Non Traditional Security Digest

Global Energy Crisis Impacts on India

Vol 5 | Issue 1 | January – March 2026

MANOHAR PARRIKAR INSTITUTE FOR
DEFENCE STUDIES AND ANALYSES
मनोहर पर्रिकर रक्षा अध्ययन एवं विश्लेषण संस्थान

Global Energy Crisis: Impacts on India

Introduction

The global energy system is currently undergoing a period of heightened instability, driven by geopolitical conflicts, supply chain disruptions, and structural imbalances in oil and gas markets. The ongoing crisis—particularly intensified by tensions in West Asia (Middle East)—has exposed the vulnerabilities of import-dependent economies such as India. India, as the world's third-largest crude oil importer and consumer, relies heavily on external sources to meet its energy demands. This structural dependence has made the country particularly sensitive to global price shocks, shipping disruptions, and geopolitical developments. The present crisis is not merely a short-term supply disruption but reflects deeper systemic issues in global energy governance, fossil fuel dependence, and uneven distribution of resources. For India, the implications could extend beyond energy security into macroeconomic stability, inflation, food security, and strategic autonomy.

Structural Dependence and Systemic Vulnerability of India's Energy Sector

India's energy system is fundamentally characterized by a high degree of structural dependence on imported oil and gas, which makes it extremely vulnerable to global disruptions. As one of the world's largest energy consumers, India imports the majority of its crude oil and a substantial portion of its natural gas requirements. According to data from the Petroleum Planning and Analysis Cell (PPAC), this dependence has steadily increased over time due to stagnation in domestic production and rapidly rising demand driven by economic growth, industrialization, and urban expansion.

Indicator	Latest Data
India's Total petroleum consumption	~19.93 MMT/month
India's Diesel consumption	~10.29 MMT/month
India's Petrol consumption	~4.25 MMT/month
India's Natural gas consumption	~5766 MMSCM/month

Table 1: India's Petroleum & Gas Consumption (2025–26)

Source: ETEnergyworld.com

The country's consumption of petroleum products continues to grow, while domestic crude output has remained largely unchanged, creating a widening gap that must be met through imports. This structural imbalance is further aggravated by the concentration of supply sources in geopolitically sensitive regions,

particularly West Asia. A significant share of India's oil and gas imports originates from countries such as Iraq, Saudi Arabia, and the United Arab Emirates, and these supplies pass through critical maritime chokepoints like the Strait of Hormuz. This creates a situation where geopolitical instability, conflict, or disruptions in shipping routes can immediately impact India's energy security.

Moreover, India's strategic petroleum reserves remain relatively limited compared to major economies, providing only a short-term cushion against supply shocks. As a result, even minor disturbances in global energy markets can translate into significant domestic consequences, underscoring the structural fragility of India's energy framework and the urgent need for diversification and resilience.

Geopolitical Drivers and the Contemporary Energy Crisis

The ongoing global energy crisis has been significantly shaped by geopolitical tensions, particularly in West Asia, which plays a central role in global oil and gas supply chains. Recent conflicts involving major regional and global powers have disrupted the flow of energy resources, especially through key transit routes such as the Strait of Hormuz. Shipping disruptions and heightened geopolitical risks have led to increased uncertainty in oil and gas markets, causing supply shortages and price volatility. India, which sources a substantial portion of its energy imports from the Middle East, has been directly affected by these developments. The disruption of liquefied petroleum gas (LPG) shipments has been particularly severe, as nearly 60 percent of India's LPG consumption depends on imports, with a large share historically sourced from the Gulf region. The crisis has also affected liquefied natural gas (LNG) supplies, leading to constraints in industrial and commercial sectors. In addition to physical supply disruptions, geopolitical tensions have increased shipping costs, insurance premiums, and logistical uncertainties, further raising the cost of imports.

