Sanctions have huge toll on Russian economy: Report

Domestic economic activity at a standstill since Feb 24 invasion

MOSCOW: The Russian economy has been deeply damaged by sanctions and the exit of international business since the country invaded Ukraine, according to a new report by Yale University business experts and economists. Even though Moscow has been able to pull in billions of dollars from continued energy sales at elevated prices, largely unpublished data shows that much of its domestic economic activity has stalled since the February 24 invasion, according to the report released in late July.

"The findings of our comprehensive economic analysis of Russia are powerful and indisputable: Not only have sanctions and the business retreat worked, they have thoroughly crippled the Russian economy at every level," said the report from the Yale School of Management.

"Russian domestic production has come to a complete standstill with no capacity to replace lost businesses, products and talent," the 118-page report said. The report was produced by Jeffrey Sonnenfeld, president of the Yale Chief Executive Leadership Institute, and other members of the institute, a mix of economists and business management experts.

With Moscow having halted or pared the release of official economic statistics, including crucial trade figures, Sonnenfeld's group tapped into data held by companies, banks, consultants, Russian trading partners and others to build a picture of Russian economic performance.

They also said they obtained unreleased data from experts on the Russian economy, and data in other languages which supported their conclusions. Even if Russia is able to earn more foreign exchange on gas and oil exports, that has not offset the impact of Western sanctions.

And, they argue, the country's dependence on Europe to buy 83 percent of its energy exports leaves it under a greater medium-term threat. "Russia is far more dependent on Europe than Europe is on Russia," they said.

Car industry crashes

Russia largely survived Western economic sanctions after Moscow's 2014 seizure of the Ukraine region of Crimea. President Vladimir Putin pushed a program of replacing some imports with domestic products and built up a cushion of financial reserves.

But the country's industry remained heavily driven by foreign capital investment and the import of higher-tech inputs that Russia had not mastered, like semiconductors. The barrage of deeper sanctions after the invasion took aim at both of those vulnerabilities, the report said.

Some 1,000 foreign companies halted their activities in the country, potentially impacting up to five million jobs, according to the report. Industrial output plunged, and Russian retail sales and consumer spending have fallen at an annual rate of 15-20 percent. Imports have plunged across the board, the report said: crucial imports from China fell by more than half.

A key example of Russian problems, according to the report, is the automobile sector.

Car sales went from 100,000 a month to 27,000 a month, and output has stalled due to a lack of parts and machinery. Without access to imported components, Russian producers are putting out cars without airbags or modern anti-lock brakes, and only with manual transmissions.

Threat to gas revenues

The report challenged the belief that the Russian economy was surviving thanks to the tens of billions of dollars the country reaps each month from oil and gas exports. Last week the IMF said the Russian economy, though contracting, was doing better than expected due to its energy and commodity export income. The Yale report said data indicates energy revenues have been falling for the last three months. If Western Europe succeeds in cutting itself off from Russian natural gas, Moscow faces an "unsolvable" situation with a lack of a market for its output, according to the report.

"Any decrease in oil and gas revenues or oil and gas export volumes would immediately put a strain on the Kremlin's budget," it said. —AFP

MOSCOW: Russian President Vladimir Putin chairs a meeting with members of the Security Council in Moscow. The Russian economy has been deeply damaged by sanctions and the exit of international business since the country invaded Ukraine. —AFP

ZURICH: This file photograph taken on February 19, 2009, shows the headquarters building of reinsurer Swiss Re in Zurich. —AFP

Natural disaster losses hit $72bn in H1 2022: Swiss Re

ZURICH: Total economic losses caused by natural disasters hit an estimated $72 billion in the first half of 2022, fuelled by storms and floods, Swiss reinsurance giant Swiss Re estimated Tuesday. Though the figure is lower than the $91 billion estimate for the first six months of 2021, it is close to the 10-year average of $74 billion, and the weight is shifting towards weather-induced catastrophes. "The effects of climate change are evident in increasingly extreme weather events, such as the unprecedented floods in Australia and South Africa," said Martin Bertogg, Swiss Re's head of catastrophe perils. The Zurich-based group, which acts as an insurer for insurers, said the losses were also propelled by winter storms in Europe as well as heavy thunderstorms on the continent and in the United States.

