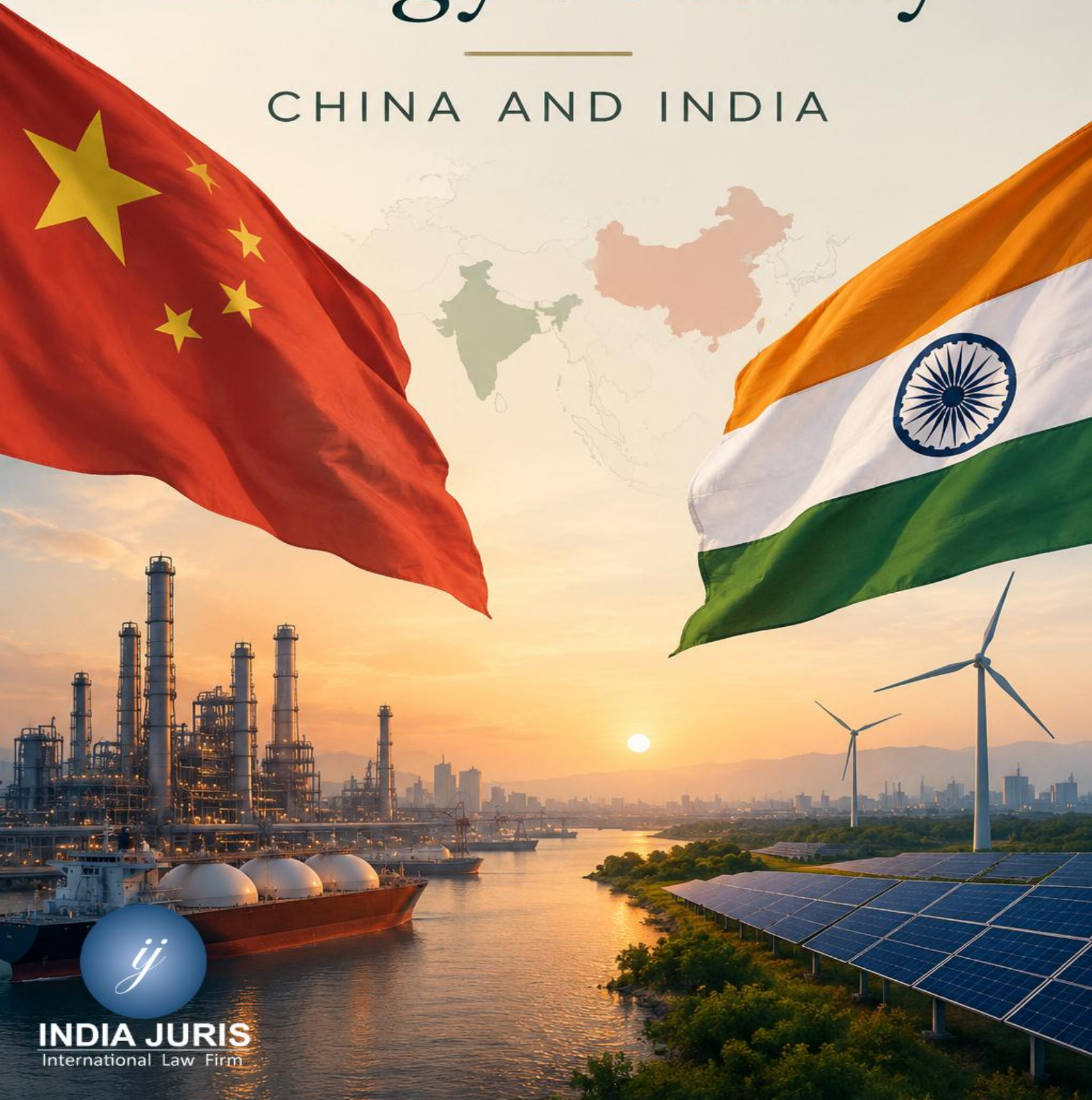


Comparative Energy Security

CHINA AND INDIA



INDIA JURIS
International Law Firm

Energy Resilience Amidst Oil Supply Disruptions: China's Legal and Regulatory Framework and Lessons for India

Since the outbreak of hostilities between the United States, Israel and Iran on 28 February 2026, and Iran's subsequent declaration on 4 March 2026 that it regarded the Strait of Hormuz as "closed" to shipping, the Strait has ceased to function as a reliable transit corridor for Gulf crude oil and liquefied natural gas ("LNG"). In 2025, the Strait carried approximately one-quarter of the world's seaborne crude oil and petroleum product trade and roughly one-fifth of global LNG trade. By early August 2026, daily transits had fallen from a pre-conflict baseline of approximately 130 vessels to single figures on several days. Brent crude, which traded at approximately USD 73 per barrel before the conflict, rose to over USD 100 per barrel in March 2026 and has since fluctuated at materially elevated levels. China has been significantly exposed to the crisis, with 44% to 54% of its crude oil imports and 45% to 50% of the crude oil volumes transiting the Strait of Hormuz originating in the Gulf. However, this exposure has been substantially mitigated by factors that are only partly legal in character, including substantial government and commercial crude oil inventories, estimated at approximately 1.39 billion barrels, equivalent to around 120 days of net imports, as of March 2026; diversified pipeline supplies from Russia and Central Asia; record domestic production and refining throughput; and a two-tier reserve system whose legal basis rests on administrative measures of the National Development and Reform Commission ("NDRC") and the National Energy Administration ("NEA"), rather than on a dedicated primary statute.

