REPORT

DRAINING FUEL FROM THE RUSSIAN WAR MACHINE

OIL, GAS, AND SANCTIONS OUTLOOK

| VELI-PEKKA TYNKKYNEN |

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List of Abbreviations and Units of Measurements

AfD Alternative for Germany Party (*Alternative für Deutschland,* Germany)
bcm billion cubic meters (natural gas)
CDU Christian Democratic Union of Germany (*Christlich Demokratische Union Deutschlands,* Germany)
CREA Centre for Research on Energy and Clean Air
EKRE Conservative People's Party of Estonia (*Eesti Konservatiivne Rahvaerakond,* Estonia)
FDP Free Democratic Party (*Freie Demokratische Partei,* the Netherlands)
G7 Group of Seven
LNG liquefied natural gas
mt million tons (oil)
OFAC Office of Foreign Assets Control (the US)
OPEC Organisation of the Petroleum Exporting Countries
PiS Law and Justice (*Prawo i Sprawiedliwość,* Poland)
PO Civic Platform (*Platforma Obywatelska,* Poland)
PVV Party for Freedom (*Partij voor de Vrijheid,* the Netherlands)
RN Rassemblement National (National Rally, France)
SPD Social Democratic Party of Germany (*Sozialdemokratische Partei Deutschlands,* Germany)
TWh Terawatt-hours
VVD People's Party for Freedom and Democracy (*Volkspartij voor Vrijheid en Democratie*, the Netherlands)

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Executive Summary

Hydrocarbon revenues remain central to Russia's economic resilience and its ability to finance the war against Ukraine. Although Russia is less dependent on oil and gas than many petrostates – and hydrocarbon revenues now account for roughly one-third of federal budget income, down from 50% in the 2010s – oil and gas continue to function as the backbone of the Russian economy. Oil in particular dominates, accounting for more than one-third of total export revenues, and the sector generates substantial spillover effects across the broader economy. At the same time, military and security-related expenditures consume over one third of the federal budget, rising to as much as 40% when all security costs are included, underscoring the strategic importance of energy revenues for sustaining Russia's war effort.

Since Russia's full-scale invasion of Ukraine in 2022, the EU and its partners have imposed extensive sanctions targeting Russia's energy exports and the technologies underpinning extraction, refining, and transport. By the autumn of 2025, the EU had adopted 19 sanctions packages. These measures have reduced Russia's cumulative oil and gas export earnings by approximately €100 bn since the oil price cap was introduced in December 2022. However, due to elevated global oil prices – partly driven by the war itself – Russia continued to earn comparable or higher revenues until early 2025, despite exporting less energy than in 2022. Moreover, Europe has continued to channel significant funds to Russia: since the invasion, EU countries have paid an estimated €220 bn for Russian coal, oil, and gas, representing about 20% of Russia's total energy earnings during this period.

This report argues that western efforts to curtail Russia's economic and technological capacity have been incomplete. Sanctions are less stringent and suffer from enforcement gaps, limiting their

overall impact. Against this backdrop, the report seeks to estimate Russia's potential hydrocarbon export revenues through 2027 in order to assess its capacity to sustain the war and broader coercive influence over Europe.

Given that global commodity prices and actions by external actors, such as the United States, are largely beyond Europe's control, this report focuses on Europe's own political willingness to further restrict Russian energy revenues. By examining political debates, sanctions policy, and energy and climate choices in major European countries, the report evaluates how domestic political dynamics – particularly the rise of radical-populist parties – may either support or undermine stronger action.

Structured across five chapters, the report reviews the role of energy in Russia's wartime economy, shifts in export destinations and infrastructure constraints, the impact of sanctions and other external pressures, and future revenue scenarios up to 2028. It concludes with recommendations on how Europe can strengthen its position and increase economic pressure on Russia by further constraining hydrocarbon revenues. In particular, it suggests that:

- This moment should be seized to strengthen sanctions, accelerate Europe's exit from Russian energy, and demonstrate geopolitical resolve.
- A jointly enforced western oil price cap near $30 per barrel, rigorously applied by the G7, would significantly cut Russian revenues without destabilising global markets.
- Coordinated action with close partners such as the UK, Norway, and Canada would ensure compliance with price-cap rules by denying passage to inadequately insured, improperly flagged, or technically unsafe vessels.
- The EU should intensify measures targeting oil products by lowering the existing price cap and closing the 'refining loophole'.
- A faster exit would deprive Russia of billions of euros annually with limited alternatives for replacement markets.
- The EU should explore mechanisms such as targeted taxes or duties on remaining Russian energy imports, with revenues earmarked directly for Ukraine.

Introduction

Even though Russia is not dependent on oil and gas on the scale that many other petrostates are, and earnings from hydrocarbons cover circa one-third of its budget revenues (compared to 50% in the 2010s[1]), the rest of the Russian economy would be much smaller without these commodities. Oil and gas are thus Moscow's economic locomotive and result in a positive trickle-down effect on the Russian economy. Oil outweighs gas by a factor of three or four, and oil exports alone constitute more than one-third of Russia's overall export revenues. Therefore, hydrocarbon reve-nues contribute significantly to Russia's war chest, whereas the share of military spending reaches over one-third of federal budget expenditure and rises as high as 40%, if all security-related costs are included.[2]

In the wake of Russia's full-scale invasion of Ukraine in 2022, the west and the EU have aimed to decrease Moscow's income by imposing broad sanctions aimed at the energy sector, in particular. Altogether 19 sanction packages had been put in place by the EU by the autumn of 2025, targeting Russian coal, gas, and oil exports, as well as a wide range of technologies needed in energy extraction, refining, and transport.[3] These sanctions have decreased Russia's oil and gas export earnings cumulatively by €100 bn since the introduction of the oil price cap in December 2022. But only since the beginning of 2025 has Russia begun earning less (month-to-month) from hydrocarbon sales compared to summer 2021.[4] That was when Moscow started to squeeze Europe with lower gas export volumes and drained dry the Gazprom-owned storage facilities in Germany to inflate energy prices in Europe and to prepare for the invasion of Ukraine. Because the global price of oil increased significantly due to Russia's war, especially spiking in 2022, Russia continues to benefit financially despite exporting about 20% less energy commodities than it did in 2022.[5]

The EU, with its partners, notably the US and the UK, aims to mount pressure on Russia's economy to undermine Russia's ability to wage the war, as well as push Moscow to negotiate and stop the killing. The west's effort to cripple Russia economically and technologically has, however, been halfhearted. The proposed sanctions are not as stringent as they could be, and the ones in place are porous. The cumulative sum of European money flowing into Russia in exchange for coal, oil, and gas supplies since the beginning of the invasion has reached €220 bn, roughly 20% of Russia's total energy-related earnings.[6]

Russia continues to benefit financially despite exporting about 20% less energy commodities than it did in 2022

This report aims to estimate how much Russia could earn from hydrocarbon exports by the end of 2027 in order to assess its economic resilience to continue waging war against Ukraine and sustain broad-based influence

1 Vitaly Yermakov, *Follow the Money: Understanding Russia's Oil and Gas Revenues* (Oxford Institute for Energy Studies, March 2024).

2 "Russian Defence Spending Rises to a Record High: A Third of the Budget," *Euronews*, 1 December 2024; Darya Korsunskaya and Gleb Bryanski, "Russia Hikes National Defence Spending by 23% for 2025," *Reuters*, 30 September 2024; Bank of Finland Institute for Emerging Economies (BOFIT), *Latest Forecast for Russia* (BOFIT, 2024).

3 European Commission, "Sanctions on the Energy Sector. EU Sanctions Against Russia Following the Invasion of Ukraine," 2025.

4 Benjamin Hilgenstock, "What Effects Have Energy Sanctions Had on Russia's Ability to Wage War?," *Economics Observatory*, 2025.

5 Centre for Research on Energy and Clean Air, *Financing Putin's War* (CREA, 2025).

6 CREA, *Financing Putin's War*.

operations against Europe and the west. Global commodity prices, as well as actions taken by other powers, notably the US, are mostly outside of Europe's influence. To explore other avenues Europe could take and the means to suppress Moscow's energy revenues, this report focuses on how Europe's own willingness to defend against Russia on the energy front could develop**.** This report, therefore, looks at the political tendencies and discourse in major European countries on sanctions as well as the EU's energy and climate policies. Understanding this political context helps search for new ways in which the EU and the wider Europe can strengthen our position and halt Russia's war effort.

The first chapter sets out to explain the role of energy in Russia's economy and society during the full-scale war against Ukraine. The second chapter looks at the Russian energy export destinations since 2022 and details its production and transport capacities. The third chapter examines the impact of different factors – from global oil prices and western sanctions to Ukrainian military strikes on Russian hydrocarbon infrastructure – on the energy economy and prowess. The fourth chapter focuses on Europe's willingness to further curtail Russian energy earnings, as well as the threat posed to this objective by the European radical-populist parties. The fifth chapter ponders three scenarios, framed by European action, of how Russia's energy revenues might develop up until 2028. The report ends with recommendations as to what Europe should do to increase economic pressure on Russia.

1. Energy, Economy, and Society

Despite unprecedented sanctions, Russia's economy is not collapsing; it has proven to be resilient like any other market economy, but it is becoming increasingly vulnerable.[7] It is, of course, not a normal market economy, at least not by western or European standards, which implies a diverse structure. However, on a global level, a resource-dependent economy like Russia's, which derives more than 80% of its export revenue from the sale of natural resources, is the norm rather than the exception.

Russia's economy is not collapsing, but is becoming increasingly vulnerable

A central raw material and energy provider, Russia has played its cards well. Moscow established buffer funds, the most important among them being the National Wealth Fund, to cushion the shocks of customary commodity-price fluctuations. These funds, perceived by Europeans as a welfare guarantee for Russian people, proved fundamental to Russia's ability to withstand lost profits due to its war – both to fare well because of lost export revenues as well as growing military and security spending. A more proper name for the wealth fund would thus be the 'National War Fund'. Russia may have a normal economy, yet it is an abnormal country in its willingness to sacrifice the economic and social well-being of its people for the sake of its imperial ambitions driven by a colonial and racist worldview.[8] One must keep in mind that it is Russia, not President Putin or his regime, that wants to make this sacrifice – so few Russians

A central raw material and energy provider, Russia has played its cards well

[7] Bank of Finland, *BOFIT Forecast for Russia 2025–2027* (BOFIT, 2025).

[8] Marina Yusupova, "Coloniality of Gender and Knowledge: Rethinking Russian Masculinities in Light of Postcolonial and Decolonial Critiques," *Sociology* 57, no. 3 (2023): 682–699; Donnacha Ó Beacháin, *Unfinished Empire: Russian Imperialism in Ukraine and the Near Abroad* (Agenda Publishing, 2025).

are against the violence, while so many are willingly participating in and contributing to the war effort. In general, despite – or should one say, because of – the war, Russians are happier than ever since the collapse of the Soviet Union.[9]

Notwithstanding high energy and commodity prices since 2022, as well as the €300 bn strong buffer funds at the beginning of the full-scale invasion of Ukraine, Russia's near-future economic potential looks bleak.[10] Global energy prices have been falling since 2024, which has melted away both the buffer funds and the surplus the federal budget has been accustomed to. Moreover, the ruble is relatively strong, whereas Russia has to use more expensive foreign currency to purchase technologies needed by the energy and military industries. The G7 sanctions, meanwhile, have forced Moscow to sell its energy commodities at a bargain price. Due to an overheated war-driven economy and accompanying inflation, the Russian Central Bank has kept the interest rates exceptionally high, thereby pulling the brakes on private-sector investments.

