Capital Markets Strategy
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# Policy Note

On Thursday, the European Union approved a sixth sanctions package in response to Russia's invasion of Ukraine. The package includes a phased-in embargo on Russian seaborne oil, with carveouts for some pipeline oil (a necessary compromise for Hungary's agreement). Further, the sanctions package includes a restriction on European companies providing insurance on any Russian oil shipments, regardless of destination. This latter provision is expected to weigh heavily on Russian exports as the global oil insurance market is dominated by EU and UK insurers. Similar restrictions were highly effective in restricting foreign demand for Iranian oil shipments.

In addition to the partial EU-wide ban on oil products, Germany and Poland announced nation-wide bans on all Russian oil products. Taken together, the embargo will impact 90% of Russian oil exports to the EU by year-end. The financial impact for Russia is expected to be significant as ~42% of Russia's federal budget was from oil and gas sales in Q1 2022 and the EU currently pays Russia about $10 bn / month for crude & oil products.

Global oil prices initially rose to nearly $120 per barrel on the announcement. However, upward pricing pressure has moderated on news that OPEC+ will allow for a larger than anticipated supply-increase.

The package also includes the removal of three Russian banks from SWIFT (including Sberbank, Russia's largest bank), the banning of three Russian broadcasters in the EU, an expanded list of individuals facing targeted sanctions, additional restrictions on dual-use technologies and restrictions on EU consulting services sold to Russia.

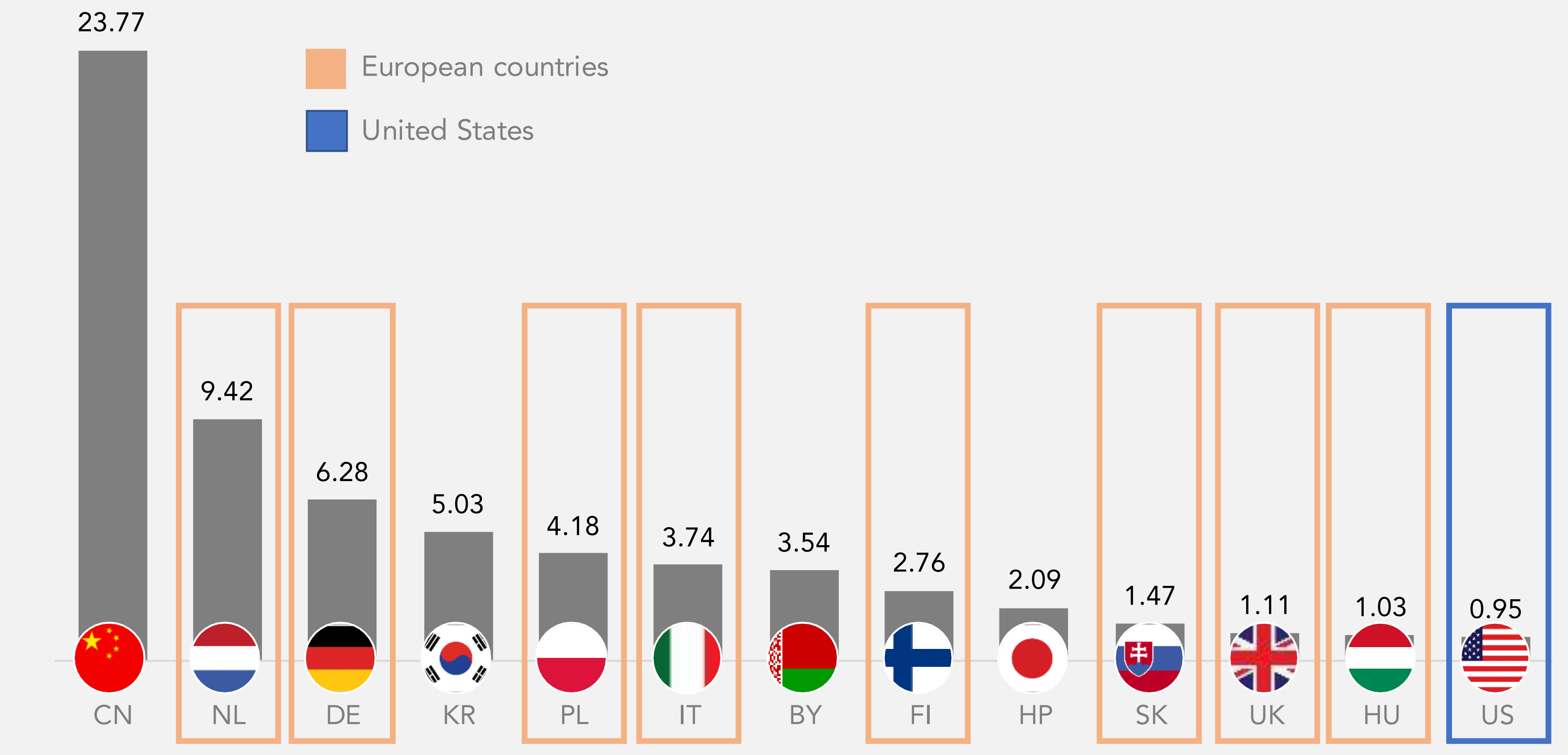
## The European sanctions package is an important signal of the West's commitment to increasing financial pressure on Russia

