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Tackling energy and climate security risks in the wake of the war in Ukraine

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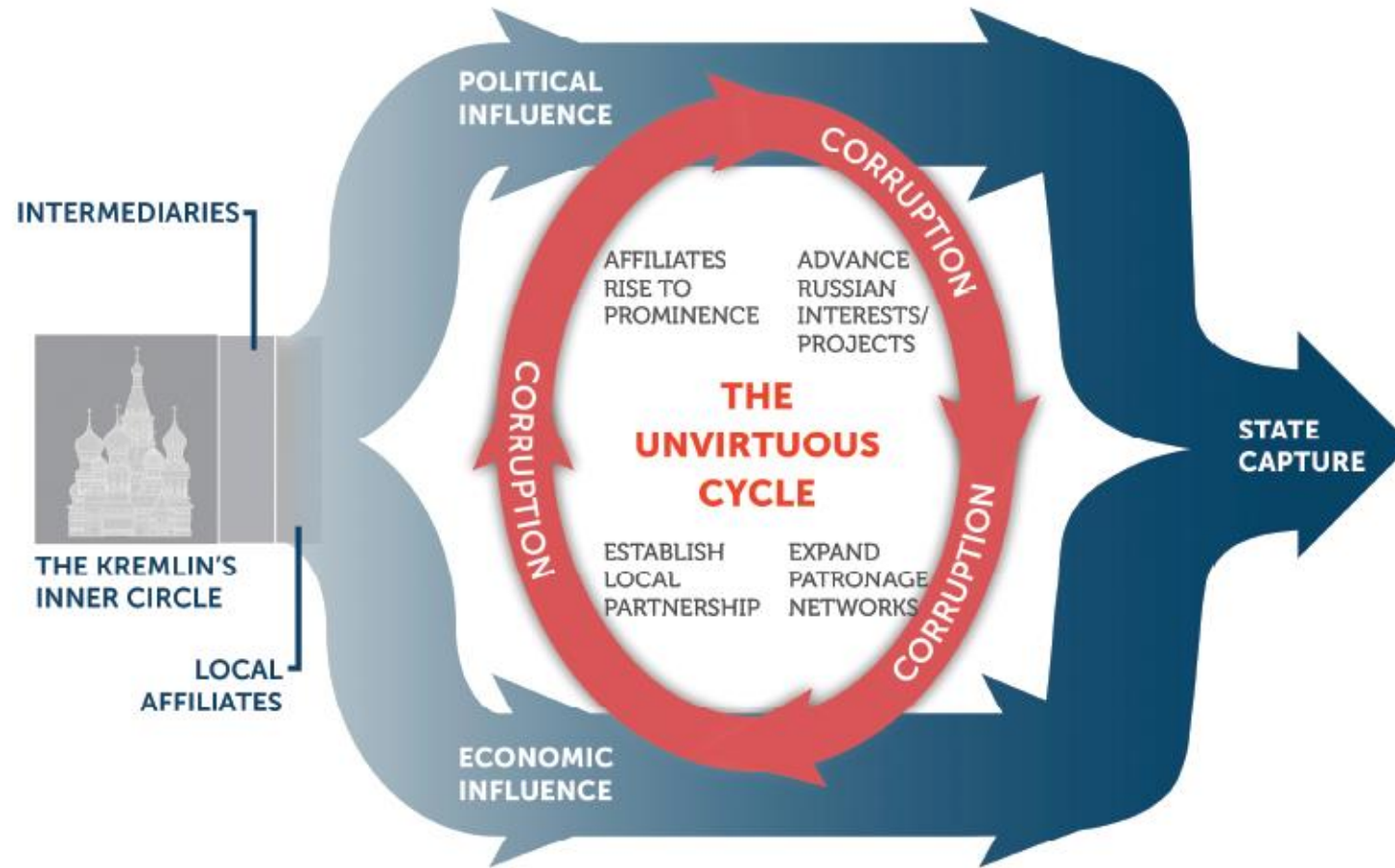
22 March, 2022



Agenda

1. The Kremlin Playbook
2. Impact of Western sanctions on the Russian economy
3. Measures for improving Europe's energy and climate resilience

