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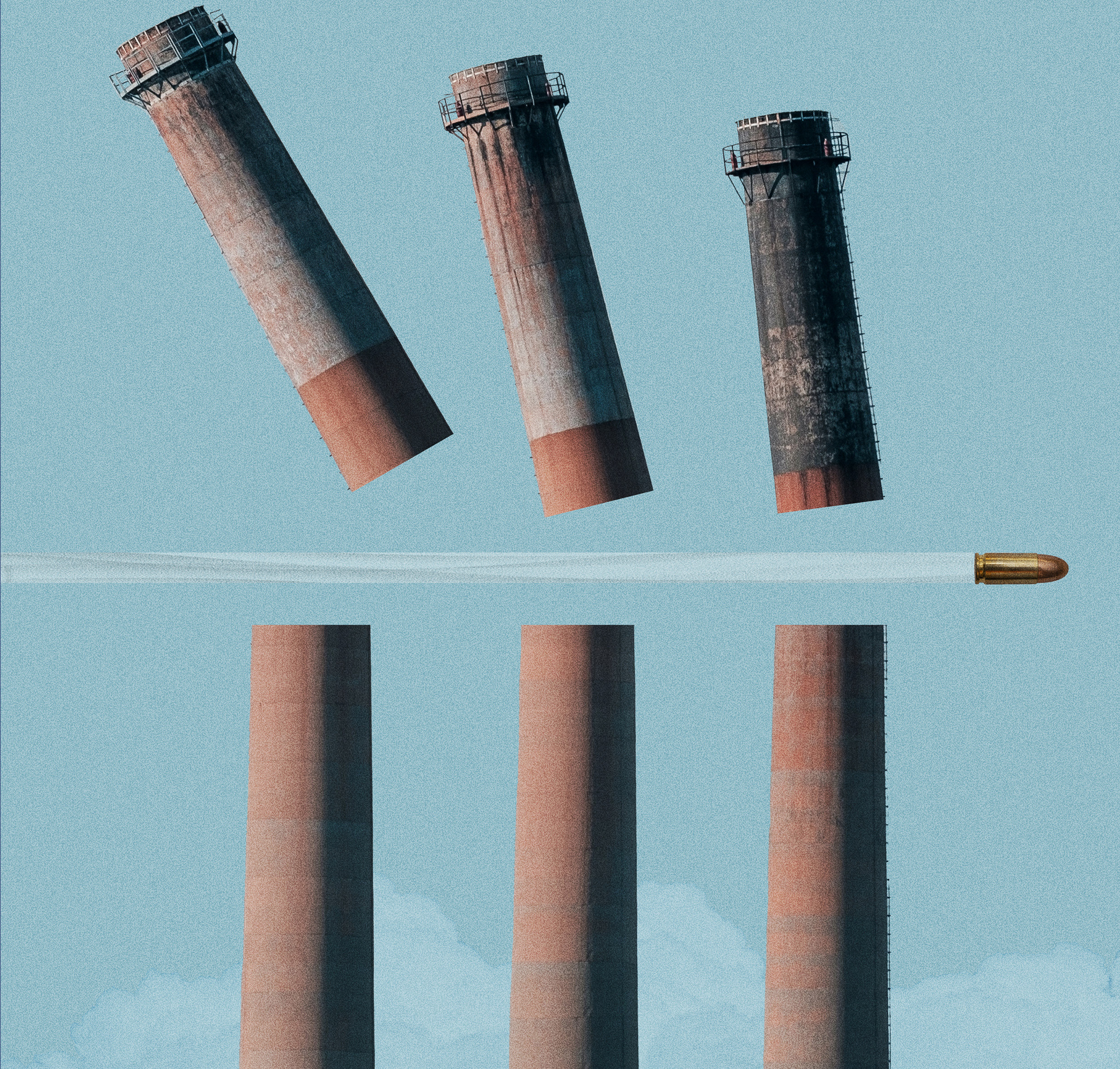
A Cold Winter and an Underfueled World



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How Can Europe Solve Its Energy Crisis?

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Europe seems to be implicated in an energy crisis by its involvement in the Russia-Ukraine crisis.

The price of gas has been multiplied by more than ten times this year compared with the previous year. As winter is approaching, how Europeans will spend their winter has become a big headache for the continent's leaders. All these problems of energy shortage seem to be created by the Russia-Ukraine crisis.

Indeed, energy cooperation between Russia and Europe has existed for many years, and can be traced back to the Soviet Union era. But when the Ukraine crisis erupted, European countries joined the U.S. in launching a package of economic sanctions against Russia. Then cutting off the energy supply from Russia becomes a hot debate in Europe. The U.S. offered to replace Russia as the LNG provider. Could America's aid solve the European energy crisis? Or is it only a camouflage for the U.S. to gain strategic advantages?

With the bombing of the Nord Stream pipelines, European people suddenly become vigilant. As the in-depth investigation of the incident goes on, the public opinion of European countries is likely to turn around.

The economic and social situation in Europe is deteriorating, and radical populism is rising. If European liberals don't change their position vis-à-vis the U.S. in the Ukraine crisis, they might be chased from the political arena by far-right political forces. Europe would be further divided, and the European integration process will be in jeopardy. In order to prevent such a scenario, Europe may also have to rethink its position in the Russia-Ukraine crisis.

Europe is completely taken hostage by the U.S. at the beginning of the Ukraine crisis.

At the beginning of the Ukraine crisis in late February, attention was drawn entirely to Russia's special military operation against Ukraine. Public opinion in the United States and Europe continued to exaggerate Russia's aggression. On social media, self-media broadcasters are constantly posting short videos of battlefields. It has been difficult to tell the truth from the false. Few people asked how all this happened.

However, a German geopolitical analyst posted a blog saying, make no mistake, the war in Ukraine is neither a war against Ukraine nor a war against Russia. It is actually an operation against Germany. When the Nord Stream 2 gas pipeline was opened, the United States was worried that the energy cooperation between Russia and Germany would free Europe from the control of the United States. The United States was determined to use Ukraine as a time bomb to detonate a crisis and suspend the energy cooperation between Russia and Europe. Before the Russian military operation, the United States instigated the Ukrainian army to launch a large-scale military operation in eastern Ukraine. Russian media claimed it as an "ethnic cleansing" of Russian-speaking residents of the Donbas region. Therefore, before launching the current military operation, Russia described it as a "counterattack." However, as the Ukrainian war unfolded, attention seemed to be drawn to the changes on the battlefield, and no one cared about the context in which the war broke out.

Indeed, in recent years, the United States has been increasingly worried about Europe's push for strategic autonomy: first, Germany has been deepening energy cooperation with Russia, as marked by the completion of the Nord Stream 2 natural gas pipeline, which will greatly reduce Europe's energy dependence on the Middle East, America, and other energy providers; second, Europe has been engaged in re-industrialization. With a cheap energy supply, Europe's recovery of manufacturing has experienced a revival, and Europe has also been engaged in national defense autonomy. France and Germany engaged in European military division of labor cooperation, trying to use the European defense integration standard to weaken the US dominance in arms in Europe, and finally, Europe has also vigorously been promoting the role of the euro on the international stage, with euro bond issuance once equaling dollar bonds, and Europe's energy cooperation with Russia was pushing for euro settlement in lieu of the dollar, which will give a "bad example" and eventually raise questions about the US dollar hegemony in the settlement of energy. The United States has had many reasons to be concerned about trends in Europe, giving the country growing incentives to interrupt Europe's energy cooperation with Russia.

Since the global financial crisis in 2008, the United States has been looking for new technologies that can lead to another stock market boom. As a result, the technology of developing shale gas and shale oil, which had been abandoned in the 1970s, was revisited. It has become a "new energy technology."

The extraction of shale gas and shale oil is more expensive than the extraction of gas and oil from ordinary large fields, and requires the injection of water and chemical products to "squeeze" out the natural gas and oil. In the past, major energy companies in the United States owned a large amount of large oil and gas fields yet to be exploited, and they could buy oil and natural gas abroad at a low cost, so no company was willing to put money in enlarging the exploitation of shale oil and shale gas.

However, after the global financial crisis, the Federal Reserve lowered interest rates to zero and implemented several rounds of quantitative easing. Investors in the financial market could borrow cheap funds at negligible costs to snap up shale gas and shale oil companies' shares and bonds. And these small companies had quickly improved their mining technology because of the large amount of cheap capital available. The development of shale gas and shale oil sprung up, and the United States had also rapidly transformed from an energy importer, to an exporter of oil and natural gas.

However, the U.S. needs to find new buyers for more oil and gas around the world. In Sino-US trade negotiations, the United States has repeatedly proposed that China should commit to purchasing a large amount of American oil and natural gas. Of course, opening the European market is also a dream of the United States. However, there has been long-term energy cooperation between Europe and Russia, and Russia is Europe's largest energy supplier. According to the EU, it relies on Russia for about 45% of its coal imports, 45% of its natural gas imports, and 25% of its oil imports. Germany's natural gas imports from Russia accounted for more than 50%, while Austria's natural gas imports from Russia accounted for 80%.

To open up the European energy market, it has become a priority for the U.S. to reduce the inertia of Europe's energy imports from Russia. Creating a geopolitical crisis is certainly the best option. After Russia launched its special military operation against Ukraine, the United States appeared to have solved the problem. European public opinion was overwhelmingly accusing Russia and insisting on supporting EU sanctions against Russia. The European Commission even issued a detailed schedule for cutting energy supply from Russia, and formulated a plan to completely cut off any energy imports from Russia from 2027 to 2030.

As Europe is reducing its natural gas imports from Russia, it can only replace it by importing more from other places. Although Europe has expanded its natural gas imports from the Middle East and North African countries, the supply capacity of these regions is simply a drop in the bucket compared to Europe's natural gas demands. At this time, the United States has come forward and promised to solve the energy crisis facing Europe. It looked not only like a "good guy" for a while, but also solved the problem of expanding the US shale gas export market. European countries such as Germany have already started their plans to build new LNG terminals in preparation for expanding the capacity to import LNG from the United States.

Even if the United States is going to provide Europe with an "unlimited" energy supply, it only turns out to be what Chinese ancestors described as "distant water incapable of quenching present thirst." Even in the whole world, there are not so many ships that can transport LNG, and there are also limited terminals in Europe that can unload LNG. The cold winter is approaching. How are Europeans going to spend the winter when Russia's natural gas supply is disrupted? However, some leaders of European countries have vowed that even if the people in Europe are starving and freezing, they will never bow to Russia. They must stand with Western democracies and firmly support Ukraine in countering Russian aggression.

Why have European public opinion and politicians become so obsessed with America in an international conflict that has little to do with them? Perhaps the book "*Gekaufte Journalisten*" by a German journalist named Udo Ulfkotte can tell us something. It was in 2014 that Ulfkotte was astonished by the crisis of the Ukrainian coup and decided to write a book from his own experiences, to expose how the United States controlled European public opinion by inducing and corrupting European media practitioners. Europe is an aging society, and most European inhabitants obtain information through traditional media: newspapers, magazines, radio, and television. As long as you control the traditional media in Europe, you control public opinion in Europe. Since the birth of the Internet, traditional media has encountered huge commercial competition. Many media institutions cannot survive in the market and have "sold" themselves to capital groups, while American capital has penetrated the European capital market deeply, and can control certain European capital groups unbeknownst to anyone, thereby controlling European public opinion by extent. In this context, although the decisions made by European institutions are extremely unfavorable to European interests, European public opinion has not called these decisions seriously into question.

The evolution of the Ukraine crisis brings danger to Europe.

The Russian-Ukrainian military conflict has now stuck in a stalemate, and the mutual offense and defense are constantly changing positions. Although the leaders of several European countries have constantly expressed their hope that Russia and Ukraine should return to the negotiating table, the U.S. does not seem to want to stop the war. In an article, historian and Harvard professor Niall Ferguson said that the United States doesn't want the Ukrainian war to stop, as he had been told by White House officials, because the U.S. hopes to use the Ukraine war to exhaust Russia, just as the Afghan war brought down the Soviet Union.

However, if Europe also allows the conflict between Russia and Ukraine to prolong, Europe may become the biggest victim.

