EU blocks Russian oil shipments

Andrea Peters
31 May 2022

The European Union announced a ban on the import of seaborne Russian oil on Monday, part of a sixth package of sanctions directed against Moscow. The embargo on tanker deliveries does not apply to oil sent through the Druzhba pipeline, branches of which transit through Russia, Ukraine and Belarus to markets in Eastern and Central Europe.

Land-locked Hungary, Slovakia and the Czech Republic are heavily reliant on Druzhba deliveries. Hungary, for instance, gets 65 percent of its oil from the pipeline, and it has refused to endorse the total ban demanded by other EU states.

About two-thirds of Europe's Russian oil supply makes its way to the continent by ship, but EU officials say that by the end of the year they will actually manage to block 90 percent of imports because Germany and Poland have pledged to stop drawing on pipeline supplies. *Bloomberg* estimates that the embargo will be a $22 billion blow to Russia. Some Russian sources agree; others say its impact will be nil because Moscow will find other buyers.

In the agreement reached at the two-day EU summit, no deadline was set as to when European purchases of Russian oil coming through the Druzhba pipeline would also have to end. EU representatives made clear that they do not intend to stop at 90 percent but are seeking a 100 percent ban and will try to wring that out of Hungary, Slovakia, and the Czech Republic in the coming months. Referring to the exemption granted these three states, European Commission head Ursula von der Leyen said Monday, "This is a topic where we will come back to and where we will still have to work on."

The embargo, while not yet formally ratified, will escalate financial pressure on Russia and also drive prices through the roof in Europe and elsewhere. The cost of this will be borne by the working class.

The same day the oil ban was announced, it was reported that in May inflation in Europe hit 8.1 percent, substantially higher than predicted. In many countries it is one and a half times and more of this continental average—Estonia (20 percent), Lithuania (18.5 percent), Latvia (16.4 percent) and Poland (13.9 percent). In the UK it is expected to surge to 10 percent. Everywhere food and fuel are the biggest drivers of the increase.

Russian oil accounts for 30 percent of Europe's entire supply, and its elimination is provoking tensions within the EU. In Hungary, where it would cost €500 million to €700 million to convert refineries to handle non-Russian supplies, Prime Minister Viktor Orban tried to allay popular fears in a video on Facebook. "We succeeded in defeating the proposal of the European Council which would have forbidden Hungary from using Russian oil," he said.

Press accounts of the "temporary" exemption granted his country and the two others noted concerns within the European elite that these states are now poised to gain a substantial advantage over other EU members because they will have access to Russian oil that is currently being sold at steeply discounted rates. The remainder of the union will be forced to buy on a global market, where prices are skyrocketing.

The International Brent crude price surged to $123.48 a barrel after the embargo was announced and could go higher. Prices for oil in West Africa and Azerbaijan are rising sharply as states scramble to find new sources.

The *Financial Times* reports that should Hungary, the Czech Republic and Slovakia refuse to commit to a final date by which they will stop drawing supplies from the Druzhba pipeline, European Commission officials are considering the imposition of tariffs on Russian oil so that these countries have to pay more. This measure would not require a unanimous vote in the EU, such that the objections by Orban and others could be overridden. Doing so will result, however, in intense intra-European conflicts.

In the lead-up to the EU negotiations over the latest sanctions package, Ukrainian President Volodymyr Zelensky, the CIA's man in Kiev, vented his frustrations at the fact that, in his mind and that of the US, "second-rate" states had any ability to limit the financial punishment of Russia. "Of course, I am grateful to our friends who are promoting new sanctions. But where did those who block the sixth package get so much power? Why are they still allowed to have so much power, including in intra-European procedures?'

An article in the BBC outlined the EU's plans for coping with the current Russian oil cut-off, as well as a possible gas cut-off in the future. These include improving building insulation, promoting green energy, getting more oil from Egypt, Israel and Nigeria, constructing pipelines and liquified natural gas terminals and encouraging consumers to use less.

These measures will take years to implement, however, with the possible exception of decreasing private consumption. This can be done quickly but only by increasing fuel costs to the point that ordinary people are crushed and simply cannot put gas in their cars, turn on their heat or light their stoves. In other words, it can only be done by provoking massive social conflict.

A May 31 piece in the *Wall Street Journal* wrote, "In normal times changing consumer behavior is hard, but there are precedents for collective action in national emergencies. European households, squeezed by high energy bills and shocked by the war in Ukraine, might prove surprisingly fertile ground." The newspaper went on to hold up the "grow-your-own victory gardens" that helped sustained the US during World War II as the approach that the EU needs to consider. When millions of war-loving European households discover oil wells in their backyards, no doubt it will be headline news in the WSJ.

In addition to the embargo on seaborne Russian oil, the latest sanctions package bans three more Russian broadcasters and removes Sberbank, a majority state-owned bank, from the international SWIFT financial system. And in an attempt to scuttle efforts by Russia to send oil that would have gone to the European market to other locations, it bars insurers from issuing or reissuing policies that cover Russian oil shipments to other countries. This latter sanction will be phased in over the course of six months, as Greece, Cyprus and Malta, major players in the global shipping industry, objected to a move that could cause them huge losses.

Immediately after Monday's announcement of the embargo, there were calls for further efforts to strangle Russia as a global energy producer. Poland's prime minister said Tuesday that non-EU states, such as India, should be made to stop purchasing Russian oil. India, as well as China and other Asian countries, have stepped in to buy up much of Russia's newly available supply. Their purchases have been so large that Russia, despite having to sell its goods at below-market prices, is drawing in record revenues. Attempts to block Beijing and New Delhi from the Russian oil and gas market will have geopolitically and economically explosive consequences.

There are also now demands from some within the EU that an embargo be placed on Russian gas, which amounts to 40 percent of Europe's total supplies. On Tuesday, Estonian Prime Minister Kaja Kallas insisted that this be included in the next round of sanctions, although Austrian Chancellor Karl Nehammer immediately rejected the proposal as not up for discussion.

While the Kremlin has yet to issue a public statement in response to the EU oil ban, it is retaliating against Brussels. On Wednesday, Gazprom cut off supplies to Orsted, a Danish gas company, and Shell, which had contracted with a German firm for 1.2 billion cubic meters of gas. Russia's gas giant has already halted deliveries to the Netherlands, Finland, Bulgaria and Poland. The EU says that it has the capacity to replace, within a year's time, about two-thirds of its Russian-origin gas supplies. What happens in the interim, as well as to the other one-third, is unclear.