

# Evaluate the implication of Ukraine War for the Russia-Europe energy relations.

## Introduction:

A report by European Commission reveals that Russia was 5<sup>th</sup> largest trading partner of EU in 2021. But these relations were significantly deteriorated due to Russian invasion of Ukraine in 2022. Europe along with US and other allies imposed sanctions on Russia and cut down its energy imports from Russia. This significantly had repercussions for both Russia and Europe including decreased import and export, Market crash, increased inflation, energy crisis, Diversified imports routes, strained diplomatic relations, and declined economy. Both Russia and Europe can adopt certain measures to restore these relations.

## A brief overview of Russia-Europe trade relations:

According to a report by Eurostat:

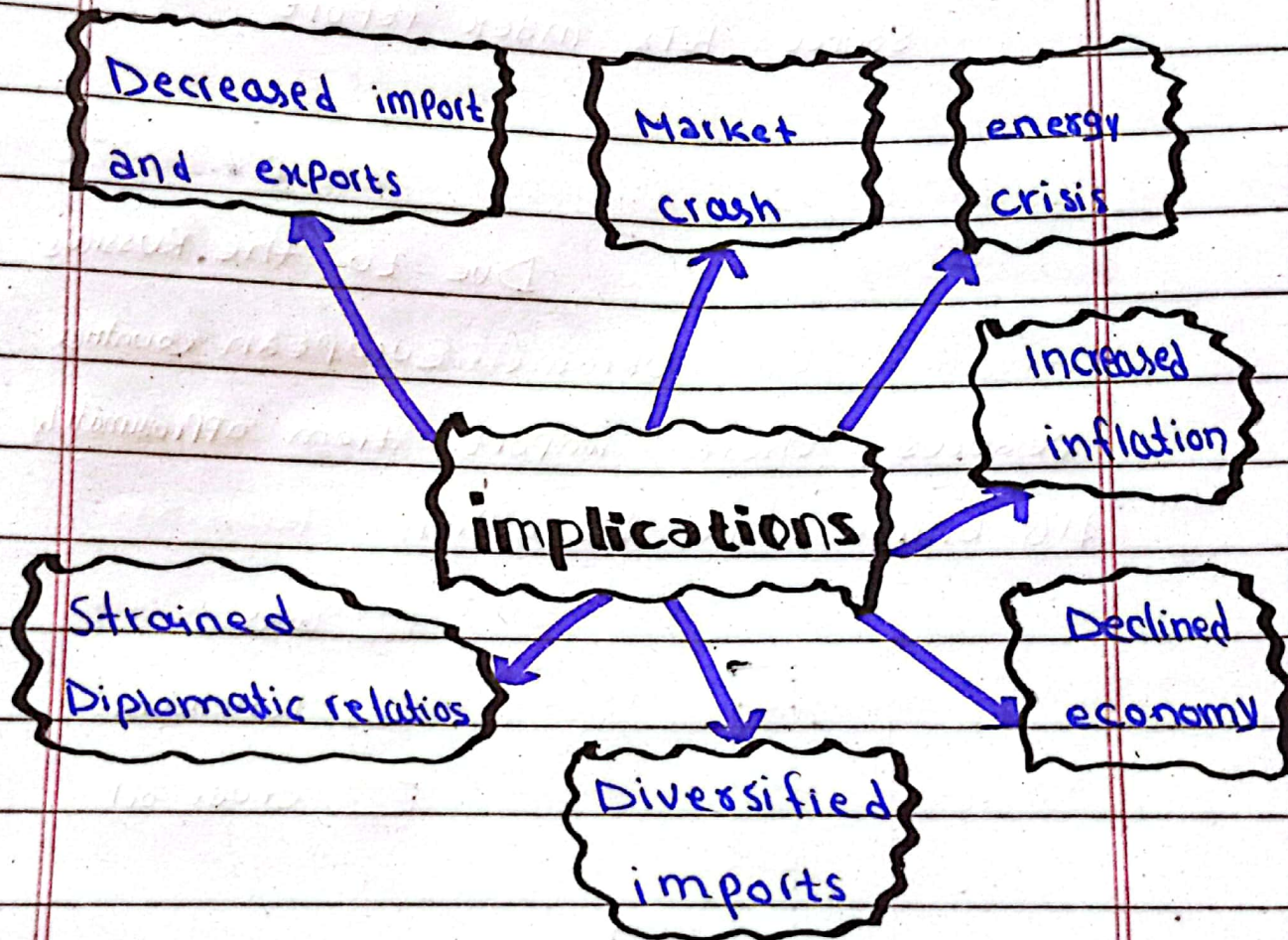
"Russia accounts for 38.9% coal imports of EU, 33.7% crude oil imports and 38.7% natural gas import of EU."

This data is clearly representing the dependency of European Union on Russian energy sector and dependency of Russian revenue on EU's import of energy.

## Deterioration of energy relations and implication on these relations due to war:

As Russian economy is majorly dependent on its energy exports, Europe impose sanction on Russian energy imports to

Weaken its economy so that Russia could not meet its war expenses. As a result both countries face severe repercussions.