1. Europe's energy security has become fragile. The energy cooperation relationship between Europe and Russia can be traced back to the Soviet Union era. After the disintegration of the Soviet Union, energy cooperation between Russia and Europe became closer. The cheap and stable supply of natural gas and oil by Russia to Europe has played an important role in maintaining the global competitiveness of the EU economy. It is precisely because the price of fossil energy in Europe is cheaper than that in Asia that Europe can maintain the competitiveness and advantages of some manufacturing industries. If the EU replaces natural gas from Russia with LNG shipped by sea from the United States in the future, the EU will lose its competitiveness in the international market due to rising energy costs. Some people have calculated that when the EU imports natural gas from the United States, it needs to invest in the construction of new LNG unloading terminals, and new pipelines, and buy or rent a large number of LNG carriers. These costs combined will make European gas three to five times more expensive than local gas prices in the United States. Not to mention that the European energy supply is not safer, because American credibility is

no better than Russian. Both the United States and Europe are engaged in "re-industrialization" and they are somehow competitive in the international market. If Europe's energy supply depends on the United States, and energy prices are several times more expensive than those in the United States, the manufacturing costs in Europe will certainly be much higher than those in the United States, and European manufactured products will not be as competitive as those of Americans in the international market.

2. Europe will suffer from a potential international capital outflow. Energy cooperation between Europe and Russia has been undermined, and the United States and European countries have continued to send weapons to Ukraine to create a large wall to try and block Russia. The curtain of the new Cold War in Europe has fallen again, and various acts of "brinkmanship" will emerge one after another, and the new Cold War will make Europe more unstable. An arms race and various minor frictions will make Europe an unsafe place to invest, and international investors will stay away from Europe. In fact, from the beginning of the Russia-Ukraine war, European capital began to flow out, mainly to the United States.

Looking at changes in the exchange rates between the US dollar and the euro, you can see the trend of capital flows. Europe had a good investment environment and attracted investment from many countries, including China. However, in pursuit of sanctions against Russia, calls by EU institutions and the European Parliament demanding the confiscation of Russian assets have been increasing, which has made foreign investors, especially Chinese investors, full of suspicion. The United States is trying to make a coalition with Europe to turn Russia and China into a so-called "axis of evil." So, if the EU continues to amplify institutional rivalry with China in the future, will Chinese firms still consider their investment in Europe safe? If the security situation in Europe deteriorates and energy costs rise sharply, what are the chances of success in the EU's efforts of "re-industrialization"?

3. There will be increasing social conflicts in Europe. Refugee waves have plagued Europe since the Arab Spring in 2010. Britain voted to leave the European Union because of, in part, fears of being implicated in the EU's mandatory rules for accepting refugees. The Russia-Ukraine war has caused millions of Ukrainian refugees to stay in Europe. How can Europe "digest" these refugees? In recent years, economic growth in Europe has stagnated, and youth unemployment has been a serious problem. Immigrants and refugees will always become "scapegoats" and are considered to be the source of employment difficulties,

because they are willing to accept jobs with harsher conditions and lower pay. The financial expenditure of EU countries has increased a lot due to the resettlement of refugees. In the future, divisions within EU member states over how to resettle refugees are only likely to grow.

4. Since the last sovereign debt crisis in the EU, fiscal balances have been a growing problem. The pandemic has made the fiscal position of countries affected by the previous debt crisis worse. Even before, they had to squeeze out money for debt repayment by tightening their finances, but they happened to be also countries most severely affected by the Covid pandemic, and struggled to increase fiscal expenditures to deal with the problems. Fortunately, the EU issued a special bond in 2020, which helped rescue member states for the first time. However, the debt of many EU member states remains precarious. As the Federal Reserve changed its monetary policy and began to raise interest rates sharply, the US dollar-euro exchange rate surged, creating new difficulties for Europe's economic recovery. Rising debt interest rates in many countries will be the last straw, especially if the European Central Bank turns to tightening monetary policy like the Federal Reserve because of rapidly rising inflation.

5. Europe is likely to enter a new round of stagflation. Russia is an important energy exporter, and both Russia and Ukraine are important food exporters in the world. The Russia-Ukraine crisis has led to the energy crisis and food crisis. If the war does not stop, Western countries will continue to impose sanctions on Russia, and the de-globalization process will continue, making production much more expensive. The reorganization of the global industrial chain and the rising cost of manufacturing will definitely lead to stagflation, and Europe will be surely at the forefront of economic stagflation.

The Nord Stream gas pipeline bombing seems to have alarmed Europeans.

On September 26, 2022, both the Nord Stream 1 pipeline and the Nord Stream 2 pipeline exploded, causing a natural gas leak. Immediately, the public pointed the finger at the United States. Although the US government denied it in every possible way and kept stating that the destruction of the Nord Stream natural gas pipelines was never done by the United States, whether it is American journalists, scholars, or the European public, everyone's attention is focused on the Biden administration. Indeed, there are not many countries that can do such things without leaving a trace, let alone those various motivations and incentives.

On September 30, the German Bundestag rejected the proposal to increase arms supplies to Ukraine by a vote of 179 in favor, 476 against, and 1 abstention. This is the first time since the start of the Russian-Ukrainian military conflict that a European country's parliament has rejected a motion to increase aid to Ukraine. On October 5, German Vice-Chancellor Robert Habeck complained that "friendly" countries guided by the United States took advantage of Germany's urgent need for natural gas and raised the price of natural gas sold in Germany to "astronomical prices." According to reports, the price of liquefied natural gas sold by the United States to Germany is three times the price of Russian pipeline gas and seven times the price of domestic gas in the United States.

It was probably no accident that in both Germany and Sweden, an internal report of the RAND Corporation has been revealed. The so-called RAND report on Europe is very interesting, and at least reveals the different interests of the United States, Europe, and Russia in this crisis.

The "RAND report" believes that the deterioration of the US economy is likely to cause Democrats to lose in the midterm elections in November 2022, and Republicans will launch a motion to impeach the President after they hold a majority in Congress. Therefore, the Democratic administration must avoid this outcome at all costs. The report believes that the United States urgently needs foreign capital to flow into the United States to strengthen the banking system. And countries that can provide these capital services are European countries bound by NATO. However, the report pointed out that Germany has become the biggest obstacle for the United States to obtain capital services from European countries. In the decades since reunification, Germany has struggled to lift US restrictions on it and strived to become a fully independent country. Now, the internal social and economic problems in the United States are escalating, which is good for Germany to speed up its independence.

The report further analyzes that since Brexit, the United States has lost leverage it once had to influence the EU's cross-government decision-making negotiations. And if the United States is forced to withdraw from Europe, Europe is likely to become an independent Europe under the framework of a comprehensive political consensus reached by Germany and France. At that time, the United Kingdom alone will not be able to resist the combination of Germany and France. An independent Europe will not only become an economic competitor of the United States, but also a political competitor. The implication of the report is clear:

the United States cannot allow Europe to become fully independent.

The report then analyzes “the fragility of the German and EU economies.” The report believes that Germany’s position in European economic development is irreplaceable, so if Germany collapses, the European economy will suffer a serious setback. The German economy relies on two pillars: one is access to cheap electricity from France, and the other is almost unlimited access to cheap natural gas from Russia. The latter seems to be more important. Stopping Russia’s natural gas supply could be devastating to German economy, and even the entire European economy. In a subsection titled “Managed Crisis,” the report states that the only viable way to ensure that Germany rejects Russian energy is to involve both sides in the military conflict in Ukraine. The report predicts that the United States’ further action in Ukraine will inevitably provoke a Russian military response. “The Russians are apparently unable to ignore the enormous pressure that Ukrainian forces are exerting on the unrecognized Donbas republic, which will likely allow the U.S. to declare Russia aggressor and to impose a prepared package of sanctions against Russia.”

The report argues that the conflict between Russia and Ukraine is a means for the United States to drag Europe into a quagmire, and the main target is Germany, the economic locomotive of Europe. The United States used Ukraine to provoke Russia and forced Russia to take military action; and after the conflict broke out, the United States and Europe launched sanctions against Russia, which were actually detrimental to Germany and Europe.

The “RAND report” predicts that “a reduction in Russia’s energy supply – ideally, a complete cessation of this supply – would have catastrophic consequences for German industry.” “It could lead to a continuous cycle of business closures, which could mean the demise of those businesses.” This will cost Germany 20-300 billion euros, which will not only be devastating to the German economy, but the entire EU economy will inevitably collapse. The report also goes out of its way to stress that it is not a recession but an economic collapse. As a result, the exchange rate of the euro will plummet, leading to a global sell-off of the euro. If the euro becomes a toxic currency, countries around the world will rapidly reduce the euro’s share of foreign reserves. The gap in this share will be filled by US dollars. The collapse of the European economy will lead to a sharp drop in living standards and a spike in unemployment, followed by an exodus of educated young people and skilled workforce, and the United States must be their best immigration destination.

European immigration will bring enough labor and assets to the United States and it will reverse the looming recession in the United States in the short term. In addition, the Russia-Ukraine conflict and the crisis in Europe can distract American society from current economic issues and can consolidate American society, which in turn will reduce the risk of Democratic electoral defeat. In the medium term, that will, within 4-5 years, cause the inflow of foreign capital, the redirection of logistics, and the reduction of competition in major industries. In the long run, that will bring the cumulative benefit to the United States to 7-9 trillion US dollars.

Coincidentally, after the “RAND Report” was revealed, on October 9, European websites revealed that European Commission President Ursula von der Leyen had been involved in conceiving sanctions against Russia, long before the Ukraine crisis erupted. She actually visited the United States four months before the outbreak of the Ukraine war and carefully discussed various measures to sanction Russia with Biden’s national security team at the White House, and since then they have been in close contact, with messages and communication between Biden’s national security team’s economic expert Daleep Singh and von der Leyen’s Chief of Staff, Bjoern Seibert, importantly. The entire process was planned by the European Commission and the White House, and important member countries of the EU, such as France and Germany, were kept in the dark. The news referred to von der Leyen as “the American President of the European Commission.” The explosion of this big “news bomb” will surely stir huge waves in European public opinion. It seems impossible for European leaders to keep calm this time.

At this critical moment, the Nord Stream pipelines were bombed, and if there is no hope of repairing the pipelines, seawater infiltration will invalidate the project that Russia and Europe had spent huge sums of money to build. If the Ukraine crisis continues to develop, the consequences predicted by the “RAND report” will be realized one by one. Does this not spell a doomed situation for Europe? Therefore, despite the denials of the US government in every possible way, European public opinion is likely to turn around eventually. In today’s “post-truth” era, what people believe has much more impact than the “truth.” It will become increasingly difficult for the U.S. to control public opinion only by manipulating traditional European media.

The recession in Europe is getting worse, inflation is running wild, and the proportion of people turning towards populist leaders is rising. The election of a far-right populist leader in the recent Italian election has served as a wake-up call for other European countries. Far-right populist leaders are gaining momentum across European countries. If they come to power, European integration will face an even greater crisis, because those people also have a common feature: they are all Euro-sceptics, opposing European integration and the EU's supranational policies. If Europe wants to avoid the risks of far-right populists winning elections in the future, and if it wants to maintain the achievements of European integration after World War II, it must take a new path.

Europe Facing "Dual Challenge" in Response to the Energy Crunch

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Europe is now plagued by a war-induced energy crunch. The explosions of Nord Stream 1 and 2 pipelines in late September, which triggered substantial gas leaks, added more uncertainty to Europe's energy landscape, as the hopes of shortly repairing the pipelines were dashed.

1. The EU slashes gas imports from Russia.

As one of the world's major natural gas exporters, Russia exported 201.7 billion cubic meters of natural gas via pipelines and 39.6 billion cubic meters of liquefied natural gas (LNG) in 2021, far outstripping those exported by the U.S., Qatar and Norway. In the same year, the EU imported 155 billion cubic meters of natural gas from Russia, accounting for approximately 45% of its total gas imports and 40% of the total consumption. The EU also depends on Russia for approximately 27% of its oil imports and nearly half of its coal imports.

Following the outbreak of the Russia-Ukraine conflict, the whole of EU condemned Russia's strike against Ukraine. To undercut Russia's economic base for initiating a war, the U.S. and the Europe launched a barrage of sanctions against Russia. Accordingly, one significant move was to reduce Europe's reliance on Russian energy, specifically, cutting gas imports from Russia by two-thirds this year, ending gas imports from Russia by 2027, and ending all fossil fuel imports from Russia by 2030.

