

Russian oil - Europe's Hypocrisy amid Policy Paralysis

By

Sunil Prasad

Secretary General, Europe India Chamber of Commerce

Targeting India for buying Russian oil smacks West's oil hypocrisy and exposes its misdirected mindset that continued purchase of Russian oil by India is fueling the war in Ukraine.

Ever since the invasion of Ukraine by Russia, India has been targeted by the West for supporting Russia and its enhanced economic relations - buying and even increasing its import of Russian oil. Such sales by Russia, according to West, are boosting Russian export revenues at a time when Brussels and Washington and their allies are trying to limit financial flows supporting Moscow's war. On the other hand, India finds Russian oil an irresistible deal and an economic necessity, no matter how much the diplomatic pressure it is facing. Taking a harder line on Russia, during the last four months, a parade of American and European leaders including President of the European Union, have descended to New Delhi and have argued the "logic" and "need" to disconnect with Russia for the sake of global imperative. Buying Russian oil, according to European governments, is not in India's long-term interest. Undermining sanctions, some Western leaders have starkly warned, could bring "consequences" for the country.

Europe and West must understand India's strategic interest and how India is helping EU and America's Indo-Pacific policy. It should also be noted in the first instance that India's public neutrality toward the Russian invasion is driven fundamentally by its concerns vis-à-vis China and Pakistan. New Delhi sees both states as immediate and enduring threats, and it believes that preserving its friendship with Moscow will help to prevent deepening Russian ties with China and limit Russian temptations to build new strategic ties with Pakistan. Consequently, New Delhi aims to minimize Moscow's proximity to both of its rivals. Toward that end, it has concluded that studiously avoiding any open criticism of Russia offers it a chance to arrest the tightening Sino-Russian embrace while preventing a new dalliance between Moscow and Islamabad, both of which undermine India's core interests. This is what is in Europe's interest in the broader context. It is obvious, India's Russia policy is driven by geo-politics and geo-economics of the region, and its strategic interest.

India, right from the day one of the war, has been very clear that India's response to the Russian invasion of Ukraine has been distinctive among the major democracies and among U.S. strategic partners. Despite its discomfort with Moscow's war, New Delhi has adopted a studied public neutrality toward Russia. India's tightropes walk on the Ukraine war should be seen as "strategic ambivalence" and "economic necessity". Whatever Europe and West think, India's diplomatic neutrality ultimately signifies its decades old non-alignment policy.

It is important to dig into the history of Indo-Russian relations. India's trade ties with Russia date to the South Asian country's early days as an independent nation when it lacked a credit history and a well-established currency. Russia was among only a few traders willing to buy goods from India and accept Indian rupees as payment. With India taking a position

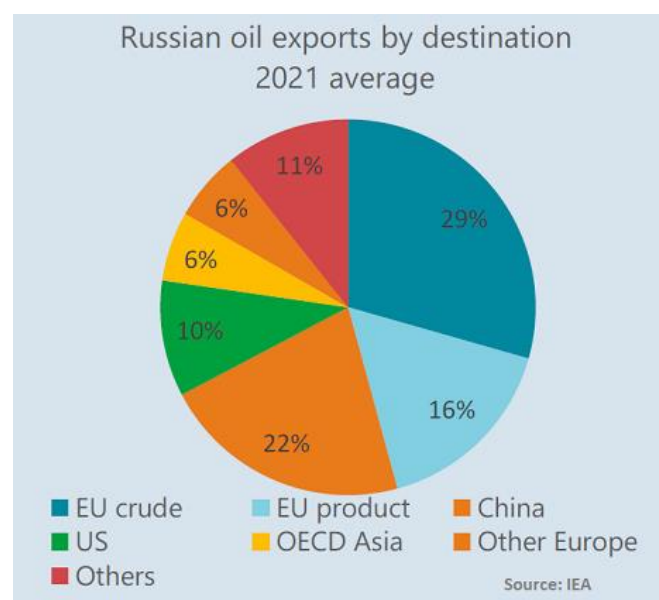
of nonalignment through the Cold War, bilateral trade continued, allowing India to build its defense arsenal largely with Russian arms.

