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Russia-Ukraine War and Trade in Energy Products: Strategic Gains for India

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Abstract

The outbreak of the Russia-Ukraine war in February 2022, the first major land battle in the region after the Second World War, caught many quarters by surprise. While in February and March 2014, Russia organized an offensive inUkraine and subsequently annexed the Crimean Peninsula claiming it was an integral part, the threat of a military offensive in 2022 was being considered merely as a tactical pressure for gaining higher ground at the negotiation table subsequently. Even when the inward offensive started across the Ukrainian border, it was foreseen as a brief clash between the *David* and the *Goliath*. However, the resolve of the Ukrainian side and the not-so-tacit supports from the *West*, who took some time to recover from the initial shock, turned the invasion into a year-long battle. Sensing the battle to last for longer than expected, during September 2022, Russiaunilaterally annexed four Ukrainian oblasts, namely: Luhansk, Donetsk, Zaporizhzhia and Kherson, which alienated Kiev further.With Russia showing not much enthusiasm to follow the UN request for withdrawal of troops, the western front of Russia is likely to remain in turmoil for some more time.

Introduction

Acknowledging the continuation of the war as an unwanted but unavoidable reality, the countries from different corners of the world are drawing their long-term political as well as economic strategies. SeveralEuropean countries, for instance, hoped for a quick resolve of the crisis in line with their 2014 experience and continued economic ties, particularly on energy imports,with Russia even after the UN-imposed trade and financial sanctions on the country. However, such ties are being reviewed in light of the continuation of the battle, with fresh evidence of Russian military push coming to the forefront. For instance, Germany's import of crude from Russia came down from 2.8 million tonnes in January 2022 to 3,500 tonnes in January 2023 (SB, 2023).Other countries have also similarly reduced their dependence on energy products coming from Russia.

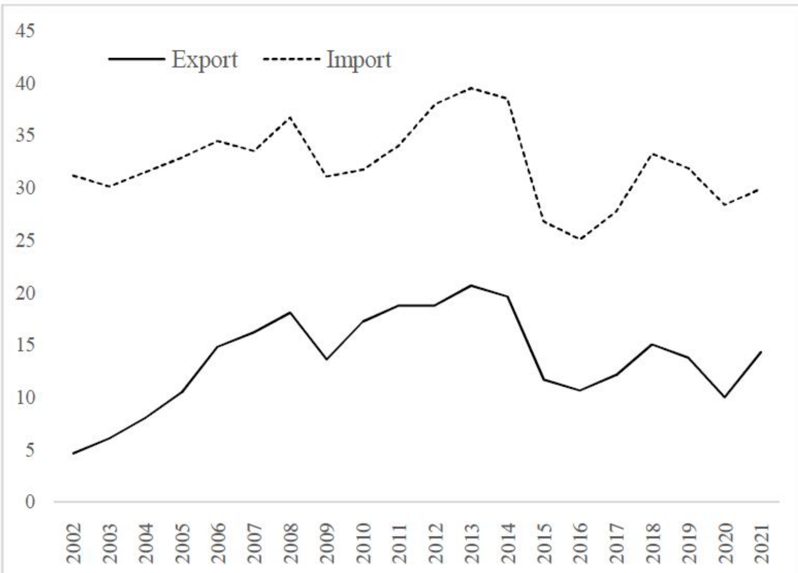
It is observed that in the export basket of Russia, the importance of petroleum products stood at 43.15 percent in 2021. Understandably, putting a constraint on Russia's oil export has been considered as an effective policy instrument by the *West*. In 2022, the G7 countries and Australia decided to introduce a price cap on '..purchase of crude oil exported by sea from Russia after December 5 providing the purchase involves maritime, financial, or other services from any entity based in the G7 or Australia'. It was further decided that, 'Petroleum products will fall under the cap after February 5, 2023' (Wolfram *et al.*, 2022). On 3 December 2022, this price cap has been set at USD 60$ per barrel. While the move was geared to discourage countries from purchasing oil and other petroleum products from Russian Federation, the country tried to circumvent the move by offering considerable price discount,going upto 30 percent from the Asian buyers, to arrest the expected revenue shortfall (Rosen, 2022). The strategic decision motivated many developing countries, including India, to consider the Russian offer unworthy of refusal.

