Impotent Western Sanctions Fail To Disrupt Russian Energy Exports

By Andrew Topf

Posted on Tue, 03 March 2015 23:08 | 5

Energy exports from Russia, in the form of coal, oil, natural gas and uranium, continue to flow unimpeded, despite Western efforts to damage the Russian economy for interfering in Ukraine.

In some ways, the sanctions have had the desired effect. But in others, notably the energy trade, they have failed, and in fact it could be argued they have backfired, by hurting the businesses that do business with Russia. Moreover, the sanctions have further isolated Russia from Europe and drawn it closer to alternative energy partners, namely Turkey and China.

To recap, in March of 2014 the United States and the European Union, along with other countries and international organizations, implemented a series of sanctions against individuals and businesses from Russia and Ukraine, in response to the perceived annexation of Crimea, a peninsula in southern Ukraine. Russia retaliated by imposing sanctions of its own, including a ban on food imports from the EU, US, Norway, Canada and Australia.

As the unrest continued into southern and eastern Ukraine, the sanctions were expanded. The first round targeted Russian and Crimean officials seen to have close ties to Russian President Vladimir Putin, with asset freezes and bans on travel. The second round, so-called sectoral sanctions, focused on major businesses and parts of Russia’s financial, energy and military industries. Targets included Rosneft, Transneft and Gazprom.

In December of 2014, US President Obama signed a bill allowing the White House to levy further sanctions against Russia, although no action has yet been taken to introduce them. The new US sanctions would hit Russia’s state-owned energy and defense industries.

Related: Russia Prepared To Sell Strategic Deposits, But Who’s Buying?

It is important to understand what exactly the sanctions apply to and what they exclude, because even a surface analysis shows that Russian energy exports are continuing space, and in some areas, even increasing.
The first example is coal. Despite sanctions, Russian coal is moving at higher volumes to the European countries most dependent on the cheap fossil fuel for home heating. German coal imports are the highest since 2006, as importers take advantage of a lower ruble and lower oil prices. According to the news site RT, Germany imported over 12 million tonnes of coal from Russia in 2014, despite the country’s reputation as a leader in renewable energy, symbolized through “energiewende”, the much-lauded plan to switch Germany from nuclear power and fossil fuels to renewables. The dirty truth is that Germany gets about half of its electricity from coal, with the other half coming from natural gas and nuclear. About a third of German coal comes from Russia. In addition, the former World War adversaries also trade a lot of natural gas; 25 billion cubic meters per year imported by Germany, to be exact.

Other countries have jumped on the Russian coal train. Poland is the second-biggest consumer of Russian coal behind Germany. Ukraine — whose territory Russian natural gas must cross in order to reach its destination in Europe— has quietly been buying Russian coal, fueled no doubt from constant threats by natgas provider Gazprom to shut off the taps. The latest threat came on Feb. 25. According to RT, Ukraine bought 50,000 tons of Russian coal in December.

Then there’s the United States. As President Obama and Secretary of State John Kerry last year lambasted Russia for supporting pro-separatist rebels in Crimea and eastern Ukraine, and accused the Kremlin of involvement in the shooting down of a Malaysian airliner, a huge coal carrier was crossing the ocean to deliver 40,000 tons of thermal coal to the Schiller Station coal-fired power plant in New Hampshire. Forbes broke down the reasons for the apparent contradiction nicely, stating that for the East Coast, Russian coal is “easy to get and cheaper to ship.” An added advantage: coal from Russia emits less sulfur than US coal, making it easier to comply with environmental regulations.

Many US citizens would also be horrified to learn that a considerable amount of nuclear power produced in the United States comes from Russian uranium, none of which is yet subject to Western sanctions. According to the US government’s National Nuclear Security Administration, about half of the fuel used in American nuclear reactors comes from dismantled Soviet warheads, purchased under the $12-billion “Megatons to Megawatts” program. While that program expired in 2013, Russia continues to work with the United States in supplying enrichment facilities to enrich uranium for use in nuclear power plants as Russia is the world leader in supplying enriched uranium. In 2012 the two countries reached six-year deals to supply over $1 billion worth of reactor fuel to four American utilities, and to provide enrichment services for the US Enrichment Corporation (USEC) for nine years. According to a report by The Jamestown Foundation, “if US sanctions extend to include the Russian nuclear industry, one of the biggest losers could well be the US nuclear industry itself.”