India cannot forget that Russia has also helped India with political support at the United Nations in the hours of need. Moscow remained a steady ally when Washington repeatedly angered New Delhi, including by aiding Pakistan, India's enemy, and by imposing sanctions on India for developing nuclear weapons. India must be proud that it returned the favor by abstaining from U.N. resolutions to condemn the Russian invasion.

With Russian oil banned in the United States and Europe, India has an opportunity to buy the crude at substantial discounts, powering its energy-thirsty economy at a lower cost. Indian refiners are using the crude to make products like diesel and jet fuel and sell it at better-than-usual margins abroad. The India-bound tankers are heading into Jamnagar, in the western state of Gujarat, where Reliance Industries has the world's largest refinery complex, and into Vadinar, also in Gujarat, the location of a refinery owned by Nayara Energy, an Indian affiliate of Rosneft, the Russian state company.

What is interesting is that while Europe may be moving away from crude purchases from Russia, it is eager to buy the same oil after it is refined in India — one of the conundrums in crimping Moscow's energy revenues. India's exports of diesel and other refined products to Europe, where they are in short supply, reached 219,000 barrels a day, a new high, in March, before falling back in April as demand in India surged. With European countries, as of now, still buying Moscow's oil, it is hypocritical of them to ask India to curtail its trade with Russia. India does not have the luxury to snub discounted energy as Europe never hesitated to take advantage of the economic opportunities.

Russian oil Exports:



A report by the Helsinki, Finland-based Centre for Research on Energy and Clean Air, an independent think tank released recently said Russia earned 93 billion euros (\$97.4 billion)

in revenue from fossil fuel exports in the first 100 days of the country's invasion of Ukraine, despite a fall in export volumes in May.

Europe's hypocrisy on Russian Oil purchase stands exposed. This hypocrisy is 'naivety' and 'greed'. Europe and the US have revealed their "hypocrisy" by announcing a ban on Russian oil while continuing to purchase it in large quantities. As oil and gas industry profits rise while Ukrainians suffer from Russia's ongoing assault and consumers worldwide feel the squeeze of high energy costs, West's hypocrisy on oil and gas purchase from Russia must be exposed. Though Russia's war in Ukraine has given Europeans a chance to show that their oft-stated commitment to morality and shared values is more than lofty rhetoric, they are fooling.

If Europe is serious about disconnecting with Russian oil, it has a chance to demonstrate moral leadership in response to a crisis, to back up its lofty rhetoric with action, and to show that Europeans are not hypocrites. But they are simply living in a different world away from reality. Now that geopolitics is being remade, a realistic united Europe is more necessary than ever. If Europe is going to rise to the occasion, it must figure out how to act effectively and understand the challenges the other world is facing. For far too long, Western countries, led by the US, have slapped sanctions on governments without consulting their economically weaker allies or studying their impact on other countries. The West must come up with ways to reduce the burden of sanctions on others to ensure they have an incentive to tag along.

What will happen if the EU fully bans Russian oil?

It is no secret that the European Union is divided on banning Russian oil imports—and rightly so, because its 27 members buy a quarter of their oil and more 40% of their gas from Russia. In 2021, the EU bought 155 billion cubic meters of Russian gas, according to the International Energy Agency (IEA). Data from the US government show that, in the same year the EU bought 2.3 million barrels a day of Russian oil—almost half of Russian exports. So, a complete freeze of Russian imports would certainly squeeze Russia. But it will also drive oil prices higher, as global supply constricts without Russian oil. The price of a barrel of oil has gone past \$110 even as the EU debated its moves. Analysts warn that prices could touch \$200; even more dramatically, Russia has warned of \$300 oil if the EU halts oil and gas imports.

