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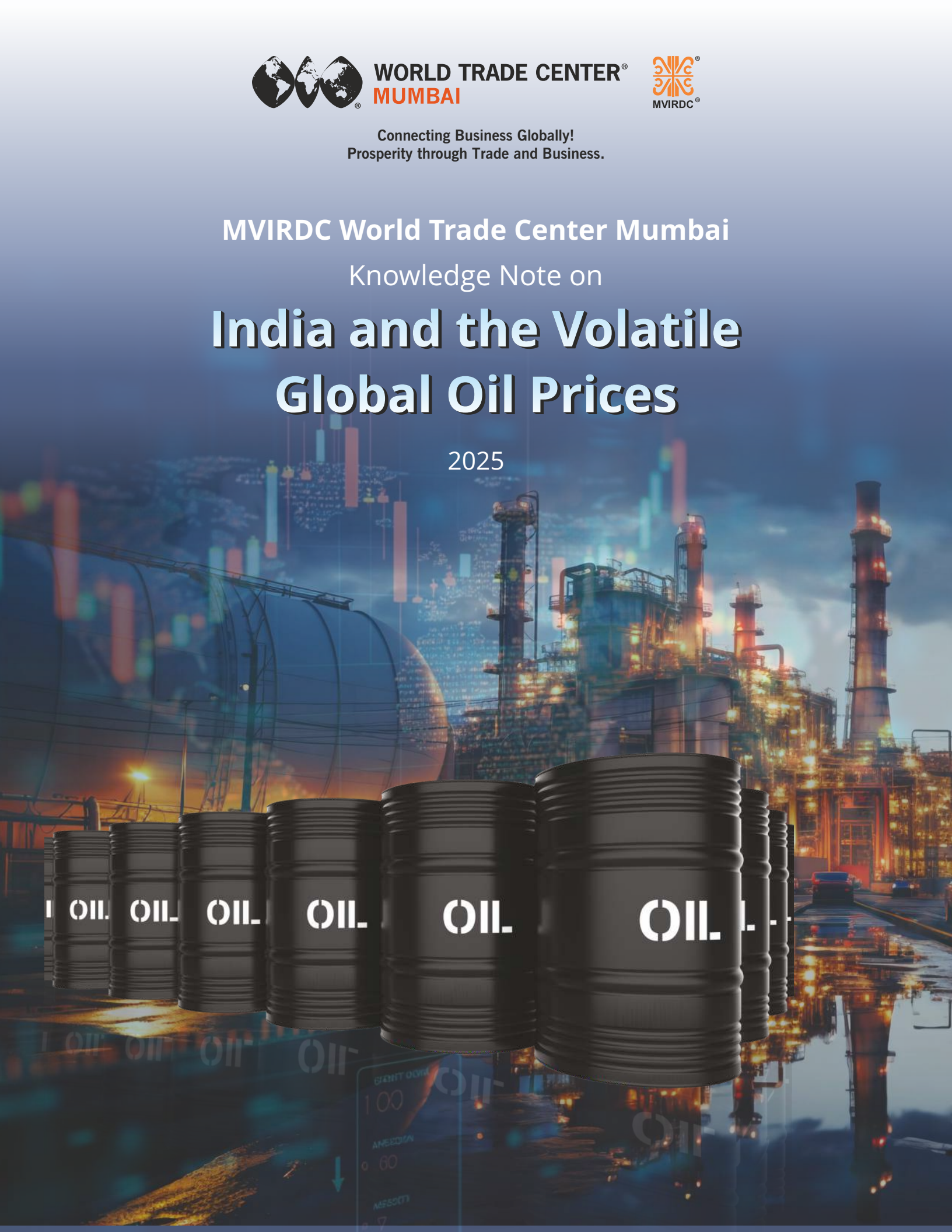
Knowledge Note on

India and the Volatile Global Oil Prices

2025



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Foreword

The year 2025 has brought into sharp focus the continued significance of energy security for India and the global economy. Geopolitical developments—from the prolonged Russia–Ukraine conflict to the recent Israel–Iran tensions—have once again underscored the fragile nature of global oil supply routes and the impact of crude price volatility on macroeconomic stability. For a country like India, where more than 85% of crude oil demand is met through imports, energy planning must go beyond short-term adjustments and address structural vulnerabilities with a forward-looking approach.

This timely report by MVIRDC World Trade Center Mumbai offers a comprehensive assessment of the economic and strategic implications of global oil price fluctuations for India. It highlights the efforts made by the Government of India to diversify sources of supply, invest in strategic petroleum reserves, and deepen engagement with energy partners, including those in West Asia, the U.S., and Russia. Importantly, it captures the role of domestic institutions—public and private alike—in building resilience through initiatives such as feedstock diversification, renewable energy expansion, and deepwater oil exploration.

