

## **How Has the International Energy Situation Changed over 2 Years since Russia's Aggression into Ukraine?**

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Two years have passed since Russia launched aggression into Ukraine on February 24, 2022. The fierce war between the two countries is still ongoing and is inevitably likely to be stalemated and protracted. In response to Russia's aggression into Ukraine, Western countries such as Japan, the United States, and Europe have continued to support Ukraine politically, economically, and militarily, while enhancing economic sanctions against Russia. The Russian sanctions have covered the energy sector, the main artery of the Russian economy, leading energy exports of Russia as the world's largest fossil fuel exporter to become a significant risk factor for the international energy market. In this way, the international energy situation has been exposed to severe shocks over the past two years, particularly in 2022. In the following, I would like to review and summarize changes in and impacts on the international energy situation over the two years since Russia's aggression into Ukraine.

First, I would like to point out that the international energy situation has suddenly been destabilized, resulting in soaring energy prices and serious supply insecurity. Soaring energy prices rocked the world in 2022 as Russian oil and coal became subject to a Western embargo, in addition to a significant drop in Russia's pipeline gas exports to Europe. Crude oil prices reached their highest level since the global financial crisis, exceeding \$130 per barrel temporarily. They remained above \$100/bbl later. However, natural gas and coal price hikes were even more appalling. European gas prices skyrocketed close to \$600 per barrel of crude oil equivalent. Since 2023, all energy prices have fallen back, leading the serious price spikes and supply insecurity to subside. However, crude oil prices have remained high, at around \$80/bbl. Furthermore, various uncertainties exist about Russia's energy exports that continue to be supplied to the international market, lingering as a destabilizing factor for the international energy market.

Second, how to secure a stable supply of energy, which is an important and indispensable commodity for day-to-day life and economic activities and sometimes becomes a strategic commodity contributing to the prosperity or poverty of a nation, has been highlighted as an extremely important policy challenge again. The destabilization of the international energy market due to the Ukraine crisis has led to a major change in which energy security has emerged as a top priority in energy policy. Before the current crisis shook the energy situation, carbon neutrality and decarbonization initiatives had been a top priority challenge regarding energy. Energy policy issues had focused on decarbonization. The Ukraine crisis has turned the situation around.

Third, I would like to note that the importance of balancing energy security with climate change and decarbonization initiatives has been highlighted as the world has seen energy security coming back as a top priority in the wake of the Ukraine crisis while facing "global boiling" and frequent abnormal weather events. This means that the promotion or acceleration of the energy transition to achieve both energy security and decarbonization has become an important global challenge over the past two years. In fact, major countries around the world, including Japan, are strongly promoting policies and strategies for this purpose. At the same time, however, it should be

noted that balancing the two major challenges, which are not easy to tackle, has become even more difficult and complex. The most important point is that efforts to achieve the balance are likely to lead to higher energy costs while it is becoming difficult socially, economically, and politically even for developed countries to tolerate or absorb energy cost hikes. This problem is more serious in emerging and developing countries with lower income levels. It has become important to explore various pathways to curb or minimize the rise in costs associated with the energy transition, while paying attention to the differences in national circumstances and conditions.

Fourth, Russia's aggression into Ukraine has had a significant impact on the international energy situation by severely shaking the global geopolitical environment and deepening the division of the world. The Russian aggression has been coupled with the earlier intensification of the U.S.-China confrontation to escalate the confrontation between the West and the China-Russia group. It has also resulted in an increase in the importance of Global South and other countries that do not belong to any of the two blocs, prompting the blocs to intensify their tug-of-war race to win over these countries. The division of the world has led countries to shift emphasis from the basic international principles of free trade and the international division of labor to domestic production and deals between allies or strategic partners to secure strategic material, even if the shift is associated with additional costs. Particularly important for economic and energy security in this regard is how to secure rare earths and other critical minerals required for the energy transition at a time when the supply-demand balance is expected to tighten and push up their prices, with their supply sources limited to a few countries including China.

Fifth, the United States and the Middle East have become more important as energy supply sources for the international energy market as the international energy situation has been destabilized, with Europe suffering from a serious energy crisis. With Russia's energy exports becoming a risk factor, energy supply from the United States and the Middle East has suddenly become important for European and other countries to phase out their dependence on Russia or make up for the loss of the Russian energy supply. Due to the West's policy of phasing out dependence on Russia, they have been forced to rely on the Middle East as an alternative source of oil supply. As a result, Japan's rate of dependence on the Middle East for crude oil imports rose to 94% in 2022, far exceeding the level amid the first oil crisis. Furthermore, a mechanism in which coordinated production cuts by the OPEC-plus group of oil-producing countries, led by Saudi Arabia, and these countries' voluntary production cuts affect crude oil prices has become clearer. As for gas, a massive increase in U.S. LNG production and exports to Europe saved the region from the energy crisis. The subsequent decline in gas prices has been attributable to the continued expansion of the U.S. LNG supply. At the same time, however, the situation in the Middle East has become more fluid due to the deepening, diffusion, and complexity of the Gaza Crisis, prompting the world to pay attention to the crisis as a potential risk factor. Attracting global attention regarding U.S. LNG is how the Biden administration's recent pause on new LNG export licenses could affect the stability of the global LNG market over the medium to long term.

Sixth, the international energy situation's destabilization triggered by the Ukraine crisis and the significant decline in Russian energy supply have greatly shaken Europe's economy, society, and politics. Since Europe was heavily dependent on energy from Russia, which is geographically close to Europe and highly competitive in energy supply, the region has faced a sharp decline in energy supply and has been forced to phase out dependence on Russia in the wake of the Ukraine crisis, suffering from energy price hikes and the subsequent rising inflation that have led to economic deceleration and stagnation. As symbolized by the fact that Germany, Europe's largest economy, posted an economic contraction of 0.3% in 2023, the European economy has been in a difficult situation. Against this backdrop, European countries are becoming more cautious than ever about policies that could lead to further increases in energy costs. This point should also be noted regarding

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the outcome of the European Parliament elections to be held in June this year.

The Ukraine crisis has brought about diverse and significant changes in the international energy situation. Future relevant developments will be important to keep an eye on in the international energy situation.

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