Given this background, the current analysis focuses on the eco-strategic options (particularly reflected in trade opportunities) for India in the short and medium runsin the aftermath of theUkraine war. Thetradeimplications of the war canbefelt across many sectors, and the recent experience of Indian wheat exports is a case in point (Chakraborty, 2022). The current paper,however, focuses onlyon the energy sector and is arranged along the following lines. First, a brief analysis of the country's trade profile in the energy sector is provided, with a focus on Russia, from which the emerging trade trends and options for the country are revealed. Then, based on the recent stream of events, a few observations are drawn.

Trade Patterns

Figure 1 shows the relative importance of the petroleum products (classified under Harmonized System 27) in India's trade basket. It is observed from the figure that in value terms the share of petroleum products in India's import has increased from 31.18 percent in 2002 to 39.52 percent in 2013, butit subsequently declined to 29.87 percent in 2021. During the same period, in the export basket, the share of these products increased from 4.65 percent in 2002 to 20.67 percent in 2013, and afterwards came down to 14.29 percent in 2021. The dynamics can be explained to a large extent by the oil price movement in the global canvas. On the other hand, the importance of refined petroleum export from India increased considerably after the operationalization of the Jamnagar refinery by Reliance Group. As a result, the country witnesseda rise in demand for crude petroleum products not only for domestic consumption but also for export of refined petroleum products.

Figure 1: Share of Petroleum Products in India's Trade Basket (Percent)

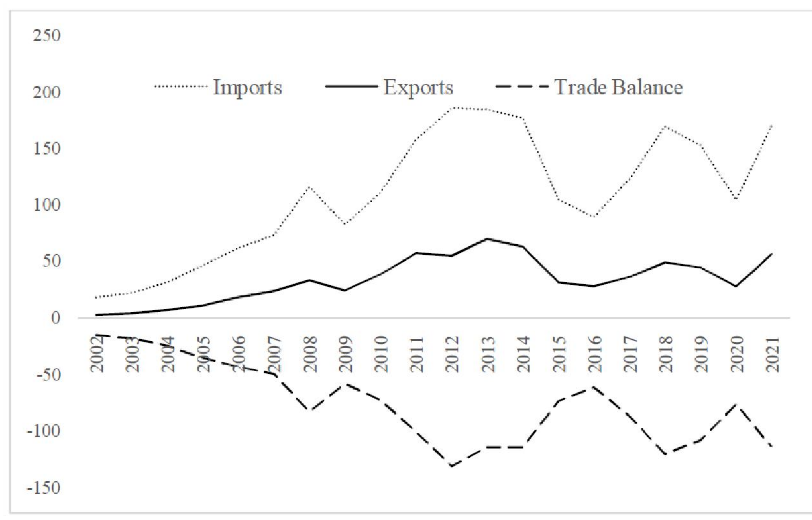


Source: Constructed by authors from ITC (undated)

Figure 2 shows the export, import and trade balance scenario for petroleum products in India overthe last two decades (expressed in USD Billion). While the rise in export of refined petroleum products lowered India's trade deficits to USD 61.59 Billion in 2016, the corresponding figure widened upto USD 114 Billion in 2021, in the aftermath of Covid-led instabilities. It becomes obvious that the Indian policymakers in 2022 had to focus on twin objectives – rising trade imbalance and energy security concerns. It deserves mention that since 2015, after completion of the Paris Climate Deal, India is increasingly embracing the renewable energies. The establishment of International Solar Alliance under the involved patronage of Indian Prime Minister

Mr. Modi is a testament of the evolving orientationof the country. Moreover, the Indian Prime Minister had announced in 2021 that India would evaluate its energy generation policies appropriately to reach the desirable target of net zero carbon emission by 2070. However, in the short run, reducing dependence on crude petroleum oil will be difficult, and India needs to play its cards accordingly.

