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Saudi Investment in Strategic Oil Storage

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India has invited Saudi Arabia to partner in building strategic oil reserves and further invest in India's refining and Petrochemical sectors.

India is concerned about global oil balance and supplies for the following reasons:

- India's energy needs are primarily met through imports.
- Concerns about rising international crude oil prices. The need for uninterrupted supplies of crude oil and LPG to India in view of the OPEC+ cuts.
- Sanctions imposed by the US administration on state-owned oil company of Venezuela.
- The US pull-out from 2015 accord with energy-rich Iran has limited the options for India to meet its energy demands.

Strategic Petroleum Reserves

- Strategic petroleum reserves are huge stockpiles of crude oil to deal with any crude oil-related crisis like the risk of supply disruption from natural disasters, war or other calamities.
- India's strategic crude oil storages are currently located at Visakhapatnam (Andhra Pradesh), Mangaluru (Karnataka), and Padur (Karnataka).
- Recently, the government had announced setting up of two additional facilities at Chandikhol (Odisha) and Padur (Karnataka).
- The concept of dedicated strategic reserves was first mooted in 1973 in the US, after the first oil crisis.
- The concept of massive caverns deep below the surface of the earth has been traditionally marketed as an energy security measure that can be a defence against shortage of oil supply in future due to an attack or invasion.
- Underground storage is, by far the most economic method of storing petroleum products because the underground facility rules out the requirement of large swathes of land, ensures less evaporation and, since the caverns are built much below the sea level, it is easy to discharge crude into them from ships.

Need

- The IEA predicts that by 2020, India could well be the largest oil importer, increasing the country's vulnerability to threats of physical supply disruptions leading to sharp price fluctuations.
- Besides the energy security, there is a commercial angle to it as well. Even as limited storage option would offer India the leverage to be a serious player in the international oil markets, with the option of releasing inventory when prices surge and recharging reservoirs whenever the crude is on a downcycle.

Way forward

- Experts point to the option of storage being leased out to West Asian refiners, especially since it reduces their freight costs into Southeast Asian markets.
- The three storage facilities to be implemented in the first phase can hold 13 days of India's crude stock requirement where International Energy Agency (IEA) recommends 90 days.
- Therefore, there is a need to build more stockpiles before oil prices rise back given that OPEC nations have recently decided to reduce oil production to bring stability in global oil prices, in a meet held recently.