Navigating Sanctions

Laundered Russian Oil
Finds Its Way Back to Europe From India

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About CSD

Founded in late 1989, the Center for the Study of Democracy (CSD) is a European public policy institute fostering the reform process in Europe through impact on policy and civil society. CSD's mission is "building bridges between scholars and policy-makers". Since 2014 CSD has pioneered the assessment of the Russian economic influence in Europe via the Kremlin Playbook series of reports, focusing in particular on Russia's weaponization of energy and state capture to achieve an outsized influence over decision-making in strategic economic and political areas.

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Key findings

- **A Money Machine for Russia:** India is the biggest buyer of seaborne Russia crude. India's imports of Russian oil rose by 13% year-on-year in value in the first eight months of 2024, totalling EUR 27 bn.
- **Lucrative business…for Russia:** India keeps on buying Russian oil although the discount on the price dropped this year. Russia's heavy reliance on 'shadow' tankers has reduced freight costs as well as allowed them to sell the oil above the cap. This increased price of Russian oil has hit Indian refineries' margins. The profit of Indian refineries dropped by 19% year-on-year in the first half of 2024 down to USD 16.2 per barrel.
- **Shadow trade:** In the first eight months of 2024, 41.1 mn tonnes (72%) of India's imports of Russian crude arrived via 'shadow' tankers with dubious or inadequate insurance.
- **Who said sanctions is a problem:** One of the biggest Indian buyers of Russian oil is the Vadinar refinery, owned by the company Nayara Energy, whose majority shareholders is the U.S. and EU sanctioned Russian oil company, Rosneft. Over 70% of the refinery's feedstock comes from Russia. The refinery sent more than 200,000 tons of petroleum products back to Europe, at least half of which were made from processing Russian crude.
- **Kremlin Pitstop:** India has replaced Saudi Arabia as Europe's top fuel supplier. In 2024, the EU imported 13% of its seaborne diesel and jet fuel from India. The EU's imports of oil products from the three main Indian refineries running on Russian crude increased 58% in the first three quarters of 2024 compared to the average volume of exports prior to the Russian invasion in Ukraine, widening the EU's refining loophole.

Western energy sanctions against Russia are failing. Although Russian fossil fuel exports to the West have decreased, glaring loopholes in the sanctions' regime persist. Gaps in the oil ban were intentionally left open as G7 countries have grappled with an exaggerated fear of an energy price surge.

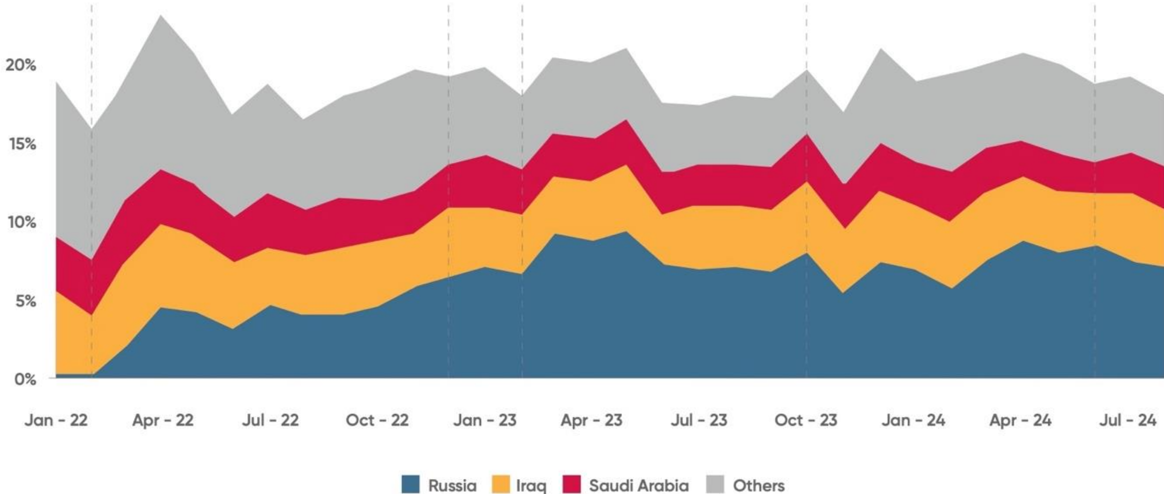
The West's failure at phasing out Russian oil and gas sales has helped Russia's economy rebound. GDP grew by 3.6% in 2023 and is projected to rise another 3.2% in 2024. Russia's oil and gas sector remains surprisingly stable with export revenues 8% higher in the first 9 months of 2024 compared to the same period before their full-scale invasion in 2021. **Russia's oil and gas exports have generated over $180 billion** so far in 2024 – higher than their planned 2025 defense spending ($145 billion).

