

## **OIL SURGES: INTERNATIONAL RELATION**

**NEWS:** Why oil prices are increasing amidst Iran-Israel tensions

### **WHAT'S IN THE NEWS?**

The Iran-Israel conflict has heightened fears of oil supply disruptions via the Strait of Hormuz, causing a global oil price surge. India, which imports 80% of its crude, remains vulnerable despite diversification and must strengthen its energy security measures.

#### **Context and Trigger**

- The Iran–Israel conflict has escalated into a strategic flashpoint, sparking concerns over global energy disruptions.
- The immediate result was a sharp spike in Brent crude oil prices, rising nearly 9% to touch \$78.50 per barrel on June 13, 2025 – the highest level in five months.

#### **Relevance**

- GS Paper 3: Relevant for topics under “Energy”, “Infrastructure”, and “Indian Economy – Effects of Global Events”.

#### **Importance of the Strait of Hormuz**

- The Strait of Hormuz is a narrow maritime chokepoint linking the Persian Gulf with the Arabian Sea.
- It is vital for global energy flows, with around 20 million barrels per day (or 25% of the world's traded oil) passing through it.
- Iran has repeatedly threatened to blockade this route in response to geopolitical tensions, which creates panic in global energy markets.

#### **Global Impact of Closure Threats**

- Key oil-exporting countries—Saudi Arabia, Iraq, UAE, Kuwait, Qatar, and Iran—depend on the Strait of Hormuz to ship crude oil.
- A majority of the oil passing through the strait (84%) is destined for Asian countries such as India, China, South Korea, and Japan.
- Any disruption would result in delays, rerouting, higher freight and insurance costs, which eventually leads to rising oil prices globally.

#### **Global Oil Market Outlook (IEA June 2025 Report)**

- Despite geopolitical uncertainties, the International Energy Agency (IEA) reports the market is "well supplied".
- Oil demand is expected to rise by 720,000 barrels/day in 2025, while supply is projected to increase by 1.8 million barrels/day, reaching a total of 104.9 million barrels/day.
- Inventories also increased by 93 million barrels in May, providing a short-term buffer.

## Iran's Production and Role

- Iran's own oil exports are less influential due to longstanding U.S. sanctions.
- Iran mainly exports discounted crude to China, bypassing much of the global market.
- The real risk from Iran lies not in its oil output but in its potential to obstruct global flows via the Strait of Hormuz.

## India's Exposure and Preparedness

- India is the third-largest crude oil consumer globally and imports around 80% of its total oil needs.
- Currently, India does not import oil directly from Iran due to U.S. sanctions.
- However, a rise in global oil prices directly impacts India's import bill and trade balance.
- India has diversified its energy sources by increasing imports from Russia, the U.S., Latin America, and Africa, as confirmed by Union Petroleum Minister Hardeep Singh Puri.

## Economic Implications for India

- Short-term price spikes are manageable as they come off a period of relatively low prices.
- ICRA has retained its GDP forecast at 6.2% for FY 2025–26.
- But if high oil prices persist:
  - Input costs for companies will rise, hitting profit margins.
  - Capital expenditure (capex) plans may be delayed.
  - Import bills could swell, increasing the current account deficit.
  - Inflationary pressures may return, affecting consumer spending and fiscal balance.

## Strategic Takeaways for India

- India needs to enhance its **Strategic Petroleum Reserves (SPR)** to buffer against global supply shocks.
- It should intensify **energy diplomacy**, especially with the Gulf Cooperation Council (GCC), Africa, Russia, and Central Asia.
- Encourage **domestic oil exploration** and fast-track the shift to **renewable energy** to reduce import dependency.
- Strengthen logistical infrastructure and port capacity for crude handling and refining.

## Conclusion

- The Strait of Hormuz remains a critical vulnerability in the global oil supply chain.

- For India, the Iran-Israel tensions are a reminder of the urgent need for long-term energy security through diversification, domestic production, and diplomacy.
- Ensuring economic stability requires a resilient energy strategy aligned with external risks and internal policy frameworks.



*Source:* <https://www.thehindu.com/business/Economy/why-oil-prices-are-increasing-amidst-iran-israel-tensions-explained/article69705699.ece>