India's exposure to the crisis is more acute across the relevant indicators. India imported 88.7% of its crude oil requirements in 2025–26, while approximately half of its combined crude oil and natural gas imports transit the Strait of Hormuz. India's dedicated Strategic Petroleum Reserve, managed by Indian Strategic Petroleum Reserve Limited ("ISPRL"), a special purpose vehicle of the Oil Industry Development Board, has a storage capacity of only 5.33 million metric tonnes of crude oil across three underground caverns, sufficient to meet approximately 9.5 days of national consumption. Furthermore, approximately one-third of this capacity was reportedly unfilled when the crisis unfolded. In response to the disruption, the Government of India has exercised existing statutory powers, including invoking the Essential Commodities Act, 1955, to direct refiners on supply priorities for liquefied petroleum gas ("LPG") and natural gas, while continuing to rely on the windfall tax mechanism applicable to crude oil and petroleum product exports. India has also relied on a temporary United States Treasury sanctions waiver, the continuation of which is legally contingent, to facilitate the procurement of Russian crude oil cargoes stranded at sea.

The principal legal gap lies not in the absence of emergency powers, as the Essential Commodities Act, 1955 and the Petroleum Act, 1934 confer broad administrative powers on the Union Government over the supply and distribution of essential commodities and petroleum, but

in the comparatively limited reserves available to support the exercise of those powers. India's Strategic Petroleum Reserve is substantially smaller than China's, and India lacks a statutory obligation requiring private refiners and petroleum marketers to maintain minimum commercial stockholdings comparable to those prevalent in International Energy Agency ("IEA") member states. Furthermore, India continues to depend on ad hoc bilateral and multilateral diplomatic arrangements, exemplified by the recent waiver issued by the United States Treasury in relation to Russian crude oil, rather than on a comprehensive, codified framework for emergency preparedness and response.

2. Introduction: Energy Security and the Strait of Hormuz

The Strait of Hormuz, bordered by Iran to the north and Oman to the south, is the sole maritime outlet from the Persian Gulf to the Gulf of Oman and the Indian Ocean. It is the export route for the majority of crude oil produced by Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Iraq, Bahrain and Iran. Both China and India are structurally dependent on this single chokepoint: China because 44 to 54 per cent of its crude imports originate in the Gulf and up to half of its Hormuz-transiting volumes are of Middle Eastern origin; and India because nearly half of its combined crude and gas imports transit the Strait, against an import dependence of 88.7 per cent for crude and approximately 50 per cent for natural gas.

3. The Energy Supply Shock and Its Impact on Oil & Gas Markets

The conflict has affected the entire spectrum of energy security concerns. Physical energy security has been directly compromised, with shipping through the Strait of Hormuz declining from approximately 130 transits per day before the conflict to single-digit daily crossings on several dates, while Iranian forces have threatened and carried out attacks on tankers attempting to transit the Strait. Commercial energy security has been affected by substantial price volatility, with Brent crude rising from approximately USD 73 per barrel before the conflict to over USD 100 per barrel in March 2026 and remaining approximately 16% above pre-conflict levels by August 2026, notwithstanding an intervening ceasefire memorandum signed on 17 June 2026 that was not sustained. LNG logistics have also been directly disrupted. Petronet LNG, India's largest LNG importer, issued a force majeure notice to QatarEnergy after its tankers were unable to reach the Ras Laffan loading terminal, while Indian gas utilities, including GAIL and Indian Oil Corporation, began curtailing supplies to industrial customers.

Legal and regulatory energy security, understood as the capacity of governments to lawfully intervene to reallocate, ration or replace energy supplies, has been the dimension most actively tested in practice. India invoked the Essential Commodities Act, 1955 to direct the equitable distribution of natural gas and liquefied petroleum gas ("LPG"). The United States Treasury issued a 30-day sanctions waiver permitting Indian refiners to purchase Russian crude oil cargoes stranded at sea due to exposure to secondary sanctions. Within a week, this India-specific waiver

was broadened into a more general relaxation of the applicable restrictions. In addition, in response to elevated international oil prices, India increased the windfall tax on domestically produced crude oil from ₹ 6,800 to ₹ 9,600 per metric tonne, with effect from 16 April 2026, under its fortnightly tax revision mechanism.

4. China's Oil & Gas Market and Energy-Security Architecture

4.1 Domestic crude oil production

China's domestic crude oil production averaged approximately 4.3 million barrels per day in 2024, according to the U.S. Energy Information Administration (“EIA”), drawing on China's General Administration of Customs and National Bureau of Statistics data. China's National Bureau of Statistics reported that crude output rose by a further 1.5 per cent in 2025 to a fresh record, alongside record refinery throughput.

4.2 Crude oil imports

China imported 4.17 billion barrels of crude oil in 2025, worth US\$296.59 billion according to China's General Administration of Customs, making it the world's largest crude importer at an average of roughly 11 million barrels per day. Reported Middle Eastern shares of that total range from approximately 42 per cent (customs-reported, excluding relabelled Iranian barrels) to 54 per cent on broader estimates that include tanker-tracking data on Iranian crude routed through third-country relabelling. Russia was China's largest single supplier by volume in 2025, at 745.98 million barrels (17.8 per cent of the total), reflecting continued reliance on overland and short-sea, non-Hormuz routes.

