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INDO-RUSSIAN ENERGY DYNAMICS

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INTRODUCTION

The year 2022 marks the 75th anniversary of India-Russia relations which were established in April 1947. Very often this bonhomie is described as historic, based on mutual trust, and time-tested by experts to show the significance of India-Russia relations. During Soviet times, the relations were marked by “high degree of political and strategic trust.”¹ India and the USSR took similar positions and supported each other on contentious global issues. However, for a brief period after the Soviet disintegration, New Delhi and Moscow went through various challenges in their relations such as a decline in economic activity, a drop in military-technology cooperation, and a decline in cultural cooperation. Despite upheavals in their bilateral relations in the 1990s, India-Russia relations have evolved, and are based on five main pillars: (a) similar political and strategic perceptions; (b) military-technical cooperation; (c) strong economic

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1. Nandan Unnikrishnan, “The enduring relevance of India-Russia relations”, *ORF Issue Brief*, May 2017, at https://www.orfonline.org/wp-content/uploads/2017/05/ORF_IssueBrief_179_India-Russia_Nandan_FinalForUpload.pdf. Accessed on July 23, 2022.

relations; (d) ties in science and technology; and (e) cultural and people-to-people ties.²

In recent times, India-Russia closeness can be observed from the fact that New Delhi has refrained from commenting on Moscow's action against Ukraine. On March 31, 2022, Russian Foreign Minister Sergey Lavrov visited India amidst the ongoing crisis. In a meeting with his Indian counterpart, Minister of External Affairs Dr. S. Jaishankar, Lavrov emphasised mutual respect and the search for a balance of interests between Delhi and Moscow. He further stressed developing a 'special privileged strategic partnership' as one of the main priorities of Russia's foreign policy.³ Both Foreign Ministers discussed a diverse range of topics for cooperation, and negotiations were conducted on topics related to activities of Russia-India-China, currencies for financial transactions, energy trade, and military-technical cooperation.⁴ Their strong relations are evident from the fact that despite western reactions to Russia, India chose to put its national interests at the top in its dealings with Russia, as stated clearly by Dr. S. Jaishankar when he said, "India's foreign policy decisions are made in 'national interest' and guided by our thinking, our view, our interest..."⁵

INDIA-RUSSIA ENERGY COOPERATION: CURRENT SCENARIOS

Energy, for India and Russia, forms one of the main pillars of the bilateral relationship. Over 80 per cent of the energy requirements of India are fulfilled by coal, oil, and biomass. Coal is supporting the expansion of electricity and industry, and remains the largest fuel

2. Ibid.

3. Ministry of Foreign Affairs of the Russian Federation, "Foreign Minister Sergey Lavrov's opening remarks during talks with Minister of External Affairs of India Subrahmanyam Jaishankar", April 2022, at https://www.mid.ru/en/press_service/vizity-ministra/1807492/. Accessed on July 25, 2022.

4. Ministry of Foreign Affairs of the Russian Federation, "Foreign Minister Sergey Lavrov's answers to media questions following talks with Minister of External Affairs of India Subrahmanyam Jaishankar", April 1, 2022, at https://www.mid.ru/en/press_service/vizity-ministra/1807582/. Accessed on July 25, 2022.

5. "EAM Jaishankar lists 6 principles behind India's response to Ukraine crisis", *The Mint*, March 24, 2022, at <https://www.livemint.com/news/world/eam-jaishankar-lists-6-principles-behind-india-s-response-to-ukraine-crisis-read-here-11648136359738.html>. Accessed on July 25, 2022.

source in the country's energy basket. Oil imports and consumption are increasing because of the rising use of road transportation and vehicle ownership. Between 1990 and 2018, coal supplied 45 per cent of total energy consumption, followed by oil which supplied around 26 per cent, and biomass around 20 per cent.⁶ Between 2011 and 2015, there has been an increase in coal imports from 100.84 MTs to 216.54 MTs. But, in 2020-2021, imports declined by 14 per cent.⁷ Between 2011 and 2020, oil imports rose from 171.73 MTs to 226.95 MTs.⁸ Between 2011 and 2020, the gas import increased from 18 bcm to 33.89 bcm.⁹