So-called secondary natural disasters like floods and storms-as opposed to major disasters such as earthquakes-are happening more frequently, the reinsurer said. "This confirms the trend we have observed over the last five years: that secondary perils are driving insured losses in every corner of the world," Bertogg said.

"Unlike hurricanes or earthquakes, these perils are ubiquitous and exacerbated by rapid urbanization in particularly vulnerable areas," he said. "Given the scale of the devastation across the globe, secondary perils require the same disciplined risk assessment as primary perils such as hurricanes." Swiss Re said floods in India, China and Bangladesh confirm the growing loss potential from flooding in urban areas. Man-made catastrophes such as industrial accidents added on a further $3 billion of economic losses to the $72 billion from natural disasters, taking the total to $75 billion-which is down on the $95 billion total for the first half of 2021.

Total insured losses stood at $38 billion: $3 billion worth of man-made disasters and $35 billion worth of natural catastrophes-up 22 percent on the 10-year average, said the Swiss reinsurer, warning of the effects of climate change. February's storms in Europe cost insurers $3.5 billion, according to Swiss Re estimates. Australia's floods in February and March set a new record for insured flood losses in the country at so far close to $3.5 billion-one of the costliest natural catastrophes ever in the country.

Severe weather and hailstorms in France in the first six months of the year have so far caused an estimated four billion euros ($4.1 billion) of insured market losses. —AFP

EU halves its reliance on Russian gas

BRUSSELS: The European Union has halved its reliance on Russian gas by buying from other suppliers, but cannot go much further without reducing its energy consumption, the bloc's top diplomat has said.

Josep Borrell said deliveries from Russia make up only 20 per cent of Europe's gas imports at present, compared with 40 per cent before the war in Ukraine began. The bloc has partly offset Russia's gas cuts by buying more liquefied natural gas (LNG), for example from the US, which arrives on ships and now makes up 37 per cent of imports, up from 19 per cent previously.

The American Petroleum Institute said last week that the US sent more gas to Europe in June than Russia delivered by pipeline, a first that it said "would have been unthinkable a few years ago". However, not all countries can import LNG directly because they are landlocked or do not have the required facilities, with Germany hurrying to build those on its northern coast.

Pipeline deals with Norway, Algeria and Azerbaijan have also helped the EU to diversify its supplies after years of heavy dependency on Russia which left many countries exposed when war broke out.

In a blog post, Borrell said more diversification would follow but said the "hard truth" was that "for this winter, we are approaching the limits of what extra gas we can buy from non-Russian sources." "So, the bulk will have to come from energy savings," he said. "Winter comes every year but the one we face promises to be exceptional."

EU members last week made a voluntary commitment to cut their gas consumption by 15 per cent during the winter, so that the gas they do receive from Russia will go further. However, member states carved out a number of exceptions and took the power to declare a gas crisis - which would make the energy cuts mandatory - away from the European Commission.

There is no certainty about how much gas Europe will receive from Russia, which has drastically reduced supplies to Germany through the Nord Stream pipeline. EU Commission President Ursula von der Leyen said the bloc "must prepare for the worst" because Russia has partially or completely cut off supplies to several member states already, most recently its neighbor Latvia.

Mr Borrell said he would work on building a global coalition on energy efficiency in the same way that the EU helped to win backing for a pledge on methane at last year's Cop26 summit. He said European countries leading by example would give the bloc more credibility to push for energy efficiency at the UN General Assembly and at Cop27 this autumn. "It is still true that the best energy of all is the one you don't need," he said. —Agencies

BRUSSELS: EU foreign policy chief Josep Borrell said the share of LNG imports had almost doubled. —AFP

BP profit triples to $9.3bn on soaring energy prices

LONDON: British oil giant BP rebounded to second-quarter profit on soaring energy prices, it said Tuesday, after a big loss linked to its Russia exit following Moscow's invasion of Ukraine.

Net profit hit $9.3 billion in the three months to June-a threefold increase from the same period last year, the company said in a results statement. And it contrasted sharply with a $20.4-billion loss after tax in the first quarter, when it took a vast write-down after its decision to leave Russia.

