

Can Western allies do without Russia's oil exports?

MALINI BHUPTA
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A DAY AFTER the bottom almost fell from under financial markets worldwide, it is becoming abundantly clear that neither can the US nor can the European Union afford even higher energy prices. Even as the world is still coming out of the pandemic, an oil shock and subsequent economic slowdown is something most countries will try to avert. Retaliatory sanctions against Russia by the Western allies could cut both ways because by eliminating Russian oil and gas exports to Europe and the Western Allies will certainly push up energy

costs even further. According to analysts this would further accentuate the ongoing energy crisis in Europe.

The question is: Can the developed nations afford another oil shock, given that their economies are already facing elevated inflation after the pandemic. According to JM Financial, "Oil inventory in the US is down to 410 mn bbl, close to 2018 lows and European gas inventory in February 2021 is 19% lower than the 2014-19 average there is high probability of a renewed flare up in global crude prices to levels seen during 2012-14 (USD110-120/bbl range)." What this would do is give a push to the stagflationary sce-

Top five crude oil producing countries

(million barrels per day)

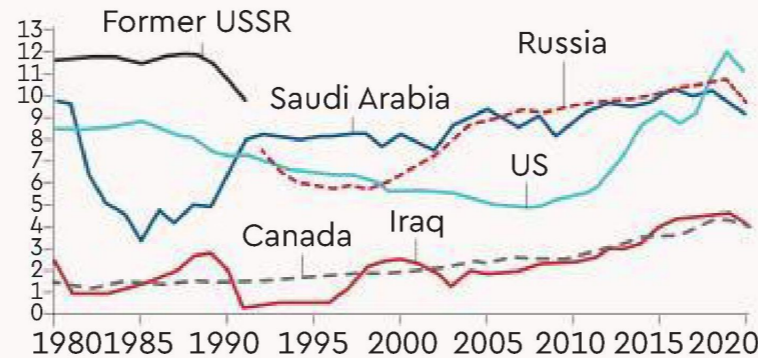


chart contains top-5 of 2020, not top-5 each year shown

Russia's crude oil destination

nario in the US and Europe.

Analysis done by the US Energy Information Administration, 48% of Russia's crude oil and condensate exports by

destination are to the OECD countries and Europe, 1% to US, 8% to non-OECD Europe, Eurasia and 42% go to Asia and Oceania. Russia's natural

gas exports are primarily to Western Europe.

According to ICICI Securities, Germany's relationship with Russia is one of mutual dependence, as Russia-supplied natural gas runs a large proportion of its electricity – and France, Austria, Netherlands and Italy also depend on Russian gas and oil to only a slightly lesser degree. Analysts say that sanctions on Russia would cripple the EU economy (causing an EU recession) for at least half a year, although the US and OPEC countries could eventually replace most of the oil & gas lost to the EU from sanctions on Russia. Says Prasenjit Basu, Chief Economist at ICICI Securities, "Given

the hugely-negative impact on their economies, the EU members of NATO are likely less enthusiastic about sanctions on Russia, but aren't saying so publicly. Apart from France, the rest of NATO depends on the US for security, and so cannot publicly oppose US actions against Russia."

Analysts say the risk of a recession in the US is currently low, but would accentuate if energy prices continue to spiral. The US Fed Reserve is faced with difficult options. It can either undertake sharp rate hikes to tame inflation or allow the current stagnation to turn into a full-blown recession. These choices will keep markets on the edge for the next few months.