Marin Katusa, chief energy investment strategist for Casey Research, agrees that sanctions will have a negative effect on the American economy. Katusa, whose recent book “The Colder War” outlines Vladimir Putin’s strategy for worldwide energy domination, quotes former Texas congressman Ron Paul as saying that “The US government’s decision to apply more sanctions on Russia is a grave mistake and will only escalate an already tense situation, ultimately harming the US itself. While the effect of sanctions on the dollar may not be appreciated in the short term, in the long run these sanctions are just another step toward the dollar’s eventual demise as the world’s reserve currency.”

If there is one area in the energy sphere where sanctions have had an appreciable effect, it’s oil and gas exploration. While current supplies to the West remain unaffected, the sanctions target Russia’s long-term oil and gas operations and future projects. This includes construction of future pipelines, technology used in offshore drilling, and equipment for LNG plants.

Probably the biggest loser so far has been ExxonMobil, which over the past two years has been collaborating with Russia’s largest oil company, Rosneft, to conduct exploration and research in the Black Sea and Arctic Ocean, as well as onshore in western Siberia.

Is This The Most Lucrative Investment In Modern History?
A new type of investment just recently became available to individual oil &
gas investors. Because of the recent crash in oil and the timing of a new law,
it could be the most lucrative investment in modern history. I want to give
you a step-by-step guide (at no cost) on how you can get started and
potentially retire from it.

Click here to get the free guide now.

In December, as a result of Western sanctions, the two companies terminated
contracts for five service vessels that were to begin operating in the Kara Sea,
after ExxonMobil made a billion-barrel discovery last September. In January,
ExxonMobil said in its annual report that anti-Russian sanctions have cost the
company $1 billion:

"In compliance with the sanctions and all general and specific licenses, prohibited
activities involving offshore Russia in the Black Sea, Arctic regions, and onshore
western Siberia have been wound down," the report states.

Geopolitically, sanctions have accelerated Russia’s shift of focus from Europe, its
traditional market for oil and gas, to China and Turkey – with the latter being an
important conduit for getting gas to Europe while avoiding the Ukraine quagmire,
and the former as an important buyer of Russian gas that has blithely ignored
Western sanctions.

As proof, consider that last October, Russia and China signed 38 energy, trade and
finance agreements, along with a currency swap worth 150 billion Chinese yuan
($25 billion) that assiduously avoids using the US dollar. The agreements -- which
include a deepening of cooperation between Rosneft and the Chinese National
Petroleum Company in building LNG projects – followed a colossal $400-billion
deal between the two nations to supply China with Russian gas for the next 30
years.

Indeed the shift from west to east is already occurring. Russian energy data
released last fall showed crude supplies to China from January to September rose
by almost 45 percent, while shipments to Europe via the Black Sea port of
Primorsk fell almost 20 percent, according to Reuters. In a further undermining of
Russian sanctions, Chinese credit rating agency Dagong Global in February gave
Gazprom its highest AAA rating, allowing the company to place its shares in Hong
Kong and expand its investor base in the Asia Pacific region. Western ratings
agencies like Moody’s, S&P and Fitch have all downgraded Russia’s sovereign
rating to junk or near-junk levels, said IBT Times.

Related: When Conspiracy Theory Becomes Fact

The sanctions have also pushed Russia away from European trade partners and
into the arms of Turkey, the largest consumer of Russian gas behind Germany. The
long-envisioned South Stream pipeline that would have carried Europe-bound
Russian gas underneath the Black Sea through Bulgaria, was abruptly cancelled in
December. Instead, the Kremlin announced that a new pipeline, known as Turkish
(or Turk) Stream, would run from Russia under the Black Sea to the Turkish town
of Kyilkoy, before continuing overland to the Greek border.

The same month, Russian President Putin praised Turkey for refusing to join
Western sanctions against Russia over Ukraine, while also announcing a near
tripling of trade between the two countries from $32.7 billion to $100 billion.
Turkey is able to avoid Western sanctions because it is an EU accession member,
not a full member, Breitbart.com pointed out. The relationship building came
despite Russia’s differences with Turkey over Syria, with Russia supporting Syrian
President Bashar al-Assad and Turkey pushing for regime change.

Russian aggression in Ukraine certainly put its Western trading partners in a
quagmire. While the stick of sanctions, exacerbated by plunging oil prices, has
paid off from a Western point of view in terms of halving the value of the ruble,
spiking inflation and causing Russia’s first contraction of GDP in five years, they
have also had a boomerang effect. Victims of sanctions and countersanctions
include American poultry businesses, which export around $300 million a year
worth of chicken to Russia; European businesses that export to Russia; and big oil
companies like BP and ExxonMobil that have had their exploration activities
curtailed.
Impotent Western Sanctions Fail To Disrupt Russian Energy Exports

An editorial in the Japan Times quotes the chairman of the Association of European Businesses in Russia, as saying that sanctions against Russia could cause 300,000 layoffs in Germany and 100,000 in France. The last word goes to Hungarian Prime Minister Victor Orban, who in the same editorial, states “the sanctions policy pursued by the West causes more harm to us than to Russia. In politics, this is called shooting oneself in the foot.”