## i) Market crash:

Due to the Ukraine war Europe imposed sanction on Russia. Resultantly, there was a significant market crash in both countries due to the decreased

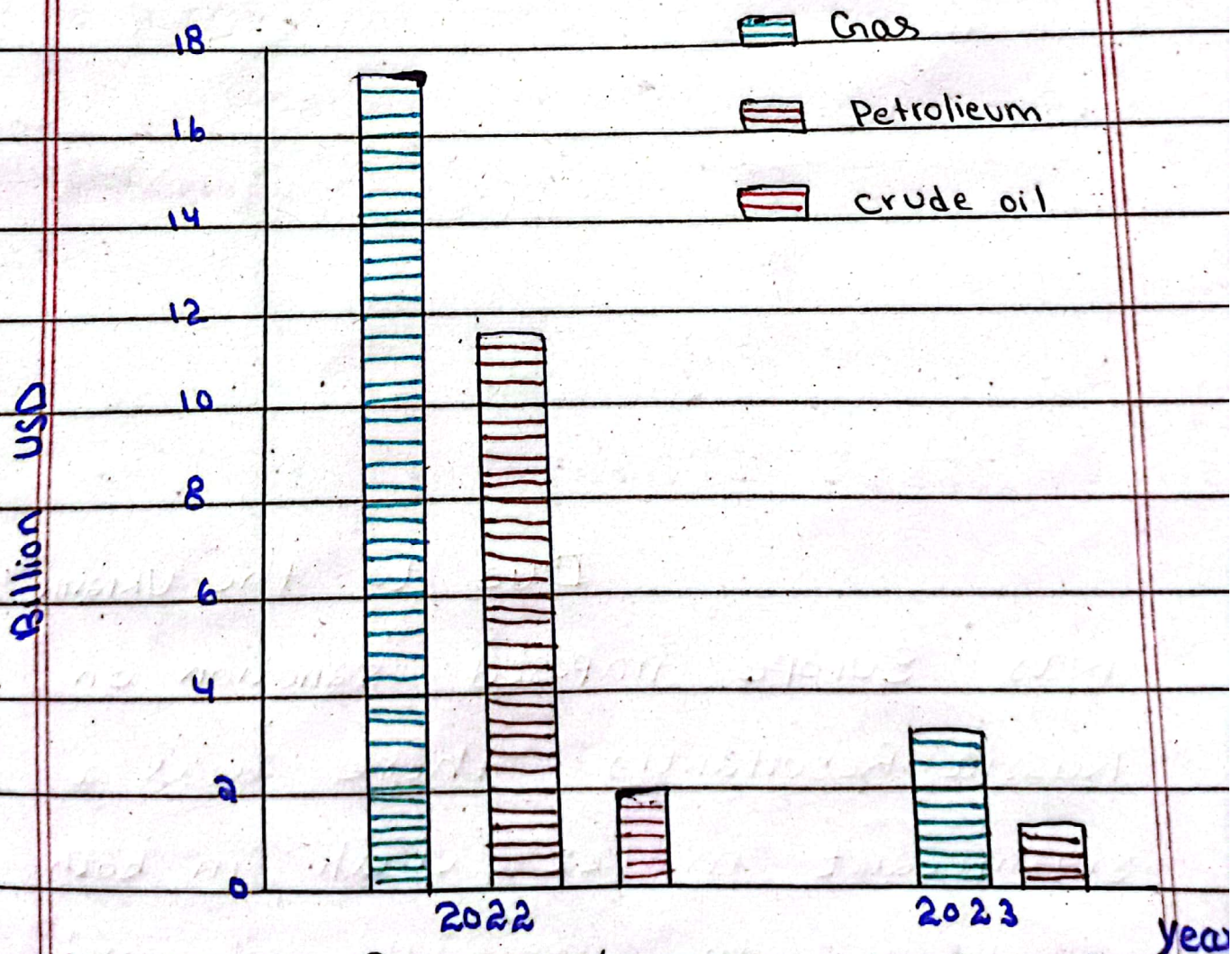
investment and businesses loss.

"The RTX index lost its 30% value within weeks due to the war and face annual losses."

Source: RTX index report

## ii) Decreased import and exports:

Due to the Russia's invasion on Ukraine, European countries reduced their import from approximately \$18 billion to \$2 billion.



Source: Bruegel (Darvas et al 2022)

### iii) Energy crisis:

Due to the breakdown of war, the energy supply to Europe was disrupted and Europe face severe energy crisis due to the imposed sanctions on Russian energy.

"The supply of energy from Russia to Europe was disrupted due to Russian invasion on Ukraine. As a result there were severe energy crisis in Europe."

