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Energy Sanctions on Russia are Unlike Predecessors as they are Still Optional

In the past when there were sanctions against oil producing countries, it was all or nothing. It was one size fits all, such as with Iran, Venezuela and Iraq. Nobody was permitted to touch their oil, and if they did, there were secondary sanctions. The US tried to infringe on sovereign countries and not to allow their banks help to finance trade with these states, and everybody would be slapped on the head if they did. With the Russian sanctions on energy, so far, they are completely voluntary. That means the US, for example, said it won't take Russian energy imports. But if India does, nobody is going to punish Indian banks for financing it. It is very different this time.

Last week there was a serious discussion on whether Europe should stop importing Russian gas, and in the background, there was another serious discussion on whether they could stop importing Russian oil. The two decisions which have been made is to gradually scale down gas imports, and to back away from enacting a European embargo of Russian oil because the disruptions would be too great.

If they are serious, we will see a very rapid curtailing of gas exports from Russia into Europe, which then will see Russian gas being stranded as there is no pipeline from Western Siberia, where this gas comes from, to Asia. So whatever Europe does not buy has to go in the Russian market, but the Russian market is already well supplied, and so it would be a loss to Russia. Germany has promised to wean themselves off Russian gas imports by 2024, which is quite something.

I think in oil there is way to go. If you do the appropriate calculations, current oil prices are not a reason to grab for the panic button. In present terms of oil prices, we lived with \$150 for three years from 2011 to 2013 without a recession. Now the economic situation is a bit dicier, but I think \$120 is doable and that's obviously also what OPEC+ things. ■

"Paraphrased Comments"

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