

Saudi Arabia's Oil Policy: Implications for Global Markets and India

October 27, 2025 • vajiramandravi.com



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Global Oil Market Latest News

- Last week, eight OPEC+ countries unveiled plans to advance their planned phase-out of voluntary oil output cuts by ramping up output by 411,000 barrels per day in May, equivalent to three monthly increments.

Background

- Global oil markets are once again under the scanner as Saudi Arabia signals a shift in its production strategy.
- With plans to gradually unwind its voluntary output cuts, the kingdom is positioning itself to influence global prices in the backdrop of an increasingly volatile geopolitical and economic environment.
- These strategic moves are closely linked with OPEC+'s larger objectives and could have far-reaching consequences on countries heavily reliant on oil imports, particularly India.

Saudi Arabia's Strategy: From Supply Cuts to Market Share Defense

- In recent years, Saudi Arabia had taken the lead in voluntarily cutting oil production to stabilize plummeting prices during the COVID-19 pandemic and its aftermath.
- However, with global demand rebounding and supply-side dynamics shifting, Riyadh is now looking to reverse some of those cuts.
- According to reports, **Saudi Arabia is contemplating the gradual phasing out of its voluntary production cuts starting in Q3 2024.**
- This move is seen as a calculated step to regain market share that it had ceded to non-OPEC producers like the United States and Russia.

OPEC+ Coordination and Global Impacts

- Saudi Arabia's decisions do not exist in isolation.
- As a leading member of the **Organization of the Petroleum Exporting Countries and its allies (OPEC+)**, its production strategies are coordinated efforts aimed at avoiding a price crash.
- However, the strategy also carries the risk of being countered by competitive responses from other oil producers.
- There is growing speculation that if oil prices rise too sharply, it could trigger a new wave of supply from the US shale sector and other producers, thereby nullifying Saudi Arabia's attempts to maintain price discipline.

Impact on Global Oil Prices

- Oil prices have been relatively stable in the first half of 2025, with Brent crude hovering around \$85 per barrel. However, **any aggressive shift by Saudi Arabia could result in either of two outcomes:**
 - A price surge, if OPEC+ restricts supplies beyond market expectations.
 - A price slide, if Saudi Arabia's return to full production leads to oversupply amid weak global demand.
- The balance between these scenarios will depend heavily on geopolitical stability, demand trends in China and the US, and how other major producers react.

India's Position

- India, as the **world's third-largest importer of crude oil**, remains highly sensitive to such shifts.
- While rising prices strain India's import bill and impact inflation, any price correction improves the macroeconomic outlook.
- According to an Indian Express report, India has so far not protested the ongoing oil price spirals, suggesting that it might be capitalizing on diplomatic channels to ensure a steady supply at competitive rates.
- Furthermore, India's diversification efforts, such as increasing imports from Russia and investing in energy infrastructure, are partially insulating it from abrupt market shocks.

Strategic Takeaways for India

- **Energy Diplomacy:** India continues to maintain strong ties with major oil-producing nations including Saudi Arabia, ensuring leverage during tight supply scenarios.
- **Diversification of Imports:** India is importing more from non-traditional partners like Russia, Brazil, and West Africa to reduce dependency on OPEC nations.
- **Strategic Reserves:** Expansion of the **Strategic Petroleum Reserve (SPR)** has been prioritized to cushion against future price volatility.
- **Transition Push:** Rising oil prices have further incentivized the government to accelerate its transition toward electric mobility and renewable energy.

Conclusion

- Saudi Arabia's evolving oil policy signals a critical moment for global energy markets.
- While its intention to unwind production cuts may bring short-term relief from high prices, it could also destabilize the market if not coordinated effectively with OPEC+ and other producers.
- For countries like India, such developments reaffirm the importance of strategic preparedness, ranging from energy diplomacy to diversification and sustainability investments.

Global Oil Market FAQs

Q1. Why is Saudi Arabia unwinding its oil production cuts?

Ans. To regain market share and respond to rebounding global demand.

Q2. How does Saudi Arabia influence global oil prices?

Ans. As a leading OPEC+ member, it controls a large share of global oil supply, affecting prices directly.

Q3. What is the impact on India due to rising oil prices?

Ans. It increases the import bill and inflation but also encourages diversification and transition to renewables.

Q4. How is India mitigating the impact of global oil price fluctuations?

Ans. Through import diversification, strategic reserves, and diplomatic engagements.

Q5. What could be the risk of Saudi Arabia increasing production too fast?

Ans. It could lead to oversupply, causing a sudden drop in oil prices.

Source: IE | Oil Price

Source: <https://vajiramandravi.com/current-affairs/saudi-arabias-oil-policy-implications-for-global-markets-india/>

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