

PUTIN'S WAR AND THE ENERGY CLUSTER

A Political Economy Perspective



The international community has answered the illegitimate Russian invasion of Ukraine through the imposition of heavy sanctions aimed at isolating Russia economically and financially. The primary source of Russia's revenues is the energy sector, from which the European Union, in particular, is heavily reliant. On March 8, 2022, however, US President Joe Biden announced the ban on all Russian energy products, and the European Commission pledged to cut Russian gas imports by two-thirds before the end of the year. In this context, Germany's foreign policy turn, the availability energy supply alternatives, and the nexus between the energy crisis and climate change are of particular importance.

GERMANY'S REVISED FOREIGN POLICY



Germany has undergone important foreign policy changes by introducing its new coalition into parliament. For most of its modern history, Germany has followed a "change through trade" attitude in foreign affairs (Burnett, 2022), especially by showing openness to trading large amounts of primarily raw materials with its political competitors. With Russia, for instance, Germany followed such a strategy concerning Nord Stream 2, despite criticisms coming from its European allies and the US bipartisan disapproval. Regarding its military, Germany has always been reluctant to invest 2% of its GDP in military spending, as NATO requires. ("German Foreign Policy in Transition required", 2022).

However, with the war in Ukraine unfolding, Germany has taken a long-awaited change in its foreign policy. It is now overruling its policy against sending weapons to war areas, dating back to its troubled history in the 1900s. Germany has been planning to send 1000 anti-tank weapons, 500 surface-to-air missiles, and 10,000 tons of fuel to Ukraine (Enoch, 2022). Of utmost importance, the new government

committed to fulfilling NATO's requirement to invest 2% of its GDP in the military, raising its budget from 50.3 billion to circa 100 billion euros. (www.dw.com), 2022). Most importantly, Germany has taken drastic steps to distance itself from Nord stream 2 by suspending the certification process (www.dw.com), 2022).

This type of ambivalent behavior from certain western nations such as Germany has been motivated by short-term economic gains, leading to many countries relying on their adversaries. In some ways, the Russia-Ukraine conflict is an eye-opener for the West, especially concerning energy relations.



EU'S ENERGY SECURITY AND THE RISK OF SUPPLY SHORTAGES

Securing energy independence for the European Union is of utmost importance, especially in times of profound uncertainty. In light of the recent events in Ukraine, finding alternatives to importing energy sources from Russia is hence paramount for the EU. The ramping sanctions imposed on Russia by the United States and the European Union have created turmoil in the global energy markets and caused the price of oil to reach record highs (Islam, 2022). In the short term, a solution to keep oil prices under control involves releasing oil from emergency reserves into the global market to lower costs through an induced supply shock (International Energy Agency, 2022). Accordingly, the 31 members of the International Energy Agency have announced that they will flood the market with 60 million barrels of oil out of the 1.5 billion that constitute their total emergency reserve (International Energy Agency, 2022).



The European Union's energy dependence is strictly related to its lack of diversification in its natural gas imports. The EU is estimated to depend on Russia for about 40% of its natural gas (Chestney, 2022). Liquefied Natural Gas (LNG) is a feasible option to enhance the diversity of gas supply and improve energy security in the European Union (European Commission, 2022). Countries in western Europe that have access to LNG import terminals and liquid gas markets, such as France and Italy, are far more resilient to possible supply interruptions than those dependent on a single gas supplier, such as Germany (King & Spalding, 2018).



Although Europe's LNG terminals have limited capacity for additional imports, some European countries are examining ways to increase imports and storage (Chestney, 2022). Using coal as another gas substitute in the near future is very likely, as relying on sustainable energy would take an unbearable amount of time. This option would have environmental implications and is seen as a controversial but necessary short-term solution for the ongoing energy crisis in the European Union.

A SUSTAINABLE AVENUE?

Yet, this conflict may provide more salience to ramp up Europe's renewable energy strategy. Indeed, Europe may have finally understood the importance of strategic autonomy in its energy strategy. The EU has since 2020 already increased its climate ambition and said it would cut emissions by 40% since 1990, after successfully cutting it by 22% three years ahead of schedule in 2017. In April 2021, the Council and the Parliament reached a provisional agreement on the European climate law adopted in June. Such a renewable energy-focused strategy seems to fulfill Europe's long-term ambitions of strategic autonomy in the energy sector and finally provides the necessary policy incentive for large-scale investment in renewable energy.



The conflict may further strengthen European commitments towards a clean energy future. While, in the short term, Europe may increase its usage of polluting fossil energy providers, such as coal, such reliance may change in the long run (Hodgson, 2022). Not only its own declared climate ambitions, but further, the now recognized necessity for energy independence indicates a promising future for clean energy investment. Indeed, in the face of the crisis, countries have already pledged to ramp up their clean energy commitments. For example, German Economy & Climate minister Habeck announced the fast-tracking of the passing of its Renewable Energy Sources Act to come into force by July 2022 (Euronews, 2022). In parallel, French president Macron announced an increased focus on low-carbon nuclear power (Harvey, 2022). These commitments are only a few examples of this acute energy crisis's avenues to boost Europe's clean energy strategy.

Russia's illegitimate invasion of Ukraine has enacted the economic and especially the political intention to stop the European Union's dependency on Russia's energy. Such a development has been reflected by Germany's historical turn from a commercial to a political vision of energy relations with the Kremlin. However, while disentangling the EU from Russia's energy is a massive step towards energy independence, challenges remain and concern the nexus between the availability of alternative energy supplies and the necessity for a sustainable future, between short-term priorities and goals in the long run.