

G7 Summit Ended with Communiqué Focusing on Ukraine Crisis

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On June 28, top leaders from the Group of Seven industrial democracies ended their three-day summit in the southern German city of Elmau after adopting their communiqué vowing to exert further pressure on Russia continuing its war of aggression against Ukraine and sustain support for Ukraine as long as necessary.

At the annual summit where top G7 leaders have face-to-face discussions on important global issues and seek to pursue and implement solutions, topics include political, economic, security and other significant issues. Usually, the most urgent and serious issues at the time of the G7 summit have dominated discussions. Among a wide range of issues taken up at the latest G7 summit, the biggest topics included Russia's military aggression against Ukraine and international political, security, energy and food crises amid the Ukraine crisis. This is the reason the G7 leaders issued the statement expressing their determination to exert further pressure on Russia and sustain support for Ukraine, as noted above.

More than four months after Russia launched the military aggression, it is enhancing its offensive to control eastern Ukrainian states, while Ukraine is harshly resisting the Russian offensive with Western support. The situation remains stalemated, with the war expected to be prolonged. G7-led Western countries have maintained their attitude of rejecting Russia's invasion of Ukraine as a unilateral attempt to change the status quo by force and a grave challenge to international order. At the latest summit, the G7 leaders clarified their resolve to unite in tackling the Russian aggression.

Over the past four months, the world has been exposed to dramatic changes, which have greatly affected not only the global economy and Europe but also all national economies and civic life. As the two warring countries have been important grain producers and Ukrainian grain exports have been constrained by Russia's Black Sea blockade, grain and other food prices have shot up, with a food crisis becoming a matter of global concern. Another issue that gravely affects the global economy, national economies and civic life is energy insecurity associated with energy price spikes. Naturally, these issues were taken up as top priority topics at the Elmau G7 summit.

In the communiqué, the first part following the preface dealt with climate and energy. Climate change was expected to be given priority at the Elmau summit. Given that Germany is known as a "green country" among European countries that earnestly tackle climate change countermeasures, its Scholz administration including the Green Party was well expected to promote the enhancement of climate change countermeasures even more proactively than the previous Merkel regime. The G7 communiqué first took up climate change and clearly reiterated the significance of enhanced initiatives to achieve the goal of limiting global warming to 1.5°C, indicating the G7 summit host country's extraordinary preparedness and ambition to fight against climate change. The communiqué called for launching a Climate Club within 2022 as advocated by the Scholz administration. While the detailed design of the club is left for future talks, it is expected to cover not only the G7 members but also

emerging and developing countries and promote the introduction of a carbon border adjustment mechanism proposed and considered by the European Union to implement technical and financial support for decarbonization in emerging and developing countries.

The Climate Club and other climate change initiatives were comprehensively included into the G7 communique, falling within expectations. The current energy crisis concern might have contributed much to the handling of climate change countermeasures in the communique for the Germany-hosted G7 summit. Germany might have no choice but to give top priority to stable energy supply and energy security.

In response to the EU's announcement of its Russian oil embargo on May 30, crude oil prices briefly soared above \$120 per barrel. They fell back on global economic insecurity later but have remained high around \$110/bbl. As the G7 and EU came up with a Russian coal embargo earlier, steam coal spot prices topped \$400 per ton temporarily and have remained high. The latest matter of concern regarding energy security is Russia's move to reduce and suspend gas supply to Europe. Particularly, Russia has substantially cut gas supply to Germany and other European countries through the Nord Stream I pipeline since mid-June, leading to growing concerns about gas shortages towards the next winter. Western countries have voluntarily imposed Russian coal and oil embargos but expected that it would take much more time to come up with a Russian natural gas embargo as it is difficult for them to find alternative gas suppliers. Then, Russia has seemingly attempted to destabilize Europe. In such situation, Europe has no choice but to prepare for contingent disruptions to gas supply. In a symbolic development, Germany is planning to take advantage of coal-fired power plants to prepare for gas shortages. To protect Germany's economy and people, the Scholz administration has changed its policy to give priority to stable energy supply even at the cost of increasing CO₂ emissions for the immediate future.

This is the reason energy security was treated as an issue as urgent as food security. Energy price spikes under the Ukraine crisis represent a serious challenge to global energy security, threatening to affect global economic growth and stability. At the same time, energy price spikes are working to raise Russia's energy export revenue, nullifying the objective of Russian energy embargos. Some estimates indicate that Russian oil export revenue in 2022 would increase from the previous year. At the G7 summit, therefore, the United States proposed a plan to cap Russian oil prices in line with the G7 policy of increasing pressure on Russia.

In fact, however, it may be difficult to set and enforce a price cap on Russian oil sales. Extremely complex and difficult problems regarding the price cap include how the price cap should be, what the approach on setting the price cap would be, how the price cap would be combined with a restriction on insurance on oil-transporting tankers that is considered as a measure to enforce the price cap, how the price cap system would be developed to meet realities regarding Russian oil transactions and how participation by China and India in the price cap system would be secured. Due to such complexity and difficulties, the communique left the price cap for future consideration. The G7 members' hope to impose constraints on Russian oil revenue to increase the effects of their economic sanctions is understandable. However, whether such system could be designed to meet market realities may attract attention in the future.

Given energy price spikes and potential gas shortages for the coming winter, the G7 members face a difficult challenge to secure their and the world's stable energy supply while exerting pressure on Russia. As the Ukraine crisis is prolonged, the challenge will become a strategic international issue for Japan scheduled to host the next G7 summit.