4.3 Natural gas production and LNG imports

China's domestic natural gas production reached a record 261.9 billion cubic metres in 2025, representing a year-on-year increase of 6.2%. During the same period, total natural gas imports, comprising pipeline gas and LNG, declined by 2.8%, driven by a 10.6% reduction in LNG imports. These trends indicate a shift towards domestic production and pipeline supplies, whether driven by deliberate policy choices, market conditions or a combination of both, even before the outbreak of the 2026 conflict. Approximately 31% of China's LNG imports originate in the Middle East, with Qatar accounting for 28% of total LNG imports. However, when domestic production and pipeline imports are

4.4 Refining capacity China's refineries processed a record 14.81 million barrels per day of crude in 2025, an increase of 600,000 barrels per day year on year, driven by the ramp-up of new independent (“teapot”) capacity and additions at state-owned refiners. This substantial surplus refining capacity relative to import needs gives China materially greater flexibility to substitute crude grades and sources than a system operating near full utilisation.

4.5 China does not officially disclose the volume of its state-held strategic petroleum reserves. According to estimates by Kayrros, an independent geospatial analytics firm, China's total crude oil storage capacity utilised across state and commercial inventories stood at approximately 1.39 billion barrels in early March 2026, equivalent to around 120 days of net crude oil imports at 2025 levels. Separately, more than 46 million barrels of Iranian-origin crude oil were reportedly held in floating storage across Asia, with additional volumes held in bonded storage at the ports of Dalian and Zhoushan under lease arrangements with the National Iranian Oil Company. Although these figures do not establish the precise volume of China's strategic reserves, they provide an indication of the scale of its aggregate crude oil inventories and are broadly consistent with estimates identifying China's combined government and commercial reserves as among the largest globally. One secondary source estimated China's aggregate emergency reserves at approximately 1.3 billion barrels as of 2026.

5. How China Mitigates External Oil & Gas Supply Shocks

China is comparatively well-placed to weather a multi-month disruption of Middle Eastern crude supplies, but for reasons that are only partially legal or regulatory: substantial stockpiles, large volumes of discounted Iranian and Russian crude already committed or in transit, and demand-side flexibility from a refining sector operating with spare capacity. CNBC reporting citing Kpler's principal insight analyst similarly characterised China as “materially exposed but more flexible” than other large importers, attributing the flexibility to stockpiling and market access rather than to a specific statutory emergency power.

Mechanism	What China has in place	Relevance to disruption
Strategic reserves	NDRC / NEA / NFSRA-administered two-tier reserve; estimated ~1.39 bn barrels total storage (Mar 2026)	Materially reduces short-term vulnerability
Commercial inventories	Refiner and trader stocks, including bonded Iranian storage at Dalian/Zhoushan	Provides substitutable buffer distinct from strategic stock
Import diversification	Russia (17.8%), Middle East (44–54%), other suppliers across 105 countries in 2025	Reduces single-corridor dependence, though ME share remains high
Pipeline/overland supply	Russian and Central Asian pipeline crude and gas, bypassing Hormuz entirely	Structural, not readily replicable by India at comparable scale
Refining flexibility	14.81 mb/d throughput (2025 record); independent 'teapot' capacity	Enables grade/source substitution
State-owned enterprises	CNPC, Sinopec, CNOOC, Sinochem operate reserve sites and dominate upstream/midstream	Centralises operational control but is not itself a legal guarantee of resilience

6. China's Strategic Petroleum Reserve and Stockholding Framework

China's Strategic Petroleum Reserve (“SPR”) programme originated in the early 2000s, with construction of the first-phase facilities commencing in 2004 and a formal two-tier reserve system, comprising government-controlled strategic reserves supplemented by mandated

commercial reserves, announced in 2007. The first phase of government reserves comprised four sites at Zhenhai, Huangdao, Zhoushan and Dalian, with a combined storage capacity of approximately 103 million barrels. These facilities were filled by September 2009 and are operated by Sinopec, Sinopec, Sinochem and CNPC, respectively, while the underlying storage tanks remain state-owned.

Institutionally, oversight of the reserve has moved between agencies. A National Petroleum Reserve Centre was established in 2007 under the NDRC to oversee construction and crude purchase, distinct from the NEA's day-to-day energy-industry administration. Following China's March 2018 government reorganisation, management of oil and gas reserves passed to the newly created National Food and Strategic Reserves Administration (“NFSRA”), operating in conjunction with the NEA, with the NDRC retaining overall policy authority. A government notice cited by the Oxford Institute for Energy Studies indicates that the NEA formulates SPR plans and proposes purchase, storage and utilisation decisions, which the NFSRA then administers operationally.

China's Strategic Petroleum Reserve (“SPR”) framework is based on a combination of administrative measures and government policy documents issued by the National Development and Reform Commission (“NDRC”) and its subordinate agencies, rather than on a dedicated primary statute comparable to the United States' Energy Policy and Conservation Act, 1975. Stock rotation, involving the periodic release and replenishment of reserve crude oil, has functioned as an established policy instrument exercised through administrative notices rather than pursuant to a specific statutory or judicial release trigger. A documented example is the auction of reserve crude oil at Dalian in 2021, which was intended to alleviate raw-material cost pressures on domestic enterprises.

