# MNI: Growing Russia-China Energy Ties Dilute Sanction Threats

*By Lawrence Toye, (15/09/2025)*

**Executive Summary:**

- As the **west turned away from Russian,** first in 2014 and then more forcefully in 2022, **China has largely filled the void.**
- China has **become a key ally for Moscow**, and a **reliable buyer of its oil and gas**.
- China's position as a customer of Russia and a key global trade partner makes **Trump touted secondary tariff plans largely impossible.**
- The **relationship is increasingly asymmetric**, with Russia growing increasingly reliant on China, while the latter looks to maintain diversity in its energy suppliers.

As the China-Russia relationship deepens, Beijing offers Moscow with an energy customer that is far more difficult to target with western sanctions, leaving Trump's secondary tariff threats appearing increasingly empty – especially as he looks to distance himself from implementing them.

## Growing Russia-China Political & Economic Relationship

Following Russia's invasion of Ukraine in February 2022, western countries imposed, economic, political, and cultural sanctions on Russia, seeking to cut ties with Moscow. With China-Russia ties growing even before then, Beijing naturally filled the void.

- At the large-scale military parade in Beijing to celebrate the surrender of Japan in World War II, President Vladimir Putin told his Chinese counterpart Xi Jinping on Tuesday that relations between their two countries had reached an "unprecedented level."
- The Chinese leader has also upheld Russia against US action to pressure the Russians into acquiescing on Ukraine, with Xi denouncing Washington's "bullying behaviour". The Kremlin leader, meanwhile, defended the ongoing war against Ukraine and blamed Western governments for fuelling the conflict.
- However, it is notable that the relationship is increasingly asymmetrical, with China ever more able to exploit Russia's lack of alternative partners. The Levada Centre - Russia's leading non-governmental polling and sociological research organisation – has noted that even Russians see China standing to benefit more and Russia acting as a "raw materials appendage" and a market for Chinese goods.
- Moreover, China has refrained from giving official recognition to Russian territorial gains in Ukraine since 2014 and has not directly involved itself in the conflict.
- While official Chinese support for Russia's "special military operation" may be lacking, Beijing's political, economic, and technological support has helped to embolden Putin in his ongoing offensive in Ukraine, with the Kremlin showing little wiggle room in its hardline negotiation stance.
- On Sep. 12, Kremlin spokesperson Dmitri Peskov told reporters, "There's a pause in Russia-Ukraine negotiations." Peskov added Russia "remains open to talks," but European countries are "holding back efforts to find peace in Ukraine," per Reuters.
- The breakdown in peace progress was previously a risk element for oil markets over Russia secondary sanctions threats, a move Trump has distanced himself from as he tries to pull in Europe.


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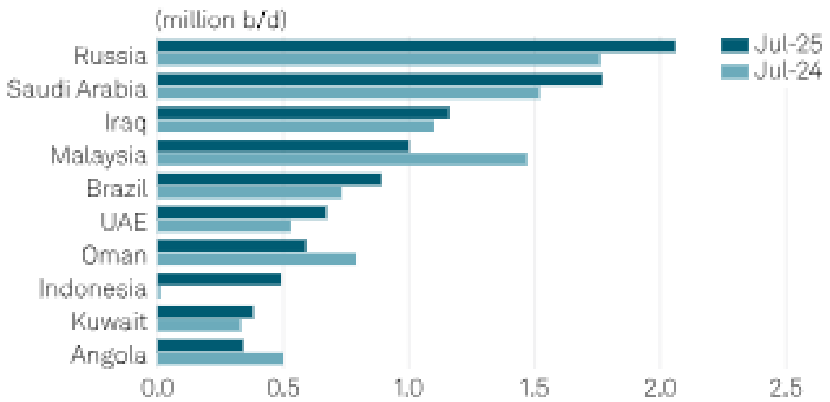
## China Becomes Russia’s Energy Lifeline

Energy is a key aspect of the Russia-China relationship, with the former’s oil and gas supplies of key interest to the Beijing - the world’s largest importer of both oil and natural gas.

