After Hungary & others get "temporary exception" from ban on Russian oil, EU leaders agree on sixth package of sanctions

Hungarian Prime Minister Viktor Orbán arriving at European Council meeting, May 30

On Feb. 21, Russian President Vladimir Putin signed executive orders formally recognizing the independence of the "People's Republics" created by pro-Russian separatists in portions of the Donetsk and Luhansk regions of eastern Ukraine in 2014. He also signed treaties of friendship, cooperation and mutual assistance with both "republics" and, after doing so, deployed additional troops to those areas. On Feb. 24, he announced a "special military operation" in eastern Ukraine to protect the people who "have been facing humiliation and genocide perpetrated by the Kiev regime." The "special military operation" was in fact a full-fledged, multi-pronged invasion of Ukraine from Belarus in the north, Crimea in the south and Russian territory adjacent to eastern and northeastern Ukraine, accompanied by intensive attacks by artillery and missiles on many cities throughout the country. Initially focused not only on eastern Ukraine but also on the Kyiv region, the territory between Kyiv and Kharkiv, and southern Ukraine adjacent to Crimea, in late March, after the attack in the Kyiv region had stalled in the face of strong resistance, Russia shifted the focus of its "special military operation" to eastern Ukraine and proclaimed as its main objective the "liberation" of the Donbas. Today the war continues in a grinding war of attrition for Severodonetsk, Lysychansk, Slovyansk, Kramatorsk and other cities and towns in the Donbas.

Since Russia's recognition of the independence of the two "People's Republics" on Feb. 21 and its subsequent invasion of Ukraine three days later, the EU has agreed on five packages of sanctions against Russia. On Feb. 23, the EU agreed on a package of measures that included targeted sanctions against 378 members of the Russian Duma and other officials who were involved in the recognition decision, restricted EU economic relations with the two entities, and restricted Russia's access to EU capital and financial markets. On Feb. 24, after Putin launched Russia's invasion of Ukraine, the EU leaders agreed on further sanctions that targeted the financial, energy, and transport sectors, export control and financing, visa policy, as well as additional sanctions on Russian individuals. On Feb. 25, the EU agreed to a second package of sanctions in response to the invasion that, among other things, froze the assets of Putin, Sergey Lavrov, the foreign minister, the other members of Russia's National Security Council, and the remaining members of the Duma who supported Russia's recognition of the Donetsk and Luhansk People's Republics.

On Feb. 28, the EU agreed to a third package of sanctions that included a ban on transactions with the Russian Central Bank, a ban on the overflight of EU airspace and access to EU airports by Russian carriers, and new restrictive measures on 26 individuals and one entity. In addition, the EU excluded seven Russian banks from SWIFT (Society for Worldwide Interbank Financial Telecommunication), the international cooperative system for the execution of financial transactions and payments between banks. It also prohibited EU firms and governments from investing, participating, or otherwise contributing to projects co-financed by the Russian Direct Investment Fund; prohibited selling, supplying, transferring or exporting euro banknotes to Russia or any Russian entity; and suspended the broadcasting activities in the EU of Russia's Sputnik and Russia Today outlets. A week later, the EU also imposed restrictive measures on an additional 160 individuals – 14 oligarchs and prominent businesspeople and 146 members of the Russian Federation Council.

On Mar. 15, the EU agreed to a fourth package of sanctions that included a ban on all transactions with certain state-owned enterprises, on the provision of credit-rating services to any Russian person or entity, and on new investments in the Russian energy sector. In addition, the list of persons connected to Russia's defense and industrial base, on whom tighter export restrictions were imposed in regard to dual-use goods and goods that might assist the technological development of Russia's defense and security sector, was expanded. The EU also introduced trade restrictions for iron, steel and luxury goods and sanctions on an additional 15 individuals and 9 entities.

On April 8, the EU agreed to a fifth package of sanctions that included a ban on imports from Russia of coal and other solid fossil fuels, on access to EU ports by any Russian vessel, on the entry into the EU of any Russian or Belarussian road transport operator, on the import from Russia of wood, cement, seafood, and liquor, and on the export to Russia of jet fuel and other goods. The EU also adopted individual sanctions on another 217 individuals and 18 entities, as well as a full transaction ban on four key Russian banks that account for 23 percent of the Russian banking sector.

Nevertheless, despite the five packages of sanctions, Putin's war on Ukraine continued. With that fact in mind, on May 4 Commission President Ursula von der Leyen, in a speech to the European Parliament in anticipation of Europe Day, May 9, when, seventy-two years ago, French Foreign Minister Robert Schuman issued his Declaration that gave rise to what is now the EU, announced the Commission was presenting a sixth package of sanctions. It included, she said, sanctions on a number of high-ranking Russian military officers and others who committed war crimes in Bucha and were responsible for the siege of Mariupol. The Commission proposed that Sberbank, which is by far the largest bank in Russia, accounting for 37 percent of the entire banking sector, and which had thus far escaped sanctions, be banned from SWIFT along with two other major banks. It also proposed that three large Russian state-owned television channels be barred from transmitting in the EU. And it proposed a complete ban on the import of Russian oil, whether by sea or by pipeline and whether crude oil or refined products. The ban would be implemented, she said, in an orderly fashion that would allow the EU to secure alternative supply routes and minimize the impact on global markets. With that in mind, she proposed that the import of crude oil from Russia be phased out within six months and that of refined products by the end of the year.