7. China's Import Diversification and Infrastructure Resilience

China sourced crude oil from 105 countries in 2025, with its five largest suppliers, namely Russia, Saudi Arabia, Iraq, Malaysia and Brazil, accounting for 61.2% of total imports. The legal and commercial significance of this diversification lies not only in the number of supplying countries but also in the availability of alternative supply routes that bypass maritime transit through the Strait of Hormuz. Russian crude supplied through pipelines and short-sea routes via China's Far East ports, which are structurally insulated from a closure of the Strait, accounted for 17.8% of China's total crude oil imports in 2025. However, the research did not identify an authoritative source quantifying the volume of Central Asian pipeline supplies operationally available as an alternative during the 2026 disruption. Accordingly, no specific claim is made regarding the contribution of such supplies to mitigating the effects of the crisis.

The Ministry of Commerce (“MOFCOM”) retains record-filing authority over production-sharing contracts and licensing for oil and gas midstream and downstream activity, while the

NDRC regulates pricing and approves large-scale investment. The NDRC's 2015 liberalisation of import-quota rights — permitting qualifying local refineries, not only the national oil companies, to use imported crude — has since broadened the base of entities able to respond to supply reallocation, and is a structural feature of the refining flexibility.

8. India's Oil & Gas Exposure and Existing Energy-Security Framework

India's crude oil import dependence reached a record 88.7 per cent in 2025-26 (provisional), up from 85.5 per cent in 2021-22, as domestic crude production fell from 29.7 to 28.0 million metric tonnes over the same five-year period, according to the Minister of State for Petroleum and Natural Gas's written reply to the Rajya Sabha. Domestic natural gas production has been comparatively more resilient, rising from 33,131 to 34,326 million standard cubic metres over the same period after peaking at 35,717 MMSCM in 2023-24, but roughly half of India's gas consumption is still met through LNG imports.

India's Strategic Petroleum Reserve ("SPR") is maintained at three underground rock-cavern facilities located at Visakhapatnam, Mangaluru and Padur, with a combined Phase I storage capacity of 5.33 million metric tonnes, equivalent to approximately 39 million barrels and sufficient to meet around 9.5 days of national consumption. The Union Cabinet has granted in-principle approval for a Phase II programme envisaging an additional 6.5 million metric tonnes of storage capacity at Chandikhol in Odisha and Padur in Karnataka. However, according to the latest update reviewed from the Petroleum Planning and Analysis Cell ("PPAC"), the Padur Phase I cavern remained uncommissioned. Indian Strategic Petroleum Reserve Limited ("ISPRL"), incorporated on 16 June 2004 as a wholly owned subsidiary of the Oil Industry Development Board, which functions under the Ministry of Petroleum and Natural Gas, has also pursued the commercial monetisation of spare cavern capacity. Under an agreement with the Abu Dhabi National Oil Company ("ADNOC"), ADNOC is permitted to utilise 750,000 tonnes of storage capacity at the Mangaluru facility. Further, in October 2024, ISPRL sought to lease approximately one million tonnes of storage space, equivalent to around 7.3 million barrels or one-fifth of the total SPR capacity, to facilitate the refilling of its caverns.

Distinct from the dedicated caverns operated by Indian Strategic Petroleum Reserve Limited ("ISPRL"), India also maintains substantial crude oil and petroleum product inventories at refineries, which contribute to its overall reported reserve coverage. According to a specialist think tank, refinery-held stocks account for approximately 65 days of the total 87 days of reported reserve cover. This approach is consistent with the International Energy Agency's ("IEA") practice of permitting qualifying industry-held stocks, including refinery inventories, to contribute towards national stockholding obligations. However, unlike dedicated strategic

petroleum reserves, commercial refinery inventories are not necessarily subject to the same degree of government control or reserved exclusively for emergency use.

India's principal upstream, midstream and downstream legislation is limited, for the purposes of this dossier, to the following instruments, each directly relevant to production, storage, transportation, pricing or import/export control of petroleum and natural gas.

- The Petroleum Act 1934 — regulates the import, transport, storage, production, refining and blending of petroleum within India, and remains the principal midstream safety and handling statute.
- The Oilfields (Regulation and Development) Act 1948 — the foundational statute for the grant of petroleum exploration licences and petroleum mining leases, and for royalty; read with the Petroleum and Natural Gas Rules 1959 made thereunder.
- The Petroleum and Natural Gas Regulatory Board Act 2006 — establishes the Petroleum and Natural Gas Regulatory Board (“PNGRB”), which regulates refining, processing, storage, transportation, distribution, marketing and sale of petroleum, petroleum products and natural gas (excluding upstream production), including authorisation of common-carrier and contract-carrier pipelines.
- The Petroleum and Minerals Pipelines (Acquisition of Right of User in Land) Act 1962 — provides the compulsory land-acquisition mechanism for pipeline right-of-way, distinct from private negotiation with landowners.
- The Oil Industry (Development) Act 1974 — establishes the Oil Industry Development Board, the parent entity of ISPRL, and provides for excise levies on crude oil and natural gas to fund sector development.
- The Essential Commodities Act 1955 — empowers the Union Government, under section 3, to control the production, supply and distribution of, and trade and commerce in, commodities (including petroleum products) declared essential; delegable to States under section 5; actively invoked in March 2026 to prioritise natural gas and LPG supply.
- The Customs Act 1962 and Customs Tariff Act 1975 — govern import duty, tariff classification and the windfall/export-duty mechanism applied to petroleum crude and products since July 2022.
- The Central Goods and Services Tax Act 2017 (read with the Constitution (One Hundred and First Amendment) Act 2016) — petroleum crude, high-speed diesel, motor spirit, natural gas and aviation turbine fuel remain outside GST pending a GST Council notification under article 279A, continuing to attract central excise and state VAT.
- The Foreign Trade (Development and Regulation) Act 1992 — the basis for Directorate General of Foreign Trade export/import policy notifications, including periodic restrictions on petroleum-product exports.
- The Competition Act 2002 — governs anti-competitive conduct and combination control relevant to concentration among oil marketing companies and midstream infrastructure owners.

