

How Has Russia's Invasion into Ukraine Changed International Energy Situation?

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A half year has passed since Russia launched its military invasion into Ukraine on February 24. The Ukraine war is likely to continue long, with no sign indicating a ceasefire or any other breakthrough. While Ukraine and Russia are warring, Western countries including European countries, the United States and Japan are supporting Ukraine while denouncing Russia harshly. China for its part maintains strategic relations with Russia. All these countries seemingly anticipate that various grave issues arising from the war will remain global challenges, without being resolved.

Western countries have imposed tough economic sanctions on Russia, leading the Russian economy to contract. While sanctions have covered the energy sector that forms the main artery of the Russian economy, energy price spikes and the maintenance or expansion of energy exports to countries not participating in the sanctions have ironically boosted Russian energy export revenue from the level before the sanctions. Russia was the world's largest fossil fuel exporter, accounting for 11% (the largest share) of global oil exports, 24% (the largest share) of global gas/LNG exports and 18% (the third largest share) of global coal exports in 2021. While energy exports from Russia have been subjected to Western sanctions, Russia has reduced its gas exports to Europe. These developments have greatly shaken international energy markets. The following considers how Russia's military invasion into Ukraine has changed the global energy situation in the past half year.

First, I would like to point out that the world has recognized the important role of energy anew as energy price spikes have rapidly increased energy insecurity. When energy prices are stable at low levels, people view energy as like air and water and have little interest in stable supply of energy, despite its importance. Once energy prices increase substantially in a manner to destabilize energy markets, however, the price increase becomes a grave social, political issue due to energy price hikes' regressivity (that affects lower income earners more seriously). If indispensable energy becomes difficult to acquire, it may develop into a big issue to destabilize society. Now that the current price spikes cover all energy sources, their impacts are widespread and serious. This is a key point to note.

This issue commonly affects all energy consumers or energy consuming countries in the world. As a matter of course, oil-producing countries in the Middle East can exploit energy price spikes to boost their export revenue to their economic advantage. Globally, however, citizens have clearly suffered from energy price spikes and market destabilization since Russia's invasion into Ukraine. The degree of such suffering and the seriousness of problem awareness differ by country or region, depending on local conditions. In the past half year, it has become clear that Europe that depends heavily on Russian energy supply is plagued with the most serious energy crisis. The energy crisis is also serious in Japan that depends less on Russian energy supply than Europe, but has a low energy self-sufficiency rate and a structurally tight electricity supply-demand balance. Regarding energy price hikes' regressivity, the current energy crisis has exerted grave impacts on economically vulnerable developing and emerging countries. The crisis has led these countries to recognize anew how

important energy is.

Second, I would like to note that the abovementioned changes have prompted national governments in the world to dramatically change their policies to enhance energy security. Becoming conscious that national governments are responsible for ensuring energy security and working to provide energy stably to protect their peoples, Europe and Japan with a particularly strong sense of crisis have dramatically changed energy policy directions. Given that the current crisis originated from insecurity about Russian energy supply, Europe and Japan have enhanced policies to (1) reduce dependence on Russia, (2) develop domestic and international cooperation arrangements to prepare for emergencies, (3) invest in the energy sector (including the fossil fuel sector) to secure necessary and sufficient energy supply capacity and surplus capacity and (4) secure stable baseload electricity sources. Symbolic among various measures to enhance energy security are the promotion of nuclear power generation. Moves to effectively utilize existing nuclear power plants and construct new nuclear plants, as well as growing hopes on new reactors such as small modular reactors in Europe and Japan, indicate a turning point in the global energy situation.

Third, I would like to point out that as countries tackle the enhancement of energy security, geopolitical issues that may destabilize and disrupt energy markets are emerging. In Europe that is feared to face gas shortages in the coming winter, for instance, gas prices have spiked abnormally. Last week, European gas prices rose to some \$600 per barrel of oil equivalent. If European countries try to procure gas amid such abnormal price hikes, they may panic and race with each other to acquire gas in a zero-sum game, leading to even higher prices and market destabilization that would seriously affect the entire world. On the other hand, Western countries are escalating confrontation with Russia and China that are strengthening their strategic partnership, in a manner to divide the world more deeply. The division may lead to the disintegration of the international energy market. Big players such as the United States, China, Russia, Europe and the Middle East may continue to shake the international energy situation greatly from geopolitical perspectives. The international energy situation may be shifting from a world for the pursuit of pure economic efficiency to a world put under the stronger influence of geopolitics.

Fourth, I would like to comment that countries in the world may give top priority to the urgent challenge to secure stable energy supply in the immediate future, affecting decarbonization and CO₂ emission initiatives variously. While the acceleration of efforts to save energy, electricity and gas consumption and the promotion of renewable and nuclear energy can contribute to reducing CO₂ emissions, moves to utilize coal-fired power plants for stable energy supply over a short term are seen even in Europe known as eager to promote decarbonization. The utilization of coal as a relatively cheaper energy source is an unavoidable measure in developing and emerging countries where affordable energy supply is indispensable. After global discussions focused on decarbonization until last year, the focus may be shifting to how to strike a balance between decarbonization and energy security specifically and efficiently from long-term perspectives amid the international energy situation after Russia's invasion into Ukraine.

Fifth, I would like to point out that international energy price spikes and market destabilization after Russia's invasion into Ukraine have seriously affected the global economy, forcing it to remain exposed to downside risks. Growing inflation through energy price spikes has shaken European and American societies and economies, prompting monetary authorities to change their policy direction to raise interest rates. The International Monetary Fund revised its global economic growth projection for 2022 from 4.4% in January to 3.6% in April and 3.2% in July. Further downside risks could arise, depending on international energy market turbulences. In particular, a

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serious recession is feared in Europe. Energy price spikes and market destabilization have seriously dampened the global economy that had been recovering gradually from the COVID-19 disaster.

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