

Geopolitics Move Back up the Agenda: Turmoil in Ukraine and its Impact on Risk Perceptions Among Energy Experts

By Robert Germeshausen, Philipp Massier and Nikolas Wölfling*

The escalation of the conflict in Ukraine and the involvement of Russia have moved geopolitical aspects of energy security back up the political agenda in Europe.¹

Ukraine is of key importance to energy supply for several EU member states as a main transit country for Russian gas deliveries. In 2013 about 39 per cent of all imports of natural gas into the EU were delivered by Russia.² Approximately half of these volumes still pass through Ukraine.³ Although this figure decreased from 80 per cent since the Nord Stream pipeline began to deliver in 2011, fears among European governments, businesses and households that Russia could “turn off the gas tap” became virulent in early 2014.⁴

The fact that Russia and Ukraine conflict over gas deliveries is not new. Also the fact that Russia utilizes the restriction of gas deliveries to amplify political pressure has been exemplified in the past. But the vehemence of the approach towards Ukraine up to military interventions and annexation of national territory had been unimaginable for many European leaders until recently. The drastic escalation of the conflict raises questions whether the EU and their member states should reconsider the assessment of their most important gas supplier with reference to reliability.

Against this backdrop, the EU Commission – in its communication for a European Energy Security Strategy⁵ – presents a stress test by scenario analyses for the impacts of an interruption of the natural gas supply from Russia and via Ukraine. The commission concludes that there is a “(...) substantial impact in the EU, with the Eastern EU Member States and the Energy Community countries being affected most.”

But how likely are these scenarios in the current geopolitical environment? Objective risk measures for these issues are obviously hard to find. Aggregated sentiment of market experts, however, might give an idea on how far the perception of energy security and Russia as a trading partner have changed, and thus inform policy makers and academics. To this end, we asked energy experts from the ZEW Energy Market Barometer^{6,7} about the expected impact of the Ukrainian crisis on energy security in Germany and the EU. The survey design seeks to capture a general view from the energy market expert panel on the yet intangible consequences of the recent political events. In our survey, the experts indicated whether their perception of Russia’s reliability as energy supplier as well as their assessment of the security of supply for Germany and the EU had changed in light of the Ukrainian crisis. Furthermore, we asked for their opinion on the suitability of various measures to guarantee security of supply in the EU.

The results allow us to draw – based on subjective assessments – a more detailed picture of the impacts of the Ukrainian crisis on the security of the natural gas supply in the EU and Germany. In the following we present and briefly discuss the findings of our survey.

Expectations of Russia’s Reliability as an Energy Supplier

“Did the latest conflict between Russia and Ukraine change your view on Russia’s reliability as an energy supplier?” 47 per cent of the experts answered this question with “slightly deteriorated”, further 12 per cent answered with “significantly deteriorated”. Nevertheless, 41 per cent had no reason to change their evaluation of Russia as a trading partner. None of the experts was of the opinion that Russia’s reliability as an energy supplier has improved. Hence, according to the opinion of the survey participants, Russia’s reliability is negatively influenced by the conflict, but one could hardly diagnose a dramatic alteration. That said, the survey did not ask for how reliable Russia was regarded before the crisis.

But does this also reflect a change in energy security? What is the take of the panellists on the impact of the conflict on the European and more specifically the German supply situation? The majority of experts consider the situation to be unchanged for Germany: 62 per cent do not see a relevant shift in the security of supply in Germany against the background of the Ukraine crisis. For the EU, the panel is almost evenly split in experts that believe there is no impact (53 per cent) and experts that see security of natural gas supply decreasing (47 per cent). For completeness, we also asked for a positive impact on security of supply with natural gas, but none of the experts endorsed this proposition.

Although these figures do not hint towards major impacts of the crisis yet, the mere eventuality that conditions for gas deliveries are used as an instrument of Russian foreign policy causes concerns all over Europe. For Germany, the experts are not worried in this matter. Three quarters of the survey respondents do not expect that natural gas supplies to Germany will be connected with political demands in the future. With regard to the rest of the EU, the result is less clear:

*Robert Germeshausen, Philipp Massier and Nikolas Wölfling are with the Centre for European Economic Research (ZEW) in Mannheim, Germany. Nikolas Wölfling may be reached at woelfling@zew.de.

See footnotes at end of text.

