EU SANCTIONS AGAINST RUSSIA - THE IMPACT ON THE RUSSIAN AND EU MARKETS / Viktória Jánošová

Abstract: The nature of sanctions imposed on Russia, especially by the European Union, goes beyond mere punitive measures and takes on a multifaceted character with global repercussions. These sanctions are designed not only to exert economic pressure on Russia but also to serve as a diplomatic tool to influence behavior and promote adherence to international norms. The global impact of these sanctions extends beyond the direct consequences felt within Russia and the EU, touching various aspects of the world economy and geopolitical landscape. This paper analyses the impact of sanctions against Russia adopted following Russia’s military aggression against Ukraine and its consequences in the EU and Russian economy. The author will primarily delve into shifts in import and export dynamics among these nations within the specified timeframe, with a particular emphasis on the oil and gas market. Within this framework, the focus will be directed towards discerning anticipated economic projections and their implications.

Key words: Russian Invasion of Ukraine; EU Sanctions against Russia; Economic Impact; Oil and Gas Market

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1. INTRODUCTION

Following Russia’s widely condemned invasion of Ukraine, numerous countries have imposed sanctions and expanded existing sanctions. These measures have had repercussions not only on Russia’s economy but also on the global economy. Sanctions are employed as a coercive strategy to advance specific policy objectives, in this instance, aimed at diminishing Russian influence across various domains. They also serve as a non-military alternative, given that engaging in a full-scale war is categorically ruled out. The deployment of troops to Ukraine or the enforcement of a no-fly zone over Ukraine could potentially escalate into a direct confrontation with Russia. Additionally, Ukraine faces a significant disadvantage due to its lack of affiliation with any military alliance. Despite the establishment of formal relations between NATO and Ukraine in 1992, Ukraine has yet to attain full NATO membership. Russia has consistently resisted Ukraine’s and other neighbouring countries’ aspirations to join the alliance, primarily due to concerns about territorial encroachment. As a result, Ukraine remains categorised as a NATO partner country, meaning it does not benefit from the security guarantees outlined in the Alliance’s founding treaty.

The allegiance of the European and Western community is unmistakably evident. Voices, including that of Josep Borrell, convey a sense that we are facing some of Europe’s most challenging times since World War II. Beyond being a clear violation of
international law, it also infringes upon the fundamental principles of human coexistence. It is undoubtedly a situation that demands urgent and decisive action to address the unfolding challenges.¹

What can we do to help Ukraine without direct military action and aggravating the situation between the West and Russia even more? It is necessary not only to strengthen Ukraine, but also to weaken Moscow’s war effort. In addition to political, military, financial and humanitarian support for as long as necessary, the imposed sanctions must demonstrate their effectiveness. However, there is no possibility for European Union to sever all economic ties with Russia immediately, so the sanctions had to be gradual. Since February 2022, the EU massively expanded restrictive measures against Russia through adopting eleven separate packages of restrictive measures, and actively developing a twelfth package of anti-Russian sanctions. The sanctions list was extended by a significant number of persons and entities and adopted unprecedented measures with the aim of significantly weakening Russia’s economic base, depriving it of critical technologies and markets, and significantly curtailing its ability to wage war.²

It is important to note, that these sanctions do not have only a severe impact on the Russian economy and financial system but also have a profound impact outside of Russia. It is significant due to the size of Russia’s economy, which was before the war the 11th largest in the world and Russia’s integration in the global economy. Russia has also been a key global supplier of natural gas, oil and several metals such as titanium, aluminium, nickel and chemical gases used in semiconductor production, wheat, and fertilizers, among other commodities. Global economy, which was still struggling to recover from the COVID-19 pandemic received another shock from Russia’s isolation. Results of sanctions have contributed to disruptions in global supply chains, higher global commodity prices, and a slowdown in global economic growth. The EU remains to the coalition imposing sanctions, but at the same time faces the greatest potential economic disruption as Russia’s strongest economic partner. However, the EU was always heavily dependent on energy imports from Russia, especially natural gas.³

Current EU sanctions against Russia caused enormous instability in the oil and gas market in Europe. Due to inflation and rising prices in all areas, there is a sceptical mood regarding the sanctions in many European countries. Especially in countries, which due to their geographic situation suffer from a specific dependence on Russian supplies and have no viable alternative options. It is important to establish a clear understanding of the purpose and effectiveness of sanctions, with an added focus on comparing their consequences in the EU and Russia. This paper aims to elucidate that the repercussions of sanctions have inflicted severe damage on the Russian economy, rendering the situation there significantly more dire than in the EU.