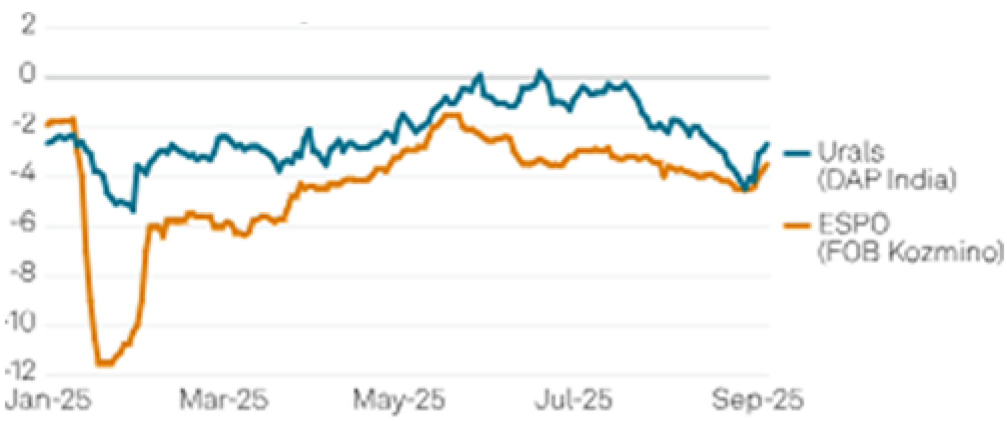
- Following Russia’s invasion of Ukraine, western countries looked to cut their buying of Russian energy. Given the lack of supply alternatives, this was a slow and expensive process. While western nations have successfully slashed their consumption of Russian oil and gas, China and India have not followed the same path.
- China’s imports of Russian crude have largely held steady over the years, with Russia currently the top single supplier of to the People’s Republic.

**China’s Crude Oil Suppliers**- Source (Platts)



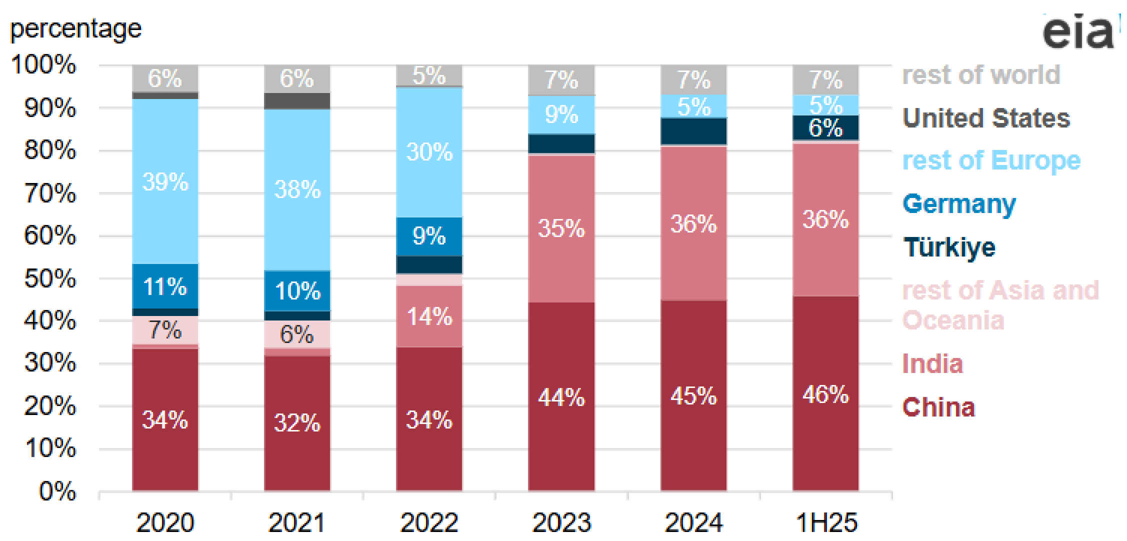

- China’s imports of Russian crude stood at around 1.6m b/d in 2021, around 17% of total supplies. By comparison, 1.1m b/d was imported in August 2025, according to Platts.
- Looking at crude and condensates combined, exports from Russia to China were around 0.5m b/d higher in 2024 compared to 2020, with China the largest importer of combined products, taking 2.2m b/d in 2024 and 2.0m b/d in H1 of this year, according to the EIA.
- With limited buyers, Russian crudes have been pushed into steeper discounts, to the benefit of China’s independent refineries, able to capitalise on discount prices to shore up their wafer-thin refining margins.