BP is the latest energy major to post bumper second-quarter earnings as oil and gas prices have surged in the wake of key producer Russia's invasion of Ukraine. Prices also spiked after countries lifted COVID pandemic lockdowns, spurring global energy demand. British rival Shell revealed last week a fivefold surge in net profit to $18 billion while France's TotalEnergies raked in nearly $6 billion.

US majors ExxonMobil and Chevron last week logged record profits for the same period. Turning to the third-quarter outlook, BP forecast Tuesday that oil prices will "remain elevated ... due to ongoing disruption to Russian supply, reduced levels of spare capacity and with inventory levels significantly below the five-year average".

It warned gas prices will also remain "elevated and volatile" as Russia also squeezes European supplies in retaliation for Western sanctions over the assault on Ukraine. The gas outlook was "heavily dependent on Russian pipeline flows or other supply disruptions", BP added.

The group's share price jumped about four percent in London trade, as investors welcomed news of a dividend hike and a $3.5-billion stock buyback. Revenues were catapulted 86 percent to almost $68 billion from a year earlier.

Windfall tax pleas

At the same time, BP posted a net loss of $11.1 billion for the first half of 2022. That was sparked by a colossal first-quarter charge of $24.4 billion, linked to a decision to exit its 19.75-percent stake in Russian energy group Rosneft as well as its other activities in the country.

That wiped out the overall benefit of high energy prices in the first half. Gas prices, which skyrocketed in March after Russia launched its invasion of neighboring Ukraine, surged last week after Moscow curbed crucial deliveries to Europe. The market remains at its highest level since March after state-run Gazprom suspended gas deliveries to Latvia on Saturday. Back in Britain, the government in May proposed a temporary windfall tax on BP and its UK rivals including Shell to help ease a cost-of-living crisis.

The proceeds will help to fund a multi-billion-pound support package for consumers hit by surging domestic electricity and gas bills. UK annual inflation hit a new 40-year high of 9.4 percent in June.

Rocketing Chevron and ExxonMobil earnings also prompted calls for a windfall profits tax on the sector in the United States, which faces the highest inflation in four decades as well.

A similar plea was made by left-wing politicians in France after TotalEnergies published its second-quarter earnings, but President Emmanuel Macron's government has opposed such a move.

Britain-based campaigners slammed BP on Tuesday over its latest results. "While households are being plunged into poverty with knock-on-impacts for the whole economy, fossil fuel companies are laughing all the way to the bank," said Doug Parr, chief scientist at green campaign group Greenpeace UK. —AFP

Ecuador says will pay $374m to oil company Perenco

QUITO: Ecuador said Monday it would pay $374 million due to Anglo-French oil company Perenco under a settlement ordered in a dispute over profits. Work was under way to figure out payment terms, the economy ministry said, after Perenco announced it had secured a freeze of all Luxembourg bank accounts used by Ecuador to make bond coupon payments.

Perenco filed suit over a decade ago against Ecuador for $1.42 billion, after the South American country increased from 50 percent to 99 percent its share of profits after an increase in the oil price.

In 2019, Perenco was awarded a settlement against Ecuador by the International Center for Investment Disputes (ICSID), an autonomous organ of the World Bank. In a statement on Monday, Perenco said it had managed to freeze "bank accounts in Luxembourg from which payments are made on Ecuador's bond coupons."

This served, it said, "to highlight the risks the international investment community faces in any dealings with Ecuador." The company added: "Unless and until Ecuador fulfils its obligations under the Washington Convention and its express undertaking to pay Perenco in full, Perenco has been left with no choice but to take steps to enforce its payments rights against Ecuador in Luxembourg and other jurisdictions." The government in Quito said Monday it had not received notice of the freezing of its assets in Luxembourg. In 2017, the ICSID also ordered Ecuador to pay $337 million to US oil company Burlington Resources.

Burlington Resources was working in two oil blocs in Ecuador alongside Perenco in 2008, but halted operations after Ecuador demanded more of the profits. Ecuador accused both companies in 2009 of abandoning their operations in the country, and cancelled their contracts. —AFP