Despite a discount on Russian oil, Urals crude averaged $70 in 2024, exceeding the G7 cap by $10. The cap, meant to limit Russian revenue, has faltered due to a growing shadow fleet and weak enforcement. Traders conceal prices through false documentation and ship-to-ship transfers, enabled by networks in Greece, Malta, Panama, Turkey, the UAE, and Hong Kong.

There are no valid economic or supply-based reasons to maintain these loopholes as they have exploited by the Kremlin to sustain and entrench its increasingly global networks of economic and political influence.

Money for nothing: India helps Russia increase its oil revenues

Figure 1. India's imports of crude oil by source
Mn tonnes | By country of origin | January 2022 to August 2024



Source: *Kpler.*

India has become the largest importer of seaborne Russia crude since the country's full-scale invasion of Ukraine. Historically, India has not been buying any Russian oil, as most of the crude oil supply has come from the Middle East. Yet, by the end of 2022, the Russian exports to India made up 19% of the market. In 2023, the Indian dependence on Russian oil widened to 39%.

The EU/G7 sanctions forced Russia to sharply reduce the price of its oil sales to new markets. A key beneficiary was India, whose imports in May 2023 reached its highest levels (9.4 mn tonnes). The first OFAC sanctions on Russian vessels caused a dip in the second half of 2023, but the level of imports of Russian crude has almost entirely recovered in 2024.

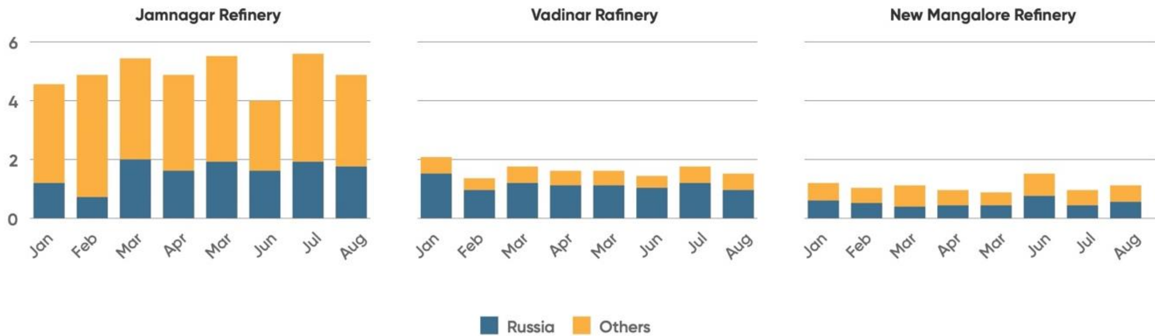
While Russian crude export volumes have stagnated, their value ballooned by 13% in the first eight months of 2024 (totalling EUR 27 bn), showing how **Russian crude prices have rebounded** on the back of the Russia's 'shadow' fleet, falling freight costs and the evasion of the oil price cap.

Having spotted a sanctions gap, India has become a crucial exporter of refined oil products to the EU – utilising Russian crude to do so.

Indian refineries exporting refined products to the EU grow their dependence on Russian crude

Figure 2. Indian refineries' crude runs

Origin of crude | Mn tonnes | January 2022 to August 2024



Source: *Kpler data.*

One of the main reasons for India's growing reliance on Russian crude is the market for cheaper refined products in the EU and other G7 countries. Its refineries exploit the refining loophole in the EU oil ban, allowing processing facilities in third countries using Russian crude oil to keep on selling final products to European countries.