Instead of just sitting around, Russia chose to weaponize its natural gas supply. As a case in point, in late March this year, Putin signed a “ruble settlement order” for natural gas transactions. Subsequently, Russia successively cut off gas supplies to Poland, Bulgaria and Finland, claiming they have failed to pay for gas in rubles. On September 2, Russian energy giant Gazprom announced the suspension of natural gas supplies to the EU via the Nord Stream 1 pipeline for an indefinite period. The announcement came just after the G7 countries agreed to impose a price cap on Russian oil and gas exports.

Thereupon, driven by multiple factors, Russia’s natural gas exports to Europe slipped sharply. According to the International Energy Agency (IEA), exports of Russian natural gas via pipelines to the EU and the UK during the first seven months of this year fell by nearly 40% compared to the same period last year. Russia’s share of the EU’s natural gas imports tumbled from 36% last October to just 9% a year later, according to data from Wood Mackenzie, a US research firm.

2. Europe is expected to get through this winter.

As Russian imports collapsed, Europe snapped up LNG as a replacement. Together, Europe and the UK imported almost 68% more LNG from sources other than Russia from March to September of this year, as compared to the same period in 2021. Nevertheless, consequences began to unfold. After the scramble, LNG was in short supply. As a result, European benchmark prices for gas have fallen sharply since peaking in late August but are still 265% higher than those a year ago.

Winter is coming, and Europe will face the gravest energy crisis since World War II. For many countries, the hopes of both profitable businesses and residential warmth will surely be disappointing. Still, according to the current inventories and supply capacity of natural gas, Europe should be able to scrape through this winter. Here is why.

First of all, as of October 10, Europe’s natural gas inventories rose to 91.35%, substantially higher than the five-year average and way above the November target of 80%. That is to say, even if Russia continues to cut its gas supply, these inventories will function as a buffer and help Europe through winter.

Secondly, the Natural Gas Interconnector Greece–Bulgaria initiated commercial operation in early October. This 182-kilometer pipeline commences with an initial capacity of 3 billion cubic meters of gas per year, predicted to expand to 5 billion cubic meters a year in the future. Accordingly, this pipeline, which can fully meet Bulgaria's natural gas needs, is expected to ameliorate the energy landscape of Europe.

Thirdly, this winter may well be a warm one. According to a data model provided by the Copernicus Climate Change Service, temperatures probably will be significantly above normal during the peak heating season from December to February. There's a 50%-60% probability that the UK, much of the Mediterranean coast and parts of Central Europe will see well-above-average temperatures. The rest of the continent has a 40%-50% chance of significantly exceeding historical averages. A mild winter could help Europe realize its target of a 15% cut in natural gas consumption.

Nonetheless, weather forecasts prove frequently unreliable. According to another forecast source, if calculated based on heating degree days (HDD), this winter, temperatures in Europe will be slightly lower than the average level of the past 10 years, which means this winter may be colder than last year. At any rate, the natural gas that Europe has imported from the U.S. and the Middle East should roughly make up the two-thirds of Russian gas imports it plans to cut. The remainder of the gas supply gap can also be filled if residents of European countries turn down the heating or air conditioner temperatures by two to three degrees Celsius.

3. The gas crunch may continue into the future.

For Europe, energy woes are nowhere near the end. The International Monetary Fund (IMF) warned in a report that Europe's energy crisis was not "a transitory shock," and while the upcoming winter would be challenging, "winter 2023 will likely be worse." This warning should be taken seriously. The sufficiency of Europe's current gas inventories is buttressed by Russian gas supplies. Once Putin resolves to shut down the gas pipelines through Ukraine to Europe and the TurkStream gas pipeline, the energy landscape of Europe will get tougher.

Until Europe discovers a way to address its gas demand once and for all, it will be leaving its energy security to fate. If the coming winter turns out to be a harsh one, gas inventories will fall short of the heating demand. The gas shortage could plague Europe to worsening degrees over the years to come.

To avoid this slippery slope, the EU has introduced a series of energy policies in recent months, including setting a price cap, levying additional tax on energy producers, creating the European Hydrogen Bank, and stepping up support for electric vehicles. Some member states such as Germany and France have announced plans to nationalize utility companies, set power price standards, and earmarked funds as consumer subsidies.

Moreover, in an attempt to diversify their energy mix while mulling measures to cut demand and save energy, European countries are sourcing new exporters of natural gas and LNG. For example, Germany and Norway are considering building a hydrogen pipeline between the two countries to make European countries less dependent on Russian energy.

At the moment, finding alternatives to Russian gas is growing increasingly critical; however, the crux of the matter is not whether Europe can defuse the gas crisis precipitated by Russia's countermeasure to choke off gas supplies, but how soon. Regardless of the solution to the gas crunch, it will take time. To illustrate the point, let us imagine that Europe imports natural gas mainly via pipelines, rather than offshore floating LNG terminals. As natural gas imports via pipelines plunge, Europe would lack sufficient LNG regasification terminals for making up the shortfall from Russia, and building new wharves and regasification terminals would require two years. This is one of the biggest challenges facing the continent.

According to a report, the current prices of natural gas futures in Europe are eight times higher than those in the US benchmark, and they may plateau at a higher level than the pre-crisis level over the next two to four years. Some analysts predict that European prices will stabilize at about 2.5 times the US prices by 2026.

4. Europe must iron out internal kinks before addressing the energy crisis.

Granted, Europe's energy crisis is closely linked to many external headwinds, but the winter gas crunch had already harassed the continent more than once approximately two years prior to the outbreak of the Russia-Ukraine conflict. The energy crisis was already looming several months before Russia sent troops to

Ukraine. The war merely exacerbated an existing crisis.

Today's energy crisis may be largely attributed to the EU's green-policy hubris. For an extended period, while the EU has been slashing the use of fossil fuels and restricting oil and gas exploitation, it has retained a soft spot for Russian gas. Having been living off this largess from the East, they were unprepared for any potential crisis. Overconfident in their green policy, they possessed no reliable contingency plans. According to one estimate, the shale gas and coalbed methane in Germany could meet the country's energy demand over the next 10 years or more. However, the European countries such as Germany, France and the UK have legislated against the use of hydraulic fracturing for the extraction of natural gas out of fears of implications such as earthquakes and environmental pollution. Over the past decade, natural gas production in Europe has halved.

Even so, some European powerhouses have pledged to remove coal and nuclear power from their energy mixes. In May of 2022, the European Commission unveiled the REPowerEU plan, aiming to fast-track EU's green transformation and prioritize renewable energy sources such as solar power. Nonetheless, the expansion of renewables is too slow to compensate for the loss of conventional capacities, especially in seasons marked by less wind and sunlight. According to a Wood Mackenzie report published in April, one of the key lessons drawn from the current energy crisis is that the energy transition needs to be focused on cutting demand first, rather than supply. Curtailing supply while demand remains strong is a recipe for crisis.

In addition, the EU has been phasing out long-term natural gas supply contracts, which is also a contributor to the crisis. The Germany-Qatar deadlock on the LNG deal in March represents the consequences of the long-term contract ban. Germany did not agree to Qatar's demand to sign deals for a duration of at least 20 years, as it viewed this time frame as contradicting its plan to slash carbon emissions.

Understandably, the EU wishes to avoid purchasing natural gas at fixed prices. Still, energy companies need to be assured of the stability of expected returns, as they must invest a great deal in building natural gas production and transportation facilities, and short-term contracts cannot guarantee such stability. If European countries stand by their guns, the stability of the gas supply would be undermined.

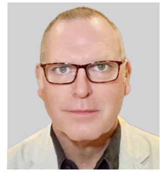
In early October, OPEC+ announced a major oil production cut of 2 million barrels per day starting in November. Meanwhile, given that China's economy is on the fast track to recovery and the Russia-Ukraine war is grinding to a stalemate, a solution to the global natural gas crunch will remain elusive. Spiking natural gas prices will continue in Europe, filtering down to businesses and consumers and eventually leading to an economic downturn, growing unemployment, and declines in real personal income. The price spike will also allow right-wing forces in more countries to gain ground and throw European politics off balance. By that time, Eurosceptics will cavil over "safeguarding national interests rather than EU interests" to the detriment of unified decision-making and the bloc's response to the energy crisis.

The road ahead is beset with brambles. Is Europe ready to beat a path?

A Slippery Slope

The United States-Led Partition of Global Energy Chains

Digby James Wren



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The 2022 U.S. National Security Strategy explicitly targets both Russia and China.[1] However, the Biden administration's strategy for the maintenance of US global hegemony through the prosecution of asymmetric warfare at both ends of the Eurasian super-continent is not new. The Trump administration's strategic shift away from globalism towards patriotism was also designed to align US domestic energy and industrial self-sufficiency with foreign policy, diplomacy and military power in an attempt to fulfill a realist vision of control over global power and wealth. In order to circumvent the institutionalization of a multipolar world order, which places limits on the exercise of US global military and economic power, the Trump administration moved to shift the center of gravity of world oil and natural gas production from the Middle East to North America. As of 2018, the U.S. became the world's largest producer and second largest consumer of energy and, stated Trump, "stands ready to export our abundant, affordable supply of oil, clean coal, and natural gas."[2]

Thus, the U.S. set out to create an arc of non-transit states (Ukraine, Poland, Scandinavia, Baltic States) around Russia to limit energy exports to the EU and actively sought to transfer European dependence on Russian energy to dependence on US oil and gas. This explains, in large part, the resumption of NATO activity in Ukraine, which profited from transferring fees on Russian gas, and unprecedented US political pressure on Germany to halt construction of the Nord Stream 2 pipeline and the promotion of an EU-constructed Baltic pipeline. The Trump administration's efforts to gain global oil primacy, however,

1 Whitehouse (Whitehouse) (2022) '*National Security Strategy*,' Whitehouse, Whitehouse, Washington accessed.
2 Trump D (House W) (2018) '*Remarks to the 73rd Session of the United Nations General Assembly | New York, NY | The White House*,' House W, @ whitehouse, Washington DC accessed 06/10/2018.

received a grievous shock during the onset of the global COVID-19 pandemic in the first half of 2020. A record plunge in global oil prices, ostensibly due to Russian and Saudi disagreement over production cuts that subsequently led to global demand destruction and supply surplus, exposed the high cost of US shale oil and gas. US shale oil and gas production, which employs millions of US citizens in its long supply chains, immediately collapsed exposing how US foreign policy artificially maintained high oil prices via excessive Saudi output and crippling oil sanctions and political subversion activities against Iran, Libya, Russia and Venezuela.[3 4 5 6]

The withdrawal of the U.S. and its NATO allies from Afghanistan at the end of the War on Terror and the outbreak of the Covid-19 pandemic signaled that Sino-Russian entente and China's Belt and Road Initiative (BRI) infrastructure extensions into Central Asia had wrested effective territorial, political and diplomatic control away from the United States. It also ensured the uninterrupted supply of energy through the Central Asian states of Russia, China, Iran, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan and the primacy of the Shanghai Cooperation Organisation (SCO). Thus, the new eastern frontier for US and NATO activities became the line from the Baltic Sea to the Black Sea on Russia's western periphery.

The move for Ukrainian membership of NATO, which dates from the 1990s and US president Bill Clinton's strategy of "Democratic Enlargement," which securitized democracy promotion,[7] was accelerated by the U.S. supported coup d'état of 2014 and the consequent Russian annexation of Crimea. Moscow's suspicions that the U.S. was determined to cripple Russian power are rooted in the post-Soviet collapse and the decades-long campaign by successive US administrations to limit Russia's maritime access to the Baltic Sea, the Black Sea and the Mediterranean Sea. Moreover, the U.S.-led campaign of economic and technological sanctions following Russia's annexation of Crimea and increased asymmetric operations to destabilize Russia's southern and western peripheries only confirmed Russian fears of US intentions and NATO expansionism. Russia's successful interventions, to frustrate US and NATO efforts in Syria and Libya, and more recently, to stabilize U.S. backed political turmoil in Kazakhstan, Tajikistan and Uzbekistan were seen in Washington as further evidence that Russian military power must be confronted directly.[8] Thus, the decision to

3 Klare MT (2015) 'From Scarcity to Abundance: The Changing Dynamics of Energy Conflict,' *Penn State Journal of Law and International Affairs*, 3(2):10-41.

4 Dollar D and Gross S (2018) *China's currency displacing the dollar in global oil trade? Don't count on it*, Brookings Institute, accessed 06/10/2018 2018.