Indicator	Latest Value
Crude oil import dependence	~85–88%
Natural gas import dependence	~50%
Share of imports from Middle East	~55–65% (oil), ~90% (LPG imports)
Global rank (oil consumption)	3rd largest

Table 1: India Oil & Gas Dependence

Source: Reuters, PPAC/Government of India

Countries across the world have responded by stockpiling resources and securing

long-term supply contracts, which has reduced availability in the spot market and intensified competition. This has made it more difficult for import-dependent countries like India to access affordable energy supplies. The current crisis therefore reflects not only regional instability but also deeper structural issues in global energy governance, including supply concentration and lack of diversification.

Gas Supply Shock and issue of LPG in India

One of the most immediate and visible manifestations of the energy crisis in India has been the severe disruption in liquefied petroleum gas (LPG) supply, which has affected both households and commercial users. India is the world's second-largest importer of LPG and relies on imports to meet around 60 percent of its domestic demand. The ongoing geopolitical tensions have disrupted shipping routes, particularly through the Strait of Hormuz, leading to delays and shortages in LPG deliveries. According to recent reports, India is experiencing one of its worst gas crises in decades, with supply constraints forcing the government to prioritize household consumption over commercial usage. This has resulted in significant shortages for industries and small businesses, especially restaurants and food vendors, which depend heavily on commercial LPG cylinders. News reports indicate that delivery delays have stretched over weeks in some areas, leading to operational disruptions and economic losses.

Indicator	Latest Data
Annual LPG consumption	33.15 million tonnes
Share of LPG imports	~60%
LPG import source (Middle East)	~90% of imports
Daily LPG supply (domestic distribution)	~28 lakh cylinders/day

Table 2: India's LPG Key Indicators

Source: Reuters and The Economic Times

At the same time, the government has invoked emergency measures, directing refiners to maximize LPG production and divert resources from other sectors to meet domestic demand. The crisis has also exposed the rapid growth in LPG consumption over the past decade, driven by government schemes promoting clean cooking fuel, which has increased reliance on imports. While these initiatives have improved energy access, they have also heightened vulnerability to global supply disruptions. The LPG crisis thus highlights the interconnected nature of energy policy, social welfare, and external dependence.

Inflation, Trade and Fiscal Stress

The energy crisis could have far-reaching implications for India's macroeconomic stability, primarily through its effects on inflation, trade balance, and fiscal management. Rising global oil prices directly increase India's import bill, as crude oil constitutes a significant portion of total imports. This leads to a widening trade deficit and puts pressure on the current account balance, potentially weakening the national currency. A depreciating currency further increases the cost of imports, creating a cycle of economic strain. Inflationary pressures have also intensified, as higher fuel prices translate into increased transportation and production costs across sectors. This phenomenon, known as cost-push inflation, affects a wide range of goods and services, including food, manufactured products, and essential commodities. The government often intervenes to mitigate the impact on consumers through subsidies and tax adjustments, particularly for LPG and other essential fuels. However, such measures place an additional burden on public finances, increasing fiscal deficits and limiting the government's ability to invest in infrastructure and social development. Overall, the macroeconomic impact of this crisis is multifaceted, as it would impact both short-term economic performance and long-term growth prospects of India.

Sectoral Impacts: Agriculture, Industry and Services

The energy crisis has had a cascading impact across multiple sectors of the Indian economy, highlighting the central role of energy in economic activity. The agricultural sector is particularly affected due to its dependence on natural gas for fertilizer production. Disruptions in gas supply have led to shortages of fertilizers and rising input costs, which can adversely affect crop yields and food security. In the industrial sector, gas shortages have forced the diversion of supplies toward priority areas such as households, leading to reduced availability for manufacturing and petrochemical industries. The government of India has even removed import duties on certain petrochemical products to mitigate shortages caused by the diversion of resources toward LPG production. The services sector has also been significantly impacted, particularly small businesses such as restaurants and food vendors that rely on commercial LPG. Reports indicate that many establishments have been forced to scale down operations or temporarily shut down due to lack of fuel. These sectoral impacts demonstrate how energy shortages can ripple through the entire economy, affecting production, employment, and consumption.