**Russian Crude Discounts in Asia**- Source (Platts)



- Unlike India, who has ramped up buying of Russian oil, China's crude intake can be marked as remaining robust, rather than seeing a large increase.
- However, it should be noted that until recently, India's buying of Russian crude had largely been green lit by Western nations, demonstrated by the G7 price cap policy aimed at simultaneously keeping Russian oil in the market and squeezing Moscow's revenues.

**Crude & Condensate Exports from Russia by Region 2020-H1 2025**- Source (EIA)




**Pipeline Gas Collaboration Deepens**

While Europe has rapidly expanded its regasification capacity to diversify its gas suppliers - targeting independence from Russian energy by Jan. 2028 - China has boosted its buying of Russian pipeline gas.

- Since the onset of the war and subsequent sabotage and closure of all but one pipeline route into Europe for Russian gas – the 16 bcm Turkstream pipeline – around 135 bcm/y of Russian gas supply has been left stranded, forcing the Kremlin to look east for customers.
- Annual gas supplies via the Power of Siberia pipeline -- which began operations in December 2019 prior to the Ukraine war – will be increased to 44 Bcm from the original design capacity of 38 Bcm.
- Furthermore, 12 bcm/y of supplies from Sakhalin Island to China via the Far Eastern route are set to begin in 2027, with the capacity raised from an original 10 bcm/y.
- However, the jewel in the crown for energy deals is the recently agreed Power of Siberia 2 pipeline, tying in significant Russian volumes for Beijing from the next decade onwards.
- Russia's Gazprom and China's CNPC signed a legally binding memorandum which would pipe 50 bcm/y of Russian gas to China via Mongolia.
- With these deals, the total volume of pipeline gas that could be delivered from Russia to China once all three projects reach capacity could hit 106 Bcm/y.
- There is no clarity on what a "legally binding memorandum" means, leaving the timescale for a final deal before launching the project opaque. Payment is said to be 50% in rubles and 50% in yuan, OIES said.
- Circumventing the greenback as currency of settlement is a powerful statement to the US and highlights Russia and China's desire to minimise their exposure to the dollar-based financial architecture, OIES added.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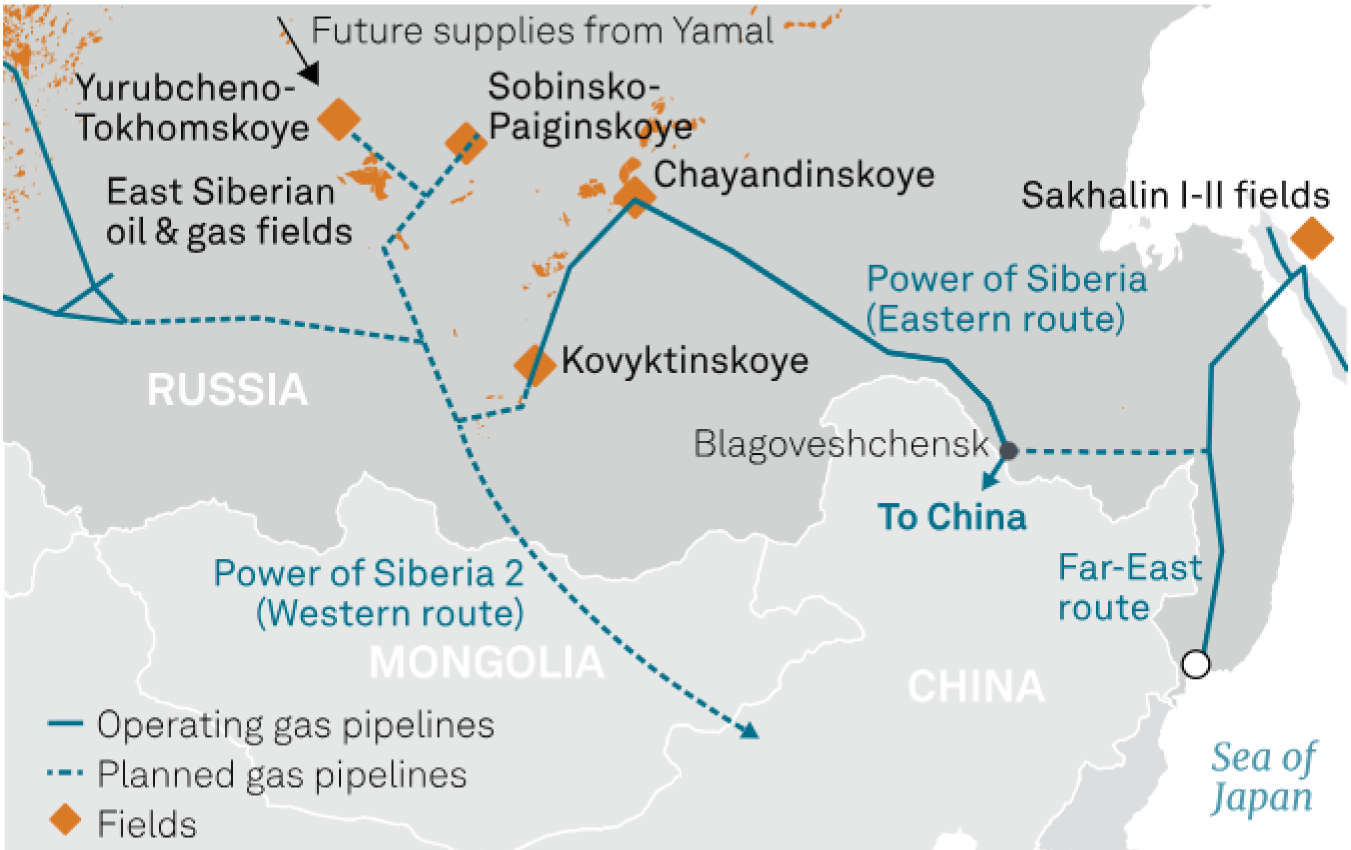
- Talks on additional Russia-China pipeline had been ongoing for over 15 years, with pricing seen as the main stumbling block. Putin has said that the pricing will be "market based", although it is likely to afford a significant discount.
- Nonetheless, even discounted flows ensure a revenue mechanism for the Kremlin as its LNG projects struggle to find buyers and Europe increasingly rejects its gas flows.