5 Bimbetova B, Tyurina Y, Troyanskaya M, Ermakova E, Orynbassarova A, Skakova A, Koptayeva G and Agabekova G (2019) 'The Impact of International Sanctions on National Economic Regime of Target States: The Case of Energy Sector (Oil, Gas and Renewable Energy),' *Academy of Strategic Management Journal*.

6 Boedoff J (2020) 'Why This Oil Crash Is Different,' *Foreign Policy*.

7 Søndergaard RS (2015) 'Bill Clinton's 'Democratic Enlargement'and the Securitisation of Democracy Promotion,' *Diplomacy & Statecraft*, 26(3):534-551.

8 Krivosheev K (2022) *Crises in Central Asia Belie the Region's Ability to Democratize* 13/07/2022, Carnegie Endowment for Peace, Washington.

create a buffer zone in the Russian major populated eastern provinces of Ukraine was not only catalyzed by the adoption of legislation by the Ukrainian Parliament for membership in NATO in 2017, 2019 and 2020, but by concerted U.S.-led attacks on Russia's territorial peripheries, Sea Lines of Communication (SLOCs), and its economic and technological advancement.

Since Russia's February 2022 special military operation in Ukraine, the U.S.-led NATO alliance has conducted a proxy war of increasingly vast scale designed to militarily and economically exhaust Russia. Most worryingly, the U.S. has begun to sabotage the physical infrastructure connectivity between Russia and Europe including both the Nord Stream 1 and 2 pipelines and the Norwegian undersea communications cable. Thus, the United States has effectively achieved its long-standing ambition of partitioning Russia from Europe territorially, militarily, politically, economically and infrastructurally. However, the US campaign to partition China from Russia, the G7 and the Indo-Pacific remains incomplete.

In the Western Pacific and western Xinjiang province, the United States has followed a similar strategy of territorial, military, political, economic and infrastructure partition of China from both Europe and the so-called Indo-Pacific. The reinvigorated Quadrilateral Security Dialogue ("Quad" - U.S., Japan, India and Australia) and the AUKUS alliance, between Australia, the UK and U.S., are designed to constrain China within the so-called first island chain, from the tip of the Japanese archipelago through South Korea, Taiwan and the Philippines to the South China Sea (SCS), Australia's far north, the Strait of Malacca and into the Indian Ocean. The Biden administration's continuance and escalation of the Trump-era tech and trade war, increased provocations over Taiwan, political socialization programs in ASEAN nations, the launch of the Indo-Pacific Economic Framework for Prosperity (IPEF), and more recently, restrictions on semiconductors, semiconductor design and semiconductor production equipment, have placed significant downward pressure on China's economic growth. Concurrently, the U.S. has generated global media and diplomatic narratives of slowing growth in China due to "Communist" mismanagement, heightened risks of military confrontation over Taiwan and the SCS, coercive debt-traps from BRI projects, and pernicious accusations about human rights abuses in Xinjiang and Hong Kong.

By 2003, when the term “Malacca Dilemma” was coined to describe China’s critical reliance on the Strait of Malacca sea route,[9] China’s perception of a worsening strategic environment along its highly developed and economically dynamic southeast coastal region had sharpened considerably. Since then, China has expanded its global influence and built strategic ties across Africa, the Pacific, Asia and other regions. However, China’s rising energy dependence highlights the contemporary security problems of safeguarding commodity supply lanes and defending its historical sovereignty in adjacent seas. Thus, the increase of sea traffic from the Indian Ocean, through the Strait of Malacca and the South China Sea (SCS) headed for ports in China, Japan and Korea, depends to a considerable degree on whether China elects to view energy security geostrategically or geoeconomically.[10][11] In Beijing, securing energy supplies along the BRI is a coherent strategy for enhancing energy security and comprehensive national power and an effective response to energy vulnerability. China’s leaders also promote the physical connectivity of suppliers to China through infrastructure assets such as pipelines, refineries, ports, processing facilities and the benefits that accrue to partner countries from “circulation” into the world’s largest industrial energy user and consumer market. The US sabotage of energy infrastructure in Europe can only further exacerbate Beijing’s fears for its vast BRI global infrastructure network.

Energy supply and energy demand form a realistic basis for China’s efforts to expand energy cooperation with countries along the BRI. With their abundant proven reserves and huge energy outputs, the countries along the BRI and China’s evolving energy requirements are highly complementary. The combined proven energy resources of partner countries along the BRI account for 52.27% of the world’s reserves.[12] The top ten nations in terms of their proven reserves of energy resources, when ranked in descending order, were: Russia, Iran, India, Saudi Arabia, Kazakhstan, Ukraine, Indonesia, Qatar, Iraq, and the United Arab Emirates, countries which are mainly located in West Asia and the Middle East. China’s energy security in relation to the countries along the BRI demonstrates a complex evolutionary trend and remains the main source of overseas energy for China and thus crucial in guaranteeing China’s energy security. The benefits from the construction of a petroleum pipeline and good geo-relations between China and Russia led to sharp growth in Russia’s energy guarantee toward China’s energy security. Saudi Arabia’s energy guarantee,

9 Situated between Malaysia and Indonesia, where 80% of their energy needs (oil imports) pass en-route from the Middle East and Africa (Angola) shipping lanes through the Malacca Straits into the South China Sea (SCS).

10 NEA (Agency NE) (2017) ‘*Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,’* Agency NE, Belt and Road Portal, Beijing accessed 16/05/2017.

11 Boute A (2019) 'China’s External Energy Security: Energy Trade and Investment Along the ‘Belt and Road’: An Introduction,' *The Journal of World Investment & Trade*, 20(2-3):195-220.

12 In terms of the total amount of energy, these countries accounted for 401.45 billion tons of coal, 133.15 billion tons of oil, and 143.3 trillion cubic meters of gas, which accounting for 45.03%, 55.62%, and 76.68% of the world's reserves. (Zhao et al. 2019)

however, has fluctuated as its geopolitical situation has changed in the same period.[13] [14]

Tellingly, the U.S. 2022 National Security Strategy does not once mention Saudi Arabia. Foreign reports had been anticipating China's President Xi Jinping visiting Riyadh, and right following the anticipation, there were reports that Saudi Arabia would no longer restrict oil sales to US dollars.[15] US President Joseph Biden hastily arranged a visit to the "pariah" state, as he vowed in his 2020 presidential campaign, to meet with Saudi Crown Prince Mohammed bin Salman (MBS).[16] However, the reversal of Biden's cold shoulder approach to MBS was far from successful. The Crown Prince has made no concessions to the U.S. since their July 2022 meeting and on September 5, OPEC and its ten allies, led by Russia, ended monthly increases that had reached 690,000 barrels a day in August and announced a collective production cut of 100,000 barrels a day. They also authorized Saudi Arabia to explore further changes to arrest the fall in oil prices, despite US efforts to keep oil prices between $60[17] and $75[18] to undercut Russia's ability to finance its military special operations in Ukraine.[19]

In another snub to the US strategy, in mid-October 2022, OPEC+ cut production by two million barrels per day. The cuts coincided with further inflation spikes in both the U.S. and Europe and, more critically, the Democratic Party's challenge to keep control of both houses of Congress in the November US mid-term elections. Biden's response, that the Saudis would suffer "consequences" came after the Chairman of the Senate Foreign Relations Committee, powerful Democratic Senator Bob Menendez, said the U.S. must immediately freeze all cooperation with Saudi Arabia, including arms sales.[20] Some powerful Democrats argued that the U.S. should halt all military-technological transfers to Saudi Arabia, while others released statements exhorting Biden to compel the Saudis to reconsider the oil cuts and not risk US leverage over the JCPOA (Joint Comprehensive Plan of Action) and in Yemen. However, much more is at stake for the U.S. than the Iran nuclear deal, a significant loss in arms sales - Saudi Arabia is the leading purchaser of US arms exports - and the potential termination of the Saudi-U.S. partnership.[21]

While the prospect of complete US withdrawal and a Saudi military deal with Russia and/or China would be strategically damaging, the

13 Zhao Y, Liu X, Wang S and Ge Y (2019) 'Energy relations between China and the countries along the Belt and Road: An analysis of the distribution of energy resources and interdependence relationships,' *Renewable and Sustainable Energy Reviews*, 107:133-144.
14 Kozhanov N (2020) 'Saudi Arabia in Struggle for the Chinese Oil Market: the Price War as Necessity.'
15 Whitehouse (Whitehouse) (2022) '*National Security Strategy*,' Whitehouse, Whitehouse, Washington accessed.
16 Fields J (2021) *Biden once wanted to make Saudi Arabia a 'pariah' – so why is he playing nice with the kingdom's repressive rulers now?* The Conversation, Canberra.
17 US$60 is the price below which US producers are no longer profitable.
18 US$75 is the top price that the Biden administration deems acceptable for its allies and partners.
19 Ottaway D (2022) *Biden's Saudi Trip Widens Rift with Crown Prince Mohammed Bin Salman* 27/09/2022, Wilson Center, Washington.
20 Holland S (2022) *Biden vows consequences for Saudi Arabia after OPEC+ decision* Reuters, London.
21 Ibid.

dismantling of the petro-dollar arrangement, established by Richard Nixon in 1973, would be catastrophic for US global ambitions. The greatest strength, and greatest weakness, of the United States economy, and therefore its power and wealth, is the continued role of the dollar as the global reserve currency. To stabilize the hyper-inflation that followed the end of the Bretton Woods system, Nixon visited Saudi Arabia in 1973 and convinced the Saudi royal family that the U.S. would guarantee Saudi security in exchange for the Kingdom, the world's largest oil exporter, to price all oil exports in US dollars. Thus, after the oil shock of the 1970s and the "Carter Doctrine,"[22] the U.S. sought to gain control over global energy pricing and markets by subordinating the members of the Organization of the Petroleum Exporting Countries (OPEC).[23] However, the effectiveness of active US sanctions against Russia (not an OPEC member), Iran and Venezuela, respectively the world's second, fifth and eleventh largest oil-producing nations, while undoubtedly restricting the economic health of all three, has been offset by the continued purchase by the world's largest and third largest oil-consuming nations, India and China.[24]

In order to economically sustain the War on Terror, invasions of Afghanistan and Iraq, operations in Syria and Libya, unprecedented tariff and sanctions regimes to restrict global supply chains, reindustrialization efforts, and finance massive quantitative easing both before and after the Covid-19 pandemic, the U.S. has stripped its economy of vigor. Thus, the U.S. has accumulated vast debts, reduced its infrastructure to disrepair, generated domestic insurrection and political polarization and needed to maintain high domestic demand and employment through restrictive immigration. The Biden administration's current Trans-Atlantic and Indo-Pacific "three oceans campaign," - which echoes the Mahan strategy of global hegemony through maritime supremacy[25] - and unlimited financial and material support for its proxy war against Russia has only added to the Bush Jr., Obama and Trump-era economic profligacy and increased energy and food supply problems to produce the highest levels of domestic and global inflation since Richard Nixon ended the Bretton Woods system and unpegged the dollar from the gold standard in 1971.[26] [27] Thus, the potential geopolitical risks for the United States are now reaching crisis levels.

The United States has forgotten the lessons from its own *Declaration of*

22 Krane J and Medlock KB (2018) 'Geopolitical dimensions of US oil security,' *Energy Policy*, 114:558-565.

23 Klare MT (2015) 'From Scarcity to Abundance: The Changing Dynamics of Energy Conflict,' *Penn State. Journal of Law and International Affairs*, 3(2):10-41.

24 Escobar P (2018) 'Why India is ignoring US sanctions and sticking with Iran,' *Asia Times*.

25 Mahan AT (1897) *The Interest of America in Sea Power, Present and Future*, Sampson Low, Marston & Company, Limited, London.

26 Eichengreen B and Flandreau M (2009) 'The Rise and Fall of the Dollar (or When Did the Dollar Replace Sterling as the Leading Reserve Currency?),' *European Review of Economic History*, 13(3):377-411.

27 Zhou X (2009) *Reform the international monetary system*, Bank of International settlements, Switzerland.

Independence when it fought a “revolutionary” war against the British Empire in 1776. Taxation without representation was the fundamental justification, however, heavy taxation was imposed so Britain could sustain its global contest with France for control of resource-rich territories and populations. In its persistent pursuit of global hegemony since 1945, and its unrealized subjugation of Russia and China, the United States has crippled its economy to such an extent that it is now exporting inflation. The U.S.-produced inflation is equivalent to global taxation, because other economies must accelerate domestic production to pay for dollar price increases in energy, food and debts. In an act of self-inflicted harm, the U.S. has also exported political destabilization and significant inflationary costs into the economies of its allies, while simultaneously reducing its industrial dependence upon their exports. The EU, the UK, Japan and South Korea have seen significant declines in their currencies against the dollar, energy and food import costs have risen substantially, export dependency on the Global South has increased and competition from China, India and other emerging economies has intensified.

