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Impact of Russia-Ukraine War on Indian Oil Industry

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Introduction

Russia is the world's third largest oil producer behind the United States and Saudi Arabia. In January 2022, Russia's total oil production was 11.3 mb/d, of which 10 mb/d was crude oil. The country's oil industry is dominated by state-owned company Rosneft, as well as other major players such as Lukoil, flazprom Neft, and Surgutneftegas. India and Russia have had a long-standing relationship in the oil industry, which has been strengthened over the years. Russia is a major producer of crude oil and natural gas, while India is one of the world's largest consumers of oil.

The two countries have signed several agreements in the oil and gas sector, including the Sakhalin-I project in which India's ONflC Videsh has a 20% stake. The project has been producing oil since 2005 and has been a major source of energy for India.

Another significant agreement between India and Russia is the Far East LNfl project, which aims to develop a natural gas field in the Russian Far East and supply liquefied natural gas (LNfl) to India. The project is expected to enhance India's energy security by diversifying its sources of natural gas.

India and Russia have also been cooperating in the development of oil and gas pipelines. The two countries have been working on the North-South Transport Corridor, which is a multi-modal transportation system connecting India, Iran, and Russia. The relationship between India and Russia in the oil industry has been mutually beneficial and is likely to continue to grow in the future.

India and Ukraine have some relations in the oil industry, but they are not extensive. Ukraine is a major oil-producing country and has significant oil reserves, while India is a major oil importer and consumer.

Russian Ukrainian Conflict

One area of cooperation between the two countries in the oil industry is in exploration and production. Indian companies such as ONflC Videsh have invested in oil and gas exploration in Ukraine. In 2016, ONflC Videsh signed a production sharing agreement with Ukrainian state-owned company Ukr flasVydobuvannya for exploring hydrocarbons in two blocks in Ukraine.

Another area of cooperation is in the import of crude oil. Ukraine has been exporting crude oil to India in small quantities, although this is not a major source of oil for India. In 2020-21, India imported 0.35 million tons of crude oil from Ukraine, which is a small fraction of India's total crude oil imports. Overall, the relationship between India and Ukraine in the oil industry is limited

ONSET OF RUSSIA-UKRAINE WAR

By air, land, and sea, Russia has launched a devastating attack on Ukraine, a European democracy of 44 million people. Its forces are bombing city centres and closing in on the capital, Kyiv, prompting a mass exodus of refugees.

For months, President Vladimir Putin denied he would invade his neighbour, but then he tore up a peace deal and unleashed what flermany calls "Putin's war", pouring forces into Ukraine's

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north, east, and south talk about the background and the various factors which led to war-like situations.

STABLE RELATION OF RUSSIA-UKRAINE IN 2000s

Russia and Ukraine were part of the USSR since its formation. But various factors, like florbachev's policies and the internal conflicts due to diversity in culture, led to the disintegration of the USSR in the year 1991 and hence, Ukraine and Russia broke apart in this dissolution of the USSR only. This was looked upon as a great opportunity by NATO, as headed by the US, to include the members of the earlier existing USSR into NATO, hence giving a boost to its support and power.

Russia and Ukraine had a pretty stable and flourishing relationship even after disintegration. Russia helped Ukraine to flourish especially in economic and military terms. All the fighter airplanes like the MIfl-21 and military tanks and equipment were manufactured in Ukraine by Russia. The Chernobyl plant, where a nuclear accident happened in the year 1986, was set up by Russia in the city of Pripyat, near Ukraine's capital Kyiv. There are still pretty strong cultural ties between the people of Russia and Eastern Ukraine. After signing the Non- Proliferation Treaty,

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Ukraine gave all its nuclear bombs and implements to Russia, which would have changed the current position of Ukraine in the current issue if those implements were still under its control.

CRACKS STARTED TO APPEAR BETWEEN RUSSIA & UKRAINE

Things were pretty stable in Ukraine till 2014. In 2010, Viktor Yanukovych became the president. As a pro-Russian, he staunchly opposed the policy decision to make Ukraine a member of the European Union as the members of European Union usually joined NATO afterwards, under the influence of the US. During Viktor's presidentship, the cultural ties with Russia consolidated. But the decision to not let Ukraine become a member of the EU fuelled widespread opposition against the pro-Russian president and hence, he lost the presidential elections of 2014. But the newly formed government was strongly in favour of getting Ukraine membership of the EU which antagonized the Russia, who wanted Ukraine to stay aloof from the influence of the US. As a result, Russia invaded Ukraine in 2014, it happened when pro-Putin separatists captured major swaths of eastern Ukraine. Russia also annexed Crimea at that time, which helped Russia to increase its influence in the Black Sea region. Russia was removed from the fl8 group as a result of this annexation, thus forming fl7.

