

New Notable Developments on Russian Energy Supply Insecurity

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Various developments that could exert influence on future Russian energy supply have come recently. They include Western countries' expansion of their energy embargo on Russian energy sources, troubles at infrastructure for Russian energy supply to Europe and Russia's suspension of energy supply to Europe. These various developments attract much attention when we consider future international energy market stability and price trends.

In "A Japanese Perspective on the International Energy Landscape (574)" on March 3, 2022, I pointed out the following three patterns of disruptions to energy supply from Russia that commands major shares of international energy markets:

- (1) Supply will decrease as Western economic sanctions restrict Russian energy transactions.
- (2) Supply will decrease or stop as military attacks on major Ukrainian energy infrastructure facilities including pipelines damage them or render them inoperable.
- (3) Russia will cut or stop energy exports to counter Western sanctions.

In the abovementioned report, I commented that it was impossible to predict how each pattern would emerge. However, recent developments indicate these patterns.

The first pattern that represents constraints on Russian energy transactions has been realized most dominantly among the three patterns. The first action of this pattern was a U.S. embargo on Russian energy imports that was implemented under an executive order on March 8. Canada and the United Kingdom followed suit. The first energy embargo under the Ukraine crisis exerted great impacts on markets initially. Before the official decision on the U.S. embargo, news reports anticipating the U.S. energy embargo pushed European natural gas, Asian LNG spot and coals prices up to record highs on March 7. Crude oil prices soared to the highest levels since the global financial crisis.

As market participants later recognized that effective impacts of the energy embargo by the United States, Canada and the United Kingdom that depend only a little on Russian energy sources would be limited unless Europe that imports massive Russian energy sources would join the energy embargo, however, these energy prices fell back from record levels. Nevertheless, they are still high.

The next development of the first pattern was a Russian coal embargo decided on by the Group of Seven industrial democracies and the European Union. The coal embargo came as mass civilian killings by Russian forces in Bucha and other suburbs of Kyiv were found after their withdrawal from the Ukrainian capital and prompted Western countries to enhance anti-Russia condemnation and sanctions. The coal embargo led coal prices to shoot up again and indicated a trend in which Russia sanctions regarding energy would be enhanced and expanded.

Following Russian coal, Russian oil became an embargo target. In Europe where many countries depend on Russian oil, an oil embargo had been viewed as difficult to implement. However, calls for an oil embargo gained momentum in Europe. On May 4, the EU proposed to stop Russian oil imports within 2022. Moratoriums and support for EU members that depend heavily on Russian oil are being considered among all EU members. The EU is also reportedly considering rejecting insurance for ships that transport Russian oil. On May 8, the G7 leaders at their online meeting decided on a Russian oil embargo. In this way, Japan, as well as other G7 members, decided to ban Russian oil imports in principle.

As for the second pattern, Russian forces have attacked nuclear power plants, took control of hydroelectric and thermal power plants and destroyed the Kremenchuk oil refinery in Ukraine since their invasion into the country. On May 10, Ukrainian gas transportation system operator GTSOU said that part of Russian natural gas supply to Europe would be suspended from May 11 as Russia made it difficult to operate a gas pumping facility in the easternmost Ukrainian province of Luhansk under control by Russian forces. The suspension was expected to affect one-third of Russian gas supply to Europe via Ukraine, pushing up European gas prices some 20% temporarily. Energy supply suspension or decreases originating from infrastructure problems, if prolonged or expanded, would work to boost market tensions.

Regarding energy supply disruptions or falls of the third pattern, specific developments have come. On April 27, Russia halted gas exports to Poland and Bulgaria for the reason that the two countries rejected Russia's request for payments in rubles for gas. The EU has attempted to accommodate gas to the two countries among member states as well as to supply gas by dipping into underground gas inventories. In this way, any serious gas supply insecurity has been avoided for the moment. However, the development represented Russia's first action to halt gas supply during the Ukraine crisis, attracting much attention amid concern that if Russia halts more gas supply, the whole of Europe would be affected.

On May 12, Russia's Gazprom announced to halt gas exports via Poland through the Yamal-Europe gas pipeline to Europe including Germany. The state-run company in charge of Russian pipeline gas exports decided on the gas export halt as a Polish company participating in the ownership of the pipeline was among Russian sanction targets announced on May 11. After Western countries took the initiative to restrict Russian energy transactions, the abovementioned developments represented Russian measures to shake Western countries by affecting Russian gas exports to Europe. As reiterated in my reports, Europe's heavy dependence on Russian gas is the most critical issue regarding Europe-Russia energy relations. It is extremely difficult for Europe to promptly reduce dependence on Russian gas. Gas is a sector in which Europe is highly vulnerable. Depending on whether Russia expands or prolongs the suspension of gas exports to Europe, European and global energy markets could be destabilized. We should be alert to relevant future developments.

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