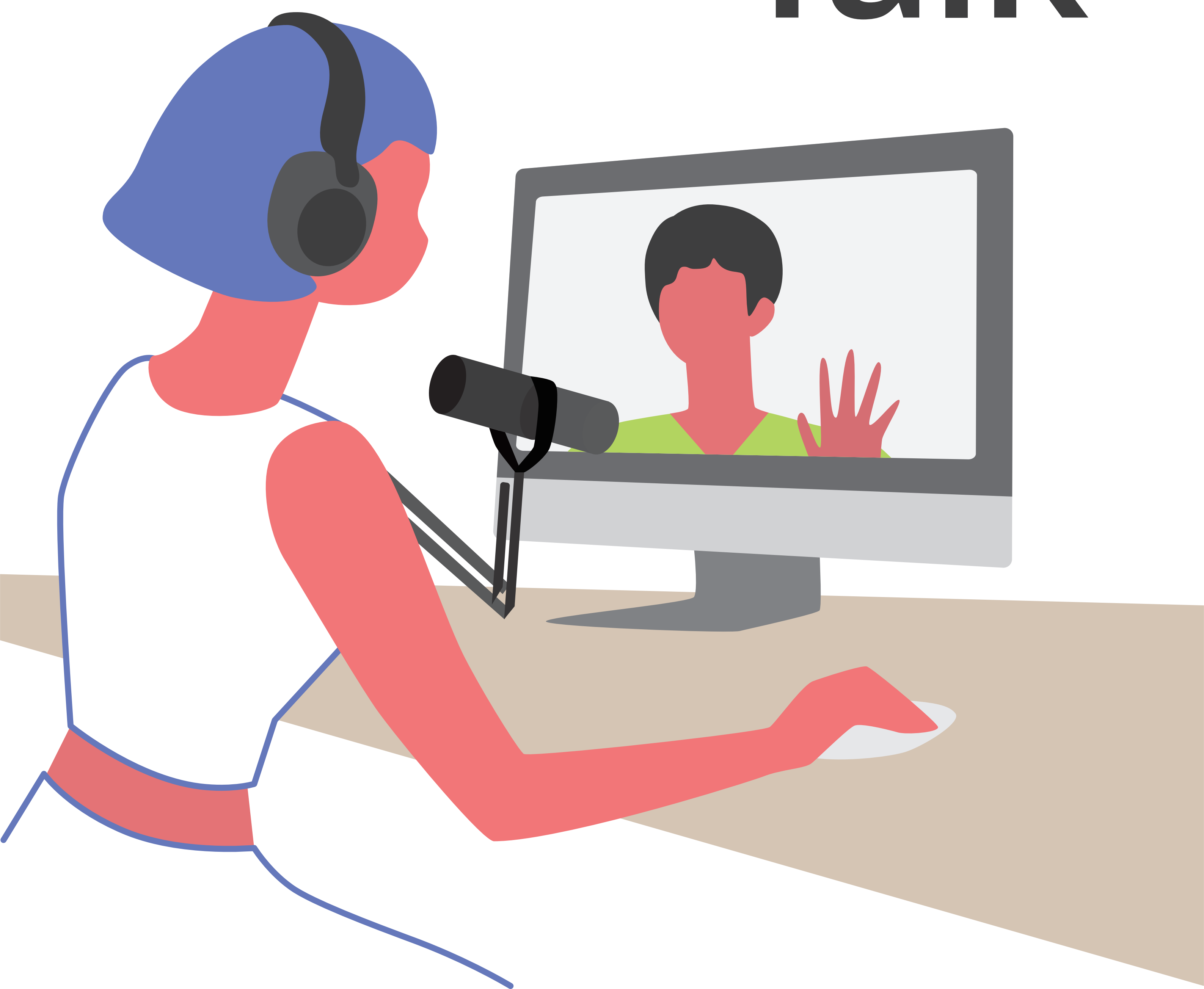
For Saudi Arabia, the unrestricted supply of energy, guaranteed by US military support has become an onerous liability. Oil revenue, which was reinvested into the US economy and massive arms sales was recycled into US treasuries and invested into the markets and sustained corporate profits. However, the intense volatility in the U.S. and its EU and Japanese partners has given rise to a greater appreciation of the benefits of diversification. China is now the Saudi’s largest customer and has a less volatile economy, superior or peer technology and the world’s most advanced industrial and manufacturing base with large growth potential including infrastructural connections to the 140 partners of the BRI in Africa, Asia, Europe and Latin America. Moreover, China has managed to maintain both fiscal and monetary stability and contribute to global economic growth despite US efforts to undermine its economic, technological and military potential.

For emerging economies such as Sri Lanka, Thailand, Laos and Turkey, the specter of a repeat of the 1997 Asian Financial Crisis (AFC) and/or another 2008 Global Financial Crisis (GFC) is a stark reminder of their reliance on the US dollar as a reserve currency and the US fickle support in times of need. The recent collapse of the UK bond market during the transition from Boris Johnson to Liz Truss spurred former

US Treasury Secretary Larry Summers to say it was performing like an "emerging economy."[28] In fact, Japan, UK, Germany and South Korea have been actively reducing their exposure to US treasuries to support their currencies.[29] In turn, the US Fed may need to reverse course and start to buy treasuries to support the bond market[30] or experience a UK-like collapse.[31] Overall, the U.S. is now widely seen, not as the champion of free and open trade and an economic "safe haven," during global crises, but as the major cause of global financial instability, the primary catalyst for the decline of globalization and multilateralism, and the greatest obstacle to achieving multi-polarity, global economic growth and a consensus for planetary challenges, and a shared future for mankind.

28 CNBC (2022) *Larry Summers blasts UK tax cuts as 'utterly irresponsible' and warns of possible contagion,* New York City.
29 Iyer A (2022) *The world is selling US treasuries and that is bad for the RBI* Money Control, New Delhi.
30 Brettell K and Barbuscia D (2022), *U.S. Treasury asks major banks if it should buy back bonds,* Reuters, London.
31 Jones H (2022) *UK bond market crash takes shine off Big Bang plans for London* Reuters, London.

TIO Spotlight Talk



Global Energy Crisis Needs a Collaborative Effort

An Interview with Senior Fellow Liu Yangsheng

Liu Yangsheng

Senior Fellow of Taihe Institute
Co-Founder of Impact Asia Capital Ltd
Advisory Board Member, CGN Capital Partners Infrastructure Fund III

TIO We are now facing a catastrophic energy crisis on a global level. The Europeans are facing the upcoming harsh winter without sufficient energy for household heating, and both Europeans and Americans are suffering from a surging oil price. How does the ongoing crisis influence the global economy?

Liu In order to have a holistic point of view towards the global energy crisis and global economics, we must revisit what happened during the global economic transformation of the last three decades. First and foremost, there has been a major change in the demand structure of energy. Global population growth and expansion of the middle class required more goods and services, which increased the energy demand. In particular, the middle class has generated a massive demand for electronic consumer products. Therefore, for both the manufacturing side and consumer side, there has been significant growth in demand for power and energy. As such, over the last three decades, a major demand shift has occurred which moved economic gravity from the West to the East.

During the three-decade-long demand shift from the West to the East, the U.S. reduced its manufacturing base significantly, and its service industry became the most significant portion of its economy. Manufacturing demands greater power consumption; thus, the demand for energy use in the U.S., especially in gasoline, has seen a significant reduction. Moreover, the increasing cost of gasoline globally has meant vehicles of higher efficiency, and the lowering consumption percentage has made significant headway in the marketplace.

In Europe, the industrial use of cheap Russian oil and gas has underpinned not only its economic development, but ensured a solid industrial base including the provision of raw materials for petrochemicals. Asia also plays a key role in the global shift of energy demand. As Asia, and especially China, became the manufacturing powerhouse for the world, the demand for power and industrial raw materials, including oil and gas, has soared. Asia is now the largest global consumer of power for manufacturing. Importantly, the rise of the middle class, in Asia and elsewhere, and its demand for reliable power have also shifted energy demand.

And over the global energy demand change in the last four decades, another notable factor is the shift of position of the U.S. As the previously largest importer of energy from the Middle East, the U.S. now largely achieved self-sufficiency with its shale oil and shale gas revolution, and has become a major exporter of energy and a competitor for the market share of the Middle East. China, instead of the U.S., is now the largest purchaser of Saudi oil, and Middle Eastern suppliers naturally move closer to their Asian customers. I consider this change in the global energy landscape as the basis for the ongoing significant geopolitical shift.

TIO Tracing the current crisis back, we can easily figure out that it is the Russia-Ukraine conflict that triggered and catalyzed the crisis. How would you describe the relationship between the energy crisis and the ongoing conflict?

Liu The conflict between Ukraine and Russia is a short-term event with a long-term impact. The sanctions initiated by the United States and followed by Europe are seriously disrupting the global supply chain and the global market. Cheap Russian energy is used to power Europe's consumer demand and industrial base. Today, Europe relies on US supplies of LNG at a significantly higher price and lower supply reliability. The significant rise in energy costs means Europe is losing competitiveness in the global manufacturing sector. As many weather forecasters have predicted, Europe will suffer a long harsh winter this year. European countries do have their short-term reserves, but merely sufficient for household use, and industrial supply will see many companies suffer serious shortfalls.

Whether the Russia-Ukraine crisis can be resolved quickly is a question that determines if Europe can survive the serious and sharp impact of the U.S.-led sanctions. I'm not optimistic. Neither the Europeans nor Americans, and it is the Americans leading the Europeans, will give up their attempt to hollow out Russia, which, ironically, turns out to be a significant effort to hollow out Europe in terms of industrial competitiveness and its manufacturing base.

TIO Despite the fact that the world is at the juncture of an energy crisis, OPEC+ recently announced the reduction of its oil production by 2 million barrels a day, leading to an oil price surge, regardless of America's warning. What's your observation?

Liu In relation to OPEC+, there is no question the U.S. has applied serious political pressure to increase production on Saudi Arabia, the UAE, and the other OPEC countries with which it maintains a good relationship. The U.S. had requested Saudi Arabia to delay production cuts by a month to mitigate their impact on the US November midterm elections. However, the U.S. has lost considerable geopolitical clout, because it is no longer the largest purchaser of energy from Saudi Arabia or the Middle East. Moreover, OPEC+ includes many countries which have suffered under US sanctions, such as Venezuela, Russia and Iran. As such, these countries have no motivation to conform to demands related to US domestic political purposes.

In addition, if things unfold as many predict, and the global economic downturn continues at its current pace, the demand for global energy supply may plummet, similarly to the situation at the beginning of the pandemic, when oil price futures went negative and energy suppliers had to pay customers to take oil. The OPEC+ countries are very concerned about serious projections of the economic downturn in the West, especially in the U.S. and Europe. Sadly, this scenario has already happened, with Europe suffering two consecutive quarters of decline – a technical recession. The U.S. has also had two negative quarters. As economic growth falters, demand for energy also falls, and the economic security of OPEC+ countries, in terms of their profitability, revenue streams, and even economic survival, is at risk. Out of concern for their own economic survival and economic security, OPEC+ has decided to reduce output by 2 million barrels a day. I expect, that despite the 2% OPEC+ cuts of their total output, a significant chance remains for further tightening and cutting of output over the next two to three quarters.

TIO As an eager attempt to seek alternatives, the world has been increasing its investment in sustainable energy for years. For example, according to IEA, the world would invest 472 billion dollars in the development and implication of renewable power. But meanwhile, facing the cold winter, Germany decided to reopen multiple coal-fired power plants. With the current energy crisis, it's even more complex to deal with environmental and climate problems. How can international society resolve the dilemma of balancing climate actions and the global energy crisis? And what kind of role can China play during the process?

