India’s Energy Crossroads: Balancing Domestic Reforms with Global Alliances

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On 12 March, the Lok Sabha passed the Oilfield (Regulatory and Development) Amendment Bill, 2024. The bill intends to reform the legal framework to streamline exploration and production processes by reducing bureaucratic hurdles and encouraging private investment, potentially attracting foreign expertise in advanced extraction techniques.

The act introduces four key changes:

- Redefines ‘mineral oil’: Expands the definition to include hydrocarbons, coal bed methane, and shale gas/oil.
- Delinks petroleum from mining operations: Simplifies compliance by removing the need for mining-specific clearances and resolving procedural gaps.
- Expands the center’s powers: Enables rule-making on emission reduction, shared oil processing units, lease

mergers, and dispute resolution.
- Decriminalizes offences: The amendment eliminates imprisonment as a penalty for violations such as non-compliance with regulations, conducting petroleum activities without a valid lease, non-payment of royalties, and repeated violations. Instead, these violations are now treated as civil offenses, subject only to financial penalties, increasing from INR 1,000 to up to INR 25 lakh.

The Oilfields Amendment Bill is at the heart of the current strategy to secure a short-term scramble for oil and gas, unfolding on multiple fronts, driven by regulatory, economic, and geopolitical imperatives.

India’s energy security has reached a critical juncture, where recent regulatory shifts are not just about streamlining domestic procedures but addressing broader strategic imperatives. The bill reflects India’s immediate efforts to navigate supply challenges following disruptions from key oil partners. At the same time, it aligns with the larger framework of political commitments forged during PM Modi’s recent visit to Washington, signaling deeper integration of energy policy with diplomatic engagements.

Unlocking Domestic Potential: The Oilfields Amendment Bill and India’s Untapped Reserves

This bill comes at a time when the domestic produce of oil is declining at the annual rate of 3%, which currently (FY24) stands at 29.4 million tonnes (mt), decreasing significantly from 36 mt in FY17. With imports already at a high of 89% of its total crude oil consumption for FY 2024 i.e., 234 mt, it is not expected to go down in the near term. Moreover, India’s failure to meet an earlier target of reducing imported oil to

67% by 2022 has proven elusive. This increasing reliance on imports has strained the trade balance and heightened India's vulnerability to geopolitical shocks and price volatility in global markets.

Amid this challenge, India is estimated to have 42 billion tonnes (approximately 307.86 billion barrels) of untapped oil and oil-equivalent gas reserves. A significant portion of these resources is attributed to shale oil and gas, with an estimated 87 billion barrels yet to be explored and developed particularly in the Cambay, Jaisalmer Basin, and Assam-Arakan Fold Belt. Expanding the definition of 'mineral oil' effectively invites global players with technological expertise in shale extraction, a sector where American firms like Exxon and Chevron excel, given their experience with hydraulic fracturing and horizontal drilling. Their know-how, proven in the competitive landscapes of the US, perfectly positions them to lead joint ventures and technology transfers in India.

In the past, Exxon and Chevron had partnered with Indian public sector companies like ONGC & HPCL. However, concerns over inadequate protection against expropriation and the absence of neutral arbitration mechanisms limited their engagement. Recognizing these concerns, Union Minister for Petroleum and Natural Gas Hardeep Singh Puri addressed the issue at the Energy Transition Summit 2024, where he promised a legislative framework to encourage foreign investors to re-engage with India's energy sector. This move strategically enhances India's appeal to international players, especially as the 10th licensing round under the Open Acreage Licensing Policy (OALP) approaches, where shale oil prospects will be a crucial draw for bidders.

Geopolitical Balancing Act: Navigating Russian Sanctions and American Partnerships

On the imports side, India continues to rely on Russian crude oil despite new sanctions on Russian fleets. Recent reports indicate that Russian oil companies are resorting to cryptocurrency transactions to facilitate sales to India and China. However, this approach carries notable risks. As sanctions on Russian oil tighten and geopolitical risks persist, Indian refiners are gradually turning to US crude. While US oil offers political and supply reliability benefits, it comes with significantly higher freight costs due to longer shipping distances and logistical complexities. Estimates suggest that the extra transportation cost for US oil can be around USD 4 per barrel, compared with as little as USD 1.5 per barrel for oil sourced from the Middle East. This difference represents a substantial opportunity cost, as the higher delivery expense eats into the profit margins of Indian refiners and, over time, could translate into higher prices at the pump. Moreover, switching from West Asian suppliers—whose proximity ensures lower shipping costs and shorter lead times—to US suppliers involves adapting refinery configurations to handle different crude grades, adding further operational challenges and costs.

The stakes are further raised by India's broader geopolitical maneuvering. The political leverage gained by buying US oil could strengthen ties with the Trump administration. While concerns over reciprocal tariffs loom large, India is considering fixing a certain quantum or quota of its total oil imports for sourcing crude from the US, which would be higher than the current share of supplies from the US. Currently, the US comprises 4.53% of total oil imports to India, and is its fifth-largest supplier. During PM Modi's recent Washington visit, Trump claimed that both parties have reached an agreement on making Washington "a leading supplier of oil and gas to India" which could help bridge the trade deficit between the two countries. However, analysts, and people with direct knowledge of the developments, say that although oil imports from the US are set to rise, it is unlikely that the US would become India's top supplier.

Looking Ahead: Production Forecasts and Strategic Adaptation

India's crude oil production is poised to decline further in the immediate future as the newly introduced mechanisms take time to translate into tangible output. Fitch Ratings has forecasted a 3% drop in FY25, underscoring the ongoing challenges in reversing the production slump. However, modest growth is expected by FY27, driven by output from ONGC's offshore KG Basin field and privately operated sites. This incremental rise is unlikely to alter India's dependence on imports significantly in the short term.

It is expected that India will radically reform regulations and invite foreign oil majors to explore both onshore and offshore drilling as it races to extract as much oil as possible while there remains a market for crude.

In response to its heavy import reliance, India is expected to persist with its strategic diversification efforts, blending discounted Russian oil with increasing volumes of US crude. Meanwhile, New Delhi is exploring ways to construct a sanctions-proof supply chain for Russian oil, underscoring its intent to sustain Moscow as a vital energy partner. Simultaneously, India is expected to strike a delicate balance with Washington, potentially conceding higher US oil import quotas to appease President Trump ahead of the 2 April reciprocal tariff deadline.