Source : international Energy Agency

### iv) Increased inflation:

Due to the energy supply chain disruptions, European industrial sectors face high operational costs. As a result there was high rates of production. The inflation rates reached at its highest

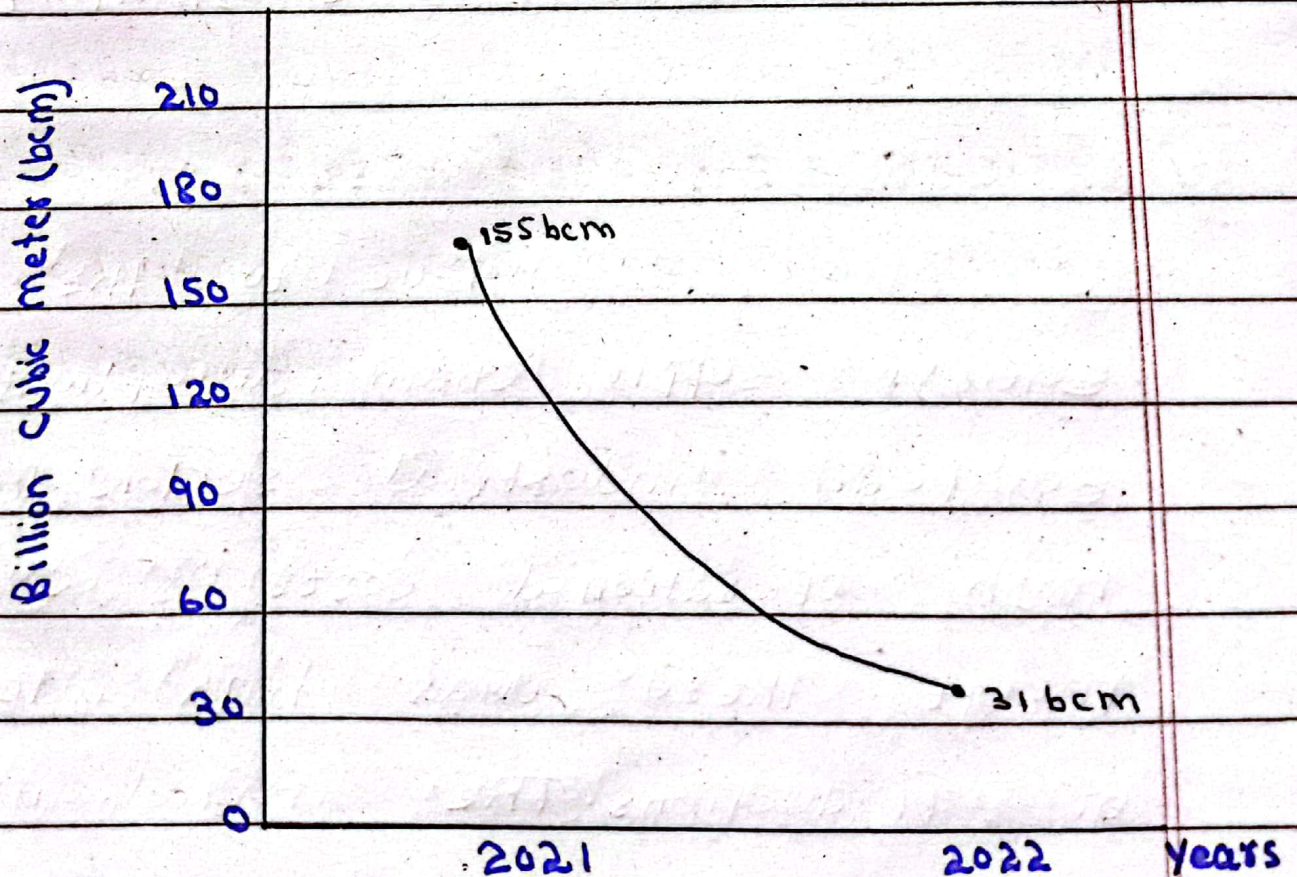
Peak.

" Due to the surging prices of energy and ongoing Ukraine war, the inflation rates reached at 10.7% in 2022."

Source: European central Bank (ECB)

## v) Declined Economy :

Due to outbreak of war there was 80% decline of European gas imports from Russia.



Source: European commission and Gazprom

As Russia's major revenue comes from its energy exports that were decreased upto 80% so, Russia's economy was significantly declined. Similarly, due to energy disruptions and high inflation European economy was also declined.

### vi) Diversified imports:

As Europe along with USA and other allies imposed sanctions on Russia. So, Russia had to diversify its energy exports to other countries in local currency at lower prices. India and China leveraged from this situation and increased their energy imports from Russia at lower prices. On the other side, Europe had to

Purchase energy at higher prices from other energy resource enriched countries.

"Europe diversified its energy imports from USA, Qatar and other countries after imposing sanctions on Russian energy."

Source: European Commission report.

### **vii) Strained diplomatic relations:**

Due to the Ukraine war not only trade relations were deteriorated but also diplomatic relations between two countries were strained.

After the outbreak of Ukraine war European countries expelled Russian diplomats and imposed severe sanctions on Russian



businesses and individuals.

Source: Reports by various international news agencies.

## Measures that can be adopted to restore relations:

The Ukraine war had significantly impacted both countries. Both the countries should come at **negotiation table** to restore their strained relations. Europe should remove sanctions on Russia and reopen their embassies to start diplomatic relations.

## Conclusion:

In a nutshell, Both the countries had face repercussions due to the Ukraine war. In order to overcome these repercussions

both should ignore war  
and focus in achieving  
their economic interests.