



By: TA | AP Insight

# Disruption in the oil and gas market is helping Russia finance the war in Ukraine



The Iran war's disruption of Middle East oil and gas supplies and **soaring prices** are strengthening Russia's ability to profit from its energy exports, a pillar of the Kremlin's budget and a key to paying for its own war in Ukraine.

Prices for Russia's oil exports have risen from under \$40 per barrel as recently as December to about \$62 per barrel — first on fears of war and then due to interruption of almost all tanker traffic through the **Strait of Hormuz**, the conduit for some 20% of the world's oil consumption.

Russian oil still trades at a considerable discount to international benchmark Brent crude, which has risen above \$82 from the closing price of \$72.87 on Friday, the eve of the attack on Iran by the U.S. and Israel.

However, Russian crude is now above the benchmark of \$59 per barrel that was assumed in the Russian Finance Ministry's budget plan for 2026.

Oil and gas tax revenues account for up to 30% of the Russian federal budget.

Additionally, the halt in production of ship-borne liquefied natural gas, or LNG, by major supplier Qatar will sharply increase global competition for available cargoes -- including those from Russia.

## A change in fortunes

Russia had seen state **oil and gas revenue** fall to a four-year low of 393 billion rubles (\$5 billion) in January and the budget shortfall of 1.7 trillion rubles (\$21.8 billion) for that month was the biggest on record, according to Finance Ministry figures.

The lower revenue was due to weaker global prices and to deep discounts fueled by U.S. and European Union hindrance of Russia's "shadow fleet" of tankers with obscure ownership used sell oil to its biggest customers, China and India, in defiance of a Western-imposed price cap and sanctions on Russia's two biggest oil companies, **Lukoil** and

**Rosneft.**

Economic growth has stagnated as massive military spending has leveled off. President Vladimir Putin has resorted to tax increases and increased borrowing from compliant domestic banks to keep state finances on an even keel in the fifth year of the war.

## Russia is a big winner from the war-related energy turmoil - Simone Tagliapietra

"Russia is a big winner from the war-related energy turmoil," said Simone Tagliapietra, energy expert at the Bruegel think tank in Brussels. "Higher oil prices mean higher revenues for the government and therefore stronger capability to finance the war in Ukraine."

Amena Bakr, head of Middle East and OPEC+ insights at data and analytics firm Kpler, writes: "With Middle East barrels facing logistical disruption, both India and China face strong incentives to deepen reliance on Russian supply."

Additionally, the price of future delivery of natural gas has skyrocketed in Europe, raising questions about EU plans to put an end to imports of Russian LNG by 2027 -- reviving bad memories of a 2022 energy crunch after Moscow cut off most supplies of pipeline gas due to the war.

## Length of strait's closure is the key factor

Much depends on how long the Strait of Hormuz remains closed to most ship traffic, said Alexandra Prokopenko, an expert on the Russian economy at the Carnegie Russia Eurasia Center in Berlin.

A quick exit from the conflict would return Brent prices to roughly \$65 per barrel and "a short-lived spike would not fundamentally change" Russia's budget picture, she said.

A middle scenario in which some shipping resumes and oil stabilizes at around \$80 per barrel would give Russia “some fiscal relief,” depending on how long the higher prices last.



*Even several weeks of interruption in Gulf LNG could lead to calls in Europe to suspend plans to ban new Russian supply contracts after April 25*

A long-term closure with Iranian strikes damaging refiners and pipelines could send oil to \$108 per barrel, accelerate inflation and push Europe to the edge of recession. “This scenario would bring the largest windfall to Russia,” she said.

Even several weeks of interruption in Gulf LNG could lead to calls in Europe to suspend plans to ban new Russian supply contracts after April 25, said Chris Weafer, CEO of Macro-Advisory Ltd consultancy.

“The EU is under even more pressure to work with the U.S. to find a solution to the Ukraine conflict and, very likely, to consider easing the plan for a total block for Russian oil and gas imports,” he said. “Countries such as **Hungary** and Slovakia and those who have been big buyers of Russian LNG, will press for that review.”

In any case “the Russian federal budget will have a much better result in March,” Weafer said, due to lower discounts on Russian oil and “because there are eager buyers of Russian oil and oil products.”

## Russia is ready to increase supply

Russia's Deputy Prime Minister Alexander Novak said Wednesday that Russian oil was “in demand” and that Russia was ready to increase supplies to China and India, the Tass news agency reported.

The head of Russia's sovereign wealth fund, Kirill Dmitriev, took a dig at European Commission President Ursula von der Leyen and EU foreign policy chief Kaja Kallas, writing on X that “surely the wise Ursula and Kaja have a backup LNG plan. Or maybe not.”

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Belgium, France, the Netherlands and Spain have continued to import around 2 billion cubic meters of Russian LNG per month, and on top of that Hungary imports 2 billion cubic meters a month through the Turkstream pipeline across the Black Sea, Tagliapietra said.

That would amount to 45 billion cubic meters in 2026, 15% of total gas demand for this year.

It's “not easy to replace this in case the LNG market gets tighter with continued shutdowns in Qatar,” he said.