- The Environment (Protection) Act 1986 and the associated Environmental Impact Assessment Notification 2006 — govern clearances for refineries, storage terminals and pipeline infrastructure.
- The Territorial Waters, Continental Shelf, Exclusive Economic Zone and Other Maritime Zones Act 1976 — provides the licensing basis for offshore exploration and exploitation in India's continental shelf and exclusive economic zone.

9. India's Legal and Regulatory Response Capacity

The 2026 disruption has provided a live test of India's existing legal toolkit. Three mechanisms have been actively deployed:

9.1 Essential Commodities Act 1955

Petroleum products, including LPG, are classified as essential commodities. Under section 3, the Central Government issued a notification in March 2026 directing the equitable distribution and availability of natural gas, prioritising domestic piped natural gas, CNG for transport, and LPG production (including shrinkage requirements) and pipeline-operational gas, and maintaining supply to 100 per cent of each priority sector's trailing six-month average consumption. The Government separately directed refiners to maximise LPG output under the same Act. This is an existing legal power, exercised as intended by section 3; the 2020 amendment restricting the Act's application to cereals, pulses and similar agricultural commodities “save in extraordinary circumstances” (war, famine, extraordinary price rise or natural calamity) does not affect petroleum, which is not among the commodities to which that amendment applies.

9.2 Windfall/export taxation

India's fortnightly-revised windfall tax on domestically produced petroleum crude, first introduced in July 2022 to discourage private refiners from prioritising export markets over domestic supply during periods of high refining margins, was raised from ₹ 6,800 to ₹ 9,600 per metric tonne effective 16 April 2026, while the corresponding rate on diesel and aviation turbine fuel exports remained at zero. This is a fiscal, not a quantitative, control: it does not compel domestic sale, but alters the relative economics of export versus domestic supply.

9.3 Reliance on external sanctions relief

Given that a substantial proportion of India's crude oil supply depends on Russian imports, which were reported to account for approximately 31.5% of India's total crude oil imports during April–December 2025, India's ability to substitute non-Gulf crude supplies during the 2026 disruption was also contingent on a discretionary, time-limited waiver issued by the United States Treasury in relation to secondary sanctions, rather than on an instrument within India's own legal control. The Government of India publicly maintained that it neither required nor had sought US permission to continue purchasing Russian crude oil. Nevertheless, the issuance of the waiver and its subsequent expansion from an India-specific exemption to a broader relaxation of

restrictions illustrate the extent to which India's supply-substitution options remain affected by the sanctions policies of a foreign sovereign. This exposure differs from China's position, where the implications of sanctions on Russian and Iranian oil purchases have been borne substantially by counterparties and intermediaries, rather than through equivalent direct constraints on Chinese buyers.

10. China–India Comparative Legal Analysis

Area	China	India	Energy-Security Implication	Potential Indian Reform
Strategic reserves	~1.39 bn bbl total storage (state + commercial), NFSRA/NDRC administrative basis	5.33 MMT (~39 mb) dedicated SPR (~9.5 days); no dedicated primary statute; ISPRL is an OADB subsidiary	India's buffer against a multi-month Hormuz closure is materially thinner	Legislate a dedicated SPR statute with a defined release trigger and mandatory minimum-fill obligation
Commercial inventories	Bonded/commercial leased Iranian stocks incl. at Dalian/Zhoushan	Refinery stocks counted within reserve-cover figures (~65 of ~87 reported days); no separate mandatory obligation	India's 'reserve' figure is partly refinery-held stock rather than dedicated emergency stock	Introduce a graduated mandatory stockholding obligation on refiners/marketers, phased by company size
Domestic production	~4.3–4.4 mb/d, rising (record 2025 output)	28.0 MMT crude (~0.56 mb/d), declining for five consecutive years; import dependence 88.7% (2025-26)	India's upstream decline widens import exposure independent of any single crisis	Accelerate OALP bidding cadence and review fiscal terms for marginal/mature-field enhanced recovery
Import diversification	105 supplier countries (2025); top 5 = 61.2%	Concentrated: Russia ~31.5% (Apr–Dec 2025); Gulf suppliers remain dominant for the balance	Both remain Gulf-exposed; India's reliance on a single sanctioned supplier (Russia) creates a distinct diplomatic vulnerability	Diversify term contracts (US, Latin America, West Africa) to reduce single-country concentration risk
Pipeline infrastructure	Operational Russian/Central Asian pipeline and cross-border crude and gas supply, wholly bypassing Hormuz	No comparable operational non-Hormuz pipeline corridor identified in this research	India cannot replicate this without a transformed Central/West Asian pipeline architecture	Pursue feasibility work on IPI/TAPI-class overland gas corridors, subject to security assessment
LNG infrastructure	~31% of LNG from Middle East; Qatar 28% of LNG but only 6% of total gas demand	~50% of gas needs met by LNG imports; Petronet force-majeured by QatarEnergy in 2026 disruption	India's gas security is disproportionately exposed to a single Qatari corridor	Expand LNG source diversification and regasification capacity; review force-majeure risk-sharing in supply contracts
Refining capacity	14.81 mb/d throughput (2025 record); large independent 'teapot' sector	257 MMTPA (~5.1 mb/d) across 23 refineries; expansion targeted to 309.5 MMTPA by 2030	India retains meaningful surplus refining capacity relative to its own consumption, aiding product exports but not crude substitution	Continue planned capacity expansion; incentivise refinery configuration flexibility for alternative crude grades
State-owned enterprises	CNPC, Sinopec, CNOOC, Sinochem operate reserves and dominate upstream/midstream/downstream	ONGC, OIL, IOCL, BPCL, HPCL prominent but operate within a PNGRB-regulated, increasingly	Direct transplantation of China's model is not compatible with India's PNGRB/competition-law framework	Do not transplant; instead strengthen coordination mandates between PSU OMCs and PNGRB during declared emergencies