48 per cent consider a leverage of Russia’s political demands towards other EU member states by means of the energy supplier’s bargaining power to be likely. 52 per cent deny this aspect. Apparently, the experts have faith in the bargaining power of Germany, while this is less true for other member states.

Measures to Guarantee Energy Security

Asked for concrete measures and how appropriate they are in order to secure the future supply of natural gas in the EU, the experts provide clear recommendations.

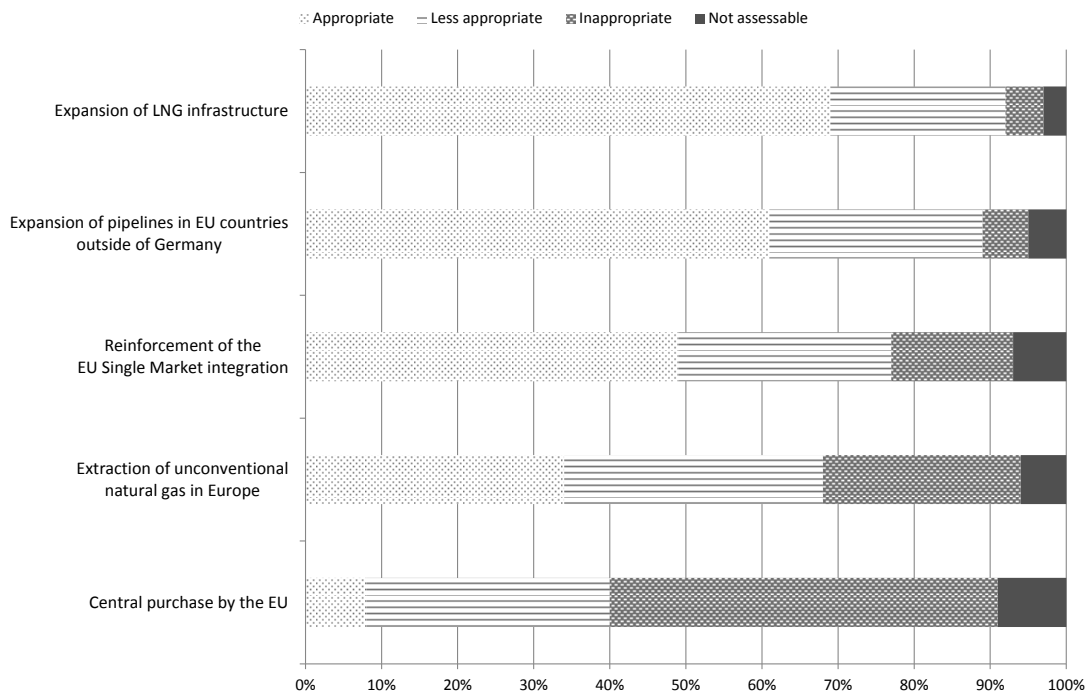


Figure 1. Appropriateness of Gas-specific Measures to Guarantee Security of Supply with Natural Gas

The measures were divided into measures focusing directly on the supply of natural gas (see Figure 1) and those focusing on the reduction of natural gas consumption (see Figure 2). With regard to natural gas specific measures, infrastructure projects were especially in favour. The extensions of the infrastructure for liquefied natural gas (69 per cent of survey respondents) and of pipelines in other EU member states (61 per cent) ranked first and second. Within short distance of these follow efforts to increase the integration of the European Single Market, a rather institutional and economic-oriented measure. The utilization of unconventional natural gas reserves (such as shale gas or tight gas) is seen more critically: 34 per cent vote for “appropriate”, 34 per cent vote for “less appropriate” and 26 per cent for “inappropriate”. Widely refused is the idea to somehow bundle bargaining power through centralised purchases for the whole European Union, which turned out to be the least popular