### Key Components of the EU's 6th Russia Sanctions Package

1. Embargo on seaborne crude and refined fuels (roughly 2/3 of imports from Russia)
   - Phased in over six months for crude oil and 8 months for refined petroleum products
   - Exemption for crude oil imports by pipeline
   - Temporary partial exemptions for Bulgaria and Croatia
2. European insurers restricted from covering cargoes of Russian crude
   - Phased in over six months
3. Additional three Russian banks and one Belarusian bank to be removed from SWIFT financial network
   - Includes Sberbank, Russia's largest bank
4. Broadcasting suspended for three Russian state-owned media outlets
   - Still be permitted to conduct research and interview activities
5. Expanded list of individuals and entities subject to targeted sanctions
   - Military officials, leading Russian figures, family members of oligarchs and Kremlin officials
6. Restrictions on EU accounting, public relations, consulting and cloud services provided to Russia
7. Expanded export restrictions concerning dual-use goods and technology and goods that may contribute to Russia's technological enhancement of defense and security
   - Includes 80 chemicals that could be used to produce chemical weapons

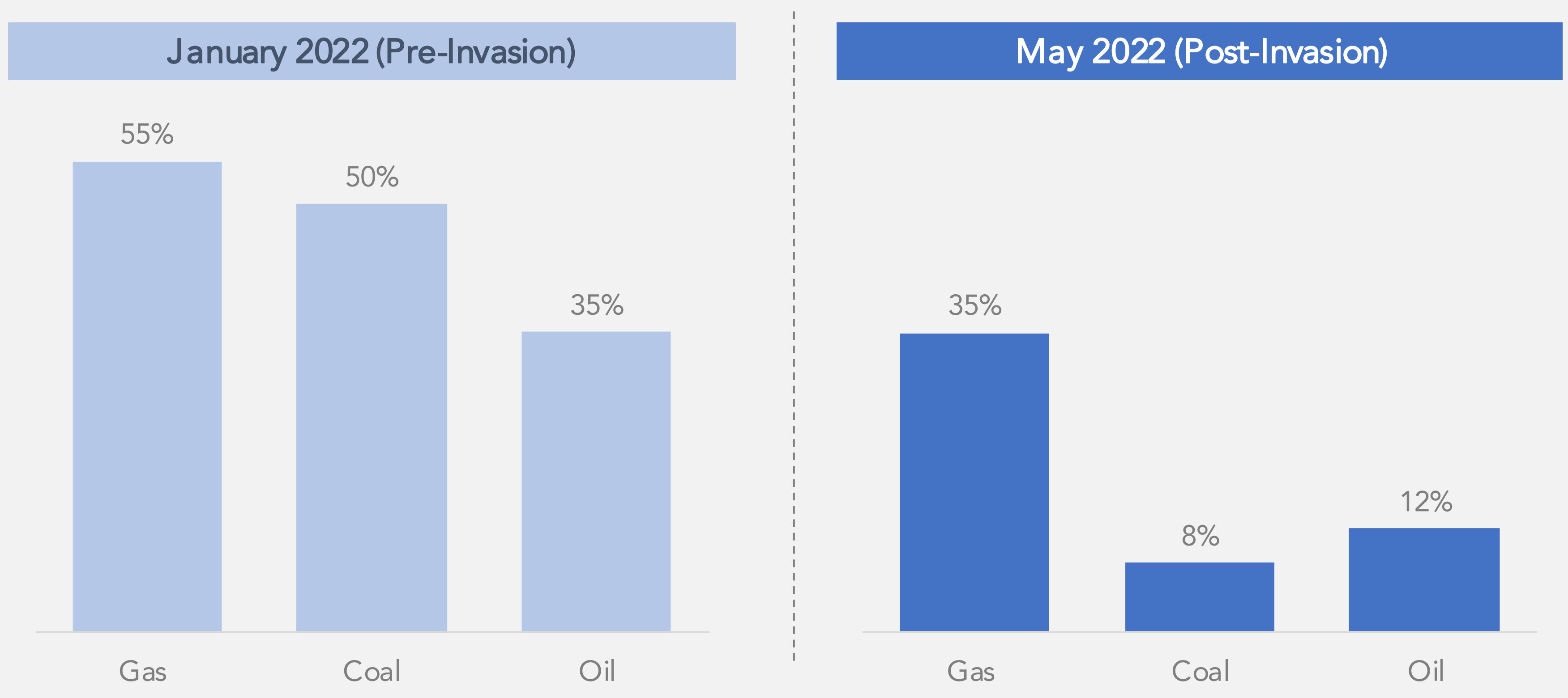
## A ban on all Russian oil exports by the US, UK and Europe would impact nearly 50% of total Russian oil exports. While the current sanctions package includes a carveout for pipeline oil, the insurance restriction will weigh heavily on exports.

Russia's most important oil export partners, % of total




## European nations have been working to reduce dependencies on Russian oil since the start of the invasion. Germany and Poland, in particular, have announced nation-wide bans on all Russian oil by the end of the year.

Percentage of German oil imports from Russia




*Source: European Council "Russia's aggression against Ukraine: EU adopts sixth package of sanctions". (1) UN Comtrade. (2) WSJ, "How Germany Is Racing to Sever Dependence on Russian Energy" (May 17, 2022). (3) Castellum.AI. Data as of June 2, 2022. WSJ. "EU Sets Harshest Russian Sanctions, Targeting Oil and Insurance". (June 1, 2022).*

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