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U.S. Sanctions on Rosneft and Lukoil: Pressure on Moscow, Strains on Europe

The U.S. sanctions on two Russian oil giants, Rosneft and Lukoil, came into effect on Nov 21, 2025. These sanctions affect not only companies per se but also their counterparties worldwide under the secondary sanctions clause. For the EU, these sanctions highlight a central trade-off: how to exert real pressure on Russia without fracturing political alignment among EU Member States. This brief discusses the consequences of the sanctions, including their immediate impact on the firms and Russia's budget, the new tensions exposed in Europe's energy policy, and the broader lessons for the next generation of EU sanctions tools.

The threat of secondary sanctions

On 22 October 2025, the United States imposed sanctions on Russia's two largest oil companies, **Rosneft and Lukoil**. At the time, the measures appeared symbolically significant: they were the first sanctions package introduced by the new Trump administration and were coordinated with the EU's 19th sanctions package, giving the impression of renewed transatlantic alignment after a long period of fragmentation and uncertainty. The announcement **reportedly caught Mr Putin off guard**. This reaction highlights how unexpected the measures were, given President Trump's rhetoric and the geopolitical positioning many observers had anticipated he would adopt.

Although, in retrospect, that initial sense of alignment appears more fragile, given other political developments during November, the sanctions that formally came into effect once the wind-down period ended on 21 November are likely to be consequential, both for the target companies and for the Russian federal budget. To understand this impact, it is essential to look at how U.S. sanctions operate in practice, especially the leverage created by secondary sanctions.

When the U.S. Treasury's Office of Foreign Assets Control (OFAC) designates an entity for sanctions, it warns that any financial institution dealing with that entity may itself become exposed to penalties. In particular, OFAC notes that foreign banks engaging in significant transactions for a sanctioned person risk the imposition of so-called *secondary sanctions*. In practical terms, OFAC can bar such a bank from accessing the U.S. financial system if it knowingly carries out, or helps carry

out, a transaction for someone under U.S. sanctions. Losing this access means losing the ability to use U.S. dollar accounts and payment channels.

This is precisely why OFAC's sanctions are so widely feared: almost every dollar transaction in the world ultimately passes through a U.S. correspondent bank. Even two foreign banks trading dollars in Asia or Africa must clear their payments through the United States. If OFAC cuts a bank off from that system, it is effectively locked out of the dollar economy, and in the global economy, losing access to dollars is like losing access to oxygen.

The power of secondary sanctions becomes visible in how different actors react to the risk. Swiss trader Gunvor abruptly withdrew, and later publicly denied, its bid to acquire Lukoil's international business once the sanctions exposure became apparent. In Bulgaria, the government moved to take control of Lukoil's Burgas refinery because, once sanctions took effect, counterparties were likely to refuse payments to a sanctioned entity, forcing the refinery to shut down. This temporary state takeover has been tacitly tolerated so far, as it was deemed necessary to maintain Bulgaria's fuel security. The same logic drove Viktor Orbán to rush to Washington to secure guarantees for Hungary's fuel supplies, resulting in a one-year exemption from U.S. measures. In short, the threat of secondary sanctions is real and shapes major commercial and political decisions alike.

Economic implications for the targets

Given the far-reaching implications of OFAC sanctions, the economic impacts are potentially significant. Following the announcement in



October, financial markets reacted **immediately**. Lukoil's share price fell by around 9.4 percent, while Rosneft's declined by approximately 7 percent. This asymmetry reflects the companies' different exposure profiles. Lukoil, as a more private and internationally exposed firm, is significantly more vulnerable than Rosneft, whose operations are more domestically anchored and politically protected.

The sanctions raise the prospect of forced divestments of Lukoil's foreign assets, likely at significantly reduced valuations due to the limited pool of potential buyers willing to engage with sanctioned entities. Even when divestment is not formally mandated, the measures can make it effectively impossible for the companies to repatriate dividends from their overseas holdings, as financial intermediaries are unlikely to process payments involving sanctioned actors. This constitutes an immediate loss of income, besides the longer-term loss of strategic presence in Europe.

Figure 1. Map of Lukoil's foreign assets



Source: Bloomberg. The map includes the headquarters of the international marketing and trading arm, LITASCO SA, based in Geneva.

Operationally, both firms face higher costs and greater frictions. Sanctions increase the risk for

suppliers, banks, insurers, and logistics partners, who now must factor in secondary sanctions exposure when doing business with Lukoil or Rosneft. This narrows the pool of potential counterparties and scares away buyers.

