"Russia is a Gas Station Masquerading as a Country"

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Introduction

In 2015, Senator McCain stated, "Russia is a gas station masquerading as a country." Europe and Russia have, for a long time, been very interdependent on the fossil fuel trade. Until 2021 Europe imported around two-fifths of its gas and a quarter of its oil from Russia and, by doing so, provided almost a third of the Russian government's income. Following the unprovoked attack on Ukraine by Russia in 2022, the EU decided to cut imports to reduce Russia's budget for the war. In 2024, the share of gas imported from Russia was down to 11%, and the oil share was down to 5%. This reduction results directly from measures proposed by the G7 together with the EU. Instituted measures aimed to reduce the cash flow to the Kremlin while keeping the oil flowing to fuel Europe, by capping the sale price of Russian crude oil at $60 per barrel. If the cap is breached, vessels can no longer benefit from European or American insurance coverage, access to ports can be denied and they might face pecuniary penalties. The plan was instituted in December of 2022 and seemed to work as intended for a few months.

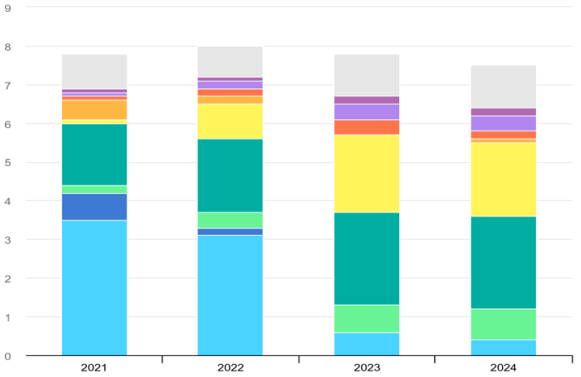
Failure of the Price Cap

Russian incentive to circumvent the restrictions is strong, as they need to maintain the cash flow to fund their war against Ukraine. To keep exporting oil, a so-called "shadow fleet" emerged. The fleet consists of old decommissioned tankers whose real owners are unclear. They are often poorly insured against accidents or leakages and their old age, well past the useful lifespan of such tankers, makes them highly vulnerable to accidents. Coastal nations, therefore, face significant risks of an ecological disaster. Such an event would burden them with high clean-up costs.

The Shadow Fleet

Estimates of the size of the fleet range from 300 to 600 vessels. It transports almost 40% of the Russian oil export, representing over 80% of the seaborne export. The oil can then either be transferred illegally onto a "clean" ship to be sold in any port or be brought to foreign countries where the crude gets refined. The process of refining the crude detaches the Russian identity from the oil, making it freely tradable. As shown in the graph below, exports to the EU diminished while India and China picked up the supply surplus following the beginning of the war. It shows how effective these evasive measures are. Exports have barely dropped as other countries have immediately seized the opportunity to sweep up the supply. Despite these measures it is still estimated that the price cap has lost the Kremlin around $34 billion in export revenue. However, these losses were mainly incurred in the months following the instaurating of the price cap by the EU. Russian oil has consistently traded above the $60 mark since rendering the cap useless.

Figure 1: Average Russian Oil Exports by Country and Region, 2021-2024 (in million barrels/day)



Sources: IEA, Argus Media Group, Kpler.

Combative Measures

The European coastal nations, fearing environmental disasters from the old tankers, have increased insurance verification to manage the operations of the fleet. The EU also blacklisted 90 tankers. On January 10th 2025, the Biden Administration released a final sanction package against Russia. This package included blacklisting 183 oil tankers directly in addition to many other oil-trade-related entities. The impact of these extensive sanctions was a short rise in price by 7%, up to $82/barrel on the 15th. The price has since returned to around $75, where it was before the announcement. China and India, which increased their refining capacity based on the Russian surplus, are now in desperate search for replacement crude oil. OPEC's spare capacity, withheld to keep prices stable, is about 5 million barrels a day. This additional supply would easily cover the 4 million barrels Russia sends to China and India. It is expected that OPEC will call on newly elected

president of the United States, Donald Trump, to reinforce sanctions against Russia even further, to force them out of the market to let OPEC take over the Russian market share.

Gas Imports

Difficulties to enforce restrictions upon Russia have proven to be complicated in the gas trade as well. Even though gas import through pipelines has decreased drastically, liquid natural gas (LNG) has partially replaced the supply. This form of natural gas that has been purified to remove some impurities and cooled down to -160°C, turning it into a liquid. In the liquid state it is around 600 times denser than the gaseous state, making it easier to transport by ship.

The EU never declared an outright ban on Russian gas as three nations depend entirely on it. For example, Austria imports around 98% of its natural gas with no possibility to substitute the supply. Germany was the EU's largest importer of gas from Russia. Following the invasion, Germany vowed to cease all gas imports from Russia. However, keeping this objective remained difficult as neighboring countries keep importing LNG from Russia. Tracking the origin of gas is nearly impossible once it has entered the European pipeline network.

Despite efforts to reduce reliance on Russian gas, Europe's transition has been difficult, with LNG imports from the U.S. and Qatar unable to fully replace Russian pipeline supplies. Countries like Austria and Hungary still depend on Russian gas due to underdeveloped LNG infrastructure. This lack of infrastructure makes storing and regasifying LNG more complex and costly than pipeline gas, leaving the EU vulnerable to supply shortages, especially during peak demand in winter months. As a result, Europe remains partially dependent on Russian energy, despite ongoing efforts to diversify its suppliers.