The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russia Clashes With Western Oil Buyers Over New Deals as Sanctions Loom

By Reuters

November 09, 2018



Iya Naymushin / Reuters

Russian energy majors are putting pressure on Western oil buyers to use euros instead of dollars for payments and introducing penalty clauses in contracts as Moscow seeks protection against possible new U.S. sanctions.

Seven industry sources told Reuters that Western oil majors and trading houses have clashed with Russia's third and fourth biggest producers, Gazprom Neft and Surgutneftegaz, over 2019 oil sales contract terms during unusually tough annual renegotiation in recent weeks.

The development mirrors a similar stand-off between Western buyers and Russia's top oil producer, Rosneft.

Earlier this week, trading sources told Reuters that Rosneft wants Western oil buyers to pay penalties from 2019 if they fail to pay for supplies in the event that new U.S. sanctions disrupt

sales.

Now sources have told Reuters that Surgutneftegaz and Gazprom Neft have also clashed with their buyers over penalties and the use of euros and other currencies to replace the dollar in contracts.

"It is part of the same trend - the Russian oil industry is working on mitigating new sanctions risks. The buyers in turn argue they cannot carry those risks so we are trying to find compromises," said one source with a Western buyer involved in negotiations, asking not to be named as the talks are confidential.

Russia has been under U.S. and EU sanctions since 2014 when it invaded Ukraine's Crimean peninsula. The sanctions have been repeatedly widened to include new companies and sectors, making it tough for Russian oil firms to borrow money abroad, raise new capital or develop Arctic and unconventional deposits.

President Vladimir Putin's administration has been hoping for a thaw in relations with the United States since President Donald Trump came to power but Washington has imposed new sanctions instead, including on some of Russia's richest people.

Russian businesses are preparing for a new wave of sanctions expected in the coming weeks. The firms are trying to diversify away from dollar payments and tapping Asia for more of their financing and technology needs.

According to four industry sources, Surgutneftegaz asked buyers to be prepared to switch from dollar to euro payments in contracts, and insisted on buyers being effectively responsible for any losses arising from sanctions.

"They basically said — sanctions don't matter. Buyers have to find a way to pay, or to return purchased goods, or pay penalties," a source with a big trading house said.

Gazprom Neft has also asked buyers to use euros in payments and bear financial responsibility for contract breaches in the case of new sanctions, according to three sources.

Gazprom Neft refused to comment. Surgutneftegaz did not immediately respond to a Reuters request for comment.

Related article: Kremlin Sees No Prospects for Improved U.S. Ties After Elections

"Just like Iran"

Russia supplies over 10 percent of global oil, so drastic sanctions against it could lead to a steep spike in oil prices.

All global oil majors rely on Russia to feed their refineries, especially in Europe and Asia, and hence they cannot just walk away from annual contract negotiations if they are unhappy with terms.

Talks with both Gazprom Neft and Surgutneftegaz have been progressing slowly and

painfully, according to trading sources.

Several Western buyers have managed to agreed compromises with Surgutneftegaz and Gazprom Neft, but others are still in tough talks with the producers, the sources said.

All Surgutneftegaz's contracts are bespoke and are negotiated individually in the Siberian town of Surgut by the firm's management and visiting Western trading bosses.

The sources declined to name companies that have already reached compromise deals.

In one such compromise, a large European buyer agreed to the use of euros in payments in exchange for Surgutneftegaz dropping its demand for penalties from buyers who fail to pay for cargoes.

"We have been arguing that if sanctions make it impossible to pay for an oil cargo, how on earth are we supposed to pay penalties," one trading source said.

"So we have agreed that the payment remains suspended for the entire duration of sanctions — just like it works with Iran," he added.

Original url:
https://www.themoscowtimes.com/2018/11/09/russia-clashes-with-western-oil-buyers-over-new-deals-as-sanctions-loom-a63438