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Sanctions on Russia: Anticipating Challenges for India's Energy Security

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On February 21, 2022, Russian President Putin, in a televised address, highlighted Russia's concern over – the eastward expansion of NATO, the U.S. policy of containing Russia, and defending Russia and its people.¹ Three days later, on February 24, 2022, he launched a “special military operation” in Ukraine.² In response, the United States and European countries announced a series of sanctions on Russia. President Biden announced the cut off of Russian banks from the international financial system, blocking Russia from gaining technological access for its economic and military development, targeting Russian oligarchs, and providing military and economic aid to Ukraine.³ The European Union, meanwhile, aims to target Russia's energy sector by preventing European companies from transferring technology that Russia requires for its refineries. Germany has also halted the approval process for the Nord Stream-2. Despite these actions, Ukraine is asking for tougher sanctions on Russia's energy sector.⁴ Sanctions on Russia's energy sector were slow to start with, apart from some isolated examples such as the suspension of the Nord Stream-2 certification process; and BP, Equinor, and Shell pulling out of Russia.⁵ However, on March 8, 2022, the U.S. announced a ban on oil and gas imports from Russia.⁶ In the upcoming days, there is a high possibility that E.U. members, and allies in Asia and the Pacific region will follow suit. Amidst this predicament, India needs to be prepared for possible pressure from the West.

Amidst the ongoing crisis, the fate of Russia's energy sector remains uncertain. Though, European countries are currently a major market for Russian energy exports, this situation will change as the former is already reconsidering its foreign energy policy in the backdrop of the ongoing Ukrainian crisis.

Anticipating Challenges for India

Energy resources form one of the main pillars of the bilateral relationship between India and Russia. According to India's Ministry of Petroleum & Gas, oil and gas account for 35.7% share of India's energy mix. India imports 83.7% of its overall oil consumption and imports 45.7% of its natural gas.⁷ In its huge energy basket, “India import approximately 1% of overall its imports; and India accounts for approximately 0.2% Russia's gas exports.”⁸ It is unfortunate that despite India's bonhomie with Russia, the former is rather slow in expanding its footprint in the latter's energy sector. India has made gradual strides with some Indian energy companies investing in Russia, estimated to be around \$16 billion. Some of the examples are Sakhalin-I, Imperial Energy, Vankorneft, etc., and the signing of a “first-term contract” in 2020.⁹

As energy exports constitute a major portion of the revenue for the Russian economy, Russia will endeavour to diversify its energy flow towards friendly Asian countries amidst the mounting

Western sanctions. This point was highlighted by Russian Finance Minister Anton Siluanov in case sanctions are imposed on Russia's energy sector.

Due to the considerable amount of investment India has made in Russia, the former needs to gear up and find measures to bypass any kind of Western sanctions. If sanctioned, Indian companies would not be able to open new accounts, and would face restrictions on loans, licenses, and Export-Import Credit.¹⁰ India quickly needs to consider protecting its assets and firms by employing countermeasures such as, "...non-recognition of foreign judgments, blocking statutes, invoking foreign compulsion."¹¹ Even though the share of Russia's energy imports is less, under the sanctions, its huge energy reserves will remain inaccessible and possibly delay India's cooperation with Russia in their oil and gas exploration endeavours. In the present context, India should recall the similar predicament it faced during U.S. sanctions on Iran, which consequently led to the suspension of crude oil imports from Iran.

In the near future, China will emerge as the biggest beneficiary of Russia's energy sector due to its geographical proximity, and growing strategic relationship. For instance, amidst ongoing tension and sanctions, Russia agreed to sell an additional 10 billion cubic metres of natural gas to China, at par with 5% of Russia's exports to Europe from Russia's Far East.¹² If severe sanctions are imposed, then both countries will witness an increase in energy infrastructure development under Russia's energy diversification plan towards Asia. The present growing closeness in Russia-China energy relations should be concerning for India as China would do its utmost to maximize its gain from Western companies' pull-outs amidst the Ukrainian crisis by fueling capital in various pending projects. China most likely will try to establish itself as a dominant investor in Russia's energy sector, which is not favourable for India's interests in the long run. In the past, for instance, China has used its financial muscle in its energy dealings in Latin America and Africa.¹³ Though the sanctions are evolving, India needs to monitor developments and undertake proactive measures to mitigate possible ill effects. As India has minimal but notable investments in Russia's energy sector, it needs to convince the Western partners about its growing energy requirements. As an oil and gas deficit country, India should not devalue its ties with Russia, which could jeopardize or undermine India's national interest. With the possibility of more sanctions on Russia's energy and allied sectors, this article anticipates that India will face two-fold challenges in the future. It needs to be prepared to think ahead to address these.

NOTES

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- ⁹ Suhail Nathani and Ambarish Sathianathan, “Russia Sanctions: An Overview of the Impact on India,” *Mondaq*, March 2, 2022, <https://www.mondaq.com/india/export-controls-trade-investment-sanctions/1167214/russia-sanctions-an-overview-of-the-impact-on-india>. Accessed on March 4, 2022.
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- ¹¹ Ibid.
- ¹² “Putin unveils new gas deal with China’s Xi as Moscow locks horns with the West,” *France24*, February 4, 2022, <https://www.france24.com/en/asia-pacific/20220204-putin-unveils-new-gas-deal-with-china-s-xi-as-moscow-locks-horns-with-the-west>. Accessed on March 5, 2022.
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