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Implications Of Economic Sanctions On Potential Crude Oil And Natural Gas Prices For Russia Violations

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Abstract: *International sanctions are still an important diplomatic instrument used by international organizations such as the United Nations (UN) or a group of countries to target sanctions. One of the existing international sanctions is economic sanctions, which have already been applied to Russia. Economic sanctions against Russia as a consequence of the illegal annexation of Crimea and for under mining territorial integrity of Ukraine. It is believed that the imposition of economic sanctions against Russia will trigger an escalation of the price of crude oil and natural gas on the global market because Russia is ranked as the largest supplier of crude oil and natural gas in the world. The research method used is normative juridical with comparative approach by comparing how economic sanctions have an impact on the Russian economy before and after they are implemented. We argued that the inflation is becoming scarce on the global market while for Russia this case causes increase inflation due to Russia losing most of its shares in international markets.*

Keywords: *Economic Sanction; Crude Oil; Russia; Macroeconomic*

INTRODUCTION

The sovereignty of a country is the highest authority to freely pursue its interests, where in international law, every country, in conducting its affairs, has sovereignty that must not be interfered with by other countries (Boer Mauna, 2011: 24). This is enshrined in Article 2, paragraph (4) of the UN Charter, which states that all UN members must refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state. The recognition of a country's sovereignty and territorial integrity is demonstrated by the prohibition of intervention in the internal affairs of a country (Suryo Sakti, 2011: 1).

The conflict between Russia and Ukraine over territorial control and identity has violated national sovereignty and escalated into a unilateral attack by Russia on Ukraine. Russia's invasion has created a global policy crisis, impacting international relations in terms of security and economics, and affecting the allocation of resources to neighboring countries or those with ties to Russia and Ukraine.

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The dispute between the two countries began on February 20, 2014, when Russia launched a planned armed aggression against Ukrainian territory with military operations to seize part of Ukraine, specifically the Crimean Peninsula (Jonathon Cosgrove, 2020: 11). Relations between Russia and Ukraine have deteriorated further, especially evident when Russia undertook various efforts to achieve its interests in Ukraine.

On February 24, 2022, President Vladimir Putin launched a Special Military Operation (SMO) against Ukraine (Hafid Adim, 2022: 274). The SMO was a policy move that benefited Putin in terms of domestic politics and related to Russia's capacity as a great power to maintain buffer zones against Ukraine. This resulted in many casualties, with more than 7,000 deaths recorded by December 2022 (Yuniar, 2023). Many believe that Russia's invasion was irrational, driven by anxiety over Ukraine's efforts to integrate with NATO.

Russia's intervention has created global political instability, affecting international relations in security and economic domains, especially for countries with ties to Russia and Ukraine. Indirectly, this action impacted the livelihood of people, prompting responses from various international actors to Russia's invasion of Ukraine.

The imposition of sanctions was the European Union's (EU) response to Russia's violation of Ukraine's territorial integrity and sovereignty by illegally annexing Crimea and destabilizing Eastern Ukraine (Council of the EU, 2014). Countries that condemned Russia's invasion included the United States, the EU, and many others such as Japan and Australia. Economic sanctions imposed on Russia included trade boycotts, bilateral relationship cuts, financial system controls through a SWIFT ban on Russia, primary and secondary money transaction bans, and sanctions on Russia's extractive industry for providing special financial messaging services (Astrov et al., 2022).

In 2014, the President of the European Council, Herman Van Rompuy, stated that the sanctions aimed to halt Russia's actions and restore Ukraine's sovereignty (Council of the EU, 2014a). The economic sanctions imposed by the United States and the EU caused inflation in Russia due to the strong interdependence between them (Agfajrina, 2022: 56).

The potential economic downfall of Russia due to these sanctions could also impact the sanction-imposing countries and others globally, particularly in the form of halted oil and natural gas imports from Russia (Agfajrina, 2022: 53). Russia is undeniably one of the world's largest oil and natural gas suppliers. Sanctions prohibiting oil and gas imports from Russia would significantly disrupt the global supply chain.

The purpose of this study is to analyze the effect of the Russian embargo on the international trade sector and examine the impact of the embargo sanctions on the Russian economy. This research employs prescriptive normative legal research, describing whether there is potential for oil and natural gas price inflation against global market distribution caused by Russia's economic sanctions. A comparative approach is used by comparing the impact of economic sanctions on the Russian economy before and after their implementation, particularly on oil and natural gas prices.