As an oil and gas deficit country, India relies on imports. For instance, approximately 59 per cent of crude oil came from the West Asia region in 2019, mostly from Iraq and Saudi Arabia. Africa and the Americas also contributed 16 per cent and 17 per cent respectively. In the natural gas sector, India was the 4th largest importing country in 2019 with approximately 1.2 tcf of global trade. Here, Qatar has been the main gas provider with an approximate share of 41 per cent followed by America, Oman, Australia, and countries in Africa. In the coal sector, India became 2nd largest importer of coal after China. Indonesia accounts for almost 49 per cent share of coal imports, and Australia and South Africa share 20 and 16 per cent respectively.¹⁰

It has been projected that India's demand for oil is expected to rise to 10 million barrels per day by 2040 from 4 million barrels per day. Likewise, natural gas consumption is expected to increase to 175 bcm from 50 bcm.¹¹ So, it is not a surprise that hydrocarbons import will play an important role to mitigate increasing oil and gas demand in years to come despite increasing endeavours toward new energy.

6. US Energy Information Administration, "India", September 30, 2020, at <https://www.eia.gov/international/analysis/country/IND>. Accessed on July 26, 2022.

7. Ministry of Statistics and Programme Implementation, "Energy Statistics India—2022", at <https://mospi.gov.in/documents/213904/1606151//Energy%20Statistics%20India%2020221644825594802.pdf/aed59aac-4d5a-995b-1232-bb68397cd873>. Accessed on July 26, 2022.

8. Ibid.

9. Ibid.

10. n. 6.

11. Vasily Shikin and Amit Bhandari, "Russia-India Energy Cooperation: Trade, Joint Projects, and New Areas", *Policy Brief*, October 2017, Russian International Affairs Council.

In this context, this paper aims to examine India's energy cooperation (specifically in hydrocarbons) with Russia amidst ongoing 'special military operation', and why New Delhi needs to strengthen its energy engagement with Moscow.

Indo-Russia energy collaboration has been confined to nuclear energy, and hydrocarbons.¹² The nuclear cooperation between both countries has an embedded past in the Soviet period. Throughout the 1980s, the Soviet Union provided support to India to continue its nuclear programme. In recent times, Russian energy firms are involved in the construction of six nuclear reactors in the Kudankulam nuclear project. Out of six, Unit 1 and Unit 2 are presently operating; and Unit 3 and Unit 4 are under construction. It has been anticipated that India's nuclear power generation capacity may rise to 22,480 MW from 6,780 MW by 2031.¹³

In the field of hydrocarbons, as per India's Ministry of Petroleum & Gas, oil and gas account for 35.7 per cent share of India's energy mix. India imports 83.7 per cent of its overall oil consumption and imports 45.7 per cent of its natural gas.¹⁴ In its huge energy basket, "India imported approximately 1 per cent of its overall oil imports from Russia in 2021; and it accounts for approximately 0.2 per cent of Russia's gas exports."¹⁵ But, at the same time, India has made gradual strides as a few Indian energy companies' investments in Russia are estimated to be worth around \$16 billion. Some of the examples are Sakhalin-I, Imperial Energy, and Vankorneft; and the signing of a "first-term contract" in 2020.¹⁶ Russia's Rosneft has invested approximately \$13 billion in private oil refiner, Essar

12. Ibid.

13. Dmitriy Frolovskiy, "Energy Cooperation as the backbone of the India-Russia Ties", *The Hindu*, October 28, 2021.

14. Ministry of Petroleum & Gas, Government of India, *Annual Report—2019-20*, at https://mopng.gov.in/files/TableManagements/2020-12-08-115045-xyd7b-AR_2019-20E.pdf. Accessed on July 25, 2022.

15. "How Dependent is India on Russia for Oil, Gas, and Coal?", *The Economic Times*, February 17, 2022, at <https://economictimes.indiatimes.com/industry/energy/oil-gas/how-dependant-is-india-on-russia-for-oil-gas-and-coal/articleshow/89634954.cms>. Accessed on July 26, 2022.

