

Russian Oil Industry Could Weather Stiff U.S. Sanctions

By [Reuters](#)

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Stiff new U.S. sanctions against Russia would only have a limited impact on its oil industry because it has drastically reduced its reliance on Western funding and foreign partnerships and is lessening its dependence on imported technology.

Western sanctions imposed in 2014 over Russia's annexation of Crimea have already made it extremely hard for many state oil firms such as Rosneft to borrow abroad or use Western technology to develop shale, offshore and Arctic deposits.

While those measures have slowed down a number of challenging oil projects, they have done little to halt the Russian industry's growth with production near a record high of 11.2 million barrels per day in July — and set to climb further.

Since 2014, the Russian oil industry has effectively halted borrowing from Western

institutions, instead relying on its own cash flow and lending from state-owned banks while developing technology to replace services once supplied by Western firms.

Analysts say this is partly why Russian oil stocks have been relatively unscathed since U.S. senators introduced legislation to impose new sanctions on Russia over its interference in U.S. elections and its activities in Syria and Ukraine.

The measures introduced on Aug. 2, dubbed by the senators as the "bill from hell," include potential curbs on the operations of state-owned Russian banks, restrictions on holding Russian sovereign debt as well as measures against Western involvement in Russian oil and gas projects.

While the rouble has fallen more than 10 percent and Russian banking stocks have slumped 20 percent since the legislation was introduced, shares in Russian oil firms have climbed 2 percent, leaving them 27 percent higher so far in 2018.

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"The main driver of the Russian oil industry's profitability is the oil price denominated in roubles and it is currently posting new records as the rouble is getting weaker. Hence the sanction noise often even has a positive impact on Russian oil stocks," said Dmitry Marinchenko at Fitch Ratings.

Major Departure

The prospects for the latest U.S. sanctions bill are not immediately clear. It would have to pass both the Senate and House of Representatives and then be signed into law by President Donald Trump.

To be sure, Washington could really hurt the Russian oil industry if it introduced Iran-like measures forbidding oil purchases from the country. But given Russia produces more than 11 percent of global crude, such a measure would lead to a major spike in oil prices and hit the United States itself hard as it is the world's largest oil consumer.

Russian gas exporting monopoly Gazprom, for example, has maintained its output since 2014 and actually increased exports to Europe to an all-time high in 2017, securing a 34 percent share of EU markets amid rising demand.

But of all Russian oil and gas companies, it is the only one to have borrowed significant sums from the West — about \$5 billion in 2017 and \$3 billion in 2018 so far — using Eurobonds and syndicated loans.

What's more, those amounts are only equivalent to a small proportion of Gazprom's annual capital spending of \$22 billion. The rest of the Russian oil industry invests a similar amount each year as well, mostly without Western funding.

That represents a major departure from the years prior to the sanctions when the lion's share of Russian oil industry's borrowing came from Western banks or export-backed facilities with trading houses and major oil companies.

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