

● ENERGY TRANSITION

OPEC FUNCTION OF HAVING A BUFFER BETWEEN GEOPOLITICAL SHOCK & ECONOMIC SLUMP CAN'T BE JETTISONED

Architecture of oil is breaking

WHEN THE UNITED Arab Emirates (UAE) announced on April 28 that it was leaving OPEC; markets lurched and analysts called it "historic" and "seismic". Some said it signals the "the beginning of the end of OPEC". The harder question, though, isn't what to call it. It's what comes after, and who absorbs the cost.

The exit is a culmination of a long-running fracture that has been widening for decades. When OPEC was founded in Baghdad in 1960, it controlled over half of the globally traded crude. It was 52.5% in 1973, the year its members brought the Western world to its knees with an embargo that more than doubled oil prices within months. That was OPEC at the height of its power: a cartel that could, and did, move the entire global economy by turning a single dial. As of 2025, that share stands at 36.7%. The UAE was OPEC's third-largest producer, pumping around 3.4 million barrels per day against a production capacity of 4.85 million—a gap that had been a source of friction for years. With it gone, that share shrinks further. As Charles-Henry Monchau, CIO of Swiss private bank Syz Group, put it: "OPEC will continue, but with materially less ability to set prices".

The reason for this erosion isn't primarily the UAE's departure. The US has been the world's largest oil producer since 2018, pumping 13.6 million barrels a day last year, more than Saudi Arabia and Russia. When shale arrived, it changed the geometry of global oil permanently. Any price floor OPEC establishes effectively subsidises American shale to return. OPEC has spent a decade trying to manage this dynamic. The compliance problem was also real since Kazakhstan and the UAE itself had both exceeded agreed produc-



AMIT KAPOOR

Chair, Institute for Competitiveness
X: @kautiilya

tion levels. When the rules apply unevenly and the financial cost of following them runs into billions, the exit door eventually looks rational. Then came the immediate context: fellow OPEC member Iran attacking UAE infrastructure, closing the Strait of Hormuz. OPEC's first post-UAE decision, raising production by 188,000 barrels per day from June, is largely symbolic while movement is constrained. More telling is where pricing power has actually migrated. With Gulf producers unable to export what they produce, influence over oil prices has shifted to the United States which is now the world's largest producer, now effectively setting the marginal price. This is the logical endpoint of a decade-long trend: OPEC moving from price-setter to price-taker in a market it once owned.

However, OPEC, for all its imperfections, performed one function that markets do not naturally provide: it maintained spare capacity as a buffer against supply shocks. The current crisis has made that function visible by its absence. Global spare crude production capacity has effectively collapsed with most of it physically trapped in the Gulf and inaccessible. North Sea Dated crude oil is trading around \$130 per barrel, \$60 above pre-conflict levels. The International Energy

Agency has been forced to release 400 million barrels of emergency reserves, the largest coordinated stock release in its history, simply to prevent markets from seizing entirely.

Shale responds to price signals, not geopolitical shocks. A more fragmented oil market, which is the logical destination of OPEC's continued weakening, is not automatically a more stable one. It could be one of sharper cycles, deeper crashes, and more violent spikes. OPEC survived the Iran-Iraq war, Venezuela's collapse, and countless internal ruptures. The UAE's departure doesn't just reduce OPEC's headcount, but it also removes the stabilising logic of the organisation.

The question now is who all will absorb the volatility. Rich countries have strategic petroleum reserves, diversified energy mixes, and fiscal capacity to ride out supply shocks. The US, which now sets the marginal oil price, is also the world's largest producer. For the US, a more volatile, less coordinated oil market is manageable and, in some readings, even beneficial.

For the 2.3 billion people worldwide, who still lack access to clean cooking, especially in sub-Saharan Africa and South Asia, the calculation is different. When LPG prices spike, the alternative isn't just

a portfolio adjustment but a return to unconventional methods which have their own downsides. India, which imports 85-88% of its crude, has every reason to welcome a UAE unconstrained by production quotas; more supply, more competition, and lower prices over time. However, India is also the country most exposed when coordination breaks down, and prices don't fall gradually, they spike violently.

