STUDY NOTES · BASIC CONCEPT

What are Sanctions? What are Tariffs? All other related concepts at one place

Indian Economy

17 Oct 2026

What are economic sanctions?

Sanctions Compliance Policy | ID Shipping Compliance

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Economic sanctions are restrictions imposed by a country or group of countries to influence another government's behaviour without necessarily using direct military force.

Sanctions can target governments, companies, individuals, banks, industries or particular transactions.

Major types of sanctions

Type	Meaning	Example of possible effect
Financial sanctions	Restrict access to financial institutions, assets or transactions	A sanctioned bank may find it difficult to process international payments
Trade sanctions	Restrict exports, imports or particular goods	A country may prohibit trade in specified technologies
Energy sanctions	Restrict oil, gas, coal, equipment or related services	Energy exports may become more difficult or costly

Type	Meaning	Example of possible effect
Asset freezes	Block the use or transfer of designated assets	A designated individual's assets may be frozen within the sanctioning jurisdiction
Secondary sanctions	Seek to penalise certain third-country persons or entities for specified dealings with a sanctioned party	A foreign company may risk losing access to the sanctioning country's financial system
Travel restrictions	Limit entry into a country for designated individuals	A sanctioned official may be denied entry

Primary vs secondary sanctions

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Primary sanctions generally regulate the conduct of persons or transactions within the sanctioning country's jurisdiction, including its citizens, companies and financial institutions.

Secondary sanctions seek to influence the conduct of foreign persons or entities even where the conduct does not have the same direct territorial connection. They may threaten restrictions on access to the sanctioning country's financial system or market.

The distinction matters for India because Indian companies may face commercial or financial risks from US sanctions even when the underlying oil purchase is legal under Indian law.

UPSC takeaway: Sanctions are an instrument of economic statecraft. Their effectiveness depends on enforcement, international cooperation, alternative markets and the ability of the target country to adapt.

What is a tariff?

Semiconductor shortage: About 5-10% demand impacted due to supply chain disruptions, says Dixon Technologies CFO, E

A tariff is a tax or customs duty imposed on imported or, in some cases, exported goods. Import tariffs generally increase the cost of bringing goods into a country.

In this news, the proposed additional tariffs were directed at goods entering the United States from certain countries that purchased Russian energy or facilitated sanctions evasion. They were not simply taxes on Russian oil itself.

How does a 100% tariff work?

Suppose a product exported from India to the US has a customs value of $100.

Item	Amount
Customs value	$100
Additional tariff at 100%	$100
Total before other charges	$200

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This simplified example excludes other duties, fees, exemptions, valuation rules and the possibility that the exporter or importer absorbs part of the cost.

A 100% tariff does not necessarily mean that the exporter pays the tax directly. In many cases, the importer is legally responsible for paying customs duties, although the economic burden may be shared through lower exporter prices, higher consumer prices or reduced trade.

Tariff vs sanction

Basis	Tariff	Sanction
Nature	Tax or customs duty	Restriction or penalty
Main purpose	Revenue, protection of domestic industries or trade-policy leverage	Foreign-policy, security or economic pressure

Basis	Tariff	Sanction
Target	Usually imported goods, sometimes exports	States, persons, firms, sectors or transactions
Effect	Makes covered imports more expensive	Can block trade, payments, assets, services or other activities
Can coexist?	Yes	Yes

Important: A tariff can be used as a tool of geopolitical pressure, but not every tariff is a sanction. Similarly, waiving a tariff does not automatically lift financial sanctions or other restrictions.

Why is Russian oil so important to the global economy?

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Russia is a major global producer and exporter of crude oil, petroleum products and natural gas. Restrictions on Russian energy can affect supply routes, prices, shipping, insurance, financing and international trade.

Oil is a globally traded commodity. If a major exporter faces restrictions, buyers may look for alternative suppliers, while the affected exporter may redirect supplies to other markets.

How sanctions can affect oil markets

1. Supply disruption: Restrictions may reduce the quantity of oil available to particular buyers.
2. Trade diversion: Russian oil may be redirected towards countries willing and able to purchase it.
3. Price changes: Changes in expected supply, shipping costs and market uncertainty can affect global prices.
4. Discounts: A sanctioned exporter may offer oil at a discount to compensate buyers for commercial, financing or compliance risks.
5. Higher transaction costs: Insurance, freight, banking and intermediary costs may increase.
6. Market uncertainty: Companies may delay purchases while awaiting clarification of sanctions or waivers.

Sanctions do not automatically remove oil from the global market. Their effects depend on how much supply is disrupted, the availability of substitutes and the ability of traders to adapt.