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2. SANCTIONS

Sanctions *stricto sensu* in international law are coercive measures taken *ad normam* (in response to a violation of international law) as part of a decision by a competent social organ. In a broader context, sanctions in international law encompass measures imposed by states, international organisations, or coalitions against another state, entity, or individual, due to behaviour considered objectionable or contrary to established international norms, laws, or agreements. These measures serve as a non-military diplomatic tool to influence the behaviour of the targeted entity and encourage compliance with international law and accepted standards of conduct (Asada, 2020, pp. 4-5).

The EU had imposed a series of sanctions against Russia in response to various geopolitical events and actions taken by the Russian government, such as the illegal annexation of Crimea and Sevastopol in 2014, the non-implementation of the Minsk agreements in 2014-2015 and the deliberate destabilisation of Ukraine in the context of the war in February 2022.

Presently, the EU imposes three types of sanctions on Russia. The first targets individuals and entities deemed responsible for violating Ukraine’s sovereignty. The second involves restrictive measures related to Crimea and Sevastopol, while the third category encompasses broader economic sanctions against Russia. The first type is individual sanctions against specific citizens and entities guilty, according to the European Union, of violating the sovereignty and territorial integrity of Ukraine. The initial sanctions were enacted on 17 March 2014, through the Council’s adoption of Decision 2014/145/CFSP. This decision mandated travel restrictions and the freezing of funds and economic resources for specific individuals deemed responsible for actions that undermine or threaten the territorial integrity, sovereignty, and independence of Ukraine. The second category of sanctions pertains to restrictive measures against Crimea and Sevastopol, having been ratified concurrently with Regulation (EU) No 269/2014/CFSP, which delineates restrictions against actions undermining or threatening the territorial integrity, sovereignty, and independence of Ukraine. In this instance, the Council, on 23 June 2014, adopted Decision (EU) No 2014/386/CFSP in response to the peninsula’s accession and complete integration into Russia. The third category comprises anti-Russian economic sanctions, enacted on 31 July 2014, through Council Decision (EU) No

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512/2014. These measures were implemented in the aftermath of the Malaysian Boeing crash, reflecting Russia’s actions destabilising the situation in Ukraine.9

The EU massively expanded the sanctions after February 2022 in response to the illegal annexation of Ukraine’s Donetsk, Luhansk, Zaporizhzhia and Kherson regions resp. after the recognition of the DPR10 and the LPR11 and the start of hostilities by the Russian Federation on the territory of Ukraine. Yet, the restrictive measures instituted in 2022 do not stand as an autonomous category of sanctions; rather, they constitute an integral component of the economic anti-Russian sanctions established in July 2014 through Council Regulation (EU) No 833/2014.12 This regulation forms the basis for all subsequent sanctions packages implemented in response to the invasion of Ukraine in 2022 (Voynikov, 2022, p. 3). The continuous integration of sanctions within this established framework demonstrates the EU’s strategic and comprehensive approach to addressing ongoing geopolitical crises and safeguarding the principles of international law.

These measures were implemented to address concerns regarding Ukraine, specifically actions undermining or threatening its territorial integrity, sovereignty, and independence, as well as human rights violations and other geopolitical developments. Currently, the primary EU restrictive measures against Russia apply to almost 1800 individuals and entities combined. In June 2023, the EU adopted its eleventh package, sanctioning additional 71 individuals and 33 entities.13 Sanctions on individuals involve travel bans and asset freezes, targeting those believed to be engaged in activities violating international law or norms. These restrictions include travel prohibitions to certain countries, preventing listed individuals from entering or transiting through EU territory by land, air, or sea, and freezing assets held in foreign jurisdictions. This entails the freezing of all accounts belonging to the listed persons and entities in EU banks. The prohibition extends to any direct or indirect making of funds or assets. Presently, there are 21.5 billion EUR of assets frozen in the EU, and 300 billion EUR of assets from the Central Bank of Russia are blocked in the EU and G7 countries.14 The individuals targeted by these sanctions include prominent figures such as Russia’s President Vladimir Putin, Minister for Foreign Affairs Sergey Lavrov, former Ukrainian President Viktor Yanukovych, Yevgeny Prigozhin,15 and leaders of the Wagner group. Additionally, members of the Russian State Duma, the National Security Council, the Federation Council of the Russian Federation, ministers, governors, local politicians (including the Mayor of Moscow), high-ranking officials, military personnel, influential business figures, oligarchs, and individuals...

