

EU financial, service sanctions against Russian oil sector go into force

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New EU sanctions against Russia over its role in the Ukraine crisis, which target Russia's largest oil producer Rosneft, Gazprom's oil subsidiary Gazprom Neft, and national pipeline operator Transneft, went into force Friday, the EU said in its official publication.

The EU restricted the companies' access to EU capital markets as well as to services for deepwater, Arctic and shale oil exploration and production, the European Official Journal said, confirming earlier reports that cited the draft measures.

Rosneft, Gazprom Neft and Transneft declined immediate comments.

Russian analysts are concerned the new EU restrictive moves "open the door for another batch of measures [against Russia] from the US," which may further aggravate the situation.

The analysts see Russia-based service companies as the key beneficiaries of the new round of sanctions.

The new sanctions approved by the EU Council ban "the direct or indirect provision of...services necessary for deep water oil exploration and production or shale oil projects in Russia," the EU Official Journal said,

adding that the ban extends to services provided from EU territories or using vessels or aircraft under the jurisdiction of EU member states, and to providing assistance in offering such services.

The ban cannot be applied to agreements signed before September 12, or "ancillary contracts necessary for the execution of such contracts," it said.

It remains unclear whether the new round of sanctions will affect Rosneft's offshore and Arctic cooperation with such EU oil majors as Eni and Total, which was agreed several years ago.

The new sanctions also forbid direct or indirect purchase or sale of the companies' bond, equity or any other similar financial instruments with a maturity of over 30 days.

"Providing services related to the issuing of the above financial instruments, e.g. brokering, is also included in the prohibition," the publication said.

The EU is ready to consider a review of the restrictive measures, once it assesses implementation of the peace plan in Ukraine, slated to be in place by October, EU President Herman van Rompuy said Thursday.

"We have always stressed the reversibility and scalability of our restrictive measures," he said.

"Therefore, in the light of the review and if the situation on the ground so warrants, the [European] Commission and the [European External Action Service] are invited to put forward proposals to amend, suspend or repeal the set of sanctions in force, in all or in part," he said.

"It is expected that the [EU] Council will consider these proposals urgently with a view to take action if appropriate," van Rompuy said.

IMPACT

The new round of EU sanctions, like the previous ones, are likely to have a delayed effect on the Russian oil production, as they hit Russia's plans to develop shale oil, deepwater and Arctic reserves, seen as crude oil sources only in the long term, analysts at Russia's VTB Capital said in a note Friday.

"We certainly do not envisage them being a threat to the industry's development," they said.

"On the other hand, offshore development, particularly in the Arctic, is under threat. However, we are in any case cautious on Arctic shelf development as it is expensive and risky," they said.

Russia-based service companies, such as Eurasia Drilling and C.A.T. Oil, are likely to become the key beneficiaries of the restrictions.

"In our view, the Russian oil services market is quite self-sufficient or might easily replace

European and US equipment with its own or Chinese variants in services like hydrocracking, horizontal drilling, high resolution 3D seismic... and advanced mud-engineering," the VTB Capital analysts said.

It is financial restrictions on the companies that may bite much harder, Russian oil producers said earlier.

"The sanctions, especially if they are broadened further, might complicate access to international capital and export markets for Russian companies, increase capital flight, and weaken the ruble against the dollar, among other negative economic consequences," Russian oil producer Bashneft said.

Overall, a key danger of the new EU sanctions is that they indicate the recent ceasefire in Ukraine cannot be a trigger for any improvement in relations between Russia and the West, VTB Capital analysts said.

"It highlights that the ceasefire arrangement so far falls short of delivering a tangible and sustained de-escalation," they said.

The EU sanctions also open door for similar operational and financial restrictive measure from the US, they said.

US President Barack Obama said details of the US sanctions would also be unveiled Friday.

Once adopted, the sanctions may affect Rosneft's Arctic, offshore and tight oil cooperation with US major ExxonMobil, which was reached several years ago.

"We are assessing the sanctions," ExxonMobil spokesman Alan Jeffers said in a statement Thursday. "It's our policy to comply with all laws."

The strategic partnership deal between ExxonMobil and Rosneft includes joint development of hydrocarbons in Russia's Arctic, the southern Black Sea, as well as tight reserves in West Siberia, among other projects.

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