The Challenging Consequences of the Russian-Ukrainian Conflict and a New Transition in Global Trade, Energy Market and Oil Prices

Anis Benabed
Andrei Bulgaru

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Abstract: This paper analyzes and presents how far the challenging consequences of the Russian-Ukrainian conflict have impacted global trade, the energy market and oil prices. The Russian-Ukrainian conflict has affected the world’s stability and economy by putting so many new challenges and obstacles to supply chains and industries. Due to the escalations of the conflict, the energy market has known big changes, especially after oil prices that have been rising to approximately $110 per barrel since March 2022.

In our methodology, we based on data analysis and a review of the previous literature where the research question is: “how far the consequences of the Russian-Ukrainian conflict could introduce a new transition in Global trade, energy market and Oil prices?”

The results show that the conflict caused a big rise in Oil prices to their highest level in 14 years and this has led to high rates of inflation, an economic downturn globally and low access to food and energy in many countries. The conclusions show that the dependence on energy after the start of the escalation and the instability of imports and exports have boosted a new transition in global trade, the energy market and oil prices.

1. INTRODUCTION

The Russian-Ukrainian conflict has impacted the world’s economy and stability by putting so many challenges and obstacles to supply chains and industries. Due to the escalation of the war and constant conflict, the energy market has known big changes, especially after the oil prices have known a rise where precisely the price of crude oil in the global market increased from $76 to more than $100 per barrel after March 2022 (World Bank, 2022; GEP, 2022) (See figures 1,2,3,5,6).

The sanctions on Russia and the war in Ukraine affected economies at the global level including emerging markets and developing countries by proving economic recession and more inflation, especially in Europe and Central Asia. According to the World Bank, the Ukrainian economy in 2022 and later is expected to recess with at least 45.1%, moreover, Russia’s economy has been already in a deep recession with output projected to contract by 11% in 2022 (World Bank, 2022) and until the moment of presenting this paper (Dec 1st, 2022).

The Russian-Ukrainian conflict has had high impacts on the energy market that could spill over to various markets such (as the food market, etc.). The effect of the interaction between energy and food can be described as a telecoupling effect (Liu et al, 2017). The Russian-Ukrainian conflict is a “fossil fuel” conflict (Schiffer et al, 2022).

1 Doctoral School of Economics and International Business, Bucharest University of Economic Studies, 6 Romania Square 010374, Bucharest, Romania
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2. METHODOLOGY OF RESEARCH AND RESEARCH QUESTION

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3. RUSSIAN-UKRAINIAN CONFLICT AND ITS IMPACT ON THE PETROLEUM INDUSTRY

Since the oil demand is very necessary and considered a priority, the oil industry has faced several challenges after the pandemic and the sudden Russian-Ukrainian conflict. The conflict introduced more economic barriers to poor nations, developing countries and countries that depend more on energy imports, the thing that could impose difficulties to find fast solutions and alternatives to cover their losses since energy is one of the important sectors of the economy. Thus, the fast-changing energy world has applied new structures and rules on the economy, business and global trade.

4. EUROPE, THE WORLD AND THE LINK OF DEPENDENCE ON RUSSIAN HYDROCARBONS

After Europe decided to look for alternatives to Russian energy exports, Russia could find other markets for its products by applying and offering discounts of $15-20 per barrel.

Indeed, it is kind of impossible to predict the future of markets even if the world is going through a high energy demand during the new energy prices and offers.

Moreover, if the EU leaves the Russian oil and gas supplies totally, the EU member states could face an acute economic crisis since the demand for oil and gas is a priority for the major part of them. Besides, commodity prices play an important role in the production and more exactly in the industry sector. On the other hand, the increase in energy prices contributes to high prices of services and goods and leads directly to inflation processes.
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Figure 2. Energy prices in nominal dollar, 2022

Source: Author’s contribution, World commodity price data, Nov 2022 (Pink Sheet)

EU countries have been trying to find a degree to which they can agree and manage the fact to cap Russian crude prices, especially before the sanctions that come into effect on Dec. 5 (Lee, BNNBloomberg, 2022).

Some governments started to apply measures to push customers away from the increased prices, inflation and rising energy prices. Indeed, taxes on gasoline and diesel could be more than half paid by the customers at the petrol station or pump. Otherwise, all the costs might be covered by the customers. The new energy transition is not about climate change and sustainability since they are not considered priorities anymore after the start of the Russian-Ukrainian conflict; the new energy transition is towards energy security, demand and balance which are now the major priorities in the agenda (See figures 1, 2, 3, 4).

According to BNNBloomberg by November 2022, the derivation of Russia’s crude exports has a focus more on Asia with record volumes heading on tankers to the region’s ports.

The switch has become acute as a need after the ban on seaborne imports into Europe which used to be Russia’s main export market. Two-thirds of crude loaded onto tankers at Russian ports is now moving towards Asia which is compared to two-fifths before the escalation, the war and conflict by March 2022 (Lee, BNNBloomberg, 2022).

Besides, the change and switch from one market to another have affected the global economy and created more escalation even if the change and increase in oil and commodity prices as explained below is something logical like Euro and dollar. However, it can be less expensive if we compare the price of a barrel of crude oil to a pair of shoes with European or American brands that sell huge amounts of shoes and clothes at the price of more than $100 for a single piece and product, the same thing for other products and brands in the international trade level.