The report's analysis of emerging opportunities—such as the potential discovery of significant oil reserves in the Andaman Sea—and its attention to long-term energy transition strategies provide valuable guidance for policymakers and industry stakeholders. India's balanced energy diplomacy, coupled with pragmatic economic strategies, has helped it navigate turbulent energy markets while reinforcing its commitment to sustainable growth.

As we move toward a more uncertain and interconnected energy future, this paper is a timely contribution to the discourse on energy policy, trade resilience, and strategic autonomy. I commend the research team for their diligent work and believe this publication will serve as a useful reference for practitioners, scholars, and decision-makers alike.

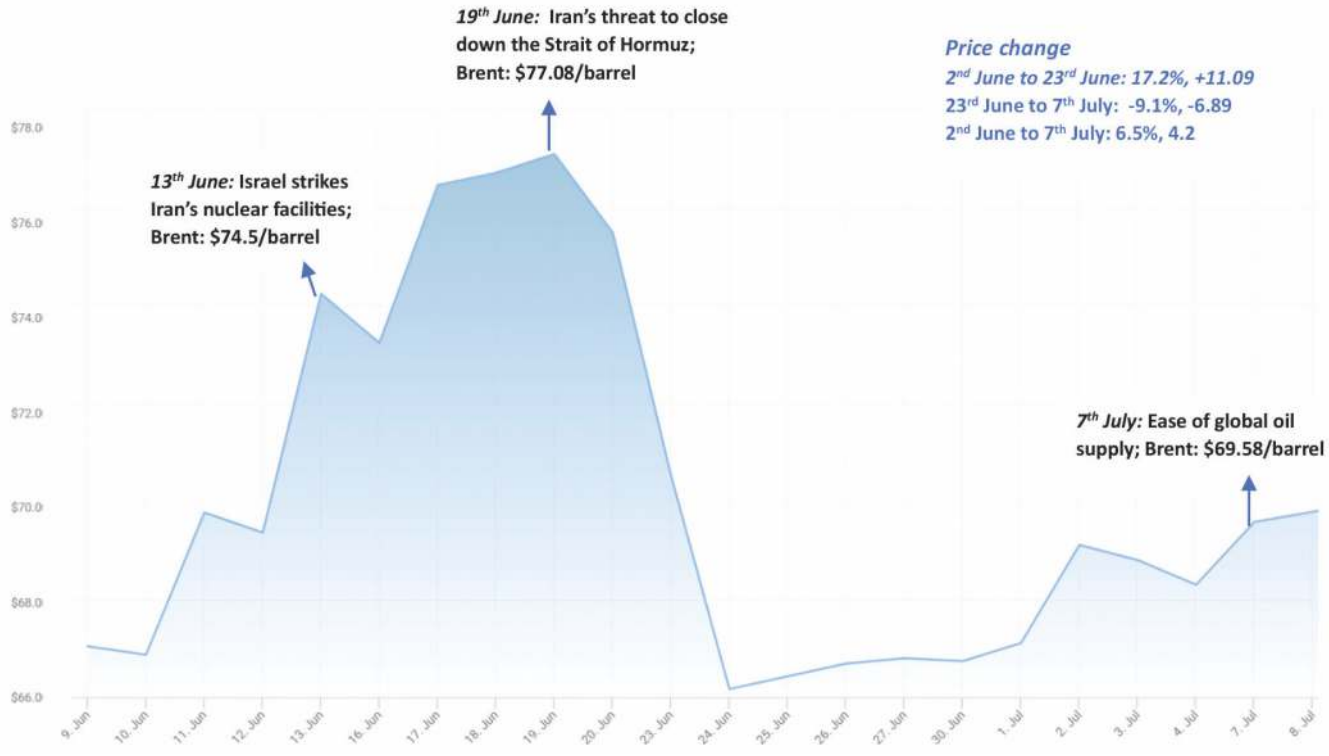
Dr. Vijay Kalantri
Chairman
MVIRDC WTC Mumbai

I. Introduction

Oil, particularly crude oil, remains one of the most vital energy resources driving the global economy. As a naturally occurring mixture of hydrocarbons, crude oil must be refined into petroleum products before use. These refined products power critical sectors such as transportation, manufacturing, agriculture, and petrochemicals. Given its integral role in industrial growth, crude oil is widely regarded as the world's most important energy source, with its price serving as a key indicator of economic health and stability. The global oil market is extensive and includes both physical trading and financial derivatives, reflecting the high value and strategic importance of crude oil. The geopolitical landscape heavily influences oil prices, as demonstrated by the Russia–Ukraine war, which pushed oil prices to nearly $120 per barrel due to fears of supply disruptions and Western sanctions on Russian oil exports. Similarly, ongoing tensions in West Asia have renewed fears of disruptions to oil flows, particularly through the Strait of Hormuz—a vital shipping route for global oil trade.

