



IAS PARLIAMENT

Information is Empowering
A Shankar IAS Academy Initiative

Dealing with India's Oil Import Dependence

What is the issue?

With India's rising dependence on fuel imports, it has to adopt some strategic measures for it to survive during a crisis and prevent any macro instability.

How dependent is India for oil?

- India imports over 80% of its crude oil and the largest sources are Iraq, Saudi Arabia and sanctions-hit Iran.
- Overall, India's import dependency in its energy mix has risen sharply from 21% in 2000 to 36% in 2015.
- It could be as much as 50% in 2040 even if energy production domestically grows faster than it has in the past.

What is the current challenge?

- As India modernises its economy, it will move away from older, less dense forms of energy such as biomass to more dense ones.
- But India largely lacks proven resources of oil, gas and metallurgical coal on the scale it requires.
- However, the consequence of this continued dependence for the external balance and for overall macro-economic stability is unwelcome.
- E.g. a spike in the price of oil drives up domestic inflation, stresses the fiscal deficit
- It can also drive India close to a crisis in terms of its balance of payments, as it did in 1991 and nearly did in 2013.

How feasible and effective are other alternatives?

- **Coal** - India does have extensive resources of coal, but not all of the proven reserves are of the quality needed.
- In order to ensure that Indian coal burns relatively cleanly, it would have to be processed or washed.
- But this can greatly add to water stress in the area around a coal plant.
- Areas already short of water, such as say Vidarbha in Maharashtra, can

hardly afford a cluster of new coal-fired plants.

- Moreover, the effect of coal-fired plants' emissions on greenhouse gas concentrations and the direct health effect on people also need to be taken into account.
- India may well be dependent on coal for many years into the future, but certainly alternatives will have to be found.
- **Renewable energy sources** are a major source of hope, especially as they are currently competitive in terms of variable costs.
- However, solar and wind power are not perfect substitutes for current energy sources, given that they are variable in terms of output.
- Wind farms produce power when the wind is blowing, and solar farms when the sun is shining.

What should India do?

- India will have to think strategically about the effect of continuing import dependence.
- In terms of survival during a crisis, India needs to ensure that there are sufficient reserves on its own soil.
- The strategic oil reserves being set up in cooperation with the UAE and Saudi Arabia are a good step in that direction.
- In terms of preventing macro instability, it must be ensured that the balance of trade becomes healthier.
- India needs to ensure that exports grow sustainably for it to stay confident to pay for imported fuel.

Source: Business Standard



IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative