

The US embargo on Russian energy resources: the consequences for Russia

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On 8 March, President Joe Biden announced a ban on the import of Russian energy resources to the United States: crude oil, petroleum, petroleum products, LNG, coal and coal products. In addition, these sanctions will prohibit US entities from investing in the Russian energy sector, and from approving, financing, facilitating or providing guarantees for such foreign operations.

Commentary

- Washington's embargo will have negative economic consequences for Russian exporters, especially those dealing in oil products. In 2021, the volume of their sales to the US amounted to c. 23 million tonnes, which accounted for around 16% of the total exports of petroleum products from Russia. From the point of view of local industrialists, however, the embargo on crude oil imports will be less important. In 2021, its supplies to the US market amounted to c. 9.8 million tonnes, which accounted for around 4.4% of the share in oil exports from Russia. On the other hand, the ban on the import of Russian LNG, which has only been sold incidentally to the US in the last dozen or so years, will be of marginal importance. There are many indications that companies from Russia will try to redirect their exports of crude oil and petroleum products to the markets of Asian countries.
- Although the American restrictions have been formally limited to the US market, it is very likely that they will indirectly reduce the volume of Russian oil traded in other countries. A few days earlier, some trading companies had signalled that the Western sanctions would make it riskier to trade in Russian oil. Furthermore, some energy companies have already announced that they will halt or limit their purchases of gas from Russia. On 8 March, Shell and BP announced that they did not intend to enter into new deals to import Russian oil and gas. Earlier this month, the Finnish Neste refinery decided to replace oil from Russia with oil from other sources, due to the current situation and uncertainty on the market. For its part, the Swedish refinery Preem said that it would cease buying oil from Russia because of the risk from sanctions.
- The US restrictions also represent a form of pressure on other Western countries, in particular those in the EU, which are much more dependent on imports of Russian energy resources. The process Washington has initiated is in line with the plans which the European Commission announced on 8 March to significantly reduce gas imports from

Russia as of this year. Although it is not clear what the time frame is for EU customers to significantly reduce their dependence on Russian energy resources, the very fact of initiating this process will cause significant economic losses to Russian exporters, and consequently to the state budget.

- The new sanctions will have a negative effect on both the current and planned energy projects in Russia. Even before they were introduced, ExxonMobil announced it was withdrawing from the international consortium implementing the Sakhalin 1 project and ceasing any new ventures in Russia. It is very likely that this company's decision may significantly delay or even prevent Rosneft from implementing its plans to build its own gas liquefaction plant (the Far East LNG project). In the long term, the US restrictions on investment projects may also significantly hamper Russia's ambitious goals to develop its hard-to-recover fields, in particular those on the Arctic shelf. The barrier to this may be not so much the limitations related to financing this type of projects, but above all the lack of access to technology available to the Western firms which used to be partners of Russian companies.