

Fuelling the new normal

India is bearing a high cost to insulate motorists, kitchens and flyers from large-scale disruptions in fuel supply

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The world's biggest ever energy crisis, caused by the war in West Asia, is creating only a few ripples in the consumption pond of the world's third-largest oil user — that's the message coming through from top Indian officials, executives at Indian oil companies and motorists.

Going by their cheerful demeanour and sanguine statements, fuel supplies to retail outlets are on track, cooking gas bottles, barring a few hiccups, are finding their way into Indian kitchens, and commercial gas supplies are returning to normalcy.

There is little doubt that signs of normalcy are visible on the ground — barring intermittent queuing for diesel and petrol in some states, reports of diesel shortages in semi-urban and rural areas in Punjab, and rationing of fuels in Rajasthan.

Demand for fuels in India does not reflect the fact the country lost access to over half of its supplies of crude oil and liquefied natural gas (LNG, used by industries) and 90 per cent of its LPG (liquefied petroleum gas, used by households) in one stroke from early March — when Iran virtually blocked the Straits of Hormuz, the world's most critical passage for fuels.

Normalcy is also visible in the scores of ships entering Indian ports, carrying LPG, LNG and crude oil from across the world. Imports of crude oil averaged 4.8 million barrels per day (bpd) in May, at par with an average of 4.86 million bpd for all of 2025, and 4.6 million bpd in the three months to May, according to industry data provider Kpler. Imports of LNG totaled 2.2 million tonnes last month, in line with 2025's average monthly imports of 2.07 million tonnes.

However, LPG has been a casualty, despite claims by New Delhi of copious supplies. Imports totalled only 1.15 million tonnes in May, averaging 1.1 million tonnes in the March-May period, a record low. That compares with 1.94 million tonnes on an average in 2025, Kpler data showed.

Absorbing losses

"In the near term, once the crisis



LPG imports averaged 1.1 million tonnes in the March-May period, a record low

became real, the management of the situation has been exemplary," said Kaustubh Verma, managing director and partner, BCG India. "Despite significant challenges and financial pressures, India has largely been able to continue servicing priority demand commitments, even in cases where this involved absorbing losses."

India is paying a very steep price to insulate motorists, households and domestic flyers from large-scale disruptions to fuel supplies — a price much higher than what its poorer South Asian neighbours and richer nations in the West are paying, refiners said.

Subsidies on LPG and fertilisers for this financial year may more than double to over \$40 billion, around 7 per cent of India's 2025-26 budgeted spending of \$560 billion, as Prime Minister Narendra Modi's government goes on a fiscal limb to protect motorists and farmers if the war in West Asia stretches until July, according to analysts, international price forecasters and senior refining officials.

Shielding from impact

	Petrol	Diesel	Per capita income 2024 (\$)	Consumer support actions
Iran	0.029	0.006	5,190	None
Bangladesh	1.14	0.94	2,593	None
India	1.13	1.02	2,695	Cut taxes/capped fuel prices
USA	1.27	1.48	84,534	None
Israel	2.93	2.78	54,177	None
Europe average	NA	2.27	NA	None
Poland	1.74	1.84	25,104	Cut VAT on fuel/capped retail fuel prices
Netherlands	—	2.65	67,520	Nil
Turkey	1.42	1.46	15,893	Lower fuel tax on oil
China	1.39	1.25	13,303	None
Brazil	1.32	1.38	10,311	Expanded fuel subsidies/capped diesel tax
South Africa	1.60	2.07	6,267	Extended cut to fuel levy
Indonesia	0.73	1.46	4,925	Increased state budget for fuel subsidies, including subsidised LPG
World average	1.54	1.58	NA	NA

Petrol and diesel prices in \$/litre
Source: International Road Transport Union; The World Bank; Global Petrol Prices.com; International energy Agency; Consumer fuel protection measures

And this does not take into account the tens of thousands of crore in revenue loss from sales of transport fuels by oil marketing companies (OMCs) for the entire financial year, the compensation for which is unclear, according to top analysts and senior refining officials from state oil companies.

Other nations

Most other nations have avoided a fiscal burden on their country's balance sheet. Indian OMCs have increased prices of petrol and diesel by around 5 per cent only, which after taxes still stays at 8 per cent.

By contrast, prices of petrol in the US have increased by over 35 per cent, while the average diesel was at \$1.5 per litre (₹142/l) on May 21, up 46 per cent since February 27 — a surge that threatens the electoral prospects of many Republican Congressmen.

In the European Union, the average diesel price is €1.942 per litre (₹216/l), a 19 per cent increase since the start of the war, according to the Geneva-based

International Road Transport Union (IRU). The Netherlands has the highest price at €2.4 per litre, while countries like Spain saw increases of as much as 35 per cent. Shortages are also on the rise in France and Hungary, IRU said.