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10 Donetsk People’s Republic.
11 Lugansk People’s Republic.
14 The Group of Seven is an informal grouping of seven of the world’s advanced economies, including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States, as well as the European Union.
15 Prigozhin, a Russian mercenary leader and oligarch, openly criticised the Russian Defence Ministry for corruption and false reasons behind the war in Ukraine. On June 23, 2023, he launched a rebellion against the Russian military leadership. Two months later, on August 23, 2023, Prigozhin was killed in a plane crash in Tver Oblast, north of Moscow, along with nine others.
associated with pro-Kremlin and anti-Ukrainian propaganda are subject to these measures.\(^6\)

There are several more individuals being sanctioned due to responsibility or involvement in operations such as atrocities committed in Bucha and Mariupol, deportation and forced adoption of Ukrainian children, missile strikes against civilians and critical infrastructure, recruitment of Syrian mercenaries to fight in Ukraine, manufacture and supply of drones and looting of Ukraine’s cultural heritage. Sanctioned entities includes banks and financial institutions, political parties, armed forces and paramilitary groups, companies in the aviation, shipbuilding and machine building sectors, companies in the military and defence sectors, the movement All-Russia People’s Front, media organisations responsible for propaganda and disinformation, the Russia-based private military entity Wagner Group and the Russian media organisation RIA FAN.\(^7\)

Another part of economic sanctions is a number of trade restrictions on Russia, which are linked to technology and defence restrictions or to import of services. These sanctions can also limit the export of certain technologies, especially those with potential military applications, to the sanctioned country. The list of banned products is based on concept of targeted sanctions. These sanctions are designed to minimise negative impacts on the general population and instead focus on the individuals or entities responsible for the objectionable activities. It follows that the export and import restrictions exclude products primarily intended for consumption and products related to health, pharma, food, and agriculture, in order not to harm the Russian population. At the same time, these are restrictions designed to maximise the negative impact of the sanctions for the Russian economy while limiting the consequences for EU businesses and citizens (Voynikov, 2022, p. 3). Since February 2022, the EU has banned €91.2 billion in imported goods and over €43.9 billion in exported goods to Russia, which means that 58% of imports and 49% of exports are currently sanctioned, compared to previous years.\(^8\)

The oil ban, a pivotal component of the sixth package of sanctions outlined in Council Regulation (EU) No 879/2022 on June 3, 2022, is a stringent measure prohibiting the acquisition, import, or transfer of seaborne crude oil and specific petroleum products from Russia to the EU. This restriction, implemented to address the geopolitical situation, marks a significant step in curbing key energy imports and has far-reaching implications for global economic dynamics. These restrictions apply for crude oil from 5 December 2022 and for other refined petroleum products from 5 February 2023. Those EU member states that, due to their geographic situation, suffer from a specific dependence on Russian supplies and have no viable alternative options were given a temporary exception for imports of crude oil by pipeline.\(^9\)

In conclusion, the EU has implemented a comprehensive set of sanctions against Russia, targeting individuals, entities, and economic activities deemed responsible for actions undermining Ukraine’s sovereignty. The multifaceted approach includes individual sanctions, restrictive measures related to Crimea and Sevastopol, and broader

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\(^7\) Ibid.

\(^8\) Ibid.


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economic sanctions. Notably, the ban on seaborne crude oil and specific petroleum products, implemented in the sixth package of sanctions, has emerged as a focal point with profound global economic repercussions. This particular measure stands out as the most extensively discussed, reflecting its substantial impact on the world economy. This measure underscores the EU's commitment to address the geopolitical situation and its readiness to implement impactful restrictions on key energy imports.

3. THE ECONOMIC IMPACT

In 2021, Russia ranked among the world’s top three oil and gas producers, standing alongside Saudi Arabia and the United States and played a significant role in supplying approximately 25% of the oil and over 43% of the natural gas consumed by the EU. When President Putin initiated the invasion of Ukraine in February 2022, it was not feasible for the EU to completely cut off all economic connections with Russia at once. As a result, the EU continued to contribute to Moscow's revenue by purchasing fuel from Russia. The imposed sanctions were introduced gradually, with notable exemptions, as Western nations sought to manoeuvre through uncharted territory.

However, President Putin had been anticipating the potential for an economic showdown with the West for quite some time. Alexey Kalmykov, a journalist of the BBC’s Russian service points out that Putin had been making preparations for this economic conflict since 2014 when sanctions were first imposed on him in response to his initial actions in Ukraine and the annexation of Crimea. Over the past eight years, Russia has amassed significant foreign exchange reserves. It achieved this by selling more fossil fuels than ever before and reinvesting the profits in expanding its pipeline infrastructure. Additionally, Russia made strategic investments in Western technology, assets, and critical infrastructure, including gas storage facilities and oil refineries within the EU. Despite the absence of a complete embargo, Russia continued to reap substantial profits by selling fossil fuels to Europe, especially as prices soared and oil supplies remained uninterrupted. The Kremlin also turned gas into a weapon by reducing supplies to Europe by 80%. This context underscores the calculated measures taken by Russia in anticipation of an economic showdown, showcasing its strategic preparations and the complexity of the situation.

As a response, the EU has enacted export restrictions of goods to Russia, impacting approximately a third of their total value. These restrictions primarily target transport equipment, making up over 45% of the banned products’ total value, followed by chemicals (19%), electronics (12%), and machinery (11%). The extent to which these sanctions impact different industries varies significantly, with intermediate goods being more affected than final products (40% versus 23%, respectively). The EU’s exports of restricted products to Russia had been steadily decreasing and were nearing zero. Simultaneously, exports of non-sanctioned items saw a slight increase in the last quarter of 2022. Additionally, exports from countries that did not impose sanctions on Russia started rising in April-May 2022, according to both Russian customs data and mirrored trade statistics. This increase applied to both sanctioned and non-sanctioned products. In the final quarter of 2022, when EU exports of sanctioned products nearly stopped

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completely, exports from non-sanctioning countries exceeded pre-war levels by a small margin (Borin et al., 2023). This dynamic highlights the nuanced outcomes of the EU’s sanctions, affecting different sectors in varying degrees and shaping the overall trade landscape with Russia.

In recent times, Russia’s contribution to the European Union’s imports of petroleum oils and natural gas has steadily declined. Starting from the second quarter of 2022, this trend has persisted. Specifically, imports of petroleum oils from Russia have seen a substantial decrease, plummeting from a monthly average of 8.7 million tonnes in the second quarter of 2022 to just 1.6 million tonnes in the second quarter of 2023. This marks an 82% decrease in imports from Russia. In contrast, imports from sources outside the EU, excluding Russia, have shown an opposite trajectory, increasing by 5.8 million tonnes. These imports have risen from 31.5 million tonnes to 37.3 million tonnes. In the second quarter of 2023, EU natural gas imports experienced a notable decline, amounting to a 17% reduction in net mass compared to the same quarter in 2022. This decrease appears to be in line with the EU’s commitment to reducing gas consumption as part of its reduction plan. Specifically, imports of natural gas from Russia witnessed a decrease during this period, dropping from an average monthly volume of 5.1 million tonnes in the second quarter of 2022 to 2.5 million tonnes in the second quarter of 2023.22

The sanctions imposed bilaterally have had both direct and indirect consequences on the trade of oil and natural gas. The impact is now visible in a growing diversification of energy suppliers. During the second quarter of 2022, Russia held the top position as the primary supplier of petroleum oils to the EU, accounting for 15.9% of the total imports. However, by the second quarter of 2023, Russia’s ranking had dropped significantly to 12th place, with a reduced share of just 2.7%. This marks a substantial decline of 13.2% to the previous year. Conversely, Norway witnessed a notable increase of 3.5%, reaching 13.7% in share. Kazakhstan also experienced growth, with an increase of 3.2%, reaching 10.2%. The United States and Saudi Arabia saw their shares rise by 2.1% and 2.3%, respectively, reaching 13.6% and 9.0%. Additionally, Libya emerged as a significant partner, contributing to 8.1% of the European Union’s imports of petroleum oil.23

A similar trend was observed in the case of natural gas in its gaseous state, as Russia’s share declined by 14.5% to 13.8% of the total EU imports. In contrast, Algeria (+9.3%) and Norway (+6.2%) saw significant increases in their shares. During the second quarter of 2023, Norway emerged as the EU’s top natural gas supplier, accounting for 44.3% of total EU imports, followed by the United Kingdom at 17.8% and Algeria at 16.5%. Regarding liquefied natural gas (LNG), the United States maintained its position as the leading supplier to the EU in the second quarter of 2023, with a substantial share of 46.4% of total EU imports. Russia followed at 12.4%, with Qatar at 10.9%, Algeria at 9.9%, and Nigeria at 5.1%. Among these suppliers, Algeria and Nigeria were the only ones to experience an increase in their shares, with gains of 5.2% and 1.0%, respectively, compared to the second quarter of 2022. Conversely, the shares of the United States, Russia, and Qatar decreased by -2.8, -2.7, and -1.1 percentage points, respectively. Notably, Norway and Oman also emerged as important LNG suppliers, contributing shares of 3.3% and 2.9%, respectively.24

23 Ibid.
24 Ibid.

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The decline in natural gas imports reflects the EU’s commitment to environmental goals. These trends showcase the lasting impact of geopolitical events on energy trade dynamics and the EU’s proactive approach to adapt its energy resource strategies. Bilateral sanctions have significantly reshaped the EU’s energy supply landscape, prompting a strategic shift to diversify sources in response to evolving political and economic conditions. This diversification is a calculated response to geopolitical events and trade constraints, aiming to secure energy resources from a more varied set of partners. The combination of supply chain disruptions, the challenge of rapid diversification, global market dynamics, and broader economic impacts contributed to higher oil and gas prices in Europe post-sanctions on Russia. The reduction in Russian energy exports created a supply deficit, and the imbalance with constant or increasing demand exerted upward pressure on prices. This fundamental economic principle of supply and demand dynamics elucidates how disruptions in the energy supply chain can lead to elevated prices in the affected region.

In summary, when the European Union's export bans on goods to Russia were fully implemented, there was a significant and noticeable reduction in Russia’s overall imports. It is assumed that Russian markets were unable to completely substitute the absence of EU products with alternatives from other sources. The extent of replacing imported mid- and high-tech products with domestic alternatives is notably lower than the average across different product categories. The overall statistics mask significant variations at the individual product level, with some products showing more successful substitution than others. One might anticipate that Russia would prioritise the replacement of high-tech products, particularly given the increasing military requirements. However, this has proven to be challenging, primarily because before the conflict, sanctioned countries supplied more than half of Russia’s imports in this category. Consequently, the effectiveness of import substitution for mid- and high-tech goods has been limited, while these products have borne the brunt of the sanctions. Imports from countries that did not impose sanctions remained relatively stable. In contrast, imports from the EU and other sanctioning countries plummeted by over 80%, resulting in a significant shortage of approximately $7 billion in just one quarter (Borin et al., 2023).

While semiconductors and electronic integrated circuits make up just 1% of Russia’s total import value, their significance in various industries, especially military applications, cannot be overstated. With the imposition of export bans by the EU and other sanctioning countries, exports of these critical components to Russia came to a complete halt, while imports from non-sanctioning nations experienced an increase. However, it’s essential to note that the extent of substituting these imported semiconductors varies between two sources of data. Mirror trade statistics indicate rather modest import substitution, resulting in an overall gap of nearly $300 million in Russian semiconductor imports. In contrast, Russian customs data reveal a substantial spike in imports from non-sanctioning countries, predominantly attributed to heightened imports from China, a trend not reflected in mirror statistics. Intriguingly, a significant portion of the increase in Russian imports from China lacks a reported origin. At the end of 2022, the share of semiconductors with an unknown production origin was negligible. In 2023, it has become a substantial portion, accounting for nearly half of Russia’s semiconductor imports. This strongly implies that these goods may have been manufactured in other countries, potentially including those that have imposed sanctions (Borin et al., 2023).

The question arises whether have EU products been re-routed by other countries towards Russia? While the general level of import substitution has shown constraints, estimated at around 10% to 25%, it is noteworthy that certain EU products affected by
export restrictions may have found their way into Russia through another countries. One potential path taken by these exports can be identified by examining the significant increase in both imports from the EU and exports to Russia for specific countries. For instance, countries like Turkey, Kazakhstan, and Armenia have experienced a notable upswing in both these figures. Additionally, other neighbouring countries and even Serbia could potentially serve as routes for these goods to reach Russia. Furthermore, it's important to note that products exported by the EU, originally intended for third countries based on EU customs data, could potentially be redirected to Russia without even being officially recorded as imports in those third countries. This phenomenon, often termed as 'ghost trade,' has witnessed an increase in discrepancies between what the EU reports as exports and what third countries report as imports. This trend is particularly notable in the case of certain countries, such as Kazakhstan and Armenia. While preliminary analysis supports the existence of these discrepancies at the aggregate level, a more detailed examination of the data reveals that the increase in discrepancies is consistent for both products subject to sanctions and those that are not. This suggests that there may be factors beyond just evading sanctions at play here (Borin et al., 2023).

From a legal standpoint, the question of potential re-routing of EU products to Russia through intermediary countries raises concerns regarding compliance with the EU’s export restrictions. If EU products subject to export restrictions are indeed finding their way to Russia through third countries, it could be viewed as circumvention of the sanctions regime. This may entail violations of the EU’s sanctions laws and regulations, which are designed to restrict the flow of specific goods to Russia in response to geopolitical events. The concept of ‘ghost trade,’ where exports intended for third countries are redirected to Russia without proper recording, poses additional legal challenges. Such practices could undermine the effectiveness of the EU’s sanctions framework and may warrant further legal scrutiny and investigation to ensure the integrity and enforcement of export controls. Additionally, the discrepancies noted in trade data necessitate a thorough legal examination to discern whether these deviations result from intentional circumvention, logistical disruptions, or other factors. Addressing these legal intricacies is crucial to maintain the integrity and efficacy of the EU’s sanctions regime.

However, while President Putin’s short-term strategies have proven profitable, most economists concur that they are not sustainable in the long run, highlighting potential vulnerabilities. The introduction of an oil price ceiling on December 5, along with the European embargo on Russian oil, has not been utilised yet, largely due to the fact that Urals oil from Russia has been more competitively priced. Presently, a barrel of Urals oil, whose value has declined following the EU’s ban on Russian oil imports by sea, is being exported for approximately $50. According to a study by Crea from January 2023, Moscow is incurring daily losses of approximately $175 million in fossil fuel exports due to the sanctions. Nevertheless, Russia has managed to find new customers for its energy products.

As for Russian exports over the past year, Moscow has successfully shifted its focus towards exporting oil and gas to Asian markets - the only alternative to the EU

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market. The primary customers of Russian oil are now predominantly China, India, and Turkey. These countries have been procuring Russian oil at substantial discounts, acquiring it at prices significantly below the global benchmark, Brent crude oil. Since the onset of the Russian invasion, India, China, and Turkey have substantially boosted their purchases of Russian oil. At the beginning of 2022, Russia contributed to less than 2% of India's oil imports. However, the current trend suggests that it is steadily progressing towards becoming India's primary and most significant source of oil supply. As a collective, these nations now represent a significant majority, accounting for 70% of all Russian sea-borne oil flow (Menon, 2023).