Why does India buy Russian oil?

IOC to invest Rs 17,825 crore in Gujarat refinery expansion, petrochemical project - The Economic Times

India imports a substantial share of its crude oil requirements. Russian crude has been commercially attractive at various times because of pricing, availability and changes in global trade patterns following Russia's invasion of Ukraine in 2022.

India's oil purchases are influenced by commercial considerations as well as foreign policy.

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Major reasons for importing Russian crude

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1. Price competitiveness: Discounts can make Russian crude attractive compared with alternative supplies.
2. Energy security: Multiple suppliers reduce dependence on any single country or region.
3. Refinery requirements: Indian refineries process different crude grades depending on their technical configurations and economics.
4. Market flexibility: Refiners can adjust their sourcing when prices, freight rates or trade restrictions change.
5. Strategic autonomy: India seeks to make energy decisions based on its national interests while managing relations with major powers.

Does importing Russian oil necessarily violate international sanctions?

No. The legal position depends on the applicable sanctions regime, the parties involved, the transaction, the origin of the oil, the payment arrangements and any relevant exemptions or licences.

A purchase permitted under one jurisdiction's law may still expose a company to restrictions under another jurisdiction's rules. Therefore, compliance must be assessed transaction by transaction.

How does a US waiver affect India?

The policy is relevant to India because India is a major buyer of Russian crude and an important US trading partner. The new law's proposed tariffs on imports from large buyers of Russian oil created a risk of additional costs for Indian exports to the United States.

Potential effects

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Area	Possible positive effect of the waiver	Remaining uncertainty
Indian exports to the US	Reduces the risk from the specified additional tariffs while the waiver remains in effect	Other US tariffs and trade restrictions may still apply
Crude oil sourcing	Gives Indian refiners more flexibility to evaluate Russian supplies	Oil prices, discounts, freight and payment risks may change
Inflation	Lower energy costs could reduce transport and production costs	Benefits depend on actual crude prices and domestic fuel-price transmission
Balance of payments	Cheaper oil can reduce India's import bill	Currency depreciation or higher oil prices may offset savings
India–US relations	Reduces one immediate source of trade friction	Broader disagreements over trade and Russia policy remain possible
India–Russia relations	Preserves room for continued energy trade, subject to applicable rules	Future US policy changes could reintroduce uncertainty

The waiver should therefore be understood as a reduction in a specific policy risk, not a guarantee that Indian companies will face no further trade or sanctions-related restrictions.

India's energy security

Energy security means ensuring that energy supplies are available, affordable, reliable and accessible, while managing environmental and geopolitical risks.

For India, energy security has several dimensions:

1. Availability: Sufficient crude oil, natural gas, coal and electricity.
2. Affordability: Energy prices that households and businesses can bear.
3. Reliability: Stable supply chains and functioning infrastructure.
4. Diversification: Multiple suppliers, routes and energy sources.
5. Resilience: Capacity to withstand wars, sanctions, disasters and price shocks.
6. Sustainability: A transition towards cleaner energy while maintaining economic development.

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Strategic Petroleum Reserves (SPR)

Strategic petroleum reserves are emergency stocks of crude oil held to help manage supply disruptions. India has developed strategic storage capacity to strengthen resilience against interruptions in imports.

They can help cushion a temporary supply shock, but they cannot permanently replace normal commercial imports. Their effectiveness depends on storage capacity, release procedures, replenishment costs and the scale and duration of the disruption.

How rising crude oil prices affect the Indian economy?

India's exposure to imported energy creates a direct connection between global oil prices and domestic economic conditions.

1. Global crude oil prices rise : Higher import expenditure and energy costs : Inflation

2. Higher transport, production and distribution costs can raise prices.
3. Current account : The import bill may rise, worsening the current account balance.
4. Fiscal position : Subsidies or tax reductions may increase pressure on government finances.
5. Rupee and growth : Foreign-exchange demand may rise, while higher input costs can weaken growth.
6. The magnitude of these effects depends on the duration of the price rise, the exchange rate, domestic fuel taxes, pricing decisions, fiscal policy and how much of the cost businesses pass on to consumers.

UPSC connection: Inflation, the current account deficit, exchange rates, fiscal policy and the monetary-policy response.

Current account deficit and balance of payments

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The balance of payments records economic transactions between residents of a country and the rest of the world.

The current account includes trade in goods and services, primary income and secondary income. A current account deficit occurs when current-account payments exceed receipts.

India's oil import bill is a major factor in its merchandise trade balance.

How oil imports affect the current account?

If global oil prices increase and the quantity imported remains unchanged, the value of India's oil imports may rise. This can widen the merchandise trade deficit and, other things being equal, put pressure on the current account.

