

India – Russia Crude Oil Business during Ukraine War

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Abstract

Did the Indian people benefit or did the government of India & couple of companies benefit from the cheap crude oil deal with Russia, during the war between Ukraine & Russia & in between US sanctions of the Russian crude oil industry.

Introduction: The Ukraine war, which began in 2014, caused significant geopolitical and economic implications around the world. During this period, India strategically turned to Russia as a major supplier of crude oil. This decision proved beneficial for India's energy security and helped mitigate potential disruptions caused by the conflict. This note explores the advantages of India's decision to buy crude oil from Russia during the Ukraine war.

Keyword: Crude Oil, Russia, Ukraine, War, India

Methodology – By reviewing different articles & giving my views on the same.

During the Ukraine war, the United States imposed sanctions on various sectors of the Russian economy, including its crude oil supply, for several reasons:

- 1) Annexation of Crimea: The sanctions were primarily a response to Russia's annexation of Crimea in 2014. The United States and other Western countries considered this action a violation of international law and a threat to Ukraine's sovereignty. Imposing sanctions on the Russian crude oil sector was one way to exert economic pressure and express disapproval of Russia's actions.
- 2) Support for Separatists: The United States accused Russia of supporting separatist movements in eastern Ukraine, providing them with military equipment and other forms of assistance. By targeting the Russian crude oil sector, the U.S. aimed to restrict Russia's access to international markets and limit its financial resources, making it more difficult for Russia to support the separatist activities.
- 3) Destabilization of Ukraine: The U.S. viewed Russia's involvement in the Ukraine conflict as contributing to the destabilization of the region. By imposing sanctions on the Russian crude oil sector, the U.S. sought to discourage Russia from further aggression and support for armed groups in Ukraine, thereby promoting stability in the region.
- 4) Pressure for Negotiations: The imposition of sanctions was also intended to put pressure on Russia to engage in diplomatic negotiations and find a peaceful resolution to the conflict. The U.S. hoped that by targeting the Russian crude oil sector, which is crucial to its economy, it would incentivize Russia to change its behaviour and work towards a diplomatic solution.

Looking at the situation, India felt it was a great opportunity to get crude oil at a cheaper rate than what was available at the international markets & also India did not have to buy US Dollars from the international markets, which is already devalued drastically in the last few years. India's BoP requires a comprehensive analysis of various economic indicators, trade flows, exchange rates, and other factors. Additionally, the actual use of Ruble as a currency of exchange for crude oil transactions between India and Russia during the Ukraine war helped in its BOP.

Looking at the advantages India went ahead & made the deal with Russia to buy crude oil, some of the other advantages are listed below.

- 1) **Diversification of Energy Sources:** By procuring crude oil from Russia, India diversified its energy sources, reducing its dependence on traditional suppliers in the Middle East. This diversification helped minimize the risk of supply disruptions due to geopolitical tensions in the region. As a result, India's energy security was strengthened, ensuring the smooth functioning of its economy.
- 2) **Stable Supply and Price Stability:** During times of geopolitical instability, securing a stable supply of crude oil at reasonable prices becomes crucial. India's reliance on Russian oil during the Ukraine war provided a steady flow of crude, ensuring continuity in its energy requirements. Moreover, Russia's oil exports to India were not significantly affected by the events in Ukraine, allowing for price stability and shielding India from potential price shocks.
- 3) **Geopolitical Considerations:** Given the Ukraine conflict's implications on global politics, India's decision to buy crude oil from Russia was also driven by geopolitical considerations. India, which maintains friendly relations with both Russia and Ukraine, chose to avoid taking sides in the conflict and maintained neutrality. This approach helped India maintain its diplomatic equilibrium and avoid entanglement in the geopolitical tensions surrounding the war.
- 4) **Strengthened Bilateral Relations:** The increased cooperation in the energy sector between India and Russia during the Ukraine war further strengthened the bilateral relations between the two countries. The trade of crude oil fostered closer economic ties and created opportunities for mutually beneficial partnerships in various sectors beyond energy. The deepening of these ties laid a foundation for broader strategic collaborations between India and Russia.

Selling crude oil to India and receiving Indian Rupees (INR) in return had certain advantages for Russia, although the specific advantages may vary depending on the circumstances and the exchange rate dynamics between the Ruble (RUB) and the INR. Here are some potential advantages for Russia:

- 1) **Diversification of Currency Reserves:** Accepting INR as payment diversifies Russia's currency reserves. Holding a variety of currencies can help mitigate risks associated with fluctuations in the value of a single currency, such as the Ruble. It provides Russia with exposure to a different currency and potentially reduces its dependence on a particular currency, such as the US dollar.
- 2) **Access to Indian Market:** Selling crude oil to India and receiving payment in INR provides Russia with continued access to one of the world's largest and fastest-growing energy markets. India's energy demand is significant, and maintaining a strong presence in this market can be beneficial for Russia's oil exports and revenue generation.
- 3) **Trade and Economic Relations:** Strengthening trade and economic relations with India can lead to broader benefits for Russia. Increased cooperation can foster stronger bilateral ties, potential

investment opportunities, and the development of strategic partnerships in various sectors beyond energy. This can contribute to economic growth and diversification for Russia.

