

Resurging Significance of Geopolitics amid Ukraine Crisis

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The Ukraine situation remains in extreme chaos. How will Russia's military invasion, enhanced Western sanctions on Russia and other attention-attracting issues develop? Could the Ukraine crisis be resolved? How could it be resolved? Answers to these questions are ultimately uncertain now. No optimism can be warranted

In such situation, international energy markets are plagued with great uncertainties. Russia accounts for some 10% of global oil exports and an about quarter of global natural gas exports. How would Russian energy exports change? Potential developments and concerns about their impacts, as well as various forecasts and speculations on responses to such impacts, dominate energy markets, leading to wild fluctuations in energy prices.

As news that the United States was considering an embargo on crude oil, petroleum products, liquefied natural gas and coal exports from Russia rattled the world on March 7, the key Brent crude oil futures price soared above \$139 per barrel briefly, hitting the highest level since the global financial crisis. European gas and Asian LNG spot prices also shot up to an all-time high of \$70 per million British thermal units, equivalent to a crude oil price of more than \$400/bbl. Later, however, crude oil prices turned down, slipping below \$110/bbl for both Brent and West Texas Intermediate as of March 17.

Market players might have acknowledged that the impacts of the U.S. embargo on Russian crude oil exports would not necessarily be serious because of limited Russian oil imports into the United States, contributing to the downturn in crude oil prices. As the acknowledgement was combined with a growing forecast of weakening Chinese oil demand under the COVID-19 spread and the United Arab Emirates' indication of a positive attitude toward increasing oil production, crude oil prices dropped below \$110/bbl. European gas prices have plunged from the high above \$70/MMBtu to less than \$40/MMBtu. The UAE later reaffirmed the significance of its cooperation with other countries in the OPEC-plus group of oil-producing countries in limiting oil production.

Due primarily to insecurity about Russian energy supply, international energy markets have been remarkably unstable. Even after the downturn, crude oil and gas prices are still very high. In the future, energy prices will remain unstable, affected not only by concern about Russian energy supply but also by global economic conditions, the COVID-19 pandemic, OPEC-plus actions, Iran nuclear talks and potential U.S. shale oil production expansion. The possibility of international energy markets seeing substantial price hikes and destabilization again cannot be denied.

The international energy situation under the Ukraine crisis has two key elements – the occurrence of a large-scale military conflict or war and serious concern over a relevant energy embargo. In this sense, the Ukraine crisis and the first oil crisis in 1973 have common elements. In the Yom

Kippur War that broke out in October 1973, a direct military conflict between Arab countries and Israel occurred and escalated. Then, Arab oil-producing countries announced the Arab oil embargo under which they classified industrial countries as major oil consumers into three categories – friendly, neutral and hostile countries – and maintained oil supply to friendly countries, cut supply to neutral countries by 5% per month and banned supply to hostile countries. Japan, classified as a neutral country subject to the monthly supply cut, was asked by Arabs to reverse its pro-Israel policy to be reclassified as a friendly country. Brushing off strong U.S. opposition, Japan then announced its Middle East policy reversal through the chief cabinet secretary's statement and obtained the position of a friendly country. European countries followed suit under heavy Arab pressure, leading industrial oil-consuming countries' cooperation to fall apart. Then, crude oil prices quadrupled from levels before the crisis, pushing the world economy into stagnation.

In both the first oil and Ukraine crises, geopolitics has led to dramatic changes in international energy markets through war and embargo. The two crises also indicate two common elements regarding supply. First, energy prices were rising under the tightening supply-demand balance before the crises. Second, energy-consuming countries depended heavily on specific energy supply sources. Before the first oil crisis, crude oil prices were increasing under the tightening international supply-demand balance. In the second half of 2021 before the escalation of the Ukraine crisis, the world experienced simultaneous energy price hikes. The problem regarding the first oil crisis was oil-consuming countries' heavy dependence on the Middle East. The Ukraine crisis highlighted Europe's heavy dependence on Russia as an energy supply source. Middle Eastern oil and Russian oil and gas supply has been extremely competitive, leading energy-consuming countries to naturally grow dependent on the supply sources. Europe's heavy dependence on Russia before the Ukraine crisis came as a natural result.

The impacts of a grave geopolitical event combining war and embargo on the international energy situation include not only energy price hikes but also the emergence and escalation of concern about energy (physical) shortages. The concern about shortages is the biggest problem regarding energy security. In the face of such concern, therefore, energy-consuming countries may embark on large-scale energy security measures. After the first oil crisis, Japan and other industrial countries comprehensively promoted full-fledged policies to save energy consumption, develop alternative energy sources, explore non-Middle East or non-OPEC oil sources and stockpile oil. To reconstruct and enhance cooperation between oil-consuming countries, then U.S. Secretary of State Henry Kissinger took the initiative in creating the International Energy Agency.

Given the Ukraine crisis, major energy-consuming countries, including European countries depending heavily on Russia, may implement full-fledged policies to enhance energy security. To reduce the dependence on Russia, they may promote initiatives to modify energy mixes by enhancing renewable energy supply, improving energy efficiency and expanding nuclear power generation. At the same time, they may consider and implement measures to secure investment in ensuring non-Russian energy sources, in enhancing emergency response capabilities, in increasing supply capacity and in diversifying supply sources to stabilize oil and gas supply. They may also activate talks on an international cooperation framework for the maintenance and enhancement of international energy governance to respond to emergencies.

Geopolitics is thus resurging as a key factor to exert decisive influence on the international energy situation and relevant energy strategies. The emergence and impacts of the Ukraine crisis may become a turning point for the international energy situation. While geopolitics resurges under the Ukraine crisis, other geopolitical issues are attracting attention. One of them is the relationship

between the United States and Saudi Arabia. The two countries had had a special relationship regarding security and oil market stability. Under the U.S. Biden administration, however, U.S.-Saudi relations seemed to have been strained. Relations between Saudi Arabia and the Biden administration that gives priority to human rights, democracy and other values in diplomacy look complicated. As Saudi Arabia has the world's largest surplus oil production capacity and plays a decisively key role in stabilizing the international oil market, its relations with the United States are a geopolitical factor exerting great influence on international energy governance. Another geopolitical issue is related to China. While deepening confrontation with Western countries, Russia is coming closer to China. How China-Russia relations would change in such situation and how the change would influence the U.S.-China confrontation and China's international strategy are key geopolitical problems that would have decisively important influence on the world. How to interpret the global geopolitical situation that grows complicated and serious would hold the key to understanding the future international energy situation.

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