Europe seems to be thinking again about nuclear and minded coal energies as alternatives with an acceleration in renewable energy investments as substitutes to Russian gas and coal. High oil and gas prices could rise the point and attention to boosting electric and hydrogen vehicles, the thing that is considered to be more expensive for so many countries and could take a lot of
years to be fully accepted or adopted in societies that used to rely on hydrocarbons for vehicles, industrial plants and manufactories.

As Europe is considered the main market of energy for Russia, the decision to cut down on Russian oil and gas affected the European economy and market globally, moreover, the Russian hydrocarbon industry used to be considered the main source of revenue for Russia.

The 2022 Russian-Ukrainian high-intensity conflict strengthened diplomatic relations between Europe and the US applied together 6 rounds of sanctions against Russia in the first half of 2022 (Lambert et al, 2022).

Figure 3. Non-energy commodities (oils) in the nominal dollar in 2022
Source: Author’s contribution, World commodity price data, Nov 2022 (Pink Sheet)

5. **OIL AS A NECESSARY ENERGY THAT GENERATES THE WORLD AS A GAME CHANGER**

Oil is the fuel that moves the world; when talking about the consumption of any product and how its price is set, the well-known law is that of supply and demand. This principle says that the price of the product will be at an equilibrium point where demand is equal to supply, and this equilibrium point is the price that consumers are willing to pay for the product. When it comes to a barrel of oil, one of the most coveted products in the world, the oil demand is important because the so-called black gold generates (35%) of the world's energy.

We need it every day for transportation, to generate electricity in general and above all to keep the industry alive and with it the world economy. The other 65% is generated by coal at 30%, natural gas at 25%, hydroelectric at 5.5%, nuclear energy at 3%, and a minimum percentage for renewable energy at 1.5% (see Figure 4).

The demand for oil increases with economic growth; the more the economy grows and the more oil is needed for the factories to produce, the more hours are worked, and therefore more electricity is needed. In addition to the fact that more is consumed, more fuel is already needed to transport goods, and the exact opposite happens if the economy is bad, an economic crisis almost always means less demand for oil. This happened, for example, in the 2008 crisis and in 2019 the fear of an economic recession, the thing that happened exactly after the start of the
pandemic and the Russian-Ukrainian conflict (Russia's invasion of Ukraine) in 2022. The recession of the economy has more or less slowed down the demand for oil and the countries that consume the most are those with the largest economies.

![Figure 4. Energies that generate the world's industries in %](image)

Source: Author’s contribution, Society of petroleum engineers, OPEC, 2022.

The list is headed by the United States and China; the other point that is essential to set a price is the offer. It is not just a question of extracting and selling oil, but of strategically putting it on the market. For this in 1960, five countries founded OPEC, which is the organization of oil-producing countries. Iraq, Iran, Saudi Arabia, Kuwait, Venezuela and then other countries such as Ecuador and Angola were added, today there are a total of 14 countries. OPEC is considered a kind of tap, it opens and closes depending on its interests and fundamentally those of Saudi Arabia, the group's largest oil producer.

Basically, it controls production and decides how many barrels of oil are produced per day in each country that is part of OPEC. For example, when demand falls, OPEC cuts production so that there is less supply and prices remain the same or rise. This is why it has been very controversial. For example, in the 1970s OPEC production cuts caused the price of oil to triple, and what OPEC countries decide has an impact because they control more than 30% of world production, but the other 70% of the world have powerful players: the US, according to the US Energy Information Administration, the largest oil producer has 18% of the market, Russia 11%, China and Canada 5% for each one and Brazil 3%. That’s why we may consider the other key factor that influences the oil price of oil. The United States became the largest oil producer in the world in 2018, recording his historical extraction records, after implementing techniques such as "Fracking oil" that according to environmentalists generate a high environmental impact. Fracking oil produces 17.8 million barrels of oil per day, which is why it has become a source counterweight to OPEC, that is, the more oil the US produces, the less OPEC produces when trying to control prices in the market.

But on the other side of the scale is Russia, the third largest oil producer in the world behind Saudi Arabia and recent years has also become an ally of OPEC to increase and decrease oil production and thus control its price with the countries involved in OPEC. On the other hand, Russia's participation is also to further increase its influence in the Middle East, where the main OPEC producers are.

China and India are the two countries that consume the most oil in the market; we must take into account how Venezuela and Iran are subject to sanctions and the Middle East is at war and is very volatile, which affects crude oil prices.
An increase in the price of oil affects life in many ways, primarily the cost of our daily transportation can increase. This is a domino effect - when the price of fuel increases, all products tend to increase in price because it costs more to transport them and that is generally paid by consumers in supermarkets. Although those who live in an oil country could benefit by getting more money from the sale of their oil (see figures 1, 2, 3, 4, 5, 6).

6. RESULTS AND CONCLUSION

The results show that the Russian-Ukrainian conflict caused a big rise in oil prices to their highest level in 14 years, and this has led to high rates of inflation, an economic downturn globally and low access to food and energy in many countries.
The analysis results show that the dependence on energy after the start of the escalation and the instability of imports and exports have boosted a new transition in global trade, the energy market and oil prices.

References


Additional reading

UN. (2022). Global Impact of the War in Ukraine: Billions of People Face the Greatest Cost-Of-Living Crises In A Generation. UN global crises response group on food, energy, and finance Brief No. 2.