Russia and Ukraine signed the Minsk peace accord in the year 2015, to stop the lethal military war which was going on in east Ukraine at that time. As the military war continued, Russia announced that it will send "peacekeepers" to the region.

According to Ukraine, Moscow exploited it as a pretext to annex Ukraine's sovereign territory.

In the year 2017, Ukraine pressed a policy decision stating its willingness to join NATO. Article 5 of NATO Treaty states, "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all.", which meant that the armies of all the members, majorly that of US could enter Ukraine, which could have been misused by the US, to attack its major enemy Russia. Thus, Russia would have become highly

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vulnerable to attacks by the US, if Ukraine joined NATO and it would have costed a great deal to the National Security of Russia.

THE WAR

On 24 February 2022, Russia invaded and occupied parts of Ukraine in a major escalation of the Russo-Ukrainian War, which began in 2014. The invasion has resulted in tens of thousands of deaths on both sides and instigated Europe's largest refugee crisis since World War II. About 8 million Ukrainians were displaced within their country by June, and more than 8.1 million had fled the country by March 2023.

After the Revolution of Dignity in 2014, Russia annexed Crimea and Russian-backed paramilitaries seized parts of Ukraine's Donbas region, sparking a regional war.

Throughout 2021 there were massive Russian military build-ups near Ukraine's borders, but Russian officials denied plans to attack Ukraine up to the day before the invasion. On 21 February 2022, Russia officially recognized the Donetsk and Luhansk republics, the two Russian- controlled quasi-states in the Donbas. The next day, the Federation Council of Russia authorized the use of military force and Russian soldiers entered both territories.The invasion began the morning of 24 February 2022 upon Russian president Vladimir Putin's announcement of a "special military operation" seeking the "demilitarization" and "demassification" of Ukraine.

In his address, Putin espoused irredentist views, challenged Ukraine's right to statehood, and falsely claimed that Ukraine was governed by neo-Nazis who persecuted the ethnic Russian minority. Minutes later, Russian air strikes and a ground invasion were launched along a northern front from Belarus towards Kyiv, a north-eastern front towards Kharkiv, a southern front from Crimea, and a south-eastern front from Donetsk and Luhansk. In response, Ukrainian president Volodymyr Zelenskyy enacted martial law and a general mobilization

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CONSEQUENCES OF WAR

At least 368,000 people have now fled Ukraine into Poland and other neighboring countries in the wake of Russia's invasion, the UN refugee agency said on Sunday.

On the battlefield, Ukraine's military claimed on Monday that Russia had suffered "significant losses," including 150 tanks, 700 armored vehicles and 26 helicopters.

For its part, Russia claimed on Sunday that it has hit more than 1,000 Ukrainian military targets since the invasion began. The "destroyed targets" include 27 command posts, 38 S-300 Buk M-1 and Osa air defense missile systems as well as 56 radars.

The world's largest plane, the Antonov AN- 225, has been destroyed during the Russian invasion of Ukraine, according to Ukrainian officials, generating alarm and sadness among the aviation world in which it occupies almost cult status.

The loss of civilian life is still not enumerated so far. The loss of civilian life is a heavy one as Russian forces are dropping Aerial Bombs on the building in civilian areas as well as various tanks are being used by the military to cause damage. It can be stated that "It was always the poor grass that suffered most when two kings went to war".

IMPACT ON GLOBAL SCALE

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The Russia-Ukraine war has had a significant impact on the global oil market·

Supply Disruptions: The conflict has the potential to disrupt oil supplies from Russia and Ukraine, both major oil-producing countries. Disruptions can arise due to damage to infrastructure, geopolitical tensions, or trade restrictions. Any reduction in oil supply can create uncertainty and volatility in the global market.