liberalised sector				
Emergency powers	NDRC/NFSRA administrative release and rotation authority; no primary SPR statute identified	Essential Commodities Act 1955 (s 3) — actively invoked March 2026 for gas/LPG priority	India's ECA power is broad but was not, on the evidence reviewed, used to trigger an SPR release in 2026	Create a statutory SPR release protocol distinct from, and complementary to, ECA supply-priority directions
Pricing	NDRC price-setting and investment-approval authority over the sector	Deregulated retail pricing for petrol/diesel since 2010/2014, subject to OMC discretion and informal government moral suasion	India's deregulated pricing model reduces certain distortions but limits direct government tools during a shock	Preserve deregulated pricing; rely on targeted fiscal (subsidy/tax) rather than administered-price tools during shocks
Taxation	State pricing and investment control substitutes for a discrete windfall-tax instrument	Fortnightly windfall tax on crude and product exports (□ 9,600MT crude, April 2026); customs duty and central excise on petroleum	India's tax lever is faster to adjust but narrower in scope than reserve release	Review windfall-tax design to ensure it does not disincentivise the domestic upstream investment recommended above
Government intervention	NDRC-directed reserve rotation (e.g., 2021 Dalian auction) framed as economic-stability measure	ECA-based supply-priority directions (March 2026); reliance on US Treasury sanctions waiver for Russian crude	This is the most significant asymmetry identified in this dossier	Reduce dependence on any single sanctioned supplier; build bilateral crude-supply MOUs with diversified partners in advance of future shocks

11. Taxation, Fiscal Policy and Energy Security

India's fiscal toolkit for managing an external oil-price shock is centred on three instruments: the Customs Tariff Act 1975 (basic customs duty on crude and product imports), central excise duty on petrol and diesel (petroleum having been kept outside the Goods and Services Tax regime pending a GST Council notification under article 279A of the Constitution, as inserted by the Constitution (One Hundred and First Amendment) Act 2016), and the export-oriented windfall tax on domestically produced crude and refined-product exports introduced in July 2022. The windfall tax is revised fortnightly and was raised twice in close succession in early-to-mid 2026 (from □ 4,900 to □ 6,800, and then to □ 9,600 per metric tonne) as Brent crude rose sharply following the outbreak of the conflict, while diesel and aviation turbine fuel export duty remained at zero throughout.

The windfall tax operates on domestic crude producers and on export margins, and therefore does not, by itself, protect the retail consumer from an increase in the landed cost of imported crude; that protection, to the extent it exists, arises from the OMCs' pricing discretion and from the absence of automatic pass-through under India's deregulated retail-pricing regime rather than from any dedicated consumer-protection statute triggered by a supply shock.

12. Upstream, Midstream and Downstream Resilience

12.1 Upstream

India's upstream regime has moved from a Nomination Era (1948–1991) through pre-NELP and NELP/CBM production-sharing rounds to the Hydrocarbon Exploration and Licensing Policy (“HELP”), approved in 2016, and the Open Acreage Licensing Policy (“OALP”), launched in 2017, which allows companies to nominate exploration blocks themselves rather than waiting for government-initiated bidding rounds. Licensing operates under the Oilfields (Regulation and Development) Act 1948 and the Petroleum and Natural Gas Rules 1959 made thereunder, administered by the Directorate General of Hydrocarbons. By early 2024, at least nine OALP bidding rounds had been held. Notwithstanding this liberalisation, domestic crude production has declined for five consecutive years to 28.0 MMT in 2025-26, indicating that licensing reform alone has not reversed the underlying decline in mature and ageing fields, which the Ministry has attributed primarily to natural field decline rather than to regulatory constraint.

12.2 Midstream

The PNGRB Act 2006 regulates refining, processing, storage, transportation, distribution, marketing and sale of petroleum, petroleum products and natural gas, excluding upstream production. Under section 20, only pipelines declared or authorised as “common carrier” or “contract carrier” pipelines fall within the Board's non-discriminatory open-access regime; dedicated captive pipelines fall outside PNGRB's authorising jurisdiction, a boundary that has itself been the subject of ongoing litigation regarding the Board's asserted jurisdiction over conversion of captive pipelines. Pipeline right-of-way is separately secured either by private negotiation or by compulsory acquisition under the Petroleum and Minerals Pipelines (Acquisition of Right of User in Land) Act 1962.