**Pipeline Routes for Russian Gas to China**- Source (Platts)



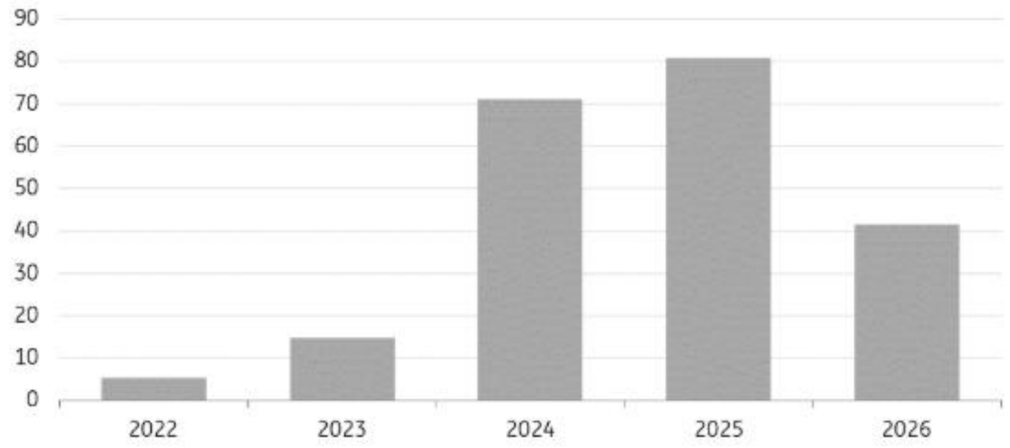

**Energy Independence over Interdependence**

While China is set to ramp up its pipeline gas receipts from Russia, it runs parallel to a large scale-up in its LNG regasification capacity.

