India’s LPG Dependence on the U.S.: Energy Security Risks and Diversification

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India’s LPG Dependence on the U.S. Latest News

- Union Minister of Petroleum and Natural Gas Hardeep Singh Puri recently revealed that **67%** of India’s liquefied petroleum gas (LPG) now comes from the **United States** — a dramatic shift from the earlier practice of sourcing only about 10% from America.
- This transformation, driven by disruptions in the Strait of Hormuz, raises important questions about India’s energy security strategy.

Background: Why the Shift Happened

- India is the **world’s second-largest LPG importer**, relying on imports for about 60% of its consumption, with nearly **90%** traditionally passing through the **Strait of Hormuz**.
- When the Strait faced disruptions this year, India’s LPG imports from West Asia fell by almost 85% between February and June 2026.

- To manage this crisis, **India turned to the U.S.,** backed by a long-term deal for 2.2 million tonnes for 2026 signed by state-run oil refiners.
- U.S. imports rose to 0.77 million metric tonnes in June alone, up 19.4% from May.

Why Over-Reliance on the U.S. Is Risky

- Diversifying away from **West Asia** was a prudent crisis response, but shifting overdependence to a single new source — especially one with a history of using **energy as a foreign policy tool** — carries its own risks.
- The U.S. has previously used financial sanctions, export controls and technology restrictions against countries like Iran, Russia and Venezuela.
- Even in commercial ties, Washington can influence third-country transactions, as seen in proposed legislation like the ***Lindsey O. Graham Sanctioning Russia and Iran Act of 2026***, which proposes steep tariffs on major buyers of Russian oil and gas.
- Unlike West Asian supplies, which are largely governed by long-term Sale and Purchase Agreements (SPAs), U.S. energy exports are more exposed to shifting trade and political agendas.

The Economics: Losing Proximity Pricing

- Geography matters in LPG trade. Shipments from the Gulf typically take just 5-10 days, while **U.S. shipments take 25-35 days**.
- Though U.S. LPG (Mont Belvieu propane-based) can be cheaper at the point of production, West Asian LPG (Saudi Aramco CP) is **usually cheaper on arrival** due to shorter shipping distances — though this calculus has temporarily shifted due to elevated geopolitical risk.
- Notably, Gulf benchmark prices (Saudi CP) surged nearly 46% between February and June 2026, from about $543 to $790 a tonne, making the costlier but more reliable U.S. cargoes relatively attractive.

Why Cooking Gas Is a “Political Fuel”

- For India, LPG is not just a commodity but a politically sensitive one — shortages can trigger social and political consequences.
- This is why the government’s priority during the crisis was ensuring availability rather than optimising costs, even if it meant paying more for U.S. supplies.

Hidden Risks: Currency and Fiscal Pressure

- While India may have reduced its exposure to Strait of Hormuz risk, it now faces other vulnerabilities — **commodity price swings, dollar fluctuations and freight costs**.
- If U.S. inflation stays high, the Federal Reserve may keep interest rates elevated, strengthening the dollar and raising the rupee cost of each imported cargo.
- If domestic LPG prices are kept artificially low despite rising global prices and a weaker rupee, oil marketing companies face wider under-recoveries.

- The government has already informed Parliament that accumulated under-recoveries of public sector oil marketing companies (OMCs) crossed ₹59,000 crore as of July 31, 2026.

The Domestic Production Gap

- India's LPG demand continues to outpace domestic supply.
- As of July 1, 2026, PSU oil companies (Indian Oil, Bharat Petroleum, Hindustan Petroleum) had 33.14 crore active domestic LPG customers, growing at a compound annual growth rate of 7.6% between 2015 and 2026.
- In the first quarter of FY27, domestic LPG production stood at just 4.3 million metric tonnes against consumption of 6.5 million metric tonnes.
- In response to the crisis, refineries were directed to maximise LPG output, and daily production was ramped up from 34,000 tonnes to 55,000 tonnes at the peak of the disruption — production rose 35.73% year-on-year in Q1 FY27.

The Way Forward

- Experts suggest India should look **beyond both West Asia and the U.S.** for diversification.
- **Australia** offers strategic advantages — it lies in the **Indo-Pacific**, outside the Hormuz chokepoint, and offers shorter shipping routes than the U.S., though its export volumes remain small.
- **Argentina, Nigeria and Angola** could offer additional strategic agility, though none can replace Gulf volumes at scale.
- The core principle of energy security is not simply substituting one dependence for another, but ensuring no single supplier holds excessive leverage.
- This requires strengthening domestic production, diversifying supply chains, improving forex hedging tools for OMCs, and building larger strategic reserves.

Conclusion

- India's pivot to U.S. LPG solved an immediate crisis but created new vulnerabilities tied to dollar strength, U.S. trade politics and shipping costs.
- True energy security lies not in swapping one dependency for another, but in building diversified, resilient supply chains alongside stronger domestic production capacity.

Source: **TH**