According to European Central Bank estimates, a 10% gas shortfall will trigger a 0.7% contraction in GDP. A total ban on Russian energy is likely to shove the EU into recession. For Europe to wean itself off Russian energy will take time. European countries will need to find other sources of oil and gas to consider a full Russian oil embargo. To switch out all Russian gas with renewables, the EU would have to install 370 gigawatts of wind farms—more than ten times the wind capacity that the EU wants to install annually by 2030.

Which EU countries imported most oil from Russia

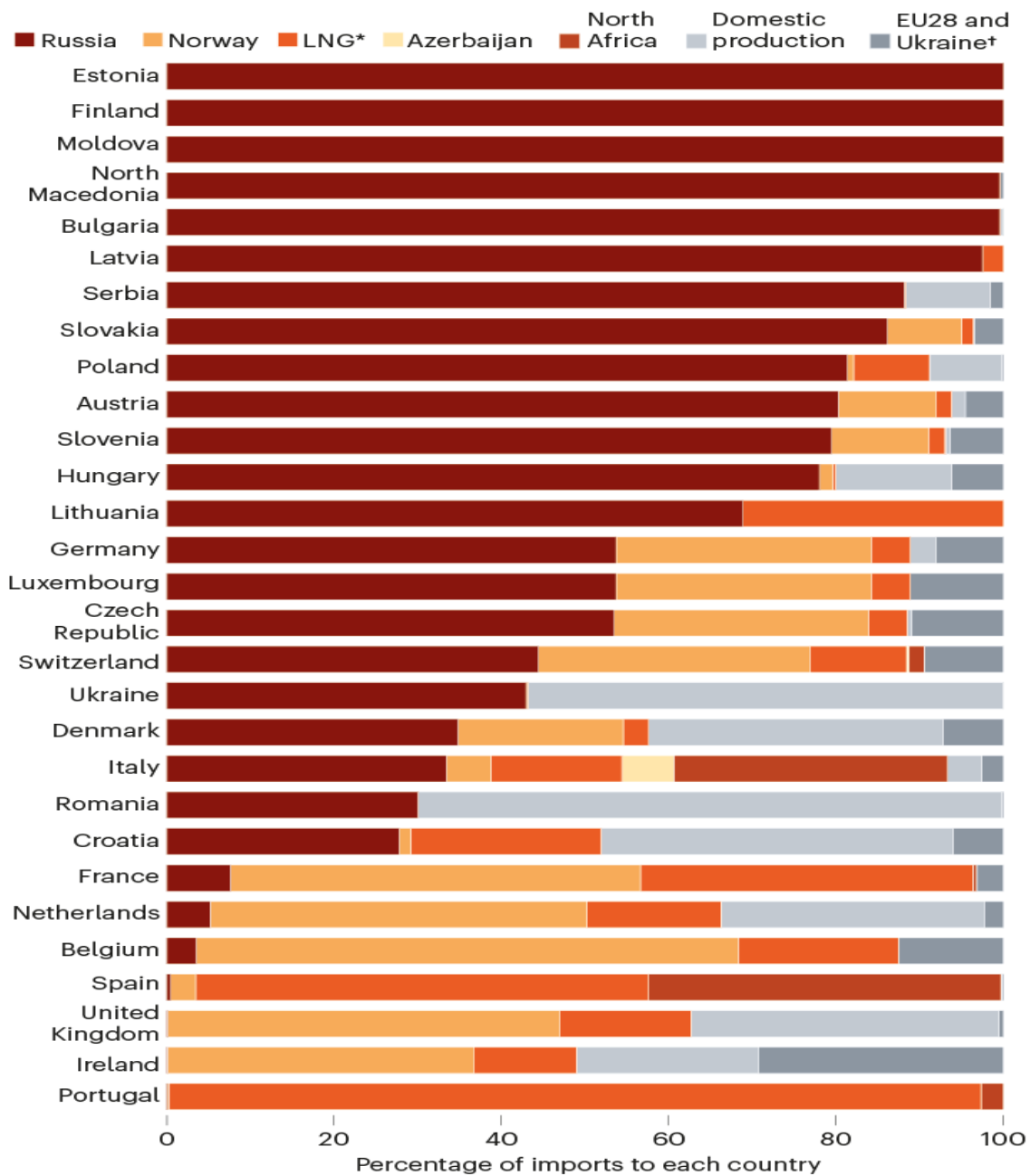
The EU imported 2.2 million barrels per day (bpd) of crude in 2021, including 0.7 million bpd via pipeline, as well as 1.2 million bpd of refined oil products. Germany has been the top EU buyer of Russian oil, importing 687,000 bpd of crude oil and 149,000 bpd of refined products in November 2021, based on the latest IEA data. Germany was also the largest EU's