Liu The sectors receiving greater attention due to the energy crisis are environment, climate change, and renewable energy. In terms of climate change, not only new and renewable energy, but carbon neutrality are key considerations. To cope with the ongoing crisis, the European countries have recently announced a shift back to coal, and delayed in meeting their formerly announced carbon neutrality targets. This is very unfortunate. Climate change has caused a devastating impact on Earth. Droughts in a number of places have reached the point where hydropower plants cannot function. Moreover, heat waves are also causing devastating famine, due to the destruction of agriculture. Whatever their political persuasion, especially in relation to sanctions and ideological attacks, the damage to the Earth continues unabated. Switching the world's focus on new and renewable energy, which are the potential basis to mediate climate problems, has become even more urgent.

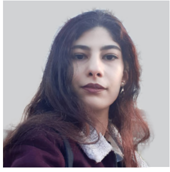
China, despite the fact that it has had to increase its coal-fired power solutions because of drought, is sticking to its carbon neutrality targets, and implementation of these policies continues to proceed. I think China will certainly take a lead in the development and implementation of new and renewable energy. Over 80% of the global manufacturing capacity in solar equipment and 60% of wind equipment manufacturing capacity is based in China. If developed countries are serious about renewables, they should revise their current policies. For example, they should abolish customs duties, imposed under the so-called anti-dumping tax, on Chinese-made solar and wind power equipment. It is absurd for Western countries to make claims about climate change actions and the new production of renewable energy while imposing a political penalty on the most efficient producers of the equipment, such as China. China will continue to develop under its stated policies, and further support the Global South and developing countries for the development of new renewable sources of energy, including solar, wind, and hydropower. With so many projects now being implemented by the Chinese government and companies, China is cooperating with the Global South and contributing to making a better world that increasingly focuses on green energy. This is without doubt globally beneficial.

Youth

Voices

A Looming Energy Crisis: Balancing States' National Interests

Angie Hesham



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University of Hull

Introduction

Realism is a cornerstone of international politics and a crucial theory in this field of study because it assists in our comprehension of the difficulties we currently face as well as the modern world. With the conviction that all states are driven by their own self-interests, prioritizing territorial integrity and securing political autonomy, realism helps to emphasize this role of the nation-state. The greatest way to discuss international policy and national interests is through realist viewpoints. It shows how problems such as economic globalization are now a component of a state's foreign policy and national interests. This demonstrates that states typically pursue their own vested interests rather than common goals. A state cannot take part in international politics without having an interest, as the European gas issue also demonstrates. A silver lining was that the U.S. and its allies were presented with the opportunity to impose sanctions as a result of the invasion of Ukraine to stymie Russia's economy and weaken its attacks on Kyiv. In retaliation, Moscow cut off the oil supplies to European countries that imposed sanctions. The construction of the Nord Stream pipeline has been supported by the British and American governments on the grounds that the then-planned Turkey-Austria gas pipeline cannot efficiently supply gas to Europe. These defenses are based on a gas dispute with Turkey, where Russia delayed supply due to diplomatic considerations. As a result of the potential benefits to them in the future, the U.S. and the UK have been backing the development of the Nord Stream pipeline. Russia cannot be forced to give up Nabucco because it is also a major power.[1]

1 Rosato, Sebastian. "Europe's Troubles: Power Politics and the State of the European Project." *International Security*, 35.4, 2011, p.54.

The events of cutting oil supply by two million barrels a day by OPEC+ sent shock waves across the world, ringing a bell of the oil embargo of 1973. Although this is a different story, the repercussions carry a similar impact on the U.S. and Europe. By imposing an oil embargo in 1973, the Arab branch of OPEC briefly succeeded in wielding oil as a political tool to exert pressure on the West. As a result, the Gulf states' interests do not coincide with those of the U.S., paving a way for animosity between the two sides. This jarring awakening forced Western countries to reconsider their energy strategies, which eventually turned the greatest strength of Arab oil producers into their biggest weakness. Although the 1973 oil crisis was not the first instance of oil being used as a weapon and is unlikely to be the last, it was the one that had the biggest impact on countries that depended on oil. This raises a few questions: What does the future hold for U.S.-OPEC relations, especially U.S.-Saudi Arabia relationship? What is the impact of this energy crisis on the upcoming midterm elections?

Deep oil production cuts approved by OPEC+ rocked the energy markets, placing the cartel on a collision path with the United States. The OPEC cartel decided to limit their daily output by 2 million barrels. The action raises the possibility of additional inflationary pressures on an already struggling global economy. The ramifications are extensive, affecting everything from the price of oil to how the U.S. and Saudi Arabia will interact in the future. This decision is anticipated to increase gas prices at the pump, possibly dealing Biden a severe blow before the November midterm elections, while also assisting Russia in overcoming a partial European oil import sanction. The timing of the cuts for the Democrats could not have been worse. Falling gas prices and voter fervor regarding access to abortion following the Supreme Court's decision to uphold the procedure's ban have managed to blunt what was formerly a sharp Republican weapon and increased the chances for Democrats in the upcoming November elections. But with the OPEC+ declaration, crude and gas prices have now reversed direction and increased significantly, which is woeful tidings for Democrats given that gas costs frequently have a significant impact on the American psyche. The political fallout for Biden and Democrats might be significant as they try to maintain a majority in the midterm elections later this month. The U.S. continuing to release crude from its emergency oil stockpile has irked the Gulf oil producers who are members of the cartel. The implementation of a price limit on Russian oil exports has also been spearheaded by Washington. The Gulf states worry that, should the idea succeed, the price cap might eventually be extended to them or might lower the price of their own oil.

Hyper Dollarization

Cutting production will increase prices and the value of the dollar in ways that undermine the Fed's goals, including stifling inflation, if oil supply shocks increase demand for dollar liquidity in a time of growing dollar scarcity and rising interest rates are suppressing demand generally.

The U.S. Dollar Index (DXY) is close to the record highs of the dot-com bubble era at 112.7 (most recently 114.5). Some fear that we are entering a period of hyper-dollarization, which could see us surpass the previous high of 120, possibly reaching 150 or even 175, smashing other currencies, before collapsing, with significant ramifications for the dollar's status as a supranational currency and the overall state of the global economy.

The Fed is currently experimenting with new methods to encourage more liquidity while increasing interest rates and purchasing dollars, but these strategies are undercut by production cuts. Additionally, when the value of the dollar rises and more than 90% of the world's oil transactions are conducted in dollars, the money that the OPEC+ countries gain is worth more and more. These victories enable them to accumulate cash while also offsetting losses brought on by unstable bond markets, global economic downturns, risks posed by the euro and the pound, and continuous Fed activities that are not likely to stop anytime soon. Concerning the effect on Europe, it will oblige governments to increase their subsidies to tamp down still-growing energy prices, placing them in a more perilous financial situation.

Again, it will increase the cost of USD by increasing the demand for dollar liquidity in a market that is already under pressure, which will put downward pressure on European currencies and other currencies. Currently, it is difficult to envision the West lifting its sanctions against Russia. Similar to this, the Fed is dedicated to reducing inflation regardless of the effects on the world economy. The OPEC+ cuts are unpopular in Europe for the simple reason that they will raise already prohibitive energy prices. More than this, though, some people fear that it would further weaken the EU, which was founded in part to oppose US hegemony, and that this will force Europe farther closer to the U.S. and its efforts to decouple from China.

The decision by OPEC+ to reduce production by 2 million barrels per day, coming at a time when the world economy is still suffering from the effects of Russia's invasion of Ukraine and Western sanctions, shows that the cartel and Russia share certain common interests as oil producers, and that oil and politics are now inextricably linked.

The claim that Saudi Arabia has allied with Russia is absurd. Instead, events affecting the global oil market, including Western sanctions, rising US interest rates, and a decline in demand, have prompted OPEC to act in ways that reflect the interests of major oil producers, including Russia. The EU did, however, just agree to a price ceiling on Russian oil shipments and a ban on the majority of crude oil imports. Russia will thus lose market share. Moscow's financial losses will be mitigated by OPEC+ reduction. These measures harm the economies of the U.S. and EU. Thus, this policy benefits Russia as a side effect.

Despite all these influences, the cartel's unexpected severe oil production cuts will also tighten supply to the West, which is already suffering from record energy prices. The prices of gasoline and diesel would undoubtedly rise due to a lack of supplies, which will further worsen inflation. Oil-producing countries benefit from a sharp decline in output, but consumers may see significant price increases.
It is even successful in stopping the flow of funds to the Kremlin thanks to the cap on Russian crude. President Biden is compelled to think about increasing market supplies from the US Strategic Petroleum Reserve. One of the key Western methods for eroding Moscow's war chest has been chewing away at US and EU restrictions on Russian energy.

The OPEC+ decision would, however, benefit Russia as an oil exporter, since Moscow will not have to cut a single barrel of output as it is already producing well below the agreed level while profiting from higher oil prices. By establishing that OPEC+ has essentially sided with the Kremlin, which enables Moscow to refill its coffers and to limit the effects of US and EU sanctions, the ramifications for Russia and, by extension, for the war in Ukraine will become clear.

Reaction of the United States

The OPEC+ group was charged by the White House with aligning with Russia and harming the world economy. Calling for a more responsible measure to increase domestic energy production, pointing to potential reactions that would include additional releases from the national Strategic Petroleum Reserve as required, Biden will continue to oversee releases from the Strategic Petroleum Reserve in Washington. Given the OPEC+ decision, it presented the United States with two golden opportunities to limit the impact. After the White House denounced the action, three legislators unveiled a bill that would effectively declare Saudi Arabia to be no longer an ally of the United States and order American soldiers to leave both Saudi Arabia and the United Arab Emirates. It is still unclear if Congress will take it up before the year. In my opinion, that is highly unlikely, given that Saudi Arabia is an essential security partner of the United States in its quest to establish Israel as a welcome country among Arab states.

Along with that, the Biden administration promised to consult Congress on how to limit OPEC's grip over oil pricing. The announcement called for the revival of the so-called "NOPEC" law, which would target oil cartels by enabling the Department of Justice to file lawsuits against nations for engaging in anti-competitive behavior. Additionally, Congress is seeking ways to boost US energy outputs and lessen OPEC's influence over world prices. The Bill would classify OPEC as a cartel and subject its participants to the Sherman Antitrust Act. The US legislation may subject OPEC members and allies to legal action for coordinating supply disruptions that drive up petroleum prices globally.

Energy analysts think that Saudi Arabia, the leader of OPEC and a close ally of the United States, may end up paying for the drastic production cuts, especially in light of Biden's indication that Congress will soon try to limit the influence of the Middle Eastern-dominated organization over energy pricing.

Conclusion

In a nutshell: in the short-term, the global energy crisis stems from the Russia-Ukraine war. War involving a major oil producer always roils the global oil market. Global oil markets are always volatile when a major oil producer is engaged in a war. The disruption has been compounded by Western sanctions on Russian oil, including the G7's forthcoming oil price cap, which has (in part) invited tit-for-tat retaliation by Russia and OPEC oil producers. Overall, this has caused a spike in spot market prices as well as a fear of future market scarcity, which is raising prices even more. While in the long-term, the pressure on pricing is caused by inadequate transitional investment in O&G production assets, as markets worry that these assets would become stranded assets, as nations and markets shift toward renewables and green technologies.

In terms of policy, the best combination would be to help vulnerable low- and middle-income households and small- and medium-sized businesses with subsidies and transfer payments along with rewards for conserving energy and penalties for overusing it.

The world's biggest oil-importing nations are attempting to harness the power of energy politics to hold oil exporters accountable when they cross certain boundaries, suggesting that this weapon has evolved into a double-edged sword. Therefore, coming forward, Riyadh could become a victim of its own favored weapon of choice: energy politics, if it defies Washington's demands.

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On the Proposed Cuts to Oil Production and Strategic Autonomy of OPEC+ Nations

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Earlier this month, members of OPEC+ – a group of economies who control over more than 80% of the world's oil supplies[1] – declared that from November onwards, they would cut their volume of oil exports by two million barrels per day.[2] The announcement came hot on the heels of an ongoing inflationary spiral across Europe and the United States, induced by a combination of factors that include the Russian war in Ukraine and broader supply chain disruptions under the pandemic.[3] It is evident that such constrictions in the supply of energy and oil, paired with an increasingly unpredictable climate during the coming winter, may result in surging energy prices as countries across the Northern Hemisphere brace for the months ahead.