On the plus side (from a Russian perspective), the state has a very low debt rate in international comparison, and thus ample possibilities to fund the war effort by using internal lending (mainly from export-oriented enterprises), as well as by raising taxes on individuals and companies. However, all these steps will probably hurt the public approval of the war. Although the Russian economy is performing at its maximum capacity and further avenues to increase military and security spending are lacking, Russia can continue fighting at the current intensity for some time.[11]

The factors that play in the Kremlin's favour – including a resentful populace willing to sacrifice their future well-being for the sake of restoring a sense of great power – should not fool the west into believing that further efforts to sanction Russia and thereby erode its ability to conduct violence will be futile. This is a case of Russian disinformation, a narrative that the Kremlin tries to spread among Europeans and Americans. The more the economic costs ordinary Russians carry, the more likely Russia is to compromise. It is Russia that has produced Putin's regime.[12] And even though Putin is a dictator now, he and his regime follow the people's sentiment. Therefore, maximum pressure in 2026 and 2027 – when Russia's economic potential will be at its weakest since 2022 – will prove critical to forcing Moscow to stop the war and back down on the pledge to extend its sphere of influence in Europe.

The more the economic costs ordinary Russians carry, the more likely Russia is to compromise

This fragile position has pushed the Kremlin to intensify its information war to sway public opinion and persuade leaders in the west not to confront Russia. That includes shaping the image of a strong and omnipotent Moscow as the only actor that can manage escalation between Russia and Europe, albeit typically upwards. This was one of the reasons why Germany was sending helmets, instead of lethal weapons, to Ukraine in the spring of 2022. Historical factors certainly played a role, and even though the German position has changed since then, fear of Russia is still a major constraint in Berlin's vis-à-vis Moscow. Similarly, Russia will continue to threaten Europe with military conflict or even nuclear war if its sanctions-evading oil-tanker fleet becomes subject to inspections in the Danish Straits. But as has been the case repeatedly during the war against Ukraine, in situations when Russia's 'red lines' are not respected and the west shows resolve, Russia backs down.[13]

The Kremlin's information war against the west includes painting the opposite picture, too – that of a weak Russia. This is, in actual

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9 Levada Center, "Удовлетворённость жизнью, адаптация к настоящему, уверенность в завтрашнем дне и будущем семьи: июль 2025 [Satisfaction with life, adaptation to the present, confidence in tomorrow and the future of the family: July 2025]," 8 August 2025.

10 Bank of Finland, *BOFIT Forecast*.

11 "A Budget Without a Future: How the Russian Economy Stays Afloat," *New Eurasian Strategies Centre (NEST)*, 4 October 2025.

12 Jade McGlynn, *Russia's War* (Polity Press, 2023).

13 Peter Dickinson, "Putin Is Becoming Entangled in His Own Discredited Red Lines. UkraineAlert," *Atlantic Council*, 31 October 2025.

terms, part of its deterrence strategy: Moscow is selling fear by implying that if the western resolve becomes too strong and Russia loses or its regime collapses, the consequences will be much graver. This 'too strong but dangerously weak' narrative was embraced by the Belgian Prime Minister in early December 2025 when he blocked the EU's campaign to direct €200 bn in Russian frozen assets to Ukraine and justified it with a claim that has been too familiar to many since the 1990s: the disintegration of Russia was the biggest concern for European security.[14] Russia exploits sentiments like these in its information war.[15] It suggests that the sanctions can hurt Russia to the extent that instability will spill over as a threat to Europe. From 2014 onwards, Moscow has argued that sanctions hurt the environment, as they deprive Russia of access to environmentally sound technologies in oil and gas extraction.[16] Similarly, now, Ukraine's strikes on Russian energy infrastructure are framed as harmful to Europe and the west, because they destabilise energy prices.[17]

2. Russian Oil and Gas Empire

2.1. Production

Russian **oil** production had peaked at 535 million tons (mt) just before the invasion of Ukraine in 2022. Post-pandemic recovery explains some of that growth. But equally consequential was the fact that Russia started to squeeze Europe with shrinking gas exports from summer 2021 onwards, which resulted in generally high energy prices. Therefore, there was extra impetus for Russia to produce more oil to benefit from the price hike. By 2024, Russia's oil production had fallen to circa 515 mt, a mere 5% decrease. Problems associated with western commodity and technology sanctions, as well as the EU's decision to phase out Russian energy imports, have raised the question of whether Russia can maintain its historical oil production volume at around 500 mt per year. Moreover, the longer the investment gap in new oil production capacities continues, the sooner Russia's ability to maintain that level will be exhausted. The International Energy Agency's prognosis on Russia's oil-production capacity for the coming years is bleak: it is projected to drop from 470 to 465 mn tons per year in 2030.[18] Since 2022, Russia has managed to sustain high output by depleting its oil reserves faster than its production capacity would allow.

The longer the investment gap in new oil production capacities continues, the sooner Russia's ability to maintain that level will be exhausted

Moscow may be betting on a price hike from 2027 onwards due to global underinvestment in new oil production today.[19] Even though now and well into 2026, there is a surplus of oil supply in the market, Russia's own dwindling production capacity might cease to be a major problem by then, as losses in volume could be covered by significantly higher prices triggered by an oil deficit globally. Of course, in five to ten years, if Moscow fails to invest in new capacity, its oil revenues will inevitably fall. However, this is a far too distant perspective to influence Russia's ability to wage the war against Ukraine today. For this reason, there is an urgency to tighten the sanctions against Russia's oil and gas.

In 2026–27, Moscow will have a very limited possibility to expand its gas production

14 Tim Ross, Gregorio Sorgi, Hans von der Burchard, and Nicholas Vinocur, "How Belgium Became Russia's Most Valuable Asset," *Politico*, 4 December 2025.

15 "Belgian PM Calls Notion of Russia's Defeat in Ukraine Unrealistic," *Tass*, 3 December 2025.

16 Anastasia Boiko, "Эксперты РАН оценили влияние санкций на планы России по декарбонизации [Russian Academy of Sciences experts assessed the impact of sanctions on Russia's decarbonisation plans]," *Vedomosti*, 22 November 2022; Angelina Davydova, "How Russia's war is impacting the global environmental agenda," *Carnegie politika*, 11 January 2023.

17 "Kiev's Strikes at Russian Oil Refineries May Affect Global Energy Situation," *Tass*, 9 April 2024.

18 International Energy Agency, *Oil 2025: Analysis and Forecast to 2030* (IEA, 2025).

19 Peeter Helme, "Russia's Oil Production Capacity Continues to Decline," *Euromaidan Press*, 25 November 2025.

Russia's **gas** production has decreased since the record-setting year of 2021, when it reached 760 billion cubic meters (bcm). As Europe started to reduce its gas imports from Russia in the aftermath of the 2022 invasion, its gas production fell to 622 bcm already in 2023.[20] A 20% official drop could, in actual terms, have been more severe, as Russia was forced to flare part of its produced gas: i.e., simply burn it instead of exporting, storing, or converting it to electricity and heat.[21] There was nowhere to divert that gas, as domestic markets could not absorb such high volumes and Russia lacked storage capacity available in Ukraine or central Europe.[22] Thus, gas was extracted but not utilised in any other way than increasing the environmental toll of Russia's war.

However, due to Europe's own challenges with finding both the political will and a substitute for Russian gas, Europe grew its imports, especially in the form of liquefied natural gas (LNG), in 2024. This, in turn, boosted production in Russia: the volume reached 685 bcm in 2024, a 10% increase on the previous year.[23] In 2026–27, Moscow will have a very limited possibility to expand its gas production, not least because Europe will continue to phase out Russian gas imports by 2027. In the meantime, no new gas export contracts with China and other buyers in Asia can compensate for the drop in sales to Europe.

2.2. Exports

Following the 2022 invasion of Ukraine and the subsequent imposition of western sanctions, Russia has undertaken a significant redirection of its energy exports towards China, India, Türkiye, and other nations (see Figure 1 below). This has resulted in an interplay of earnings, losses, and trade-offs for both Russia as the seller and the emerging buyer nations.

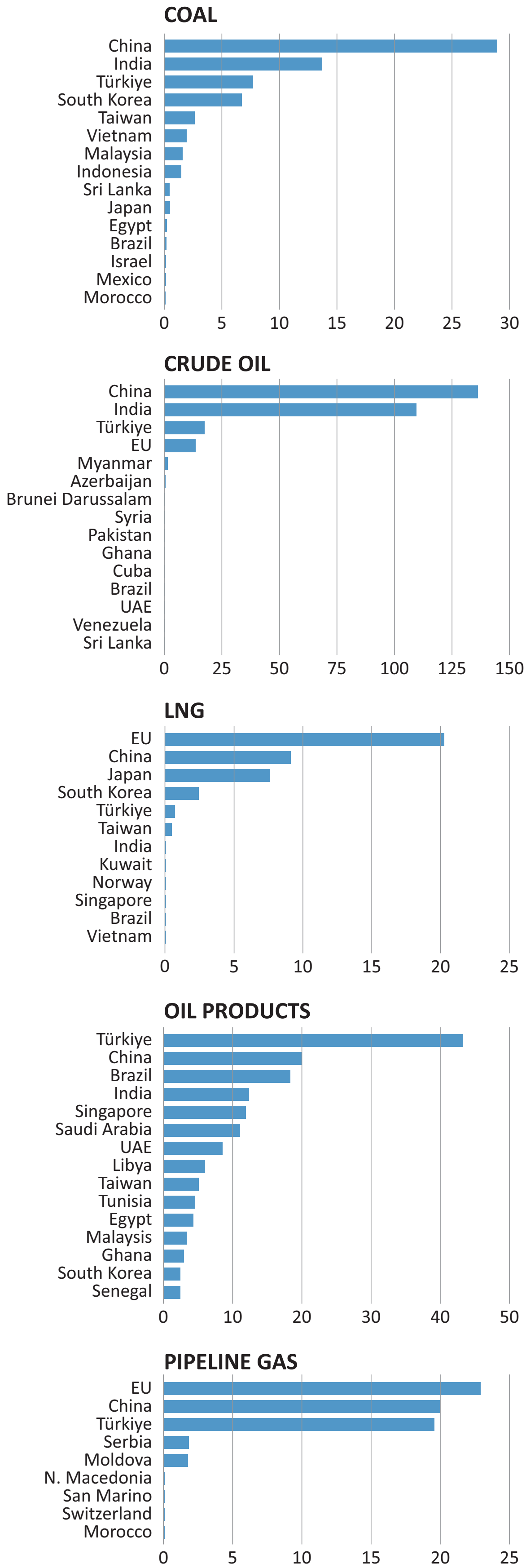

Figure 1. Cumulative value of Russia's energy export revenues by importing countries (bn €). *Source*: CREA analysis based on Kpler, Marine Traffic, ENTSOG, and customs data 2025.

[20] International Energy Agency, *Russia – Natural Gas* (IEA, 2025); International Energy Agency, *Gas Market Lessons from the 2022–2023 Energy Crisis: Anatomy of a Natural Gas Crisis* (IEA, 2024).

[21] Matt McGrath, "Russia's Oil and Gas Revenues Fall as Western Sanctions Bite," *BBC*, 25 August 2022.

[22] Vladimir Afanasiev, "Burning Up: Four Nations Increase Flaring to Reverse Global Industry Trend," *Upstream*, 24 June 2024.

[23] Vladimir Soldatkin, "Russia's Oil Output Down 2.8%, Gas Production Up 7.6% in 2024, Deputy PM Says," *Reuters*, 30 January 2025; Malte Humpert, "EU Imports More Russian LNG in 2024 Than Ever, Mostly From the Arctic," *High North News*, 6 January 2025.

While Russia initially experienced a substantial decline in fossil fuel export revenues, the impact of sanctions appears to be diminishing over time.[24] Despite a decrease in export volumes, the steep revenue drops, seen in the initial phases, have become more marginal. This evolution is largely attributed to Russia's ability to find alternative markets, albeit often at discounted prices.