Despite short-term gains, economists express concerns about the sustainability of President Putin's strategies, emphasising potential long-term vulnerabilities. The imposition of an oil price ceiling and the European embargo on Russian oil, though not yet activated, poses challenges. The decline in Urals oil value and daily losses in fossil fuel exports, as indicated by a Crea study, underscore the economic impact of sanctions. Russia's ability to find new customers, particularly in Asian markets demonstrates adaptive measures. The shift toward these markets, with substantial discounts offered, has reshaped Russia's oil export dynamics.

Regarding gas exports, Russia initiated a gas dispute by significantly reducing gas supplies to Europe following its military actions in Ukraine. These reductions, disguised as technical and commercial reasons, aimed to pressure EU nations into withdrawing support for Kyiv. Concurrently, the EU had already been planning to decrease its reliance on gas, as illustrated by its Fit for 55 plan introduced in the summer of 2021. This plan outlined substantial reductions in greenhouse gas emissions by 2030, which, in turn, would reduce dependence on fossil fuels, including Russian gas. Prior to the Russian military intervention in Ukraine, there was a recognised need to identify fresh markets for Yamal gas. China emerged as the primary choice for this endeavour. A memorandum for a pipeline from Yamal to China was initially signed during Putin's visit to China in 2006. However, discussions on the project's specifics remained stagnant until 2022, when it transitioned from a potential business opportunity to an imperative necessity. It's worth mentioning that in 2019, Russia successfully exported a substantial volume of 165 billion cubic meters of pipeline gas to Europe and Turkey through the Siberia pipeline. However, the projected capacity of Power of Siberia 2 is notably smaller, standing at only 50 billion cubic meters (Vakulenko, 2023).

In conclusion, it can be inferred that Russian crude oil export volumes are not anticipated to experience a substantial impact due to the redirection of trade from sanction-imposing countries to those that have not imposed sanctions. As a result, they have effectively shifted their focus from the EU market to the Asian market. This strategic shift has allowed them to circumvent the prevailing oil price ceiling set by the G7.

Sergei Vakulenko, an energy expert at the Carnegie Endowment for International Peace, a Washington-based think tank, emphasised that Russia continues to wield substantial influence in the global energy market. He underscored the challenges of opposing such a major player, acknowledging that it is not a task that can be accomplished in a day. Vakulenko further discussed the transition of gas exports from Europe to the Chinese market and acknowledged that even if Power of Siberia 2 is successfully put into operation, it will not be capable of completely compensating for the loss of the EU market. From a profitability perspective as well, the project falls behind

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The plays into military with lower particularly sanctions to the exports. This roughly estimated pipeline average Power of Siberia pipeline, which delivers gas from eastern Siberia to China. The projected average revenue for gas transported to the Chinese border via the Power of Siberia 2 pipeline would be approximately $170 per 1,000 cubic meters. By factoring in the estimated pipeline length and tariff calculations, the transportation cost amounts to roughly $97 per 1,000 cubic meters, resulting in a netback of $73 per 1,000 cubic meters. This represents a significant drop compared to the previous netback of $135-155 from sales to Germany (Vakulenko, 2023). The contrast in pricing formulas and estimated costs underscores the economic challenges Russia faces in transitioning its energy exports.

Notably, the International Monetary Fund (IMF) has issued a caution regarding the repercussions of Western sanctions on Moscow, stating that their full impact is yet to be realised. The Russian economy has significant reliance on capital goods from Western countries and it is expected that as time progresses, the effects of these sanctions will become more pronounced. Moreover, when looking at the medium term, particularly in 2027, the IMF’s projections indicate Russia’s economic output to be 7% lower compared to pre-war levels. This suggests that the conflict is likely to exert a lasting and substantial impact on the Russian economy, with significant consequences (Marrow, 2023).

The Statista portal has also presented comprehensive data over a broader time span. In 2021, Russia’s GDP growth was at 5.62%. However, following the intervention in Ukraine in 2022, it decreased to -2.05%. Projections for 2027, as indicated by Statista, anticipate a further decline, with estimates falling below 0.8%. This means that both the International Monetary Fund (IMF) and Statista project a considerable and enduring negative impact on Russia’s economy due to Western sanctions and indicating a downward trend in GDP growth.