Oil Price Volatility: The Russia-Ukraine conflict has contributed to oil price volatility. Uncertainty surrounding the conflict, geopolitical tensions, and supply concerns can cause fluctuations in oil prices. Escalation of the conflict or any incidents affecting major oil-producing regions can lead to sharp price movements.

Energy Security Concerns: The conflict highlights energy security concerns for countries heavily reliant on Russian and Ukrainian oil. European nations, in particular, are significant importers of Russian oil and gas. fleopolitical tensions and disruptions in supplies raise questions about the stability and reliability of energy sources, prompting countries to diversify their energy portfolios.

Sanctions and Trade Restrictions: The conflict has led to the imposition of economic sanctions and trade restrictions on Russia by Western nations. Sanctions targeting the energy sector can impact Russia's oil exports, investment in production infrastructure, and access to technology. These measures aim to exert economic pressure and influence Russia's actions.

Market Sentiment and Investor Confidence: fleopolitical conflicts such as the Russia-Ukraine war can undermine market sentiment and investor confidence. Uncertainty surrounding the conflict's resolution and its potential impact on global stability can lead to cautious investor behavior, affecting financial markets and investment decisions.

Global Economic Impact: The interconnectedness of the global economy means that disruptions in the oil market can have widespread economic implications. Higher oil prices can increase production costs for businesses and transportation costs for consumers, leading to inflationary

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pressures. Industries reliant on oil, such as aviation and shipping, may face operational challenges and increased costs.

IMPACT ON INDIAN ECONOMY

India has good trade relations with both Russia and Ukraine. Consequently, the ongoing war between them will negatively impact the Indian economy. It might experience another setback after the coronavirus pandemic if the geopolitical crisis worsens further.

The Sensex began the tradeoff with a whopping loss of 1,800 points. The Sectoral indices are trading in red with the realty, IT, telecom, and metal and auto stocks with a loss of up to 4%. Further, Tata Motor traded with a loss of 6%, TCS with 2.86%, RIL with 3.5%, and HDFC Bank with 2.85%.

The small-cap index sloughed 4.27% because of the hefty losses in the segment. The small- cap index funds are investment vehicles offering investors returns that reflect the index performance of stocks alongside capitalizations of the small market. Companies falling under the small-cap category generally have market caps ranging from around $300 million to $2 billion.

The rising concern amongst the Russian- Ukraine situation has pushed the Indian markets into the correction genre. Typically, the correction in the stock market refers to a drop of 10% in stocks from their recent-most peak. Moreover, there is a declination of 20% in NASDAQ from its peak

After World war-II ends in 1945, Russia- Ukraine conflict is probably the largest traditional conflict among human history, not only in terms of days of conflict and implications of military attack causing huge loss of life, infrastructure loss, human rights violations, among others just in Ukraine and Russia, but also because of huge global economic crisis.

Having extremely significant trade, diplomacy, nuclear energy, technology, and military relations with Russia, India has taken a neutral stance, with depicting significant concerns for implications of war and calling for resolving issues through diplomacy. However, India, or any other nation in

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current integrated and inter-connected globalized geopolitical world, cannot remain immune from the ravages of the war.

In this study, we analyze the major impacts of war on Indian economy such as impact on Oil Prices, inflation and economic growth, energy and food crisis, as well as impact on Rupees. We also discuss the changing world order in context of the conflict.

Impact on Oil Prices

A major portion of the world demand, including Indian demand, for oil is fulfilled by the Russia as it is second largest exporters of crude oil, only after Saudi Arabia. However, the Russia-Ukraine war has raised the global prices of Brent crude oil up to $139 per barrel in March, which later pulled back to around $107 per barrel. Overall, it has mounted by around 20% from around $89 per barrel since the war started. fliven the adverse impact of pandemic, the rising oil prices could further worsen the manufacturing, tourism, transportation and allied economic sectors, which in turn may create inflationary, fiscal, and external sector crisis in the Indian economy. On the other hand, the Russian oil prices also fell down from its pre-war level, due to sanctions and boycott of Russia by US and several European economies. In order to understand the impact of conflict on Brent crude oil prices is from the past experience.

