

# Russia's war against Ukraine: When decarbonisation meets geopolitics

[cernoch@mail.muni.cz](mailto:cernoch@mail.muni.cz)

# Development of crude oil trade

- Soviet oil industry, damaged during WWII, had recovered by 1960s.
- The Druzhba Pipeline – agreement signed in 1959, by 1962 reached Bratislava (SVK), 1965 Litvinov (CZ). Longest oil pipeline in the world (more than 5000 km).
- North branch (PL, DE), South (UA, SVK, CZ, HU).
- Supply curtailments of oil in 1990 and 1992 (Baltic countries), 2007 (UA/RU over fees), 2008 (CZ after US radar...), 8x in 1998-1999 to Lithuania's Mazeikiai...

# Development of natural gas trade

- Exploration in 1950s, as a by-product of oil production. In 1960s growing production, a standalone industry. Deliveries to the Soviet Republics (Georgia, Armenia...).
- SSSR in need of technology – higher pressure pipelines (vs. the oil) – shipped from German and Italy.
- 1960s – Europe in need of energy, but NATO countries embargo on large-diameter pipes (oil and gas). Missing unity, limited affect.
- 1960s – Deliveries to Belarus, Latvia, Lithuania...
- 1967 – Brotherhood Pipeline constructed.

# Primary Russian Oil and Gas Pipelines to Europe (U)

- Oil pipeline
- - - Proposed oil pipeline
- Gas pipeline
- - - Proposed gas pipeline
- Russian-dominated pipeline<sup>a</sup>
- Tanker terminal

0 500 Kilometers  
0 500 Miles

<sup>a</sup>All or most of the oil or gas moving through a given pipeline is from Russia.



# Development of natural gas trade

- In 1970s first deliveries to West Europe. (Building on the successes of the construction of oil pipeline Druzhba).
- By 1975 all Russian satellites connected (except for Romania).

# Politics of hydrocarbons during the Cold War

## The West -

- Oil shock, Détente and Ostpolitik (W. Brandt).
- Cooperation with Italy in industrial production, Italian pipes for the Soviet oil, later Italy replaced by Austria as the closest partner.
- Europe focuses primarily on economic issues (even at the expense of geopolitics), the US on the contrary.

# Politics of hydrocarbons during Cold War

## The East -

- „Socialist division of labour“ (N. Khrushchev) – USSR supplied (subsidized) oil and natural gas to the rest of the Soviet Block to ensure dependency and political compliancy.
- In receiving countries of the Eastern Block industries are built around cheap energy, extremely inefficient consumption.
- Export of hydrocarbons to capitalist West to earn hard currency, illustrate the achievements of communist society, and limit the influence of the USA in Europe.
- Adherence to contractual obligations.

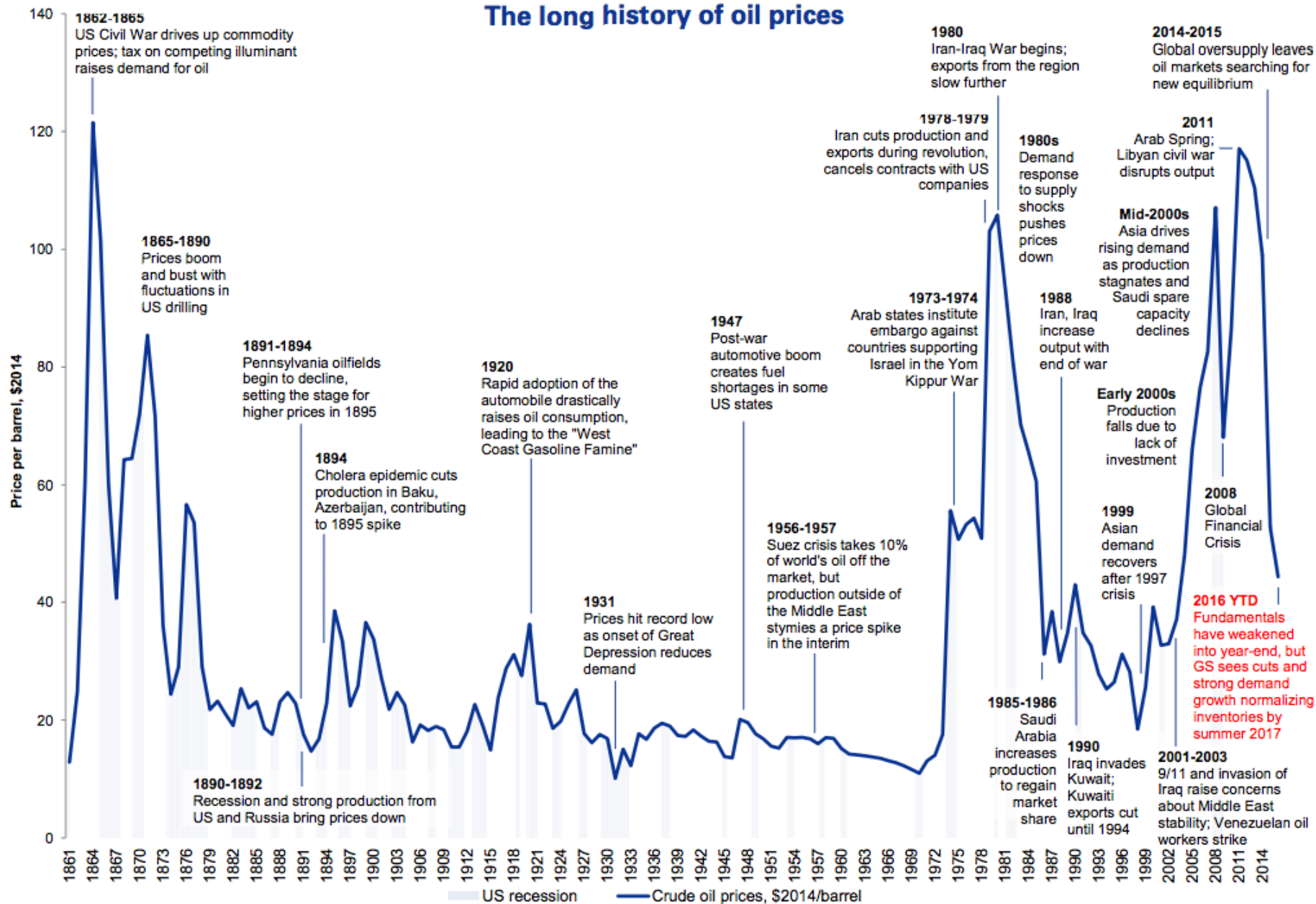
= Path dependencies were created.