In the first eight months of 2024, three Indian refineries – the RIL Jamnagar refinery, Nayara Energy's Vadinar refinery and the state-owned New Mangalore refinery – have exported 6.7 mn tonnes (EUR 5.4 bn) of refined oil products to EU Member States. Around half of these fuels of this is made from Russian crude.

The biggest seller is the Jamnagar refinery, which has sent 3 mn tonnes of products to the EU, with a little under a third of the refinery's feedstock, on average this year, coming from Russia. This relatively lower dependence on Russian oil makes it easier for the refinery to claim it is selling refined products to Europe that are from non-Russian crude.

In comparison the New Mangalore refinery and Vadinar refinery have been much more dependent on Russian crude. The former has exported 382,837 tonnes of oil products to the EU of which around half is derived from Russian crude. Over 70% of the Vadinar refinery's feedstocks have been on Russian crude this year. The refinery has sent 209,297 tonnes of oil products to the EU.

Furthermore, the Vadinar refinery has a direct link to the Kremlin. The refinery is owned by the company Nayara Energy, whose majority shareholders is the largest Russian oil company, the U.S. and EU-sanctioned Rosneft. The refinery has exclusively exported jet fuel to EU Member States – Italy (97,291 tonnes), the Netherlands (81,449 tonnes) and Slovenia (30,556 tonnes).

Shadow Supply

In the aftermath of the EU/G7 countries' sanctions, Russia has not just found new markets but also new ways to ship its oil. The introduction of the USD 60 per barrel price cap for any oil carried on tankers with Western insurance has seen **Russia expand its 'shadow' tanker fleet to export crude oil** – especially for sales to India.

Prior to the invasion of Ukraine, a mere 19% of Russian crude oil was transported on 'shadow' tankers. This number has risen to over 80% in 2024. In the first eight months of 2024, 41.1 mn tonnes (72%) of India's imports of Russian crude arrived via 'shadow' tankers. A total of 425 'shadow' tankers delivered crude oil to India. Two-third of them were between 17-20 years old.

The 'shadow' tankers pose **enormous environmental risks**. With opaque ownership structures and questionable insurance coverage, these ships evade international maritime regulations, making it nearly impossible to make them pay the financial compensation for the damage caused by a potential oil spill or other major incident. A

recent analysis shows that the risks are already becoming reality as satellite imagery has registered nine oil slicks from 'shadow' tankers with dubious or inadequate insurance.

The shadow fleet covered by the Russian insurance firm Ingosstrakh – recognised by India in early 2022 and sanctioned by OFSI in 2024 – received guarantees from the state controlled Russian National Reinsurance Company (RNRC) right after the invasion. Ingosstrakh's own website states that the company offers P&I reinsurance of up to USD 1 bn. For comparison, the reinsurance pooling program of the International Group of P&I insurers is capped at a maximum of USD 3.1 bn for each incident. India is a party to the 1992 International Oil Pollution Compensation Funds (IOPC), but not to the supplementary fund protocol regulating insurance disputes related to oil spills. This means that if a Russian shadow tanker breaks down causing an environmental disaster in Indian territorial waters, the country will only receive a pay out of up to USD 200 million, a fraction of the total cost to be covered by Indian taxpayers.

Figure 3. "Shadow" taankers delivering RU crude to India

Top 5 Flags of Convenience | January 2024 to August 2024

Source: *Equasis.*

A second key concern over the safety of 'shadow' tankers stems from the registration of their flags of convenience (FOCs), often in countries with widespread governance deficits such as weak labour laws, poor corporate registration transparency, low desire to perform ship inspections and detain vessels for non-compliance. In the first eight months of 2024, a third of the 'shadow' vessels delivering crude to India were carrying FOCs from Panama (139 in total), followed by Gabon (114). This lethal combination of dodgy insurance and lacklustre safety checks means that the crew aboard these vessels are in many cases inexperienced, badly compensated and have little to no desire to handle ageing tankers that may be dangerous at sea.

Sanctions evasion practices

Changing flags is also a common practice for 'shadow' tankers, looking to evade secondary sanctions. One example is the Ns Lotus, a vessel sanctioned by the EU in June 2024. The tanker has changed its registered International Safety Management (ISM) managers and Commercial managers three times each since Russia's invasion. Until the end of 2023, the ship flew under Liberian flag, before shifting to Gabon in January 2024. In August 2024, two months after the EU sanctioned the ship, it was reflagged in Barbados and also renamed "Legacy".