The following article argues that OPEC+ economies' decision to cut oil production is both a product and indicative of the strategic autonomy of middle and regional powers such as Saudi Arabia, Iraq, and Iran. Here, strategic autonomy refers to a concept borrowed from the EU's self-identification (see Erlanger's extensive exposition for a fuller picture as to what it means in the European context)[4] of states pursuing their national interests through maintaining a healthy distance, independence, and degree of flexibility vis-à-vis other, potentially larger powers.

One further clarification: the argument advanced is not so much an

1 "OPEC Share of World Crude Oil Reserves", OPEC, https://www.opec.org/opec_web/en/data_graphs/330.htm
2 "Petrol price rise warning after Opec oil output cut", BBC, https://www.bbc.com/news/business-63149044
3 "Annual inflation up to 9.9% in the euro area", Eurostat, https://ec.europa.eu/eurostat/documents/2995521/15131946/2-19102022-AP-EN.pdf/92861d37-0275-8970-a0c1-89526c25f392
4 "Coronavirus Tests Europe's Cohesion, Alliances and Even Democracy", New York Times, https://www.nytimes.com/2020/03/12/world/europe/coronavirus-eu-trump.html

appraisement of the moral worth of OPEC+ economies (e.g., are they ethical or justified?), rather than a claim that one cannot underestimate the fundamental resolve and capacity of these so-called "middle powers" to behave in ways that advance their own self-interests, as opposed to some lofty, abstract higher principles. Those who find themselves surprised by the resolve of the Gulf, African, and Latin American countries to withhold oil production, may well benefit from a more robust understanding of how diplomatic dexterity could be wielded by governments and politicians of powers with prominent leverage in strategically vital dimensions. Indeed, one such dimension would be energy production and supply, where there exists a high level of mutual interdependence across countries.

On NATO-OPEC+ Relations: Pivoting Away from Mutual Dependence

Historically, relations between most of the member states in OPEC+ and NATO member states, particularly the United States, had been those of mutual dependence. European states directly depended upon OPEC+ economies for oil supply, whilst the United States – despite being a more energy-self-sufficient nation[5] – not only remains a significant consumer of OPEC+ oil, but is also indirectly dependent upon the latter states' compliance on the consideration of its geopolitical objectives. Notwithstanding the undergirding ideological divergences and marginal mistrust between selected members of the two respective alliances, NATO states have historically been able to import relatively concessionary and stable supplies of (crude) oil from OPEC+ members.

This was no less anchored by Washington's proximate and intense relations with Riyadh – the House of Saud had been highly supportive and aligned with American foreign policy objectives, in exchange for tacit American support for its continued right to rule and counterbalance against Iran. This was especially the case throughout the final quarter of the 20th century, all the way through to the early years of the American war in Iraq. In turn, OPEC+ states turned to NATO members for security guarantees, economic aid and loans, pledges to collectively combat security challenges (e.g., piracy in East Africa), and broader alignment or condonement in geopolitical terms.

5 "Surprise! The U.S. Is Still Energy Independent", Frobes, https://www.forbes.com/sites/rrapier/2022/03/08/surprise-the-us-is-still-energy-independent/

For its part, the proverbial West had opted to maximize their access to readily available energy sources through withholding criticisms of human rights abuses and problematic regime behaviors – ostensible or otherwise – exhibited by many amongst the OPEC+ members.

Much of this has changed in recent years.[6] Despite President Joe Biden's visit to Saudi Arabia in July, which was accompanied by an intimate face-to-face meeting between Biden and Saudi Crown Prince, Mohammed bin Salman, none of such diplomatic efforts succeeded in convincing the leading voice in OPEC+ to refrain from advocating the vast undercutting of oil production. The net outcomes are a grossly panicking energy market, broader discombobulation amongst many investors and consumers, and concerns over hyper-inflation as winter approaches. The war in Ukraine had meant that the U.S. could no longer rely upon Russia and its direct allies for energy; the obstinacy (or resilience) of Middle Eastern players in face of American pressure, is hence indicative of not just the headwinds shifting against the U.S., but also the rising autonomy of OPEC+ nations in relation to American hegemony.

Accounting for the Seemingly Implausible: The Underlying Rationale for the Pivot

A superficial explanation for the recent decision may be one rooted in straightforward economic interest. Energy, especially in the form of oil, is a fundamentally inelastic demand that few could make do without; to skip oil and natural gas, in favour of alternatives such as renewables, would be admirable albeit futile given the present state of technology.[7] OPEC+ countries are well-cognizant of this fact – indeed, raising prices would be in their interests, maximizing their profit margins, whilst the rest of the world reels from the whiplash of the economic turmoil accumulated over the past few years. Price gauging over vital resources does often work – and is embraced as such.

Yet such economic explanations are only half-successful – after all, they do not explain the timing, e.g., why it is only now that OPEC+ countries opt to openly and vocally declare their high-price, high-revenue strategy? It is equally unclear as to why Saudi Arabia has steadily drifted away from the U.S. on fronts ranging from economic cooperation to

6 Mohamad Bazzi, "Saudi Arabia has screwed over the US – and the world – yet again. Enough is enough", The Guardian, https://www.theguardian.com/commentisfree/2022/oct/13/saudi-arabia-us-oil-prices-opec

7 "How Do Supply and Demand Affect the Oil Industry?", Investipedia, https://www.investopedia.com/ask/answers/040915/how-does-law-supply-and-demand-affect-oil-industry.asp

energy synergy since the halcyon days of relations during Trump's years.[8] A more complete explanation, then, is that there are both geopolitical and economic factors at play here. In face of the unfolding situation in Ukraine, the hypothesis advanced by some in NATO – that a regime change in Russia should be the primary goal of the Western advances and support for Ukraine – may have convinced political elites and decision-makers in countries inimical to the so-called "Western values," that they must guard against the "peaceful transition" rhetoric espoused by many.[9]

Therefore, a more comprehensive story is that such regional and middle powers, in their quest to ensure internal stability over time, sought to repudiate the Western assertion that Putin must be replaced and Russia's government overhauled. More precisely, there is the worry that if OPEC+ states had acquiesced fully to NATO's demands concerning oil production, not only would this indirectly encourage the prolonging of the military conflict; it would also have sent out a clear and unambiguous signal of submission to NATO's edicts – which by no means aids with domestic credibility and legitimacy. It was perceived by national leaders that only through adhering firmly to principles of non-alignment that OPEC+ states could come to both reap the benefits of expensive oil sales, whilst maintaining reasonably robust ties with both China and the United States. When seen through such lenses, then, the behaviors of the OPEC+ are not only understandable, but even rational.

Certain commentaries tend to portray the Gulf States as having been subjected to the "overtures" of Russia[10] – as if there had been little to no agency on the part of these Middle Eastern (but also North African) states to determine whether they would indeed align with Moscow. Yet such diagnoses commit two fundamental errors – first, they take as their methodological default a copious volume of Western-centrism, e.g., such commentaries assume that shifts away from alliances or partnerships with the West (to the extent they even existed to begin with) are innately unnatural; second, they unduly discredit and neglect the agency of leaders in OPEC+ economies in deciding over their foreign policies. A more amorphous and dexterous foreign policy is understandable – given that Russia has been a long-standing member of OPEC+, and China has offered substantial trade and investment opportunities for OPEC+ firms and governments over recent years. To portray this all as the products of "encroachment" by non-Western

8 Saphora Smith, Dan De Luce, "U.S.-Saudi ties were especially close under Trump. Under Biden, that looks likely to change", NBC News, https://www.nbcnews.com/news/world/less-privileged-personal-how-u-s-saudi-ties-may-soon-n1247439

9 Arthur Waldron, "In China: 'A Peaceful Democratic Transition?'", Foreign Policy Research Institute, https://www.fpri.org/2015/03/in-china-a-peaceful-democratic-transition/

10 "A 'pivot to Asia'", The Frontier Post, https://thefrontierpost.com/a-pivot-to-asia-2/

countries reflects a certain kind of foundational arrogance.

Towards a Cogent Account of OPEC+ Nations' Strategic Autonomy – and Its Effects

The strategic autonomy of OPEC+ nations stems from a particular feature that they, unlike most other countries on Earth, possess: access to an abundance of resources, with the supply and availability of such resources effectively determined by a small group of individuals. Their possession of such resources grants them not only bargaining power vis-à-vis larger states, but also the defensive mechanisms in place to preserve their ability to pursue their own paths in terms of international alliances and relationships.

What are the implications of such autonomy then? One view is that it would be used to support the protraction of the Russian war in Ukraine, to the point where Europe would be triply ravaged by a harsh winter, soaring energy prices, and military escalation in Ukraine. This could turn out to favor Putin, who needs his military offensive to not only last throughout the winter, but ideally to enable him to apply pressure on Central and Eastern European states to come to the negotiation table.

Of course, the bargaining capital should not be overstated – on October 24, gas prices dropped to below 100 euros per MWh, a first since June and slightly above a quarter of the peak in August.[11] The runway for bargaining could well be precipitously shortened as Europe and the United States alike come up with alternative and safer sources of energy. Additionally, Saudi Arabia is also mindful of the United States' prospectively doubling down on Israel as a more substantial regional partner;[12] whilst Saudi Arabia and Israel share a recently forged, tentative alliance of convenience against Iran, the two states remain fundamentally skeptical of each other's intentions.[13]

A more substantial effect is that the OPEC+ states' decision to cut oil supply may well have been the trigger of the European-American economic machine into deepening and strengthening its green and renewable energy research – which could prove to be pivotal as the

11 Ross Clark, "Why are Europe's gas prices falling?", The Spectator, https://www.spectator.co.uk/article/why-are-europe-s-gas-prices-falling-
12 Barak Ravid, "U.S. and Israel launch high-level tech talks, with an eye on China", Axios, https://www.axios.com/2022/09/28/us-israel-technology-cooperation-china
13 Bruce Riedel, "How to understand Israel and Saudi Arabia's secretive relationship", https://www.brookings.edu/blog/order-from-chaos/2022/07/11/how-to-understand-israel-and-saudi-arabias-secretive-relationship/

Earth races against time in identifying and harnessing alternative resources of energy. Peak oil and gas are indeed looming over the horizon – and it is vital for non-OPEC+ states to have access to the kind of entrepreneurship and legal protection afforded to OPEC+ states over energy policy. Whether the EU can play truly adequate catch-up, however, remains to be seen.

Most fundamentally, it is clear that as the world shifts progressively towards a more unstable and perhaps eventually multipolar order, what is required of us is level-headedness and cautious sanguineness. This would enable us to juggle the multitude of interests that make up our community, and beyond. The selective wielding of strategic autonomy allows for the creation of alternative bases for power, but also introduces greater instability and a culture of entropy. Yet if there is one fact that cannot and should not be dismissed, it is that middle powers with sizeable regional influence can and must step up to play a greater role in not just surviving, but mediating crises that befall our planet.

Will Britain Freeze as a War Heats Up in Europe?

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Radiators off, Europe's cold

2022 has been a shocking year energy-wise. Europe is currently facing a serious energy crisis. With the heating up of the war in Ukraine, and open Western funding against Putin's "Special Military Operation," Russia has now cut gas supplies to Western Europe. Even during the darkest days of the Cold War, when the ideological battle between the East and the West was much more intense, the Soviet Union did not cut gas supplies to Europe. In fact, West Germany and the Soviet Union collaborated on a pipeline via a private company named Ruhrgas (although were subject to controversy).[1] This means that the current situation was likely unforeseen by the West in the run-up to the war. The cutting of the gas supply will affect Russia greatly too in the long run, with Russia making X amount from its gas exports prior to the breakout of the "Special Military Operation."

However, Russia is now in a much weaker position than it was in the days of the USSR. Many analysts suspect that part of Putin's desire for the war is to resurrect the image of better days gone,[2] others point to the ideology of Aleksandr Dugin's "*Foundations of Geopolitics*,"[3] which argues for a more assertive Russia on the world stage. Regardless of ideology, it's obvious to see that it has only deepened the growing energy crisis that the world is facing.

