

On Iran oil crisis, India needs a long-term strategy

US President Donald Trump's decision to renege on the US-Iran deal had created considerable disquiet in India, given its implications on our energy security. Iran is a major exporter of petroleum to India, and the US will want India to cut back and eventually eliminate its oil imports from Iran within less than four months. This newspaper had taken a position that the US cannot push India into cutting back its oil imports from Iran.

Recent data from the petroleum ministry is bound to worsen these worries. In response to a Lok Sabha question, the petroleum ministry has given statistics which show that oil imports from Iran accounted for almost one-fourth of our total oil imports from the West Asian countries in the first quarter of this fiscal year. The share of Iran in total oil imports from the region has jumped by almost ten percentage points in this period compared to what it was in the fiscal years 2016-17 and 2017-18. While oil trade is extremely crucial for Iran's economy, India also stands to gain from it. Price of oil imports from Iran has always been less than that of Saudi Arabia since 2016-17. If India were to stop its oil trade with Iran, it would face a double whammy: lose a supplier of cheap oil and face even greater price because of the supply shock, which Iran's exit from the global oil markets will create.

To be sure, it is still not clear whether India will cease its oil imports with Iran. The government's reply in the Lok Sabha has steered clear of answering the question whether refiners have been asked to prepare for such eventualities. This could be a manifestation of the government still being undecided or not wanting to show all its cards at the moment. An oil shock will hurt even more at a time when the global economy is staring at the prospect of a trade war, inflation is worsening, and a depreciating rupee is threatening to jeopardise macroeconomic stability.

Having said all this, we also need to understand that India's high import-dependence on its energy needs mean that it is always vulnerable to sudden shocks — geopolitical or otherwise — in the global petroleum markets. Our import dependence in oil is a big reason why India cannot exploit policies such as currency devaluation to make its export competitive, as increased oil bills offset gains in exports.

While diplomatic efforts must be made to find an interim solution to the crisis at hand, there are no substitutes to pursuing the long-term goal of self-sufficiency in energy.

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