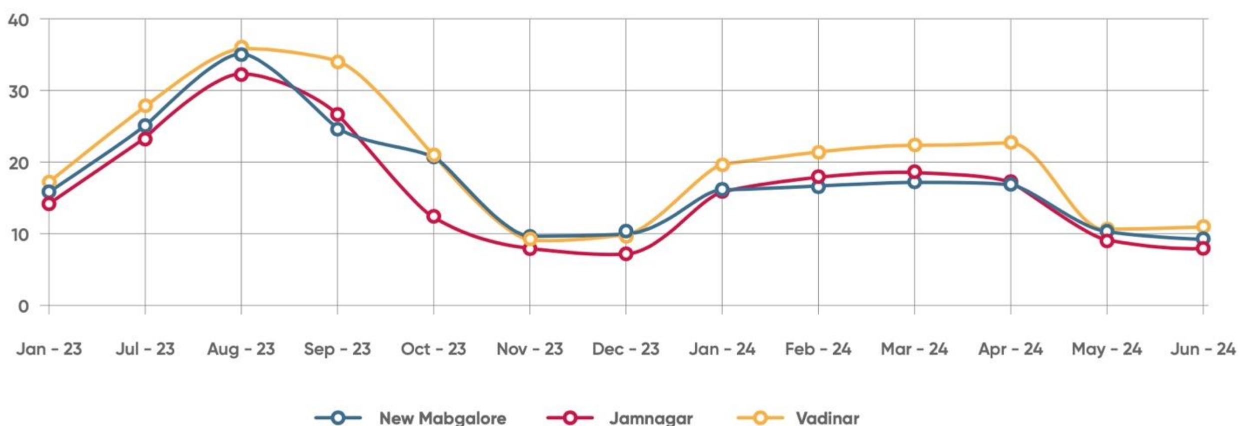
“Legacy” is also under **new ownership** by the Azurite Shipholding company, registered in the UAE in August 2024. Its insurance is unknown. In disregard of the EU sanctions, the vessel has continued to regularly transport oil to India. For example, in July and October, 2024, it delivered more than 200,000 tonnes of crude to the HPCL-Mittal Energy Limited oil terminal in Mundra and to the Jamnagar refinery.

In addition to the reflagging and changing of ownership of the shadow tankers, Russia has been also evading the oil price cap by **channelling the exports via the UAE financial system.** Of the 398 Russian crude oil cargoes from March 2022 and end of September 2024 to the Indian port of Sikka, 241 of them (61%) were traded in UAE Dirhams.

Almost all trades took place above the crude oil price cap level of USD 60 per barrel although the prices reported in the customs data only shows the CIF price which includes the cost of insurance and freight charges. In order to evade the cap, Russian oil traders artificially inflate the shipping and insurance costs paid to companies closely linked to the Russian owners of the oil.

Refining Russian crude is no longer that profitable

Figure 4. Refinery margins when processing Russian crude
USD per barrel | June 2023 to June 2024



Source: *Kpler data.*

One of the main reasons for India's shift to Russian crude oil has been the steep discount offered by Russian companies. The result are much higher profit margins in refining. As Russia diversified its oil sales following the sanctions' entry into force, **the discount shrank – thanks to the shadow fleet evading the price cap** – and the margins have bottomed out in similar terms in the three refineries (the Jamnagar, Vadinar and New Mangalore refineries) under study in the 12 months to June 2024. At their peak, in August 2023, these refineries were, on average, making a profit of USD 34.8 per barrel processing Russian crude. Once the first OFAC sanctions on Russian vessels cut off Russian crude supplies to the country, the margins took a severe hit in November and December 2023. Wary of dealing with sanctioned vessels, Indian refiners decided to renegotiate contracts and pricing.

Nonetheless, the margins have kept falling in 2024 reaching USD 16.2 per barrel in the first half (H1) of 2024, a 19% drop from the six months prior. Refinery margins are not likely to rise as there has been a steady rise of the price of Russian crude due to the voluntary OPEC+ cuts and the increased use of 'shadow' tankers, circumventing the price cap. The growth of 'shadow' tankers has also reduced nominal freight costs allowing them to sell crude to Indian refiners at higher prices.