Prices spiked across Asia, too. Myanmar and Malaysia saw petrol prices soar 56-90 per cent; Pakistan saw a 54 per cent increase. Bangladesh increased diesel prices by 15 per cent.

Bangladesh also limited fuel supply for vehicles. Indonesia limited purchases of subsidised fuel; and Myanmar rationed fuel with quotas set by engine size. Pakistan implemented a four-day work week and 50 per cent remote work on the remaining days; Sri Lanka has closed public offices on Wednesdays and introduced a nationwide QR code-based fuel rationing system for private cars and motorcycles.

While French fuel consumption declined 14 per cent on-year over the first three weeks of May, Indian Oil, India's biggest seller of fuels, reported growth in retail sales of diesel and gaso-

line for May 1-22 by 18 per cent and 14 per cent, respectively, from a year earlier.

Sustaining demand

Sustaining Indian demand and mostly uninterrupted supplies has come at an exorbitant cost, analysts said. The level of under-recoveries are unsustainable, said Prashant Vasishth, senior vice president and co-group head, corporate ratings, Icra.

Until May 13, just two days before OMCs increased prices of petrol and diesel by ₹3/litre, oil companies lost as much as ₹20/litre — because crude oil prices were \$111/bbl, according to Mumbai-based Dam Capital.

"We are losing ₹25,000 crore every month on diesel, petrol and LPG," two senior refining officials told *Business Standard*. Unlike LPG or fertilisers, these losses, as of now, are borne by state oil companies, indicating an indirect subsidy.

Prior to the war and the government cutting excise duty on petrol and diesel by ₹10 per litre in April, the price of petrol and diesel at the pump was aligned with \$80 per barrel of crude oil. Diesel averaged \$86 a barrel and petrol \$75 per bbl in February, the peg for pump prices at Indian retail outlets.

These benchmarks have drastically changed. Diesel averaged \$187 per bbl in March and \$188 a bbl and \$150 per bbl in April and May on free on board basis; petrol averaged \$129 per bbl, \$128 per bbl and \$131 per bbl in March, April and May respectively, according to Petroleum Planning & Analysis Cell (PPAC) data. These rates exclude transport costs and taxes.

But three OMCs — Indian Oil, BPCL and HPCL — increased the prices of petrol and diesel by only around 8 per cent, including taxes, in four instalments in May.

"The government would avoid a single, politically explosive increase and instead opt for a staggered, calibrated series of hikes designed to soften public backlash while steadily transferring the burden to consumers. That strategy now appears to be firmly in motion," said Manoranjan Sharma, chief economist, Infomercs Ratings.

"The larger concern is that this may

only be the beginning. Unless tensions in West Asia ease dramatically — and there is little evidence of that at present — further increases in fuel prices seem inevitable."

That is yet to happen though. And until then the losses will keep mounting.

In the Budget for FY27, presented in February, a month prior to the attack on Iran by the US and Israel, the government budgeted the LPG subsidy at ₹17,500 crore and for fertilisers at ₹1.7 trillion. At that time, Saudi contract LPG prices were less than half of today's prices. In response, OMCs increased household LPG prices by just 7 per cent in early March. A senior trader with a state refiner said they were bleeding every day but had to secure supplies in the interest of the nation.

Despite the latest hike in retail prices of auto fuels, oil marketing companies' under-recoveries remain stubbornly

high due to increasing losses in domestic LPG sales and a high premium to the crude market. At current crude oil prices and after increases in petrol and diesel prices, Icra estimated under-recoveries of ₹516 crore daily, of which, around ₹300 crore would be towards LPG, Vasishth said. This does not include under-recoveries on jet fuel, which oil ministry officials said were around ₹30 per litre, which he said would add another ₹93 crore daily in under-recoveries.



“A CALIBRATED APPROACH OF SMALL DAILY PRICE REVISIONS LINKED TO CRUDE PRICES IS THE SAFEST AND MOST SUSTAINABLE MODEL”

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Former Chairman, BPCL

Other consequences

"Fiscal accommodation in the context of the uncertain global macroeconomic outlook, including revenue-eroding measures, could impede progress towards debt reduction and exacerbate already weak debt affordability," Icra's parent US ratings agency Moody's said in its report dated March 31, which cut India's GDP growth to 6 per cent in FY27 from 7.3 per cent in FY26.

"The crisis has also highlighted certain long-term structural gaps in the country's energy strategy," Verma said. "Greater investments in exploration and production of crude oil and natural gas could ideally have been undertaken 15-20 years ago, given that energy capex cycles are extremely long in nature."

"A calibrated approach of small daily price revisions linked to crude prices is the safest and most sustainable model," said G Krishnakumar, former chairman, BPCL. "The adjustments are gradual, consumers barely notice them, and prices stay in sync with market."