Surge in volume has not translated into proportional revenue gains

The oil sector has witnessed a dramatic shift in destinations: China and India emerged as the primary purchasers of Russian crude oil and accounted for approximately 90% of exports in 2023.[25] India alone absorbed a substantial 36% of Russian crude oil exports in the same year, and exports to China saw a notable 24% increase.[26] However, this surge in volume has not translated into proportional revenue gains, highlighting the impact of sanctions and China's enhanced negotiating position.[27] Significant discounts on Russian crude, such as the $32 per barrel on Urals crude in March 2023, have been a key factor in this revenue lag.[28]

Furthermore, almost half of this discount can be directly linked to the increased costs of shipping oil over longer distances to markets like India.[29] Russia's reliance on a 'shadow fleet' of tankers to circumvent price caps, while maintaining export volumes, introduces an additional layer of operational expenses.[30] The consequence of this pivot is a growing dependence on China, which now accounts for a significantly larger share of Russia's energy export value. Concurrently, Russia has suffered a major setback with the near-complete loss of its European oil market, which previously constituted around 50% of its total exports.[31]

The redirection of natural gas exports presents a more formidable challenge for Russia due to infrastructural limitations.[32] While pipeline gas exports to China via the Power of Siberia pipeline have increased, they remain considerably below both the pipeline's capacity and Russia's pre-war export volumes to Europe.[33] LNG exports to China have also grown, but declining prices have eroded their overall value. The loss of the European gas market, once the destination for 45% of EU imports, is a significant blow, evidenced by substantial losses reported by Gazprom. Like oil, Russia's gas strategy entails an increasing reliance on China as a primary customer, particularly if future pipeline projects, notably the Power of Siberia 2, materialise.[34] However, this project will not have become a reality before 2028, the end of the timeframe of this report. The capacity to rapidly expand this type of infrastructure towards the east is therefore limited, posing a long-term challenge for Russia in compensating for the loss of the once profitable European pipeline gas market. Consequently, while increased LNG sales to China offer some revenue support, the overall financial offset for eroded gas revenues remains constrained.[35]

While increased LNG sales to China offer some revenue support, the overall financial offset for eroded gas revenues remains constrained

24 Isaac Levi, Petras Katinas, Luke Wickenden, Panda Rushwood, and Vaibhav Raghunandan, "Presentation: Three Years of War – Tighter Sanctions Will Slash Russian Revenues by 20%," *Centre for Research on Energy and Clean Air (CREA)*, 3 March 2025.

25 Vaibhav Raghunandan, Isaac Levi, and Luke Wickenden, *Three Years of Invasion: EU imports of Russian fossil fuels in the third year of invasion surpass financial aid sent to Ukraine* (Centre for Research on Energy and Clean Air, February 2024).

26 Vaibhav Raghunandan and Petras Katinas, "January 2025: Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," *Centre for Research on Energy and Clean Air (CREA)*, 11 February 2025.

27 Erica Downs and Tatiana Mitrova, "Q&A: China-Russia Energy Relations One Year after the Invasion of Ukraine," Columbia University, 2024.

28 Lutz Kilian, David Rapson, and Burkhard Schipper, *Sanctions and the Global Oil Market* (Federal Reserve Bank of Dallas, 2024).

29 Kilian, Rapson, and Schipper, *Sanctions.*

30 Raghunandan et al., *Three Years of Invasion*.

31 Raymond E. Vickery Jr. and Tom Cutler, *Oil for India* (National Bureau of Asian Research, 2024).

32 Timur Kulakhmetov, *Russia, energy, China, and India* (Russia Energy Series--Working Paper no. 7) (Innovation Reform, March 2024).

33 Kulakhmetov, *Russia, Energy, China, and India*.

34 Kulakhmetov, *Russia, Energy, China, and India.*

35 "Western Sanctions Have Cost Russia Nearly $500 Billion in Lost Revenue," *The Odessa Journal*, 25 March 2025.

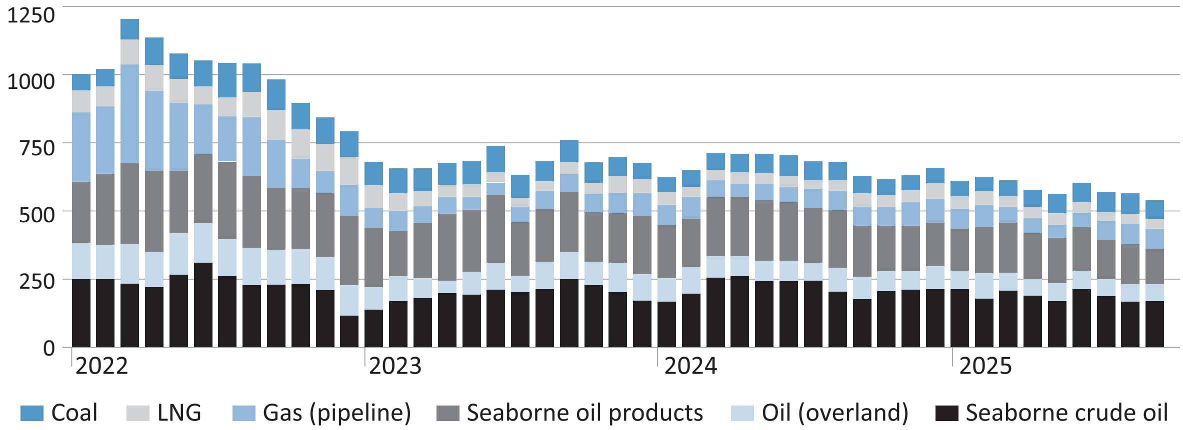

Figure 2. Russia's fossil fuel export revenue since 2022 (mn € per day). *Source:* CREA, 2025.

The overarching financial impact on Russia's energy sector was evident in the 29% year-on-year drop in export revenues in the second year of the invasion.[36] Although increased sales to India, China, and Türkiye provided partial mitigation in late 2022, the persistent price discounts and elevated transportation costs likely resulted in a net decrease in Russia's oil and gas earnings compared to pre-2022 levels.[37] However, this revenue decline became more marginal in the third year, suggesting a degree of adaptation by Moscow and its trading partners. Nonetheless, Russia's energy earnings have been shrinking since 2025, dealing a blow to its sanctions-hit economy.[38] The fuel profits have nearly halved, impacting the federal budget. Russia's projected budget deficit in 2025 tripled from 0.5% to 1.7% of GDP.[39] The profitability of refineries has suffered as well, worsened by Ukraine's strikes on Russian energy infrastructure. This downturn coincides with new EU and US sanctions.[40]

In sum, oil and gas account for almost a third of Russia's state revenue and more than 60% of its exports.[41] As of December 2025, Russia had made approximately €980 bn in revenue from fossil fuel exports since 2022, including €250 bn from the sanctioning countries. Out of that total, €217 bn originated from EU member states.[42] Therefore, the imposition of western sanctions following the war in Ukraine has aimed to significantly impede Russia's revenue generation from its oil and gas exports. By the end of 2025, Russia's fossil fuel export revenues had seen a significant decrease, settling for the first time below €500 mn per day (see Figure 2) – the lowest level since the invasion and accounting for circa half of what Russia earned from energy exports in 2022.[43] This reduction is due to both the decreasing global price of oil and the sanctions-driven widening discount of the Russian Urals brand.[44]

For the primary buyer nations, the trade-offs for engaging in energy trade with Russia result in a mixed picture.[45] China and India have benefited from access to increased volumes of Russian oil and gas, often at discounted prices, bolstering their energy security and potentially providing them with greater influence in the global energy market. India has become an important hub for refining discounted Russian crude for both domestic consumption and re-export, including to Europe.[46] However, this increased reliance on a single major supplier carries inherent vulnerabilities. Potential risks such as reputational damage, indirect exposure to sanctions, and the strategic implications of

[36] Raghunandan et al., *Three Years of Invasion*.

[37] Kilian, Rapson, and Schipper, *Sanctions*.

[38] Raghunandan et al., *Three Years of Invasion*.

[39] "Russia Raises 2025 Deficit Forecast Threefold Due to Low Oil Price Risks," *Reuters*, 30 April 2025.

[40] Raghunandan et al., *Three Years of Invasion*.

[41] Vitaly Shevchenko, "How the West Is Helping Russia to Fund Its War on Ukraine," *BBC*, 30 May 2025.

[42] Shevchenko, "How the West Is Helping Russia."

[43] Petras Katinas and Vaibhav Raghunandan, "October 2025: Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," *Centre for Research on Energy and Clean Air (CREA)*, 13 November 2025.

[44] European Commission, "EU Adopts 17th Sanctions Package against Russia," 20 May 2025.

[45] Henrik Wachtmeister, *Russia-China Energy Relations Since 24 February* (Swedish Institute of International Affairs (UI), 2024).

[46] Kulakhmetov, *Russia, Energy, China, and India*.

deepening energy ties with Russia represent likely downsides.[47] Both nations also maintain a focus on diversifying their energy sources to mitigate over-reliance on Moscow. India, for example, has encountered payment issues and logistical disruptions in its oil imports from Russia.[48]

Trade-offs for Moscow can be summarised as:

- **Revenue Shortfalls**: Despite successful volume redirection in oil, Russia has experienced a net decrease in overall energy revenues due to price discounts, elevated transportation costs, and the sheer scale of lost European markets, particularly for gas.

- **Increased Dependence on China**: The energy pivot has amplified Russia's economic and technological dependence on China in critical energy sectors, granting Beijing greater leverage in price negotiations and other commercial terms.

- **Payment Complexities**: Russia has encountered challenges in managing rupee-denominated profits from India.

- **Diminished Geopolitical Influence in Europe**: Russia's stature as a dominant energy supplier in Europe has waned, re-orienting towards relationships with Asian consumers, most notably China.

By contrast, trade-offs for buyers are as follows:

- **China** has gained access to discounted Russian oil and gas, enhancing its energy security and negotiating power. However, over-dependence on a single supplier and potential repercussions on its relations with the west pose potential risks.

- **India** has capitalised on cheaper Russian oil, significantly boosting its imports and refined product exports. Recent issues with sanctions and payment mechanisms, alongside concerns about future dependence and potential repercussions on its relations with the west, represent potential drawbacks.

- **Türkiye** has likely benefited from discounted energy, although on a smaller scale, while facing potential risks related to secondary sanctions and reputational damage.

In conclusion, Russia's redirection of energy exports to Asia has partially mitigated the impact of western sanctions on export volumes, particularly in the oil sector. However, this strategic shift has come at a considerable economic cost in the form of reduced revenues due to price discounts and increased logistical expenses. The loss of the European gas market poses an exceptional challenge. Conversely, buyer nations like China and India have generally benefited from access to discounted Russian energy, although not without their own set of trade-offs concerning dependence, payment complexities, and geopolitical implications. The evolving energy landscape underscores a significant power shift in the global oil and gas market, with a notable increase in China's influence in its energy relationship with Russia.

Russia's redirection of energy exports to Asia has partially mitigated the impact of western sanctions on export volumes, particularly in the oil sector

3. The Impact Factors

3.1. Global and Domestic Revenue Constraints

By far the biggest factor impacting Russia's hydrocarbon revenue accumulation is the global price of oil. Here, Russia plays an important role as it not only produces circa 10% of global oil but is also a member of the OPEC+. The Organisation of the Petroleum Exporting Countries (OPEC) consists mainly of Middle Eastern and African nations, yet Russia is part of its 'extension' coalition, which consists of 23 nations that negotiate production quotas to control the price of

[47] Robert Rapier, "How Russia's Pivot to Asia Reshapes Global Energy," *Forbes,* 11 January 2025.

[48] Kulakhmetov, *Russia, Energy, China, and India*.

oil.[49] Via OPEC+, which produces about 60% of global oil, Russia has leverage on its own revenues. However, the interests of OPEC countries and Russia are far from converging, and the oil glut, characteristic of the market in late 2025, suggests that Russia is not in the driver's seat.[50] That is, well into 2026, the low price of oil will remain a negative factor for Russia's hydrocarbon revenue accumulation and, therefore, its ability to fund the war against Ukraine.[51]

The world appears to be better positioned, price-wise, for a scenario in which a share of Russia's oil will not enter the market

During the autumn of 2025 (and probably throughout 2026), there was a significant production surplus relative to demand in the global market, which hastened the drop in oil price that continued since early 2024.[52] The world thus appears to be better positioned, price-wise, for a scenario in which a share of Russia's oil will not enter the market. The sanctions imposed on Rosneft and Lukoil by the US administration during the autumn of 2025 might be linked to it: by curtailing part of Russia's oil exports, President Donald Trump does not jeopardise his popularity at home, which the rising gas prices at the pump would have entailed. Nevertheless, Europe should not tie its Russia policy to the US whims, as Trump's attitude might change, which the postponement of the sanctions deadline in late 2025 hinted at.