- Over the past decade, Beijing kept its supply diverse, with no supplier holding more than a 25% share of China's total gas imports.
- While the shift to Russian gas may look like a growing interdependence, China also has more than 190bcm of regasification capacity which is set to be built between 2024 and 2026.
- This spare capacity gives it flexibility in its supply that Europe never had, especially as global LNG supplies ramp up in the coming years.
- In terms of supply, OIES noted that China will have around 136 bcm of contracted LNG in the 2030s. These cargoes could be resold on the spot market in the event of excess gas leaving China as a global swing supplier. It also provides a buffer should one of its pipeline projects not materialise.

- Europe's 2022 gas crisis was not just driven by a lack of gas after Russia cut off flows via Nord Stream, but also due to a lack of available regasification capacity to pivot to LNG. This drove LNG to discounts to a nearly $30/MMBtu between TTF and NWE LNG at their widest. Europe needed gas but couldn't take any extra LNG.
- China is not set to make the same mistake, with its regasification capacity dwarfing the flows set to arrive via Power of Siberia 2.
- China's gas strategy highlights the asymmetrical nature of the relationship: Russia's dependence on China grows, but while China can capitalise on Russia's resource wealth without becoming too entangled.

**China's Annual Regasification Capacity Additions (bcm)**- Source (ING)



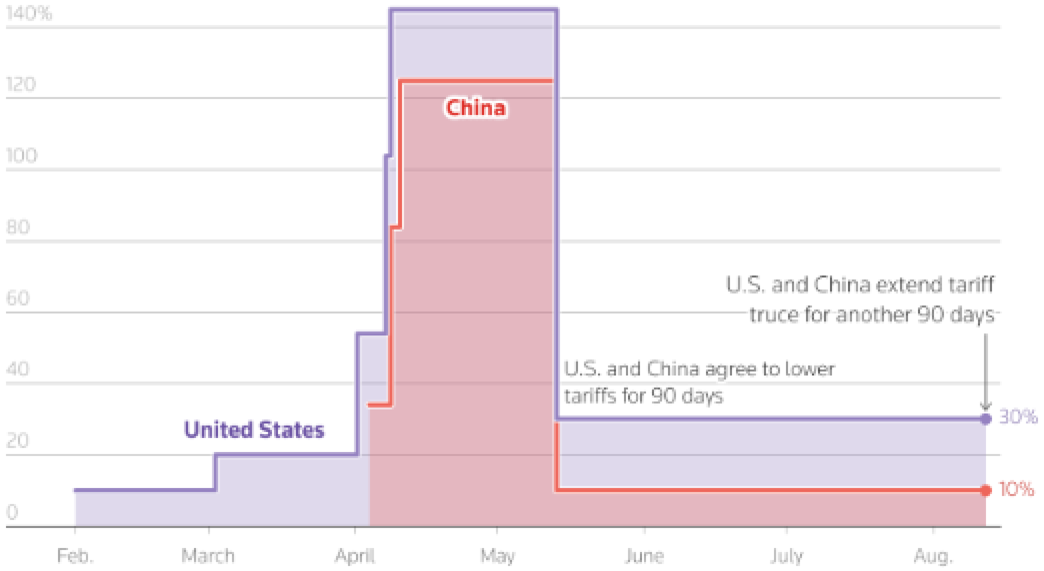

## Trump's Tariff Dilemma

Ideas of secondary sanctions against buyers of Russian oil first gained traction after GOP Senator Lindsey Graham proposed a bill in April which would impose up to 500% tariffs on imports from countries buying Russian oil.

- The bill has not been passed and the proposal watered down such that any action would be at the President's discretion.
- Trump himself threatened to go through with secondary tariffs several times, only for a phone call with Putin or a summit in Alaska able to kick the plan back into the long grass.
- While a 25% tariff was imposed on India for buying Russian oil, the Trump administration has resisted such measures against Beijing, likely bruised by the recent tariff battle this year. The measures against India are also likely a negotiating tactic in ongoing trade negotiations.
- One of the key challenges in imposing such a tariff policy against buyers of Russian energy – in particular China and India – is the recent scars from the post "Liberation Day" tariff battle between the Trump Administration and China.
- On April 2, Trump hiked an additional 34% on all Chinese goods on top of an existing 20% tariff rate, taking total US tariffs on China to 54%. China retaliated with its own 34% tariff on all US goods.
- This led to a tit-for-tat tariff war which drove up the peak US tariff rate on Chinese goods to 145% and Chinese tariffs on US goods to 125%

