

Iran Oil Relief: How Iran Oil Relief Could Benefit India's Energy Security

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Iran Oil Relief Latest News

- As the West Asia conflict chokes global oil supplies and pushes prices sharply higher, the US is considering temporarily removing sanctions on Iranian crude oil already at sea — a move that could significantly benefit India, once a major buyer of Iranian oil.

Background: How Did We Get Here

- In response to the US-Israel offensive that began on February 28, Iran effectively choked vessel movements through the Strait of Hormuz.
- The Strait accounts for one-fifth of global oil and LNG flows.
- Its effective closure, combined with attacks on energy infrastructure across the region, has caused a sharp surge in global oil prices.

- While some oil is being rerouted through alternative passages, the bulk of supply through the Strait has gone offline.

Why This is Strategically Significant

- Amid rising oil prices due to the West Asia conflict, the US is considering easing sanctions on Iranian crude already at sea to stabilise supply.
- This would be a temporary and partial unsanctioning, not a permanent policy shift.
- The Iranian oil, if released, would primarily divert supplies that were previously heading to China — redirecting them to global markets.
- It mirrors the earlier month-long universal waiver on sanctioned Russian crude, suggesting the US is willing to use sanctions policy flexibly as an economic weapon.

Can India import Iranian oil

- With the US weighing a temporary suspension of sanctions on Iranian crude already at sea, the big question is — will India seize the opportunity?
- Industry analysts say Indian refiners are well-placed to act fast if a waiver is announced.

India's Historical Ties with Iranian Oil

- India was once a major buyer of Iranian crude, importing significant volumes of Iranian Light and Heavy grades.
- Key reasons: strong refinery compatibility and favourable commercial terms (discounted pricing).
- Following US sanctions tightening in 2018, India stopped Iranian imports from May 2019, replacing those volumes with Middle Eastern, US, and other grades.

Current Iranian Oil Availability

- Estimated 170 million barrels of Iranian crude currently on the water, including floating storage and in-transit cargoes (Kpler data).
- A portion of this remains unsold — representing potential incremental supply if sanctions ease or enforcement weakens.
- This is a significant swing factor in global crude flows.

Can Indian Refiners Handle Iranian Crude

- Indian refiners retain the ability to re-integrate Iranian barrels with minimal operational adjustments, given:
 - Prior experience in processing Iranian grades
 - Presence of established trading setups
- The transition would be similar to how India rapidly scaled up Russian crude imports after Western sanctions created an opportunity.
- India's rapid pivot to Russian oil after Western sanctions offers a clear blueprint for Iran. Analysts say a similar rapid increase could be seen with Iranian crude if conditions align.

India's Oil Import Vulnerability — The Bigger Picture

- India depends on imports for over 88% of its crude oil requirement.
- 2.5–2.7 million bpd of India's crude imports — roughly half of total oil imports — have transited the Strait of Hormuz in recent months (longer-term average: ~40%).
- The Strait's effective closure has made diversification of supply sources — including potential Iranian crude — an urgent energy security priority for India.

India-Iran Oil Trade: A History of Sanctions, Deals, and Disruptions

- India has not imported any Iranian oil since May 2019, when the US sanctions waiver for major Iranian crude buyers expired.
- Complying was non-negotiable — non-compliance would have exposed Indian oil companies to US secondary sanctions.

Pre-Sanctions Era: Iran as a Key Supplier

- In 2009-10, India imported 22.1 million tonnes of Iranian crude — 14.4% of India's total oil imports of 153.6 million tonnes.
- Iran was a regular and significant supplier even during earlier, milder sanctions periods.
- As international sanctions tightened — hitting **payment channels and logistics** — import volumes steadily fell during 2010-15.

The Innovative Rupee Payment Mechanism (2012-2015)

- During the peak sanctions period, India and Iran devised a workaround:
 - Indian refiners paid 45% of oil payments in rupees into accounts held by Iranian banks in India.
 - Iran used these rupees to buy Indian goods — effectively a barter-linked arrangement.
 - The remaining 55% was deferred until sanctions were lifted.
 - Once the Iran nuclear deal (JCPOA) formally lifted sanctions, all pending payments were cleared.
 - Major Indian buyers during this period: Essar Oil (now Nayara Energy) and MRPL (Mangalore Refinery and Petrochemicals).

The Post-Nuclear Deal Boom (2015-2017)

- With sanctions lifted, Indian imports surged sharply:
 - 2015-16: 13.6 million tonnes
 - 2016-17: 27.1 million tonnes — Iran became India's third-largest oil source, behind only Saudi Arabia and Iraq
- Iranian oil accounted for 12.6% of India's total crude imports of ~215 million tonnes in 2016-17.
- Iran sweetened the deal by offering Indian refiners discounted shipping and extended credit periods.

The Second Decline: Trump, Tensions & Diversification (2017-2019)

- Volumes began falling again from 2017-18 (22.6 million tonnes) due to three factors:
 - India-Iran tensions over development rights of a gas field in Iran.
 - India's deliberate diversification of oil supply sources.
 - Trump's withdrawal from the JCPOA and reimposition of sanctions — the defining factor.
- A US waiver was granted to major buyers, but it expired in May 2019. Imports crashed to just 2 million tonnes in 2019-20 and went to zero thereafter.

Source: IE

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