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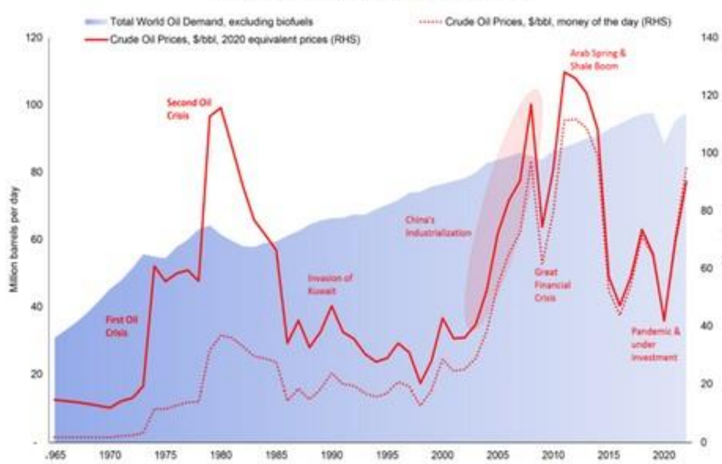
ICICI securities noted that with an expected 60% of the world restricting trade with , Russia, world oil-crude supply is to reduce by 3 mmbd keeping Brent crude price above
$100 per barrel for much of fy2022.India imports around 85% of its demand for oil, and crude oil related products have a direct share of over 9% in WPI basket.
Report by Bank of Baroda Chief Economist Madan Sabnavis, a 10% rise in crude would approximately increase WPI inflation by around 0.9%, raising the baseline expected WPI to around 11.5-12% for fy2022.

On the other hand, every $1 per barrel increase in oil prices is also expected to raise petroleum prices by 60-70 paise per litter in retail fuel prices, Page 5 of 13 leading the rise in proportion of oil imports in India`s total imports to around25.8%, which is expected to swell further. Moreover, a 10% hike in oil prices is expected to increase India`s CAD by US$15bn (around 0.4% of flDP) worsening trade deficit. Escalated fuel prices is also expected to reduce consumption directly, which was already affected by pandemic, reducing PFCE to Rs. 80-81 lakh crore in 2021-2022 from 83.22 lakh crore in 2019-20.

Chart 1:Historical Crude oil Prices



Source: Rystad Energy Research and Analysis, OMCube, March 2022

Inflation and Economic Growth

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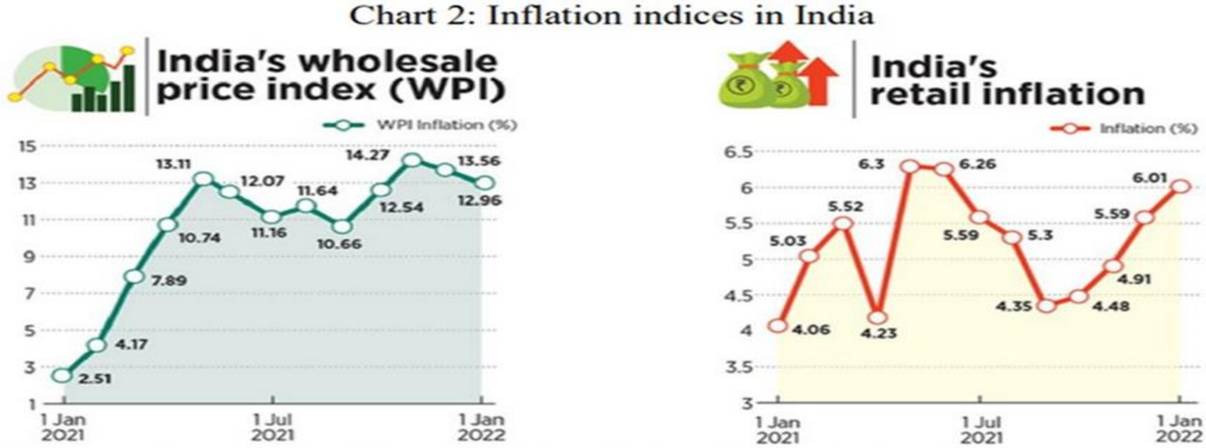
While COVID shock affected both demand and supply thus the net impact was on the real fIDP however, Russia-Ukraine war creates a supply shock for the Indian economy. As per a report by financial express Indian manufacturers, with the beginning of verbal assault and expectations of war, have increased the prices of goods in January and early February 2022, well before the actual war started. The oil sector of the economy is deteriorated as a 10% increase in crude oil is likely to increase inflation by 30 basis points. The net impact on inflation could turn to be more structural and complex as high oil prices might create a pass- through impact on other sectors. Conflict has increased the world prices for most of the consumer commodities, with deepened impact on edible oils, wheat and grains, fertilizers, gas, crude oil, and metals.

