The Policy Spotlight is a publication of the American Chamber of Commerce in Kosovo, which aims to bring attention on different economic policies and outline the challenges for the development of such policies, in order to pave the way for addressing them. In addition, this edition places the spotlight on the Current State of Energy: Impact of Ukraine War on Energy Supply.
Introduction

The world’s unity test began, hours after Russia’s President Vladimir Putin recognized the independence of two breakaway republics in eastern Ukraine pouring “peacekeepers” into those areas. Minutes after the formal takeover of Donetsk and Lugansk, the U.S. and European countries threatened to impose immediate sanctions on Russia. Back to Russia’s annexation of Crimea in 2014, sanctions were imposed fast. Therefore, the outcome of Russia’s action were predictable. The intensity of the new actions were hard to predict since Moscow’s recognition of the two separatist regions was a clear violation of international law and potentially a wider war. Representatives of the U.S. and European countries announced on Tuesday morning that the invasion of Ukraine has begun, and within minutes due to Russia’s aggression several Western countries called for tough sanctions. The sanctions announced by the EU and U.S. include shutting the government and banks out of the global financial markets, restrained technology exports and freezing assets of influential Russians, but not restricting the export of Russian fuel. The EU receives nearly 40% of its gas and one-quarter of its oil from Russia. Even though it strengthens Russian economy, it also heats Europe’s homes, powers European factories and fuels its vehicles. It remained unclear whether such a punishment would hurt Europe more than Russia. Germany, Italy and France were quick to punish the annexation of eastern Ukraine, but not quick to impose sanctions beyond the move to stop the certification of Nord Stream 2. Germany is “captive” of Russian cheap gas to the point that it remains one of the few coastal countries in Europe without a liquefied natural gas import terminal. Mr. Scholz agreed to a united sanctions front, and stopped the certification of the pipeline. Nevertheless, if the Russian aggression towards Ukraine would not deteriorate, then the pipeline might not be “buried” yet. Germany’s net-zero goal, to close its coal burners seems vain without Russian gas supplies. Italy imports 90% of its gas, Russia being the biggest supplier. Italy’s Prime Minister, Mario Draghi, aware of his country’s suffering from increased hydrocarbon energy prices, no nuclear generating power and insufficient hydro power are damaging Italian business and families; and triggering inflation. Mr. Draghi well aware of the deteriorating situation in Ukraine set an end stop on the sanctions front. The Prime Minister announced that sanctions would concentrate on narrow sectors without including the energy sector. France, Turkey and Austria are also huge consumers of Russian gas. While in Central and Eastern Europe, Hungary, Poland, the Czech Republic and Slovakia are the biggest customers of Russia. It is possible that the U.S. will ban the imports of Russian crude to the U.S. Experts believe that such an action would force U.S. refiners to rely on other suppliers and force Moscow to find other buyers for around 700,000 barrels a day. If Russia would reduce its gas export, Europe would try to make up the difference for the already scarce supplies of gas kept in storage and by searching the world for more natural gas. Moscow’s fuel cut-off or war turmoil aside, there is a significant risk that extraordinarily high gas and electricity prices will continue. Therefore, the energy-intensive businesses will need to scale back their operations in order to prevent closures because of the high gas costs.
Russian Threats: Cutting off Energy Supply

