

Modi Ignores West's Sanctions on Russia

By [M. K. Bhadrakumar](#)

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Prime Minister Narendra Modi's call with Russian President Vladimir Putin on Friday marks a new stage in the bilateral relationship between the two time-tested friends, both contextually and from a long-term perspective.

The media may find it alluring to link Modi's call to Ukraine developments despite the Indian and Russian readouts ([here](#) and [here](#)) making it clear that Russian-Indian bilateral relations dominated the conversation.

Nonetheless, it is very significant that Modi was not deterred by the fact that although this is not era for wars, the Ukraine conflict in all probability will only escalate, and there is a greater likelihood than ever before that Russia may be compelled to seek a total military victory, as the US is leaving it with no option by doggedly blocking all avenues for a realistic settlement and is furtively climbing the escalation ladder.

Without doubt, the Biden Administration's reported decision to deploy Patriot missile in Ukraine is a major escalation. [Moscow has warned](#) of "consequences." Again, [Moscow has confirmed](#) that the US planned, masterminded and equipped Ukraine with the military capability to attack deep inside Russian territory — hundreds of kilometres, in fact — including against base at Engels where Russia's nuclear-capable strategic bombers are stationed. The two superpowers never before targeted each other's nuclear assets.

So, there is no question that Modi's initiative at this point in time to discuss "the high level of bilateral cooperation that has been developing on the basis of the Russian-Indian privileged strategic partnership," including in key areas of energy, trade and investments, defence & security cooperation, conveys a huge message in itself.

It quietly underscores a medium and long term perspective on the Russian-Indian relationship that goes far beyond the vicissitudes of the Ukraine conflict. Put differently, India will not allow its long-standing ties with Russia to be held hostage to Western sanctions.

For India, the reorientation of Russian economic diplomacy toward the Asian region presents huge business opportunities. Who would have thought nine months ago that Russia was going to be the largest supplier of oil to India, leapfrogging Iraq, Saudi Arabia and the US? According to Reuters, India purchased about 40% of all export volumes of Russian Urals grade oil transported by sea in November, when European countries accounted for 25%, Turkey 15% and China 5%.

The figures speak for themselves: in November, while Russia supplied 909,000.4 barrels of crude oil to India per day, the corresponding figures were for Iraq (861,000.4), Saudi Arabia (570,000.9), and the US (405,000.5). Suffice it to say that when Modi upfront listed energy as his talking point with Putin, it reconfirms that India is giving a wide berth to the G7's hare-brained scheme to impose a price cap on Russian oil exports.

But all good things have a flip side to it. As the volume of India-Russia trade shoots up — with Russia emerging as India's seventh largest trading partner, rising from 25th place — the imbalance in the bilateral trade is also widening, as Moscow prioritises India (and China) as preferred trading partners.

EAM Jaishankar's [recent Moscow visit](#) focused on a list of 500 items that Russia would be keen to source from India. Importantly, this is also about a supply chain for Russian industry / economy. Jaishankar reportedly gave an interim reply of India's readiness to start supplying spare parts necessary for airplanes, cars and trains.

Some Russian experts have talked about India as a potentially significant "trans-shipment" state for Russia's "parallel imports" — that is, Russia can buy not only Indian goods from India but also products from third countries.

Meanwhile, turning away from the European market, Russia also seeks business opportunities for its export basket that includes mineral products, precious metals and products made from them, aluminium and other non-ferrous metals, electric machines, vehicles, pharmaceutical, chemical, rubber products, etc.

Clearly, there are systemic issues to be addressed such as transportation logistics; payment mechanism, collateral sanctions. However, for the near term, all eyes are on the Russian oil exports to India in the time of the G7 price cap.

The Russian government daily [Rosyiskaya Gazeta reported](#) on Tuesday, "It is expected that Russia, in response to the price ceiling, will adopt an official ban on selling oil under contracts where the "ceiling" will be mentioned or the marginal price for our oil will be indicated." That is, Moscow will insist on an embargo on supplies basically restricted to the G7 and Australia.

China and India are not affected, as they haven't joined the price cap. The following excerpts from the Moscow daily outlines the state of play:

"There are no real mechanisms that could enforce these [G7] restrictions... already, about a third of Russian oil exports leave Russian ports without indicating the final destination. That is, a so-called "grey trade zone" is growing before our eyes, which allows traders to purchase Russian raw materials without the risk of falling under secondary sanctions... discount [ie., fair prices] allows the Asia-Pacific countries, primarily China and India, to increase purchases of Russian raw materials."

The fascinating part is that not only is the so-called “grey zone” expanding steadily but alongside, other suppliers have begun to adjust to the prices of Russian oil in the Asia-Pacific region — that is, to the real equilibrium prices or discounted prices. Curiously, even Western countries are in a position to receive relatively inexpensive Russian oil through third parties.

The bottom line is that the Biden administration’s goal was not to limit the volume of Russian oil exports but focused on the revenues of the Russian budget from oil production and the world oil market. Rissyiskaya Gazeta concludes: “In fact, so far what is happening does not contradict either our aspirations or the desires of the United States.” [See my article [Race for Russian oil begins](#), The Tribune, Nov. 28, 2022]

This new-found pragmatism in the US calculus about the limits to sanctions took a curious turn in Thursday when the US blacklisted the Russian billionaire-oligarch Vladimir Potanin but exempted two of his biggest assets from the purview of sanctions — MMC Norilsk Nickel and Tinkoff Bank — on the specious ground that his holdings are less than 50% in these two companies [but are only 35%!]

Why so? Because, [MMC’s share in the world market](#) of high-grade nickel is 17%, palladium 38%, platinum 10%, rhodium 7%, copper and cobalt 2% each; and, sanctioning the Russian company could sharply aggravate the world market for non-ferrous metals and can hurt US manufacturers.

Clearly, the law of diminishing returns is at work in the continued weaponisation of sanctions against Russia. Indian business and industry should pay close attention to Modi’s far-sighted initiative on Friday.

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Featured image: External Affairs Minister S Jaishankar (L) met Russian Foreign Minister Sergey Lavrov, Moscow, November 8, 2022 (Source: [Indian Punchline](#))

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