Institutions built on collective interest are rarely tidy and OPEC was no exception. The more important question, as the organisation loses its grip on a market it once shaped, is not what it was doing wrong. It is what happens to the function it performed, however imperfectly, in a world where no one else is performing it.

Sheikh Yamani, Saudi Arabia's long-serving oil minister, once told his fellow OPEC members that the Stone Age did not end for lack of stone and that the Oil Age would end long before the world runs out of oil. While he was right about the direction, the question was never whether the transition would happen. It was always about how well the world would manage it. A more fragmented energy market is not inevitably a more dangerous one, but it will require new thinking about coordination, stability, and who bears the cost of getting it wrong. The institutions that replace OPEC's stabilising function may look very different from OPEC itself. They may be bilateral agreements, regional frameworks, or mechanisms we have not yet imagined. However, the function itself of maintaining some buffer between geopolitical shock and economic collapse is not one the world can afford to abandon. The energy transition will be judged not just by how clean it is, but by how stable.

With inputs from Meenakshi Ajith, Development Policy Lead, Institute for Competitiveness

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Oil markets wrong on Iran?

Despite the biggest oil supply disruption in history, markets remain slow to react

ILLUSTRATION: BINAY SINHA



There is one great mystery in the Iran conflict: The behaviour of the oil markets. This is said to be the largest disruption in the history of oil markets. Yet the markets have been pricing oil at levels well below what analysts believe the fundamentals warrant. Either the analysts are fools. Or the markets have been hopelessly myopic. We should know in the weeks ahead.

After the Iran conflict erupted in late February, oil prices stayed well below \$100 in the initial days. Experts concluded that the conflict would not last more than four to six weeks. The disruption to the world economy would not be considerable.

The notion that the disruption in oil supplies would cease immediately if the conflict stopped within four weeks or so was absurd. As *The Economist* (April 30) points out, production at oil wells cannot be switched on in a trice — it takes several weeks for production to return to normal. Tankers that have switched to other routes have to return to the Persian Gulf, again a time-consuming process. Refineries that were out of action for want of crude oil supplies have to be restarted. The disruption in oil supplies was bound to stretch well beyond any cessation of the conflict.

The oil markets — and the experts who relied on them — were proved wrong. The conflict did not end in four to six weeks. It has stretched to over 10 weeks and is still on. The worry is whether the oil markets are reflecting the Iran situation adequately even now. Analysts do not think so.

The oil markets' big failure was not anticipating Iran's ability and willingness to close the Strait of Hormuz. They seem to have assumed that because this had not happened in the past, it would not happen now. Iran's leaders had issued very explicit warnings about how the country would retaliate to an American attack. These warnings were not taken seriously by the United States administration or the oil markets.

The Economist estimates that the closure of the Strait of Hormuz has taken out supply equivalent to 10 per cent of global consumption over the last two months. Oil prices have been slow to react to a shortfall of this magnitude. In the past, smaller shortfalls in supply had caused much larger increases in oil prices.



FINGER ON THE PULSE

T T RAM MOHAN

It took nearly three weeks from the outbreak of the conflict for oil prices (Brent crude) to touch \$100 per barrel. At the time of writing, it is \$112 per barrel. This is the price of a three-month futures contract for July 2026. Thereafter, the market sees the oil price dropping to \$104, \$99 and \$95 in August, September and October respectively.

What do the oil markets know that analysts don't? The current oil prices are difficult to square with the supply-demand balance in the oil market. Still less do they square with the status of the conflict between Iran and the US-Israel alliance. Analysts believe that President Donald Trump's upbeat messaging on the course of the conflict — "we are close to a resolution", "it will end soon", and such like — has had much greater effect on the oil markets

than is warranted. If the analysts are right, the world economy could soon be in serious trouble.

Even at levels the oil prices have seen thus far, the impact on the world economy will be significant. The International Monetary Fund's World Economic Outlook (April 2026) assumes an average petroleum spot price of \$82 per barrel for 2026, in what it calls its "reference" forecast. In this scenario, global growth falls to 3.1 per cent in 2026, from 3.4 per cent in 2024. That is 0.2 percentage points below the IMF's January forecast before the Iran conflict broke out. This fall does not capture the full magnitude of the impact of the Iran conflict. But for the Iran conflict, the IMF reckons, global growth would have been 3.4 per cent or the same as last year.