importer of Russian pipeline crude, which stood at 555,000 bpd in 2021, while Poland imported 300,000 bpd of pipeline crude.

The Netherlands, Europe's key trading hub, was the second largest importer of Russian crude and the EU's top importer of Russian refined products. The Dutch imported 414,000 bpd of crude and 335,000 bpd of refined products in November 2021.

WHERE EUROPE GETS ITS GAS

Russia supplies about 40% of the natural gas to the European Union overall, but many individual countries receive a much higher proportion.



*LNG, liquefied natural gas imports.

†Does not include nation's own production. The UK left the EU28 in January 2020.

EU countries most dependent on Russian oil

Countries on the southern route of the Druzhba pipeline running through Ukraine are especially dependent on Russian crude imports. Russian oil accounted for 92% of Slovakia's crude imports in November 2021. For those importing by sea, Russian oil accounted for 87% of imports by Lithuania and 84% of Finland's imports in November 2021, the IEA data showed. Both of those countries have said they were no longer buying from Russia. Europe is heavily dependent on Russia for its oil and gas. In 2021, two-fifths of the gas Europeans burned came from Russia. And over a quarter of the EU's imported crude oil comes from Russia. In 2021, the EU imported \$108 billion (€99bn) worth of energy from Russia, by far its biggest import from the country.

Russia is one of the EU's major trading partners. More broadly than just fuel, both the EU's imports to and exports from Russia have decreased in the past decade. In 2021, Russia was Europe's fifth-largest trading partner for EU exports of goods, after the US, UK, China, and Switzerland. And it was the third largest for EU imports of goods, after China and the US.

Some European countries are likely to be affected worse than others. Finland, Latvia, and Bulgaria are more dependent than Germany on Russian gas, and Italy is not far behind. While Poland is highly dependent on Russian gas, its government has courageously called for a boycott. More broadly, European leaders have become increasingly worried about the long-term costs of carbon energy and its implications for the planet.

Europe's moral standing depends on it cutting back Russian oil and gas imports as fast as possible. But to be credible, the process must be sustainable. Swift action will be needed to minimize the economic fallout in Europe. And while one hopes that a boycott of Russian energy will bring peace sooner rather than later, Europe should be prepared for a longer-term scenario.

The European Union has announced a ban on the import of seaborne Russian oil. The embargo on tanker deliveries does not apply to oil sent through the Druzhba pipeline, branches of which transit through Russia, Ukraine and Belarus to markets in Eastern and Central Europe.