# Yeltsin's era (1991 – 1999)

- Oil prices low (usually below USD20 between 1986 – 2000).
- Government's desperation for exporting hydrocarbons to get hard currency (export at all costs).
- General economic chaos (economy down by about 40%) drives down oil and gas production (about ½ of Soviet era production), again impacting revenues.
- Privatization for cheap price (Sibneft USD100 million in 1995 – Roman Abramovich, USD 13 billion in 2005) resulted in money extracted by oligarchs. State controls only about 10% of oil production, full privatization of Gazprom (state controls 38%) considered.



## The long history of oil prices



An earlier version of this chart appeared on pg. 16 of *Top of Mind Issue #52: OPEC and Oil Opportunities*.

Note: 2016 price shown is YTD average as of Dec. 19, 2016.

Source for data: BP, NBER/Federal Reserve Bank of St. Louis, Haver Analytics.

Source for annotations: ©James Hamilton, "Historical Oil Shocks," University of California, San Diego, February 2011; various news sources; Goldman Sachs Global Investment Research.

# Putin's era

- Dramatic increase in prices of oil.
- State regains the control (not necessarily the ownership though) over fossil fuel production (M. Khodorkovsky and Yukos, 2005 Sibneft/Gazprom Neft – R. Abramovich, 2007 Russneft – M. Guseriev to Oleg Deripaska...).
- Active pipeline policy.
- Increased effort to control pipelines in transit countries (Baltic states, Poland, Belarus, Ukraine, Balkan countries).
- An effort to diversify the consumers.
- Economic situation stabilized, foreign debt paid off, significant reserves – increased manoeuvrability in foreign affairs.
- Traditional customers highly dependent on Russia's supplies.
- Pushing foreign companies out of the control of production of hydrocarbons (2006 - Shell – Sakhalin II).

# Putin's era

Despite the conflicts cooperation continues.

- 1997 – Yamal pipeline.
- 2001 – Blue Stream.
- 2005 – Start of Nord Stream
- Long term contracts extended.
- Gas trades stable or increasing.

# Natural gas as a policy tool

Natural gas prices charged to Russian customers (\$/TCM).

	2005	2006	2007	2008
Armenia	\$56	\$110	\$110	\$110
Belarus	\$46	\$46	\$110	\$125
Georgia	\$63	\$110	\$235	\$235
Moldova	\$80	\$110	\$170	\$190
Ukraine	\$50	\$95	\$130	\$160

# The politicization of energy by Russia: 1990s to 2020s

- Ukraine gas disputes 2006, 2009.
- Moldova 2006, natural gas.
- Russia-Belarus gas disputes (2004, 2007, 2010).
- Russia-Lithuania oil dispute (Mažeikiai).
- Russia-Georgia gas disruption (2006).
- ...