How realistic is the assumption of an average price of \$82 per barrel of oil for 2026 as matters stand today? In the first four months of this year, Brent crude has averaged \$87. Most analysts believe that if the Strait of Hormuz remains closed for another four weeks, oil prices will shoot up to well above \$125, perhaps even touch \$150 per barrel.

If that happens, the prospects for the world economy are truly dire. If oil prices average \$100 per barrel, the IMF estimates global growth to drop sharply to 2.5 per cent. At a price of \$110 per barrel, growth will drop to 2 per cent, which is close to global recession.

Despite the conflict, US growth in the reference forecast would be 2.3 per cent in 2026, higher than the 2.1 per cent in 2025. While the world languishes, the US remains relatively unaffected. This may explain its appetite for the conflict in the first place. But it's not as if the US has not been impacted by the Iran war. Before the war broke out, US growth in 2026 was projected at upwards of 2.5 per cent.

There is an important fact that has got obscured in the revised growth forecasts consequent to the Iran war. The war has impacted the world economy in a way in which Trump tariffs had not. Economists had warned of the folly of US tariffs and the grave consequences that would follow. They have ended up looking foolish.

Three points are worth highlighting. First, world economic growth was unscathed by the Trump tariffs in 2025 and it was poised to remain unscathed in 2026. Secondly, US growth in 2026, following the tariffs, is projected to be higher than in 2025.

Most dramatically, world trade growth grew by a phenomenal 5.1 per cent in 2025, up from 3.7 per cent in 2024. Expansion in technology-related exports offset slower growth in other categories. China reoriented its exports from the US to Asia and Europe and recorded a new high in goods trade surplus of \$1.2 trillion.

President Trump's instincts about tariffs have been proved right — they benefitted the US economy without harming the world economy. What a pity his instincts have let him down on Iran.

ttrammohan28@gmail.com

The Gulf's broken compass points to India

For decades, the Gulf followed a simple formula: Buy American security, sell oil to all, and keep options open elsewhere. It delivered immense prosperity, but also a contradiction now exposed by the West Asia crisis: Outsourcing security to a superpower whose interests never fully matched its own. The alternatives it courted, China, Türkiye, or Iran, had structural limitations. The result is a Gulf dependent on America, threatened by Iran, wary of Israel, courted by China, and still seeking a dependable partner.

After the United Kingdom's withdrawal in the late 1960s created a security vacuum, the United States (US) became the Gulf monarchies' chief protector. That role deepened after the Iranian Revolution, the Iran-Iraq War, and Iraq's invasion of Kuwait. But as US focus shifted to the Indo-Pacific, Gulf states hedged against unreliability. Economic prosperity and global links made dependence on one patron increasingly unacceptable.

The old model of outsourced security began giving way to search for strategic autonomy. Saudi outreach to Iran, the UAE's ties with China, and the independent diplomacy of Oman and Qatar reflected this shift. Saudi Arabia refused to align with Israel after October 2025, casting doubt on the Abraham Accords. Saudi Arabia and the UAE also diverged over Yemen, each seeking to pursue its own strategic interests.

However, the 2023 Beijing-brokered Saudi-Iran rapprochement, built on the belief that economic interdependence could soften political hostility, failed decisively. Despite rising trade, renewed diplomatic ties, and efforts to avoid Gulf escalation, Iran struck Saudi. Even Qatar and Oman, the region's most committed mediators, were hit by Iranian missiles.

The current crisis has made it clear that the US security relationship is contingent on Washington's domestic politics and shifting global priorities. The US' use of force in the region is on its own terms, for its own objectives, and on its own timeline and not to Gulf preferences. Worse, it is the Gulf that must bear the consequences of any American action.

China's primary interest in West Asia is energy

flows and market access, not regional security. China is the world's largest LNG importer, with Qatar and the UAE supplying about 30 per cent of its LNG imports. But Iran is also China's largest regional trading partner, and the 2021 Comprehensive Strategic Partnership made Iran part of the Belt and Road Initiative (BRI). Those deep ties divide China's interests in any Gulf crisis.

