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EU MUST STOP FINANCING PUTIN'S WAR MACHINE! EU CAN INTRODUCE OIL EMBARGO NOW!

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Putin's war against Ukraine is an international crime. Ukrainians are defending their country in a heroic way. The West supports Ukraine, some countries are delivering weapons to Ukraine and sanctions of the West are hitting Russian economy in a painful way. However, the EU, which is very heavily dependent on supplies from Russia, until now is not able to introduce an embargo on energy resources. That is the reason why the EU continues to pay hundreds of millions of euros per day into the pockets of Putin. That way the EU is helping Putin to survive the impact of other sanctions. Some Western leaders claim that embargo (even if only oil embargo) will be very painful for European economies. Therefore, the embargo is still not introduced. This paper provides clear numbers from statistics as well as other evidence that the EU could immediately introduce embargo on oil import from Russia.

1. The European Union is making Putin's war profitable for Putin

Since the beginning of the war, the Europe Union has paid more than 20 billion USD to Mr. Putin for gas, oil and petroleum product imports from Russia into EU markets¹.

Since the invasion, oil and gas prices have increased. Thus, the EU is now paying 3.5 times more to Russia than it was paying in 2020.

If such a situation continues, the EU will pay approximately 200 billion EUR by the end of 2022. In 2020, EU paid to Russia only 64 billion EUR for the same quantity of energy resources.²

In 2020, such an amount was covering the whole military budget of Russia, amounting to 61.7 billion EUR at the time.

In case the EU continues to pay the same amount for energy products into Putin's pockets as it is paying now, since Putin started his war, during this year alone the EU will finance two additional military budgets of the Putin's war machine (in comparison with 2020), thus allowing him to attempt new military invasions in the European neighbourhood.

As the data from 2020 demonstrate, around 70% of the EU's payments to Putin for import of energy resources are for oil and petroleum products.³ Immediate embargo on just oil and petroleum products import can make a big difference.

All other sanctions on Russia's economy or financial system has only partial effect because of huge amounts (around 600 million EUR) paid by the EU to Russia every day. In case embargo on import of energy products is introduced, sanctions on all the Russian banks, aimed at excluding them from the SWIFT system, will also become possible to be implemented immediately. For the time being, some major Russian banks, such as *Gazprombank* or *Sberbank*, are excluded from the sanctions as mentioned above, since they take part in EU business companies paying for the import of energy resources from Russia.

With the EU financial support, Russia's economy and financial situation allows Putin to continue his criminal war against Ukraine. This war is resulting in hundreds of innocent victims every day, in

¹ https://crea.shinyapps.io/russia_counter/

² <https://www.politico.eu/article/europe-eu-oil-gas-trade-russia-budget-military-spending-ukraine-war-crisis>

³ <https://www.politico.eu/article/europe-eu-oil-gas-trade-russia-budget-military-spending-ukraine-war-crisis>

tragic destruction of the cities, and in incredible suffering of people and the Ukrainian nation. The criminal war of Putin can be stopped NOW, if embargo at least on oil is implemented immediately. The EU and some of its Member States are planning to cut and stop oil imports in a step-by-step manner by the end of 2023. From the moral point of view this is absolutely unacceptable. We need to introduce embargo NOW!

2. Immediate EU's embargo on oil imports from Russia is possible

a) There is available replacement of supply

The EU's dependence on Russian crude oil is 24.9% of the total EU demand for oil.

The European Union is Russia's most important customer, buying 60 percent of its crude oil exports and 50 percent of its petroleum product exports.

Of the 10.5 million barrels per day (b/d) of crude oil and condensate produced in Russia in 2021, more than 45% or 4.7 million b/d were exported. The majority of Russia's crude oil and condensate exports went to Europe, which received 60% of Russia's total crude oil exports (around of 2.8 million b/d).⁴

EU constitutes an important market (50% of export) of Russia for refined petroleum products (diesel, gasoline, fuel oil, gasoil), EU is importing around of 1.2 million b/d of which, according to 2021 data.⁵

Various data shows that more or less 4 million barrel /per day of oil and petroleum products (2.8 million b/d of crude oil +1.2 million b/d of petroleum products) are exported from Russia to Europe (EU and UK).

