Standing Committee Report Summary

Review of Policy on Import of Crude Oil

- The Standing Committee on Petroleum and Natural Gas (Chair: Mr. Ramesh Bidhuri) submitted its report on 'Review of Policy on Import of Crude Oil' on December 20, 2023. Key observations and recommendations of the Committee include:
- **Diversification of sources:** A majority of India's hydrocarbon imports are sourced from the Middle East region which is prone to geo-political tensions. This can disrupt supply. The Committee noted that over-dependence on any region for crude oil and gas supplies can impact India's energy security. It recommended that the Ministry of Petroleum and Natural Gas take steps to diversify the imports of crude oil and gas.
- **Reducing import dependence:** India imported about 87% of its crude oil consumption in 2022-23. The Committee observed that the demand for petroleum products is likely to increase in the future. The government has prepared a roadmap to reduce dependence on imports in energy. It provides for: (i) increasing domestic production, (ii) promotion of bio-fuel and renewable energy, (iii) promoting energy efficiency, and (iv) improvement in the refinery process. The Committee recommended that the Ministry promote green hydrogen, electric vehicles, and bio-fuels. It recommended that the Ministry set up an interdisciplinary group of experts to design policy measures for reducing demand for fossil fuels.
- **Spot and term contracts:** Crude oil contracts are done through term contracts and spot tenders. Term contracts provide energy security as it provides for assured volumes over an agreed period (for a year or more). Oil PSUs undertake spot purchases to meet requirements not covered under term contracts. Generally, spot tenders tend to be available at cheaper prices than term contracts. The Committee noted that the share of spot purchases has increased from 27.6% in 2017-18 to 35.1% in 2022-23. It recommended that the Ministry should conduct a study/audit to determine whether purchases in spot tenders have resulted in cheaper cost.
- **Pricing of crude oil:** National Oil Companies (NOCs) of the oil-producing countries in the Middle-East declare the official selling price of crude oil. The Committee noted that the official selling price decided by NOCs in the Middle East needs to be more transparent. The price of crude oil has no relation to the production cost. As oil-producing countries act concertedly, crude oil prices are producer-determined rather than market-driven. The Committee recommended that the Ministry coordinate with other oil-importing countries to push for bringing reforms in crude oil pricing.
- **Asian premium in crude oil pricing:** In addition to the official selling price of crude oil, an extra cost called Asian premium is levied on purchases made by Asian countries including India. The premium levied is dependent on transportation costs. The Committee noted that a country should not be made to pay higher costs due to non-commercial reasons. It recommended that the Ministry/oil PSUs should make efforts to do away with the premium. They should seek support from other countries which also have to bear this cost and utilise various multilateral institutions to get such charges removed.
- **Crude oil trade in Indian rupees:** The import bill for crude oil amounts to about 25% of all merchandise imports. The central government has envisaged settlement of crude oil imports in the Indian rupee to save foreign exchange. The Reserve Bank of India (RBI) has introduced arrangements to settle exports and imports in the Indian rupee. However, crude oil suppliers have been concerned over: (i) the repatriation of funds in the preferred currency and (ii) the high transaction costs associated with the conversion of funds. The Committee expressed its concern over the lack of momentum in the settlement of crude oil imports in Indian rupee. It recommended that the Ministry of Petroleum and Natural Gas should discuss the issue with the Ministry of Finance and RBI to remove related bottlenecks.
- **Transportation of crude oil:** Transportation costs for crude oil are borne by the importing country. The Committee suggested that oil PSUs should explore newer and shorter routes for transporting crude oil from different locations. Such routes should have less geo-political tensions and be economical.
- **Crude oil pipelines:** About 49% of crude oil is transported in India through pipelines. Transporting crude oil through pipelines is cheaper compared to other modes of transportation. Currently, there are five crude oil transportation pipeline projects under construction covering 3,750 km. They are expected to be completed between June 2023 and January 2025. The Committee recommended the Ministry and oil PSUs to ensure that the ongoing projects are completed on time. It also recommended increasing the share of crude oil transported through pipelines.

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December 26, 2023