

A blow to budget revenues: 18th package of sanctions against Russia

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On 18 July, following many weeks of discussion, the European Union succeeded in adopting the 18th package of sanctions against the Russian Federation that targets:

- **the energy sector and reduces the price cap** on Russian oil (effective from 3 September this year, from \$60 to \$47.6 per barrel), below which European companies are permitted to facilitate its export to third countries by sea. At the same time, it introduces a mechanism for semi-annual adjustment – the cap is to be set at 15% below the average export price of Russian crude. The United Kingdom has also joined this decision. Additionally, the EU has added a further 105 tankers from the so-called shadow fleet, along with entities from the Russian Federation to its sanctions list. Furthermore, as of 21 January 2026, an import ban will come into effect on petroleum products derived from Russian crude in third countries, with the exception of Canada, Norway, Switzerland, the United Kingdom, and the United States (although none of these countries import Russian oil). Formally, the exemption from Russian oil import sanctions previously granted to the Czech Republic has also been withdrawn. The EU has also imposed a complete ban on transactions (including the provision of services) related to the Nord Stream 1 and 2 (NS1 and NS2) gas pipelines, including their completion, operation, use, and maintenance;
- **the financial sector**, through the expansion of the number of Russian banks disconnected from the SWIFT system – from 23 to 55 – while simultaneously cutting them off from all transactions within the EU. A similar ban has been imposed on the Russian Direct Investment Fund, its affiliated entities, and selected projects it has financed. The provision of software used in the financial sector, as well as for production control and management, has also been prohibited. Further restrictions have been applied to two entities from the People's Republic of China offering crypto-asset services that support Russia in circumventing sanctions. At the same time, the legal basis for imposing similar sanctions on financial sector entities from other third countries has been expanded;
- **the industrial sector** – primarily the arms industry – has been targeted through the expansion of the list of entities subject to cooperation bans (including Chinese ones) and of the range of high-tech goods embargoed for export to the Russian Federation, including CNC (computer numerical control) machines. The total value of products

affected by these restrictions is estimated at €2.5 billion;

- **thirteen individuals** (e.g. the captain of a tanker from the so-called shadow fleet; the co-owner of an oil trading company based in the United Arab Emirates) and **forty legal entities**, many of them outside Russia (such as the Vadinar refinery in India, in which Rosneft holds nearly a 50% stake; a shipowner registered in Mauritius; and tanker operators based in Hong Kong and the UAE), have been added to the sanctions lists. Consequently, their assets in the EU have been frozen, and the listed individuals are subject to travel bans.

The adopted sanctions package enables the further curtailment of Russia's revenues from oil and petroleum product exports, which are vital to the Russian Federation's budget. In this context, the tightening of financial restrictions on Russia is particularly important, especially against entities from third countries that facilitate its cross-border transactions. In June 2025, Russia's oil and gas budget revenues were 34% lower than in June 2024, and over the first half of the year they were down by more than 16%. The price of a barrel of Russian Urals crude averaged just under \$60 in June, despite the overall increase in oil prices following Israel's attack on Iran.

Commentary

- **Growing difficulties in maintaining Western unity on sanctions policy towards Russia are undermining the effectiveness of the measures being implemented.** The European Commission proposed the 18th sanctions package at the beginning of June, but several factors delayed its adoption. First, the G7 summit failed to secure agreement from the United States and Japan on lowering the price cap on Russian oil, narrowing the coalition on this issue to the EU and the United Kingdom. Furthermore, in July, Japan – for the first time in two and a half years – accepted a shipment of Russian crude oil from the Sakhalin-2 project (a by-product of LNG production). The 18th package also faced strong opposition from Slovakia. Bratislava's objection was not directed at the content of the package itself, but rather at a regulation proposed by the European Commission calling for a complete phase-out of oil and gas imports from Russia by EU member states by 2028 (see [‘The European Commission proposes that the EU permanently cease gas imports from Russia’](#)). The withdrawal of Slovakia's veto of the latest sanctions package became possible after the country secured EU guarantees for compensation in the event of a significant rise in gas prices following the termination of cooperation with the Russian Federation. However, the details of the agreement remain undisclosed. Moreover, Bratislava has threatened to continue blocking future sanctions unless its demands are met.
- **The reduction of the price cap on Russian oil may lead to an increase in transport costs.** Due to falling global oil prices, for most of 2025 Russian crude was sold below the previous cap. This effectively allowed European entities (such as shipping companies and insurers) to legally handle the transport of Russian oil. According to the research centre CREA, by June this year, 56% of Russian oil was being transported by companies from G7+ countries – mainly European – compared with just 35% in January. The resulting increase in competition contributed to a drop in freight rates. The refusal of the

United States and Japan to join the cap reduction will have only a limited impact on the effectiveness of the measure. This is because most of Russia's oil exports pass through ports on the Baltic and Black Seas, making the ban on cooperation with European entities the most painful restriction for the Russian Federation.

- **The introduction of a ban on transactions related to Nord Stream 1 and 2 is an unprecedented move that effectively prevents their activation without the EU's approval.** Without the lifting of these restrictions, it will be prohibited to conclude gas transmission contracts and for European companies to participate in pipeline maintenance. Gas has not flowed through NS1 since August 2022, and NS2 was never put into operation. Additionally, in September 2022, explosions damaged both lines of NS1 and one of NS2. For the first time, EU sanctions directly target transmission infrastructure and effectively serve as a response to recent proposals to resume gas transport via this route, including considerations by a US investor to acquire NS2.
- **The European Union is stepping up pressure on entities from third countries, which contributes to the growing effectiveness of its sanctions.** The introduction of a ban (effective from January 2026) on the import of petroleum products derived from Russian crude will primarily affect the refining sectors of India and Turkey, potentially leading to reduced oil shipments from the Russian Federation. However, the success of this measure will depend on the enforcement mechanisms and supply monitoring systems developed by EU member states. The inclusion of an Indian refinery owned by Rosneft in the sanctions list demonstrates the EU's determination to put an end to this practice. Moreover, due to Western pressure on countries traditionally offering vessel registration to so-called shadow fleet tankers, states such as Liberia, the Marshall Islands, and Panama are increasingly withdrawing services for sanctioned tankers. This, in turn, raises the cost of operating such vessels and forces owners to undertake the time-consuming process of re-registering them under a new jurisdiction. A particularly positive development is the EU's readiness to impose sanctions on financial sector entities in third countries that assist Russia in circumventing restrictions. Thus far, financial sanctions have proven to be the most effective tool, making the further development of this instrument by the EU especially important, including for enforcing trade restrictions.