The size of EU crude oil and petroleum products imports from Russia is not that big and it can be easily replaced through imports from other oil producing countries.

There are around 30 countries in the world that can immediately diversify supply of oil and petroleum products to Europe.⁶ In terms of oil, OPEC and other suppliers can provide up to an additional 2.2 million b/d within the short period of time.⁷ Spare capacities of 5.1 million b/d can be started to be exploited in 90 days (see Picture 1).

⁴ <https://www.oxfordenergy.org/publications/russia-ukraine-crisis-implications-for-global-oil-markets/>

⁵ ibid

⁶ <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2021-full-report.pdf>

⁷ <https://www.reuters.com/business/energy/how-much-extra-oil-could-opec-pump-cool-prices-2022-03-11/p>

Picture 1. Spare capacities of oil production (<https://www.reuters.com/business/energy/how-much-extra-oil-could-opeac-pump-cool-prices-2022-03-11/>)

(mb/d)	Sustainable Capacity	Short-Order Spare	90-Day Spare
Saudi	12.2	1.2	2.1
UAE	4.1	0.6	1.2
Iraq	4.8	0.3	0.6
Kuwait	2.8	0.1	0.2
Russia	10.2	0.1	0.2
Others	12.0	0.0	0.8
Total*	46.2	2.2	5.1

* Excludes Iran

Most spare capacity held by Saudi Arabia and UAE

b) There are no problems with the logistics of oil delivery to the EU

From 70% to 85% of imported crude oil from Russia is shipped from its western ports on the Baltic Sea and the Black Sea, and in smaller volumes from its Arctic terminals, while the remaining amount (around 10%) is directly delivered through the Druzhba pipeline to European refineries.⁸

Imports of Russian crude oil by oil tankers to Finland, Lithuania and Romania make up 88%, 91% and 88% of their total oil imports, respectively. Spain, France, Italy, and the UK are the next largest importers of crude oil by oil tankers.

Rotterdam in the Netherlands is essentially the only Dutch crude oil importing port, Gdansk being a similar case for Poland. Trieste and Genova are Italy’s largest importers of the Russian crude oil, while Le Havre and Marseille are the largest for France (together representing 90% of France’s imports).

In the case of the Netherlands, half of the crude oil that arrives at Rotterdam is further transported by pipeline to refineries in Germany and Belgium.

The Druzhba pipeline delivers crude oil to several large refineries in Central Europe. The northern branch, which typically accounts for two-thirds of the total throughput, supplies refineries in Poland and Germany, while the southern branch, which runs through Ukraine, supplies refineries in Hungary, Slovakia and Czechia.

In general, from the logistical point of view, there are no major problems how logistical issues of oil import from other countries, which would replace oil import from Russia, could be resolved. Majority of oil and petroleum products, which the EU for time being is importing from Russia are delivered through European ports and oil tanker ships. That makes replacement of import directions easy to be implemented.