Figure 2: India's Trade Balance Scenario in Petroleum Products (USD Billion)



Source: Constructed by authors from ITC (undated)

Table 1 compares the Indian import of major petroleum product groups, including crude oil, medium oil, light oil and natural gas from Russia and the world during the last 3 years. It is observed from the table that for all the product categories, the Indian import from Russia upto2021 had been quite modest vis-à-vis the corresponding figures from rest of the world. In particular, as observed from the last row, the import of crude oils from Russia has been quite low in recent past. While the geographical barriers and associated trade costs can be partly held responsible for this dynamics, the established supply lines from West Asian partners also played a crucial role in determining the import patterns. It is observed from various reports that crude oil imports, which is a crucial input for subsequent conversion to petrol and diesel at the local refineries,accounts for almost 85 percent of the country's total energy imports in value terms.

Table 1: India's Import of Energy Products from Russia and the World (USD Billion)

Major Trade Energy Products	Indian Import from Russia			Indian Import from World		
	2019	2020	2021	2019	2020	2021
Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon	-	0.03	0.03	1.05	0.63	0.90
Natural gas, liquefied	0.02	0.01	0.03	9.55	7.91	12.08
Bituminous coal, whether or not pulverised, non-agglomerated	0.13	0.05	0.09	2.20	1.30	1.31
Anthracite, whether or not pulverised, non-agglomerated	0.18	0.17	0.28	0.28	0.23	0.34
Coal, whether or not pulverised, non-agglomerated (excluding anthracite and bituminous coal)	0.54	0.47	0.73	20.12	14.34	24.06
Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	0.38	0.37	1.19	4.94	4.77	7.92
Petroleum oils and oils obtained from bituminous minerals, crude	1.46	0.93	2.31	101.95	64.58	106.41

Source: Constructed by authors from ITC (undated)

Table 2 shows the relative importance of different import sources of Crude Oil (HS 270900)in India over the last one and a half decades. It is observed from the table that the relative importance of Iraq, after the new regime got integrated more effectively with the world economy, has continuously increased. The other West Asian countries have retained their importance in India's import basket. The recent Indian Regional Trade Agreement (RTA) with United Arab Emirates (UAE),that became operational in 2022, is likely to deepen the ties further. The completion of the ongoing RTA negotiations with Gulf Cooperation Council (GCC) countries is expected to widen the scope of trade with the region significantly. Interestingly, the importance ofMexico and USA has increased considerably over the period, underlining India's growing energy trade integration with theNorth America. In addition, the share of Russia has increased in India's import basket in 2021, marking a deepening of bilateral energy trade relationship even prior to the Ukraine war. The country's oil imports from Iran have however gone down drastically on the face of US sanctions over the years.

Table 2: Share of Major Partners in India's Import of Crude Oil (Percent)

Import Source of India	2006-10	2011-15	2016-20	2021
Iraq	9.50	13.62	19.78	23.50
Saudi Arabia	19.88	19.78	19.06	16.80
United Arab Emirates	8.50	8.58	9.36	11.00
United States of America	0.08	0.04	2.66	9.70
Nigeria	11.08	10.38	9.12	7.70
Kuwait	9.28	9.42	4.96	6.40
Mexico	0.96	1.96	3.12	3.10
Oman	1.28	0.88	1.14	2.70
Russian Federation	0.38	0.08	1.12	2.20
Brazil	0.64	1.88	1.56	1.90

Source: Constructed by authors from ITC (undated)

Table 3 shows the relative importance of different import sources of Liquified Natural Gas (HS 271111) over 2004-21. Like the case of crude oil, several West Asian and African partners are majorly featured in the table. The growing share of UAE deserves particular attention. Interestingly, the share of USA in India's import basket of this commodity took a massive jump in 2021, underlining the growing cooperation in energy sphere. On the other hand, Russia remained a marginal player in the Indian import basketupto 2021, though its relative importance showed an unmistakable increase.