These dynamics are already visible in the adjustment patterns of major international buyers of Russian oil, notably India and China. There, the adjustment is expected to be sharper for India than for China. This is because India is more dependent on the dollar, given the rupee's status, while trade with Russia is not as diversified to allow for barter-like arrangements (as Russia reportedly resorted to with China). Several major Indian **refiners** reportedly began planning to halt or scale back purchases of Russian crude. However, the grace period allowed India to stock up: according to tracking firm Kpler, India's Russian oil imports reached 1.855 million barrels per day (bpd) in November, **a five-month high**, reflecting a rush to secure barrels ahead of the sanctions deadline. But for December, the same sources project a drop to 600,000–650,000 bpd, a three-year low in Russian oil shipments to India.

About **40-45 percent** of China's oil imports from Russia are also affected by these sanctions, and Chinese buyers, especially the smaller independent refiners but even some state-owned ones, are being more careful.

By and large, though, export volumes are unlikely to decline significantly in the near term, given the extensive circumvention networks and practices already in place. Nevertheless, financial effects are increasingly visible, not least due to another effect of the sanctions - buyers being able to extract deeper discounts, further compressing Russia's earnings. There are already multiple **reports** of



Urals trading at its steepest discount in a year, sometimes several dollars per barrel below Brent. The discount widened from USD11–12/bbl (before Oct 22 sanctions) to USD19–20/bbl by early November, and reportedly as wide as USD20–23.5/bbl by mid-November.

Figure 2. Urals–Brent discount, widening after sanctions.



Source: [TradingEconomics.com](https://tradingeconomics.com).

According to CREA's **fossil fuel tracker** for October 2025, "Russia's monthly fossil fuel export revenues saw a 4 percent month-on-month decline to EUR 524 million (mn) per day — the lowest they have been since the full-scale invasion of Ukraine." This corresponds to a 15 percent year-on-year drop in fossil fuel export revenues and resulted in a 26 percent year-on-year drop in tax revenues from oil and gas exports.

Over the medium to long term, these commercial pressures may accumulate and become consequential. Higher operating costs and lower revenues mean that both companies will have less capital available for investment. Because Russia's upstream sector is both capital-intensive and dominated by Rosneft and Lukoil, with limited scope for independent or foreign producers to expand under current political and sanctions constraints, any sustained under-investment by

these two companies is unlikely to be compensated by market reorganization. This raises the risk of faster production declines and a longer-term weakening of the entire industry.

Implications for the Russian state budget

Lukoil and Rosneft are the two largest taxpayers in Russia, contributing through a broad range of fiscal streams and payments associated with state-owned infrastructure. In Rosneft's case, where the state holds a majority stake, dividends are also a source of federal revenue. Any reduction in company profitability, therefore, translates directly into lower tax payments and smaller dividends.

Sanctions-driven increases in shipping, insurance, and compliance costs will further compress margins and reduce the tax base. The loss of foreign assets, or their sale at distressed prices, diminishes both current profit tax liabilities and future dividend streams.

Some taxes, such as the mineral extraction tax (MET), are based on production volumes rather than profitability, which reduces the immediate fiscal impact. But as profitability declines, and especially if the sector's investment levels fall, the medium-term fiscal losses become more substantial as reduced investment ultimately erodes production volumes.

All in all, **Rosneft** and Lukoil together produce between 40 and 50 percent of the national oil output. Although the share of oil and gas revenues in the federal budget has decreased from the historical 35–40 percent to **25–30 percent**, the potential fiscal impact remains substantial. According to **Reuters**, projected oil revenues for the current month are roughly 35 percent lower



than in the same month of 2024, marking the weakest level in two and a half years.

Uneven burden-sharing in the EU

These sanctions also carry costs for the EU itself. Their impact is felt unevenly across Member States, largely reflecting differences in pre-war dependence on Russian oil and gas. This is why EU sanctions on Russian energy have consistently included exceptions for highly dependent Member States in Central Europe, notably Hungary and Slovakia (and, before, Czechia). The Council explicitly acknowledged these exemptions were justified on the grounds of security of supply and fairness, recognizing that certain countries faced structural reliance on Russian oil and lacked immediate alternatives ([Council Decision \(EU\) 2022/879](#) and the [EU's 6th package](#)). At the same time, the financial significance of these exemptions for the EU's pressure on Russia is very limited. According to CREA's data for October 2025, Hungary purchased EUR 258 million of Russian fossil fuels that month and Slovakia EUR 210 million. This constitutes less than 4% of Russia's global fossil-fuel export revenues for that month.

However, these exemptions produced asymmetric outcomes within the EU, complicating EU unity. Countries that retained access to Russian crude, typically priced below global benchmarks and substantially cheaper than LNG-based alternatives, effectively enjoyed a cost advantage over Member States that had already diversified or lost access to Russian supplies. They have avoided abrupt supply disruptions but also benefited from lower-cost inputs, while others absorbed higher market prices and the capital expenditure needed to secure

alternative supply chains (including LNG terminals, new interconnectors, or upgrades to refineries).