12.3 Downstream

India's refining capacity has expanded to 257 million metric tonnes per annum (“MMTPA”) across 23 refineries, making it the world's fourth-largest refining hub, with a government target of 309.5 MMTPA by 2030 backed by investment from IOCL, BPCL and HPCL. Retail pricing of petrol and diesel has been deregulated since 2010 and 2014 respectively, leaving day-to-day price-setting to the discretion of oil marketing companies rather than to a statutory administered-price mechanism; this leaves the windfall tax and, potentially, ECA-based supply directions as the principal levers available to government during a shock, as demonstrated in the 2026 disruption.

13. Environmental, Competition and Regulatory Constraints

Rapid expansion of storage, refining or pipeline infrastructure in response to a supply shock remains subject to India's ordinary environmental-clearance architecture under the Environment (Protection) Act 1986 and the Environmental Impact Assessment Notification 2006, and to land-acquisition procedures under the Petroleum and Minerals Pipelines (Acquisition of Right of User in Land) Act 1962 described above. Based on the evidence reviewed, these processes are neither exempted from ordinary regulatory requirements nor subject to expedited procedures under any specific energy-emergency provision. The research did not identify any authoritative source indicating that an emergency fast-track mechanism for environmental clearances relating to petroleum infrastructure was invoked during the 2026 disruption. Similarly, the expansion of storage capacity through commercial arrangements, such as the leasing model adopted by Abu Dhabi National Oil Company (“ADNOC”) and Indian Strategic Petroleum Reserve Limited (“ISPRL”), or the consolidation of midstream infrastructure owners, remains subject to the ordinary combination-control and abuse-of-dominance provisions of the Competition Act, 2002, alongside the Petroleum and Natural Gas Regulatory Board’s (“PNGRB”) sector-specific oversight of access to common-carrier infrastructure. This dual-regulator framework has given rise to jurisdictional friction, as illustrated by litigation concerning captive pipelines.

14. Legal Risks, Recommendations and Future Outlook

14.1 Key legal risks

- **Regulatory risk:** India's SPR release protocol has, on the evidence reviewed, not been tested by a formal drawdown decision during the 2026 disruption, leaving uncertainty as to the procedure, authority and criteria that would govern an actual release.
- **Supply risk:** continuing reliance on a single sanctioned supplier (Russia) for close to a third of crude imports exposes India to a foreign sanctions-policy risk that is outside its own legal control, as demonstrated by the contingent nature of the March 2026 US Treasury waiver.
- **Infrastructure risk:** approximately one-third of dedicated SPR cavern capacity was reported empty as the crisis unfolded, and the Padur Phase-I cavern remained uncommissioned, reducing the practical buffer available irrespective of nominal capacity.
- **Taxation risk:** the windfall-tax mechanism, while fiscally responsive, operates on producers and exporters rather than directly protecting consumers, and its interaction with upstream investment incentives has not been the subject of a dedicated statutory review identified in this research.
- **Contractual risk:** force majeure exposure in LNG supply contracts, illustrated by Petronet's March 2026 notice to QatarEnergy, indicates that existing contractual risk-allocation may leave Indian buyers without a guaranteed remedy during a chokepoint closure.

14.2 Recommendations for India

14.2.1 Statutory footing for the Strategic Petroleum Reserve

Existing position: ISPRL operates as a special purpose vehicle of the Oil Industry Development Board under the Oil Industry (Development) Act 1974; no dedicated SPR statute setting minimum-fill obligations or a codified release trigger was identified.

Legal gap: The reserve's governance rests on administrative and corporate arrangements rather than on a primary statute defining when and how a release may be ordered, creating exactly the kind of protocol uncertainty observed during the 2026 disruption.

Proposed measure: Enact a dedicated Strategic Petroleum Reserve Act or amend the Oil Industry (Development) Act, 1974, to establish a statutory framework for Indian Strategic Petroleum Reserve Limited (“ISPRL”), prescribe a minimum aggregate reserve-filling obligation, and codify the circumstances triggering the release of strategic reserves, together with mandatory reporting and disclosure requirements. The framework may draw on the two-tier reserve system observed in China, while adopting an institutional model suited to India’s legal and administrative structure.

Required legal instrument: Primary legislation, or a substantial amendment to the Oil Industry (Development) Act 1974.

Responsible authority: Ministry of Petroleum and Natural Gas, in consultation with ISPRL and the Cabinet Committee on Economic Affairs.

Objective: To remove protocol uncertainty and provide a transparent, predictable basis for reserve deployment during a verified supply emergency.

14.2.2 Graduated mandatory commercial stockholding obligation

Existing position: India has no statutory mandatory stockholding obligation on private refiners or marketers comparable to IEA member-state practice; current 'reserve-cover' figures substantially reflect ordinary refinery working stock rather than a dedicated obligation.

Legal gap: The existing framework does not adequately distinguish between strategic reserves and ordinary commercial inventories, a distinction clearly recognised under China’s two-tier reserve model. Further, it does not guarantee the actual availability of privately held stocks during an energy-supply disruption, as opposed to merely including such stocks in aggregate reserve estimates..