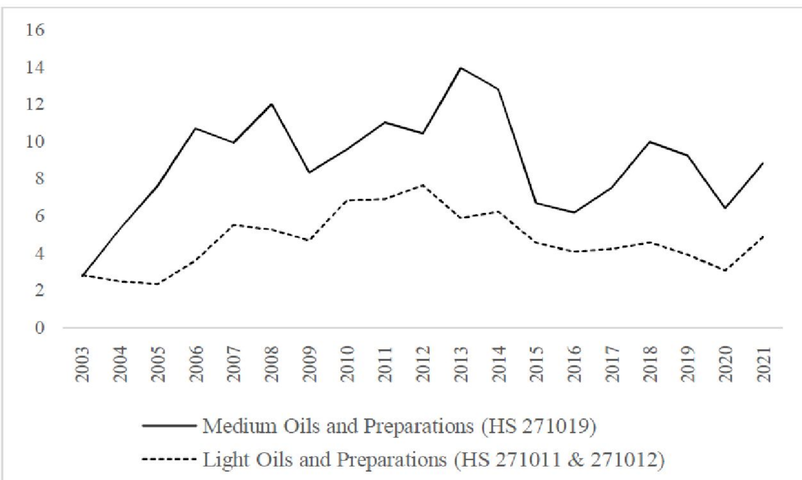
Now it is important to focus upon Indian export dimension. As noted earlier, since operationalization of the Reliance refinery in 2003, the share of refined petroleum products has increased considerably in the Indian export basket. Figure 3 presents the shares of both Medium oils and preparations etc. (HS 271019) and Light oils and preparations etc. (HS 271012, which was classified under HS 271011 in the earlier period) in India's export basket. The underlying price dynamics is reflected in the graph as well, and with reduction in global oil price per barrel, the relative importance of these two products have also came down. Nevertheless, the two products still collectively account for more than 10 percent of India's export basket and the interest of the country in ensuring a steady supply line for cheap imports of the crude oil becomes obvious from the observed data.

Table 3: Share of Major Partners in India's Import of Liquified Natural Gas (Percent)

Import Source of India	2004-05	2006-10	2011-15	2016-20	2021
Qatar	93.95	65.86	76.56	50.68	39.40
United States of America	0.00	0.00	0.62	5.20	17.10
United Arab Emirates	0.00	1.34	0.32	4.78	12.50
Nigeria	0.00	4.88	8.96	11.38	7.10
Oman	1.15	4.96	0.94	3.56	6.10
Angola	0.00	0.00	0.00	6.26	5.20
Egypt	0.00	3.66	2.52	0.78	3.60
France	0.00	0.44	0.10	0.90	1.80
Equatorial Guinea	0.00	0.00	0.24	3.72	1.30
Australia	2.65	3.12	0.90	6.10	1.10
Belgium	0.00	1.26	0.22	0.50	1.10
Trinidad and Tobago	0.00	3.92	0.96	1.58	1.10
Algeria	0.00	3.20	1.50	0.76	1.00
Spain	0.00	0.00	0.68	0.06	0.70
Cameroon	0.00	0.00	0.00	0.80	0.50
Russian Federation	0.00	1.24	0.00	0.12	0.30

Source: Constructed by authors from ITC (undated)

Figure 3: Share of Refined Petroleum Products in India's Export Basket (Percent)



Source: Constructed by authors from ITC (undated)

Table 4 summarizes the relative importance of different export destinations of India for Medium oils and preparations etc. over 2004-21. An interesting scenario emerges over the period. It is observed that India's export of refined oil products has penetrated all the continents, namely: Asia (Israel, Malaysia, Nepal, Singapore, UAE), Europe (Netherlands, Belgium), North and South Americas (Brazil, USA), Africa (Togo, Mozambique, South Africa) and Australia. In particular, India's penetration to many non-RTA countries, located in distant regions, underlines the country's success in producing a quality value-added product, by successfully rising up the value chain. India's specialization in this product group now has the ability to function as an instrument for securing regional stability as well. For instance, the India-Bangladesh Friendship Pipeline (IBFP) has been inaugurated recently to reduce the time and cost of importing fuel from India and to improve the energy security of the partner country (Laskar, 2023).

