

First Rupee Payment For Oil To UAE

Why In News

- India, the UAE's second-largest trading partner, has made its **first-ever payment** in rupees for crude oil purchased from the Emirates, signalling what could be a paradigm shift in dollar-denominated global trade transactions while giving a game-changing fillip to the booming two-way trade that is on track to cross **\$100 billion mark** in a couple of years.



First Rupee Payment

- India, the **world's third-largest energy consumer**, made its **first-ever payment** in **rupees for crude oil** purchased from the United Arab Emirates (UAE), signalling what could be a strategic push to promote the **local currency globally**.
- The move is part of India's broader efforts to **diversify oil suppliers**, cut transaction costs, and establish the **rupee as a viable trade settlement currency**.



- This initiative aligns with the Reserve Bank of India's move on July 11, 2022, **allowing importers to pay in rupees** and **exporters to receive payments** in the local currency.
- Officials have stressed that **internationalisation is an ongoing process**, and currently, there are no specific targets.
- In July, **India formalised an agreement with the UAE** for rupee settlements, leading to the **Indian Oil Corporation (IOC)** making payments for purchasing one million barrels of crude oil from Abu Dhabi National Oil Company (Adnoc) in Indian rupees.



- Additionally, some Russian oil imports have also been settled in rupees. With over **85 per cent of its oil needs reliant on imports**, India has adopted a multifaceted strategy, emphasising sourcing from the most cost-effective suppliers, diversifying supply sources, and adhering to international obligations.
- The nation's approach proved advantageous during the **ramp-up of Russian oil imports**, saving billions of dollars.
- India's strategy, aimed at saving **billions of dollars by sourcing Russian oil post-Ukraine war**, involves settling trade in rupees rather than dollars. The move aims to reduce transaction costs by eliminating the need for dollar conversions.

- Despite these efforts, India aims to explore trade settlements in rupees rather than dollars to streamline transactions by **eliminating currency conversions**.
- While there has been **success in non-oil trade settlements** with specific countries, oil exporters overall have hesitated to embrace the rupee, expressing concerns about **fund repatriation and high transactional costs**.



- The oil ministry, addressing a parliamentary standing committee, emphasised that payments for crude oil can be made in Indian rupees, contingent on suppliers adhering to regulatory guidelines.
- The ministry added that **there has not been much international interest in making payments using the Indian rupee** as suppliers are wary of the repatriation of funds and high transactional costs.



- In the **financial year 2022-23** (April 2022 to March 2023), India spent \$157.5 billion on importing 232.7 million tonnes of crude oil. Key suppliers included Iraq, Saudi Arabia, Russia, and the UAE, with West Asia contributing 58 per cent of all supplies. The domestic supply meets less than 15 per cent of the demand.
- **Currency experts said** a rupee-based trade settlement eliminates the need for conversion into another currency before paying for imports or exports, helping to save foreign exchange reserves.



- “The **internationalisation of the Indian rupee** may eventually reduce the cost of borrowing for India and helps to make the rupee an accepted mode of payment for the settlement of international trades.
- With the **rupee becoming a popular mode of payment for global trade**, it may eventually become a hard currency akin to the US currency.”