



RUSSIA AND SANCTIONS: HOW MOSCOW LOOKS FOR ALTERNATIVES

Russia's economy is under significant pressure due to tough sanctions imposed by the United States (US), the European Union (EU), and other countries. The main goal of the sanctions is to restrict Russia's ability to continue the war against Ukraine. Sanctions targeted almost all key industries of Russia, including mineral fuels. Calculations based on the International Trade Center (2023) data show that mineral fuel exports have accounted for around 50% of the country's total exports for the last five years. However, despite all economic costs Moscow continues its policy towards Ukraine and tries to find alternative ways to retain global markets.

In 2022, Russia recorded a budget deficit of 3.3 trillion rubles (\$47.45 billion) or 2.3% of its gross domestic product (GDP). Russia's target was a state budget surplus of 1% of GDP. To finance the deficit, Russia uses its reserves and borrows from the domestic market (Reuters, 2023). In January 2023, Russia's budget deficit hit a record 1.8 trillion Russian rubles (\$24.4 billion). Budget expenditures increased by 58% from the previous year while revenues fell by more than a third. According to estimates, Russia's GDP dropped by at least 2.2% in 2022, but the country's authorities maintain that all of this is within their models. Russia relies on its state-owned enterprises to create stability through subsidies to support key industries and social programs (Smith, 2023).

According to the Bank of Russia (2023), the situation with Russian oil price was unfavorable as in the Q4 of 2022, the price of Urals oil fell by 20% year over year (YoY) to \$63 per barrel on average. Urals discount to Brent widened to 29%. In the same period, the growth of world prices for gas and coal slowed down, prices for many metals fell, and the embargo and the EU price cap on Russian oil constrained export volumes. However, in 2022, the current account surplus reached a record \$227 billion, increasing by \$122 billion compared to 2021. The value of exports of goods and services rose by \$78 billion (or 14% YoY). A decrease in imports by 9% contributed to the current account surplus. As of January 1, 2023, Russia's international reserves increased to \$582 billion from \$541 billion in early October 2022.

Sanctions on Russia include a ban on the export of sensitive products and technologies. However, Russia's strategic allies and partners help it to overcome the trade-related restrictions. These include China, India, Türkiye, and members of the Eurasian Economic Union (EAEU). For instance, Armenia's phone imports increased substantially with a surge in their exports to Russia. The trend is the same for washing machines, computer chips, and other products. It is important to note that fewer than 9% of companies based in the European Union and G7 countries had divested one of their Russian subsidiaries (Swanson, 2023).

As Western countries imposed restrictions to prevent tankers and shipping services from transporting Russian oil unless it's sold at or under \$60 per barrel, Moscow started to attract a

shadow fleet for transportation, a number of which varies from 200 to 300. Offshore companies located in Panama, Liberia and the Marshall Islands own most vessels in the shadow fleets. Previously, shadow fleets helped Iran and Venezuela to avoid sanctions. Russia, in turn, has a sizable fleet but can carry less than 20% of its seaborne crude oil exports (Northam, 2023). It should be clarified that Russia amassed a fleet of more than 100 tankers through direct or indirect purchases. In 2022, Russia is suspected to purchase 29 supertankers each capable of carrying more than two million barrels, 31 Suezmax-sized tankers capable of carrying about one million barrels each, and 49 Aframax tankers that can each haul about 700 thousand barrels (Sheppard et al., 2022). Moreover, Russia attracts a fleet of its allies. At least four Chinese-owned supertankers were shipping Russian Urals crude to China, while the fifth one was shipping crude to India. In 2023, Russia may transport 15 million tons a year, or about 10% of total Urals exports using 18 Chinese supertankers and another 16 Aframax-sized vessels (Verma and Aizhu, 2023). At least 16 vessels from Iran began shipping Russian crude oil (Cook and Sheppard, 2023).

As it was mentioned above, Russia is redirecting its oil supplies toward the markets of its allies exploiting its access to oil ports on three different seas, extensive pipelines, and a large fleet of tankers. Data shows that Russia's oil exports to India have grown sixteenfold since the start of the war. Moreover, experts note that the steep discounts for Russian oil could partly be an illusion. For instance, Indian importers of Russian crude paid almost the same price as Brent crude (Kurmanaev and Reed, 2023). Conditions and mechanisms for the supply of Russian oil to the ports of India differ significantly from the conditions of previous European supplies. Russia's previous contracts were transparent. Under current circumstances, it is impossible to assess new oil contracts. Moreover, the transportation costs of Russia's oil to Indian ports remain unknown. Suppliers and the government of Russia can benefit from low prices in contracts (Vakulenko, 2023). It is worth noting that India is the third largest oil consumer in the world, accounting for 30% of global consumption. According to the country's authorities, India will buy oil from 'wherever it has to' if the terms are beneficial (Bala, 2023).

The Western countries did not impose sanctions on the Russian nuclear industry due to potential economic losses. For instance, Rosatom provides about 20% of the enriched uranium needed for the 92 reactors in the US. Some European countries announced plans to swap supplies, however, in Europe utilities that generate power for 100 million people rely on the company. In 2022, Russian nuclear fuel and technology sales abroad rose more than 20%. Bulgaria, the Czech Republic, Hungary and Slovakia continued to purchase Rosatom fuel last year, while Hungary awarded two new reactors to Rosatom without public tender. Russia, in turn, covers 80% of the cost with a €10 billion

loan to Hungary. Nuclear cooperation brings economic benefits and technical collaboration and strengthens diplomatic ties (SCMP, 2023). Russia remains a key exporter of fertilizer on the global market. The Western coalition excluded this product from sanctions to ensure global food security. In the first 10 months of 2022 due to price increases, Russian fertilizer exports surged by 70% to \$16.7 billion compared to the same period in 2021, while in volume terms overseas sales fell by 10%. Russia has been increasing its exports to countries such as India, Türkiye and Vietnam (Terazono, 2023).

Thus, Russia's economy is experiencing significant pressure due to sanctions and other restrictions. However, the country was not excluded from the global energy market and Moscow benefited from price increases in mineral fuels. Energy sanctions on Russia are sensitive, but Russia is in search of alternative markets and uses different transportation for its oil. The country redirected its supplies to huge markets such as India, China, and Türkiye. Russia has a wide network of trade agreements, in particular the EAEU, which serve Moscow's interests to bypass sanctions. Besides mineral fuels, Russia plays a key role in the global agricultural market not only by supplying food products but also by providing a substantial amount of fertilizers. Moscow tries to strengthen its diplomatic ties through nuclear cooperation and increasing its efforts for integration with Asia. These policy changes caused a reorientation of the global trade flows, increased uncertainty in the world economy, and decreased its transparency.

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