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India's Energy Security Challenge: Diversifying Crude Oil Imports

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Summary

Prices of India's crude oil imports are increasing as the Iranian conflict intensifies. India needs to look for diversification options, including from the United States, Australia and Canada.

The price of India's basket of crude oil imports is beginning to increase. As the conflict in Iran intensifies and the possibility of United States (US) military intervention rises, the price might increase further.

India's crude oil import prices have not experienced major disruptions in the Financial Year 2026 thus far. Beginning from US$67.7 (S$91.40) per barrel in April 2025, the monthly price of the crude basket rose to almost US$71 (S$95.85) in July 2025. Thereafter, the price began declining, especially from October 2025, when it touched US$65.00 (S$87.75). It softened even further to US$60.00 (S$81.00) in early January 2026. However, since last week, the basket price has moved northward to almost US$64 (S$86.40).

India's crude oil imports comprise the 'sour' Dubai variety, along with the 'sweet' Brent crude. The former accounts for around three-fourths of the total crude imports. It is sourced from the Middle East, with the largest oil fields located in the United Arab Emirates (UAE) and Saudi Arabia. The predominance of the sour crude in India's crude oil basket is clear from the high share of the Middle East as a sourcing region. Nearly 45 per cent of India's crude imports are from the Middle East.

Due to healthy supplies from the Gulf oil fields, the price of the Dubai variety held steady in 2025. This, in turn, helped in keeping the price stable for the Indian basket. However, over the last few days, the price of the Dubai variety has been rising, following political turmoil in the Middle East, along with the price of the Brent crude variety. Taken together, the Indian basket has begun feeling the heat.

Global crude oil prices are bracing for volatility in anticipation of an impending US military strike on Iran. The strike will not only disturb the production of Iranian oil but also affect oil production in the rest of the Middle East due to troubled political conditions. As regional supplies drop, the shortage will force global crude oil prices to rise. The global demand for oil stays high since it is winter in most parts of the world; large emerging markets like China and India continue to import high volumes of crude oil; and the artificial intelligence (AI)-driven data centre boom is raising demand for electricity and oil.

The major Organisation of the Petroleum Exporting Countries (OPEC) member states, such as Saudi Arabia, Iran, Iraq, Kuwait and the UAE, are in the Middle East. If supplies are hit in

Iran, and the regional political situation deteriorates, then other OPEC members from the region will not be able to ramp up production at once. Venezuela – another key OPEC non-Gulf member – will take time to resume production under US monitoring. The outlook for crude oil prices, especially regional varieties that have higher weightage in the Indian basket, is, therefore, on an upward trajectory.

A higher price for the crude basket is not India's only worry at this stage. More damage to its exports can arise from US President Donald Trump's announcement of further 25 per cent tariffs on countries doing business with Iran. While India's sourcing of oil from Iran has significantly reduced over the years, it still trades with Iran in non-oil products, including exporting basmati rice and pharmaceuticals, and importing dry fruits and chemicals. The volume of overall bilateral India-Iran trade is a little more than US$1 billion (S$1.35 billion). While it is not clear whether the proposed 25 per cent tariffs by Trump will apply to all countries trading with Iran, or only its largest trade partners, India would still be worried, as more US tariffs will further cripple access for many Indian exports to the US market.

With global crude oil prices turning volatile, India might be forced to source more stable supplies of crude oil. The US crude oil could be one of these. The Western Texas Intermediate crude oil – a median benchmark for various US crude oil varieties – is showing stable prices. For India, though, shipping costs for sourcing the US crude will be higher compared with sourcing from the Middle East. These costs again need to be compared with the costs arising from uncertainties of sourcing from Asia and can make the US choice more economical.

From a long-term perspective, India should also focus on other sources of crude oil, such as the Canadian and Australian blends. In this regard, it is not just the price of the imported variety and shipping costs that are important. The domestic cost of refining and processing the imported crude is significant in eventual cost calculations, along with insurance costs. All these calls for India to take a hard look at its crude oil basket for greater diversification in sourcing.

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