves.
- India should seek to have more than a month's at least.

- **Stabilizer of market** - India should signal that it is a responsible consumer of petroleum by trying to stabilise the crude oil market.
- Supporting the effort to keep output flowing and addressing the storage deficit are important steps in that direction.

What are the pillars of the India-Gulf economic ties?

- **Strong bilateral economic ties**: the India-Gulf trade stood around $162 billion in 2018-19, being nearly a fifth of India's global trade.
- India's import of crude oil and natural gas from the Gulf meets 65% of its total requirements.
- Some of these countries have large Indian investments.
- **Number of Indian expatriates** in the Gulf states is about 9 million.
- They remitted nearly $40 billion back home.
- Both the intertwined pillars of India-Gulf ties have been affected by the recent pandemic and the reduction in oil price.

How the India-Gulf ties could be protected?

- In the longer run, we need to find new drivers for the India-Gulf synergy.
- This search could begin with cooperation in healthcare.
- This cooperation should gradually extend to pharmaceutical research, petrochemical complexes.
- Building infrastructure as well as the economic activities in bilateral free zones along our Arabian Sea coast may lead to an India-Gulf Cooperation Council Free Trade Area.

Source: Business Standard, The Hindu

