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India's Oil Demand: On the Verge of 'Take-Off'?

Executive Summary

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Over the last decade, non-OECD oil demand growth, and by extension global oil demand growth, was driven mainly by China, which accounted for half to two-thirds of this growth. However, since the Chinese government embarked on a deliberate policy of rebalancing, the country's annual demand growth has slowed to under 0.3 mb/d, compared to an average demand growth of over 0.5 mb/d in the 10 years prior to 2013. In this new era of slower Chinese growth, a new contender has emerged: India, which in 2015 was the main driver of growth in non-OECD oil demand. India's oil demand has soared over the last year, reaching an average figure for oil demand growth y/y of 0.30 mb/d in 2015, compared with 0.1–0.15 mb/d over the previous decade. This jump in demand reflects a number of underlying dynamics at play, which indicate that India's oil demand may be on the verge of 'taking off'. The magnitude of this 'take-off' can be gauged by the fact that Indian oil demand is demonstrating trends that were visible in China around a decade or a decade and a half ago, during the country's industrialization 'boom': for instance, the level of growth in oil product demand, particularly gasoline, is rapidly approaching levels seen in China prior to its 'boom'. Furthermore, an analysis of motorization, widely regarded as an acceptable metric in gauging oil consumption patterns and economic 'take-off', shows that car ownership trends in India (per thousand population) are at around the levels which China reached a decade ago. India's per capita income on a purchasing power parity basis is also estimated to have breached the threshold beyond which motorization rapidly ensues.

While the drop in oil prices since June 2014 has aided the expansion in oil demand (the increased affordability of oil to a very large section of the population is reflected, for instance, in massive additions of two-wheelers to the total vehicle fleet over 2015) this paper shows that recent policy initiatives are likely to further lift oil demand, a process which is already apparent in the data. Specifically, this paper estimates the impact on oil demand, and specifically on oil products such as diesel and naphtha, of the push to increase manufacturing's share within GDP from 15 per cent at present to 25 per cent by 2022. Such an increase could add at least a third to India's current demand levels, based on a broad and conservative linear estimate. A concomitant programme of road infrastructure creation targeting the addition of 30 km a day will add to this, although growing environmental and air pollution concerns could constrain growth in oil demand in the transportation sector. In terms of the bigger picture: while China's oil demand growth has slowed, India appears to not have long to go in terms of achieving the same levels of oil demand growth. This rise in demand also has implications for India's recently acquired status as a net exporter of oil products, which this paper shows could well be reversed. Finally, the question of whether India will manage to soar to a higher plane of development and consumption is contingent to a great extent upon its ability to carry out and sustain structural reforms to support economic growth.

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