16. Suhail Nathani and Ambarish Sathianathan, "Russia Sanctions: An Overview of the Impact on India", *Mondaq*, March 2, 2022, at <https://www.mondaq.com/india/export-controls-trade-investment-sanctions/1167214/russia-sanctions-an-overview-of-the-impact-on-india>. Accessed on July 26, 2022.

Oil renamed Nayara Energy.¹⁷ Despite their close bonhomie, both Moscow and India need to make significant strides in the hydrocarbons sector. As India's industrialisation and urbanisation are making huge energy demands, the main objective of the country is to access energy at reasonable prices and in sufficient quantities.¹⁸

Earlier, highlighting the significance of bilateral energy cooperation, Indian Prime Minister Modi at the 6th Eastern Economic Forum in 2021 said, "India-Russia energy partnership can help bring stability to the global energy market."¹⁹ The significance of India-Russia cooperation lies in the fact that India is an energy deficit country, and Russia is an energy surplus country. Both have a lot to gain from one another. India wants to diversify its imports; whereas, Russia is looking for partners in Asia. Given India and Russia's bilateral history, the latter could become a long-term partner which the former would like to have to mitigate its energy needs.

Before Russia's 'special military operation' in Ukraine, India imported 1.8 million tonnes (1.3 per cent) of thermal coal in 2021 compared to 2.5 million (1.6 per cent) in 2020. New Delhi imported 434,000 bpd of oil from Moscow in 2021, approximately 1 per cent; and accounted for 0.2 per cent of natural gas from Moscow as a result of GAIL's deal with Gazprom to purchase 2.5 million tonnes of LNG.²⁰ However, the imports volume suddenly shifted after international sanctions on Russia, and Europe's decision to cut energy imports from Russia. India's crude oil and coal imports increased 7 times to \$3.2 billion and \$425 million respectively by May 2022. The crude oil imports reached approximately 10 per cent.²¹ In April, India imported

17. Frolovskiy, n. 13.

18. n. 7.

19. Frolovskiy, n. 13.

20. "How much Oil, Gas, and Coal India Imports from Russia", *The Times of India*, February 17, 2022, at <https://timesofindia.indiatimes.com/business/india-business/explainer-how-much-oil-gas-and-coal-india-imports-from-russia/articleshow/89631248.cms>. Accessed on July 27, 2022.

21. Rakesh Kumar, "India's Crude Imports from Russia up 7.2 times April-May 2022", *The New Indian Express*, July 14, 2022, at <https://www.newindianexpress.com/business/2022/jul/14/indias-crude-imports-from-russia-up-72-times-in-april-may-2022-2476374.html#:~:text=NEW%20DELHI%3A%20India's%20crude%20oil,million%20for%20the%20same%20period>. Accessed on July 27, 2022.

627,000 bpd of crude oil compared to 274,000 bpd in March.²² From the Russian side, Gazprom has increased supplies to GAIL to reach the target of 2.85 million tonnes in 2023.

On asset acquisitions, Indian energy firms have made bids to purchase assets shunned by Western companies. On the oil front, ONGC has made a bid for assets in Shell's 50 per cent share in Salym fields in Siberia, Shell's 27.5 per cent in Sakhalin-2, and ExxonMobil's 30 per cent in Sakhalin-1. On the gas front, GAIL has shown interest to purchase oil and gas assets. In April, Indian firms such as Bharat Petroleum, ONGC, Indian Oil, and Oil India held talks to assess purchasing BP's 20 per cent share of Rosneft.²³

To sum up, this sudden increase in India's oil imports from Russia cannot be attributed only to low prices. Earlier, as a result of western sanctions on oil exporting countries with whom India shared decades of energy ties have negatively impacted its energy security—a case in point is Iran. As an oil and gas deficit country, India should not devalue its ties with Russia, which could jeopardise or undermine India's national interest. Souring relations in one area of cooperation will most likely have a 'domino effect' in other areas of cooperation, which India cannot gamble on.

WHY DOES INDIA NEED TO STRENGTHEN ITS ENERGY ENGAGEMENT WITH RUSSIA?

