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# EFFECTS OF RUSSIA-UKRAINE CRISIS ON WEST ASIAN OIL SCENARIO: INDIA'S CONCERNS

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## INTRODUCTION

The ongoing crisis between Russia and Ukraine has resulted in not only altering the geopolitics of the Eurasian region but also the whole global order. Besides this, the crisis also has humanitarian repercussions. Amid all the strategic, geopolitical and humanitarian concerns, there has been much talk about rising crude oil prices and their impact on the economies of various nations as well as on the oil-producing nations. So, the present geopolitical scenario is making it difficult for economies around the world to survive, with soaring prices of not only oil but also food supplies. In such a scenario, it becomes imperative to understand the impact of this crisis on the oil-producing West Asian nations which primarily survive on the rentier incomes. Furthermore, this crisis has had an impact on nations such as India which primarily meet their energy needs from oil and gas imports, most of which come from the West Asian region. This paper will try to assess the impact of this crisis on India's energy scenario.

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An important question to answer is why this crisis is affecting the crude oil prices to rise globally. Since the beginning of the Russia-Ukraine crisis, crude oil prices had been rising. This was also the case when there was a Russian build-up before the conflict began. Russia is the world's third-largest oil producer following the US and Saudi Arabia. It supplies 14 per cent of total global production of crude oil which roughly comes to 7-8 million barrels per day of crude oil to various markets around the world. In fact, following the crisis, the ban by the US and the UK, along with some other nations partial to Ukraine, on the purchase of Russian oil has further deepened the crisis. In the case of the West Asian region, economically, some West Asian North African (WANA) nations have both Russia and Ukraine as trading partners. As visible from more than 100 days of the crisis, its impact on the WANA region can have a compounding negative effect on food security and welfare across this volatile region, already struggling with social issues. This crisis follows the pandemic still affecting economies around the world leading to supply chain disruption and other medical issues.<sup>1</sup> In such a scenario, it is imperative to understand the impact of this crisis on the WANA economies who still thrive on income generated from the sale of hydrocarbon resources.

The crisis between Russia and Ukraine is not new; it has been persisting since 2014, following the Russian annexation of Crimea. Since then, there have been skirmishes between Russia and Ukraine and stalemates between the two nations. At present, the conflict between the two has severely strained the US-Russia relations with several nations imposing sanctions or stalling their trade relations with Russia. One of the issues related to the Russia-Ukraine crisis pertains to NATO membership, which has become the bone of contention between Russia, Ukraine and the US due to NATO's security commitments. This has further highlighted the issues related to arms control, cybersecurity, nuclear nonproliferation, energy security, counterterrorism, and political solutions in various war-

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1. Ferid Belhaj, "Compounded stress: The impact of the war in Ukraine on the Middle East and North Africa", World Bank, March 7, 2022, at <https://blogs.worldbank.org/arabvoices/compounded-stress-impact-war-ukraine-middle-east-and-north-africa>. Accessed on June 2, 2022.

torn nations across the globe, especially in the West Asian North African (WANA) region.<sup>2</sup> There is growing belief in the academia and media globally that the current Russia-Ukraine crisis has its genesis in Russian President Vladimir Putin's perception about the inability of Russia to harness the benefits, and reap strategic benefits, through the annexation of the Crimean peninsula following the 2014 revolution in Ukraine. Added to this were the concerns related to Ukraine's growing proximity to the West, including the surge in defence cooperation.<sup>3</sup> In 2021 Putin ordered a build-up of troops along Russia's border with Ukraine, and in early 2022 he declared the "special military operation" and the Russian forces invaded Ukraine.

### **THE OIL POLITICS IN WEST ASIA**

Besides the humanitarian issues, the crisis related to food security and oil shortages have had an effect on several nations across the world. The rising cost of oil and gas has had the knock-on effect of increased cost of logistics and eventually on commodity prices. This has created inflationary pressures, potentially disrupting the supply chains for essential and non-essential goods that have further unsettled the economies already reeling under the after-effects of COVID-19 pandemic. Furthermore, the rising oil prices have forced the nations which are heavily dependent on oil and gas imports to lower the exchange rate for their national currencies, which has further stressed their economies and negatively affected the living conditions and social balance of life.<sup>4</sup> However, the major West Asian nations with strong economies such as Saudi Arabia and Qatar are trying to utilise the opportunity arising from this crisis, and to use these energy dynamics to strengthen their positions with the US and the European nations. So, there are chances that Russia-Ukraine

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2. "Conflict in Ukraine", *CFR*, May 12, 2022, at <https://www.cfr.org/global-conflict-tracker/conflict/conflict-ukraine#Background-0>. Accessed on June 12, 2022.

