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US Extends Russian Oil Sanctions Waiver to May 16 — India's Energy Security Implications

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US Extends Russian Oil Sanctions Waiver to May 16 — India's Energy Security Implications

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WHY IN NEWS

The **United States has extended its sanctions waiver on Russian crude oil** until **May 16, 2026** — allowing India, China, and other importing nations to continue purchasing Russian crude without triggering secondary sanctions. The extension, a reversal of earlier US statements hinting at stricter enforcement, comes amid heightened global oil supply pressures due to West Asian conflicts that have restricted flows through the **Strait of Hormuz**.

BACKGROUND: RUSSIA-UKRAINE CONFLICT AND ENERGY SANCTIONS

Following Russia's February 2022 invasion of Ukraine, the G7 nations and the European Union imposed sweeping economic sanctions on Russia, including:

- **Oil price cap** (\$60/barrel for seaborne Russian crude) — implemented December 2022 by G7 + Australia
- **EU embargo** on Russian seaborne crude (December 2022)
- **Secondary sanctions threat**: US warned of penalties on third-country entities buying Russian oil above the price cap or in violation of restrictions

India took the position that it would **continue trade with Russia** in accordance with its national interest, citing no obligations under UN Security Council sanctions (Russia has veto power in the UNSC).

INDIA'S CRUDE OIL IMPORT PROFILE

India is the **world's third largest consumer of crude oil** and imports over **88%** of its crude requirements.

Russia's Role

PERIOD	INDIA'S RUSSIAN CRUDE IMPORTS
Pre-2022	Minimal — Russia not among top 3 suppliers
2022–23	Rapid rise post-discounted pricing
Normal 2025–26 level	~2.5–2.7 million barrels per day (bpd)
February 2026	~1 million bpd (temporary dip)
March 2026	~2 million bpd
Early April 2026	~1.6 million bpd

Russia has displaced Iraq and Saudi Arabia to become **India's largest crude oil supplier**.

Why India Buys Russian Crude

- ❶ **Price discount:** Russian Urals crude sold at \$8–15 discount to international benchmarks (post-sanctions)
- ❷ **Refinery compatibility:** Indian refiners (especially IOC, BPCL, HPCL) have adapted to process Russian grades
- ❸ **Foreign exchange savings:** Buying discounted crude reduces India's import bill substantially
- ❹ **Energy security:** Diversification away from West Asia reduces geographic concentration risk

WEST ASIAN SUPPLY RISK — THE STRAIT OF HORMUZ

The **Strait of Hormuz** — between Iran and Oman — is the world's most critical oil chokepoint:

- ~**20% of global oil trade** passes through it
- Approximately **2.5–2.7 million bpd** of India's typical crude imports transit via this route
- Ongoing West Asia tensions (Iran-Israel, Houthi attacks in the Red Sea) have created **supply disruption risks**, making Russian supply strategically important as an alternative

THE SANCTIONS WAIVER: MECHANISM AND IMPLICATIONS

How the Waiver Works

The US **Office of Foreign Assets Control (OFAC)** issues time-limited waivers (sometimes called “wind-down” authorizations or specific licences) that exempt certain transactions from secondary sanctions. These waivers have repeatedly been extended since 2022 — indicating US recognition that a hard cutoff would spike global oil prices and harm allies’ economies.

Impact on India

DIMENSION	IMPACT
Energy security	Continued access to discounted Russian crude; reduces import costs
Inflation	Lower crude import costs moderate domestic fuel prices and inflation
Trade deficit	Russia trade in rupees partially offsets CAD pressure
Diplomacy	India maintains “strategic autonomy” — buying from Russia despite US pressure

India’s Diplomatic Position

India has consistently maintained:

- It follows **UN sanctions** (not unilateral US/EU sanctions)
- Energy purchases serve India’s **developmental needs**
- India supports a **negotiated end** to the Russia-Ukraine conflict
- **Multi-alignment** (not non-alignment) — engaging both Western partners and Russia

RUPEE-ROUBLE TRADE AND ACCUMULATED BALANCES

A related development (context from RBI): India has built up **large rupee balances** through Russian crude payments settled in Indian rupees via special Vostro accounts. The RBI is working on mechanisms to deploy these accumulated rupee balances — via Russian imports into India and Indian investments in Russia — to rebalance the settlement.

UPSC RELEVANCE

*India's energy security, crude oil import dependency, price caps, foreign exchange management. **GS2** — **International Relations:** India's strategic autonomy, sanctions and their global impact, US-India-Russia triangular diplomacy, India's "multi-alignment" foreign policy. **GS3** — **Environment:** Oil price volatility and its macroeconomic effects.*

Key Linkages:

- Energy security → CAD → rupee depreciation → inflation → monetary policy (RBI)
- Russia-Ukraine → sanctions → global oil markets → India's strategic autonomy test
- Strait of Hormuz → chokepoints → India's sea lane security → Navy's role
- Indian Ocean Region → energy transit security → India's maritime strategy

FACTS CORNER

US sanctions waiver extended to: May 16, 2026

India's crude import dependency: over 88% of requirements are imported

Russia's share: India's largest crude supplier (surpassed Iraq, Saudi Arabia post-2022)

Normal Russian crude imports: ~2.5–2.7 million bpd; recent fluctuations: ~1 mbpd (Feb), ~2 mbpd (Mar), ~1.6 mbpd (early Apr)

G7 oil price cap: \$60/barrel on Russian seaborne crude (December 2022)

Strait of Hormuz: ~20% of global oil trade; between Iran and Oman

OFAC: US Office of Foreign Assets Control — issues sanctions waivers

India's position: follows UN sanctions only; energy purchases are national interest decisions

Vostro accounts: Russian rupee balances accumulated through India-Russia crude trade settlement

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