- China is the third largest export market for the US behind Canada and Mexico, with US exports at around $195bn in 2024. Meanwhile, China is the source of around 13.5% of US imports.
- Aside from the Chinese counter tariffs, Beijing also imposed export restrictions on rare earth elements, critical in technologies including fighter jets, missiles, radar systems, and submarines.
- China has a monopoly on refined heavy rare earth minerals, with the US a long way off any semblance of self-reliance. Consequently, the export ban would have dealt a heavy blow to the US' military and defence sector.
- The rare-earth restrictions, coupled with the economic implications of a de facto trade embargo drove the parties to the negotiating table. While talks continue, both sides agreed to an interim tariff rate of 34% for US imports of Chinese goods and a 10–15% tariffs on US goods entering China.

**US China Tariff Rates**- Source (Reuters)




- While China seeks to maintain access to the US market and appears eager to minimise trade frictions, the recent trade war highlighted the growing clout it holds. Consequently, it has further scope to pursue its own interests without having to toe to US pressure.
- The tariff saga also demonstrates the risk Trump faces should he hit China with further levies, likely kiboshing the ongoing trade negotiations and even hampering his own defence sector.
- If the US wants to continue supplying Ukraine, either directly or via selling weapons to the EU, it must ensure its own defence sector has access to critical materials.

## Lack of US-EU Collaboration on Tariffs

The difficulty in implementing wider sanctions against China has been demonstrated by the President's call for The European Union to implement its own tariffs against Beijing. This is an unlikely move from a President who appears sceptical of multilateralism.

- The move could be a hope that a united front and an even larger economic market could be more effective in pressuring China (and India) into abandoning its reliance with China.

- Yet, it more likely highlights the limited room Trump has for bringing the conflict to a close and thus an attempt to slowly unpick US obligations. By pulling the EU and NATO in, Trump has an off ramp to abstain from taking making good on previous threats.
- Trump said on Truth Social that he is willing, "to do major Sanctions on Russia when all NATO Nations have agreed, and started, to do the same thing, and when all NATO Nations STOP BUYING OIL FROM RUSSIA."
- Trump further clarified plans via social media, adding, "Anyway, I am ready to "go" when you are. Just say when? I believe that this, plus NATO, as a group, placing 50% to 100% TARIFFS ON CHINA, to be fully withdrawn after the WAR with Russia and Ukraine is ended, will also be of great help in ENDING this deadly, but RIDICULOUS, WAR. China has a strong control, and even grip, over Russia, and these powerful Tariffs will break that grip. This is not TRUMP'S WAR (it would never have started if I was President!), it is Biden's and Zelenskyy's WAR."
- Trump's refusal for unilateral US tariffs was likely confirmed by US Treasury Secretary Scott Bessent who said in an interview Sep.15 according to Reuters that the US will not impose tariffs on Chinese goods for purchasing Russian oil unless European countries do the same.
- the EU has also been reluctant to punish China for fear of retaliation against European companies despite Beijing's deep ties to Moscow. China is the EU's second-largest trading partner after the US.
- The EU already banned seaborne imports of Russian crude in December 2022 and refined products in Feb. 2023, but the legislation included a carve out for pipeline imports. This has enabled some central European states, namely Hungary, to continue buying in Russian barrels.
- While the EU is considering a further package that would hit Russia with additional sanctions, the bloc is very unlikely to impose crippling tariffs on India or China, the main buyers of Russian oil, EU sources told Reuters. Another EU source told Reuters that tariffs could be too broad, preferring targeting specific entities.
- Like the US, additional tariffs on goods from China and India risk undermining the European economy at a time when growth is already sclerotic and public dissatisfaction on the rise. China is the source of 21.3% of EU imports and the destination for 8.3% of EU exports. Furthermore, negotiations on an EU trade deal with India, would also be put at risk by any tariffs on New Delhi.

## Sanctions Busting

The economic and defence 'Trump card' that China can pull in the event of secondary sanctions appears to have emboldened Beijing into openly defying existing sanctions on Russia's Arctic LNG 2 facility.