3. Rezaul H. Laskar, "Treaties, annexations, fears of war: Genesis of the Ukraine crisis", *The Hindustan Times*, March 3, 2022, at <https://www.hindustantimes.com/world-news/treaties-annexation-fears-of-war-genesis-of-the-ukraine-crisis-101645593439801.html>. Accessed on June 12, 2022.

4. Joost Hilterman, et al., "The Impact of Russia's Invasion of Ukraine in the Middle East and North Africa", *Crisis Group*, April 14, 2022, at <https://www.crisisgroup.org/middle-east-north-africa/impact-russias-invasion-ukraine-middle-east-and-north-africa>. Accessed on June 2, 2022.

crisis could provide the WANA nations a new significant leverage over the US and Europe. Turkey has become an important part of this equation. It is a West Asian nation having NATO membership. It also has close ties with both Russia and Ukraine. Furthermore, the geostrategic positioning of Turkey makes it a significant nation in this whole Russia-Ukraine crisis. However, besides the geopolitical contours of the crisis, Turkey faces tough choices. For Ankara, this crisis presents far-reaching implications for its struggling economy, damaged relations with the US as well as the EU, its complex partnership with Russia, and most importantly the precarious regional security architecture in the Black Sea.

Besides Turkey, there are other West Asian nations that are trying to hedge their bets. These include Saudi Arabia, the UAE and Qatar at the foremost. Qatar, being the world's second-largest producer of Liquefied Natural Gas (LNG), has become the focus of major European nations to find alternative energy supplies.<sup>5</sup> Qatar's LNG production is nearing its maximum capacity, with much of its supply going to its key customers in Asia. According to Reuters, the amount of LNG that can be re-routed to Europe is only 10-15 per cent.<sup>6</sup> This could create trouble for the European nations in the long run if the supply of Russian oil and gas is totally stalled. Such a crisis has increased Qatar's bargaining power, especially since Saudi Arabia and the UAE do not have LNG production and export capabilities as good as Qatar.

Nevertheless, the case of Saudi Arabia is significant in various other ways where energy scenario is concerned. With this ongoing crisis and sanctions on Russia, there are chances that reduced supply of Russian oil and gas could result in lower prices in the long run, which have already risen steeply. Saudi Arabia may also consider this as an opportunity to seize Russia's position as a dominant oil and gas supplier to Eastern European nations through its recent inroads into Poland with the intention to capture a greater global market share. Saudi Arabia and the UAE are the major oil producers in West Asia

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5. Maha El Dahan, Andrew Mills and Marwa Rashad, "Qatar says 'almost impossible' to quickly replace Russian supplies to Europe", Reuters, February 22, 2022, at <https://www.reuters.com/world/middle-east/qatar-can-divert-up-15-its-gas-exports-2022-02-22/>. Accessed on June 13, 2022.

6. Ibid.

who could have increased their spare oil production, even though it was still difficult for their oil to quickly replace the oil supply from Russia. Increased oil production does not ensure increased export of oil to the major European nations as the oil markets take time to be redirected. If Saudi Arabia, being the largest oil producer in the region, decides to produce more oil, this could then impact oil prices by bringing them down. In fact, following this crisis, the US government had sought both the Saudis and the Emiratis to ramp up their oil production in order to bring down the global oil prices. This was initially rejected by both Saudi Arabia and the UAE citing reasons related to honouring the OPEC agreement. In a meeting on the issue in March 2022 the 23 OPEC+ members consented to increase the oil production output by an agreed 400,000 barrels per day in April 2022, refraining from mentioning the Russia-Ukraine crisis for this decision.<sup>7</sup> OPEC+ member nations said that they would increase collective production by 648,000 barrels per day in July 2022 and August 2022 rather than the 400,000 barrels per day, as originally planned.<sup>8</sup> The OPEC+<sup>9</sup> announcement had a short-term but immediate effect on oil markets. Prices for global benchmark Brent crude were around \$116 per barrel, down less than a per cent after the announcement.<sup>10</sup> However, this might result in various West Asian nations seizing some of the current Russian share of the oil market. At the same time, it can affect the already blossoming security and economic relations between Russia and several West Asian nations. In all of this, it cannot be ignored that Moscow has emerged as an important partner of West Asian nations, especially Saudi Arabia. It was Russia's joining of OPEC that led it to considerably increase

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7. Cathrin Schaer, "Ukraine war: Will Arab oil save the world from soaring prices?", *DW*, March 7, 2022, at <https://www.dw.com/en/could-saudi-arabia-help-reduce-dependency-on-russian-oil/a-61042100>. Accessed on June 3, 2022.