- 4) Hedging Against Exchange Rate Risk: If the Ruble is depreciating against other major currencies, accepting INR payments can potentially act as a hedge against exchange rate risk. If the INR appreciates against the Ruble, Russia could benefit from holding INR-denominated assets, as it would retain value in a stronger currency.

However, it's important to note that the advantages for Russia may also depend on factors such as the stability of the INR, the depth and liquidity of the INR market, the availability of goods and services that Russia imports from India, and the ability to convert INR into other currencies or utilize them effectively in the domestic market.

India's Import of Russian Crude Oil jumped tenfold (BBC) in late 2022, in March 2022, crude oil imported by India, Russian crude oil contributed only 0.2 percent, 1.19 billion Barrels per day, & by October 2022 it became 25 percent, 93.5 billion Barrels per day, (9,35,556 BPD) (ET Energy world) Russia was selling crude Oil to India at a discount of 20\$ to 22\$ per barrel. Russia also became the largest supplier for India. Although the import was done by two private companies Reliance & Nayara Energy, Reliance is an Indian company & Nayara Energy is a Joint Venture, with a Russian Company, Rosneft & Trafigura Group-United Capital Partners, which is a Singapore based company. So, both the partners are foreign companies. Investing funds together & investing in Russian projects. So indirectly Russia gave subsidy to their own Russian company.

Now Reliance & Nayara both were making profits by exporting the finished petroleum products to other countries, so the common people did not get the benefit of the cheap crude oil prices. But the government of India levied Windfall Gain Tax on both the companies & made good income in taxes & the Reliance & Nayara made profits, although the profits were declining, as the taxes went up drastically.

India government diplomatically was safe as the government companies did not buy the Cheap Russian Crude oil & did not have face the heat from OPEC & the US government at the same time benefited by levying the windfall gain tax. Although the common Indian did not benefit out of the whole transaction.

While it is challenging to identify specific individuals or entities that are directly profiting from the deal without more specific information, normal beneficiary if Indian companies would have got the same deal.

- 1) Indian Oil Companies: Indian oil companies, both public and private, that import crude oil from Russia can benefit from the deal. These companies include major players such as Indian Oil Corporation (IOC), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), and private entities involved in oil trading. The deal provides a reliable source of crude oil for these companies, ensuring a stable supply to meet India's energy demand. But since they were not the importers the effect was not seen.
- 2) Refining Sector: The Indian refining sector, which processes the imported crude oil into various petroleum products, can benefit from the crude oil deal. Refineries in India, both state-owned and private, rely on a consistent supply of crude oil to operate efficiently. The availability of Russian crude oil can contribute to the profitability and smooth functioning of the refining sector. Only for the two companies that is Reliance & Nayara.
- 3) Indian Consumers: The deal can indirectly benefit Indian consumers by helping ensure a stable supply of crude oil, which is crucial for the production of various petroleum products, including fuels such as petrol and diesel. A steady supply of oil can help mitigate price volatility and potential disruptions in the domestic energy market, thereby benefiting Indian consumers. But since the benefit first went to

the government by way of windfall gain tax, but the products produced were exported, so the direct beneficiary were not Indian citizens.

- 4) Indian Economy: A stable and reliable supply of crude oil from Russia can have positive implications for the Indian economy as a whole. It supports various sectors, including transportation, manufacturing, and agriculture, which heavily rely on petroleum products. A consistent supply of crude oil helps sustain economic activities and contributes to overall economic growth. Since the raw material nor the final product were used for Indian consumption, the above benefit was not seen in our Indian economy either.

Conclusion:

India's decision to buy crude oil from Russia during the Ukraine war proved advantageous in several ways. It allowed India to diversify its energy sources, ensuring a stable supply and price stability during a period of geopolitical turmoil. Moreover, by maintaining neutrality in the conflict and strengthening bilateral relations with Russia, India navigated the complex geopolitical landscape and safeguarded its own interests. This strategic move showcased the importance of proactive energy diplomacy and highlighted India's commitment to securing its energy requirements in challenging times and maintaining global relations with OPEC, US & Russia.

Acknowledgement – Google, ET Energy world, BBC, Study IQ

References – Google, ET Energy world, BBC, Study IQ