The fact that the global oil market is not tight now is a good starting point for Europe to step up. By driving Russia's price-cap-evading oil tankers out of the Baltic waters, Europe shields itself against higher oil prices. The argument that Europe cannot tighten sanctions on or sanction Russian energy altogether, echoed by European populists, is easily refuted: these measures will neither harm the economy nor make consumers feel the consequences in their wallets. Thus, wider oil sanctions will not immediately fuel 'fossil populism' (see Chapter 5) among European voters, at least not on objective economic grounds, as high inflation rates are unlikely.

The same price relief applies to gas, as its price is still linked to oil, albeit to a lesser degree than previously. Therefore, the EU's decision to stop importing Russian pipeline gas and LNG is easier to implement: today, LNG, substituting Russian gas, can be purchased from global markets at a much lower price than in 2022–23. Now, Europe gets most of its LNG from the US, while the European price has been low and approaching the American one.[53] The ultimate pace at which Europe will decouple from Russian gas is set by EU sanctions packages, yet individual countries can speed up the process by making independent choices not to buy Russian gas, as Finland did in spring 2022 when it stopped importing pipeline gas.

When assessing Russia's ability to produce oil and gas in the next two years, it is safe to assume that volumes of either commodity are likely to grow. Russia's oil production might face greater difficulties in maintaining the approximately 500 mn tons per year, the average volume over the past decade. In 2025, the volume was about 500–510 mn tons – a notable reduction from 530 mn tons in 2021, as the Russian federal budget generates its oil revenues via extraction tax, not export tax. The reasons behind reduced oil production volumes could be linked to several factors: technological and financial sanctions on the energy industry, redirection of oil flow from Europe to Asia, and Ukraine's strikes on Russian oil transport, refining, and export infrastructure.

Gas production saw a much more significant decrease: from 760 bcm in 2021 to 622 bcm in 2023, which can largely be explained by reduced exports to Europe.[54] For this reason, Russia's state giant Gazprom has been operating at a loss for several years. This adds

49 "What Is OPEC and How Does It Affect Oil Prices?" *Reuters*, 24 May 2024.

50 Paolo Agnolucci and Nikita Makarenko, "Oil Market Glut: Surging Output and Sluggish Demand Pressure Prices," *World Bank Data Blog*, 4 November 2025.

51 Vladimir Soldatkin, "Russia's Oil & Fuel Export Revenues Touch Lowest Level Since Ukraine Invasion – IEA," *Reuters*, 11 December 2025.

52 International Energy Agency, *Oil Market Report: November 2025* (IEA, 13 November 2025).

53 Mark Rachal, "US Natural Gas Prices at 3-Year High," *LP Gas Magazine*, 9 December 2025; European Commission, "Liquefied Natural Gas (LNG)," 2025.

54 IEA, *Russia - Natural Gas*.

pressure on the Kremlin to raise the gas price for domestic consumers, who have always considered a subsidised gas price to be a birthright in an energy superpower.[55] Traditionally, such subsidies have been financed by a surplus via Gazprom's exports to Europe. However, changes in production volumes are not a decisive factor for Russia's hydrocarbon export revenues. Surprises are unlikely by 2027, yet a clearer view into the current state of the industry and its technological challenges is needed to be able to anticipate them.

Europe should continue deploying renewable energy and tighten climate policy

Finally, EU member states, as well as the EU's common energy transition and climate policies, play a role in eroding the demand for fossil fuels. The EU – as home to 450 mn people and one of the biggest economies in the world – can influence the demand for oil and gas. Despite the timeframe limitations of this report, i.e., looking only as far as the beginning of 2028, it bears reminding that Europe should continue deploying renewable energy and tighten climate policy, meaning, in some contexts, the revival of nuclear energy. This not only reduces the economic burden on European states via a positive trade balance when fewer commodities are imported, but also psychologically strengthens Europeans by defending them against energy blackmail – be it Russian or American. Ramping up the development of renewable energy in Europe requires technologies and critical minerals that are, by far, supplied by China. However, this dependency is of a different nature: once built, this capacity can be maintained by reusing the materials. With fossil fuels, this is not the case, as oil, gas, and coal are non-renewable and non-reusable. Energy transition and climate policies are vital tools to combat fossil populism within Europe: the more it is powered by renewables (and the less it is dependent on fossils), the less likely the political movements, on both sides of the extreme, are to exploit energy to power their illiberal system.

3.2. Western Sanctions

Even after significant sanctions were slapped by the EU, the top five EU member states importing Russian fossil fuels pay Russia more than €1 bn per month collectively, with LNG comprising over half of these purchases.[56] Although direct pipeline gas imports from Russia ceased when Ukraine halted transit in January 2025, Russian crude oil continues to flow to Hungary and Slovakia. Meanwhile, gas deliveries to Europe via Türkiye have surged: the Centre for Research on Energy and Clean Air (CREA) reported a 27% increase in January and February 2025, compared to the same period in 2024, which is explained by deliveries to Hungary and Slovakia via the Turkish route.[57] Hence, proceeds made from oil and gas sales to Europe, too, are key to keeping Russia's war machine running.

A central component of these sanctions is the G7 price cap on Russian oil.[58] Analysis conducted by CREA indicates that a stricter cap of $30 per barrel could have drastically reduced Russia's oil export earnings by 41% (€136 bn) from December 2022 to February 2025, and by 40% (€4.26 bn) in February 2025 alone.[59] Even with the previous $60 per barrel cap, full enforcement was projected to have cut revenues by 12% (€40.4 bn) since its inception till February 2025, and by approximately €1.2 bn in February 2025.[60] Despite the historically unprecedented scale of sanctions, these measures are porous and far from perfect.[61]

Proceeds made from oil and gas sales to Europe are key to keeping Russia's war machine running

[55] "Financially Troubled Gazprom Seeks to Raise Prices in Russia," *Energy World*, 24 January 2025; Veli-Pekka Tynkkynen, *The Energy of Russia: Hydrocarbon Culture and Climate Change* (Edward Elgar Publishing, 2019).

[56] Petras Katinas and Vaibhav Raghunandan, "February 2025: Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," *Centre for Research on Energy and Clean Air (CREA)*, 14 March 2025.

[57] Shevchenko, "How the West Helps."

[58] US Department of the Treasury, "Treasury Announces New Sanctions Targeting Russian Energy Sector," 10 January 2024.

[59] Katinas and Raghunandan, "February 2025."

[60] Katinas and Raghunandan, "February 2025."

[61] Richard Morningstar and Landon Derentz, "Trump's Clear Path to Securing US Oil and Gas Dominance," *Atlantic Council*, 23 January 2025.

Russia has increasingly relied on its shadow fleet to bypass these restrictions.[62] In October 2024, shadow tankers were exporting approximately 80% of Russian oil and one-third of oil products.[63] After the west had expanded direct sanctions on these vessels in January 2025, their share in oil exports decreased; more oil has been exported by 'legal' (i.e., abiding by the G7 regime) vessels.[64] In January 2025, the US Department of the Treasury intensified its sanctions, targeting major Russian energy entities like Gazprom Neft and Surgutneftegas, as well as over 180 vessels, numerous oil traders, service providers, and insurers.[65]

Despite the historically unprecedented scale of sanctions, they are porous and far from perfect

In the summer and autumn of 2025, the EU adopted the 17th and 18th sanctions packages against Russia. They aimed to further cut Russian energy revenues by targeting an unprecedented number of shadow fleet vessels – more than 550 tankers. The measures lower the price cap on Russian crude exports from \$60 to \$47 per barrel. This means that oil sold above the limit becomes ineligible for western insurance and transport services, and sanctioned ships cannot enter EU ports.[66] These sanctions are not as effective because the United States has not joined price-cap measures. Despite the decision to adopt sanctions on Russian oil giants, Washington's position remains unclear. Partly due to this unwillingness in the US, Russia continues to earn substantial revenue from countries outside the 'price-cap coalition'.

In the second half of 2025, G7 tankers transported circa a third of Russia's oil.[67] Despite this moderate success, the problem with the shadow fleet persists, while Russian oil flows to foreign markets. Even though the majority of the shadow fleet vessels had been sanctioned by the end of 2025, this export practice continued. It is not about the volume, but the value: the US Office of Foreign Assets Control (OFAC) in January 2025 raised Russia's oil price discount, thereby reducing crude oil export revenues by 5% (circa €500 mn per month).[68]

The fact that Moscow managed to purchase a shadow fleet of around 900 vessels – one-sixth of the global tanker fleet – with the help of western shipping companies is a major drawback to western and European unity in confronting the aggressor.[69] Greece, an EU member state and a NATO ally, has sold half of the circa 250 vessels that the western nations combined have contributed to Russia's sanctions-evading fleet.[70] Altogether since 2022, western shipping companies have earned €6 bn from these sales; despite the fact that in 2023, the EU prohibited selling tankers that then transport Russian sanctions-evading oil, tens of ships have been sold, nonetheless.[71] This business is morally wrong: 1) the western owners were able to generate extra value from assets that would have otherwise ended up demolished ('windfall money' earned from Russia's violence); 2) it helps Russia to fund its war against Ukraine, and 3) knowingly keeping old and outworn tankers out in the seas increases the likelihood of an oil spill.

The problem with the shadow fleet persists, while Russian oil flows to foreign markets

62 US Department of the Treasury, "Phase Two of the Price Cap on Russian Oil: Two Years after Putin's Invasion," 23 February 2025.

63 Katinas and Raghunandan, "October 2025."

64 Katinas and Raghunandan, "February 2025."

65 Erica Downs et al., "Q&A: How Will New US Sanctions Affect Russia's Energy Sector?" *Columbia University*, 16 January 2025.

66 Bank of Finland, "Russia: Oil and Gas Revenues Continue to Decline," *BOFIT Weekly*, Week 49/2025.

67 Katinas and Raghunandan, "February 2025."

68 Katinas and Raghunandan, "February 2025."

69 George Janjalia, "Europe Moves Toward Shadow Fleet Seizures," *Center for European Policy Analysis (CEPA)*, 26 September 2025; Jon Henley, "US and European Shipowners Sold 230 Ageing Tankers to Russian 'Shadow Fleet,' Investigation Finds," *The Guardian*, 4 February 2025.

70 T. A. Soliman, J. Hungerford, J. Vander Schueren et al., "Russia/Ukraine Sanctions Update – Month of May 2025," *Mayer Brown*, May 2025.

71 Jesse Pinster, Dimitri Tokmetzis, and Birte Schohaus, "European Shipowners Keep Russia's Shadow Fleet Afloat – and Cash In Billions," *Follow the Money (FTM)*, 4 February 2025.

In addition to shrinking Russia's oil revenues via the price cap, the EU's oil embargo has raised shipping costs for Asia-bound oil exports, exceeding $10 per barrel, while Russian oil continues to be sold at discounts.[72] The post-sanctions decline in revenues has been primarily driven by a decrease in oil price, in turn, largely due to the need to redirect exports to more distant markets. In March 2023, Russian Urals crude was priced at $44 per barrel (compared to a global benchmark of $78 per barrel), yet Moscow's efforts to circumvent sanctions led to a narrower price difference in 2023 and 2024.[73] However, throughout 2025, the gap between Brent and Urals has remained at around $15 per barrel, whereas the sanctions introduced in the late autumn of 2025 further widened it to $20.[74] In addition to the growing export costs for Russia, studies show that a portion of this price discount can be attributed to India's and China's greater oil market power, which pushes the Urals price farther down.