Türkiye's divided support makes it unreliable. It seeks influence across the Arab world, retains links with Muslim Brotherhood networks, invokes Ottoman nostalgia, and pursues assertive ambitions in the Eastern Mediterranean and West Asia.

Against a backdrop of broken alliances and misaligned interests, India's relationship with West Asia is fundamentally different. It rests on five millennia of civilisational continuity. Indus Valley merchants and the dhow routes linking Kozhikode and Muscat predate every modern state in the region. Many among India's 170 million-plus Muslims retain deep social and familial ties with the Gulf. Over 9.5 million Indians, including 3.5 million in the UAE, live and work in West Asia. For millions of Indian Muslim families, the Hejaz is a lifelong ambition. Bollywood commands vast Gulf audiences. Indian cuisine is ubiquitous from Dubai to Muscat. Indian languages are heard in Gulf

souks as naturally as Arabic. The Gulf Cooperation Council (GCC) is India's largest regional trading bloc, accounting for 15.4 per cent of India's trade in FY25. West Asia supplies over 60 per cent of India's crude imports, while 80 per cent of India's external trade passes through the region. The 2022 India-UAE Comprehensive Economic Partnership Agreement, concluded in just 88 days, underlines both shared interests and historic trust. The 2023 India-Middle East-Europe Economic Corridor envisions a trade spine linking India through the Gulf to Europe, reinforcing historical trade links.

India has, however, been slow to add a security dimension to its relationship. Even though joint military exercises are conducted, India does not have an

operational security relationship as it has with Sri Lanka, the Maldives, the Philippines or Mauritius.

The current crisis raises the question whether India and the Gulf should consciously elevate their relationship to a strategic one. India has no territorial ambitions in the region. It does not have a history of using the region as a proxy battlefield for its own contests with rivals. India's deep civilisational and demographic ties create genuine mutual interest in stability. It has a growing economic presence. And above all, India has the diplomatic credibility to maintain relationships with all parties, the Gulf states, Iran, Israel, and the global powers. India is the only significant power that all parties trust, or at least do not distrust.

India does not have to be the region's security guarantor. Possibly something more durable: A deeper India-Gulf strategic partnership, where India has a stake in Gulf security and the Gulf in India's economic rise. The framework for this could include an India-Gulf security and maritime compact focused on naval coordination, maritime domain awareness, anti-drone defence, cybersecurity, and protection of sea lanes in the region. It could also encompass an India-Gulf defence industrial partnership through joint ventures in drones, missile systems, cyber and artificial intelligence surveillance, secure communications, and maintenance hubs, combining Gulf capital with India's growing defence innovation ecosystem. Indian startups could be scaled with government backing, while systems such as the BrahMos missile could strengthen Gulf security. An energy-to-technology corridor could cover strategic petroleum reserves, LNG, green hydrogen, semiconductors, and critical minerals. The accelerated implementation of the India-Middle East-Europe Economic Corridor could be supported through ports, logistics zones and rail links. Finally, India's Unified Payments Interface could be integrated with Gulf financial networks.

The Gulf's broken security compass, if read honestly, points towards India.

The author is chairman, UPSC, and former defence secretary. The views are personal



OFF THE GRID
AJAY KUMAR



PARLIAMENTARY PANEL TO REVIEW DOMESTIC PETROLEUM OUTPUT

RAKESH KUMAR @ New Delhi

AMID the oil supply crisis in the country due to the ongoing conflict in West Asia, the Parliamentary Standing Committee on Petroleum and Natural Gas is set to review the domestic production of petroleum products and the country's energy security preparedness.

The committee, chaired by Sunil Tatkare, has scheduled a critical briefing for May 15, 2026. According to a note issued by the Lok Sabha Secretariat, officials from the Ministry of Petroleum and Natural Gas, oil marketing companies, and oil PSUs, along with representatives from the

Ministry of Chemicals and Fertilizers (Department of Fertilizers), will brief the panel on the domestic production of petroleum products such as crude oil, petrol, diesel and natural gas in the country.

The discussions will also cover the subject "Safety and Security in Transportation of Petroleum Products." India, which imports nearly 88% of its crude oil requirements, relies heavily on the Strait of Hormuz route, which accounts for 40% of crude imports, 50% of LNG imports and nearly 90% of LPG imports. Due to the ongoing war in West Asia, vessel movement through the strategic chokepoint has reduced significantly.