THEORETICAL STUDIES

This article examines the legal framework and consequences of implementing unilateral economic sanctions against Russia for its invasion of Ukraine. In this study, researchers used analytical and descriptive research specifications, which describe the applicable laws and regulations. Then, it linked to the theory and practice of implementing positive law following the problems to be studied. The data studied is secondary data, in which the data is obtained from the results of previous studies. The data collection technique used is a literature study. The data collection tool was carried out through document studies and data analysis using qualitative data analysis.

The research employs a normative legal method with legislative, conceptual, and comparative approaches, analyzing primary, secondary, and tertiary legal materials through descriptive qualitative methods, and then conducts an analysis of various forms of data to arrive at a conclusion that will explain what the author believes to be the causes of the potential increase in oil and gas prices in the global market following the imposition of economic sanctions against Russia. A study on EU sanctions against Russia is needed because existing literature appears to be lacking.

RESEARCH METHOD

In this study used normative research which refers to the search for data from materials and secondary sources such as official documents, rules or regulations. The types of secondary sources can be books, scholarly journals, theses, articles, and other sources that address questions related to the problem to be solved (Soerjono Soekanto, 2013: 13). The sources and materials used will later become footing materials and references in research writing.

RESULT AND DISCUSS

1. Economic Sanctions in the Perspective of International Law?

Economic sanctions can be understood as a foreign policy aimed at influencing another country (Baldwin, 1985: 20). According to Richard C. Porter, economic sanctions are generally defined as the application and restriction of external economic activities by a group of countries towards a specific country, with the aim of reducing the economic welfare of the target country (C. Richard, 1978: 1). On the other hand, Blanchard and Ripsman define economic sanctions as economic measures taken by one country or a group of countries that can partially or entirely disrupt the economy in the areas of trade, finance, and monetary policy to force a change in the political behavior of the target country (Jean-Marc, 2013: 58).

Economic sanctions are implemented in various ways and can be classified into two types: unilaterally or collectively/multilaterally (Lung-Chu, 2000: 291). The first instance of economic sanctions was imposed from November 1935 to June 1936, involving an embargo on Italian coal and oil products to halt Italian imperialism against Ethiopia (Cristiano, 1935: 2).

In general, the objectives of imposing economic sanctions are to (Ruth, 2010: 8):

a. Influence the sanctioned country to change behaviors/policies that are deemed inconsistent with international law.
b. Weaken the sanctioned country from actions that have the potential to cause harm, danger, or delay prohibited activities, such as the development of weapons of mass destruction.
c. Before being imposed, the sanctions set have been considered separately from their adverse effects or "evil side."

The legal basis for the imposition of economic sanctions by the UN Security Council is Chapter VII, particularly Article 41 of the UN Charter, as an implementation of Article 24 of the UN Charter regarding the functions and powers of the Security Council. Before establishing the imposition of economic sanctions through a Security Council resolution, the Security Council must monitor the situation that is feared to threaten international peace and security as stipulated in Article 39 of the UN Charter. This is done before making recommendations or decisions on temporary measures deemed necessary or desirable as set out in Article 40 of the UN Charter.

One notable case of economic sanctions in the international arena was imposed on Somalia due to the escalating situation there, with increasing casualties and material damage, prompting the Security Council to call for an arms embargo on Somalia (UNSC Resolution 733, 1992).

2. Analysis of the Application of Economic Sanctions to Russia

Based on the research results of Hossain and Abdullah (2022), they believed that the Russian invasion of Ukraine would harm world financial markets. Many believe that Russia's invasion is an irrational action. This has elicited various responses from countries directly or indirectly involved, touching on several domestic issues, especially regarding national security and the livelihood of their populations. Indirectly, this action has had repercussions and invited responses from other international actors to Russia's invasion of Ukraine.

In resolving issues between countries, there are essentially two approaches: "dialogue," aimed at resolving issues through peaceful means, and "sanctions," aimed at resolving issues through strict economic and political restrictions imposed by sanctioning parties, hoping that the country causing the problem has no choice but to surrender and agree to peace (Abonyi, 2022).

Before imposing sanctions on Russia's invasion, there were known differences and disagreements among countries on the actions that should be taken to stop the invasion. India, along with 12 other countries including China, Pakistan, and the United Arab Emirates, opposed economic sanctions against Russia. Some countries chose to abstain in the vote to impose sanctions on Russia, preferring instead to form an independent international investigative commission regarding the invasion. India, in particular, opposed sanctions and stated that the best way to resolve the issue was through dialogue and negotiation. India also urged all UN member states to adhere to the principles of the UN Charter regarding international law and respect for territorial sovereignty and the integrity of all countries (Rajagopalan, 2022).