How the Kremlin uses state capture to achieve political influence

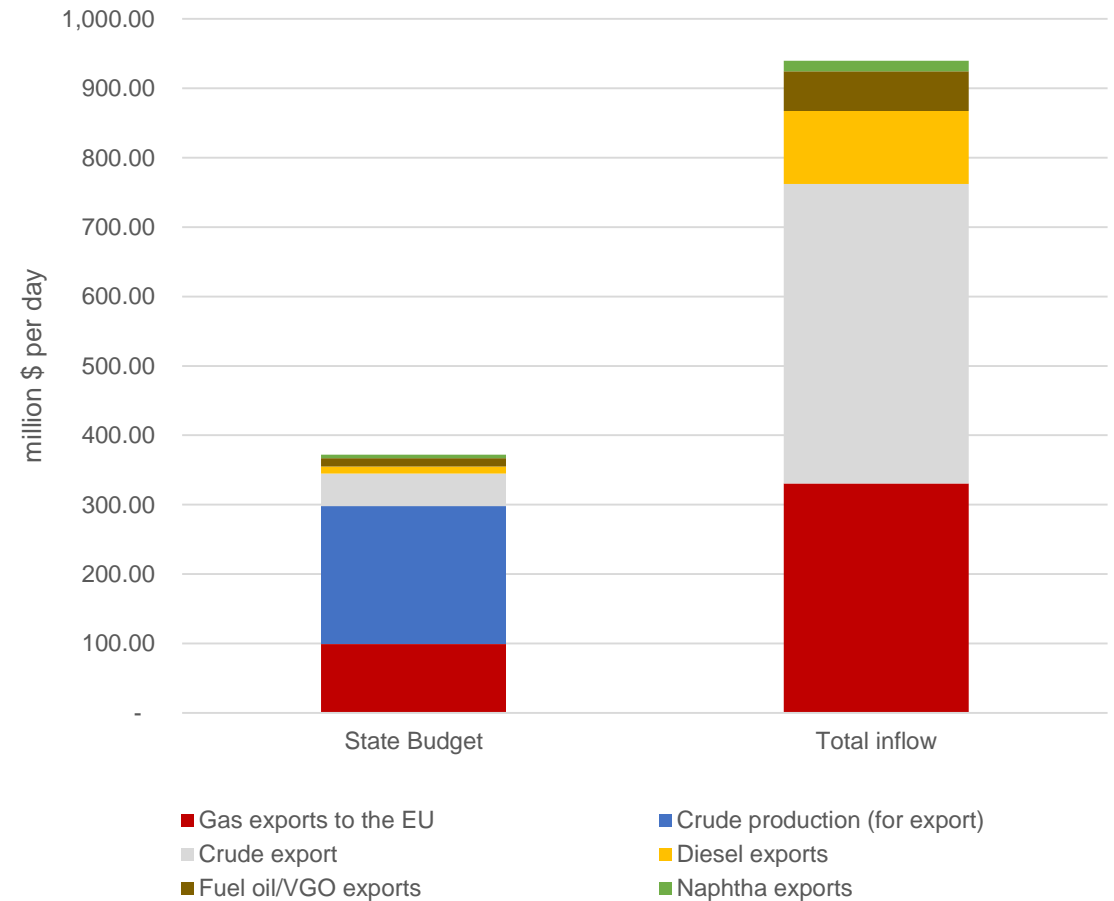


Source: Kremlin Playbook; Center for the Study of Democracy

Russia's Dependence on Oil and Gas Revenues [2/2]

- Russia's state budget revenues depend strongly on crude oil, particularly the mineral extraction tax and export taxes on crude and oil products
- Taking into account only the crude oil, oil products and natural gas exported to the EU, these contribute to almost USD 400 million per day of state budget revenues.
- Total inflows into the Russian economy add up to over USD 900 million per day.
- Oil and Gas Budget Revenues from Sales to the EU equal over USD 73 billion per annum = 20% of budget revenues
- At a \$200 per barrel, Russia compensates most of the lost revenue from the sale of oil and gas to the EU

Oil and Gas Related Monetary Flows into the Russian Economy at Current Crude Oil and Gas Prices