- China has received over 552,000 cubic metres of LNG via four cargoes arriving from the sanctioned Russian project since late August.
- The uptick in loadings supports market speculation that Novatek, the Russian operator of Arctic LNG 2, is planning up to 30 shipments over the next four months, with problems associated with the second train of the project expected to be resolved by the end of November.
- The decision by China appears to be testing the waters on US and EU willingness to enforce sanctions. A response would likely be sanctions against the importing terminal, Beihai in the Guangxi region.
- The 6m mtpa Beihai LNG terminal often runs at just 50% capacity, while Guanxi's 5 bcm/y of gas consumption is minimal compared to China's annual total 445 bcm in 2024, according to OIES. This means that the impact even in the event of targeted sanctions would be contained.
- Platts noted that the US taking incremental sanctions against Chinese companies would be an awkward step to take in the context of the ongoing high stakes US-Chinese trade negotiations.
- Instead, some kind of symbolic US sanctions response not intended to have a major effect or sour the tone of the broader US-China negotiations is more likely.

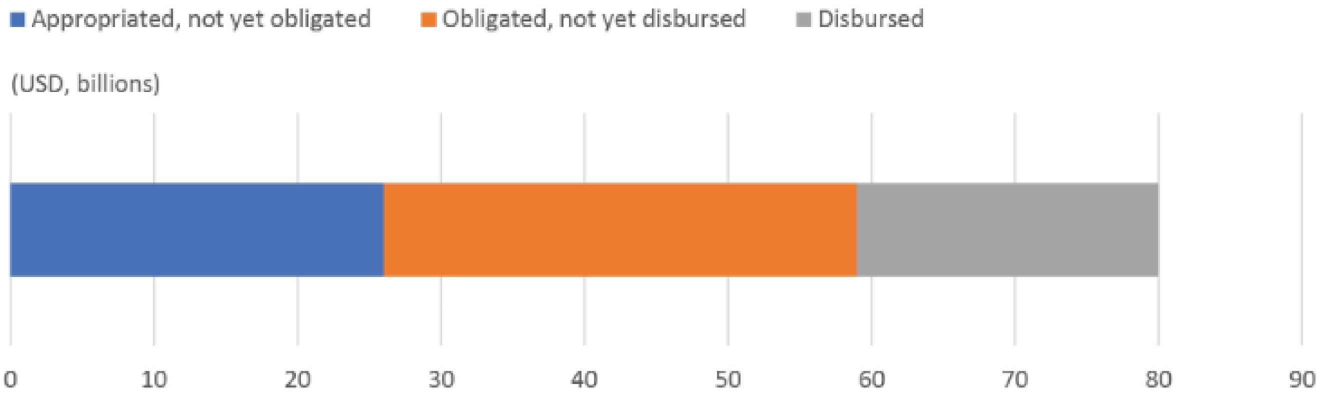
- Platts expects Arctic 2 LNG exports to Beihai will continue, with any slowdown in arrivals more likely connected to shipping bottlenecks, potential issues with the ramp-up of Arctic LNG 2 output, and downstream LNG demand, rather than sanction fears.
- The Chinese action around Arctic LNG 2 and the muted US response to date is likely a harbinger for the prospect of wider sanctions impacting China over Russian energy purchases.

## Possible Alternatives to Tariffs

With tariffs looking a hard sell, the US and EU have limited additional measures they can take to try and stymie Putin's campaign in Ukraine.

- The Trump Administration may decide to largely wash their hands of the conflict, arguing that continued buying of Russian oil and gas by NATO members undermines their position: until this ceases they will limit further military support and additional sanctions.
- If the US maintains an integral role in supporting Ukraine, one option may be for the US to further boost military support for Kyiv. However, there are questions surrounding the current spare military capacity to provide Ukraine with additional equipment. In any case, weapons deliveries can take several years to arrive on the front line because of manufacturing time.
- Given Trump's past actions increased military provisions would likely come in the form of allowing even further buying of US equipment from European buyers who would then provide it to Ukraine.
- To speed up deliveries, the US may draw down and replace their own supplies with European buying the equipment and transferring it to Ukraine. However, this could be unpopular with the more MAGA aligned voices concerned that US drawdowns weaken its own security.
- Even if those weapons could be sold, Europe is already facing a black hole in its Ukraine funding and may not have current scope to realistically commit to shoulder the burden.
- A touted solution has been to use the Russian assets frozen within EU member states to fund Ukraine, a proposal that has drawn the ire of Moscow.
- The European Commission is exploring ways to reinvest the cash arising from the maturing assets in riskier ways, to boost the funds available to Ukraine.
- The FT reported Sep. 15 that Belgium, a previous opponent to the measure, is now appearing more open to using the €190bn worth of Russian assets immobilised on its soil, provided the EU shares the legal risks, meaning Belgium could not alone be made liable.
- In addition to military support, the US and Europe may agree joint targeted sanctions on entities which help facilitate Russia's oil trade. This could be on banks or refineries. However, previous sanctions of this type have had limited impact to date.
- US Treasury Secretary Scott Bessent said in an interview Sep.15 that the US is willing to consider stronger sanctions on Russia, including on oil majors, and or greater use of frozen Russian assets.