The sanctions on Rosneft, Lukoil, and their EU subsidiaries offer a good example of how uneven the impact of energy measures can be across Member States. Rosneft holds significant shares in three German refineries, together accounting for around 12 percent of Germany's refining capacity, but these assets have been under German state trusteeship since 2022 -- meaning that Rosneft is still the legal owner, yet it no longer controls day-to-day operations. Lukoil, by contrast, directly owns major refineries in Bulgaria (Neftochim Burgas) and Romania (Petrotel Ploiești), and has a large stake in a Dutch refinery. For years, the countries hosting these assets benefited from cheaper Russian crude and gasoline, slower pressure to diversify, and more lenient implementation of EU sanctions.

As sanctions tighten and divestment of Russian-owned assets in Europe becomes unavoidable, these states now face higher prices and costly adjustments. In this sense, the current phase can be seen as a rebalancing act: the advantages these countries once enjoyed are gradually diminishing as their energy prices converge with those of other member states. At the same time, their exposure to supply disruptions may even be increasing, given the lack of earlier investment in diversifying their energy import sources.

But the politics remain contentious. Hungary's [push](#) for renewed derogations and Slovakia's threat in March 2025 to block EU support for Ukraine unless gas transit via Ukraine is reopened to Slovakia and Western Europe show how differing energy profiles still shape national positions on sanctions.



In the long term, however, solidarity cannot mean accepting the structurally uneven burden-sharing of sanctions costs. EU solidarity principles (reflected in the Treaties, the Clean Energy Package, and crisis-response mechanisms such as the 2022 gas solidarity regulation) imply that Member States should support one another to withstand shocks, not that some should bear permanent disadvantages. As highlighted in the energy-security literature, especially in the work of Le Coq and Paltseva (2009, 2012, 2022, or 2025), solidarity can be viewed as a mutual insurance mechanism that is most effective when tied to interconnection and diversification, enabling states with asymmetric exposure to external energy suppliers to cope with disruptions without undermining collective action.

Following this logic, solidarity should be understood as doing as much as possible to ensure that the Member States most exposed to Russian oil and gas are sufficiently integrated into the EU system—through stronger interconnections, diversified supply routes, and access to alternative sources—so that they can sustain tougher sanctions without requiring permanent derogations. The EU's challenge, therefore, is to ensure a more even sharing of the sanctions' burden, preventing any Member State from systematically free-riding by shifting the costs of sanctioning Russia (or other common policies) onto others, while preserving political cohesion.

Conclusion

The analysis of this episode carries important implications for EU policy.

First, it underscores both the strategic potential and the political limits of secondary sanctions as a

policy tool. Legally, the EU's treaties constrain extraterritorial action and anchor the Union in a *territorial* understanding of jurisdiction; furthermore, this take is consistent with the EU's long-standing identity as a regulatory—rather than coercive—power. Practically, the Union lacks the federal-level enforcement structures needed to police foreign actors across jurisdictions. Politically, the use of secondary sanctions remains divisive: they raise concerns about infringing third countries' sovereignty, provoking retaliation against EU trade, constraining diplomatic flexibility, and straining relations with key partners in the Global South. Member States' exposure to international trade and to specific partners such as China, India, Türkiye, and the Gulf varies widely, making consensus difficult. At the same time, EU firms are deeply embedded in global supply chains, and the euro lacks the dollar's reach, increasing the risk that aggressive measures, such as secondary sanctions, could accelerate de-euroization.

Within these constraints, the EU has opted for more limited, quasi-extraterritorial tools—most notably the “no-Russia clause”, which requires that EU exporters include a contractual ban on re-exporting their goods to Russia—to approximate the effects of secondary sanctions without formally adopting them. This calibrated approach has so far allowed the Union to signal resolve while limiting geopolitical and economic risks. But as U.S. secondary sanctions increasingly shape global trade patterns in ways that affect the EU, the question of whether this strategy remains sufficient is becoming harder to avoid.

Second, the episode highlights the need to make burden-sharing within common EU policies,



including sanctions, more transparent and more equitable. Derogations for highly exposed Member States were justified in the short run on security-of-supply grounds, but their continuation produced persistent asymmetries in costs and benefits across the Union. These disparities have shaped national positions on sanctions, complicated collective decision-making, and, in some cases, been leveraged as political bargaining tools. As sanctions become a more permanent feature of the EU's external action, clearer mechanisms will be needed to ensure that no Member State can systematically shift the economic or political costs of common measures onto others. This may involve revisiting the design of derogations, considering compensatory financial instruments, or more closely integrating sanctions policy with energy, industrial, and fiscal planning.

Ultimately, the credibility of the EU's sanctions strategy will depend on its ability to align legal constraints, geopolitical ambition, and fair burden-sharing into a single, coherent framework.

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