

Why crude oil reserves count

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Growing up, children have heard the story of the ant and the grasshopper highlighting the importance of planning for the future well in time and not procrastinating; this has an equally similar relevance for adults. That is probably why the whole subject of financial planning, starting early to create a corpus fund for old age and building a nest egg for the winter days of life, becomes so relevant for individuals. A very pertinent question is: Do countries also need to build nest eggs? The answer is an unequivocal yes. In general, the safety net for countries conjures the notion of foreign currency and gold reserves maintained by respective central banks as the most important asset – useful to protect a country in times of need. Many countries including India are buying gold to bolster their reserves.

Though not discussed often, countries are also creating assets that may come in handy on difficult days in more effective ways. One such asset is the crude oil storage facilities known as strategic petroleum reserves (SPRs) – these refer to crude oil inventories held by a country to safeguard the economy and help maintain national security during an energy crisis.

Many countries have created SPRs as members of the International Energy Agency (IEA). Set up in 1973 under the aegis of OECD, the IEA mandates its members to maintain an emergency reserve of crude oil to meet the demand for at least 90 days in case of a supply disruption. Currently, India is an Associate Member of the agency and is yet to get a full membership. Yet, it was back in 2004, that India decided to embark on creating such reserves and thus set up the Indian Strategic Petroleum Reserve Limited (ISPRL) as a special purpose vehicle with the mandate to ensure short-term crude oil availability in the event of any major supply chain disruption.

ISPRL started operating in phases; in the first phase, it constructed underground rock caverns at three places: Visakhapatnam in Andhra Pradesh, and Mangaluru and Padur in Karnataka, at a total cost of approximately Rs 4,100 crore (excluding the cost of the oil) with a combined storage capacity of 5.33 million metric tonnes (MMT) covering about 10 days of crude oil demand for India. ISPRL is in the process of constructing two additional SPR facilities at Chandikhol in Odisha and Padur, at a combined capacity of 6.5 MMT. To fill in

these SPR facilities, during the Covid-19 pandemic, coinciding with lower crude oil prices, ISPRL bought about 2.26 MMT at an incredibly low price of \$19 per barrel.

Additionally, ISPRL has partially commercialised its activities by leasing underground crude oil storage to various Indian and foreign oil companies such as HPCL and the Abu Dhabi National Oil Company (ADNOC). ISPRL also continuously looks at opportunities to buy crude oil in the market to fill the storage capacity as and when the prices are attractive.

Guaranteed supplies

This adds to the energy security of the country – something that was also in focus following the recent terror attack in Pahalgam and the subsequent Indian military action in the form of Operation Sindoor. Even though the war-like situation lasted only for two-three days, the fear of the unknown gripped many Indians, rightfully more so for people who live in the border states, resulting in panic buying of petrol, diesel, and LPG.

To address the situation, the Indian Oil Corporation Limited (IOCL) clarified through its social media handles that it had ample fuel stocks, and its supply lines were operating smoothly, and advised consumers against panic buying. In a stressful situation like this, such announcements on social media probably have little impact, unless they are backed by tangible evidence. The consumer would value these messages only when the supplies don't show any sign of depletion.

Hence creating such massive underground crude oil storage structures and running the same at substantial costs would provide the much-needed comfort in difficult days. Such facilities and assets will rarely be used, but they work as an assurance to the citizens regarding India's energy security capabilities. In October 2023, India applied for a full membership of IEA and the same is under consideration. It is time for India to fast-track the proposed SPR facilities at Chandikhol and Padur. Greater investment in these structures will equip the country with substantial reserves before the next winter arrives.

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