Russia threatened to cut gas deliveries to the EU if payments are not done in rubles. President Putin’s actions are seen as an intention to reinforce his offensive in Ukraine, leading to more attacks and more suffering. Putin announced that the “aggressive” countries, EU members, are required to have ruble accounts for the gas payments. Regardless of the threat, gas was still flowing in Europe. Analysts see this more as a shield to protect Russia from sanctions, rather than block European nations’ energy supply. As much as some European countries are dependent on Russian fuels for their energy supply, Russia is dependent on the revenue from fuels sales. Cutting of sources of foreign income when the ruble is challenged and accounts frozen globally, seems inexplicable. Russia’s access to foreign reserves has been rigid; intensifying the economic stress Russia is under now. Moscow’s established position as an energy exporter, was used to counter Western sanctions over the invasion of Ukraine. Therefore, President Putin pressured European countries to open ruble accounts in Russian banks, answering the “irresponsible” sanctions imposed by Brussels. The German chancellor, Olaf Scholz, was quick to react. Germany would continue to pay for Russian gas according to contract specifies and it will remain that way. The demand was seen as blackmail by Germany. France’s economy minister stated that Berlin and Paris were preparing for a scenario where Russia turned off its gas taps. The extensive amount of oil and natural gas exported is a financial cushion for President Vladimir Putin. Gazprom, gas exporter, and Rosneft, oil exporter, fund a large portion of Russian state. None of the companies have been targeted by Brussels' sanctions, confirming their importance in the global energy markets. President Putin deployed Gazprom, which is the largest exporter of natural gas to the European market by restraining deliveries to the continent. This led to a growing gas deficit and increased prices. BP, oil and gas company, stated it would exit its nearly 20% stake in Rosneft because of “pressure” from the British Government.
This led to Shell, canceling every form of cooperation between them and Gazprom. The continuation of Russian companies’ operations in Europe would help fuel Russian advance into Ukraine; an extension of the Russian state. Disturbing Russia’s energy sales would have widespread consequences for the global economy. Gas prices soared in Europe last year because of the economic recovery from the pandemic. European officials accused Gazprom of not selling extra gas on the short-term spot market, considering it market manipulation. The company and Kremlin claim they have been respecting their obligations, continuing to regularly supply Europe through pipelines in Ukraine. Gazprom has managed to pivot away recently, deepening relations with China; delivering natural gas through the Siberia pipeline since 2019. Russia has used its established position in the global energy market, by pushing companies such as Gazprom and Rosneft to increase its geopolitical reach.
Europe’s mixed signals towards Russian energy

Germans have been gritting their teeth at the petrol pump these days as Russia's war on Ukraine has increased prices, unaware of the fact that nine out of ten cars in Germany run on fuel drawn from west Siberian oil wells. The pipeline has carried 2.5 million barrels of crude oil daily, a 5,327 km journey for 60 years. According to an analysis, one quarter of Germany’s total oil requirements are met by Russia. Germany has been under “pressure” by its EU allies and the U.S. to cut off Russian energy. Chancellor Olaf Scholz refused boycotting Russian energy, calling it a conscious decision to remain in business with Russia. Germany’s dependency on Russian energy has its roots in modern German politics. Germany draws a third of its coal, quarter of its oil from Russia and is the largest gas customer of Russia globally. The first Nord Stream undersea pipeline, has contributed to growing Germany’s Russian gas bill. While the second Nord Stream is completed, Germany’s chancellor has stopped its certification and its fate remains uncertain. The German government has been sending mixed signals regarding their “addiction” to Russian energy. The federal finance minister, Christian Lindner claimed Germany’s energy supply should not be questioned from their side without necessity.
The federal economics and energy minister, Robert Habeck, states that Germany is working its way to reduce dependency on Russian oil, coal and gas. Mr. Habeck believes that Germany will be independent of Russian coal by autumn, independent from Russian oil by the end of the year, but when it comes to Russian gas then it will be a little bit complicated. Germany’s unwillingness to explore alternatives because of the low cost and convenience of Russian gas makes it complicated. The ministry is fast-tracking two liquefied natural gas terminals on its northern coast just as Russia threatens to cut pipeline gas deliveries. Facilities like Rehden, in Hanover, is one of the largest gas storage facility. It could deliver enough gas to supply two million households for a year at full capacity, but it is empty. Seven years ago a subsidiary of BASF sold the Rehden facility to a subsidiary of Gazprom. Germany’s gas-depot storage capacity is around 40 per cent, and Germany’s Russian-owned storage facilities have a capacity use as low as 4 per cent. The low numbers drive suspicions that Gazprom, with close ties to Kremlin is keeping inventories low to fuel fears of a big freeze; specifically with Germany closing its last nuclear power plants this year. Norbert Röttgen, foreign policy spokesperson, states that the contractual obligations from Russia and Gazprom are fulfilled, but that a higher supply of gas is required. German energy politics relied heavily on raw materials being cheap, and Russian gas was exactly that. Since then, Germany has considered nationalizing Gazprom and Rosneft units in the country. The two Russian energy giants hold a huge significance in Europe’s economy. Berlin has considered seizing Gazprom assets by requiring the giant sell its gas-storage facilities across Germany. The plan to nationalize Gazprom and Rosneft units in Germany were met with approval from the ruling coalition, as the Government sees the situation as critical and requiring of particular measures. If the companies would come under the control of German authorities, Germany’s dependency on Russian energy would decrease; therefore loosening Russian influence on energy security and providing a better supply continuity. Russian President Vladimir Putin threatened to shut off Russian gas to Europe altogether, and required gas payments in rubles. Germany entered their energy emergency plan, encouraging energy consumers to cut off their consumption and save energy. If the situation takes the turn for worse, Germany will be forced to ration gas in the last of the three-stage plan, with the industry being the first in line for power cuts leading to an economic collapse of job losses. As Berlin considers the nationalization of Gazprom and Rosneft units, the Kremlin spokesperson spoke against the idea. Dmitry Peskov, believes that the nationalization of the units would be against international law. While other European capitals and the U.S. consider ending their dependency on Russian energy, Poland will be free of Russian gas by September. The new Baltic pipeline is almost complete, bringing Norwegian gas to Poland through Denmark. Since 2015, a LNG terminal in a Baltic coastal town, Swinoujscie, opened the country to deliveries from Qatar and the U.S. Other large EU countries appear less vulnerable. France attains only a quarter of its gas supply requirements on Algeria and the U.S. Further north dependency hits 90% in Finland and Latvia, and the lowest dependency is found in the Netherlands, Romania and Ireland. A new EU plan aims to free the continent from Russian fossil fuels before 2030.
The U.S., pushing towards potential energy suppliers

The Ukraine war has pressured President Biden's administration to search for new oil supplies in order to contain increasing energy prices through talks in the U.S. and diplomacy abroad. The U.S., rushed to fill the gaps from Russia's shrinking contribution to the global energy markets has led the country to oil-rich nations in the Middle East. The administration’s pursuit has been difficult due to President Biden’s vow to take a tougher line against Saudi Arabia over human right abuses and domestic political pressure. Republicans and Democrats have criticized the outreach to foes, Iran and Venezuela, while also facing conflict with oil advocates whether companies are fully using the existing capacity. The result comes, as a global “fight” for energy sources after President Biden banned Russian imported energy sources. U.S. officials recognize the need to increase the energy supply in the global market, because of huge Russian exports to the West; Wall Street firms have forecasted scenarios where crude prices could reach $200 per barrel. With prices for barrels increasing rapidly, President Biden has been urged to suspend the federal gasoline tax to respond to high prices. The Biden administration has encouraged increasing global oil production even before the war in Ukraine. Global prices started soaring because of the instabilities caused during the pandemic. A critical ally to the U.S., Saudi Arabia, limited rising oil prices and stepped-up as a White House advocate regarding the matter. The U.S. has also inspected other oil producers in the Middle East and North Africa as well. It was requested of Libya's prime minister, if the country's capacities could guarantee a steady oil supply. Alongside Libya, the U.S. has urged the United Arab Emirates to increase production; while also eyeing Iran. Iran could re-enter international oil markets in the upcoming months while sanctions would remain intact, nevertheless, standing as the fastest solution to get more crude on the market. If the 2015 Iran nuclear deal is restored, U.S. and European officials will not agree to Russia’s terms to approve on doing business with Iran. It came as a surprise to Venezuela, when the Biden Administration arrived in Caracas to talk about the sanctions imposed back in 2019 on the oil industry. The meeting of the Venezuelan President, Nicolás Maduro, was intended to separate Russia from its closest ally in South America and creating an opening in that country for U.S. oil companies. U.S. officials state that Russia is one of the world's three largest sources of oil, so filling its fading presence from global energy markets posed an immense challenge.
The White House announced, on March 31, that it would release 1 million barrels per day of oil for the next six months from the Strategic Petroleum Reserve with the intention to soothe increasing oil and gas prices. The extent of this release is remarkable, as the world has never had a release of oil reserves at this rate; for this length of time. Europeans are also trying to resolve their Russian dependency matters by exploring options in Africa and Asia. Consequences of the Ukraine war have altered the energy balance in Europe, creating an immense shock. Germany will be opening two regasification facilities that will make U.S. gas imports less expensive. The Ukraine war has changed perspective towards fossil fuels. Alternatives are being explored in the Middle East, and the U.S-Iran deal could free up a million barrels of oil a day and the U.S. could add another million. Italy entered into contact at the highest level with Algeria to enhance the gas supply that arrives through a pipeline, allowing Italy to acquire 39% of reserves. Italy’s strategy relies on various pillars. In addition to being an important supplier of gas, the increase in Algerian gas is predicted to double the capacity of the pipeline that travels 870 kilometers to transport gas from Azerbaijan. 10 million cubic meters are already supplied through the pipeline. The pipeline passes through Turkey, Greece and Albania to Italy. The Italian Prime Minister, believes that to double its capacities it is crucial to make two large facilities in Turkey and in Greece. The work will be carried out in four years, despite the fact it could be complete in a few months’ time. This war has awakened many countries regarding their high level of dependency on Russian fossil fuels and directing it towards more renewable energy sources.
The impact of the Ukraine war on Kosovo