Proposed measure: Introduce a phased, size-graduated mandatory minimum stockholding requirement on refiners and large marketing companies, with compliance monitored by PPAC and enforced through PNGRB's existing registration and reporting powers.

Required legal instrument: Amendment to the PNGRB Act 2006 or regulations made thereunder, potentially supplemented by an Essential Commodities Act notification.

Responsible authority: Petroleum and Natural Gas Regulatory Board, in coordination with PPAC and the Ministry of Petroleum and Natural Gas.

Objective: To create a genuinely distinct, verifiable commercial buffer that supplements rather than duplicates the dedicated SPR.

14.2.3 Codified emergency import-substitution and diversification protocol

Existing position: India's response to the 2026 disruption relied on ad hoc diplomacy (the US Treasury waiver) rather than a pre-negotiated framework for emergency import substitution.

Legal gap: There is no standing legal or institutional mechanism to activate alternative supply arrangements automatically upon a declared disruption, leaving India dependent on the discretion of third-country sanctions authorities.

Proposed measure: Negotiate standing bilateral crude-supply memoranda with a diversified set of non-Gulf, non-sanctioned suppliers, activated automatically upon a Ministry of Petroleum and Natural Gas declaration of a supply-disruption event, reducing reliance on any single counterparty whose availability may depend on third-country sanctions policy.

Required legal instrument: Executive/government policy and international agreements; no primary legislation strictly required, though a notification mechanism under the Foreign Trade (Development and Regulation) Act 1992 would assist implementation.

Responsible authority: Ministry of Petroleum and Natural Gas and Ministry of External Affairs, with Directorate General of Foreign Trade support.

Objective: To reduce India's exposure to foreign sanctions discretion as the binding constraint on emergency supply substitution.

14.2.4 Refinery flexibility and OALP acceleration

Existing position: OALP has produced at least nine bidding rounds by early 2024, but domestic crude production has nonetheless declined for five consecutive years to 88.7% import dependence in 2025-26.

Legal gap: Licensing liberalisation has not, on the evidence reviewed, been matched by a demonstrated reversal in production decline, suggesting the gap lies in fiscal terms, mature-

field investment incentives, or exploration risk allocation rather than in licensing procedure alone.

Proposed measure: Commission a dedicated fiscal-terms review of OALP and HELP contracts for mature and marginal fields, focused on enhanced-recovery incentives, without displacing the existing OALP procedural framework.

Required legal instrument: Executive policy review; potential amendment to Petroleum and Natural Gas Rules 1959 or model OALP contract terms.

Responsible authority: Directorate General of Hydrocarbons and Ministry of Petroleum and Natural Gas.

Objective: To arrest the structural decline in domestic production that independently widens India's import exposure to any future Hormuz-type disruption.

Conclusion

China's relative resilience during the 2026 Strait of Hormuz disruption is evident, but it should not be attributed solely to its legal framework. The available evidence indicates that China's substantial exposure, with 44% to 54% of its crude oil imports originating in the Gulf, has been mitigated primarily by the scale of its aggregate crude oil inventories, estimated to provide approximately 120 days of net import cover, diversified pipeline supplies that bypass the Strait of Hormuz, and flexibility in domestic refining. These measures operate within an administrative framework shaped by policy instruments issued by the National Development and Reform Commission ("NDRC"), the National Energy Administration ("NEA") and the National Financial Regulatory Administration ("NFSRA"), rather than under a dedicated primary statute governing strategic petroleum reserves, on the evidence reviewed.

India faces more acute vulnerabilities across comparable indicators, including crude oil import dependence of 88.7%, dedicated strategic petroleum reserves sufficient for approximately 9.5 days of national consumption, and demonstrated reliance during the 2026 crisis on a discretionary, time-limited foreign sanctions waiver to facilitate the procurement of alternative crude supplies. India's existing legal safeguards, principally the Essential Commodities Act, 1955, which was invoked in March 2026, and the windfall tax mechanism, provide meaningful but relatively narrow administrative tools. However, the evidence reviewed does not indicate that these measures were accompanied by a decision to release strategic petroleum reserves.

Reforms that can be pursued without new primary legislation should therefore receive immediate attention. These include expediting the construction and commissioning of Phase II strategic petroleum reserve facilities, reviewing the fiscal terms of contracts under the

Open Acreage Licensing Policy (“OALP”) and the Hydrocarbon Exploration and Licensing Policy (“HELP”), and negotiating standing arrangements for emergency diversification of crude oil supplies. Structural reforms requiring legislative intervention, including the enactment of a dedicated Strategic Petroleum Reserve statute and the introduction of graduated mandatory stockholding obligations for private refiners and petroleum marketers, should follow as part of a comprehensive response to the disruption, which remains unresolved as of the date of this assessment.

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Our Offices

- 📍 **New Delhi**
Lajpat Nagar-1 New Delhi
newdelhi@indiajuris.com
- 📍 **Gurugram**
Sohna Road, Gurugram
gurugram@indiajuris.com
- 📍 **Bengaluru**
Indira Nagar, Bengaluru
bengaluru@indiajuris.com
- 📍 **Mumbai**
Andheri East, Mumbai
mumbai@indiajuris.com
- 📍 **GIFT CITY, Gujarat**
Processing Area GIFT SEZ, GIFT CITY
giftcity@indiajuris.com

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