

U.S. Imposes Energy Embargo on Russia

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On March 8, U.S. President Joe Biden told a press conference at the White House that the United States would ban crude oil, petroleum products, liquefied natural gas, coal and other energy imports from Russia. He immediately signed an executive order to put the energy embargo on Russia into effect. Biden has selected crude oil and other Russian energy exports, the vital artery for the Russian economy, as a sanction target to deal a strong blow to Russia. He added the extremely tough measure to earlier announced economic sanctions. On top of the energy embargo, Biden announced other energy-related sanctions including a ban on new investment in the Russian energy sector. Regarding the energy embargo, Washington gave U.S. companies 45 days to wind down existing contracts for Russian energy supplies.

President Biden decided on the U.S. ban on energy imports from Russia after close consultations with the United States' European allies, indicating that his decision came after he confirmed that European countries would have difficulties in participating in the energy embargo on Russia. He took the initiative to clarify his attitude of imposing the strong sanction on the Russian energy sector. Among other countries, the United Kingdom announced that it would phase out crude oil imports from Russia within this year.

In response to the announcement of the U.S. energy embargo on Russia, crude oil prices soared further in the international market. The front-month futures contract for West Texas Intermediate crude oil closed the day \$4.30 per barrel higher at \$123.70/bbl, topping \$120/bbl for the first time since September 2008. The key Brent futures price shot up \$4.77/bbl to \$127.98/bbl, close to \$130/bbl. In fact, Brent on the London market rose above \$139 briefly on March 7 after U.S. Secretary of State Antony Blinken said in an interview on the previous day that the United States and its allies were considering a ban on crude oil imports from Russia. The rise close to an all-time high indicated that oil market participants were strongly conscious of the big impact of the ban on Russian crude oil imports.

As noted in "A Japanese Perspective on the International Energy Landscape (574)," the following three patterns of disruptions to Russian energy exports such as crude oil and natural gas are conceivable:

- (1) Supply will decrease as Western economic sanctions restrict Russian energy transactions.
- (2) Supply will decrease or stop as attacks on major Ukrainian energy infrastructure facilities including pipelines damage them or render them inoperable.
- (3) Russia will cut or stop energy exports to counter Western sanctions.

Regarding the first pattern, potential constraints on Russian energy transactions through Western countries' exclusion of Russian banks from the Society for Worldwide Interbank Financial Telecommunications, or SWIFT, has attracted attention. In fact, the European Union's list of Russian

banks subject to the SWIFT exclusion did not include major banks involved in energy transactions. However, the U.S. and U.K. decisions represent a bold sanction that directly bans Russian energy exports within this pattern.

As is the case with the SWIFT exclusion, however, European countries, including those that depend heavily on crude oil and natural gas imports from Russia, would have to pay a high cost for subjecting Russian energy exports to a trade embargo. If they impose the trade embargo, they may have to secure alternative energy supply sources to avoid energy shortages. If they urgently procure energy resources in markets, energy prices may rise even further to their disadvantage. As an international market has been developed for crude oil, oil price spikes may affect all countries equally. Crude oil price hikes on the U.S. energy embargo on Russia may exert negative impacts not only on the U.S. economy but also on all other oil-consuming economies such as European countries and Japan. As President Biden noted on the occasion of the energy embargo announcement, he decided on the embargo even at the price of high costs for the United States. This means that considerable determination or preparedness is required to stop Russia's invasion of Ukraine.

In this way, the energy embargo, if triggering oil price hikes, may exert major negative impacts on the United States as an oil-consuming country. However, US is not in a position to fear energy shortages or become desperate to secure alternative supply source or increase market procurement. Russia accounts for only less than 10% of the United States' crude oil and petroleum products imports. Furthermore, the share has followed a downtrend. The most important fact is that the United States has almost achieved self-sufficiency in oil and natural gas. It has become a net natural gas exporter.

The oil and natural gas self-sufficiency is a key achievement of the shale revolution that has made rapid progress since the mid-2000s. U.S. oil production bottomed at 6.83 million barrels per day in 2006 and increased 2.5-fold to 17.07 million bpd in 2019 before the COVID-19 crisis. Natural gas production bottomed at 489.4 billion cubic meters in 2005 and expanded 1.9-fold to 930 billion m³ in 2019. Through the unprecedented production growth, the United States has become the world's largest oil and natural gas producer. Thanks to the sharp oil production growth, the United States' rate of dependence on oil imports dramatically declined from 66% in 2006 to 4% in 2020, almost achieving self-sufficiency. Its rate of dependence on natural gas imports peaked at 22% in 2005 and declined rapidly. As early as in 2011, the United States became a net natural gas exporter. Since 2019, its natural gas self-sufficiency rate has far exceeded 120%, meaning that net exports have far exceeded 20% of domestic consumption.

As the shale revolution has made progress in a manner to dramatically lower the United States' rate of dependence on energy imports, its energy security perception has changed substantially. Since the oil crises in the 1970s, the fundamental energy policy issue in the United States had been how to address its vulnerability to a rise in the rate of its dependence on oil imports under the recognition of supply shortage. However, the shale revolution has freed the United States from the yoke of shortage. Rather, how the United States could or should take advantage of LNG and oil exports to maximize national interests has become a central issue for the U.S. energy strategy based on rich energy resources. The Trump administration put forward the issue, but the issue apparently began to surface under the Obama administration.

Now, the Biden administration has come up with the crude oil, LNG and coal embargo as a tough sanction on Russia. If the United States were plagued with the extremely high rate of dependence on energy imports as seen in the early 2000s, what policy would have been taken? Like

Europe and Japan at present, the United States would have agonized over how to address its high dependence on Russia and imports. Now, the United States has recognized that U.S. LNG will play a key role in allowing its allies to lower their dependence on Russia. The Biden administration might have recognized that it is important for the United States to exploit its energy resources to enhance its allies' energy security. The dramatic change in the U.S. energy security perception has been achieved by the shale administration. Regrettably, however, Europe and Japan are not allowed to adopt energy policies based on “abundance” just as the case of US, but forced to urgently consider how to secure stable energy supply.

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