The Hormuz Disruption and India's Growing Energy Challenge

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The war in the Middle East has entered a new, protracted phase, with no clear off-ramps or exits visible yet. Contrary to some expectations in India, the Iranian regime has survived, and the divergence of war aims and assessments between Israel and the U.S. has become clearer by the day. This development, combined with Iran's easy-to-enforce chokehold on maritime transport of energy supplies through the Strait of Hormuz, has led to a broader policy pivot in New Delhi towards the war.

This pivot has seen India engage in proactive, transactional, and cooperative diplomacy with Iran. This has come with the assumption that the regime may indeed survive the war and is also triggered by a looming energy crisis within India that requires improved ties with Iran and reliance on its good offices. As of 18th March, India has been able to facilitate the transit of two (out of 24) India-flagged and bound oil

tankers. In this Blindspot, we elaborate on the contours of the energy crisis facing India and its broad policy ramifications and implications.

Prior to the war, India did not consider the possibility of a blockade of the Strait of Hormuz as a strong possibility. Hence, India's position and stance towards the conflict (via both omissions and commissions) were unaffected by this factor. However, the negative economic ripple effects of the conflict have spread very rapidly into India, already affecting the daily lives of millions of its citizens.

Given that the conflict still shows no signs of abating, and that energy-related dislocations are likely to continue even after a ceasefire, the Indian government is likely to focus on offsetting grave economic challenges—directly influencing its conflict-related choices and policies.

India faces a stronger challenge vis-à-vis LPG and LNG given that its import-dependency on Gulf states is higher, diversification options more challenging, and strategic reserves far more limited than crude sources. Indian media and news reports have mostly covered anecdotal stories about LPG shortages leading to panic booking of gas cylinders, cuts and shutdowns in restaurant/eateries, and government initiatives to divert supplies from the industrial sector to households.

The government has sought to procure Russian oil (30 million barrels purchased within a week), diversify sources (more challenging for LPG and LNG), ration usage based on priority sectors, and encourage alternative and more reliable energy sources (CNG, PNG, biofuel, wood sources). It has also been considering stronger measures to stem panic buying, rumor mongering, and hoarding. However, the shortage is real and likely to worsen, as the war escalated on 18 March.

As of 11 March, reports suggested that India's top gas importer, Petronet, had made cuts as deep as 30%. State fuel

retailers such as Indian Oil Corp, Hindustan Petroleum, and Bharat Petroleum Corp have reported declines in LPG sales in the first half of March of up to 26.3% compared to the same period last month. Sales of jet fuel by the three retailers have also declined by 12.3% compared to previous month.

The crisis is also beginning to acquire broader proportions. Concerns over fertilizer supply have begun to surface, along with fears of generalized inflation as a result of higher agriculture, logistics, and industrial input costs. Curbs in industrial production are also being witnessed as a result of shortages and government offset policies.

Additionally, there are growing concerns that the aftershocks are still limited as of now owing to the arrival of both LNG-carrying tankers from Qatar, as well as the absorption of Russian oil via tankers that had remained stranded without buyers in the Indian Ocean till now. As these supplies are exhausted, future supplies are not assured, given that no further oil tankers have sailed towards the Strait since the start of the war, and Gulf states themselves have stopped production and shipments.

Electricity supply, grids & fertilisers

Notably, millions of households and eateries have either shifted to or procured electric induction cookers. According to a spokesperson for Amazon, "Over the last two days, sales of induction cooktops have increased 30X". This pivot to electric-based cooking is beginning to raise concerns over the crisis extending to the power sector.

Under the government's revised priority order, power generation has been given lowest priority—after domestic consumption, transport, and fertilizer. This has affected the operations of gas-based power plants, thus raising questions over reliable electricity supply to metropolitan cities such as Gurugram and Bangalore. Power data shows that Gurgaon's

daily electricity consumption rose from 269 lakh units (March 6) to 350 lakh units in just nine days, intensifying concerns over strain on the city's power grid, exacerbated by an unusually hot spring season

According to reports, India faces a 20-25% exposure to fertilizer supply chain disruptions, given that it India had recently increased its dependence on Gulf suppliers (especially Nitrogen fertilizers/urea and ammonia, DAP and Potash) after facing supply-side disruptions vis-à-vis China.

India may have to pivot back to China for such supplies. This will be challenging, given that China has instituted new policies to safeguard its own fertilizer stockpiles and is facing increasing requests from Asian countries such as the Philippines. Meanwhile, two national Fertiliser Limited plants in Punjab have halted production (urea and ammonia) due to LNG supply cuts. This has led to some political discontent, as the AAP government in Punjab has pointed to the continued functioning of a similar plant in BJP-ruled Haryana.

What lies ahead?

As the energy crisis deepens, India's foreign policy is likely to rely more on improving relations with Iran and will reflect growing skepticism towards the ongoing war. India's calls for a return to dialogue and peace are likely to become more assertive. As many South Asian countries also suffer from the crisis in different ways, India is likely to consider and execute various forms of energy/economic assistance. This has already occurred vis-à-vis Bangladesh, and talks are ongoing with other South Asian countries.

However, there will be significant limits to India's ability to assist its neighbors, as the government scrambles to further secure and fulfill domestic demand. Furthermore, India's economic dependence on China is likely to increase in the short to medium term, given the need for fertilizers ahead

of the key Kharif and Rabi sowing seasons (June). India is also likely to seek to increase domestic production of both LPG and coal in order to offset shortages.

Meanwhile, Indian villages that have always faced unreliable electricity supply will, unfortunately, revert to cooking with wood fires, along with all the attendant health costs and environmental degradation. There is also a growing consensus that India really has no ability to address the LPG shortage through currently available means. The tankers that remain stranded are carrying 3.2 Lakh tonnes of LPG—equivalent to only three days' worth of national consumption.

Ongoing shipments from Russia, U.S., Canada and Norway alleviate the short-term stress, but still fall significantly short of overall demand (representing only one to two days' worth of consumption). In this context, the most recent strike on the South Pars gas field in the Strait of Hormuz has been received with widespread dismay and shock within India's strategic community, leading to notable expressions of anger against what is termed as Israel's 'reckless actions'.