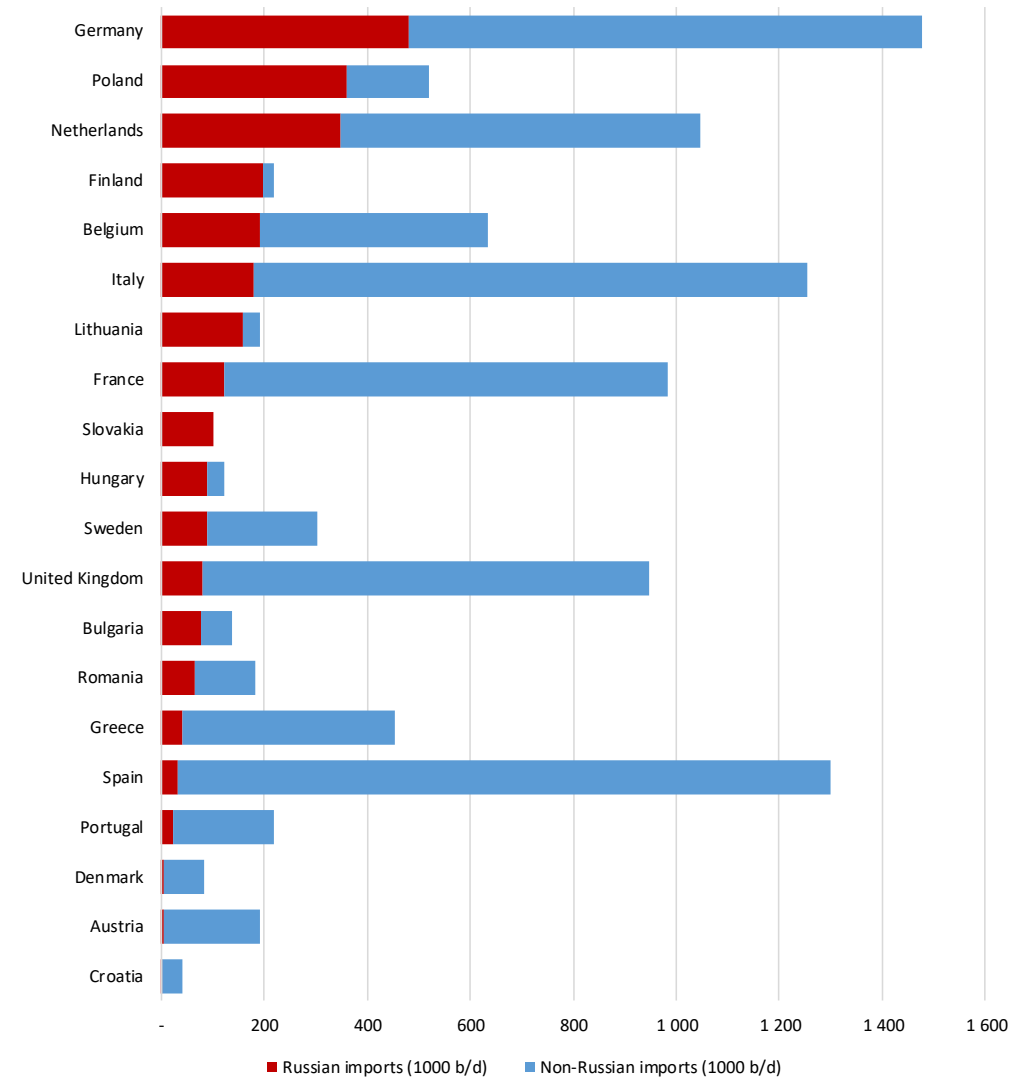


Source: CSD calculations based on various industry sources

Europe's Dependence on Russian Oil

- Europe imported 2.7 million b/d or Russian crude oil in 2019 for a total value of USD 61.7 billion (average price at USD 63.63 per barrel)
- The share of Russian oil in Europe's total imports was 26%
- The most dependent countries are:
 - Slovakia
 - Finland
 - Lithuania
 - Poland
 - Hungary
 - Bulgaria

European Oil Imports – 2019 ['000 b/d]