Now, across Western Europe, nations are facing a rise in their costs

1 Professor Jonathan Stern, Chatham House January 2005, Gas Pipeline co-operation between political adversaries: examples from Europe, https://www.chathamhouse.org/sites/default/files/public/Research/Energy,%20Environment%20and%20Development/jsjan05.pdf, p3
2 Mihaela Esanu, The Wake-Up Call for Soviet Nostalgics, *Harvard Political Review*, October 17 2022, https://harvardpolitics.com/soviet-nostalgia/
3 John B. Dunlop, Aleksandr Dugin, *Foundations of Geopolitics*, January 31 2004, Stanford University Europe Centre https://tec.fsi.stanford.edu/docs/aleksandr-dugins-foundations-geopolitics

of living. Some will be worse affected than others. Germany, for example, receives a great deal of gas from Russia and rapidly grew its gas network after 1991,[4] while the UK, also having to tighten its belt on energy consumption but is less affected due to supplies of gas from the North Sea, despite the fact that it won't lower growing bills.[5] The outgoing Truss administration's idea of opening fracking sites is facing opposition for its environmental impact, small quantities of gas produced and its profitability, with UK supplies not nearly covering the amount needed for the shortfall.[6] Furthermore, it has been forecast that even if there were sites opened today, they would not drive down energy prices. With this, the so-called "warm spaces" are being set up across the country to heat the poor[7] while businesses are squeezed on their energy consumption. The government will try and help cover the costs of energy,[8] yet many see the payments as meaningless with the rapid rise in inflation. This begs the question: did one of the richest regions on Earth get to this point?

The green transition, one of the sparks?

Although it's vital for the world to taper its addiction to fossil fuels, the worldwide green transition has helped stoke the current war. Apart from Putin's own ideological reasoning for the war, another factor might be the demand for raw materials and rare earths that are situated in Eastern Ukraine. One of the reasons why fossil fuels are cheap somewhat is that the startup cost is relatively small. Oil rigs require steel, for example, but not as many as rare earths. These metals are vital components for wind turbines, digital technology and batteries. All components are needed for greener technology.

Ukraine however has vast mineral wealth that helps fund America's tech sector. Ukraine provides the majority of US semiconductor-grade neon supplies,[9] palladium, cobalt and titanium. These metals are essential for the green transition.[10] Russia, seeing Ukraine as historically part of the Russian nation may feel that their potential future profits have been taken away from them with the independence of Ukraine and the shift away from the gas and fossil fuels that power Russia's economy. Russia is both an Eastern and Western power due to its geographical location. Although Russia also has palladium, cobalt and titanium,

4 Professor Jonathan Stern, Chatham House January 2005, Gas Pipeline co-operation between political adversaries: examples from Europe, https://www.chathamhouse.org/sites/default/files/public/Research/Energy,%20Environment%20and%20Development/jsjan05.pdf p5

5 Gill Plimmer, Soaring gas prices put North Sea back on exploration map, Financial Times, October 17th 2022, https://www.ft.com/content/35cd36fe-1272-4f88-8885-b84f6563c4f6

6 Mike Bradshaw, Why fracking is not the answer to soaring UK gas prices, UK Energy Research Centre, 10 March 2022, https://ukerc.ac.uk/news/why-fracking-is-not-the-answer-to-soaring-uk-gas-prices/

7 Natalie Grice, Warm Spaces: Inside a hub amid the chill of energy bills, BBC, 16 October 2022, https://www.bbc.co.uk/news/uk-wales-63228188

8 The Rt Hon Jacob Rees-Mogg MP, and The Rt Hon Kwasi Kwarteng MP, Government introduces new Energy Prices Bill to ensure vital support gets to British consumers this winter, Crown copyright, 11 October 2022, https://www.gov.uk/government/news/government-introduces-new-energy-prices-bill-to-ensure-vital-support-gets-to-british-consumers-this-winter

9 Grant Anderson, Op-ed | The Rare Earth Ripple Effect of Russia's War on Ukraine, Space News, August 22, 2022, https://spacenews.com/op-ed-the-rare-earth-ripple-effect-of-russias-war-on-ukraine/

10 Andrei Covatariu, Ukraine's critical minerals and Europe's energy transition: A motivation for Russian aggression?, Middle East Institute, July 21, 2022, https://www.mei.edu/publications/ukraines-critical-minerals-and-europes-energy-transition-motivation-russian-aggression

Ukraine dominates the European side of this trade and China corners the Eastern market with 60% of global mining performed by domestic mines or by Chinese interests in Africa,[11] locking Russia out of exporting its own supply of rare earths. The huge package of sanctions on Russia imposed by the West also will have locked Russia from its own largest export market.

The rule of OPEC+

On October 5, OPEC+ announced its decision to cut its oil production by 2 million barrels per day,[12] which will keep the price of oil at a steady high. One should remember that OPEC was set up to challenge the contemporary Western-backed "Seven Sisters" conglomerate of "Big Oil" by cutting production, keeping prices high and siding with Russia somewhat. Analysts seem to be split somewhat on if it's "true siding" with Putin or if OPEC is simply "siding with itself"[13] for profit during a period of economic uncertainty. Nevertheless, the high prices of oil and gas produced by OPEC+ will only add literal fuel to the fires that rage in Eastern Ukraine and weaken the West at a time when governments are under the biggest stress and largest energy crisis in generations.

Furthermore, with Biden's tanking popularity, Americans who are affected by high fuel prices might be more inclined to vote Republican in the midterms and the next general election. Trump's Republicans are well known to be warmer to Putin. This also may have an effect on the outcome of the war if Russia sees its presence as permanent in Ukraine.

Like Russia, OPEC+ might not like the world transitioning to cleaner or greener power as OPEC+ nations are naturally built around oil economies. Already, many oil-rich nations in the Middle East, such as the UAE, are trying to convert their nations into tourist destinations to prepare for the decline in oil. OPEC's de facto siding with Russia clearly means that the organization is protecting its own interests but is far more debatable than it is siding with Russia for ideological reasons and more just to keep the supply of crude oil high, preparing for weaker fuel demand in the future. With this, US senators now want to freeze cooperation with Saudi Arabia,[14] which not only will have disastrous effects on the energy crisis, but also may potentially stoke security

11 Ibid.
12 OPEC Press Team, 33rd OPEC and non-OPEC Ministerial Meeting, OPEC, 5 October 2022, https://www.opec.org/opec_web/en/press_room/7021.htm
13 Federica Marsi, Is OPEC 'aligning with Russia' after production cuts?, Al Jazeera, 7 October 2022, https://www.aljazeera.com/news/2022/10/7/is-opec-aligning-with-russia-after-production-cuts
14 Jackie Northam, The White House accuses Saudi Arabia of aiding Russia and coercing OPEC oil producers, NPR, October 13, 2022, https://www.npr.org/2022/10/13/1128523146/saudi-arabia-russia-opec-oil-cut-biden-congress-washington

fears from the Middle East where the U.S. is currently on retreat, and pave the way for Saudi Arabia to receive weapon sales from China, much like Pakistan.

Can Europe make up the shortfall? Germany and the UK

Europe's opinion to the war has left it vulnerable energy-wise. Due to the worldwide COVID-19 pandemic, the production of oil decreased dramatically,[15] which has been another one of the factors that have affected fuel poverty in Europe. Talk has surrounded the UK's spiraling fuel costs for a while. It was noted that in October 2021, 4.5 million UK households were in "Fuel Poverty" and the number for 2022 is expected to rise to 6.7 million with the rising costs,[16] inflation and poor government management.

The Truss government has repeatedly U-turned on its energy strategy during its short time in office. Blame has been pointed at everything from Russia to global inflation and even the previous Labour government (who were last in power 12 years ago). In reality, the COVID-19 pandemic and aftershocks of Brexit are also affecting the UK's domestic situation. For example, although energy prices are rising, the government could increase Universal Credit (the UK's social security program). However, the current Conservative Party is extremely against the idea, more instead, wanting to pursue unrealistic targets of growth. On October 12, 2022, a recession was forecast in the UK after a 0.3% drop came in August,[17] partly driven by the cost of energy.

Germany tells a similar story. Germany is Europe's main industrial powerhouse but relies on Russian supplies of gas far more than the United Kingdom. With the costs on manufacturing increasing, Germany's output has fallen. With Russia supplying 55% of Germany's natural gas before the war,[18] it has put the industrial nation in a unique state of vulnerability with its energy security and the German economy is now predicted to contract by 0.4% in 2023.[19] However, Deutsch Bank forecasts also claim that if China opens up its doors in time, Germany may be able to grow its forecasts and export its way out of financial uncertainty. However, with the sabotage of the Nord Stream 1 pipeline,

15 Catherine Anderson & Rebecca Engebretsen, The Impact of Coronavirus (COVID-19) and the oil price shock on the fiscal position of oil-exporting developing countries, Organisation for Economic Co-operation and Development, 30 September 2020, https://www.oecd.org/coronavirus/policy-responses/the-impact-of-coronavirus-covid-19-and-the-global-oil-price-shock-on-the-fiscal-position-of-oil-exporting-developing-countries-8bafbd95/

16 Anna Cook, As energy prices rise again, one quarter of parents have already cut back on the quantity of food to afford essentials, National Energy Action, 30 September 2022, https://www.nea.org.uk/news/food-foundation/

17 Lora Jones, Recession risk rises as economy unexpectedly shrinks, BBC, 20 October 2022, https://www.bbc.co.uk/news/business-63225328

18 Julian Wettengel, Energy crisis to push Germany into recession in 2023, warns government, Clean Energy Wire, 12 October 2022, https://www.cleanenergywire.org/news/energy-crisis-push-germany-recession-2023-warns-government

19 Ibid.

this might be trickier for the German economy in the short term. Now, one advantage Germany may have in Europe is the large storage capacity for gas, currently running at 90% and should reach 95% by the end of November,[20] where meanwhile, the UK is predicted to be 95% lower,[21] which should be concerning for consumers, especially when power cuts may be looming.

Outlook to the future: Are there any strategies?

There are no easy answers to the energy crisis, although the war in Ukraine has contributed greatly to the inflexible situation. The knock-on effects of the worldwide pandemic were long predicted to exacerbate and trigger an energy crisis and have been known since at least 2020 with OPEC's winding down of oil production.[22] Combined with the green transition and imperfect technology, it's now a race against time to make sure Europe and its poorest have the fuel to manage winter.

The UK might be able to make up its energy shortfall with the great leaps it has made in green energy, boasting large-scale wind farm projects, North Sea gas, nuclear and even hydrogen development which might be able to help power cities such as Manchester through the winter. However, the UK lacks the backup natural gas stores that Germany has, which is operating at an almost completely opposite level, with considerable gas reserves to last the winter. For the first time, France also had to send Germany supplies of gas. Like the UK, France gets most of its natural gas from Norway.[23]

However, once next winter rolls around, if the Ukrainian war continues to go poorly for Russia, it is unlikely that the gas taps will be turned on again, and with so-called "leaks" in the pipeline appearing more frequently, the whole future of the pipeline might be in danger.

OPEC's role in the current crisis is also significant, with its limit of oil production having an impact. Currently, relations between the long-time Western allies have been cooling, with President Biden trying to encourage the Saudi government to upscale production,[24] but as a cornerstone of OPEC, it is, maybe, unlikely that the Kingdom may

20 Editors of DW, German gas storage 90% full ahead of winter despite Russian cuts, Deutsche Welle, 20 September 2022, https://p.dw.com/p/4H5aP

21 Nick Ferris, UK gas reserves are 96 per cent lower than in Germany right now, New Statesman, 21 September 2022, https://www.newstatesman.com/chart-of-the-day/2022/09/uk-gas-reserves-storage-europe-germany

22 Frank Verrastro, Experts React: COVID-19 Impacts the Energy Sector, Centre For Strategic and International Studies, March 6 2020, https://www.csis.org/analysis/experts-react-covid-19-impacts-energy-sector

23 Merlyn Thomas, France sends Germany gas for first time amid Russia energy crisis, BBC, 13 October 2022, https://www.bbc.co.uk/news/world-europe-63246369

24 Aaron David Miller, Saudi Arabia Is Not a U.S. Ally. Biden Should Stop Treating It Like One. Foreign Policy, October 11 2022, https://foreignpolicy.com/2022/10/11/biden-saudi-arabia-opec-plus-oil-production-mohammed-bin-salman/

25 Ibid.

listen at all. So much so that Biden himself wants to now re-evaluate relations.[25]

With much political turmoil in both Washington and Westminster, the energy crisis has exposed serious flaws and cracks in Western hegemony. While the U.S. and the UK stoke rhetoric about decoupling from China as its response to rising costs in fuel to keep their own economies running, there's no help from the Middle East in relieving the crisis and a skeptical public is signaling danger ahead for current administrations on both sides of the Atlantic, caused mainly by fuel, but also poor future-proofing as well.

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