Gas imports from Russia had not been subject to European sanctions until the decision in December 2025 to phase out both pipeline gas and LNG.[75] The 18th package banned transactions with the Nord Stream gas pipelines, while the 19th package should stop Russian gas exports to Europe by 2027. Moreover, several EU member states voluntarily decreased their gas imports, starting in spring 2022. Such a relatively rapid reduction in Russian gas imports was driven by several factors, among which the high prices in 2022 and 2023, as well as Russia's own drop in exports (e.g., via the Nord Stream 1 pipeline), played a pivotal role. Only a few EU countries – Bulgaria, Finland, the Netherlands, and Poland – stopped importing Russian pipeline gas in spring 2022 by refusing to pay in rubles, although Belgium, France, and Spain continued to purchase Russian LNG. These latter three countries were responsible for 85% of Russian LNG imports to the EU in 2024.[76] However, by 2024, Europe had already significantly decreased its gas imports from Russia, dropping to one-third of the volume in three years – from around 150 bcm in 2021 to less than 50 bcm in 2024.[77] Meanwhile, Russia's natural gas giant, Gazprom, faced significant production challenges due to shrinking access to European markets, and the company's profits were at a cumulative loss of at least €15 bn in 2023 and 2024.[78] The EU's permanent ban on Russian gas imports exposes Gazprom to a long-term losing streak estimated to reach tens of billions of euros.[79]

In conclusion, the sanctions have had a tangible impact on Russia's oil and gas sector, evidenced by decreased revenues and logistical hurdles. However, successful circumvention strategies, continued reliance on Russian energy in some countries, and the market dynamics in Asia have mitigated their full potential.

Successful circumvention strategies, continued reliance on Russian energy and the market dynamics in Asia have mitigated full potential of the sanctions

3.3. Ukrainian Strikes on Russian Energy Infrastructure

Aside from market factors and sanctions, Ukraine's drone strikes on Russia's energy infrastructure have delivered a significant blow to Moscow's revenues and diminished its capabilities to refine and transport hydrocarbons. Most notable are the strikes on oil refineries, but Kyiv's strategy also includes targeting oil and gas transport infrastructure, from pipelines and ports to shadow fleet vessels. As a result, in September 2025, Russia was forced to reduce its export volumes and lost circa 10% of the income from oil

72 Vladimir Milov, "Oil, Gas, and War," *Atlantic Council*, 23 May 2024.

73 Kilian, Rapson, and Schipper, *Sanctions*.

74 BOFIT, "New Sanctions Reduce Export Price of Russian Oil."

75 European Commission, "EU Agrees to Permanently Stop Russian Gas Imports and Phase Out Russian Oil," Press Release IP/25/2860, 3 December 2025.

76 "Where in Europe Still Relies on Russian Energy?," *European Newsroom*, 3 September 2025,

77 Council of the European Union, "Where Does the EU's Gas Come From?," 2025.

78 European Gas Hub, "Gazprom Records the Worst Results in the Company's History," 18 March 2025.

79 "Gazprom's Finances May Never Recover," *Oxford Analytica*, 17 July 2024.

products.[80] As much as 20% of refining capacity could have been disabled by those strikes that hit half of Russia's 38 refineries during the autumn of 2025.[81] The long-term impact on production volumes remains unclear. Repairs, nonetheless, will add to Moscow's troubles, as some technology needed is subject to western sanctions, making it more expensive and time-consuming for Russia to get these plants back online.[82]

Ukraine has thus adopted a more powerful strategy by targeting Russia's energy flow and specifically infrastructure, for example, in areas close to the battlefield as well as farther away in the Urals and western Siberia. As a result, Russia has experienced fuel shortages and seen gasoline and diesel prices at the pump spike, thereby making the war visible to ordinary Russians. Moreover, hitting Russian energy infrastructure in and close to the Black Sea has reduced Russia's exports via this maritime route by up to 40%.[83] This accentuates the importance of the Baltic Sea for Moscow: more than half of Russia's oil reaches the global market through it. Therefore, any European action to prevent sanctioned Russian oil from entering the world ocean via the Baltic Straits would be highly impactful.

European action to prevent sanctioned Russian oil from entering the world ocean via the Baltic Straits would be highly impactful

3.4. American Ambiguity

The US has not joined the new oil price cap set in the summer of 2025, yet maintains sanctions against the shadow fleet introduced during the Biden administration and issues a 50% tariff on India for the imports of Russian oil. President Trump announced sanctions against Rosneft and Lukoil in October 2025; however, the US Department of the Treasury has postponed these, so they will take effect only in spring 2026 (if ever).[84] The sanctions imposed by the US in October 2025 have already had an impact. Russian oil is now being sold at an even greater discount, thereby widening the gap between Brent and Urals brands to over $20 per barrel.[85] The full effect of the US sanctions will be felt only after the deadline for negotiations on buying the global assets of Lukoil, which has been postponed several times, set to expire on 18 February 2026.

As Rosneft and Lukoil, combined, cover about half of Russian oil production and export, the reaction from Chinese and Indian buyers to the threat of US sanctions, and especially secondary sanctions, is essential.[86] If they, as clients, refuse to continue this trade, the initial reactions from late 2025 suggest that Russia might lose more revenue. However, it is also likely that Russians and their trading partners will search for ways to circumvent these restrictions.[87] That notwithstanding, such manoeuvres cost Russia more and lead to less revenue. The US intervention in Venezuela – probably to be followed by control over Venezuelan oil, which has traditionally been sold to China and covers a significant share of Chinese oil imports – will likely constrain China's ability to depress the Russian crude price. A specific issue with targeting Lukoil is its foreign assets: refineries and networks of gas stations in Europe, as well as oil fields in Iraq. These are estimated at $22 bn but, due to sanctions, might eventually be sold significantly cheaper.[88] Rosneft and especially Lukoil sanctions are, on the one hand, a bargaining chip for the Trump administration to force the Kremlin to negotiate and compromise with regard to Ukraine. On the

[80] Vaibhav Raghunandan and Petras Katinas, "September 2025: Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," *Centre for Research on Energy and Clean Air (CREA),* 14 October 2025.

[81] Olga Robinson and Matt Murphy, "Russia's Oil Revenues Fall Sharply as Sanctions Bite, Says IEA," *BBC,* 2025.

[82] Tatiana Mitrova and Sergey Vakulenko, "The Slow Death of Russian Oil," *Foreign Affairs*, 5 November 2024.

[83] Soldatkin, "Russia's Oil & Fuel Export Revenues."

[84] US Department of the Treasury, "Treasury Sanctions Network Supporting Russia's Military-Industrial Base," Press Release, 22 October 2025.

[85] "U.S. Sanctions on Rosneft and Lukoil: Pressure on Moscow, Strains on Europe," *Free Policy Briefs*, 8 December 2025.

[86] Sergey Vakulenko, "Will Trump's Sanctions Make a Dent in Russia's Oil Exports?" *Carnegie Endowment for International Peace*, 28 October 2025.

[87] Johannes Rauball, "Rosneft and Lukoil Sanctions Are Live: How India, China and Turkey Adapt Rather than Exit," *Kpler,* 2 December 2025; Bank of Finland, "New Sanctions Reduce Export Price of Russian Oil," *BOFIT Weekly* 49 (2025).

[88] Nerijus Adomaitis, "Lukoil International Assets Facing Disruptions from US Sanctions," *Reuters,* 10 November 2025.

other hand, they might as well directly benefit President Trump's inner circle by taking control of Russia's oil wealth under the pretext of sanctions.[89]

4. The Fossil Populists of Europe

Historically, until 2022, European mainstream parties have, in the name of liberal democracy, advocated for a multifaceted approach to energy relations with Russia, aiming to balance pragmatism with a commitment to liberal values and security concerns.[90] These mainstream parties used to highlight the difference between the Russian people and Putin's regime, directing their criticisms at the latter while emphasising outreach to the former.[91] In 2025, during the fourth year of Russia's all-out war against Ukraine, this stance began to change. Liberal democratic Europe still considers President Putin and his regime to be the main culprits, yet the responsibility is now on the Russian people, too. For example, in the autumn of 2025, the EU banned multi-entry Schengen visas for Russian citizens in response to increased hybrid aggression by Moscow in Europe.[92]

More stringent sanctions (to say nothing of a full embargo) on Russia have been met with opposition from radical-populist right- and left-wing parties alike, which is no surprise due to their anti-EU stance and affinity to authoritarianism, including the Russian form of it.[93] However, mainstream parties were hesitant as well, at least at the beginning of the full-scale war, to introduce an embargo on Russia, partly because they feared the socio-economic fallout. An influential factor contributing to such hesitation was their susceptibility to a narrative that heavy economic 'squeezing' of Russia would make its people even more anti-European and encourage them to rally around the flag.[94] This assumption was based on a false understanding of the mainstream political and ideological mindset – one dwelling on colonialism and imperialism. Hence, Europe misunderstood the nature of the war: it is not Putin's but Russia's war.

On trade relations with Russia in general and especially on the need to continue importing Russian oil and gas, EU countries have held diverging views. The opinion that energy trade with Russia benefits Moscow's war effort and the Putin regime has prevailed in Europe, at least so far. Therefore, since the beginning of the invasion, the EU has been pursuing the goal of stopping Russian energy imports and imposing sanctions that reduce Russia's energy revenues. The latest ban, as decided by the Parliament in December 2025, will halt purchases of Russian fossil fuels by 2027.

Energy revenues are now treated as a factor that promotes violence abroad, not as an issue linked to the economic rights of the Russian people

Energy revenues are now treated as a factor that promotes violence by Putin's regime abroad and not as an issue that is linked to the economic rights of the Russian people. This wasn't the case in 2014, when Russia started the war against Ukraine; then, the EU was reluctant to impose or tighten sanctions on Russia by applying them to existing trade in order to avoid hurting ordinary Russians.[95]

This chapter proceeds to scrutinise the evolving positions on the issue in selected European countries. The reason for their selection rests on 1) their precarious position

[89] Alexandra Prokopenko, "Trump's Moscow Mirage: Profits for a Select Few," *Carnegie Endowment for International Peace*, *Carnegie Politika,* 7 March 2025.

[90] Jakub M. Godzimirski, Marthe Handå Myhre, and Michal Onderco, "Caught in the Liberal Pragmatic Trap? How Political Parties Viewed Energy Dependence on Russia in Three European Countries 2012–2022," *Journal of Eurasian Studies* 16, no. 1 (2025).

[91] European Liberal Forum, *A New Strategy for Relations with Russia* (European Liberal Forum, 2022).

[92] Shaun Walker, "Putin Opponents Criticise EU Ban on Multi-Entry Visas for Russians," *The Guardian*, 13 November 2025.

[93] S. Semberg, T. Böing, and Veli-Pekka Tynkkynen, "The Global Conservative Turn, Europe's Energy Transition and Russia," forthcoming 2026, in Kari Liuhto and Jussi Sipilä, eds., *Strategic Information, Intelligence and Foresight on Russia: Expert Views from a New NATO Member Country* (Palgrave, forthcoming 2026).

[94] Veli-Pekka Tynkkynen, *How Europe Got Russia Wrong: Energy, Violence, and the Environment* (Edward Elgar Publishing, 2024).

[95] Tynkkynen, *How Europe Got Russia Wrong.*

due to the rise of populist parties (the Netherlands, Poland, and Hungary), 2) their size and thus weight when formulating the EU's stance on Russia (Germany and France), and 3) their location on the border with Russia (Estonia and Finland).