Table 4: India's Export Destination of Medium oils and preparations etc. (Percent)

Export Destination of India	2006-10	2011-15	2016-20	2021
Singapore	12.24	9.68	15.68	11.30
Netherlands	13.60	11.32	10.72	11.20
Australia	0.00	0.94	2.86	8.20
Togo	0.08	0.40	1.76	6.90
Malaysia	0.94	1.28	4.74	5.00
Türkiye	0.56	3.24	4.08	4.60
Belgium	0.62	0.64	1.20	4.40
Israel	1.64	4.26	4.68	3.90
United Arab Emirates	11.92	4.86	4.46	3.60
Mozambique	0.90	2.46	3.86	3.60
Nepal	2.00	1.84	3.36	3.20
United States of America	1.36	1.62	1.72	3.10
Brazil	6.32	8.22	0.76	3.00
South Africa	3.26	3.40	2.68	3.00
Saudi Arabia	3.34	8.94	1.26	2.90

Source: Constructed by authors from ITC (undated)

To complement the analysis in Table 4, Table 5 summarizes the relative importance of different export destinations of India for Light oils and preparations etc. over 2004-21. Along similar lines, the geographical spread of India's refined oil exports is clearly visible from the table. It needs to be observed how export of this category is deepening in the long-time (e.g., Japan, Nepal, South Korea) as well as recent (e.g., Australia) RTA partner countries. The rising importance of Iraq, Taiwan and the USA in India's export basket is also an interesting observation.

Table 5: India's Export Destination of Light oils and preparations etc. (Percent)

Export Destination of India	2013-15	2016-20	2021
United Arab Emirates	21.67	30.06	16.70
United States of America	14.83	15.38	15.70
Korea, Republic of	2.60	5.54	10.20
China	2.57	10.40	8.90
Singapore	13.57	10.78	8.60
Indonesia	5.23	0.38	8.50
Saudi Arabia	7.73	1.86	6.50
Japan	3.47	3.90	4.80
Taipei, Chinese	2.13	2.62	2.80
Iraq	0.10	1.66	2.70
Oman	5.57	6.54	2.60
Sri Lanka	1.17	0.40	2.50
Australia	1.67	1.84	2.40
Nepal	0.83	1.72	2.00

Source: Constructed by authors from ITC (undated)

It is obvious from the discussion so far that India, a traditional importer of crude petroleum products, has emerged in the recent period as a major exporter of refined petroleum products by rising up the product value chain. Why traditional developing countries remain as India's major export destinations, a number of developed countries of the *West* have also emerged as lucrative markets. The Indian refined petroleum sector, during the post-Covid supply chain disruptions, suffered from the rising prices, and in turn faced a compromised export competitiveness. As a result, India's share in world export of petroleum products (HS 27) declined from 2.2 percent in 2019 to 1.7 percent in 2020. In the case of medium oils (HS 271019) and light oils (HS 271012), the corresponding declines were 6.9 percent to 6.4 percent and 4.8 percent to 4.5 percent in that order. Therefore, the decision of Indian policymakers to import crude oil from Russia (with the considerable discount offered after the G7 imposed price cap) needs to be viewed as a strategic intervention to maintain the steady supply lines for the domestic stakeholders.