In contrast, the United States, the European Union, and a large number of other countries including Japan and Australia, directly condemned Russia's invasion of Ukraine. This led these countries to impose economic sanctions on Russia. The economic sanctions included trade boycotts and the suspension of bilateral relations with Russia, financial system controls through a ban on SWIFT money transfers from Russia, an export ban on high-tech goods to Russia, energy trade restrictions, a ban on primary and secondary Russian debt transactions, and sanctions on Russia's extractive industries involving specific financial messaging services (Astrov et al., 2022).

Economic sanctions against Russia have been imposed by several member states, including the European Union and NATO, and even by an international organization, namely the United Nations, whose main mission is to maintain world peace. The sanctions issued can be classified as economic sanctions against Russia, including (Zulfa et al., 2022):

Table 1.
List of Classification of State Economic Sanctions
against Russia (Agustiyanti, 2022) and (CNN Indonesia, 2022).

No.	Sanstions	Sanctioned Countries	Sanctioning Countrie
1	Termination of export-import relations of staple goods	Russia	America, EU, Canada, UK.
2	Termination of cooperation relations in drilling for oil and coal and stopping the purchase of Russian oil and natural resources	Russia	America, EU, UK, Japan
3	Blocking of all banks and systems for using Russian Ruble in SWIFT	Russia	America, EU, UK, Japan, Australia.
4	Restrictions on lending to all entities originating from Russia	Russia	America, UK, Canada, EU, Australia.
5	Freezing the assets, investments, and economies of individuals and families of Russian politicians	Russia	America, UK, Canada, EU, Australia.
6	Restrictions on the import and export of technological goods that are useful for life and the economy	Russia	America, Japan, Taiwan
7	Restrictions Russia from conducting global trade and using various services.	Russia	America, EU, UK

3. The situation in Russia under economic sanctions potentially influence the increase in oil and natural gas prices in global distribution

After Russia invaded Ukraine, European Union countries and the United States began imposing various sanctions on Russia's economic sector, including economic sanctions. The tension between Russia and Ukraine has triggered various threats to the global oil supply, marked by the United States banning all imports of Russian oil and natural gas, a move openly announced by President Joe Biden.

Russia is one of the world's largest oil producers. According to data published by the Statista Research Department (2021) on the Russian oil industry, in 2020, Russia produced about 10.7 million barrels of crude oil and natural gas condensate per day (BPD). Russia relies heavily on energy exports as the foundation of its economy. It has been a major supplier of oil and natural gas, particularly to Europe, the United States, and other regions. In 2018, the oil and natural gas sector was a key element of the Russian economy, contributing approximately 46% of the country's revenue (Brown, 2020: 11). Therefore, Russia plays a very significant role in the global supply chain, especially for the United States and the European Union.

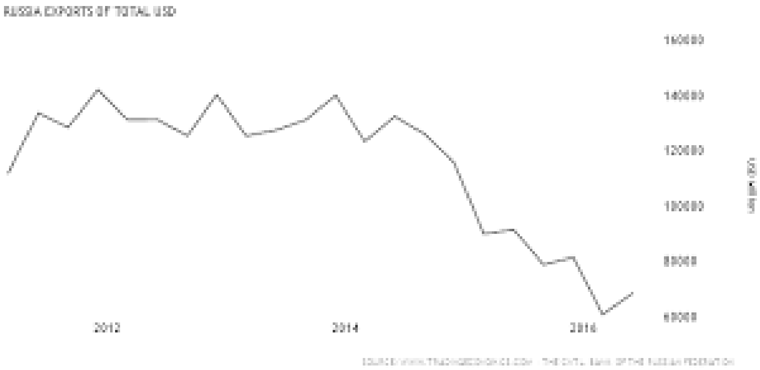
In 2021, Russia earned over 110 billion USD from its oil exports, which is twice its revenue from natural gas sales abroad. Thus, energy embargo sanctions on Russia will deal a significant blow to its economy. These sanctions will reduce Russia's energy export numbers and potentially cause inflation and devaluation, especially since the oil and natural gas sector is a critical contributor to the Russian economy.