4. CONCLUSION

In the wake of Russia’s invasion of Ukraine, the global community has responded with widespread sanctions, aiming not only to curtail Russia’s economic activities but also to diminish its influence across various domains. These measures serve as a non-military strategy to enforce specific policy objectives and avoid escalating the conflict into a full-scale war. The geopolitical landscape, particularly NATO-Ukraine relations, plays a crucial role, as Ukraine’s lack of NATO membership exposes it to vulnerabilities. The gravity of the situation is underscored by voices like Josep Borrell, who equates the events to some of Europe’s darkest moments since World War II, demanding urgent and decisive action.

Addressing the crisis in Ukraine without direct military involvement poses challenges and necessitates a multifaceted approach. Supporting Ukraine’s resilience

while weakening Moscow’s war efforts is imperative. The sanctions, introduced gradually by the EU since February 2022, have played a pivotal role. These sanctions, comprising eleven separate packages, aim to significantly undermine Russia’s economic base, deprive it of critical technologies and markets, and curtail its ability to wage war.

The impact of these sanctions extends beyond Russia’s borders, affecting global supply chains, commodity prices, and economic growth. The EU, despite facing potential economic disruptions as Russia’s primary economic partner, remains committed to the coalition imposing sanctions. The sanctions’ effectiveness is evident in the severe damage inflicted on the Russian economy, surpassing the challenges faced by the EU.

The economic impact is probably the most cognizable in the oil and gas market, where Russia’s status as a top supplier to the EU has diminished drastically. This comprehensive examination of the economic landscape between the second quarter of 2022 and the second quarter of 2023 reveals several key trends and developments. One of them is the fact that Moscow facing daily losses of approximately $175 million in fossil fuel exports due to sanctions, has successfully sought alternative markets. Russia has strategically redirected its focus towards Asian markets, with primary buyers such as China, India, and Turkey procuring Russian oil at substantial discounts, constituting 70% of all Russian sea-borne oil flow. Primary buyers, including China, India, and Turkey, now procure Russian oil at substantial discounts, constituting 70% of all Russian sea-borne oil flow. A memorandum for a pipeline from Yamal to China, initially signed in 2006, gained renewed significance in 2022. Yet, the projected capacity of Power of Siberia 2, constituting only 30% of the previous volume, falls short of compensating for the loss of the EU market. The anticipated average revenue for gas transported through this pipeline to China is around $170 per 1,000 cubic meters, resulting in a significant drop compared to the previous netback from sales to Germany.

EU measures have led to a significant reduction in Russia’s overall imports, exposing vulnerabilities in high-tech sectors. In the realm of high-tech products, Russia faces challenges in replacing critical components, particularly semiconductors and electronic integrated circuits. The imposition of export bans by the EU and other sanctioning countries has halted these critical component exports to Russia, prompting a surge in imports from non-sanctioning countries, notably China. Intriguingly, a significant portion of these imports from China lacks a reported origin, indicating potential paths through other non-sanctioning countries.

In response to the conflict, the European Union has diversified its energy suppliers. Norway has emerged as a top partner for gas and oil, along with increased collaboration with the United States. Algeria has become a significant partner in gas supply, contributing to the EU’s efforts to replace Russian suppliers, although at slightly higher prices. Liquefied natural gas (LNG) remains a crucial component of the EU’s energy portfolio, with the United States as the leading supplier.

The IMF warns that the full impact of Western sanctions is yet to be realised, anticipating a lasting and substantial economic decline in Russia, with projections indicating a 7% decrease in economic output by 2027 compared to pre-war levels. Statista data reveals a decline in Russia’s GDP growth from 5.62% in 2021 to -2.05% in 2022, with further projections below 0.8% for 2027. President Putin’s short-term economic strategies have demonstrated profitability, yet economists caution against their long-term sustainability. The introduction of an oil price ceiling and the European embargo on Russian oil pose additional challenges. Russia’s shift towards Asian markets for energy exports, particularly to China, India, and Turkey, mitigates some losses but fails to fully compensate for the EU market.

In conclusion, the sanctions imposed on Russia have proven effective in achieving their intended objectives, significantly weakening Russia’s economic position.
The long-term consequences, both for Russia and the global economy, are yet to fully unfold, emphasising the need for continued scrutiny and assessment of geopolitical and economic dynamics.

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