Russian Oil Floods Global Markets Via Major Asian Intermediaries

Despite western sanctions, there is more Russian fuel being exported around the world than before the Ukraine crisis. It's just coming via Saudi Arabia, India, China, and other trading states – with steep commissions.

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Despite western sanctions imposed on Russia over the Ukraine conflict, some Asian and specifically West Asian economies are importing significant amounts of Russian gasoline at discounted prices, and reselling it with windfall profits to the EU under their brand names.

Western sanctions have forced Moscow to actively diversify its energy exports – oil and gas exports accounted for 45 percent of the Russian government's 2022 budget – and it has rapidly filled the gap left by its diminished oil exports to Europe with new customers in China, India, and the Persian Gulf nations.

Despite the EU's prohibition on seaborne exports, during the initial quarter of the current year, Russian seaborne crude oil exports amounted to 3.5 million barrels per day (bpd), surpassing the 3.35 million bpd recorded at the onset of the Ukrainian conflict a year ago.

According to industry analysts and oil executives, this has transpired despite western sanctions that led to the severance of several active trading partnerships for Russian oil in the EU markets.

Finding ways around sanctions

Dubai-based oil tycoon Hakam Valliani tells *The Cradle* that, in general, sanctions did not significantly impact the Russian gasoline supply line as new buyers filled the gap left by the EU market. Washington, he says, had enforced these limitations to force the EU to buy expensive US gasoline rather than cheaper Russian oil.

When compared to Russian liquefied natural gas (LNG), the price of US LNG is nearly $1,000 per ton more expensive, so "the European Union is paying a disproportionately huge amount for the US stuff," Valliani explains.

"Sanctions or no sanctions, individuals will find a way around by devising cunning strategies to bypass restrictions," he says, adding:

> "This is scary to see that the entire American-based price benchmark and the SWIFT system are collapsing, and a new benchmark will be needed within the next five years. Russia now accepts a variety of currencies when transacting fuel sales, including Indian rupees, Chinese renminbi, and other regional currencies."

Valliani predicts that with the expansion of BRICS (to BRICS+), there will be a decline in the value of the dollar and the collapse of the International Monetary Fund (IMF): "The world's future source of gold and oil will come from BRICS+."

This has allowed countries like Saudi Arabia, the UAE, China, India, and Iran to import the majority of Russian oil, not for domestic consumption, but to transport it to third parties in energy-deficient markets in Europe and Asia.

Saudi import of Russian crude

According to *Reuters*, Saudi Arabia has been importing unprecedented quantities of Russian fuel to circumvent US sanctions. Traders have also taken advantage of lower prices to build up fuel reserves at the Fujairah hub, located in the UAE.

Today, West Asia is playing an increasingly important role as a supplier of industrial fuel to Europe and Africa, with Saudi Arabia, Kuwait, and Russia contributing to the fuel reserves in Asia.

As the largest producer within OPEC and the top global oil exporter, Saudi Arabia has had to step up its global energy supply – while keeping its own production down, per OPEC+ decisions – due to US-imposed restrictions on direct imports of Russian crude oil and oil products.

In March and early April of this year, Saudi Arabia imported a record high 261,000 metric tons of Russian diesel. Three of the containers were unloaded in Jeddah, while one was delivered to Ras Tanura. The free-on-board price range for Russian diesel cargoes scheduled to load in March ranged from $60 to $70 per barrel.

This price is nearly $20 per barrel lower than the "Middle East benchmark," which falls below the price ceiling of $100 per barrel set by the G7 consortium, thereby allowing traders to utilize western vessels and insurance services to transport Russian fuel.

West Asia wins

Recent findings from the Center for Global Energy Policy at Columbia University have alerted the European Commission that oil-exporting nations in West Asia have largely benefited from the conflict in Ukraine.

The study examines the implications of increased imports of Russian petroleum by West Asian countries, which has manifested itself predominantly through price increases and created an opportunity for the refining, storage, and distribution of Russian petroleum.

