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How Will Coal Sanctions Impact on Russian Economy?

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Research Brief

The Western Alliance has approved a new package of sanctions against Russia. The most notable of the sanctions is the suspension of coal exports from Russia. What does this mean for Russia, and how can the European Union compensate for this ban? Yesterday, the European Commission posted a decision on sanctions on its website, which means that the ban will come into force. This means that from today, European companies will not be able to conclude contracts to buy coal from Russia. The contracts signed in the previous period must be completed by August.

Russia's coal production has increased in recent years. In 2021, Russian production will increase by 7%, compared to the previous year, to 262 million tons. It aims to increase this figure to 445 million tons by 2024. Russia's annual coal export revenues were \$ 12.4 billion. The European Union accounted for 26.3 percent of Russia's coal exports.

This would mean an average of \$ 3.5 billion a year in foreign exchange payments to Russia for coal imports from the European Union. Following the recent decision of the European Union, other buyers are expected to reduce coal imports from Russia. Thus, 22% of Russia's coal exports go to South Korea, Japan and Taiwan, and these countries, especially the first two countries, are expected to join the sanctions.

Table 1. Coal Production by Countries million tonnes

China	3,902
India	756.5
Indonesia	562.5
United States	484.7
Australia	476.7
Russia	399.8

Sources: Statista, 2022

Russia accounted for 45 percent of the European Union's coal imports. The European country that received the most coal from Russia was Germany, which imported 22.3 million tons a year. Then the Netherlands (15.8 million tons), Poland (9.1 million tons) and Italy (5.8 million) were buyers of coal from Russia.

Table 2. Coal Export by Countries million tonnes

Indonesia	455
Australia	393
Russia	217
United States	84
South Africa	81
Canada	36

Sources: Statista, 2022

In 2019, Indonesia exported some 455 million metric tons of coal, thus making it the world's largest coal exporting nation. Australia came in a close second, with coal exports amounting to 393 million metric tons that year. Even though Russia was third, Russia was intending to significantly increase production and export in 2023 which would make Russia among top 2 exports. However, due to new sanctions, Russian target will be unlikely realized.

The ban on coal exports has a negative impact on Russia's foreign exchange earnings and employment. Thus, Russia exported more than half of its produced coal. Russia, the world's sixth largest producer after China, India, Indonesia, the United States and Australia, is in the top three (after Indonesia and Australia) with 217 million tons of foreign exports. This means that the coal ban will lead to a loss of currency for Russia. On the other hand, the coal industry is one of the areas that provide special support for employment in Russia. Against the background of minimizing exports, it is possible that jobs will be lost in this area as well.

The West continues to expand sanctions. In Ukraine, the scale of the war is expanding in line with sanctions.