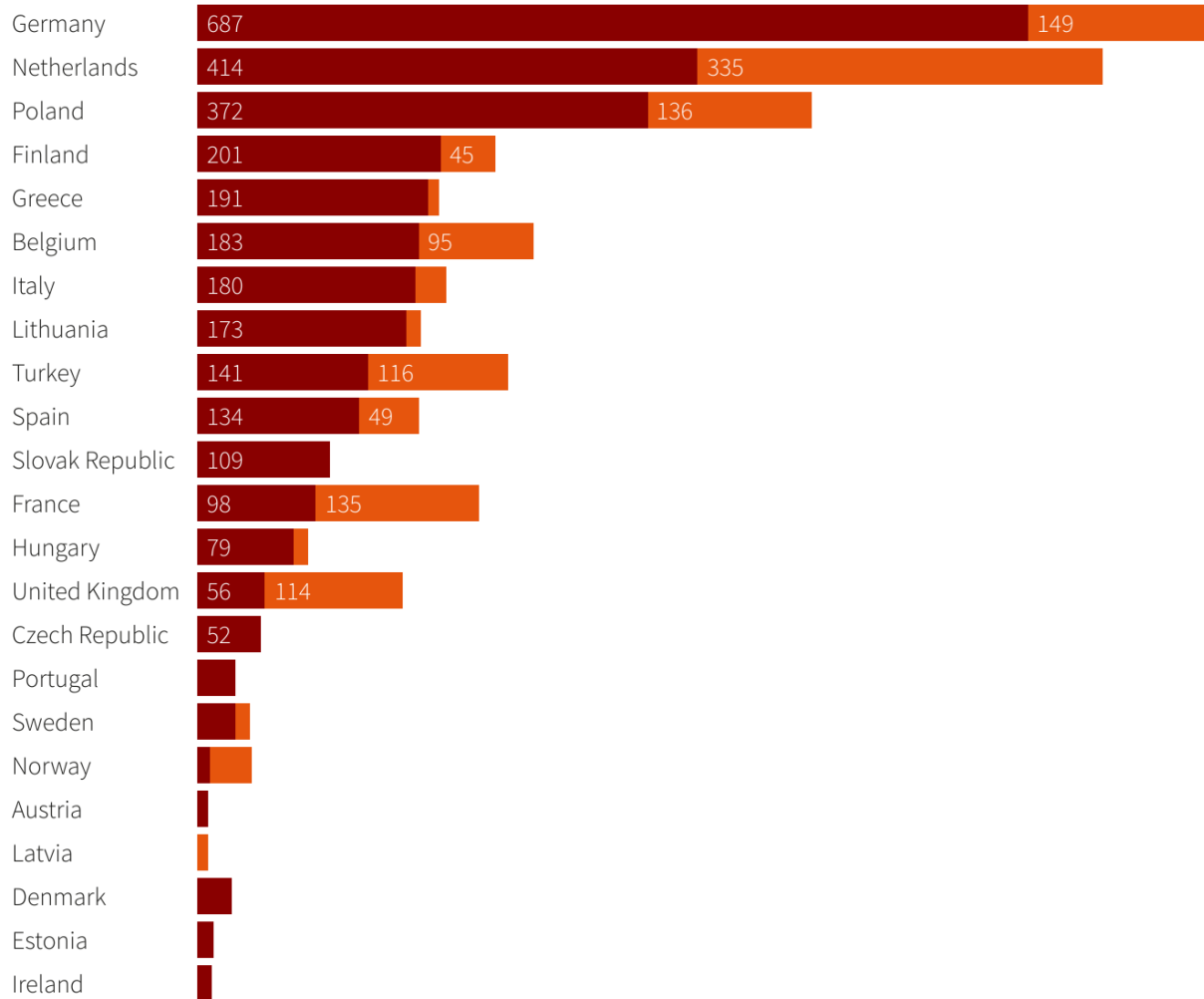
Land-locked Hungary, Slovakia and the Czech Republic are heavily reliant on Druzhba deliveries. Hungary, for instance, gets 65 percent of its oil from the pipeline, and it has refused to endorse the total ban demanded by other EU states.

About two-thirds of Europe's Russian oil supply makes its way to the continent by ship, but EU officials say that by the end of the year they will manage to block 90 percent of imports because Germany and Poland have pledged to stop drawing on pipeline supplies. Bloomberg estimates that the embargo will be a \$22 billion blow to Russia. Russian oil accounts for 30 percent of Europe's entire supply, and its elimination is provoking tensions within the EU. In Hungary, it would cost €500 million to €700 million to convert refineries to handle non-Russian supplies.