8. Ben Lefebvre, "OPEC+ agrees to pump more oil ahead of possible Biden Middle East trip", *Politico*, June 2, 2022, at <https://www.politico.com/news/2022/06/02/opec-agrees-to-pump-more-oil-ahead-of-possible-biden-middle-east-trip-00036694>. Accessed on June 12, 2022.

9. OPEC+ is a group of 24 oil producing nations which also includes 14 members of OPEC. At present it includes Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan as members. Saudi and Russia both are at the centre of this alliance which initially had the aim of stabilising the oil prices with production cuts.

10. Ben Lefebvre, n. 8.

its influence in the region's energy scenario amidst America's shale revolution. Saudi Arabia has been trying to utilise this association in order to hedge and counter-balance the American influence. Amidst all of this, the political factor that is stopping the Gulf oil producers from squeezing out Russia from the global oil market is related to resentment towards America being the primary security provider in the region. Furthermore, the uncertainties related to the US policies vis-à-vis West Asia following the Afghanistan crisis have led the West Asian nations to hedge their bets and look towards other major players as supporters. All these factors have led Moscow to gain a significant position in the West Asian region, especially with major regional players such as Saudi Arabia, the UAE, Bahrain, Iran, etc. Under these circumstances, the Gulf nations do not want to totally nullify their relations with Russia as a part of their efforts to diversify their international ties.<sup>11</sup> However, this current Russia-Ukraine crisis underlines the perils of Europe's dependency on Russian oil and gas. With sanctions and fears and apprehensions related to the disruption of supply chains of Russian oil and gas flow to Europe, it has intensified the need for alternate energy supply chains. The increased oil and gas prices can become an added burden for a number of European nations facing the direct brunt of this crisis. In this scenario, there are chances that if Russian oil and gas becomes inaccessible to Europe, they can turn towards West Asia for fulfilling oil and gas needs. This seems a distant reality. In this scenario, North Africa also becomes a plausible option for Europe's energy crisis with Algeria and Libya becoming the possible alternative gas suppliers. However, these also come with their set of burdens considering the fragile regional politics of North African region, messy internal politics of the North African nations. Added to this is Libya's political instability and the ongoing threat of conflict making it a difficult energy partner. At the same time, this also would not be a sustainable solution. There are chances that Russia could complicate these dynamics further by leveraging its presence in eastern Libya to disturb energy supplies to Europe.<sup>12</sup>

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11. Nikolay Kozhanov, "How will the war in Ukraine affect Gulf oil producers?", Middle East Institute, March 4, 2022, at <https://www.mei.edu/publications/how-will-war-ukraine-affect-gulf-oil-producers>. Accessed on June 14, 2022.

12. Asli Aydintaşbaş, et al., "Unsettled: The impact of the Russia-Ukraine crisis on the Middle East and North Africa", European Council on Foreign Relations, February

## INDIA'S CONCERNS

India is the third largest consumer of oil and gas in the world with more than 80 per cent of its oil requirements being fulfilled by oil and gas imports. As of 2021, India's top three oil and gas suppliers were from the West Asian region followed by the US and Nigeria. The share of African oil in India's crude imports last month surged to 11.5 per cent from 5.9 per cent in April 2022.<sup>13</sup> Out of this only 2 per cent of the total oil imports (i.e., approximately 12 million barrels of crude) came from Russia.<sup>14</sup> Following the Russia-Ukraine crisis, the prices of crude oil have risen considerably beyond \$100 per barrel due to apprehensions related to disruptions in global supply of oil and gas. In this scenario, India is one of the nations that has been majorly impacted due to its dependence on oil and gas imports. India consumes almost 5.5 million barrels per day of oil. So, increased oil prices or any supply chain disruption could mean costlier oil (both petrol and diesel) for private vehicle owners as well as increased transportation and logistics costs of essential commodities. The increased crude oil prices have also impacted various industries such as petrochemicals, plastics and power generation, etc.<sup>15</sup> The steep increase in crude oil prices becomes burdensome for the Indian economy as high crude oil prices present inflationary, fiscal as well as other commercial risks related to other sectors. The increased crude prices have also affected the budget calculations for the year 2022-2023. In the month of March 2022, the crude oil prices were as high as nearly \$140 per barrel.