Government of India's Measures to Ensure Energy Security

1. Strategic Petroleum Reserves (SPR)

The Government of India has developed significant Strategic Petroleum Reserves at Visakhapatnam, Mangalore, and Padur, to mitigate the impacts of crude oil during emergency scenarios. India currently has a strategic petroleum reserve of over 53 lakh tonnes, with another 65 lakh tonnes under development. These reserves act as a buffer against sudden supply disruptions or international price spikes, ensuring continuity of energy supply. In times of global crises, such as conflicts in West Asia, the SPR provides immediate access to crude, mitigating economic shocks.

2. Diversification of Import Sources

To reduce overdependence on West Asian oil, India has actively diversified its crude oil import portfolio, especially in response to supply disruptions caused by the ongoing West Asia conflict and blockages in the Strait of Hormuz. In 2026, Indian refiners and policymakers have shifted to sourcing more crude from non-Gulf regions to improve energy security and dampen the impact of regional instability on the import bill. India's Russian crude purchases surged by around 90 % compared with February, offsetting declines in imports from traditional Gulf suppliers due to disruptions in the Hormuz route. This shift saw Russia's share of India's total crude imports rise sharply, even as overall oil shipments fell, showing a strategic pivot toward alternative suppliers.

At the same time, India has resumed and ramped up oil purchases from Venezuela, marking the highest level of Venezuelan crude imports in several years. After sanctions had curtailed these flows, recent shipments — including about 12 million barrels of Venezuelan crude destined for Indian ports — represent a six-year high, demonstrating India's willingness to tap sources that bypass the Middle East entirely.

Beyond Russia and Venezuela, Indian refiners are also expanding purchases from African producers such as Nigeria and Angola, and increasing imports from the United States, which saw a near 64 % year-on-year rise in export volumes to India. These moves not only diversify supply but also reduce reliance on any single region, making India's energy imports more resilient to disruptions

3. Promotion of Domestic Production

To strengthen energy self-reliance and reduce import dependence, the Government of India has stepped up efforts to boost domestic oil and gas production, including support for upstream exploration and

unconventional hydrocarbons like Coal Bed Methane (CBM). While a formal Production-Linked Incentive (PLI) scheme specifically for oil and gas had been under consideration, the government's broader policy reforms have created a more favourable environment for output growth. The Hydrocarbon Exploration and Licensing Policy (HELP), introduced earlier and extended through subsequent regulatory reforms such as the Oilfield (Regulation and Development) Amendment Act, 2025 and the Petroleum and Natural Gas Rules, 2025, aim to simplify procedures, enhance investor confidence, and accelerate exploration activity across India's sedimentary basins. Under this reformed framework, exploration blocks have been awarded and development programmes expanded, attracting new investments and spurring energy companies to intensify drilling and reservoir development to lift domestic production.

In the unconventional segment, the government has launched the Special CBM Bid Round-2026 (SCBM-2026) under the Open Acreage Licensing Policy (OALP) to offer 13 CBM blocks across multiple basins, signalling a dedicated push to unlock India's vast estimated CBM resources. CBM production, though still modest compared with conventional gas, has shown growth potential, and the SCBM-2026 round is designed to attract competitive international and domestic bidders to deploy technology and capital in this space.

4. Gas and LNG Import Policies

To ensure a steady supply of natural gas and LPG and mitigate risks from global market fluctuations or regional conflicts, the Government of India and its state-owned energy firms have increasingly adopted long-term supply agreements and strategic storage initiatives between 2024 and 2026. Indian companies have moved away from heavy reliance on volatile spot markets by securing medium- and long-term liquefied natural gas (LNG) contracts. Long-term LNG contracting is complemented by efforts to expand and enhance storage capacity at key import terminals. India proposed requiring LNG terminals to build an additional 10 % storage buffer capacity that the government could tap during supply disruptions or price spikes, effectively creating an emergency gas reserve without relying solely on spot market cargoes.

In the LPG segment, India signed its first structured long-term import contracts with the United States for roughly 2.2 MMTPA starting in 2026, diversifying supply beyond traditional Middle Eastern sources and bringing predictable volumes and pricing to the market.

