



By: *Tomorrow's Affairs Staff*

# Russian-Indian dispute over oil payments - the collapse of the idea of bypassing sanctions



Russia's self-confidence that, despite Western sanctions, it can maintain its economy with the help of "friendly countries", has collapsed on trade cooperation with India.

The Kremlin has admitted that it has an unsolvable problem regarding the payments for crude oil it exports to India. Other than China, India has been the biggest support for the Russian economy, which has been isolated for more than a year due to Western sanctions.

The head of Russian diplomacy, Sergei Lavrov, admitted during the meeting of the Shanghai Cooperation Organisation in Goa, India, that his government cannot use billions of rupees from the oil, which have been piling up in Indian banks.

"We need to use this money", said the most senior Russian diplomat, rather desperate that a significant channel for financing Russia during its invasion of Ukraine has reached a dead end.

The sum that Lavrov and his government are longing for is a significant \$40 billion. One of the problems is that the sum is in Indian rupees, which Russia does not want, but there are no other options.

India has not joined Western sanctions against Russia, providing Moscow with an outlet for vital oil exports, but at a price reduced for that favour.

## Huge growth in Indian imports

India's imports from Russia have increased by 5 times since the start of the Russian invasion of Ukraine. A huge part is oil, for which Indian importers pay far below the \$60 per barrel, the price cap set by the G7 members last December.

In April, these imports reached a record 1.6 million barrels per day, 6 times more than a year ago.

The significance of this oil arrangement is

reflected in the fact that India is the third largest oil importer in the world, after the US and China, importing as much as 85% of its requirements. Russian oil now accounts for 40% of all imports.

Estimates in India say that in the first 10 months of the Russian invasion of Ukraine, its economy saved between \$3 and 4 billion due to the lower price at which it imports Russian oil.

For Russia, however, there is no room for complacency, despite state propaganda presenting growing deals with India as one of the pillars of its narrative of its immunity to Western sanctions.

Russia has been selling huge quantities of oil below cost, but it cannot use the money it has earned in India. Lavrov's confession came at the same time as the news that the two countries has ended negotiations on the use of rupees in the oil trade.

## India sets the conditions

India does not want to pay for oil in US dollars, as it would be exposed to the risk of secondary sanctions. Payment in rupees is disadvantageous for Russia, but it was practically the only option until now.

However, those billions of rupees are piled up in Indian banks because Russia cannot transfer them to another currency.

The use of rupees is unprofitable for Russia due to the huge trade imbalance, where Indian exports are constantly declining and are now at about \$3 billion, while Russian exports to India have increased 5 times, to more than \$40 billion.

India does not want the arrangements to be in Russian rubles due to the large fluctuation of the Russian currency exchange rate and the significant losses it would incur in such an arrangement.

Russia does not want rupees in its accounts

because it can only use them in India, a market Russia is not interested in, as shown by the low imports level.

To make matters worse for Moscow, the same problem affects its arms exports to India, also a significant market for Russia.

Due to a delay in the payment method, deliveries of Russian weapons worth more than \$2 billion are also pending. This amount has remained unpaid in the last year alone.

## BRICS is not working

Russia has no way out of this impasse, or at least there is no favourable way out.

Russia does not want rupees, which is understandable because the Indian currency is not fully convertible, and the participation of the Indian economy in global exports is relatively small (about 2%), so few people in the world are interested in trading in rupees.

Russia does not have much choice here. Its ever-growing oil exports to India represent a great psychological resource for maintaining the nation's positive morale that the economy is not isolated.

It turns out that the earnings are practically unusable. It represents value, which cannot be used now when the Russian campaign needs it most.

India may not have much interest in solving the Russian problem, as it is unlikely that Russia would be able to reduce its oil supplies until a settlement over the charges is reached.

Along with China, India is the only major channel through which Russia can bypass international sanctions, so Russian cutting off that channel would be disastrous.

A special problem is that Russia's hope for de-dollarisation of international trade, particularly the oil trade, collapses in trade with India as its most important partner.

Such a trade collapse would also be a blow to Russia's foreign policy expectations regarding the reconstitution of international relations, where the BRICS association has been viewed as the main counterweight to the influence of the US.

Sergei Lavrov's acknowledgement that he cannot find a solution for the payment of oil with India is also an admission that BRICS does not function within itself, let alone the markets and countries on which it wants to influence.

The solution to Russia's headaches with oil export and payments is to return to the international payment system from which it has been excluded. For that to happen, Russia needs its sanctions lifted, and that will not happen as long as its aggression against Ukraine continues.

Russia's enforcement of the international economic blockade has been a chaotic system from the start, based on smuggling, lawlessness, and corruption, resulting in huge financial losses.

Its collapse was a matter of days from the beginning, and the recognition that it has already happened has now come from the Russian government itself.