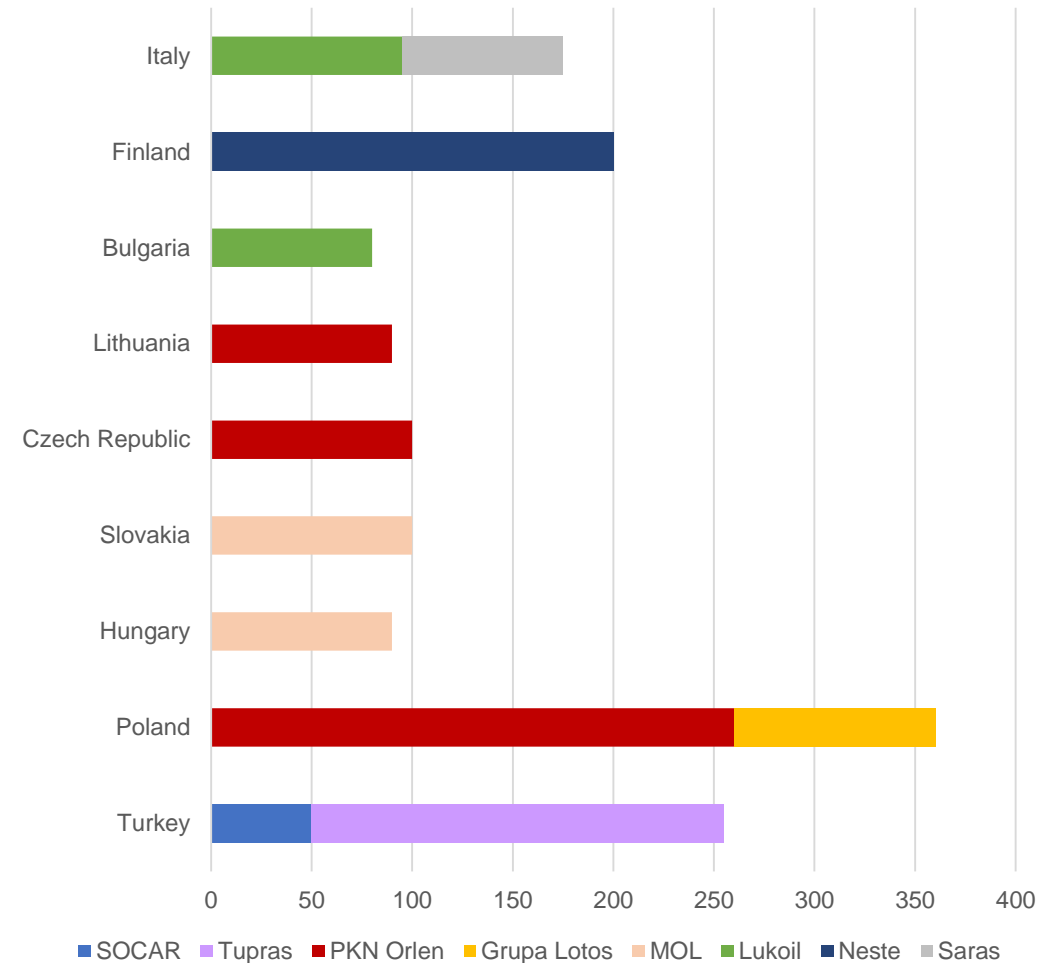


Source: CSD calculations based on DG Energy data

Key Importing Companies [1/2]

- Countries with high dependence on Russian oil typically rely on one key company for the import of Russia oil
- Poland's Grupa Lotos is a key importer of Russian oil, not only for its refineries in Poland, but also in the Czech Republic and Lithuania
- Italy, which is less dependent on Russian oil overall, likely has two key buyers – Lukoil for its Priolo refinery and Saras.
- Rosneft had bought a 21% stake in Saras in 2013, but sold 9% of its stake in 2015 and the remaining 12% stake in 2017 amid EU and US sanctions.