As a result of Russia's operation in Ukraine, many western countries have approached India to reconsider its ties with Russia. For instance, the US Deputy NSA has warned India of 'consequences' for conducting deals in local currency with Moscow or trying to bypass US sanctions.²⁴ Likewise, the White House reiterated when Jen Psaki said, "every country should abide by the sanctions that we (the US) have announced and that we're implementing around the world."²⁵

22. Ksenia Kondratieva, "Rerouting energy flows: How Russia can help India fulfil its energy needs", *Russia Digest*, 3rd edition, June 2022.

23. Ibid.

24. Suhasini Haider, "U.S. Deputy NSA cautions India against trade deals with Russia", *The Hindu*, April 1, 2022, at <https://www.thehindu.com/news/national/us-deputy-nsa-daleep-singh-cautions-india-against-trade-deals-with-russia/article65277933.ece>. Accessed on July 29, 2022.

25. Sriram Lakshman, "India shouldn't raise Russian purchases", *The Hindu*, April 6, 2022. Accessed on July 29, 2022.

Unlike the West, for India, the cost of devaluing energy ties with Russia might spark a negative ‘domino effect’ in its bilateral relations. Therefore, this section sees the following reasons for India to increase its energy engagement with Russia.

Import Diversification and Affordability: Russia sits on enormous oil and gas reserves, and optimistically looks towards South Asia and South-East Asia for export diversification after its special military operation. Russia’s zeal to diversify energy export fits perfectly with India’s growing needs for diversification and affordability of energy resources. As Russia has offered a \$35 per barrel discount on crude oil in recent times,²⁶ Dr S. Jaishankar highlighted the importance of affordability and diversification for India, when he said, “When oil prices go up, it’s natural for countries to look for good deals for their people.”²⁷ With ongoing sanctions on India’s former energy partners, for example, Iran, India needs to look at Russia for its growing requirements. Further, partnerships in oil and gas can spark in other energy-related fields.

Moving Towards Greater Use of Natural Gas: Under the Paris Agreement, India has committed to reducing greenhouse gas emissions to 32 per cent to 35 per cent by 2030; and to increase the use of non-fossil energy to 40 per cent. Further, the Indian Prime Minister also pledged to increase non-fossil fuel energy to 500 GW by 2030.²⁸ To fulfil its commitments, India needs a trusted partner who can fill its growing demand. On the other hand, Moscow’s decision to increase its LNG output coincides with India’s growing demand for gas. In 2021, Russia forwarded the ‘Long term Programme for the Development of Liquefied Natural Gas Production’ which envisages LNG output of 80 to 140 million tonnes by 2035. The country is aiming to increase its share in the global LNG market by over 10

26. “Russia offers oil to India at 35%/bbl discount from pre-war price”, *Mint*, April 1, 2022, at <https://www.livemint.com/news/india/russia-offers-oil-to-india-at-35-bbl-discount-from-pre-war-price-11648704105136.html>. Accessed on July 29, 2022.

27. Mohammad Haris, “Russia offers oil to India big discount on pre-Ukraine war price: What it means for New Delhi”, *News18*, April 1, 2022, at <https://www.news18.com/news/business/russias-discounts-on-crude-oil-how-much-russia-is-offering-oil-at-what-it-means-for-india-4929794.html>. Accessed on July 29, 2022.

28. Shruti Menon, “Climate change: What emission cuts has India promised?”, *BBC News*, November 17, 2021, at <https://www.bbc.com/news/world-asia-india-58922398>. Accessed on July 29, 2022.

per cent, possibly up to 20-30 per cent.²⁹ The strategy aims to exploit potential resources in Yamal, Gydan, northern Krasnoyarsk, and the Arctic shelf. And, Russia's 'Energy Strategy to 2035' also aims to prioritise an increase in fuel production by 2024; increase exports up to 15 per cent; and "expanding the gas transport infrastructure in eastern Siberia and the Far East, building up liquefied natural gas facilities, and ensuring the resilience of the energy system."³⁰ These two strategies coincide with India's search for gas imports. As India has already made strides in Russia's crude oil sector, collaboration in LNG could significantly promote their partnership.

