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EDITORIAL ANALYSIS

West Asia Ceasefire Won't Quickly Calm Energy Markets

INDIAN EXPRESS

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GS3

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INTERVIEW ANGLE



"Despite the April 9 ceasefire, energy market disruptions from the US-Iran conflict will persist for months. What structural reforms should India pursue in its energy security architecture to reduce vulnerability to West Asian shocks?"

The April 9 ceasefire ending the 39-day US-Iran conflict will not quickly restore calm to global energy markets. The Indian Express argues that infrastructure damage, elevated insurance premiums, supply-chain rerouting, and geopolitical uncertainty will keep energy markets turbulent for months — and that India, as the world's third-largest crude importer, must treat this moment as a structural wake-up call rather than a temporary disruption to weather passively.

WHY MARKETS WON'T NORMALISE QUICKLY

1. Physical Infrastructure Damage

The conflict damaged key nodes in the Gulf energy supply chain:

- **Strait of Hormuz:** Though now open, tanker traffic is returning cautiously — insurers are requiring higher risk premiums for the corridor
- **Iranian export facilities:** Kharg Island facilities (handling ~90% of Iran's crude exports) sustained damage; full restoration timeline uncertain
- **Shipping rates:** During the conflict, freight rates via the Hormuz corridor rose 35-40%; these elevated rates persist even as traffic resumes because shipping companies are building in geopolitical risk buffers

2. Insurance and Risk Premium Lag

War-risk insurance premiums for vessels transiting the Persian Gulf spiked during the conflict and typically take **12-24 months to fully normalise** after a ceasefire — because maritime underwriters require sustained, incident-free operations before restoring pre-war rates. In the near term (weeks), partial rate reductions occur,

but the full normalisation cycle is measured in months to years. This adds 2-4% to per-barrel import costs for Indian refiners well after physical supply returns.

3. Inventory Drawdown and Refill Dynamics

Global strategic petroleum reserves were drawn down during the conflict — particularly by the US and IEA member nations. The refill process adds demand pressure on crude markets precisely when supply is trying to normalise, creating a demand-supply gap that sustains elevated prices.

4. Geopolitical Uncertainty Premium

Markets price in residual uncertainty: Will the ceasefire hold? Will Iran’s Houthi proxy in Yemen re-escalate attacks on Red Sea shipping? The **geopolitical risk premium** typically embedded in Brent crude takes 3-6 months to dissipate after a ceasefire, depending on post-conflict political signals.

INDIA’S EXPOSURE — THE NUMBERS

INDICATOR	VALUE
India’s crude import dependence	~88-89% of total crude requirement
Annual crude import bill (pre-conflict)	~\$130-140 billion
Every \$10/barrel price increase	Adds ~₹80,000-85,000 crore to annual import bill
GCC/Gulf share of India’s crude imports	~60%
Brent crude peak during conflict	~\$112/barrel
Brent crude post-ceasefire (immediate)	~\$95-100/barrel range

A sustained \$10-15/barrel premium over pre-conflict levels translates into a **₹80,000-1,25,000 crore** addition to India’s annual import bill — equivalent to 0.3-0.5% of GDP hitting the current account.

INDIA’S STRUCTURAL VULNERABILITIES

Strategic Petroleum Reserve — Inadequate

India’s Strategic Petroleum Reserve (SPR) capacity: ~5.33 million metric tonnes (approximately 9-10 days of import cover across Visakhapatnam, Mangaluru, and Padur facilities). The IEA recommends **90 days** of net import cover for member nations. India’s cover is structurally insufficient for a prolonged supply disruption.

Proposed SPR Phase 2: Chandikhol (Odisha) and Padur expansion — capacity of additional 6.5 MMT — has faced delays. The West Asia disruption provides strong argument for prioritising Phase 2.

Rupee Depreciation Amplification

Crude oil is priced in USD. When crude prices rise, India's import bill increases in USD — AND the rupee typically weakens against the dollar (because higher oil spending increases dollar demand). The double effect amplifies the domestic cost impact: higher USD price + weaker rupee = disproportionately higher INR cost.

Lack of Long-Term Supply Agreements

India's crude procurement is predominantly through spot market purchases. Gulf states like China have negotiated **long-term supply agreements (LSAs)** with guaranteed volumes at agreed price formulas — providing both price predictability and supply security. India's LSA coverage remains limited, leaving refiners exposed to spot market volatility.

THE EDITORIAL'S PRESCRIPTIONS

Immediate (6-12 months)

- ❶ **Excise duty cuts on petrol and diesel** to prevent domestic fuel price spikes from fully passing through to consumers and CPI inflation
- ❷ **SPR drawdown activation protocol** — India should have a clear, pre-agreed trigger framework for when to release SPR (e.g., Brent sustained above \$100/barrel for 30 days)
- ❸ **Currency hedging mandates** for oil PSUs (IOCL, BPCL, HPCL) — RBI and MoPNG should mandate forward currency hedging for at least 30-40% of import requirements

Structural (2-5 years)

- ❶ **SPR Phase 2 fast-tracking** — Chandikhol and Padur expansion to reach 30-day cover by 2028
- ❷ **Long-term supply agreements** — India should negotiate LSAs with Saudi Arabia, UAE, and Iraq (India's top suppliers) covering 40-50% of import requirements
- ❸ **Renewables acceleration** — Every percentage point of crude import substitution through domestic renewables (EVs, solar manufacturing, green hydrogen) reduces West Asia vulnerability permanently

UPSC RELEVANCE

GS3 (Economy): Energy security, Strategic Petroleum Reserve, current account deficit, oil price transmission to CPI.

GS2 (IR): India-West Asia energy diplomacy, long-term supply agreements, India's import dependence.

Key data for Mains:

- India SPR capacity: 5.33 MMT (Visakhapatnam + Mangaluru + Padur) — ~9-10 days import cover

- IEA recommended: 90 days net import cover
- India oil import share from Gulf: ~60%
- War-risk insurance normalisation timeline: 6-12 weeks post-ceasefire

The Iran ceasefire does not end energy market disruption — infrastructure damage, insurance premiums, inventory refill dynamics, and geopolitical risk premiums will sustain elevated crude prices for months. India must use this moment to fast-track SPR expansion, negotiate long-term supply agreements, and mandate currency hedging for oil PSUs.

India SPR: 5.33 MMT (~9-10 days cover); IEA standard: 90 days; \$10/barrel rise = ₹80,000-85,000 crore additional import bill; Brent peak during conflict: ~\$112/barrel

Strategic Petroleum Reserve, energy security, current account deficit, long-term supply agreements, war-risk insurance, crude import dependence

India imports ~88% of its crude oil, mostly from the Gulf. Given that West Asian conflicts will recur, is India's energy security architecture adequate — or is the SPR Phase 2 delay a structural policy failure?

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