Who imports how many Russian barrels?

Much of the fuel imports into the Netherlands gets distributed across Europe.

● Imports of crude oil, natural gas liquids, other feedstocks ● Refined oil product imports



Note: in thousand barrels per day, November 2021
Source: IEA

For many years, several European countries looked to do business with the Kremlin in an attempt to increase economic ties with Russia and at least try to keep Putin as close to western values as possible. This was certainly the case of Germany, which rapidly increased its energy supplies from Russia, even after Moscow’s illegal annexation of Crimea in 2014. Hungary, another EU country, has also deepened its ties to the Kremlin in recent years.

Amid several western countries announcing sanctions on Russia, numerous media reports have highlighted western hypocrisy behind it and critics of the invasion noted that sanctions imposed by the United States, Britain, European Union among others do not, in fact, target areas such as energy purchase, banking and international payments system SWIFT. Russian oil only accounts for 2% of total Indian imports and with continued deals between Europe and Russia despite the war, the West's Hypocrisy over India's deal for Russian oil stands exposed.

Why India's position on Russia matters?

The European Union is working toward a complete ban on imports of oil from Russia, as well as targeting the country's wider trade through sanctions on shipping insurance. But it needs to realize that reducing Russia's oil exports to zero is neither achievable nor desirable. Europe is frustrated at India's apparent fence-sitting over Russia's invasion of Ukraine. Europe should know that that maintaining a workable relationship with Russia is central to counter-balancing Chinese hegemony in their shared neighborhood. India also depends significantly on Russia for arms supplies, including advanced systems that help it keep pace with China.

India is pursuing what it views as its own interests, which are multiple but involve a real and ongoing effort to reduce its dependence on Russia. It is doing this while remaining wary of China, anxious to see Beijing's power counterbalanced in the Indo-Pacific, and continuing to handle other issues in the neighborhood, such as its difficult relationship with Pakistan.

Russia rose to become India's second biggest supplier of oil in May, pushing Saudi Arabia into third place but still behind Iraq which remains No. one. In May Indian refiners received about 819,000 barrels per day (bpd) Russian oil, the highest thus far in any month, compared to about 277,00 in April, the data showed. Russian grades accounted for about 16.5% of India's overall oil imports in May and helped raise the share of oil from the C.I.S. countries to about 20.5%, while that from the Middle East declined to about 59.5% %, the data showed. India has defended its continued purchases of Russian oil and it must continue it. Oil purchase from Russia is a part of its long-standing effort to diversify its supplies and arguing a sudden halt to imports would jack up world prices and hurt its consumers.

Since the outbreak of the Russia-Ukraine war on Feb. 24, India – the world's third-largest oil importer – has taken a firm stance on its insistence on buying Russian oil despite the EU ban as Moscow is selling its oil at an almost 30% discount. However, targeting India for buying Russian oil smacks of Europe's hypocrisy and also a policy paralysis. While the US and Europe have been lecturing India on its place in history for undermining global efforts to corner Moscow, but New Delhi is simply keeping its self-interest at the fore — much like the West. And New Delhi must do what is in its core economic and strategic interest. Buying oil on the cheap is not a luxury but a necessity for India, which imports 85% of its oil needs. The heavy reliance on imported fuel means that when crude oil prices go up — as they have now — India's finances come under extreme stress and budget estimates go for a toss.

Following European, US footsteps

India is putting its self-interest at the fore very much like the European Union, which continues to buy oil and gas from Russia; or the United States, which has refrained from banning Russian uranium imports for its nuclear plants, or Washington's Middle Eastern ally Saudi Arabia, which is busy filling up its coffers with US dollars and doesn't seem to be in any rush to pump in more oil to help steer prices lower.