4.1. Dutch Pragmatism

The Netherlands, with strong mainstream democratic parties, displayed a higher awareness of the risks associated with energy dependence on authoritarian regimes like Russia, compared to Germany.[96] The local parties called for minimising dependence on oil and gas imports, linking it to climate change and environmental issues in supplier states. Despite their critical rhetoric, the Dutch government – even with the liberal People's Party for Freedom and Democracy (*Volkspartij voor Vrijheid en Democratie,* VVD) in power – maintained a more pragmatic approach, for example, by supporting the Nord Stream 2 project for commercial reasons, illustrating tensions between stated concerns and economic interests. However, by 2021, the VVD had been explicitly talking about the need to import more gas from Russia due to the domestic energy production in the Netherlands phasing out, despite acknowledging that these financial flows are used to fund military aggression.[97]

The Dutch government's pragmatic position changed, along with the rest of Europe, in 2022. However, it was somewhat of a surprise, considering that downing the MH17 airliner by Russia over eastern Ukraine in 2014, which killed 196 Dutch citizens onboard, did not change the economy-first paradigm vis-à-vis Russia.[98] Since 2022, the far right has gained seats in the Dutch parliament, and the ascent of the Party for Freedom (*Partij voor de Vrijheid*, PVV) has marked a clear change in its security and EU policies.[99] The populist government practically pulled the brakes on what had been achieved by the previous mainstream governments, who worked to enhance EU integration and strengthen its security and strategic autonomy. The far-right voter turnout has been steady 25% since 2022, indicating that the Netherlands could – due to its splintered political scene in the foreseeable future – be inclined to adopt more anti-EU, anti-Ukraine, pro-Russia, and pro-Trump policies.

4.2. Hungarian Kinship

Hungary is the most illustrative case in the EU when analysing dependence on Russian energy. Hungary's energy policy, particularly under the Fidesz government, continues to demonstrate a strong reliance on and close relationship with Russia.[100] Despite the EU consensus moving away from Russian energy, Budapest – as indicated by its request to Ukraine to spare Russian oil pipelines from strikes and its ambition to become a Russian gas hub – has maintained strong energy ties with Moscow.[101] This position reflects the political leanings of the current government, which has, as a rule, expressed scepticism towards stringent sanctions and emphasised national economic interests.[102] Fidesz-led Hungary – where energy security provided by Russia remains a priority – could further solidify the stance shared by right-leaning parties, who favour energy ties with Russia, especially if alternative policies are perceived as less secure or more expensive.[103] Moreover, the Hungarian energy policy that leans on Russian fossil fuels is a warning sign for mainstream liberal democratic parties governing in Europe. With respect to energy, Victor Orban shares a worldview with both Vladimir Putin and Donald Trump. The three men promote fossil populism, i.e., a conservative and anti-innovation policy that benefits the fossil-energy sector in exchange for political concessions, and exploits energy

[96] Godzimirski et al., "Caught in the Liberal Pragmatic Trap?"

[97] Malte Humpert, "EU Approach to Russian LNG Remains Fractured as Dutch Imports Increase," *High North News*, 24 September 2025.

[98] Tynkkynen, *How Europe Got Russia Wrong.*

[99] Armida van Rij and Sander Tordoir, "What the Dutch Elections Mean for the Netherlands and for Europe," *CER Insight*, 5 November 2025.

[100] Edit Inotai, "Hungary Turns Itself into Hub for Russian Gas," *Balkan Insight*, 11 December 2024.

[101] Inotai, "Hungary Turns Itself into Hub."

[102] Gabriel Gavin and Csongor Körömi, "Hungary Begs Ukraine to Spare Russian Oil Pipelines after Drone Strike Cuts off Flow," *Politico,* 11 March 2024.

[103] Ariel Cohen, "Europe's Energy Policy Failures Fuel Election Shocks," *Forbes*, 6 September 2024.

as a tool to remain in power while delaying energy transition and obstructing climate mitigation.[104]

4.3. German Business as Usual

Germany's energy cooperation with Russia was traditionally, until 2022, seen as economically beneficial and useful for conflict prevention, reflecting a liberal institutional approach to foreign policy.[105] This strategy was also driven by commercial interests and Germany's self-image as a European power responsible for maintaining peaceful relations between Russia and the EU.[106] While the Green Party (*Bündnis 90/Die Grünen*) advocated for moving away from fossil fuels, including those from Russia, this was primarily driven by environmental rather than hard security concerns.[107] The liberal Free Democratic Party (*Freie Demokratische Partei*, FDP) was one of the few forces to explicitly call for decreasing dependence on a single gas supplier, although without specifically mentioning Russia in earlier manifestos. This suggests a cautious awareness of the risks, but within a framework of economic cooperation.

Energy is a significant factor in German politics, and the Alternative for Germany Party's (*Alternative für Deutschland*, AfD) position reflects a broader geopolitical alignment with Russia. In a 2025 session of the Brandenburg state legislature, the AfD and the Association of German Oil Refiners (MWV) urged the local government to end the Russian oil embargo, citing concerns over the economic viability of the PCK refinery in Schwedt.[108] A MWV representative stressed the need for strategic action, as the refinery faced operational inefficiencies due to inconsistent crude oil supplies. The AfD called for unrestricted Russian oil imports to stabilise costs.[109] Mainstream parties' representatives are, in general, against lifting the embargo, while acknowledging that peace in Ukraine could open the door to renewed imports, even if economic and geopolitical complexities make an immediate policy shift unlikely. At the same time, members of the Christian Democratic Union of Germany (*Christlich Demokratische Union Deutschlands*, CDU), leading the government since 2025, raised the possibility of resuming the imports of Russian gas – an idea the AfD welcomed.[110]

In the biggest liberal democratic parties – the Social Democratic Party of Germany (*Sozialdemokratische Partei Deutschlands*, SPD) and the CDU – the share of representatives who favour returning to doing oil and gas business as usual with Russia is not significant. The situation is very different in the far-right and far-left forces: the AfD and the Sahra Wagenknecht Alliance – Reason and Justice (*Bündnis Sahra Wagenknecht*). These parties have propagated similar fossil populism as Fidesz in Hungary and have openly campaigned for reviving the oil and gas trade with Russia. Importantly, unlike SPD and CDU's view, their proposition is not conditional on the end of the war in Ukraine but open to unlimited energy trade with Moscow despite Russia's expanding aggression against Ukraine and the EU countries.[111]

4.4. Polish Realism

Poland, even before 2014, had already adopted a 'hardcore realist' perspective. Parties like the Civic Platform (*Platforma Obywatelska*, PO) aimed to reduce what they considered an asymmetrical overdependence on Russian energy supplies, viewing Russia as an unreliable partner.[112] The PO, while acknowledging the necessity of maintaining relations with Russia until the energy transition was complete, shared a broader objective of energy independence. Following

[104] Semberg, Böing, and Tynkkynen, *The Global Conservative Turn*; Kari Hurri and Veli-Pekka Tynkkynen, "Venäjän kansainvälinen rooli ilmastonmuutoksen kiistäjästä ilmastojarruttajaksi [Russia's International Role from Climate Change Denier to Climate Obstructor]," *Idäntutkimus* 32, no. 2 (2025): 45–53.

[105] European Liberal Forum, *A New Strategy*.

[106] European Liberal Forum, *A New Strategy*.

[107] "Political Pressure Lifting Oil Embargo on Russia," *The Munich Eye,* 27 March 2025.

[108] Théo Prouvost, "Ukraine, EU on Edge as Russia-Friendly French Far-Right Rises to Power," *Euromaidan Press,* 6 July 2024.

[109] The Munich Eye, "Political Pressure."

[110] Ben Knight, "Germany's CDU, Nord Stream, and Russia's Gas Links with the Far-Right," *Deutsche Welle,* 27 March 2024.

[111] Semberg, Böing, Tynkkynen, *The Global Conservative Turn*.

[112] Godzimirski et al., "Caught in the Liberal Pragmatic Trap?"

Russia's annexation of Crimea and the military intervention in the Donbas, a consensus emerged across the Polish political spectrum that such reliance on Moscow was highly problematic. The issue gradually receded as a point of partisan debate as concrete steps towards diversification were taken.

A consensus emerged across the Polish political spectrum that reliance on Moscow was highly problematic

Poland's consumption of Russian energy has, nevertheless, been a controversial topic, with Budapest accusing Warsaw of hypocrisy with regard to Russian oil.[113] Poland significantly reduced its reliance: from 100% in 2014 to just 10% by early 2023.[114] After Rosneft's contract with the Polish Orlen company had expired in January 2023 and Russian Tatneft had halted deliveries in February of that year, Poland ceased importing Russian oil. In June 2023, the EU, in coordination with Poland, banned oil imports via the northern branch of the Druzhba pipeline. Despite this decision, however, Poland reported an increase in transit deliveries that same month, as landlocked Czechia continued to receive Russian oil through the Druzhba pipeline.[115] In early 2025, Poland – being Europe's largest importer of Russian LNG – was set to cut its purchases by around 80% in the course of the year. Moreover, Poland's President Andrzej Duda said that gas flows from Russia to western Europe should never be restored.[116] Even though Duda's Law and Justice (*Prawo i Sprawiedliwość*, PiS) rhetoric is anti-Russian, the party has had some linkages to the Russian oil trade, nonetheless.[117]

4.5. French National Interests

France no longer receives Russian pipeline gas, but it remains a key entry point for LNG shipments to Europe. In 2024, 34% of its imports arrived at French ports from Russia, which amounted to over 80 Terawatt-hours (TWh) and surpassed 2023 levels.[118] However, determining how much Russian gas France consumes is challenging due to complex LNG traceability and transit to other European markets. Despite criticism over its involvement with Russia's Yamal LNG plant, French TotalEnergies enterprise has argued that it must honour long-term contracts since no EU sanctions currently prohibit them.[119] On the one hand, France has been at the forefront in supporting Ukraine; it has positioned itself as one of the leaders of the Coalition of the Willing and supposedly a future provider of security guarantees to Ukraine. On the other hand, France has continued to trade with Russia on the same 'pragmatic' basis, as was the case with the French-made military-helicopter carrier sold to Russia even after it had invaded Ukraine in 2014. (Back then, other western nations criticised France for this decision, leading Paris to renounce the deal with Moscow.) These two cases, however, highlight that for France, national economic interest is high on the political agenda.

For France, national economic interest is high on the political agenda

Therefore, the National Rally (*Rassemblement National*, RN), a conservative populist far-right party led by Marine Le Pen, has a fertile political ground to argue for and continue 'pragmatic' economic policy vis-à-vis Russia.[120] For example, Le Pen has claimed to broadly support sanctions against Russia, except for oil and gas supplies.[121] She reasons that

113 Szabolcs Panyi and Tadeusz Michrowski, "Polish Law and Justice Minister Orlen Lobbying Hungary's MOL," *Vsquare,* 7 December 2024.

114 Wojciech Jakóbik, "Fact Check: Is Poland Still Buying Russian Oil as Orbán Claims?," *Notes from Poland, 6* August 2024.

115 Jakóbik, "Fact Check."

116 Robinson et al., "Russia's Oil Revenues Fall Again."

117 Panyi and Michrowski, "Polish Law and Justice Minister."

118 Adrien Pécout, "Russian Gas Continues to Enter French Ports," *Le Monde,* 5 March 2025.

119 "TotalEnergies to Continue Shipping Russian LNG as Long as No EU Sanctions – CEO," *Reuters,* 5 October 2022.

120 Gilles Ivaldi, "The impact of the Russia-Ukraine War on radical right-wing populism in France," *European Center for Populism Studies (ECPS)*, 2023.

121 "Marine Le Pen Says She Opposes Sanctions on Russian Gas," *MyJoyOnline,* 12 March 2022.

the French people should not "suffer the consequences of such sanctions," because France, like many European countries, imports a significant amount of its natural gas from Russia. She has also criticised certain sanctions as potentially harmful to French businesses and workers. This position was most obvious during the French presidential campaign in 2022.[122] The RN has always been described as 'Russia-friendly' and has historically defended Vladimir Putin's Russia.[123] Although the party has since condemned the invasion of Ukraine, its traditional affinity and Le Pen's stance on energy sanctions suggest a more nuanced approach to dealing with Moscow, particularly on energy imports vital to France. Hence, the RN is another potential 'fossil populist' in the camp of Fidesz, the AfD, and others.

