

INDIAN STRATEGIC PETROLEUM RESERVE

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Introduction

A strategic petroleum reserve is a stockpile of crude oil held by a Government or a private company to ensure economic and national security during an energy crisis. The strategic reserve held by a country is in addition to the existing storage of crude oil and petroleum products with oil companies.

Origin

The concept of having a strategic petroleum reserve originated during the Arab - Israel War. During the war the OPEC (Organisation of Arab Petroleum Exporting Countries) imposed sanctions on the United States of America, Netherlands and Canada. The sanctions were followed by a cut in production thereby creating a global price hike. The presence of a petroleum reserve would slow down markets and stop a sudden price hike in the event of a global crisis and would discourage the use of oil as a political weapon.



In addition to the USA, the following countries also maintain strategic oil reserves: -

- Japan
- Korea
- Germany
- France
- Italy
- China

The International Energy Agency (IEA)

The Arab oil embargo also gave birth to the multi-national International Energy Agency (IEA). The agency was established to ensure security of supply and solidarity amongst major industrial countries. A key feature of the organisation is its response to an energy crisis. The International Energy Programme (IEP), which is contained in the IEA's framework commits member countries to maintain sufficient oil reserves to have an emergency response for at least 90 days and also requires member countries to balance shortage. A

total of 28 countries are signatory to the IEA. The 28 member states together have a Global Strategic Reserve of about 4.2 billion barrels of crude oil in Government and Private stocks.

Indian Strategic Oil Reserve

India has also started building a strategic oil reserve to cater for potential supply disruptions. The Integrated Energy Policy formulated by the Planning Commission recommended the setting up of a Strategic Petroleum Reserve. The Government set up the Indian Strategic Petroleum Reserves Limited (ISPRL) under the Ministry of Petroleum and Natural Gas. The reserves have been set up with an initial capacity of 05 million tons of crude oil sufficient to last upto 10 days. A total of three under ground rock cavern facilities have been/are being constructed at the following places for storage of crude oil:-

- Visakhapatnam -1 million metric tons.
- Mangalore - 2.5 million metric tons.
- Padur - 1.5 million metric tons.

The plan is to finally build the reserve to 90 days worth of consumption. Considering the financial,





technical and logistics constraints involved in buying the oil at the same time, the reserve will take shape only gradually. Even the United States SPR, which was set up in 1975, continued to buy oil for 20 years.

Tapping the Reserve

The issue of utilising the strategic reserve is a highly debated question. The United States Strategic Petroleum Reserve has been tapped only on the following three occasions:-

- Gulf War.
- Hurricane Katrina.
- Libyan Civil Crisis.

The release of oil in the last case was as a response of the IEA to compensate for the drop in oil production during the civil unrest in Libya, as it was a major oil exporter. While the United States Government was criticised for releasing strategic

reserves when there was no actual emergency, it is widely understood that the decision was in response to the rising oil prices.

The Indian Perspective

In the Indian context, the Planning Commission has envisaged the following conditions when the strategic reserve may be utilised :-

- Supply risks.
- Technical risks.
- Market risks.

While the first two cases have a clear justification, the third case is an unclear one for a country like ours where the oil prices are highly regulated by the Government. The leadership should be able to differentiate between a normal price rise and an actual emergency, thus enabling a judicious use of the strategic reserve.





ABOUT THE AUTHOR



Lieutenant N Jayant Rao is an alumnus of the Naval Academy. He is a non specialist and his appointments include duties on board IN Ships Nipat & Karwar. The Officer is presently specialising in Navigation and Direction.

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