The 27-member EU bloc, which relies heavily on Russia for its energy needs, has so far pushed back against full embargo on oil and gas — Moscow's cash cow — arguing the ban would leave its citizens freezing in winter and tens of thousands of them jobless as high energy prices force energy-intensive industries like aluminum production to shut shop. It

should be noted here that despite recent crude purchases, Russia remains a marginal player in the Indian market, accounting for less than 1% of India's oil imports. This means that even if Indian oil imports are indirectly funding Moscow's war machine, the amount is only a fraction of the billions the EU continues to dole out for Russian oil and gas.

The EU scenario

The EU imported approximately 155 billion cubic metres (bcm) of natural gas from Russia in 2021. That amounts to around 40% of the EU's total gas consumption, with dependency rising to 65% in Germany. Since the start of the war, Russia has exported €63bn worth of fossil fuels, with the EU responsible for buying 71% of that. In sum, by the most conservative estimates, the EU should be able to reduce its reliance on Russian gas by at least one-third by the end of 2022. The Commission has the most ambitious scenario, with the biggest reduction in the shortest amount of time. The other scenarios appear to concur that while a two-thirds reduction of Russian gas by the end of 2022 might be too ambitious, at least a two-thirds reduction by 2025 should be attainable.

Countries who depend on Russian oil:

Bosnia and Herzegovina	100%
Finland	100%
North Macedonia	100%
Moldova	100%
Latvia	93%
Serbia	89%
Bulgaria	79%
Estonia	79%
Austria	64%
Hungary	61%

Washington's purchases of Russian crude oil have almost doubled despite U.S. The United States has revealed its "hypocrisy" by announcing a ban on Russian oil, and pushing EU allies to follow suit, while continuing to purchase it in large quantities.

How Europe's hypocrisy enables Putin exploit EU's weaknesses

It's no secret that Putin wants a 21st century, multi-ethnic empire, in which Ukrainians and Russians, who he describes as "one people", will live side by side. Of course, an attempt to conquer all of Ukraine would border on lunacy. It is the second-largest country in Europe — more than twice the size of the UK — and Putin's antics have only galvanized Ukrainian nationalism.

The seven largest emerging economies today — Brazil, China, India, Indonesia, Mexico, Russia and Turkey — are projected to overtake the G7 in economic size during the 2030s. These countries want a much bigger say in how the world is run than they have today. Why wouldn't they, one may ask.

The only real question is how they will opt to expand their influence. Some will likely focus on peaceful means, but others will be tempted to use their increasing military power to shift

the status quo in their favour. The Ukraine crisis, then, is not an anomalous conflict, but the beginning of a future for which Europe appears utterly unprepared. The continent has had it so good for so long, it has come to take everything it has for granted, including its security — which is gravely threatened by that very complacency.

West still buying Russian Oil, but It's harder to track

Europe continues to buy 45% of its gas from Russia, even after the invasion. Germany: 55% of the natural gas, 52% of the coal & 34% of mineral oil used comes from Russia. But India must think about its place in history books if it buys Russian oil? This is where West's hypocrisy stinks.

An opaque market is forming to obscure the origin of Russia's oil as more tankers are loaded without a precise destination. Russia ramped up oil shipments to key customers in recent weeks, defying its pariah status in world energy markets. One increasingly popular method for delivery: tankers marked "destination unknown."

Oil from Russian ports is increasingly being shipped with its destination unknown. In April so far, over 11.1 million barrels were loaded into tankers without a planned route, more than to any country. That is up from almost none before the invasion. One reason to obscure the origin of Russian oil is that countries desperately need the crude to keep economies going and prevent fuel prices from surging even further. But companies and oil middlemen want to trade it quietly, avoiding any blowback for facilitating transactions that in the end provide money for Moscow's war machine.

Russia is relabeling oil tankers 'destination unknown' to quietly deliver energy to Europe. Russian oil has been seeping its way back into Europe in recent weeks, as Western oil traders work around the energy's undesirable reputation. Even as sanction threats and bad publicity mount, oil has been discretely leaving Russia in tankers headed to "destination unknown," and European oil traders have been buying it up under the radar. Over the course of April, an average of 1.6 million barrels of oil have left Russia every day, heading to unknown destinations, TankerTrackers.com found. According to a new report by the Wall Street Journal, the practice is increasing, with more than 11.1 million barrels of oil loaded into tankers without a planned route in April—up from almost zero before the Ukraine war began.