**US Military Aid to Ukraine -** Source (CSIS)




## Accelerated Phase Out of Russian Gas

Another policy that may gather momentum is a faster phase out of Russian LNG and gas imports into the EU.

- Around 13% of the EU's gas still comes from Russia, although it is significantly lower than the 40-45% level prior to Russia's invasion of Ukraine in 2022.
- The EU also paid around €4.48bn for Russian LNG in H1 2025, up from €3.47bn in H1 2024, according to Eurostat.
- At the 2025 Gastech conference in Milan US officials called for the EU to expedite plans to phase out Russian gas purchases ahead of the current Jan 2028 deadline, with US Energy Secretary Chris Wright saying it could easily be done in 6-12 months.
- The US is keen to displace Russian volumes with its own hydrocarbons, touting the solution as a win-win.
- "We achieve prosperity at home and with our allies through energy abundance... Peace is achieved around the world by selling our energy to our friends and allies who don't have to buy from our adversaries," US Interior Secretary Doug Burgum said at Gastech.
- The EU said Sep. 10 that it is considering a faster phase-out process as part of the 19th sanctions package, although EU Energy Commissioner Dan Jorgensen said subsequently Sep. 11 that the EU was sticking to its original deadline.
- One of the opponents to an accelerated phase out appears to be Hungary. Its foreign minister Péter Szijjártó said at Gastech that his country would not be able to break away from Russian gas. "But will this [diversified energy sources] enable us to break away from Russian natural gas? No, due to geographical and infrastructural conditions. Not until we develop the infrastructure in the region. That is the reality," he said.
- OIES forecasts that an EU ban on Russian pipeline gas and LNG brough forward to 2026 would have severe price impacts for Central Europe, especially Hungary and Slovakia.
- Selected countries would be higher by $8-9/MMBtu, while TTF and JKM spot prices would be almost $1/MMBtu higher in 2026 and 2027, according to OIES. Conversely, the price impact would be minimal on the current timeline.
- Speeding up the phase out would shift dependence to US LNG but align with the US-EU trade deal: the bloc committed to purchasing €250bn/y in US energy commodities over the next three years, a level of buying most viewed as highly unlikely.
- Replacing Russia's LNG volumes with US volumes would increase the US' share of EU LNG imports to around 70%, Reuters said; a further phasing out of Russian gas via Turkstream would mean the EU relied on the US for 80% of LNG imports. This would leave 23% of Europe's gas as US origin.

- While dependence on US gas is lower risk politically, EU leaders will remain concerned that failing to diversify supply will leave it exposed. The EU will also be at the mercy of the vicissitudes of Trump’s energy, defence, and foreign policies.
- All things considered, EU policy priority appears to be focused on a phase out of Russian gas. Given previous US-EU energy deals, it would be unsurprising to see the Jan. 2028 deadline brought forward to propitiate the White House.

## War Rages On

While Trump’s pledge to end the Ukraine war in a day was always unrealistic, the tightening ties between Russia and China further hinders US efforts.

- As China leverages its economic might to stave off large scale tariffs or sanctions, the EU and US are limited to smaller targets – companies or facilities such as refineries or terminals. This will likely do little to turn the tide in the Ukraine war or push Putin into agreeing to serious negotiations.
- For the time being, US policy continues to be marked by tough rhetoric. However, Washington’s best course of action may be to abandon tariff threats and instead drive down Russian energy revenues by displacing Black and Baltic Sea supplies with those from the Gulf Coast.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