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Invasion of Ukraine

EU Energy Crisis: To Sanction Or Not?

By Alvin Chew

SYNOPSIS

EU-Russia cooperation hinges strongly on the inter-dependence of the supply of gas to the region. Why would any rational party destabilise this mutually beneficial relationship?

COMMENTARY

THE UNITED States and United Kingdom have both imposed further sanctions on Russian energy imports on the argument that these tougher measures could effectively cripple Russia's economy and subsequently prevent Russia's further invasion into Ukraine.

The European Union (EU) has been pressured, both domestically and within the region, to join in these sanctions. However, the EU has not reached energy independence and these second tranche of sanctions will literally choke 'the blood' that fuels its economy.

EU's Dependence on Russian Gas

In its global efforts to combat the adverse effects of climate change, Europe, in particular Germany, has primarily turned to natural gas as a 'cleaner' fossil fuel option in its transition towards a carbon-free economy. The EU has set off ambitious targets to reduce its carbon footprint through the use of renewables, but still relies approximately 30% of its energy mix on natural gas, mainly used for central heating during the cold seasons.

Given the scarcity of natural gas in the region, the EU imports more than 80% of the natural gas from diversified sources, of which recently, 40% of such imported natural gas comes from Russia.

Russia has been supplying piped natural gas to the EU reliably at a reasonably low cost until 2021. At that point the supply fell short partly due to i) a surge in demand for energy fuels as global activities gain momentum from the easing of the pandemic; and ii) Russia stocked up domestically to cater for its long winter.

Nevertheless, Russia has been piping natural gas to its Western counterparts in the EU even during the unstable period when it annexed Crimea in 2014. Almost 90% of its gas exports goes to EU, which constitutes a hefty revenue for the Russian economy.

Cooperation: The Best Payoff

In *Game Theory*, the present dependence of the EU on Russian gas supply can be seen as the *Nash equilibrium* in that both parties will not have any better payoffs should they pursue other strategies. Until the EU is fully able to electrify its energy grid solely with renewables, it will still need the supply of natural gas in its energy mix.

A sanction on natural gas from Russia will mean diversification to other sources such as Liquefied Natural Gas (LNG) from other global suppliers, which will inevitably drive global oil and gas prices even higher.

Moreover, the EU will take time to build up the necessary infrastructure to accept LNG in order to make up the shortfall in natural gas provided by Russia. Such investments no doubt will take a toll on EU's economy and the well-being of its citizens; but the further question is whether the EU will stay true to its course of achieving its climate change targets after much immediate investments poured into its diversification strategies on natural gas?

On the other hand, Russia has every reason to keep supplying gas to the EU to sustain its economy. Its industrial sector, which included oil and gas, accounted for more than 30% of its Gross Domestic Product (GDP). Furthermore, it will not jeopardise its reputation as a reliable supplier of oil and gas to the EU if it intends to diversify its gas export to global clients, such as China.

While the amount of gas exported to China pales in comparison (about one tenth) to the quantity supplied to the EU, Russia knows too well of the risk to its strategic ties by engaging in gas politics.

Will Sanctions Stop the Ukraine Invasion?

With the possession of nuclear weapons and the theory of *Mutually Assured Destruction (MAD)*, there have not been any direct military clashes among the superpowers. Rather, military campaigns are fought through proxy wars. Unfortunately, Ukraine is a ground for proxy contest between NATO and Russia.

The US and UK, by their calculation, are able to impose sanctions on Russian energy imports as both are less dependent compared to the EU. The reality is that the EU is being handicapped by Russia's gas supply, and that vulnerability has long been surfaced by experts in international relations. It's just Putin playing up the old adage of Sun Tzu's '*Know yourself, know your enemy*'.

Even if the EU joins in the sanction on Russia's energy imports, it is unlikely to stop Moscow from furthering its war on Ukraine. Russia, on the ground that its security is being threatened, will not relent until the conditions for its invasion of Ukraine are met, regardless of how harsh the sanctions will impact its economy or its people.

Alvin Chew is a Senior Fellow at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore. He also currently holds an Adjunct appointment at the Energy Studies Institute (ESI), National University of Singapore (NUS).

S. Rajaratnam School of International Studies, NTU Singapore
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
T: +65 6790 6982 | E: rsispublications@ntu.edu.sg | W: www.rsis.edu.sg