The world has condemned Russia for the Ukraine invasion. Imposing sanctions, such as shutting the government and banks out of the global financial markets, restrained technology exports and freezing assets of influential Russians. On the other hand, Russia has established its position as the biggest energy exporter of Europe and Europe's dependency is emphasizing the complexity of the circumstances. Kosovo is one of the youngest countries in Europe, slowly working towards its economic progression. Nevertheless, Kosovo is highly dependent on imported goods from European countries. By the end of last year, Europe's energy crisis affected Kosovo as well. During the fourth quarter of 2021, Kosovo imported 900.7 GWh of electricity to meet the demand of 2 million citizens. Electricity prices experienced a significant increase later on, due to demand exceeding supply; affecting Kosovo as well. How much is Kosovo affected by the war in Ukraine?

Musa Limani, expert on economic issues, stated during an interview for “Bota Sot” newspaper that Kosovo is prone to be indirectly affected by the Ukraine war. As stated earlier, Europe highly relies on Russia for fossil fuels, therefore indirectly affecting Kosovo's security of energy supply. There has been call for concern from the Minister of Economy, Artane Rizvanolli. During the early stage of the Russian invasion, the Minister made a plea to extend the emergency measures in the energy sector of Kosovo. Rizvanolli identified the extension of emergency measures as having a positive effect on Kosovo's energy sector. When Kosovo experienced a deep energy crisis by the end of 2021, the Government through subsidies and awareness campaign encouraged its citizens to save and use electricity sensibly. The war in Ukraine cause the prices of oil and gas to surge on the stock exchange. In regard of the increased prices, KESCO clarified Kosovo's position under these circumstances. The Kosovar Electricity Supply Company, KESCO, plead for energy saving due to the adverse conditions caused by Russia's invasion of Ukraine as the price of electricity doubled in international market. Before the Ukraine war, the price for electricity was around 250 euros per megawatt but now the average price is around 500 euros per megawatt. The rising prices and the deteriorating weather in Kosovo have led to such an unfavorable situation in the country. The required demand fails to meet domestic production, making it necessary to import the required quantity from abroad. KESCO is encouraging to save electricity and use it rationally. Surging prices of electricity raised awareness in Kosovo.
Ukraine War: Drives new push for Renewable Energy