So, considering India is one of the top three importers of crude oil in the world, it has to seek competitive prices of crude and the best

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10, 2022, at <https://ecfr.eu/article/unsettled-the-impact-of-the-russia-ukraine-crisis-on-the-middle-east-and-north-africa/>. Accessed on June 3, 2022.

13. "Russia becomes India's second biggest oil exporter: Trade sources", *The Economic Times*, June 14, 2022, at <https://economictimes.indiatimes.com/industry/energy/oil-gas/russia-becomes-indias-second-biggest-oil-exporter-trade-sources/articleshow/92184562.cms?from=mdr>. Accessed on June 20, 2022.
14. Shruti Menon, "Ukraine Crisis: Why is India buying Russian oil?", BBC, June 10, 2022, at <https://www.bbc.com/news/world-asia-india-60783874>. Accessed on June 17, 2022.
15. Darpan Singh, "Russia-Ukraine war: How rising crude oil prices impact us in ways we don't quite notice", *India Today*, March 14, 2022, at <https://www.indiatoday.in/world/russia-ukraine-war/story/russia-ukraine-war-how-rising-crude-oil-prices-impact-us-in-ways-we-don-t-notice-1925206-2022-03-14>. Accessed on June 17, 2022.



possible nation as oil importer to lessen the burden on its economy. In this scenario, the discounted oil and gas from Russia becomes an opportunity for India to not miss. It is significant for India from its economic and financial perspective. According to Ministry of External Affairs' spokesperson, Arindam Bagchi, "India does import most of its oil requirements ... so, we are always exploring all possibilities in global energy markets because of this situation that we face importing our oil requirements."<sup>16</sup> India's actions of stepping up its oil imports from Russia has somewhat perturbed the US which has been seeking to isolate Russia both economically and politically since this crisis began. Despite this, India did not submit to pressure from the US and its allies categorically citing "national interest" being the paramount reason for India's increased oil imports from Russia. At present, Russia is India's second-largest oil supplier followed by Saudi Arabia.<sup>17</sup> Furthermore, it clearly points out that for New Delhi its energy security, economic well-being and defence interests are above the American desires along with its allies (American) regarding Ukraine.

## CONCLUSION

It remains to be seen in future whose trajectory will lead to a long-term shift in global political relations. Oil-producing nations in West Asia, including Saudi Arabia, the UAE, etc., have been trying to diversify their economies to move away from their rentier incomes and adopt much-needed economic reforms and a welfare state model. It is for sure that due to the ongoing Russia-Ukraine crisis, the pressure has increased on oil-importing nations. At the same time, the high oil prices pose further risks to already struggling economic conditions. However, the shifting political alliances have altered the regional politics in West Asia, eventually leading to changed

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16. "India-Russia oil trade amid Ukraine crisis: What is at stake?", *Business Standard*, March 19, 2022, at [https://www.business-standard.com/article/economy-policy/india-russia-oil-trade-amid-ukraine-crisis-what-is-at-stake-122031900860\\_1.html](https://www.business-standard.com/article/economy-policy/india-russia-oil-trade-amid-ukraine-crisis-what-is-at-stake-122031900860_1.html). Accessed on June 17, 2022.

17. "Explained: How Ukraine war is changing India's oil purchase", *The Times of India*, June 13, 2022, at <https://timesofindia.indiatimes.com/business/india-business/explained-how-ukraine-war-is-changing-indias-oil-purchase/articleshow/92187596.cms>. Accessed on June 20, 2022.

realpolitik scenarios. It should be noted that most of the Arab nations have condemned this crisis, but they have not opposed outright the Russian actions. This is also due to the fact that Russia, in the past few years, has become good strategic and defence partner of various West Asian nations. While the official position of most Arab countries at the UN has been to condemn Russia's special military operations in Ukraine. So, it can be said that most of the West Asian nations have been treading carefully and have exhibited a subdued reaction against this crisis. In the case of India, the ongoing crisis between Russia and Ukraine has resulted in increased crude oil prices, forcing the Indian oil companies to gradually increase their fuel prices to minimise their possible losses. In turn, consumers are faced with undue economic pressure. This high price scenario has adversely impacted India's balance of trade and import bills. This is particularly strenuous in the post COVID-19 economic recovery along with high oil and gas prices. Therefore, under the current geopolitical conditions, India's energy security concerns are incredibly higher.