Where is 'destination unknown'?

The use of the "destination unknown" label means the oil is being taken to larger ships at sea and mixed in with oil from other destinations, confusing its origin. It's a long-running practice first used by other sanctioned countries including Iran and Venezuela.

The practice of "destination unknown" oil shipping is similar to other spotty practices developed to hide the purchase of Russian oil. Dark activity, or when ships turn off their transponders for several hours, has increased by 600% since the invasion of Ukraine, according to maritime risk management company Windward.

The use of the destination unknown label is a sign that the oil is being taken to larger ships at sea and unloaded, analysts and traders said. Russian crude is then mixed with the ship's

cargo, blurring where it came from. This is an old practice that has enabled exports from sanctioned countries such as Iran and Venezuela.

Much of Russia's oil is still being marked with clear destinations on shipping documents. Barrels bound for Romania, Estonia, Greece and Bulgaria more than doubled this month compared with March averages. Volumes also rose substantially for the Netherlands, the biggest buyer in Europe, and Finland. Some buyers are rushing to get business done in anticipation of potential new restrictions, while others say they are executing deals struck before the invasion. Sanctions would force them to break those contracts.

The larger picture

The Ukraine crisis is in fact the Oil crisis - not an anomalous conflict, but the beginning of a new energy order for which Europe appears utterly unprepared. For too long Europe has enjoyed the Russian Oil and as rising oil cost bites, they seem very concerned about democracy, human right and security. Europe's security is gravely threatened but not by Russia but by Russian oil and this is the result of their complacency, and skewed energy policy. This century will test the West in ways it hasn't been tested in since the WW2. It can only survive with the kind of fight it seems resolutely determined to avoid if it goes back to the basics that Oil is a luxury and all nations have the right to enjoy it, not only the West.

Russia's brutal invasion of Ukraine earlier seemed like an unexpected opportunity - a "gift of God" for environmentalists, who had struggled for years to focus the world's attention on the kind of energy independence that renewable resources can offer. With the West trying to wean itself from Russian oil and gas, the argument for solar and wind power seemed stronger than ever. However, the latest victim of the Ukraine war is none other than the fight against the climate change. There seems very little appetite in the West to pursue the Climate Agenda seriously.

Nations are reversing plans to stop burning coal, and many are even considering opening of the closed Coal mines. Many are scrambling for more oil and are committing billions to building terminals for liquefied natural gas, known as L.N.G. Fossil fuel companies, long on the defensive, are capitalizing on energy security anxieties and lobbying hard for long-term infrastructure investments that risk derailing international climate targets agreed to only last year.

Does it make economic sense?

Given the current political and inflation situations back home, India, which imports 85 per cent of its oil needs, is looking to cut spiraling energy bills through purchases from anywhere it can get at cheaper rates. And Russia, which desperately needs money to fund its ongoing conflict with Ukraine, came as a friend in need. A \$25 per barrel discount was too good an offer for India to say no to, especially at a time when domestic inflation is peaking.

According to a research Report, such a discount works well for India because every 10% rise in crude oil prices would lead to a 0.3 percentage point-widening in India's current account deficit (CAD), and in turn, weaken the rupee further. New Delhi has consistently asked all stakeholders to resolve differences through dialogue. Many countries, including European nations, remain heavily dependent on fuel from Russia, the world's second-largest crude oil

exporter behind Saudi Arabia. In contrast, India fulfils just 1.3 per cent of all its oil needs from Russia.

With economic growth projected to rebound in India to nearly 8 percent this year after the pandemic slump, India is in the market for energy wherever it can get it. With EU itself depending on energy on external sources, India must explore other energy suppliers, but Russia must remain its main energy resources.