5. Research and Development in Alternative Energy

India has significantly intensified investments and policy support for alternative energy research, development, and deployment in order to cut reliance on imported fossil fuels and enhance resilience against global energy shocks. Renewable capacity additions have surged: in FY 2025-26 India added a record 50.9 GW of renewable energy capacity, largely driven by solar (44.6 GW) and wind (6.05 GW), pushing total renewable capacity (excluding large hydro) to 223 GW by March 2026. This rapid expansion reflects both technology deployment and ongoing innovation in clean energy systems.

On the solar front, R&D efforts have yielded notable progress. Government-supported research at institutions like the Indian Institute of Technology Bombay has improved efficiencies in next-generation solar cells, including silicon tandem and perovskite technologies, indicating movement toward more efficient and cost-effective photovoltaic systems. Additionally, new national solar calibration infrastructure has been established to support high-precision research and reduce dependence on foreign labs.

In green hydrogen, India's National Green Hydrogen Mission, launched in 2023 with major scale-up in 2024-25, aims to produce 5 million metric tonnes of green hydrogen annually by 2030, attracting over ₹8 lakh crore in investments and significantly reducing fossil fuel use in hard-to-decarbonise sectors like steel and fertilisers.

Wind power has also seen strong performance, with the sector registering some of its highest annual capacity additions in 2025-26, supporting diversification of power supply and technology learning.

Some recent developments with regard t oil and Gas

Indian refiners postpone maintenance shutdowns to meet local fuel demands

Indian refiners, including Indian Oil Corporation and Bharat Petroleum Corporation, have postponed routine maintenance shutdowns at some refinery units to meet strong domestic fuel demand, a government official confirmed. The move ensures continuous production of petrol, diesel, and LPG amid high consumption and global supply uncertainties, particularly disruptions in West Asia affecting imports through the Strait of Hormuz. While most state-run refiners are delaying maintenance to maintain output,

Nayara Energy's Vadinar refinery is scheduled to undergo maintenance starting April 9, 2026, which may temporarily tighten LPG availability. The government has assured that overall fuel supplies remain adequate and is exploring measures such as building strategic LPG reserves to mitigate potential shortages. By maximizing refinery utilization and delaying planned outages, India aims to prevent local fuel shortages and price spikes.

India turns to Iran for oil and gas after 7-year

India has resumed imports of crude oil and gas from Iran for the first time in seven years, marking a significant shift in its energy procurement strategy amid ongoing global supply shocks and Middle East tensions. Ship-tracking data shows a shipment of Iranian crude bought by state-run Indian Oil Corporation (IOC) is en route to India's east coast after being rerouted from China, following a temporary easing of U.S. sanctions on Iranian oil and refined products to address supply shortages. India last received Iranian oil in May 2019, when purchases were halted due to U.S. sanctions pressure. The Indian government and oil ministry have confirmed that refiners have secured crude supplies from Iran without any payment issues, even as the conflict in West Asia has disrupted flows through the crucial Strait of Hormuz. This move helps diversify India's energy sources, support fuel security, and stabilize supplies amid volatile global markets.

Russia offers to boost crude oil and LNG supplies to India

Russia has offered to increase supplies of crude oil and liquefied natural gas (LNG) to India as global energy markets remain volatile due to the ongoing West Asia crisis. During high-level talks in New Delhi, Russian officials signaled their readiness to deepen energy cooperation and bolster shipments of both crude and LNG to help address potential supply disruptions from the Middle East. The move comes as India seeks to diversify its energy import sources and strengthen its energy security amid disruptions to traditional routes such as the Strait of Hormuz, which have constrained flows from Gulf producers. Some market reports also suggest discussions on significant discounts — up to 40% on sanctioned Russian LNG — aimed at attracting buyers in South Asia, though details on pricing for India have not been officially confirmed. Expanded Russian energy supplies could provide New Delhi with alternative fuel sources to support sustained economic activity during global market uncertainty.

Non-Traditional Security Centre

This digest has been prepared by the Non-Traditional Security Centre, Manohar Parrikar Institute for Defence Studies and Analyses, New Delhi.

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