Conversely, a sustained fall in oil prices can reduce import expenditure and improve the current account, all else being equal.

However, the current account also depends on exports, services trade, remittances, investment income and other transactions. Oil prices alone do not determine it.

Strategic autonomy in India's foreign policy

Strategic autonomy is India's ability to make independent foreign-policy decisions according to its national interests rather than automatically aligning with a particular power bloc.

In the context of Russian oil, it involves balancing:

1. Energy affordability and reliable supplies.
2. Long-standing defence and diplomatic ties with Russia.
3. Trade, investment and technology links with the United States.
4. Compliance with applicable international law and foreign sanctions.
5. Relations with Europe and other energy suppliers.
6. Long-term energy transition goals.
7. Strategic autonomy does not mean ignoring international obligations or rejecting cooperation. It means retaining the capacity to make informed choices while managing the consequences of those choices.

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OPEC and OPEC+

The Organization of the Petroleum Exporting Countries (OPEC) coordinates petroleum policies among its members. OPEC+ refers to the wider cooperation framework involving OPEC members and participating non-OPEC producers, including Russia.

Production decisions by these countries can affect global oil supply and prices, although demand, inventories, geopolitical developments and non-OPEC production also matter.

Brent crude and other oil benchmarks

Brent crude is a major international oil-price benchmark. Other benchmarks, including West Texas Intermediate (WTI), are also widely used.

The price paid by an Indian refinery can differ from a benchmark because of crude quality, freight, insurance, discounts and contract terms.

The Strait of Hormuz

Strait of Hormuz Crisis: Why Trump May Struggle to Restore Global Shipping Route - Oneindia News

The Strait of Hormuz connects the Persian Gulf with the Gulf of Oman and the Arabian Sea. It is a major route for global oil and gas shipments.

Disruption in this region can raise freight and insurance costs and increase concerns about energy supplies to India. It is distinct from the Russia-related sanctions issue but demonstrates why India needs diversified sources and routes.

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LNG and natural gas

Liquefied natural gas (LNG) is natural gas cooled to a liquid state to make transport by ship more practical. LNG trade is affected by liquefaction capacity, shipping availability, regasification terminals and long-term contracts.

Crude oil, refined petroleum products, pipeline gas and LNG have different supply chains and market characteristics. A waiver related to Russian crude or natural gas should not automatically be interpreted as a blanket exemption for every energy product or transaction.

Sanctions evasion and compliance

Sanctions evasion involves attempts to circumvent restrictions through prohibited transactions, concealed ownership, false documentation or other unlawful methods. Not every transaction with a sanctioned country's firms constitutes evasion.

Companies need to verify counterparties, beneficial ownership, product origin, financial institutions, shipping arrangements and the applicable legal restrictions.

What should India do? A way-forward framework

1. Diversify suppliers: Avoid excessive dependence on any single country or supply route.
2. Maintain strategic reserves: Strengthen emergency preparedness and develop transparent release and replenishment plans.
3. Improve sanctions compliance: Provide clear guidance to refiners, banks, insurers and shipping companies on applicable restrictions.
4. Strengthen diplomatic engagement: Discuss trade and energy concerns with the US, Russia, the European Union and other partners.
5. Protect macroeconomic stability: Monitor oil-price movements, inflation, the current account and exchange-rate risks.
6. Expand domestic energy capacity: Develop renewables, storage, grid infrastructure, energy efficiency and other viable domestic sources.
7. Promote predictable trade policy: Seek stable rules and consultations to reduce sudden disruptions to exporters and energy importers.
8. Accelerate the energy transition: Reduce vulnerability to fossil-fuel price shocks without compromising reliability or affordability.

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Prelims quick revision table

Term	Meaning
Economic sanctions	Restrictions designed to influence behaviour or impose economic pressure
Secondary sanctions	Measures seeking to penalise specified third-country dealings with sanctioned parties
Tariff	Tax or customs duty on goods crossing a border
Waiver	Exemption or suspension of specified requirements, usually subject to conditions
Crude oil	Unrefined petroleum extracted from underground reservoirs

Term	Meaning
Refinery	Facility that processes crude oil into petroleum products
LNG	Natural gas cooled into liquid form for storage and transport
Strategic petroleum reserve	Emergency crude-oil stocks intended to cushion supply disruptions
Current account deficit	Current-account payments exceeding receipts
Energy security	Availability, affordability, reliability and resilience of energy supplies
Strategic autonomy	Ability to make independent foreign-policy choices in pursuit of national interests
OPEC+	OPEC and participating non-OPEC oil-producing countries cooperating on oil-market issues

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