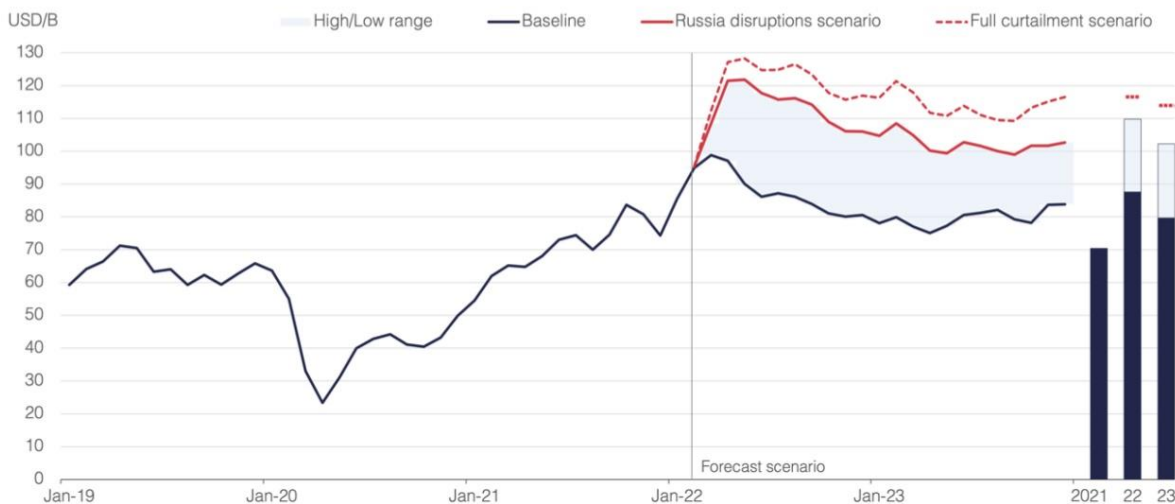
⁸ https://www.transportenvironment.org/wp-content/uploads/2022/03/20220303_russian_oil_in_the_EU.pdf

c) Embargo and replacement of oil imports from Russia will increase oil and petroleum product prices in European markets only by 15-30%

As is demonstrated by forecasts of the price of oil, which increased at the beginning of the war, they will stay at that high level for a longer period of time, going down only very gradually. Embargo on the Russian oil import to Europe will keep the price for oil during that period of time only 15-30% higher in comparison with the basic scenario (see Picture 2).⁹

Picture 2. (<https://www.oxfordenergy.org/publications/russia-ukraine-crisis-implications-for-global-oil-markets/>).

Figure 5: Russia oil disruption scenario impact on Brent price



Notes: *Baseline* assumes a de-escalation of the crisis in March 2022. *Russia disruptions scenario* assumes the loss of 3.2 mb/d of Russian production by April 2022. *Full curtailment scenario* assumes the complete halt of Russian crude exports, leading to the loss of 4.2 mb/d of Russian oil production. Analysis of the forecast scenarios is based on the 5-variable structural VAR model of the global oil market due to Economou et al. 2017¹. Source: OIES.

OPEC countries should have no interest in allowing the price of oil to rise too high, because that will sharply accelerate the long-term transition to renewable energy. If strong sanctions on Russia are imposed, OPEC will pump more oil. Of course, OPEC enjoys higher oil prices, but at some point that will backfire with increased interest in renewables.¹⁰

The convincing arguments are presented by energy policy researches from Germany, who are saying: replacing Russian oil imports “will likely not pose a major problem.”¹¹

⁹ <https://www.oxfordenergy.org/publications/russia-ukraine-crisis-implications-for-global-oil-markets/>

¹⁰ <https://www.nytimes.com/2022/03/24/opinion/why-is-europe-still-buying-oil-from-putin.html>

¹¹ https://www.econtribute.de/RePEc/ajk/ajkpbs/ECONtribute_PB_028_2022.pdf

3. Self-sanctioning of Russian oil import by global business companies and ports or EU legal sanctions?

Even while the EU is hesitating to introduce special sanctions on Russian crude oil and petroleum products import, Russian oil exports are becoming more and more disrupted. Though those exports were explicitly excluded from formal sanctions (until they were specifically targeted by the US and Britain), they are being indirectly sanctioned and “self-sanctioned” by buyers, shippers, and insurance providers, as well as by the extreme reluctance of banks to provide trade finance.