4.6. Finnish and Estonian Anomaly

Among the pro-Russian European far-right populists, the Finnish and Estonian parties stand out. Both generally understand the Russian threat, which is common in northern European nations bordering the aggressor. However, when it comes to decoupling economies from energy dependencies or promoting energy transition and climate mitigation, the local parties align themselves with their Polish, German, and French counterparts. The Finns Party (*Perussuoma-laiset*) and the Conservative People's Party of Estonia (*Eesti Konservatiivne Rahvaerakond*, EKRE) oppose rapid energy transition from fossil fuels and stand ready to dilute agreed-upon national climate-mitigation pledges. Hence, both are fossil populists whose positions benefit Russia in an indirect way.[124]

Fossil populists in Europe make the establishment of a Russo-American 'hydrocarbon axis' more likely

The longer it takes for Europe to stop consuming Russian energy, the more Europe, directly and indirectly, promotes Russia's hydrocarbon-driven war economy and maintains a sense of hope in Moscow that Europe could once again be tied to its orbit via fossil trade. The Finns and EKRE, together with other fossil populists in Europe, through their policies, make the establishment of a Russo-American 'hydrocarbon axis' – an imperialist endeavour wherein Russia and the US would divide Europe and claim its parts as their spheres of interest, while promoting fossil fuels and obstructing climate policies – more likely. In the worst-case scenario, the nominally anti-Russia The Finns and EKRE can end up advancing a geopolitical order in Europe that threatens the sovereignty of smaller nations and may lead to the disintegration of the EU. In a less pessimistic scenario, it may thwart the EU's goal of becoming a stronger, more unified geoeconomic and geopolitical power.[125]

4.7. An Electoral Challenge

The strategies of mainstream democratic parties in Europe vis-à-vis Russia have dramatically evolved over the last decade. Some – like in Germany and initially the Netherlands – have abided by a more economically pragmatic view, even after 2014, in the hope that interdependence could foster positive change. Others – particularly exemplified by Poland – have held a more realist stance rooted in historical experiences and security concerns. The annexation of Crimea and the war in the Donbas in 2014 and, more significantly, the full-scale invasion of Ukraine in 2022 shifted the liberal perspectives across Europe towards a greater urgency to reduce and ultimately eliminate dependence on Russian fossil fuels. Nineteen sanctions packages introduced by the EU, as well as the December 2025 decision to terminate gas imports by the autumn of 2027 and the early 2026 deal to stop all oil purchases from Russia, bear witness to this unity.[126]

Neither the far-right nor the far-left parties typically prioritise energy policy in

[122] Ivaldi, "The Impact of the Russia-Ukraine War."

[123] Prouvost, "Ukraine, EU on edge."

[124] Semberg, Böing, Tynkkynen, *The Global Conservative Turn*.

[125] Veli-Pekka Tynkkynen "Venäjän energiavaikutusvalta murenee, mutta hitaasti [Russia's energy influence is eroding, but slowly]," *Helsingin Sanomat*, Pääkirjoitus, 16 October 2025.

[126] European Commission, "EU Strengthens Enforcement of Sanctions Against Russia With New Measures," Press Release IP/25/2860, 3 December 2025.

their agenda. They are instead predominantly occupied with issues of migration or waging culture wars. However, their disapproval of sanctions on Russia's energy exports poses a question: What are Europe's chances when confronting the three major powers – China, the US, and Russia – if the radical-populist parties rise to power? In the long run, this might lead to the disintegration of the EU, especially should the biggest EU member states – namely Germany and France – see anti-EU and anti-NATO populist forces dominate the government. Should the United Kingdom follow this path, too, populists within the EU would feel even more emboldened.

Within the time frame of this report – until the end of 2027 – a handful of important elections will take place, which could challenge Europe's firmer liberal democratic stance on Russia. Meanwhile, the tide could turn the other way, too, for example, in Hungary. Between 2026–27, in addition to several presidential races, parliamentary elections will be held in eighteen EU member states, with Bulgaria, France, Hungary, Italy, Poland, and Spain being the most pivotal to watch.[127] By far, the most consequential votes will be held in France, the EU's only nuclear power. If the RN (and its political allies) takes both the presidency and the parliamentary majority, the continuity of sanctions – not to mention financial and military aid to Ukraine – will come under a major threat.

Part of the populist lure is that they claim to have a coherent Russia strategy

Even without controlling the governments, the radical-populist forces undermine the ambitions for a common sanctions policy in the EU. Part of the populist lure in the eyes of European voters is that they claim to have a coherent Russia strategy: to accept Russia's interests in Ukraine for the sake of peace, to return to fossil business-as-usual, and to speak the same conservative language (including climate change denialism) with both Putin and Trump. The liberal-democratic Europe does have a strategy, or strategic vision at least, but it is incoherent. The EU's strategic programmes – such as REPowerEU, ReArm Europe, the European Green Deal, the Competitiveness Compass, and the EU's Open Strategic Autonomy – do point in the same strategic direction. The problem lies in the difficulty of communicating this strategy to Europeans and, especially, in connecting the dots between different policy objectives.

The liberal-democratic Europe does have a strategy, but it is incoherent

What the EU and broader Europe need is a story, a narrative that illustrates how deeply intertwined the different EU objectives are. It is, likewise, crucial that the strategy for deterring Russia and defending Ukraine and Europe should share the same, commonly understood language.

Absent a real rearmament, however, the EU is unable to defend its geopolitical and geoeconomic sovereignty. Absent a stronger, innovation-driven economy, Europe can neither streamline energy transition nor rearm itself. If Europe fails to reduce its dependencies on fossil fuels – supplied by Russia, the US, or from elsewhere – it will not only be less economically competitive and technologically advanced but also give leverage to other powers. Europe should realise that failing even one of these objectives could result in the defeat of democracy and the breakup of the EU. Therefore, the liberal democratic counter-narrative should clearly explain to what populism will ultimately lead – an atomised, 'Finlandised', and economically backward Europe controlled by other great powers; a Europe that is unable to reap the social, economic, and environmental benefits of the green transition and suffers the impact of climate change it has helped to facilitate.[128]

[127] European Committee of the Regions, *Elections Calendar 2024–2029* (2025).

[128] Veli-Pekka Tynkkynen, *How Europe Got Russia Wrong: Energy, Violence, and the Environment* (Edward Elgar Publishing, 2025); Veli-Pekka Tynkkynen, "Euroopan pitää varautua Putinin ja Trumpin öljydiiliin irtautumalla fossiilienergiasta [Europe must prepare for Putin and Trump's oil deal by divesting from fossil energy]," *Helsingin Sanomat*, 16 October 2025.

5. How Much Russia Would Earn If: The Three Scenarios

5.1. Sanctions Maintained

If sanctions were maintained at the current level, Russia's oil and gas revenues would compress, yet to a much lesser degree than if sanctions were tightened. In 2023 and 2024, Russia earned circa €180–190 bn per year from oil exports; in 2025, this figure was estimated to be around €150 bn.[129] Gas export revenues experienced a decline, too, accounting for around €40 bn in 2025. Oil tax revenues feeding the federal budget saw a drop by a quarter in 2025 against 2024, whereas tax revenues from gas dropped by more than a third.[130] In 2025, the federal budget collected oil- and gas-linked taxes worth circa €95 bn.[131] Maintaining the sanctions at the current level would thus cut Russia's oil and gas export revenues by approximately €15 bn and budget tax revenues by €5 bn to €10 bn per year in 2026 and 2027. However, it is difficult to assess the role of sanctions and the falling global oil prices in this reduction.

Maintaining the current sanctions would by approximately €15 bn per year. Oil revenues would account for most of the sum under this scenario, yet gas is, likewise, important: its share in the total losses sustained would be bigger than in the next scenario, wherein sanctions were to be tightened.

Maintaining the current sanctions would diminish Russia's hydrocarbon export revenues by approximately €15 bn per year

[129] Borys Dodonov, Benjamin Hilgenstock, Anatoliy Kravtsev, Yuliia Pavytska, and Nataliia Shapoval "Low Prices Push Oil Revenues Down to the Second-Lowest Level Since the Start of the Full-Scale Invasion," *KSE Institute,* 17 July 2025.

[130] Vaibhav Raghunandan and Petras Katinas, "September 2025: Monthly Analysis of Russian Fossil Fuel Exports and Sanctions," *Centre for Research on Energy and Clean Air (CREA)*, 14 October 2025.

[131] Robert Rapier, "Russia's Oil Revenues Are Falling Fast as Fiscal Pressure Mounts," *Forbes,* 28 November 2025.

5.2. Sanctions Tightened

The possibility of tightening oil and gas sanctions against Russia is fully within the reach of western countries. In case the EU banned Russian gas imports and the G7 countries imposed a strictly enforced $30 per barrel oil-price cap on Russian sea-borne exports and lowered the price cap on oil products, Russia's oil export revenues could drop to circa €50 bn per year in 2026 and 2027.[132] This means that oil would earn Russia only one-third of the value compared to the already relatively low level of €150 bn in 2025.[133] If Europe accelerated its transition away from Russian gas, Moscow's export revenues would shrink by a minimum of €400 mn per month by the beginning of 2027. The monthly value of Russian gas exports to Europe is estimated (as of late 2025) to be circa €1 bn. Although Russia could divert some LNG flows to other markets, mainly in Asia, with current prices, it would not earn the same amount – that is, €500 mn per month – from this trade due to higher export costs, lack of LNG fleet, and the bargaining power of Asian customers.

Tightened sanctions would suppress Russia's hydrocarbon export revenues by €100 bn per year

Tightened sanctions would thus suppress Russia's hydrocarbon export revenues by €100 bn per year. Oil revenues would account for most of these projected losses; finding alternative markets for the gas that was previously exported to Europe, however, would pose significant challenges.

5.3. Sanctions Relaxed

Finally, should sanctions on oil and gas be relaxed, Russian revenues would climb in 2026 and 2027. This scenario entails that all the G7 members, including the US and the EU, would lift all energy sanctions on Russia. Much would also depend on how the global oil and

[132] Dodonov et al., "Low Prices Push Oil Revenues Down."

[133] Katinas and Raghunandan, "October 2025."

gas prices develop. It is safe to assume that, at least in 2026, the revenues would be equal to 2025 – at around €200 bn in exports and circa €100 bn in taxes to the federal budget. However, it is more likely that, already in 2027, the return of the Russian oil and gas to the European market would increase Moscow's revenues significantly compared to 2025. Most crucially, abolishing sanctions would narrow down the price difference between Urals and Brent oil brands, which at late 2025 prices would generate Russia an extra €50 bn.

Although hard to predict, the gas price is likely to remain low due to a surplus in supply. Russian gas would also have to compete against US and Qatari LNG, as well as Algerian and Norwegian suppliers. Nevertheless, by reviving the gas flow to Europe, Russia would still earn significantly more, because in the Asian markets, Moscow has had to offer major discounts. For example, China has been able to secure Russian gas at a 40% discount compared to the price Moscow used to set for Europe.[134] Absent such a generous discount, Russia would receive an extra €3 bn to €4 bn in export revenue.[135] Moreover, should Russia's gas export volumes and prices return to their historical, pre-invasion level – that is, to 240 bcm per year, which is 100 bcm higher than in 2025 – Moscow would earn an extra €35 bn, and even with discounted Chinese prices, approximately an extra €20 bn.[136]

Relaxed sanctions would inevitably raise Russia's oil and gas revenues and generate more in taxes. Combined revenues from oil and gas may constitute up to an extra €90 bn per year, particularly in 2027, as well as circa €40 bn more in taxes collected.

[134] Mia Nurmamatand and Sylvia Ma, "China Buys Russian LNG at Record-High Levels, Steep Discounts as West Retreats," *South China Morning Post,* 20 November 2025.

[135] Sadokat Jalolova, "Russia Overtakes Central Asian Suppliers in China's Gas Market," *The Times of Central Asia,* 21 October 2025.

[136] "Russia Expects to Sell Natural Gas to China at Lower Prices Than Europe and Turkey," *Bloomberg News*, 29 September 2025.

