

## RESEARCH NOTE

# The New Energy Landscape in Asia: Profound Shifts After the War in Ukraine

JULY 1, 2022

## Executive Summary

**As Europe reduces its dependency on Russian energy, Asia becomes the main destination for Russian energy exports**

**Russian oil is being sold at steep discounts in Asian markets, with China and India absorbing most of the new trade**

**The redirection of energy flows had an immediate impact on countries such as Pakistan, forced to compete with wealthy European nations for LNG supplies**

**Asia's green energy shift has been given a push by the war and the rise in energy prices**

**All eyes are now on the negotiations for a new price-cap mechanism aimed at reducing Russian windfall from the Asian energy trade**

## Background and Analysis

The war in Ukraine created strong pressure for European countries to reduce their dependence on Russian energy. Imports cannot disappear overnight, but volumes have already been reduced, raising the question of whether Russian energy exports could be permanently redirected to Asia. In June, U.S. liquefied natural gas (LNG) overtook Russian piped natural gas in EU gas imports for the first time ever.

Since the invasion, Russian crude oil supplies to China have surged to record levels, while India has seen Russia become its second-largest crude oil supplier after Iraq.<sup>1</sup> All indications are that Russia could be the top supplier for June.<sup>2</sup> Russian oil is being sold at a steep discount in Asian markets, with buyers asking to be compensated for the risks of getting entangled with Western sanctions.

Indonesia has not relied on Russia for crude oil in the past, but in March Indonesian state energy firm PT Pertamina announced it was considering buying discounted crude oil from Russia, although it later backed away from its statement. In June, Taiwan received a Russian oil shipment, and the government has not indicated any intention to ban Russian oil imports.

With natural gas, Russia's capacity to quickly divert exports to Asian markets is constrained by lagging infrastructure. The Power of Siberia 2, a 2,600 km pipeline orig-

inating in the Bovanenkovo and Kharasavey gas fields in Yamal, is still years away from being completed. The pipeline, which crosses through Mongolia, will double gas exports from Russia to China.

Energy trade is being diverted in other ways. According to State Minister for Petroleum Musadik Malik, Pakistan is not able to compete with European buyers in the market for LNG. Power outages have become more common in the country. “Since supply from Russia is suspended due to the war with Ukraine, European countries are also buying gas from everywhere it’s available. As a result, LNG, which was priced at \$4 two-and-a-half years ago, is no longer available for even \$40. So, Russia’s war with Ukraine created a real crisis,” Malik said last week.<sup>3</sup> In the meantime, Iranian oil exports to China have collapsed, with Beijing opting for heavily discounted Russian barrels. In May, almost 40 million barrels of Iranian oil were stranded on tankers at sea in Asia and seeking buyers.<sup>4</sup>

## Key Issues

### ASIA'S GREEN ENERGY SHIFT

The Asia-Pacific region went from being a net energy exporter in 1990 to becoming a net energy importer. Most economies in the region remain reliant on fossil fuels, but investment in and installation of renewable energy infrastructure, particularly for power generation, has been increasing at a fast pace. Some estimates suggest that investments by Asia-Pacific economies in renewable energy generation may double from the previous decade to reach \$1.3 trillion by 2030. According to the IEA’s World Energy Investment 2022, China boasted the world’s highest clean energy investment levels in 2021. In the past few years, only 40% of Southeast Asia’s energy invest-

ments have gone into renewables, which is insufficient in view of the region’s energy demand, set to grow by 3% a year until 2030. High oil prices and uncertainty over future sanctions on Russia’s energy trade have revealed the vulnerabilities of Asian countries dependent on Russia for energy imports. Market volatility in the current environment motivated a few Asian countries to look toward investment in renewable energy as a long-term solution. In the first quarter of this year, Vietnam’s coal imports from Russia fell by 31% from a year earlier, shifting the government’s focus to harnessing renewable energy such as hydropower. Under its grand energy strategy, the Indonesian Ministry of Energy and Mineral Resources proposed to have 100% renewable energy in its energy mix by 2060, when it plans to achieve net-zero carbon emissions. Singapore seeks to reach net zero by 2050, while Thailand is looking to increase its renewable energy share to 50% by 2050, indicating the importance these countries attach to renewables as a source of alternative energy. The IEA notes that the momentum behind low-emission hydrogen has been reinforced by the Ukraine crisis. South Korea, where the government has been actively promoting the hydrogen economy since the mid-noughties, is likely to become a leader.

## What’s Next

The war in Ukraine will continue to redesign the global energy landscape, with profound consequences for transport, logistics and insurance. The EU has committed to stop importing oil from Russia by the end of 2022. As a result, Russia will have to ship its oil to Asia, through longer and much less efficient sea routes. Without new pipelines, oil will have to be moved via vessels. We expect a surge in shipping rates, com-

pounded by further changes in the energy landscape as Europe procures more oil from the Middle East and Africa.

It is unclear for how long and at what cost India and China will be able to continue ramping up their imports of Russian energy. On the one hand, the European Union and the United States see those links as a way to reduce pressure on global energy prices. Without Russian oil and gas, supply would become too constrained. On the other hand, the sanctions against Russia will become inoperative if Asia simply replaces Europe as the prime destination for Russian energy.

Our sources in Brussels tell us that the EU is close to hammering out a price-cap mechanism aimed at solving the contradiction in a satisfactory way. The United States and its European partners could try to impose global price caps on Russian energy. In order to limit the pressure on energy prices,

Russian oil and gas would be allowed to reach global markets, but countries importing them—such as India or China—would not be able to access Western shipping and insurance services unless they observed a price cap. The idea is to have a price low enough to depress Russia's energy revenue but not so low that Russia would stop supplying global markets. Would insurers play along or would a new insurance and shipping industry take off outside the EU and the United Kingdom?

During the recent G7 meeting in Germany, President Emmanuel Macron of France was overheard asking Prime Minister Narendra Modi of India what he thought of such a scheme. The cameras did not capture Modi's answer. "We have begun talks with India about how a price cap would work and what the implications would be," White House national security adviser Jake Sullivan said last week.<sup>5</sup>

<sup>1</sup> <https://thediplomat.com/2022/06/asia-cant-save-russias-energy-sector/>

<sup>2</sup> [https://www.business-standard.com/article/economy-policy/russia-may-be-india-s-biggest-crude-supplier-in-june-a-historic-first-122063000730\\_1.html](https://www.business-standard.com/article/economy-policy/russia-may-be-india-s-biggest-crude-supplier-in-june-a-historic-first-122063000730_1.html)

<sup>3</sup> <https://www.dawn.com/news/1696772/pakistan-losing-1ng-bidding-war-to-europe>

<sup>4</sup> <https://www.reuters.com/business/energy/more-russian-oil-going-east-squeezes-iranian-crude-sales-china-2022-05-19/>

<sup>5</sup> <https://www.reuters.com/business/energy/white-house-says-discussions-have-begun-with-india-russia-gas-cap-implementation-2022-06-28/>