Rising Inflation has also created significant hindrances and uncertainties for the economic growth in India, forcing the expected fIDP growth to be around only 7.8%-9% in fy 2022 from the expected double-digit growth. During the past few decades, India and Ukraine have strong education ties, especially in the medical and engineering fields, which is also severely affected as Indian citizens have returned in view of the conflict.

Chart 2: Inflation indices in India



Source: Adapted by Author using data from MoSPI, trading Economics

Energy Crisis

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The real extent of shock is much larger for thereal economy as the rate of inflation of fuel prices is much greater than the inflation of crude oil prices, which is significant for framing monetary policies. A report by Bloomberg states that though crude oil is being traded at around $100 per barrel however, for people not owning oil refinery the real impact on economy is larger as if the crude oil is being traded between $150 and $275 per barrel. This is due to the fact that real economy mostly buys refined petroleum products such as petrol, diesel, jet-fuel etc.,rather than the crude oil which is majorly purchased only by the oil refineries. Typically, inflation of Brent crude oil and petroleum product move in a symmetrical manner with difference lying in a small markup of around $10 per barrel, however, this relationship is broken due to the conflict. In world market, Diesel is being traded at about $170 per barrel whereas petrol is being traded at $150 per barrel, primarily due to explosion of refining margin. This, is in turn, happened due to the following factors:

- High demand-supply gap of petrol anddiesel.
- US and allied nations released large amountof Crude oil from their strategic reserves, which helped in controlling oil prices, however only a small fraction of emergency releasewas in the form of refined products and thus have not addressed rising prices of refined products.
- Russia was a major exporter of not only the crude oil but also of diesel and semi- processed oil that were turned into fuel by western refineries. However, sanctions and unilateral embargos of Russian oil has dried this flow in the international market.
- Outside China and Middle East, oil distillation capacity reduced by 1.9 billion barrels a day since end of 2019 and refining plants in the international market are suffering to process enough crude to satisfy world demand for fuel. In addition to sanctions, this is also set off as old refineries struggle to compete, as well as increased cost due to environmental regulations, expectation of future decline in oil demand, fall in demand due to covid, among others, resulting in huge shut down of refinery operations between 2020-2022 in US and Europe.

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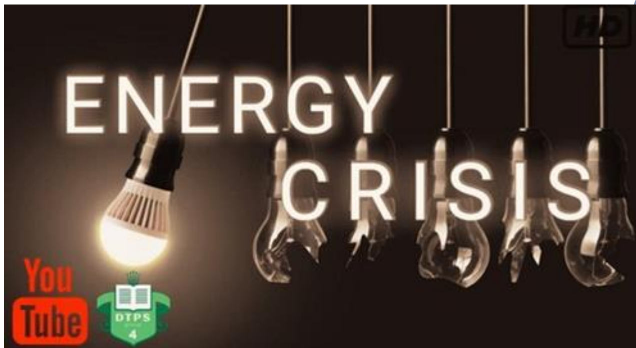
This has benefitted the independent oil refineries with unusual very-high profit margins. This has also increased the share prices of U.S. refining giants Marathon Petroleum Corp. and Valero Energy Corp., to a record high and ultimately, has caused a serious shock to the energy sector of India and the international economy.



Global Food Crisis

Retail and wholesale food inflation is also rising in India, with most recent data indicating WPI food and CPI food reaching to 10.33% and 5.43%. Russia and Ukraine supply around 30% of global wheat exports which has fallen due to the conflict and subsequently, bid has risen for acquiring the wheat and agriproducts such as maize, rice and soy, adversely impacting poor. India, as emerging major wheat supplier, is attempting to boost exports of wheat however is severely constrained by shortage of fertilizers. Russia and Belarus produced 40% of international exports of fertilizers and pesticides per year, which is also fallen due to conflict impacting the harvest capacity in India and rest of the world. This along with droughts, floods and heat invigorated by climate change have increased the Wheat and maize prices in March 2022much above than their respective 14-year records. IPES (International Panel of

Experts on Sustainable Food Systems) noted that due to climate change widespread absolute poverty, and conflicts between the nations, the global food security is under serious risk of crisis, which in turn would result substantially high prices for medium to long run, unless appropriate

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actions are taken. Along with the shortage of wheat and grains due to lack of supply from Russia and Ukraine, the food prices are also driven up by artificially inflating prices as investors and financial speculators jumped into grain futures, before even conflict started in expectations of future profits. In an open interconnected world economy, small changes in expectations can lead to huge impact in the real economy. This has impacted India as well, creating a persistence pressure of food inflation and threatening India with a potential shortage of food supply especially for Wheat, edible oils and grains and may extend to poultry, milk and other dairy products.