Vadinar profits remain constant due to the Kremlin link

One exception to the conclusion about the overall slump in refinery margins is the Vadinar refinery. It has achieved consistently higher margins than the other two processing facilities. At its peak in September 2023, the refinery was earning between 28%-38% more than the New Mangalore and Jamnagar refineries respectively. The trend has continued in the first half of 2024, where Vadinar has, on average, registered margins of USD 18.6 per barrel, around a quarter higher than its competitors.

Rosneft is utilising the ownership of the Vadinar refinery to shift profits outside Russia, which has been a standard practice for Russian energy and commodities companies minimising their tax burden at home and for funding obfuscated Russian corporate networks abroad.

The Vadinar refinery imports consist almost exclusively of steeply discounted crude from Rosneft installations on the Black Sea and Baltic ports. The final petroleum products, however, are sold at much higher prices domestically or at an overheated EU market. This means that the actual oil consumers are not benefitting from the crude discount. Meanwhile, Rosneft's profits are moved to offshore entities in Switzerland and the UAE, controlled by the company's main trader, Energopole.

Policy options

The fall in the Russian crude oil sales to India would play a key role in cutting the Kremlin's oil and gas revenues. The massive redirection of Russian crude shipments to India has helped Russia stabilise oil exports and ensure that large volumes of refined petroleum products have continued to flow to G7+ countries, sanctioning direct Russian oil imports. To disincentivise India from maintaining this strong oil link with Russia, there is a number of domestic and international measures that could be implemented including:

Strengthen the G7 oil ban enforcement: If the next American administration wants to achieve 'peace through strength', there needs to be a transatlantic push to toughen the enforcement of the G7 oil ban and phase out Russian fossil fuels from Western markets.

Diversification of the crude oil supplies: India should mandate that its main refineries to reduce their dependence on Russian crude oil supply. The fall in the discount on Russian oil sales to India undermines the previous market-based logic that India benefits from maximising Russian crude purchases. Refinery margins have fallen, and it is largely Rosneft, the Kremlin and local Indian intermediaries, that benefit from the continued trade with Russian oil. Excessive dependence on Russian oil is also contributing to heightened security of supply risks as any potential shock to the Russian oil shipments due to sanctions or other logistical reasons could leave Indian refiners with few alternatives.

Strengthen the control over tanker insurance and safety: India should ban the imports of Russian oil transported on sanctioned tankers. Indian refineries have put themselves at risk of being subject to secondary sanctions from engaging with a sanctioned entity/vessel. India should insist that Russia crude oil tankers must show sufficient P&I insurance and compliance with the oil price cap policy. This would not only ensure adequate insurance coverage in the event of a potential oil spill but will lower the price of imports benefitting India's final oil consumers.

Remove all EU oil sanctions loopholes: The EU should ban the imports of petroleum products from refineries in third countries such as India, Turkey and the UAE, that have been maximising Russian crude oil purchases in order to sell the surplus petroleum products back to the EU. The EU should immediately ban financial and trade transactions with refineries under the ownership of Russia-sanctioned companies such as the Vadinar refinery.

Sanction 'shadow' vessels transporting Russian oil: The EU should consistently designate all tankers transporting Russian oil that do not have access to Western-based insurance coverage, and should increase the pressure on EU-based shippers to gradually phase out the servicing of Russian seaborne crude shipments.

Transparency on tankers' ownership and flagging: Indian importing refineries and port authorities should receive detailed information about the individual tankers' owners. Ports must prohibit the entry of sanctioned ships that have been reflagged their vessels should also be prohibited by Indian port authorities.

Include freight and insurance costs in the USD 60 oil price cap: G7 countries should revise the methodology for the setting of the oil price cap, so that it also includes freight and insurance costs. This could cut into Russia's export revenues by up to 20%, as well as will enable better compliance/enforcement. Lowering the price cap to $30 would cut Russia's oil revenue by 25%, limiting funds for its war in Ukraine while still giving an incentive to Russia to keep producing.