Conclusion and Recommendations

The Russian war economy, dominated by oil and gas, is not doing well in early 2026. This is a *carpe diem* moment for Europe: increase sanctions and hasten 'Ruxit' – i.e., an exit from Russian energy dependency. Signalling resolve via more stringent action vis-à-vis Russia will, at the same time, enable Europe to formulate and communicate its geopolitical and geoeconomic strategy. At home, this will help counter the rhetoric and actions by the radical-populist forces who favour Russia and undermine Europe. The three scenarios outlined above prove that European action will have a direct impact on Russia's ability to fund its war of aggression – by opting for tightened sanctions, Europe can substantially cut Moscow's energy revenues.

This is a carpe diem moment for Europe: increase sanctions and hasten 'Ruxit'

The most effective way to minimise Russia's hydrocarbon export revenues would be to set a joint western oil price cap approaching $30 per barrel and strictly enforced by all G7 countries, first and foremost by the US. Now, the oil price cap sits at around $44 per barrel (flexibly 15% lower than the market price of Urals brand), an improvement from the original $60 per barrel set in December 2022. Meticulous follow-up measures, blocking Russia's counter-efforts to circumvent the sanctions, are essential, regardless of whether the price cap is maintained or lowered.[137] For example, tougher sanctions on all shadow fleet tankers, with measurable implications for their owners and flag states, would force Russia to start selling oil at even greater discounts, but would not prevent it from trading completely. The average production cost is around $15 per barrel; thus, a $30 per barrel price cap would not disrupt the global market and inflate the prices. Ongoing efforts to enhance enforcement, close loopholes, and lower the price cap will determine the effectiveness of sanctions.

[137] Volodymyr Dubrovskiy and James Nixey, *Tightening the oil-price cap to increase the pressure on Russia. Why the current sanctions regime is failing, and how to fix it* (Ukraine Forum, Chatham House, September 2025).

As oil generates the biggest share of Russia's energy export revenues, the most efficient approach is, therefore, to target the oil flow. With the continuation of US sanctions now under question, the EU should enforce sanctions compliance.[138] So far, vessel owners and flag states have been more wary of and more likely to obey US sanctions, rather than the EU ones.[139] This is a serious challenge and should encourage the Europeans to take more confident steps, especially if the US relaxes or lifts sanctions on Russian oil. The fact that Trump has sanctioned, or promised to sanction, major Russian oil producers and exporters – Rosneft and Lukoil – could be interpreted by the Europeans as a green light to move forward, for example, with expropriation of Rosneft's and Lukoil's assets in Europe. This would not only curtail Russia's export revenue but also diminish Russia's leverage in Europe, which it still exercises via critical energy infrastructure.[140]

The most efficient approach is to target the oil flow

The EU, with the UK, Canada, and Norway, has the means to enforce the oil price cap, even without the US backing

As 50% to 60% of Russian oil is exported via the Baltic Sea and the Danish Straits, the EU, with its closest partners, such as the UK, Canada, and Norway, has the means to enforce the oil price cap, even without the US backing.[141] Ukraine's strikes on Russia's Black Sea oil transport and export infrastructure have further accentuated the importance of the Baltic route – thus making Russia even more dependent on it to secure the existing revenues. Likewise, sanctioning the rest of the shadow fleet and especially gradually lowering the price cap will be essential. Russia has learned to circumvent the restrictions by obscuring the ownership and flag-state status of the shadow fleet. Therefore, it does not suffice to sanction individual vessels but requires a more encompassing action.

One such measure is to routinely stop and inspect suspicious tankers at the Danish Straits. In case a vessel cannot prove ownership or flag state, provide insurance data, or has not passed technical vetting, the passage must be denied. Most marine traffic insurance business is controlled by western, namely British and Norwegian companies; it is, therefore, an asset to be used. The justification for denying passage to non-compliant vessels would be provided by the international maritime jurisdiction and its environmental statutes. One should bear in mind that obscurely flagged and improperly insured vessels are typically in poor technical condition, which poses a real danger to the marine and coastal environment.[142] In case of an oil-spilling accident or act of sabotage, there is currently no liable entity to cover the costs.

The only obstacle to carrying out this policy is the fear among European leaders that Russia will escalate in retaliation. Russia's deterrence relies on selling fear. Instead of fearing Moscow's reaction, Europe should think carefully about what could follow if it fails to coerce Russia via such means. Historically, when shown weakness, Russia has responded with more violence. Likewise, it will resort to less violent practices if the opponent shows resolve and strength.

Instead of fearing Moscow's reaction, Europe should think carefully about what could follow if it fails to coerce Russia

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138 Giuseppe Spatafora, "'You can't turn Trump into Biden': Europe needs a new approach in 2026," *European Union Institute for Security Studies (EUISS)*, 3 December 2025; AFP, "US Suspends Some Sanctions on Russian Oil Giant Lukoil," *The Moscow Times*, 4 December 2025.

139 Hilgenstock, "What Effects Have Energy Sanctions."

140 Szymon Kardaś and Vessela Tcherneva, "Energy Reckoning: How Europe Can Use US Sanctions to Cut Moscow's Oil Ties," *European Council on Foreign Relations (ECFR)*, 5 November 2025.

141 Bank of Finland, "New Sanctions"; Dubrovskiy and Nixey, *Tightening the oil-price cap to increase the pressure on Russia.*

142 European Parliamentary Research Service (EPRS), "Russia's "Shadow Fleet": Bringing the Threat to Light," Briefing 766242 (2024).

As to the export of oil products, which earned Russia around €150 mn a day (compared to €250 mn a day from crude oil) in 2025, lowering the price cap of $100 per barrel, set in February 2023, and closing the 'refining loophole' are important steps forward. That practice implies that Russian oil is refined into fuel in third countries and then reaches western markets indirectly. Russian oil is also blended with other nations' crude oil to obscure its origin before entering a third-country refinery, from where the products are exported to the EU. For instance, Türkiye, a NATO ally, and India, where Russia owns some refining capacity, have processed at least €6 bn worth of Russian crude oil into diesel, gasoline, and jet fuel, and then sold those products to 'sanctions-enforcing' countries, including EU member states.

The EU's decision to end Russian gas imports by 2027 is pivotal. First, Russia lacks the capacity to increase pipeline-gas exports (towards Türkiye and China) to substitute for the lost European markets. Second, this is fully in the hands of the EU member states. Between the end of 2022, when the first oil price-cap sanctions were introduced, and October 2025, EU countries purchased one-third of all Russian pipeline-gas and half of its LNG exports. In those three years, the EU paid Russia circa €45 bn via gas trade.[143] Moreover, due to the skyrocketing energy prices following Russia's full-scale invasion of Ukraine in 2022, the overall monetary value of the EU's gas trade with Russia is estimated to be over €100 bn.[144]

To meaningfully reduce Moscow's energy revenues, Europe must halt purchases of Russian gas as quickly as possible

To meaningfully reduce Moscow's energy revenues, Europe must halt purchases of Russian gas as quickly as possible. In 2025, EU countries bought €13 bn worth of Russian gas (both pipeline and LNG). Once the EU cuts this flow, Russia will start losing a significant sum of money. Moscow will, of course, try to find customers elsewhere, but due to longer transportation distances and thus higher costs, it will earn less (than the €7 bn from Europe) via LNG trade. Russia will struggle to find customers for its pipeline gas as well and will lose most of the €6 bn made from European sales.[145]

There is a moral obligation to economically punish the aggressor

There is a moral obligation to economically punish an aggressor for the unprovoked violence it perpetrates against a sovereign country, especially if legally punishing Russia for the war crimes and the crime of aggression seems unlikely, at least in the near future. Europe should try to do two things simultaneously: to curtail, as much as possible, Russia's earnings from its energy exports and to design a trade system that would allow Ukraine to financially benefit from those exports. This can be achieved, for instance, by introducing an EU-wide tax on Russian energy and commodities in general, while the money collected would be transferred directly to Ukraine. This would hasten Ruxit, as well as make Russia less inclined to continue selling energy to Europe. Alternatively, a fine or duty could be linked to the existing price cap mechanism, as proposed by Chatham House.[146]

Europe should take advantage of the developments in the global energy market that erode Russia's oil and gas revenues and thus add pressure on its war economy, which is already geared to the extreme. The EU's decision to impose a full embargo on oil and gas is a wise policy, making it both more expensive for Russia to ship its oil to farther away markets and harder to secure transport capacities, as well as markets, for its gas. An earmarked tax, directed to support Ukraine, should be imposed on Russian hydrocarbon imports, which would not only generate extra funds to help Kyiv but also accelerate the phasing out of Russian energy from Europe. In the meantime, Europe should lower the price cap on Russian oil to $30 per barrel and institute inspections of the shadow fleet that

143 Katinas and Raghunandan, "October 2025."

144 CREA, *Financing Putin's War.*

145 "Russia Sees Drop in Gas Sales to EU Last Year," *The Caspian Post*, 15 January 2026.

146 Dubrovskiy and Nixey, *Tightening the oil-price cap to increase the pressure on Russia.*

traverses the Baltic Sea and the Danish Straits, and is suspected of sanctions evasion.

More strict – and strictly enforced – sanctions and a European energy embargo are essential, especially since the US appears unlikely to tighten restrictions on Russian hydrocarbons. Decisive action by mainstream political forces in Europe will also signal to the radical-populist right- and left-wing parties that they will not be able to monopolise the information space with their pro-Russian narratives. This will deliver a clear message to European voters, as well as leadership in Washington, Beijing, and Moscow, that Europe is a geopolitical and geoeconomic actor to reckon with. Russian energy revenues are already dwindling, and Europe should seize this moment and tighten the screws to weaken the Russian economy and force Russia to compromise over Ukraine.

Recommendations

- Russia's oil- and gas-fuelled war economy shows growing signs of strain in early 2026, creating a strategic window of opportunity for the European Union. This moment should be seized **to strengthen sanctions, accelerate Europe's exit from Russian energy, and demonstrate geopolitical resolve**. More decisive European action would not only materially reduce Russia's capacity to fund its war against Ukraine and increase pressure on Russia to compromise but also reinforce the EU's credibility at home and abroad, countering pro-Russian narratives promoted by radical-populist movements within Europe.

- European policy choices have a direct and measurable impact on Russia's energy revenues. Among all available tools, tightening restrictions on oil exports offers the greatest leverage. **A jointly enforced western oil price cap near $30 per barrel, rigorously applied by the G7, would significantly cut Russian revenues without destabilising global markets**, as Russian production costs remain well below this level. Regardless of the precise cap level, stronger enforcement is essential, particularly to close loopholes that allow Russia to circumvent sanctions through its shadow fleet of poorly regulated tankers.

- Given uncertainty over future US sanctions policy, the EU must be prepared to act independently and decisively. Europe holds substantial leverage over Russian oil flows, as 50–60% of Russian oil exports transit the Baltic Sea and the Danish Straits. Coordinated action with close partners such as the UK, Norway, and Canada would ensure compliance with price-cap rules by **denying passage to inadequately insured, improperly flagged, or technically unsafe vessels**. Such measures are legally justifiable under international maritime and environmental law and would also reduce the environmental risks posed by substandard tankers.

- In parallel, the **EU should intensify measures targeting oil products by lowering the existing price cap and closing the 'refining loophole',** which allows Russian crude to re-enter European markets after being refined or blended in third countries such as Türkiye and India. Addressing this loophole would cut a significant revenue stream that continues to finance Russia's war effort.

- The EU's decision to end imports of Russian gas by 2027 is a critical and effective step, as Russia lacks the infrastructure to redirect most pipeline gas away from Europe. Accelerating this phase-out would rapidly reduce Russian income, particularly since the EU has transferred more than €100 bn to Russia through gas trade since the start of the full-scale invasion. **A faster exit would deprive Russia of billions of euros annually, with limited alternatives for replacement markets.**

- Beyond sanctions, there is a moral and strategic imperative to ensure that Russia does not profit from its aggression. **The EU should explore mechanisms such as targeted taxes or duties on remaining Russian energy imports, with revenues earmarked directly for Ukraine.** Linking such measures to the price-cap system would both weaken Russia's incentives to export to Europe and provide tangible economic support to Ukraine.

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