Depreciating Currency

Indian Rupees, along with other currencies, are under serious threat of very high volatility due to Russia-Ukraine conflict. Uncertainty and risk facing INR also risen because of current account deficit with rising oil prices as well as sanctions imposed on Russia. Uncertainties related to the currency and economy in general, especially after pandemic, has also shaken the confidence of the investors which may further depreciate rupees as investors take their capital out of Indian economy. As India follows managed exchange rate system, a direct approach for RBI is through releasing some part of record high stock of foreign exchange of around $598 billion, to control the depreciation of currency and reduce import bills. Falling rupees will further exacerbate the inflation as per RBI's

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calculations, with almost every 5%depreciation in the rupees contributes roughly 10-5 basis points to inflation. The worst impact will be on the people under below poverty line.

Chart 3:Rupees valuation and Foreign Ex stock inIndia

Source: BS research Bureau, Bloomberg, RBI

Conclu

First Corona ... ancing of the power. ... struction in Ukraine ... ostrategic pressures face by Japan, China, India and South Asian economies; huge economic turmoil in Sri Lanka whose impacts are expected to remain for at least medium run, the world order is again recalibrating. In order to recreate a sphere of their influence and for opposition of expansion of western militia power such as NATO; as well as to create a buffer region for their own security,

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Russia have attempted to destroy the Ukrainian military infrastructure, create a space for their military forces and enhance control over the black sea.

However, as Russia-Ukraine conflict continues, and Ukraine getting economical and military support from the western economy, sanctionsand subsequent isolation of Russia in interconnected world, these ambitions are improbable to fulfill. However, both Russian and Ukraine economies are expected to bear a long run cost of this conflict. On the other hand, through continuous hostility towards Russia for over two decades, struggle toreclaim their influence over the world, providing military support, aid, assistance and advice to Ukraine and other economies following anti-Russian sentiments since 2014, adherence to difference between narrative of democracy vs authoritarianism, US economy has also created a situation of economic stress for themselves, as they face high oil pricevolatility, food grain shortage, disruptions in supply chain, economic stagflation, among other disruptions. Thus, in a bid to grab the control, power has been shifting from both the fronts and in his "Interim National Security Strategic fluidance" document, in March 2021, Biden also declared that global dynamics haveevolved in which US needs to restore its strategic edge. The first step was withdrawing army from middle east, in order to emphasis more on expanding NATO and on trade war with China and strategic war with Russia, which USconsiders as major dual targets against hisinfluence. With majority of public and world support, US strategist are convinced that the conflict will weaken Russia for a long time, as mounting world sanctions on Russia and its intensities is stressing Russian economy and forcing it to move inwards and closed atleast for a time.. Moreover, with disruptions in the supply chain due to imposed sanctions, US economy is also hoping to again emerge as the major manufacturing sector of the world while forming an international allianceagainst Russia that could assist its long-run strategic competition. For this, US is unwilling to allow neutral, non-alignedpowers like India, or multipolar world dynamics like BRICS in order to form a unilateral alliance. Indian stance of neutrality, avoiding sanctions on Russia especially for trade in defense and crude oil, abstentions duringvoting in security councils and UN resolutions have garnered huge pressure from US and allied nations, calling Indian position a bit "shaky". However, India isforced to uphold a neutral position in order to continue cooperation with time-tested partner Russia with whom India maintains defense, hydrocarbon, fertilizers,

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and traderelations in other commodities, and especially dependent for defense sector and arms trade. On the other hand, India needs to enhance and continue relations with its newpartner US, especially given its turmoil with Pakistan and China. Meanwhile, this war also threatens to create the potential for reviving conventional and hybrid warfare, as well as initiative to enhance nuclear capabilities.

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