Typical Oil Imports from Russia by Selected Countries in Europe ['000 b/d]

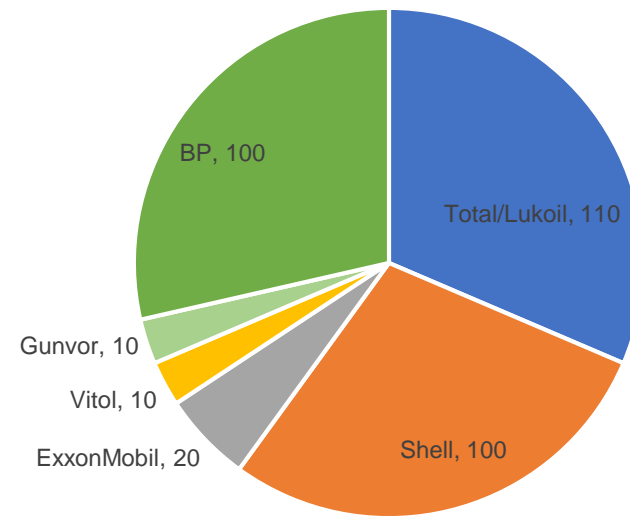


Source: CSD calculations based on DG Energy data, various industry sources

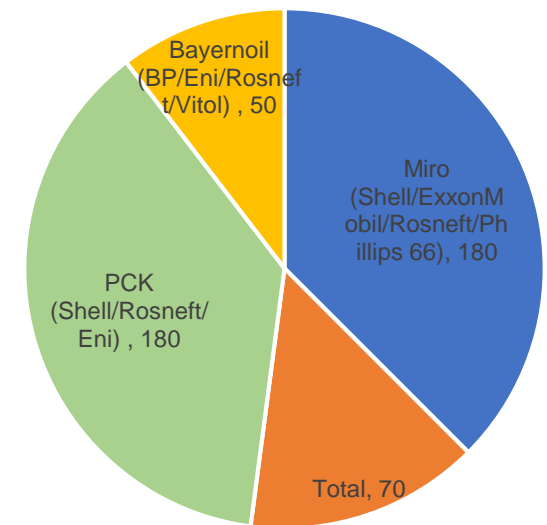
Key Importing Companies [2/2]

- Germany and the Netherlands are also major imported of Russian oil, having imported 480.000 b/d and 350.000 b/d respectively in 2019.
- German refineries linked to the Druzhba oil pipeline, which also have some Russian presence in their ownership, are the key importers of Russian oil.
- In the Netherlands, the largest, most complex refineries, such as Shell’s Pernis refinery, are likely the main buyers of Russian oil. The Vlissingen refinery, in which Lukoil has ownership is also likely to be a key buyer.