Sanctions imposed on Russia by the United States and European countries have severely impacted the Russian economy. This is evidenced by the 40% loss in the value of the Ruble (Russian currency). In his research, (Korhonen 2019: 20) found that these sanctions have led to a slowdown in Russia's economic growth, with the growth rate dropping by 0.2 percentage points annually from 2014 to 2018. Therefore, the current sanctions imposed by the United States and other countries will have a significant impact on the Russian economy.

Early research on the impact of sanctions on Russia's economy (Aalto and Forsberg, 2016) indicated that sanctions resulted in slower economic growth and reduced business for sanctioned companies. When sanctions were first imposed in 2014, Russian manufacturing companies expressed concerns about the economic impact of these sanctions (Golikova and Kuznetsov, 2017). The decline in oil prices also significantly affected Russia's economy in the post-2014 period (Oxenstierna, 2020).

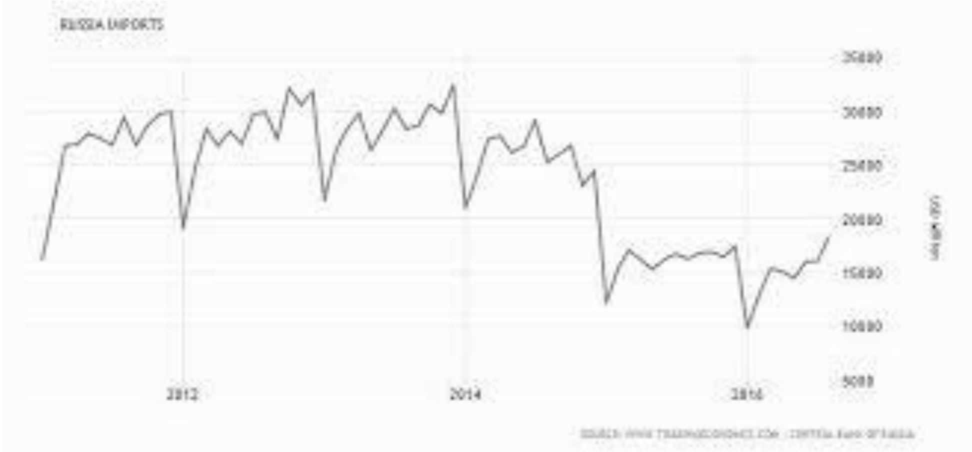
Below is the graph of Russia's export and import growth from 2012 to 2016.

Chart 1.
Russian Growth Export



Source: www.tradingeconomics.com

Chart 2.
Russian Growth Import



Source: www.tradingeconomics.com

From the two graphs above, both Russia's exports and imports experienced a decline from 2012 to 2016. The most significant decrease occurred in 2016. These graphs represent Russia's overall export and import activities. From the graphs, we can see that the average macroeconomic sector in Russia declined from 2012, before the sanctions, to 2014, when the sanctions were in place. This will greatly impact the availability of oil supplies and cause significant disruptions and price increases in the oil and natural gas energy sectors. According to the latest data from Energy Intelligence, coinciding with the weakening oil prices after March 8, 2022, Russia's oil export figures dropped from the initial estimate of 3 million barrels.

This indicates that global inflation will become more concerning in the future. (Meihong Sun 2022: 5) states that geopolitical friction and tension have created significant levels of risk and uncertainty following Russia's invasion of Ukraine, leading to massive increases in oil and natural gas prices. Although Russia is not a major player in the global economy, it has a significant role in the global energy market.

CONCLUSION AND SUGGESTION

The attack by Russia on Ukraine has economic repercussions that not only affect Russia, which faces economic sanctions, but also impact many countries, posing a threat to the global economy and shaking financial markets. It is undeniable that Russia plays a crucial role in energy exports in the global market. The effect of implementing the Russian economic embargo on the international trade sector is very significant. Therefore, when other countries began to impose economic embargoes and stop importing oil and gas from Russia, Russia responded indirectly by raising the potential for an escalation in the price of crude oil and natural gas, which are becoming scarce on the global market, and various other impacts on the accumulation of the global economy's problems due to the power and impact that Russia holds in the world scheme.

The Russian economy has suffered a 40% drop in ruble (Russian currency) value as a result of embargo sanctions. Russia lost a large part of the value of its shares in international markets, which led to an increase in inflation. This can be an important consideration for policymakers to exercise caution when imposing sanctions on Russia because it will not only devastate the Russian economy but also have significant repercussions on the global economy.

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