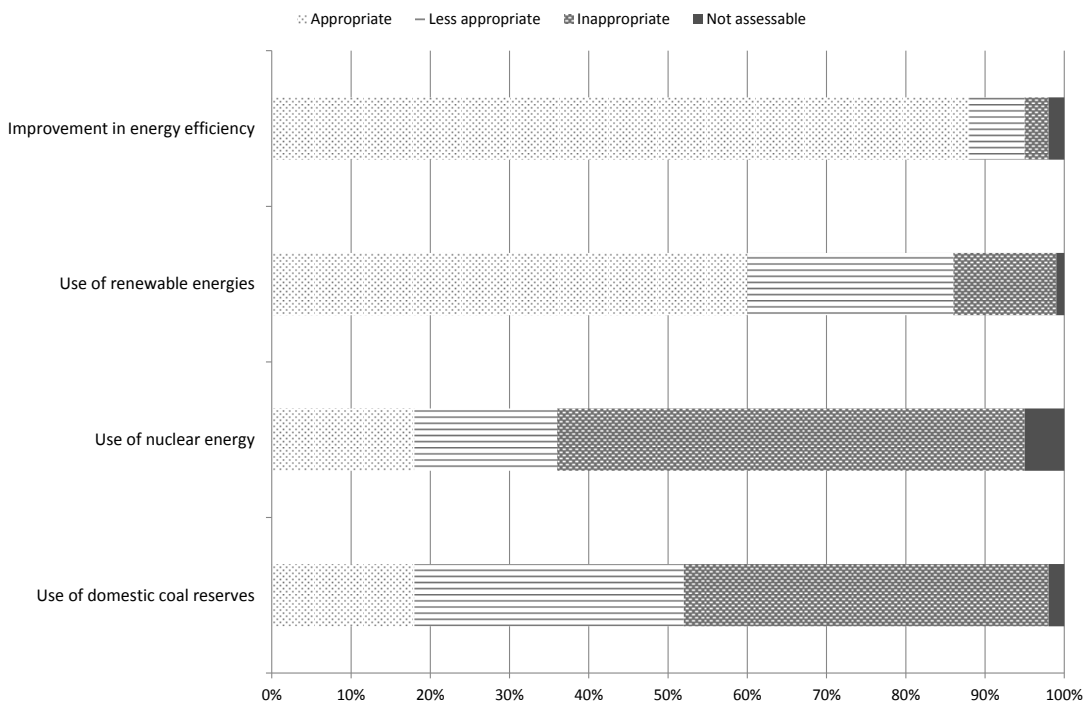


Figure 2. Appropriateness of Measures to Reduce Consumption of Natural Gas

through centralised purchases for the whole European Union, which turned out to be the least popular

measure within the given possibilities.

There is also a clear vote on the measures addressing a reduction of dependency on natural gas as an energy carrier. It is the increase of energy efficiency which is most widely approved by the experts of the ZEW Energy Market Barometer. 88 per cent of the experts see this as an appropriate measure to reduce dependencies. The extension of the use of renewable energies still receives a large majority but not as much consent. Here, about 60 per cent find this measure to be appropriate. The option to use nuclear energy – similar to the use of domestic coal reserves – as a measure to reduce natural gas consumption only receives 18 per cent of consent in the German panel.

Taking a Broader European Perspective

The German panellists do not seem to expect high impacts from the Ukrainian crisis on the natural gas supply in Germany. Apparently, a large fraction considers energy trading between Russia and Germany to continue as usual. This view differs, however, for other EU member states that indeed are affected in their energy security according to the expert panel. It is thus all the more enlightening that we had the chance to compare our results to those of an offspring panel which conducts similar surveys among energy experts in France. The Grenoble École de Management (GEM) asked equivalent questions to the French experts of its recently established energy market barometer.⁸ The French panellists are more pessimistic about the impact of the Ukrainian crisis on security of supply and report a stronger decline of the valuation of Russia's reliability as an energy supplier. Three-quarters of the experts in total indicated that their estimation of Russia's reliability has deteriorated due to the conflict with, and within, Ukraine over the course of the year. 58 per cent recognize a slight deterioration; 18 per cent even recognize a significant deterioration. Interestingly, a significant deterioration in security of supply for France is also stated by the French panellists. With regard to other EU countries, about 80 per cent of the GEM experts report a decrease in energy security. Thus, the French experts are more alarmed by the conflict in Europe's east than their German counterparts, although Germany should be much more affected by the mere proportion of its gas imports. The differences in perception may also result from different interrelations with Russia. On one hand, the German energy industry has higher stakes at risk and might want to exert some optimism. On the other hand, the relative tranquillity of the German experts could reflect their experience in dealing with Russia and a knowledge about bidirectional economic dependencies. Possibly, cultural differences may also play their role leaving a close cooperation of state owned companies for the government interests in foreign policy appear to be more plausible in France than from a German perspective.