According to analysts, the primary exporters from the Persian Gulf region, such as Saudi Arabia and the UAE, will become "balancers-in-chief in Europe," providing a supply of petroleum to the continent.

Perturbed by Saudi Arabia's imports of Russian diesel and its subsequent re-export to Europe, the EU parliament has been compelled to start a discussion about the new phenomenon and investigate "what evidence the Commission has to support its claim that diesel fuel imported from Saudi Arabia to the European Union is not simply rebranded Russian crude oil?"

The group is also investigating the price gap between Saudi Arabia's discounted petroleum imports from Russia and the EU's imports of petroleum from the kingdom. It aims to determine whether Saudi Arabia and other market influencers are currently playing a significant role in meeting Europe's import needs and preventing market contraction due to the ban on Russian oil.

Hakam Valliani believes that oil from Russia is a necessity for both Europe and the US, and while everyone is aware that this is a sanctioned product, they do end up purchasing this item. He says that nearly 40 percent of US oil imports come from Russia, and that traders in Southeast Asia, South Asia, Azerbaijan, Kazakhstan, Turkiye, and the rest of West Asia rebrand Russian gasoline in their respective countries.

Valliani claims that even the banks are aware of these transactions but choose to disregard them, adding that:

> "There may not be a lot of Russian aviation gasoline available, but the profit margin on it is 25 percent higher than that of US-produced fuel. The profit margin on Euro 5 diesel is far bigger than that of diesel produced in the Middle East or the United States. The margin on diesel per metric ton is about $100."

China and India's impact

Recent reports also suggest that China and India are playing a crucial role in Russia's ability to avoid western sanctions and increase its oil shipments to pre-Ukraine war levels.

India, in particular, has emerged as a significant player in the global oil markets by importing cheap Russian crude and converting it into fuel for Europe and the US. In the fiscal year 2022–2023, India imported a large quantity of crude oil from Russia, which allowed it to increase shipments of diesel and jet fuel to Europe.

In January, India imported a record amount of Russian oil, tripling in quantity from the previous year. After Moscow lowered its oil prices for India – following the onset of the Ukraine war – Russia became India's primary oil supplier, surpassing both Iraq and Saudi Arabia.

Russia's market share in India's energy imports increased to 1.62 million barrels per day in February, rising from a less than 1 percent share before the 2022 Ukraine war to a whopping 35 percent stake today.

More than a quarter of the 4.5-4.6 million bpd of Russian oil imported in 2022-2023 went to

Indian refineries, and a long-term agreement between the largest oil producer in Russia, Rosneft, and the largest Indian refiner, Indian Oil Corp, can greatly increase and diversify the types of oil transported to India.

Russia-Iran fuel trade

It was recently reported that Russia has begun exporting gasoline and diesel to Iran by rail earlier this year, with Moscow allowing Tehran to access up to 30,000 tons of gasoline and diesel in February and March.

Although Russian officials announced in 2017 that oil products would be traded with Iran, it appears that actual shipments did not start until 2023. The oil consignments were transported to Iran by rail from Russia, via Turkmenistan and Kazakhstan.

While Iran needs natural gas and diesel to run its power plants and refineries, a top oil refiner based in Saudi Arabia who asked to remain anonymous tells *The Cradle* that there is a possibility that Iran may use the Russian consignment for export to other countries.

The source claims that Pakistan – in addition to Afghanistan – is a multi-billion dollar informal marketfor Iranian oil, and the evidence of some gasoline shipments from Iran being transported by truck to neighboring countries such as Iraq supports the notion that Tehran is making money from gasoline trades.

Once again, western sanctions have demonstrated their tendency to backfire. Russian oil sales are booming, and Asia is reaping the economic benefits by reselling cheaper Russian fuel at marked up prices to Europe – which is clearly the biggest loser in this proxy conflict with Russia.

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