# Russia heading for war

- Previous hostile attacks against the EU or established international system accepted without serious repercussions.
- EU's energy dependency (different for different countries).
- Special relation with Germany.
- Timing.
  - Russia did not expect 1) a decisive response from 2) united EU (and Ukraine, indeed).

# Activities with Russian connection

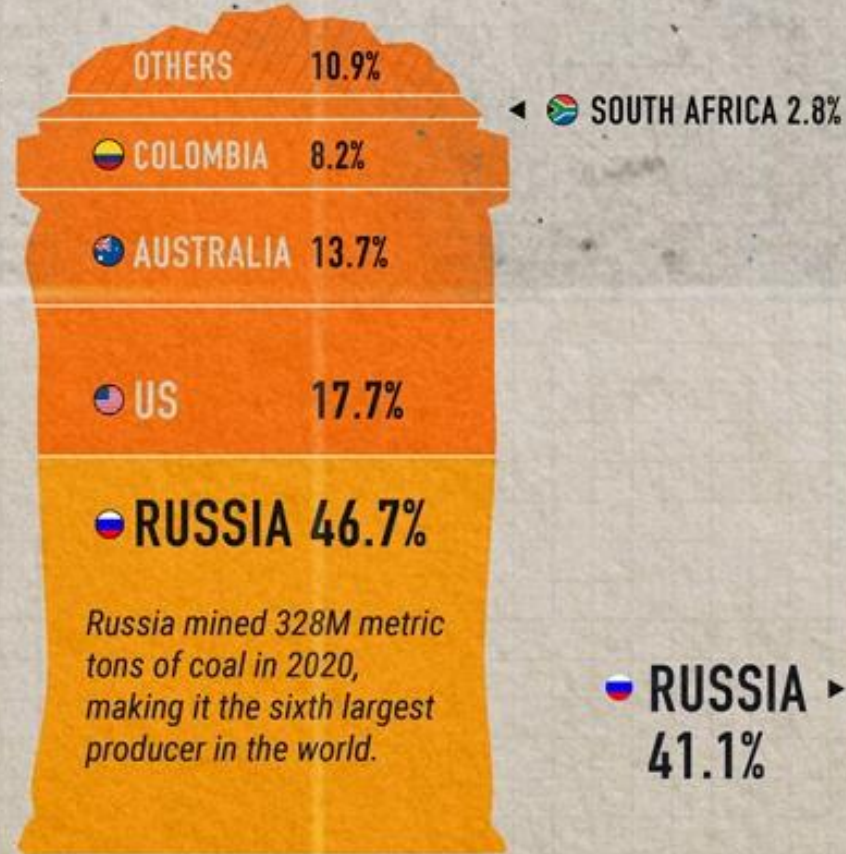
- 2014 Vrbětice: Explosions at a Czech ammunition depot, attributed to Russian agents.
- Bulgaria: Similar explosions in Bulgarian ammunition depots (4 between 2011 – 2020).
- Alexander Litvinenko 2006: Former Russian FSB officer poisoned in London.
- Skripals 2018: Poisoning of former Russian spy and his daughter in the UK with a nerve agent.
- Election Interference: Allegations of Russian meddling in foreign elections.
- Military Actions: Various operations, including the annexation of Crimea.
- ....