What Could be the Intra-European Response?

Within its stress test, the EU Commission identified two weak spots in the EU's security of supply. First, infrastructure projects are not yet fully commissioned as planned after the 2009 supply crisis. Second, security of supply strategies of the EU member states are "either unilateral in nature, insufficiently coordinated and/or insufficiently cooperative".⁹ Our experts confirm these needs given their opinion on the expansion of the natural gas infrastructure (also in the EU) and the reinforcement of the EU Single Market integration, enabling the transfer of natural gas from Western Europe to Central and Eastern Europe when needed.¹⁰ But also unilateral strategies among the measures to guarantee security of supply are favoured by the majority of surveyed energy experts. The improvement of energy efficiency receives almost undivided consent as a measure to reduce dependency from energy imports. This holds for the French as well as the German panel.

Similar unanimity, however, is unlikely to be found for other possible measures. For instance, the relative unimportance the German panellists gave to the use of nuclear energy and coal reserves is likely to be seen differently in other countries. Eastern Europe might tend more to rely on domestic coal deposits, shale gas, and the use of nuclear energy, as other measures could be seen as very costly.¹¹ Differences occur also between the German and the French panel, for example, in the assessment of the utilization of unconventional natural gas reserves. This option receives the largest consent under the natural gas specific measures in the French panel with 77 per cent. The experts of the German ZEW Energy Market Barometer, however, see this option much more critically.

In summary, energy market experts within the EU do not yet agree on an approach regarding energy security. Correspondingly, the energy security policies of EU member states do not always reflect a coherent common strategy. However, there are already measures taken to strengthen cooperation within the EU. These measures also find wide support among the majority of experts surveyed in Germany and France. This is even more important as the renewed prominence of geopolitics in energy policy underscores the need for cooperation among EU member states.

Footnotes

¹ International Energy Agency (IEA), 2014, World Energy Outlook 2014, Paris, France.

² EU Commission, 2014 a: European Energy Security Strategy. Communication from the Commission to the European Parliament and the Council. Brussels, Belgium.

³ Simon Pirani, James Henderson, Anouk Honoré, Howard Rogers and Katja Yafimava, 2014, What the Ukraine crisis means for gas markets. Oxford Energy Comment, March 2014, Oxford, United Kingdom.

⁴ The Independent, 2014, Fear over Russian gas switch-off sees EU states stockpile supplies. Retrievable under <http://www.independent.co.uk/news/world/europe/fear-over-russian-gas-switchoff-sees-eu-states-stockpile-supplies-9727466.html> [12.12.2014].

⁵ U Commission, 2014 a, *ibid.*

⁶ The Centre for European Economic Research (ZEW) hosts a panel of energy markets experts, who are surveyed biannually for the ZEW Energy Market Barometer [ZEW Energiemarktbarometer]. The ZEW Energy Market Barometer is an industry-specific indicator of economic sentiment regarding energy supply, energy trade, and energy service industries in Germany. It comprises the expectations of about 200 experts concerning short- and long-term developments in the national and international energy markets. The majority of the panellists work for the energy supply industry or in energy trading. Furthermore, experts stem from academia and energy consultancies. A small part of the participants work for energy related associations, administrations or institutions. Given that the ZEW Energy Market Barometer addresses German energy market experts, results may relate particularly to the German situation. The panel was established in 2003.

⁷ The complete series of the ZEW Energy Market Barometer can be retrieved from: <http://www.zew.de/de/publikationen/energiemarktbarometer.php>. This article is based on the latest ZEW Energy Market Barometer from July/August 2014, which is only available in German.

⁸ Grenoble École de Management (GEM) Energy Market Barometer 2014 – Report 2. Retrievable under <http://en.grenoble-em.com/energy-market-barometer-report> [05.12.2014].

⁹ EU Commission, 2014 b, Communication from the Commission to the European Parliament and the Council on the short term resilience of the European gas system. Preparedness for a possible disruption of supplies from the East during the fall and winter of 2014/2015. Brussels, Belgium.

¹⁰ Christian Hübner, 2014, European Energy Supply Security in Light of the Ukraine Crisis. Facts & Findings No. 151, July 2014, Konrad-Adenauer-Stiftung, Berlin, Germany.

¹¹ Christian Hübner, 2014, *ibid.*