As shown in Figure 1, oil prices spiked following Israel's strike on Iran on 13th June 2025, raising fears of regional escalation. However, prices have since eased due to receding geopolitical tensions, a larger-than-expected OPEC+ supply increase for August, and signals of ongoing trade negotiations despite new tariff threats. These tariffs are not expected to take effect until at least August 1. As a result, Brent crude has fallen to $69 per barrel, reflecting improved market sentiment.

Figure 1: Brent Crude Oil Prices (USD)



Source: OilPrice.com, MVIRDC WTC Mumbai calculations

II. Oil: global demand and supply

Oil, often referred to as "black gold," is one of the most critical non-renewable energy sources in the world. As a primary fuel for transportation, industry, and power generation, petroleum remains central to the functioning of modern economies. It is also one of the most widely traded commodities globally, with its demand and supply influencing economic stability across nations. Countries with abundant oil reserves—such as Saudi Arabia, Russia, and the United States—derive significant economic benefits from petroleum exports, with the sector contributing notably to their GDPs. Beyond its economic value, oil holds considerable geopolitical significance. Nations rich in oil resources often have greater influence in international affairs, using energy diplomacy as a strategic tool in foreign policy. The Organization of the Petroleum Exporting Countries (OPEC) plays a key role in managing global oil supply. Decisions made by OPEC and its allies can directly impact global oil prices, thereby affecting the economic performance of both exporting and importing nations.

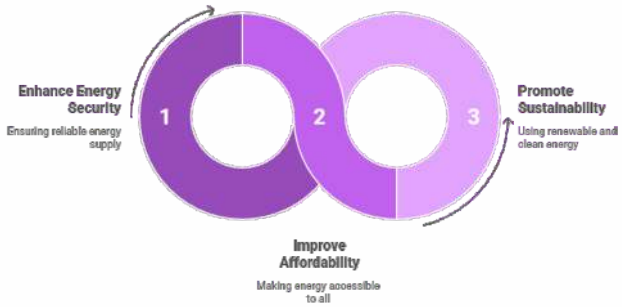
Recent geopolitical tensions—especially the prolonged Russia–Ukraine war and the escalating conflict between Israel and Iran—have triggered serious concerns about the stability of global energy supplies. These events pose a real threat of sharp oil price fluctuations and a potential energy shock that could ripple through economies worldwide. The growing instability in key oil-producing regions highlights how vulnerable the world remains to external disruptions. Such crises underscore the renewed urgency of addressing the energy trilemma. (refer to Box 1)

Figure 2 shows crude oil production and consumption by country. India is the third-largest crude oil consumer globally, after the United States and China, with an average daily consumption of approximately 5.1 million barrels per day (mb/d) in 2023–24. Together, the United States (19.9%), China (15.1%), and India (5.0%) account for about 41 mb/d out of the global total of 101.9 mb/d—roughly 40% of total global crude oil consumption.

The U.S. leads in both oil consumption (19.9%) and production (18.9%), reflecting near self-sufficiency. In contrast, China and India are major consumers but produce significantly less, making them heavily import-dependent. On the other hand, Russia and Saudi Arabia produce far more than they consume, positioning them as dominant exporters with substantial geopolitical leverage. While India accounts for 5.0% of global oil consumption, it produces only 1.1%, highlighting a significant reliance on imports.

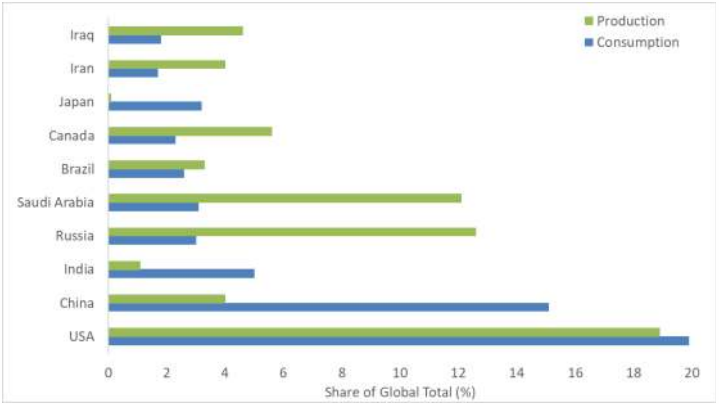
Emerging industrial markets such as China, India, and countries in Latin America have a significant influence on oil prices due to their increasing energy needs driven by rapid economic growth. According to the Energy Institute, the Asia-Pacific region accounted for 85% of the Global South's oil demand—and 47% of global demand overall—led by major economies such as China, India, Indonesia, Japan, and South Korea.

Box 1: Energy Trilemma Cycle



Source: World Energy Council

Figure 2 Crude Oil Consumption vs Production (2023–2024)



Source: U.S. Energy Information Administration (EIA), MVIRDC WTC Mumbai calculations

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