By Andrew Topf of Oilprice.com

More Top Reads From Oilprice.com:

Russia Is Not Bluffing With Turkish Stream Project
Oil Price Crash: Top 5 At-Risk Countries
Gazprom Confident In European Future Despite ‘New Cold War’

Join the discussion

SPECIAL REPORTS

8 Mega Trends
By Oil & Energy Insider Analysts

8 OIL & GAS INDUSTRY MEGA-TRENDS AND HOW TO PROFIT FROM THEM
Here's what our 400 global energy assets are telling us to be prepared for right now...

LNG Technology
By Oil & Energy Insider Analysts

THE "FLOATING REFINERY" STOCK THAT COULD FUND YOUR RETIREMENT
This company's incredible tanker technology could eliminate many of the world's offshore pipelines...

Subsea Production
By Oil & Energy Insider Analysts

THE END OF OFFSHORE DRILLING?
This disruptive market will grow 84% to 270% over the next five years: Discover the 6 equipment suppliers set to profit.

Related Articles

The U.S. Spent $5 Billion On Energy Research In 2014 – Where Did It Go? - 04 Mar 2015
Gulf Projects Saved From Brunt Of Oil Price Storm - 04 Mar 2015
Crude Down Following Biggest Weekly Inventory Rise In 14 Years - 04 Mar 2015

Leave a comment
Sanctions are means to an end, even if they were not designed as such. The end is and ultimately will be a redefinition of relations with Russia. Russian companies can no longer be a part of the market. This does not mean that Russia cannot export, but the export has to be monitored by governments, as it had been during the cold war. Russia is a hostile, nuclear armed power with proven propensity towards violence. Russian companies are not simply economic agents participating in market exchanges, but agents of that hostile power. If allowed, they will use market participation to advance political and military goals of the Russian state. The process of absorbing this reality by Western governments is ongoing, and will accelerate because Russia will accelerate her aggression for internal political reasons. The end of this adventure will be the same for Russia as it has been for Venezuela. Chavez was able to ride high for a few years as well giving to the poor, and Putin can ride high for a few years giving to the generals. Both will end the same way. Perhaps Putin can match Chavez and get fatal cancer before … hits the fan.

Oilracle on March 04 2015 said:

What could be bad for the West if Russia sells oil and gas to China? At least the US might see less of China’s drilling activities at almost eyesight distance from Florida...

jn on March 04 2015 said:

I thought that a restart of the Cold War would make Western Europe more inclined to buy U.S. LNG, oil, and coal instead of from Russia. After reading this article I’m not sure this scenario holds up.

John Scior on March 04 2015 said:

Of course the sanctions won’t hurt energy exports, that would hurt the West. Why would such a policy matter be taken to hurt oneself. The sanctions are designed to bring harm to Russian business interest in the hope that said businesses will sway Putin to retract his position.
<table>
<thead>
<tr>
<th>More About Us</th>
<th>Energy</th>
<th>Metals</th>
<th>Alternative Energy</th>
<th>Site Info</th>
</tr>
</thead>
<tbody>
<tr>
<td>About Us</td>
<td>Oil Prices</td>
<td>Gold</td>
<td>Nuclear Power</td>
<td>Terms &amp; Conditions</td>
</tr>
<tr>
<td>Site News</td>
<td>Crude Oil</td>
<td>Silver</td>
<td>Solar Energy</td>
<td>Disclaimer</td>
</tr>
<tr>
<td>Sitemap</td>
<td>Gas Prices</td>
<td>Commodities</td>
<td>Hydroelectric</td>
<td>Privacy Policy</td>
</tr>
<tr>
<td>Advertise with us</td>
<td>Heating Oil</td>
<td>Platinum</td>
<td>Renewable Energy</td>
<td>Sitemap</td>
</tr>
</tbody>
</table>

© 2015 OilPrice.com | OilPrice.com is a CNBC Partner Site

The materials provided on this Web site are for informational and educational purposes only and are not intended to provide tax, legal, or investment advice. Nothing contained on the Web site shall be considered a recommendation, solicitation, or offer to buy or sell a security to any person in any jurisdiction.

Merchant of Record: A Media Solutions trading as Oilprice.com