For example, despite the fact that in 2021 China received nearly one-third, or 1,4 million b/d of Russia’s crude oil exports, both through pipeline and tanker ships deliveries, now China’s largest two state-owned banks are restricting financing for the purchase of Russian commodities, and have stopped issuing dollar-dominated letters of credit.¹²

Some Central European countries, which are receiving oil supply through the Druzhba pipeline, are deciding to voluntarily abandon oil deliveries from Russian distributors and are looking for other ways to solve oil supply issues – like Polish oil company ORLEN has done it for Slovakia, Czechia and Lithuania.¹³

Some global multinational companies, like Shell, have declared that they will introduce self-sanctions and will quit buying the Russian oil.¹⁴

World’s largest shipping lines have declared that they suspend shipping to Russia and out of it. British ports have declared that they will not receive any ships from Russia or to Russia.¹⁵

Having in mind that, according to recent opinion polls, 79% of German, France, Italy and Poland voters are supporting sanctions against Russia¹⁶ (including 54%, who are fully approving them), it’s obvious that the moral pressure on business companies to introduce self-sanctioning embargo on Russian crude oil and petroleum products import will increase. On the other hand, those companies can receive threats from the Russian side about the legal arbitration regarding breaking long-term contracts of the Russian crude oil import. Those EU subjects would benefit from EU legal sanctions on oil import. EU sanctions would allow those companies to avoid arbitration challenges, and at the same time to rescue company’s brand from moral damages among European consumers.

4. Russia is afraid of the EU decision to introduce oil embargo

Russian authorities understand that the EU can introduce oil embargo without any long delay and without damaging consequences. Kremlin also understands that such an embargo will be a disaster for Russia’s financial and economical situation and also for the functioning of the Putin’s war machine.

It is very likely that the immediate EU embargo on Russia’s oil imports will play a decisive role in pushing Putin or somebody in the Kremlin to stop the war NOW! That is why the Kremlin is so nervous and tries to threaten the EU that Russia will cut gas supplies if embargo on oil is introduced.¹⁷

The EU needs to be ready for such a scenario. It is very important to remember that the European Commission has made special efforts to be prepared for such a possibility. The Commission President

¹² <https://www.oxfordenergy.org/publications/russia-ukraine-crisis-implications-for-global-oil-markets/>

¹³ <https://www.reuters.com/business/energy/pkn-orlen-buys-norwegian-crude-replace-russian-urals-2022-03-22/>

¹⁴ <https://www.bloomberg.com/news/articles/2022-03-08/shell-to-phase-out-all-purchases-of-russian-oil-and-gas>

¹⁵ <https://gcaptain.com/worlds-largest-shipping-lines-suspend-shipping-to-russia/>

¹⁶ https://yes-ukraine.org/2022/European_peoples_behind_Ukraine-EN.pdf

¹⁷ <https://www.bbc.com/news/business-60656673>

Ursula von der Leyen recently repeatedly stated: “we are on the safe side if Russia will decide to cut gas supplies”.¹⁸

5. Instead of Conclusions: about the numbers and EU political will

Numbers of available official statistics and expert conclusions demonstrate that the EU is able to introduce immediate embargo on Russian crude oil and petroleum products import, replacing those amounts with import from other oil exporting countries. Such an embargo will have only limited negative effect on oil prices in the EU and on the EU economy.

On the other hand, such an embargo will have a very negative effect on Russia’s possibility to continue financing its war against Ukraine. This can be a major factor to stop the war NOW!

The statistics can’t be the rational reason why the European Council was not able to introduce such an embargo on oil import until now, because the numbers are showing the opposite - embargo on oil can be introduced.

The only reason why such an embargo is still not introduced is a lack of political will among the leaders of the EU Member States. The leaders should listen to the voice of their own voters, who are supporting and demanding an introduction of such an embargo! And the leaders should stop lying to the voters that the oil embargo is impossible because that supposedly would kill the European economy. The numbers are showing the different picture.

The EPP needs to have a clear position: to demand introduction of oil embargo NOW, thus staying together with the real numbers of statistics.

And staying with the European voters! And with the Heroes of Ukraine!

¹⁸ <https://www.euronews.com/my-europe/2022/02/16/eu-gas-supplies-on-safe-side-for-winter-even-if-russia-cuts-tap-further-von-der-leyen-tell>