

G7 Leaders Announced Tougher Sanctions to Phase Out and Ban Russian Coal Imports

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On April 7, the Group of Seven industrial democracies issued their leaders' statement that harshly condemned Russia for killing massive civilians in Bucha near the Ukrainian capital of Kyiv and in other Ukrainian towns and vowed to further enhance sanctions on Russia for continuing its military invasion of Ukraine.

The Ukrainian situation has remained tense over more than one month since the invasion started on February 24. While ceasefire negotiations have been conducted intermittently, it is uncertain how the Ukraine crisis would develop. In the face of strong resistance from Ukraine, Russian armed forces have given up on their initial plan to take control of Kyiv, lifted the besiege of the capital city and withdrawn from locations close to the capital. They are viewed as redistributing troops to Donbas and other locations in eastern Ukraine. Meanwhile, massive civilians have been found killed in Bucha and other locations near Kyiv in the wake of Russian troops' withdrawal, triggering harsh international criticism against Russian forces.

On April 6, the United States and the United Kingdom announced additional sanctions on Russia. On the next day, the G7 foreign ministers met in Brussels and issued a statement that strongly criticized the mass killings of civilians as "massacres." In response, the G7 leaders published the abovementioned statement.

The G7 leaders "condemn in the strongest terms the appalling atrocities by Russian armed forces," the statement said. It then spelled out a series of enhanced sanctions including phasing out and banning Russian coal imports, accelerating the reduction of dependence on Russian energy sources such as oil, banning new investment in energy and other key sectors of the Russian economy, banning exports of specific products to Russia, enhancing sanctions on Russian banks and state-run companies and toughening sanctions on President Vladimir Putin's accomplices and their families.

The G7 countries had gradually toughened economic sanctions on Russia for its military invasion representing an attempt to change the status quo with force. In response to the mass killing of civilians, however, they came up with new energy-related sanctions including a ban on Russian coal imports.

The new development will further shake the international energy situation that has already been remarkably destabilized. Attracting attention first will be the impacts of the Russian coal import phaseout and ban on the international coal market and the overall energy situation.

Russia is one of the leading coal producers. The BP Statistics indicate that Russia produced about 400 million tons of coal in 2020, ranking fifth after China, India, Indonesia and the United States.

Its coal exports in the year totaled 5.66 exajoules. Russia was the third largest coal exporter after Australia and Indonesia, accounting for 18% of global coal exports. The largest export destination was Asia including China and Japan, which absorbed 56% of Russian coal exports. Europe was the second largest, importing 35%. Russia was the largest coal exporter to Europe, accounting for 50% of total coal imports into Europe, followed by 17% for Colombia and 15% for the United States. Russian coal exports are significant for Europe.

The above trade data cover all coal. It is important to break down coal into steam coal for power generation and coking coal for steelmaking. According to the International Energy Agency and other sources, Russia was the third largest steam coal exporter in 2020, capturing 18% of total global exports. It was also the third largest coking coal exporter, commanding 9% of total global exports. Europe's imports from Russia accounted for 54 million tons or 54% of its total steam coal imports and 5.8 million tons or 11% of its total coking coal imports. Europe thus depends heavily on steam coal imports from Russia. Japan depends on Russia for 15% of steam coal imports and 7% of coking coal import.

In response to the G7 leaders' statement, the European Union decided to ban Russian coal imports and announced the decision on April 7. The EU decision covers all EU members including Germany and the Netherlands that depend heavily on Russian coal imports. The Japanese government for its part on April 8 announced a plan to phase out Russian coal imports.

From now on, Japan, the EU and the United States will ban or reduce Russian coal imports. From the perspective of energy security, they will first try to find alternative coal supply sources. Europe may expand local coal production, including Polish output and German lignite output, while increasing imports from Colombia, now the second largest coal exporter to Europe after Russia, as well as the United States and South Africa. Japan may try to increase coal imports from the current major suppliers such as Indonesia and Australia, while attempting to expand procurement from other coal-producing countries. However, Indonesia and Australia may have their respective constraints on coal export expansion and be requested by Europe to increase coal exports to the region. It may not be easy to secure stable coal supply under the current market situation. Russia is a major supplier of high-quality anthracite coal for steelmaking, indicating a challenge to find alternative suppliers.

As gas price hikes have led interest to grow in using coal, the coal supply-demand balance might have tightened on demand expansion. If industrial countries ban or reduce Russian coal imports and explore alternative coal supply sources, coal prices may come under growing upward pressure. Following crude oil price hikes, European gas and Asian spot LNG price spikes have attracted global attention. If coal prices rise further due to the new Western sanctions on Russia, however, fossil fuel prices as a whole will increase, pushing up electricity prices. Simultaneous energy price spikes may come again. Energy price spikes and inflation may become political, economic and social issues in each country, exerting seriously adverse impacts on the global economy, including Europe and developing countries that are highly vulnerable to price hikes.

As the sanctions on Russia are toughened further, problems regarding engagement in Russian business projects may attract attention again. Japanese companies have been cautious about withdrawing from energy projects in Sakhalin because of energy security and concern that third countries could take part in the projects to reduce the impacts of such sanctions. This situation has basically not changed. If the sanctions are dramatically toughened to target the energy sector particularly in Europe, however, some impacts may be exerted on what Japan should do. How future

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sanctions would affect the energy sector will attract attention from the viewpoint of international energy market stability and what strategy Japan should adopt.

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