While the 2022 trade data is not yet available in the summarized form, the extent of explosive growth in India's crude imports from Russia becomes obvious from various news and policy reports. It has been noted that India's imports of crude oil from Russia have increased from 935,556 barrels per day (bpd) in October 2022 to 909,403 bpd in November 2022 and finally to 1.19 million bpd in December 2022 (LM, 2023). As a result, the share of Russia in the Indian import basket increased rapidly from around 2 percent (as seen from Table 2) to around for 25 percent of all oil imports by the country. This way, India has been able to successfully withstand the Western pressure on the country to stop, or at least reduce, the crude oil importsfrom Russia, unlike the case involving Iran earlier. This can be considered as a crucial development in India's economic diplomacy. In addition, the country for a long time is looking for ways to secure international trade in Indian Rupee terms, as the exchange rate movements vis-à-vis US dollar often hurt the interests of exporters and importers. As per Reserve Bank of India (RBI) guidelines, Indian banks have been allowed to open special vostro rupee accounts (SVRA) with banks in other countries to facilitate the process. The post Ukraine war sanction-led economic challenges enabled Russia to adopt a lenient view on this front, and the country is now using rupees to trade on settlement of petroleum product related transactions with Russia.This is going to be a major gain for the country in the long run. It is likely that other South Asian neightbours, some of whom are prudently importing the Russian oil products indirectly from India, will also follow suit. In fact, Sri Lanka has already, '..opted to pay in Indian rupees as both these countries are allowed to open Vostro accounts' (Pattanaik, 2023).

Conclusion

In early 2022, Russia and China announced a strategic partnership that "knows no limits", in the aftermath of which the Ukraine offensive of Russia received tacit support of the dragon, even on the face of rising global protests (Sutter and Sutherland, 2022). This may remind scholars of international relations about a treaty signed eighty-four years back, executed in similar spirit. The Chinese support can be considered as a calculated move laced with economic undercurrent, where it obtained access to Russian energy products for cheaper import on one hand and filled the vacuum in the Russian market from withdrawal of many European and American entities on the other. The move to capitalize the Russian market through exports and outward foreign direct investment (OFDI) can also be seen as a strategy to bypass the various form of economic restrictions imposedon China by the *West*, e.g., tariffs and technological espionage related frictions in US, anti-dumping duties both in the EU and the US, labour conditions and human rights related concerns raised by developed countries.

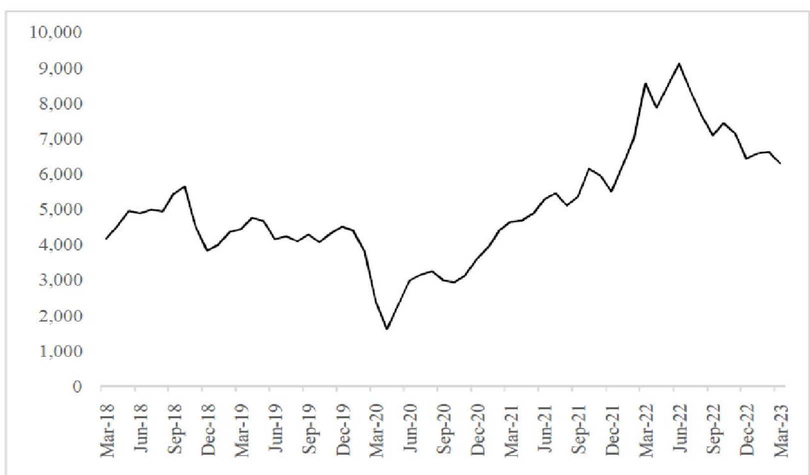
It will not be feasible for India, a country with strong democratic values, to re-structure its economic ties with Russia in a similar zeal,as is happening in the case of China. The country has played its cards in a measured manner so far. Explaining its decision to abstain from the February 2023 UN resolution on withdrawal of Russian troops from Ukraine, India's envoy to the UN Ms. Ruchira Kamboj noted Indian Prime Minister's message to the Russian President for restoring peace and underlined, 'We will always call for dialogue and diplomacy as the only viable way out. While we take note of the stated objective of today's Resolution, given its inherent limitations in reaching our desired goal of securing lasting peace, we are constrained to abstain' (Bhaumik, 2023). The energy cooperation with Russia is being viewed not as an encouragement to the Russian offensive, but as an economic decision on the face of growing energy insecurity in the country, particularly in the post-Covid period when the fiscal deficits have grown as a result ofvarious government initiatives launched since 2020.

