



Touché—the EU’s Embargo on Russian Oil

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After lengthy negotiations, the EU Member States approved the scope of the sixth package of sanctions against Russia. The restrictions include a ban on imports of Russian oil and are intended to cut off the aggressor from key revenues in trade with the West. The use of this sanctioning instrument, while deemed necessary, is nevertheless problematic for many countries, as reflected by the numerous derogations. The consequences of implementing these restrictions will be felt not only by Russians but also by EU citizens, and their actual effectiveness can be assessed only in a few months.

What is the aim and what is included in the sixth package of sanctions against Russia?

The latest round of sanctions adopted by Council decision on 3 June 2022 is intended to deprive Russia of the financial means to continue its aggression against Ukraine and prevent it from circumventing previously adopted sanctions. As a result, the EU cut off Russia from European accounting, consulting, and public relations services. To increase the isolation of the Russian financial sector, additional Russian banks, including Sberbank, were removed from the SWIFT system. To protect European public order while respecting the Charter of Fundamental Rights, the EU closed Russian propaganda channels, including Rossiya RTR/RTR Planeta, Rossiya 24/Russia 24, and TV Centre International. The most important element of the package is the ban on the import, purchase, or transfer to Member States of crude oil and petroleum products from Russia. The aim is to deprive Russia of income from the oil trade, which currently accounts for more than half of its budget revenues. The ban applies to deliveries by sea but is subject to exceptions (e.g., for Bulgaria and Croatia) and foresees transition periods (e.g., six months for existing contracts).

Where does the formula for the oil embargo come from?

The formula for the embargo reflects the concerns of some Member States about the security of oil supplies to the EU and the scale of the economic consequences of the elimination of Russia from the European fuel market. In 2021, the EU imported from Russia oil worth €48 billion and

petroleum products worth €23 billion. Russian resources satisfied about 30% of the European import demand, and the EU was Russia’s largest outlet market (about 45% of exports). The dependence of EU countries on Russian gas varies, from Slovakia at 95%, through Poland, at 65%, to Austria at less than 10%. Russian oil reaches the EU mainly by sea, and only to a limited extent (up to 10%) by pipelines, including through the Druzhba oil pipeline running through Poland. It was therefore necessary for the Council to take into account the individual national interests for all 27 countries and develop a consensus over nearly a month of negotiations.

How will the embargo on oil imports affect Russia?

In the short term (at least due to the transition periods), the ban will most likely not affect the aggressor’s combat capability, but in the longer term it may deepen Russia’s economic crisis. The real impact of the EU embargo on Russia, however, will depend on its cooperation with other global market participants and on future oil prices as a consequence of the sanctions. Although OPEC+ countries (of which Russia is a part) decided on 2 June 2022 to increase the supply of oil to stabilise the global market, Saudi Arabia has raised its prices. A persistent price increase (+60% compared to January this year) and temporary price fluctuations since the announcement of subsequent sanctions have compensated Russia for losses in sold oil volumes. The high oil price also leaves Russia a margin for granting discounts to alternative importers, namely China or India, which are eager to buy up the oversupply of the

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Russian resources. To limit Russia's ability to redirect supplies from Europe to other markets and profit from it, the EU has introduced a ban on insuring and financing oil transport by sea (which European companies specialise in), which will take effect in six months.

How will the oil embargo impact EU countries?

The negotiators' priority, apart from helping Ukraine, was to ensure the security of oil supplies to all Member States. This was achieved, among others, through the derogations from the embargo, intensification of measures for energy solidarity, as well as intensive EU energy diplomacy. Although there will be no shortage of oil (e.g., alternative imports using the Polish Naftoport can cover the demand of

Polish and some German refineries), the EU's plan to become independent of Russian energy resources and accelerate the energy transformation (REPowerEU) is associated with high costs. The rising and volatile oil prices are accelerating overall inflation, which makes it more difficult to recover from the pandemic-induced recession. One should expect a decline in the competitiveness of European enterprises, and not only for refineries and the shipping sector, which will be most affected by the embargo. European citizens will face further increases in the prices of fuels, food, energy, and more. There is also a risk of Russia taking retaliatory measures, such as a further restriction of gas supplies to the EU. However, Poland, which actively lobbied for the embargo, no longer imports this fuel from Russia.