Netherlands



Germany



The Enablers

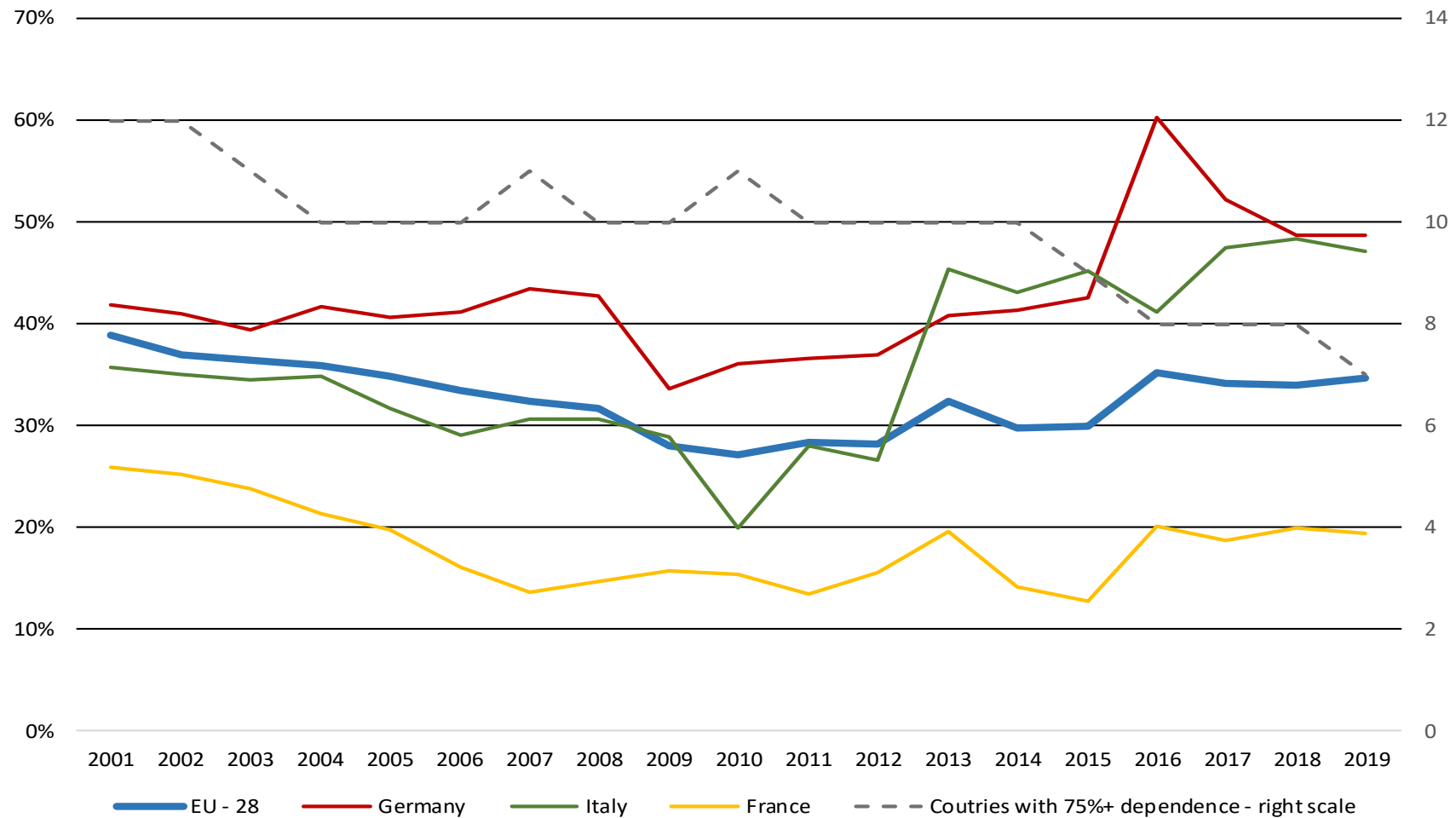


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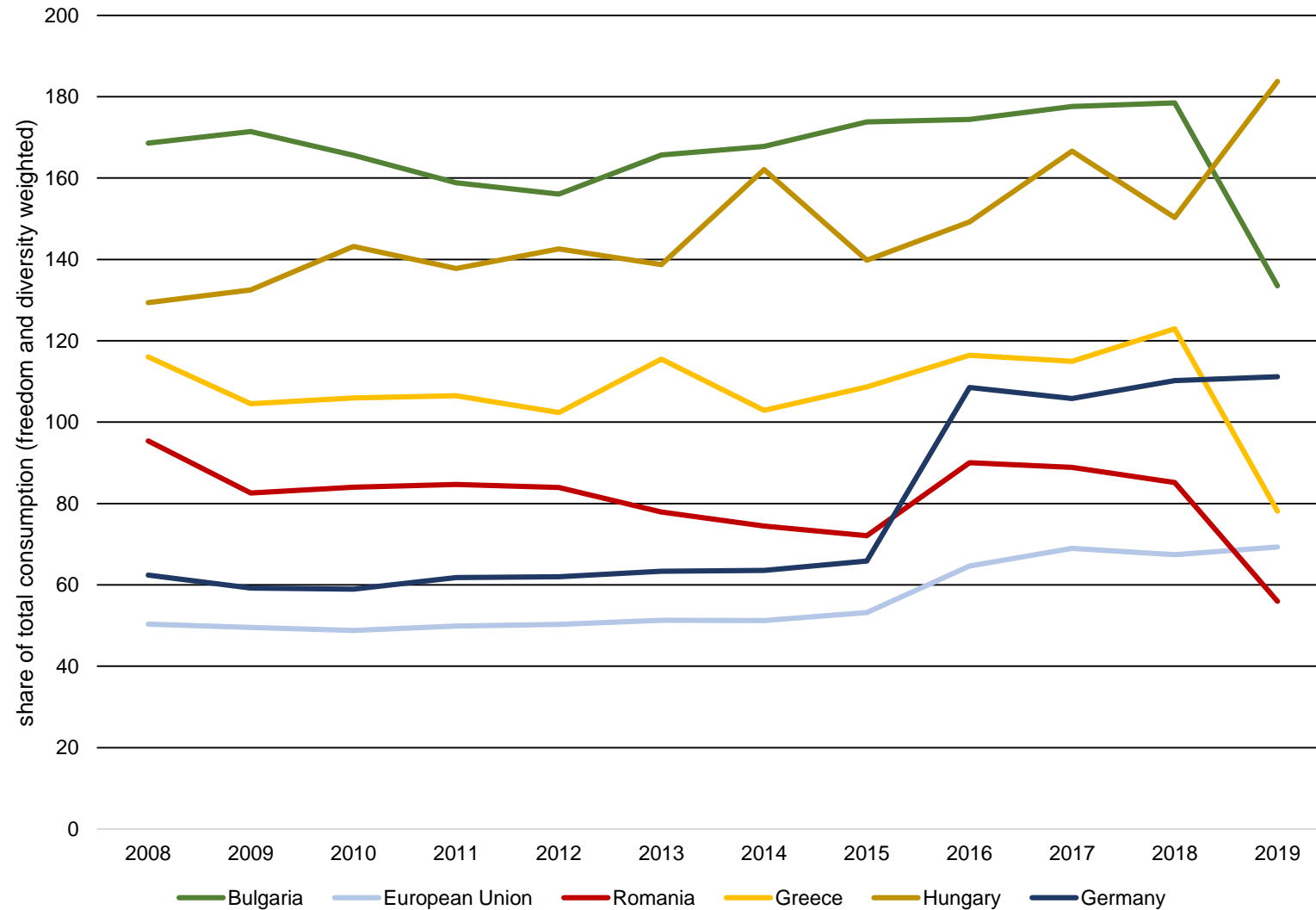