The European nations in the recent period have asked India repeatedly to lower oil ties with Russia, in light of the UN-imposed and *G7+One*sanctions (Amaro, 2022). The urge behind Indian decision to go for Russian oil with a discount has recently been explained by the External Affairs Minister Mr. S. Jaishankar during his official visit to Europe, by pointing out that the per capita income of Europe and India are □60,000 and $2,000 respectively, thereby underling the need for securing cheaper energy sources for the country. He further highlighted the role of economic undercurrents in policymaking by indicating that since the beginning of the Ukraine war, European countriesactually imported six times more fossil fuel energy from Russia vis-à-vis India (Bhaumik, 2023). It is unlikely that India is going to move away from this standpoint very soon.

The perspective can be observed very clearly from Figure 4, which shows the crude oil price per barrel in India. It is observed that after March 2020 the oil price showed an upward spike, caused by post-Covid restrictions and supply chain disruptions. The rise in the price up to the period of June 2022 caused considerable hardship for Indian population,which got reflected in the rising inflation rateas well. The period was also marked with disruptions in the job market, and the rise in energy price pushed many lower-income households to the margin. In the aftermath of petroleum product import decision from Russia, a clear downward trend in the prices is noticed, which significantly contributed to arresting the inflation growth. It can be noted from the data that while in June 2022the oil price reached the peak of INR 9119.55 per barrel, the same has come down to INR 6292.90 per barrel in March 2023. Given the fact that there will be a general election in Indianext year, it will be politically very difficult for any government to stop import of discounted Russian energy products at this juncture.

The Indian decisionon this front is also going to be shaped bythe recent global currents. In early April 2023, OPEC countries (Saudi Arab, UAE, Kuwait, Iraq and others) decided to reduce oil production voluntarily to maintain price stability. The proposed cut is quite substantial, amounting to 500,000 bpd for Saudi Arab, 211,000 bpd for Iraq, 144,000 bpd for UAE, 128,000 bpd for Kuwait, and so on, from May until the end of 2023. All these countries happen to be the major suppliers of energy products to the Indian market, and their decision is going to raise the cost of imports for the country. The Russian decision to voluntary reduce its crude oil production by 500,000 bpd until the end of 2023 adds to India's worry in this context (Dixit, 2023). In this background, the Indian policymakers are unlikely to reduce the dependence on Russian oil in India's import basket.

Figure 4: Oil Price Per Barrel (Indian Rupee)



Source: Constructed by authors from Index Mundi (undated)

It needs to be further remembered that the IMF has recently projected India's GDP growth during 2023 at 6.1 percent, which is quite modest vis-à-vis the growth experience in earlier times.The crude oil, the main raw materials for processing to petrol and diesel, is having crucial linkage effects in determining growth trajectory of many other sectors, including agriculture, automobile and transportation, core manufacturing etc., with considerably job creation effects.Besides, in a time of fiscal stress, the country has managed to save, '..$3.6 billion by importing discounted crude oil from Russia, in the 10 months after the outbreak of the war ..' (ET, 2023).Given these economic compulsions, the country is likely to continue substituting the West Asian oil by the cheaper Russian variety for some more time.

Upto August 15, 2023 India is celebrating *Azadi Ka Amrit Mahotsav*, marking the 75th Anniversary of Indian Independence, through a series of events. The strategic prudence to secure the best interest of the nation, notwithstanding the requests from the *West*, signifies that the country has indeed been able to turn a new page in its economic diplomacy book, ignoring the nudges of the superpowers. Even Pakistan has been forced to acknowledge India'sachievement in no uncertain terms (Hussain, 2022). Perhaps history will remember this development, and the confidence the country gained from the entire exercise, as the best celebration for marking the momentous occasion.

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