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Savings and Sanctions: Indonesia lured by Russian oil

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With its recent entry into BRICS offering Indonesia closer ties with Russia, the potential import of discounted Russian oil presents a double-edged sword with both an opportunity and a conundrum. The appeal is clear: Energy Minister, Bahlil Lahadalia, and National Economic Council Chair, Luhut Binsar Pandjaitan, have calculated savings of up to US$22 per barrel, which could ease national energy costs and improve Indonesia's trade balance. At a press conference, Bahlil Lahadalia said, "*An opportunity to acquire oil from Russia emerged after we joined BRICS*." He added, "*As long as it complies with regulations and presents no issues, why not*?"

Yet, this economic incentive is overshadowed by geopolitics. Engaging with Russian oil entails a minefield of Western sanctions designed to penalise Russia. For Indonesia, strict compliance with G7-imposed price ceilings is not just a regulatory hurdle but a necessary manoeuvre to sidestep potential secondary sanctions. These sanctions pose a risk not just to Indonesia's economy but also to its diplomatic relations, particularly with Western allies.

Indonesia's domestic oil production, ranging from 700,000 to 800,000 barrels per day, falls short of fulfilling the country's needs, which are twice that amount. Consequently, the nation depends heavily on oil imports, primarily from the Organization of Petroleum Exporting Countries (OPEC) members, like Nigeria and Saudi Arabia. Data from the Central Statistics Agency shows that Indonesia's total oil and gas imports amounted to US$36.3 billion in 2024, a slight increase from US$35.9 billion the previous year.

Following the 2022 invasion of Ukraine, Russia has been economically isolated from the West via sanctions that have forced it to sell oil at a reduced rate of US$3 to US$4 per barrel below agreed price ceilings. Countries such as China, India and Turkey are known to be exploiting this deal and have been buying Russian oil with little to no criticism.

The outgoing US Administration recently imposed its harshest sanctions to date on Russia's oil industry, targeting two major Russian oil companies, Gazprom Neft and Surgutneftegas, along with 183 vessels and numerous oil traders, oilfield service providers, insurance companies and officials. These measures have caused mass upheaval, prompting major buyers of Russian oil to scramble in a bid to avoid engaging with sanctioned entities.

According to a government source, Indian refiners have ceased transactions with the Russian tankers and companies affected by the recently introduced US sanctions. Despite these restrictions, India anticipates that its oil supply from Russia will continue uninterrupted until March, as the sanctioned vessels are permitted to offload their cargo until then. Given these developments, Indonesia faces significant difficulties trying to procure Russian oil while adhering to international regulations.

Fiscal landscapes: Indonesia and Russia

Indonesia has recently attained the status of an upper-middle-income country, with a Gross National Income (GNI) per capita increasing to US$4,580. The nation's economy is marked by strong domestic consumption and notable advancements in e-commerce, driven by strategic investments in infrastructure and technology. In 2024, Indonesia's GDP growth was driven by the manufacturing and services sectors, although the manufacturing sector's contribution to GDP has seen a decline since the Asian Financial Crisis. The services sector, particularly in transportation, logistics and retail, continues to perform strongly.

Apple is rumoured to be investing US$1 billion in 2025 to build a factory that will produce its Air Tag product to comply with Indonesia’s Domestic Component Level (TKDN), which requires 40% of parts used in certain smartphones to be produced domestically to access its market. Despite these improvements, the country still faces challenges such as a high youth unemployment rate and stagnant wages.

Russia's economy has been impacted by international sanctions, particularly those targeting its energy exports. In response, Russia has looked to Asian markets, like Indonesia, to offset losses from reduced access to Western markets. Offering oil at discounted rates to countries such as Indonesia helps Russia maintain its oil export volumes and supports its economic resilience in the face of ongoing sanctions. Countries that still trade Crude Oil, Coal, LNG, Oil products and Pipeline Gas with Russia, despite sanctions, include China, Brazil, India, Hungary, Slovakia, Germany and Turkey.

Importing oil from Russia at a discounted price would lead to considerable cost savings for Indonesia. This would make a serious difference as it aims to sustain growth and manage energy needs. For Russia, establishing a steady trade relationship with Indonesia allows it to secure another reliable market for its oil exports, and further help it circumvent the impacts of Western sanctions. Overall, the economic interplay between Indonesia and Russia presents very clear opportunities for significant mutual benefits. But at what cost?

Strategic considerations for Indonesia

To avoid being hit with secondary sanctions from the West, Indonesia must adhere to the G7 oil price ceilings. Complying with the ceilings is not just a regulatory formality, but a strategy in place to maintain trade relations and stability. Deviating from these ceilings could lead to severe repercussions and potential diplomatic isolation from influential Western nations. Indonesia's decision to import Russian oil aligns with its broader energy and foreign policy objectives, which includes diversifying energy sources to reduce dependence on any single country and encouraging relationships that support Indonesia’s long-term interests.

There are, of course, the possible ramifications from the West, notably the US and the European Union (EU). While economically advantageous, the move could trigger the West to impose sanctions targeting both direct and indirect economic activities related to the oil trade for Indonesia. The implications of breaching sanctions are sizeable and could result in considerable fines or other penalties for Indonesian businesses. Economically, the repercussions could extend beyond the immediate impact of sanctions, potentially deterring foreign investment due to decreased confidence among international partners.

Predicting outcomes

The Indonesian state-controlled refiner Pertamina added Russian oil to its September tender lists. It has refrained from buying Russian oil since the Ukraine invasion; however, Indonesia did not join Western sanctions against Moscow. Data reveals that Pertamina last reported purchasing ESPO Blend and Sokol oil from Russia 10 years ago. Sources at Pertamina stated they would only buy Russian oil that was sold under the price cap regulation.

Western shippers are allowed to trade Russian oil so long as it is sold for less than US$60 a barrel. The most likely outcome will see Indonesia's Energy Minister, Bahlil Lahadalia, engaging in diplomatic negotiations to mitigate the harshest repercussions from Western nations by negotiating compromises that will see Indonesia benefiting economically, while managing to keep its geopolitical risks within controllable limits. This will mean buying crude at, or below, the G7 price cap.

Conclusion

As Indonesia navigates its new BRICS partnership with Russia, the lure of discounted Russian oil offers both economic incentives and geopolitical challenges. The potential savings on oil imports could strengthen Indonesia's energy sector and trade balance, supporting national economic growth at a time when needed most. However, these economic benefits must be carefully weighed against the nuances of international politics and the implications of Western sanctions.