The EU gets about 27 percent of its oil from Russia. Roughly two-thirds of it arrives by tankers with the remainder arriving via the Druzhba (Friendship) pipeline. That pipeline forks in Belarus, with the northern fork going to Poland and Germany and the southern fork going through Ukraine to Hungary, Slovakia and the Czech Republic. The pipeline also goes to seaport terminals in Latvia, Lithuania and Croatia. Hungary, Slovakia and the Czech Republic, being landlocked, are highly dependent on the Russian pipeline; indeed, Hungary gets about 65 percent of its oil from Russia via the pipeline, the Czech Republic gets about 55 percent, and Slovakia gets about 95 percent. Those three countries would have no way to receive the amount of oil they need on a daily basis for their economies were they required to shut off the pipeline and therefore, and not surprisingly, they strongly objected to the Commission proposal and threatened to block the proposal in the Council unless they were given exemptions or grace periods as well as the funds that would be required in order to build new pipelines or enlarge existing ones, build additional storage capacity and alter the technical features of their refineries for grades of crude other than what they receive from Russia. In announcing the plan, the EU offered those states an exemption to the end of 2023. But that would not have given them sufficient time to arrange for the delivery, storage and refining of oil from other sources. Hungary in particular – and not surprisingly, given Orbán's relationship with Putin – adamantly opposed the Commission proposal and made it clear that, without a lengthy exemption, it would oppose a ban.

The EU hoped that it would be able to complete the negotiation of the sixth sanctions package in time for it to be formally approved by the EU's Council on Foreign Affairs prior to the start on Monday of the two-day meeting of the European Council. But that did not happen, given the strong opposition of Hungary and its near neighbors to the proposal to turn off the Russian pipeline by the end of 2023. And so, after a very long meeting Monday afternoon and evening, the European Council issued the following conclusions in regard to the sixth sanctions package: "The European Council is committed to intensify pressure on Russia and Belarus to thwart Russia's war against Ukraine. The European Council calls on all countries to align with EU sanctions. Any attempts to circumvent sanctions or to aid Russia by other means must be stopped. The European Council agrees that the sixth package of sanctions will cover crude oil, as well as petroleum products, delivered from Russia into Member States, with a temporary exception for crude oil delivered by pipeline. The European Council therefore urges the Council to finalise and adopt it without delay, ensuring a well-functioning EU Single Market, fair competition, solidarity among Member States and a level playing field also with regard to the phasing out of our dependency on Russian fossil fuels. In case of sudden interruptions of supply, emergency measures will be introduced to ensure security of supply…The European Council will revert to the issue of the temporary exception for crude oil delivered by pipeline as soon as possible."

What is not said in the "Conclusions" but was said by von der Leyen after Monday's long meeting is that the leaders "were able to agree in principle on the sixth sanctions package…Thanks to this, the Council should now be able to finalise a ban on almost 90% of all Russian oil imports by the end of the year…We will soon return to the issue of the remaining

10% of pipeline oil." Reportedly, the leaders agreed that, while there would be a "temporary exception for crude oil delivered by pipeline," all Russian seaborne oil, which as noted above, accounts for roughly two-thirds of all oil imported from Russia, would be banned by the end of the year. Although not noted in the "Conclusions," Poland and Germany reportedly pledged to also stop importing pipeline oil from Russia, which would mean that almost 90 percent of all Russian oil imports would be banned or otherwise terminated by the end of the year – the remainder being the oil delivered via the southern fork of the Druzbha pipeline to Hungary, Slovakia and the Czech Republic. Based on von der Leyen's comments at the conclusion of the meeting early Tuesday morning, the leaders also approved the "de-SWIFTing" (her term) of Sberbank and two other banks, the banning of EU companies from providing insurance and reinsurance of Russian ships and providing Russian companies with a broad range of business services, and the suspension of broadcasting in the EU by three Russian state outlets.

Monday's long meeting was largely devoted to resolving the differences among the member states in regard to the sixth package of sanctions – most notably, in regard to the ban on the delivery by pipeline of crude oil and petroleum products from Russia. But the EU leaders nevertheless underscored in other ways as well their strong support for Ukraine. They announced the EU stands ready to grant Ukraine up to €9 billion in exceptional macro-financial assistance this year. And importantly, in their "Conclusions" they said, "the European Council takes note of the preparation of the Commission's opinions on the application for EU membership of Ukraine as well as the Republic of Moldova and Georgia, and will revert to the matter at its June meeting."

Meanwhile, the war continues.

David R. Cameron
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