Maintaining Strong Bonds with Russia: Another key area that has been highlighted repeatedly by the West after Russia's operation is cultivating doubts concerning Russia's role or support to India in case of a tussle between India and China on LAC. After India's stand to abstain from the UN vote on Russia's 'special military operation', Western countries have tried to use the Chinese issue to warn India. For instance, on his visit to India, US Deputy NSA for International Economics, Daleep Singh, said, "The more Russia becomes China's junior partner, the more leverage China gains over Russia, the less and less favourable that is for India's strategic posture. Does anyone think that if China breaches the Line of Actual Control, that Russia would now come to India's defence? I don't."³¹ As New Delhi is well aware of its interests at the regional and international level, in the event of any tension with China in the future, India would want Russia to stay neutral. The only way to keep Russia neutral is by deepening bilateral relations.

Balancing China: 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

29. Szymon Kardas, "Great Ambitions: Russia Expands on the LNG Market", *OSW Commentary*, May 17, 2021, at <https://www.osw.waw.pl/en/publikacje/osw-commentary/2021-05-17/great-ambitions-russia-expands-lng-market>. Accessed on July 29, 2022.

30. Government of Russia, "Mikhail Mishustin approves Energy Strategy to 2035", June 10, 2020, at <http://government.ru/en/docs/39847/>. Accessed on July 29, 2022.

31. Pia Krishnankutty, "Daleep Singh, US Dy NSA who warned India on Russia ties, is a political inheritor & MIT grad", *The Print*, April 2, 2022, at <https://theprint.in/diplomacy/daleep-singh-us-dy-nsa-who-warned-india-on-russia-ties-is-a-political-inheritor-mit-grad/898700/>. Accessed on July 29, 2022.

and sanctions, Russia agreed to sell an additional 10 billion cubic metres of natural gas to China, at par with 5 per cent of Russia's exports to Europe from Russia's Far East region. If severe sanctions are imposed, then both countries will witness an increase in energy infrastructure development under Russia's energy diversification plan for Asia. The present growing closeness in Russia-China energy relations should be of concern for India as China would do its utmost to maximise its gain from Western companies' pull-outs amidst the Ukrainian crisis by fuelling capital in various pending projects. In all likelihood, China 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. For instance, in the past, ignoring sanctions on Iran, China continued to purchase oil; whereas, India stopped it.³²

Strengthening Regional Cooperation on Energy: It would be unwise to restrict India-Russia energy cooperation to a bilateral level. Along with the bilateral partnership, India and Russia are partner countries in two main non-Western regional organisations (the SCO and the BRICS); and they are working on regional-level assignments, for example, the INSTC, and Free Trade Agreement with Eurasian Economic Union. With Russia on its side, it would be convenient for India to participate in Caucasus and Central Asian region's ongoing or prospective exploration and transportation projects. The cooperation between ONGC Videsh and Rosneft on Block 06.1 in Vietnam is such an example.³³

To conclude, India stopped its imports from Iran as a response to international sanctions, whereas China went ahead and continued to benefit economically.³⁴ India lost a reliable partner with whom it shared a long history of energy cooperation. The loss of oil trade with Iran deprived India of benefits, for instance, oil trade for rupees or goods, participation in energy infrastructure projects, and lower

32. Nidhi Verma, "Why India Ramped up Russian Oil Imports, Easing Pressure on Moscow", Reuters, July 8, 2022, at <https://www.reuters.com/world/india/why-india-ramped-up-russian-oil-imports-easing-pressure-moscow-2022-07-08/>. Accessed on July 29, 2022.

33. ONGC Videsh Limited, "CIS and Far-East", at <https://www.ongcvidesh.com/assets/cis-far-east/>. Accessed on July 29, 2022.

34. n. 32.

transportation costs.³⁵ While the West is busy limiting oil sources through international sanctions,³⁶ India should not repeat its Iranian experience with Russia.

35. Saiyed Zegham Murtaza, "Why India is looking forward to resume importing oil from Iran", *National Herald*, March 22, 2022, at <https://www.nationalheraldindia.com/opinion/why-india-is-looking-forward-to-resume-oil-imports-from-iran>. Accessed on July 29, 2022.

36. Verma, n. 32.