कच्चे तेल में नरमी से रुपये को मिली मजबूती

अंजलि कुमारी
बई, 7 मई

कच्चे तेल की कीमतों में गिरावट से डॉलर के मुकाबले रुपया आज लगातार दूसरे दिन मजबूत हुआ। अमेरिका और ईरान के बीच शत्रुता समाप्त करने के लिए अस्थायी समझौता होने की उम्मीद बढ़ने से तेल के दाम में नरमी आई है। इस खबर से मुद्रा बाजार में डॉलर की बिकवाली और शॉर्ट कवरींग को बढ़ावा मिला जिससे रुपया मजबूत हुआ।

ब्रेंट क्रूड के 100 डॉलर प्रति बैरल से नीचे आने से रुपया 0.39 फीसदी चढ़कर 94.25 प्रति डॉलर पर बंद हुआ। बुधवार को रुपया 94.61 प्रति डॉलर पर बंद हुआ था। ब्रेंट क्रूड कारोबार के दौरान 95.66 डॉलर प्रति बैरल के निचले स्तर पर आ गया था। इस बीच 10 वर्षीय सरकारी बॉन्ड की यील्ड 1 आधार अंक बढ़कर 6.93 फीसदी पर बंद हुई।

मुद्रा बाजार के डीलरों ने बताया कि तेल की कीमतों में नरमी से रुपये की गिरावट पर दांव लगाने वालों के स्टॉप-लॉस ट्रिगर हो गए जबकि नॉन-डिलीवरेबल फॉरवर्ड (एनडीएफ) बाजार में डॉलर की बिकवाली से रुपये को और मजबूती मिली। पिछले दो सत्र में डॉलर के मुकाबले रुपये 1 फीसदी से अधिक चढ़ा है।

आईएफए ग्लोबल के संस्थापक और मुख्य कार्याधिकारी अभिषेक गोयनका ने कहा, 'अमेरिका और ईरान की वार्ता

में संभावित सफलता की उम्मीद से कच्चे तेल की कीमतों में आई तेज गिरावट के कारण रुपये में अच्छी मजबूती देखी गई।' उन्होंने कहा, 'रुपये की शॉर्ट पोजीशन पर स्टॉप-लॉस और साथ ही नॉन-डिलीवरेबल फॉरवर्ड मार्केट में डॉलर की बिक्री ने रुपये को और मजबूती दी। तेल की कीमतों में आई व्यापक गिरावट ने एशियाई मुद्राओं को भी सहारा दिया।'

डॉलर के मुकाबले रुपया अच्छा प्रदर्शन करने वाली एशियाई मुद्रा रही। एशियाई मुद्राओं में केवल फिलीपींस की पेसो और मलेशियाई रिंगिट ने ही रुपये से ज्यादा बढ़त हासिल की। पश्चिम एशिया में संघर्ष शुरू होने के बाद मार्च में डॉलर की तुलना में रुपये में करीब 4 फीसदी की गिरावट आई थी। अप्रैल से अब तक यह 0.6 फीसदी मजबूत हुई है। हालांकि इस साल अभी तक रुपया 4.64 फीसदी कमजोर हुआ है।

नोमूरा की एक रिपोर्ट के अनुसार कच्चे तेल की ऊंची कीमतों से भुगतान संतुलन घाटा बढ़ने की आशंका है। वित्त वर्ष 2027 में इसके 68 अरब डॉलर रहने का अनुमान है। कुछ मीडिया रिपोर्टों के अनुसार भारतीय रिजर्व बैंक (आरबीआई) रुपये को सहारा देने के लिए विदेशी मुद्रा जमा जुटाने की योजनाओं पर विचार कर रहा है।

इस बीच आरबीआई को चार-दिवसीय वेरिएबल रेट रीपो (वीआरआर) नीलामी में कमजोर मांग प्राप्त हुई। बैंकों ने 75,000 करोड़ रुपये की अधिसूचित राशि के मुकाबले 10,795 करोड़ रुपये की बोली लगाई।



रुपये को दम

- ब्रेंट क्रूड के 100 डॉलर प्रति बैरल से नीचे आने से रुपये को दम
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