Share of Russian Natural Gas in Total Imports in Selected European Countries



Sources: CSD calculations based on Eurostat data

Security of Natural Gas Imports in Selected Countries and the EU



Overview of Proposed Policy Measures to Reduce Gas Dependence

IEA 10 Point Plan

No new supply contracts with Russia

Additional gas supply from non-Russian sources

Minimum gas storage obligations

New wind and solar projects

Shield vulnerable consumers

Bioenergy and nuclear

Energy efficiency

Heat pumps

Lower heating use

Innovation

RePowerEU

Additional gas supply from non-Russian sources

New wind and solar projects

Biogas

Hydrogen

Energy efficiency

Lower heating use

Heat pumps

Innovation

What can be done more?

Short Term

- Put energy security back in the energy policies' mix
- Demand response tenders
- A priority list of vulnerable consumers
- EU spending package to support gas-intensive industries and vulnerable households
- ETS revenues to cover gas diversification projects and subsidies for vulnerable consumers
- Make binding gas solidarity agreements between EU MSs
- EU Common Gas Purchasing Mechanism
- Temporarily reduce excise and VAT duties on natural gas
- Prioritize and optimize West-East gas flows
- Deep integration of Ukraine in European gas and hydrogen markets
- Cancel large-scale Russia-led energy projects such as nuclear power plants and natural gas infrastructure

Medium Term

- Allow domestic production in Groningen and Denmark to rise and unfreeze gas exploration
 - Remove take-or-pay clauses on existing long-term contracts with Gazprom
- Assess short terms and medium-term gas replacement potential in heating
- Accelerate strategic interconnectors and gas storage projects
- Avoid a natural gas lock-in by abolishing any new EU-financed natural gas transmission and gas-fired power plant projects
- Ensure the uptake of green hydrogen only
- Replace natural gas in power generation with more offshore wind and storage
- Limit the penetration of Russian capital in strategic markets (investment screening; anti-money laundering)

Long Term

- Deep electrification based on renewable energy sources
- Robust energy transition and energy poverty reduction strategies
- Improved integration and liberalization of natural gas and power markets in Europe
- Enhance deep renovation programs to reduce energy consumption faster than the 2030 targets envision
- Strategic alignment of U.S. and EU energy and climate security policy
- U.S. and the EU should counter malign economic footprint directly with positive investments including in regional infrastructure projects improving security of supply, diversification and decarbonization



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Thank You!