President Putin used Russia's hold over fossil fuel supplies to Europe as “political and economic weapon” in the war in Ukraine. The executive director of the International Energy Agency (IEA), stated that Europe needs to act quick to be ready to face considerable skepticism over Russian gas supplies next winter. Russia’s invasion of Ukraine has urged European governments to make a frantic reassessment of their energy supplies. The UK business secretary, Kwasi Kwarteng, has been pushing toward renewable energy in order to cut dependency from fossil fuels. The UK is dependent on gas, and homes powered by renewable energy seem to be the cheapest and immediate solution regarding this issue. Germany declared its plans to increase energy efficiency and renewable energy, while also contemplating the closure of its remaining nuclear power stations. France’s Emmanuel Macron requested a “renaissance” of low-carbon nuclear power to secure domestic energy supplies. President Biden used his state of the union speech to talk about his clean energy stimulus programme. The Progressive Policy Institute stated that Russia’s invasion of Ukraine could significantly increase the likelihood that the U.S. Congress will pass clean energy incentives this year. The expansion of zero-emission U.S. energy could also free up more U.S. gas to flow to Europe in order to displace Russian gas. The war continues to rage, and countries are aware of the significant danger if Putin cuts off gas supplies and governments could spin to the opposite way. If the renewable energy option seems risky, the EU could switch gas consumption in the power sector by increasing Europe’s coal-fired fleet or by using fuels such as oil within the existing gas-fired power plants. This option seems applicable to private-sector companies with coal-fired power stations. Nevertheless, Europe also relies on Russia for coal; making the situation complicated. In the U.S., opportunities to export gas from fracking and coal for power stations, could also expand as fossil fuel prices rise and the gaps that open up as countries move away from Russian supplies. It is questionable on how much consumers will stand, as petrol prices around the world are now at their highest and still rising. Consumers should accept the fact that rising prices are a required cost to help Ukrainian people in the midst of their extreme crisis. After the progress done by countries in shifting away from coal and oil, if fossil fuel usage would continue it would be disastrous for the attempts to cut greenhouse gas emissions. Countries have been leaning on fossil fuels, racing to lock up sufficient supply from non-Russian sources to secure they can heat homes and power factories.
Europe has been intensifying the continent’s plan to switch to wind and solar power, even revisiting nuclear power. Russia's invasion of Ukraine has sent a major energy shock to nations, pushing them to cope with global warming faster. Energy executives and advisers state that the Ukraine crisis determine a reality check regarding the replacement of fossil fuels. Although, experts claim it is not possible to get renewables on-stream fast enough for the rate of sanctions; current events will stimulate the shift toward greener sources of energy. The U.S. plans to increase LNG shipments to Europe to help meet the continent's requirements. In order to dissociate the EU from Russian gas imports, would require additional spending on renewable energy production. Even at that price, renewables seem to be the least expensive path to European energy self-reliance. The Federal Ministry for Economic Affairs and Climate Action, proposed to speed up a range of green energy plans, including the expansion in wind resources and solar power projects. European politicians and environmentalists see Russia's invasion of Ukraine as the definite reason to cut use of fossil fuels that financially support the Russian government. Bulgaria's deputy prime minister for climate and environmental policy, Borislav Sandov, emphasized the fact that Russia is not a key factor in renewable energy sources but for the fossil fuels countries need to terminate. Government officials of Belgium are planning to delay plans to decommission two nuclear reactors until 2025. The French utility “Engie” is currently regulating the Belgian reactors. Belgian officials are negotiating an agreement to extend the reactors' lives by June. Reaching out to Russia for more fossil fuels could put the world in a higher risk. In the next UN climate meeting in November, issues regarding the energy policies and systems will be discussed; however, the IEA believes the issue needs to be settled before the climate meeting.

Conclusion and Next Steps

Representatives of the U.S. and European countries announced on a Tuesday morning that the invasion of Ukraine has begun. Within minutes, Western countries called for harsh sanctions. The sanctions included the shutdown of the government and banks out of the global financial markets, but not the restriction of exporting Russian fuel. European countries are highly dependent on Russia for their gas and oil. Continuing its purchase would lead to the extension of Russia's influence on Europe. Stopping the certification of Nord Stream 2 was the toughest sanction imposed. If Russia was to reduce its gas export, Europe would try to make up for the difference of already scarce supplies of gas kept in storage. Russia managed to establish its position in the global energy market, by utilizing companies such as Gazprom and Rosneft to increase its geopolitical reach. The huge significance these two companies hold in European economy has pushed European countries to consider the nationalization of Gazprom and Rosneft units. The nationalization of these units would help decrease the dependency of Europe on Russian energy, therefore loosening the Russian influence on energy security and providing a better supply continuity. On the other hand, the Biden administration began its quest to find new oil supplies in order to contain increasing energy prices. U.S. official have recognized the need to increase energy supply in the global market because of the immense Russian exports to the West. The war in Ukraine pressured European countries to make a frantic reassessment of their energy supplies. Renewable energy seemed to be the cheapest and immediate form of action to weaken Russia's “authority” in Europe. Germany announced its intentions to increase energy efficiency and renewable energy. France requested a revitalization of low-carbon nuclear power to secure domestic energy supplies. President Biden used his state of the union speech to discuss about his clean energy stimulus programme. Kosovo is also taking action to increase its energy efficiency and renewable energy, by building the largest solar project in Europe “Solar4Kosovo”.