# EU IMPORTS

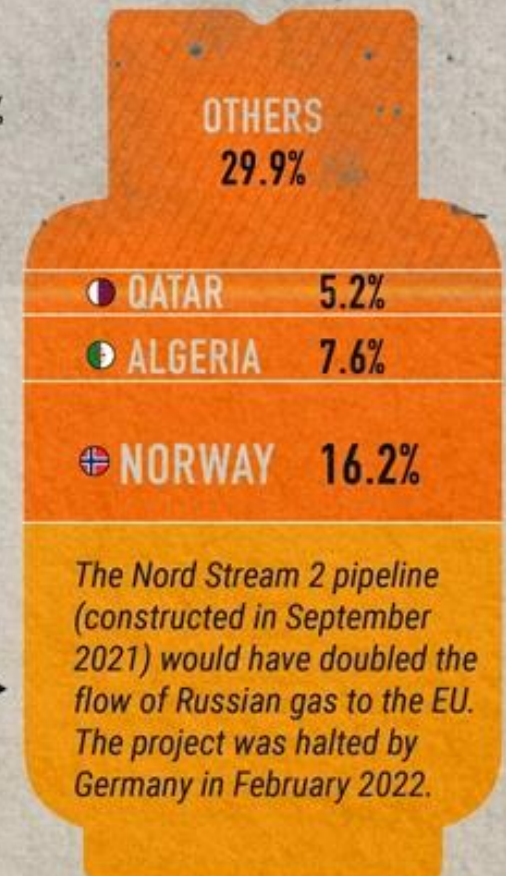
## CRUDE OIL



## SOLID FUEL (COAL)



## NATURAL GAS





# German – RF relationship

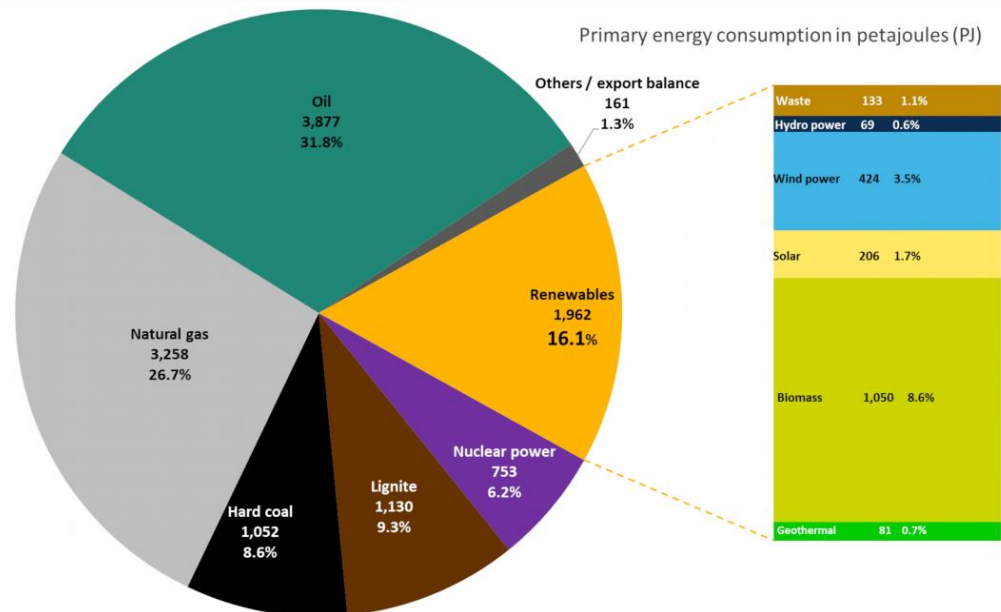
- From the collapse of the Soviet Union to 2014 – special relationship (Sonderbeziehungen).
- „European security is impossible to achieve without Russia“.
- „There can be no military solution, any crisis must be solved politically.“
- Slowly deteriorating due to Georgia (South Ossetia, Abkhazia) and other aggressions of Russia. (Russia as a revisionist power).
- The same applies to German public opinion.
- 2012 German parliament: „since ... Putin has reassumed office, ...measures are taken aimed at widening control over active citizens, criminalizing critical engagement...“ (demonstration in protest against Duma election 2011).
- After Crimea strong backing of sanctions.

# German – RF relationship

34% of oil, 53% of hard coal, 32% of natural gas (15% of electricity, 41,5 million households and industry) from Russia.

German energy mix 2021: Energy sources' share in primary energy consumption.

Data: AG Energiebilanzen 2021, preliminary.



# Germany's paradigm shift in thinking

Olaf Scholz, 2/27/2022:

- 1) We must support Ukraine.
- 2) We must divert Putin (sic) from the path of war. (Swift, reserve currencies, oligarchs, export of technology + nothing is off the table).
- 3) We stand unconditionally by our collective defense obligations within NATO (troops to Lithuania, Romania, Slovakia, navy to North Sea, Baltic sea...).
- 4) Massive military spending, both short (EUR 100 billion) and long term (2% GDP+ by 2024 – not to be achieved).
- 5) Energy security – faster dissemination of RES, reserve of coal (sic) and gas. FSRU LNG terminals. Re-evaluation of NPP decommissioning?
- 6) As much diplomacy as possible, without being naive.

# EU's position

- High dependency on Russian's energy supplies.
- The assumption that intense trade will prevent confrontation.
- The EU prepared for a different kind of crisis.
- Security is costly.
- Russia's imperial ambitions in Ukraine are only part of the energy problem (short term issues and long-term transition project).

# Energy confrontation

- Import embargo on Russian coal (starting in April 2022), seaborne crude oil (from Dec 2022) and refined petroleum products (from Feb 2023).
- Oil price cap (USD 60) from Dec 2022 – crude oil, petroleum oils and oils from bituminous minerals.
- Demand for payments in rubels from 'unfriendly countries'.
- Gradual reduction of Russian gas supplies to Europe (price volatility, physical shortages). – Poland and Bulgaria, Finland...
- Nord Stream I. maintenance.
- NSI and NSII blown in September 2022.

# Energy confrontation

- The EU has survived the winter and is gradually replacing Russian supplies with other suppliers.
- Russia is looking for new customers (mostly for natural gas).