Traders face "daunting task" as west restricts Russian oil and gas imports

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The US, European Union and UK are seeking to halt imports of Russian oil and gas, with financiers and traders urged to seek out new sourcing markets while upping support for renewables.

US President Joe Biden has announced a total ban on oil, liquified natural gas (LNG) and coal imports from Russia, while the European Commission and UK government are looking to scale back or eliminate oil and gas imports respectively by the end of this year.

The actions **follow Russia’s aggression in Ukraine** (https://www.gtreview.com/news/global/major-banks-and-traders-react-as-russian-sanctions-mount/), and are designed to “deprive President Putin of the economic resources he uses to continue his needless war of choice”, the White House says in a statement issued on Tuesday ahead of the ban.

Biden is also banning new investment by US companies in Russia’s energy sectors, while also prohibiting any financing or support for foreign companies involved in Russian energy production.

The EU, meanwhile, is attempting to reduce member states’ demand for Russian gas by two-thirds before the end of the year.

It has unveiled a plan to increase gas stocks ahead of next winter, while diversifying imports of LNG from non-Russian suppliers and pipelines. The Commission also plans to tackle anticipated price increases and accelerate the introduction of renewably produced gas in heating and power generation.

“We must become independent from Russian oil, coal and gas. We simply cannot rely on a supplier who explicitly threatens us,” says European Commission President Ursula von der Leyen. “The quicker we switch to renewables and hydrogen, combined with more energy efficiency, the quicker we will be truly independent and master our energy system.”

The UK government, meanwhile, is targeting imports of Russian oil. Business secretary Kwasi Kwarteng announced on Tuesday the country would phase out imports by the end of the year, with companies given the interim time to find alternative sourcing arrangements and adjust supply chains.

Oil makes up 44% of Russian exports and provides 17% of government revenue through taxation, the UK says.

The measures have not been extended to other fossil fuels, with the government saying the UK “is not dependent on Russian natural gas, making up less than 4% of our supply”, though it adds officials are exploring options to reduce that figure further.

The prospect of action against Russian fuel exports was pre-empted with hostility by the Kremlin. Deputy prime minister Alexander Novak warned that rejection of its oil “would lead to catastrophic consequences for the global market”, including a price spike to as much as US$300 a barrel.

Novak also threatened retaliatory measures, including an immediate stop to gas exports via the Nord Stream 1 pipeline, which runs from Russia to Germany.

Its operating company stated last week the pipeline was still functioning as normal, despite **steps taken by the German government** (https://www.gtreview.com/news/global/us-and-europe-unveil-sanctions-targeting-russian-trade-banking/) to stop a second pipeline, Nord Stream 2, from becoming operational.

It would take Europe “years” to find replacement oil supplies, Novak added, resulting in significant expense for consumers.

Immediately following the announcement, Fitch Ratings downgraded Russia’s credit rating from B to C, indicating its belief “that a sovereign default is imminent”.

“The further ratcheting up of sanctions, and proposals that could limit trade in energy, increase the probability of a policy response by Russia that includes at least selective non-payment of its sovereign debt obligations,” it says.

A challenge to traders

Prior to this week’s measures against Russia, the country’s fuel exports had already taken a hit. The UK government says that nearly 70% of Russian oil is “currently struggling to find a buyer”, and a competitive global market will ensure alternative suppliers are readily available. Russian vessels had already been banned from UK ports from March 1.

BP and Shell have already announced full exits from Russia. In BP’s case, its largest investment is believed to be a near-20% stake in oil giant Rosneft, while Shell has interest in two joint ventures linked to Gazprom.

But traders “face a daunting task”, says Jean-François Lambert, chief executive of Lambert Commodities. “The sheer replacement of all Russian origins is difficult, but possible. It will take time and probably require some demand destruction.”

“Whilst they must work on finding such replacements, they also have to rebuild their sourcing and investment strategies to sever ties with Russian interests,” he tells **GTR**. “This is an immediate priority as banks would be unlikely to keep supporting them much longer if Russia – both origins and destinations – remained part of their trades.”

That said, Lambert says he expects many traders **were already “intensively” exploring alternatives** (https://www.gtreview.com/news/global/banks-self-sanction-amid-russia-risk-contagion/) as soon as the conflict with Ukraine started to escalate, with their priority likely to have been establishing geographically diverse long and short positions.

Ken Irvin, co-leader of Sidley’s global energy practice, adds that markets are still “functioning and clearing”, meaning replacement supplies do appear to be available for buyers, though there are other considerations traders and banks will need to consider when switching to alternatives.

"Certificates of origin will get important scrutiny now as the market looks to make sure of compliance with the ban on importing Russian crude," the lawyer tells **GTR**.

Volatile pricing **remains another complication** (https://www.gtreview.com/news/global/commodity-traders-face-year-of-uncertainty-despite-oil-price-surge/) for commodities traders and financiers. Brent crude reached nearly US$130 a barrel on Wednesday, an increase of over 40% from last month and nearly double the price a year ago.

In terms of Europe's gas imports, the EU's strategy picks up on several points raised by the International Energy Agency (IEA) last week, in a report examining how to reduce the bloc's dependency on Russian gas imports.

Recommended IEA measures include refusing to sign new gas supply contracts with Russia, increasing imports via non-Russian pipelines including from Azerbaijan and Norway, and ramping up imports of inherently flexible LNG cargoes.

But Tara Connolly, senior gas campaigner at Global Witness, raises concerns that relying on more imported LNG would "lock the EU into further dependence on expensive, climate-wrecking fossil gas".

Connolly adds that **plans to rely on renewable hydrogen** (https://www.gtreview.com/news/sustainability/power-struggle-industry-and-campaigners-at-odds-over-eu-hydrogen-reforms/) to replace existing natural gas functions are "far-fetched".

Oslo-headquartered Bellona, an environmental NGO, estimates that that a gas power plant using 100% renewable hydrogen – measured by EU taxonomy standards – would consume 2.8 times more electricity than it would produce.

Despite those concerns, Connolly welcomes Brussels' commitment to accelerate the supply of renewable energy, rather than replace Russian fossil fuel supplies on a like-for-like basis.

"On renovation and renewables, the message is clear – EU capitals must deploy an unprecedented rollout of renewable energy capacity, heat pumps and insulation before next winter and beyond," says senior gas campaigner Tara Connolly.

"This could be the beginnings of the radical change the EU urgently needs to end our dependence on fossil gas for good."

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