

## THE RUSSIA-UKRAINE CONFLICT AND ITS IMPACT ON GLOBAL ENERGY MARKETS

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*(Views expressed in the brief are those of the author, and do  
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Russia's coercive annexation of Crimea in 2014 ignited a conflict with Ukraine, marking a key change in regional stability. While many see this act as Russia trying to take more land, others argue that Russia's actions are driven by worries about NATO's expansion to the eastward and assumed dangers to its national security. The conflict between Ukraine and Russian-backed separatists rapidly escalated into a full-blown war in the eastern regions of Donetsk and Luhansk. On February 24, 2022, Russia launched a large-scale attack on Ukraine under the pretext of national security. This conflict has significantly disrupted global energy markets and created economic challenges for energy-importing countries. The economic sanctions enforced by Western countries impeded the Russian crude oil supply, creating a ripple effect in global energy markets. The ongoing crisis between Russia and Ukraine has financial implications for countries worldwide. <sup>1</sup>

### Importance of Russia and Ukraine

For many years, Russia was a key supplier of natural gas, coal, and energy to European countries. In the Russian energy sector, coal couldn't contribute much compared to oil and natural gas; however,

<sup>1</sup> 'Rashid Mehmood, 'Russia Ukraine Crisis: Implications for Pakistan '. *Pakistan Today*, 3 May 2023, <https://www.pakistantoday.com.pk/2023/05/03/russia-ukraine-crisis-implications-for-pakistan/>.

it played a positive role in metallurgy and tax revenue. <sup>2</sup>In 2021, Europe imported nearly 27% of its oil and 40% of its natural gas from Russia. <sup>3</sup>

Ukraine was a major producer of wheat and sunflowers and the largest exporter of these goods to Western countries. In 2020, Ukraine exported 12% of global wheat and 46% of sunflower oil. Ukraine plays an important role in the global energy markets. It is a top world transit center for natural gas, playing a significant role in transporting Russian gas to European consumers.<sup>4</sup>

### Impact on global energy markets

The Russia-Ukraine conflict has had a widespread impact on global energy markets, causing significant disruptions and unpredictable shifts in energy supplies both nationally and globally. Escalating tensions between Russia and Ukraine have disrupted critical energy infrastructure, leading to a decrease in natural gas and energy flows to European states that are highly dependent on Russia's exports. This conflict has increased energy prices and raised instability in the international energy market. As a result, importing states are seeking alternative energy sources and focusing on sustainable energy and local manufacturing. <sup>5</sup>

#### 1. Increased energy prices

Since mid-2021, global energy prices have consistently increased due to high demand driven by the post-pandemic recovery, which caused disruptions in the energy market. This impact was especially significant in Europe, where the invasion of Ukraine by Russia placed unparalleled pressure on European energy markets. Between February 23, just before Russia's attack on Ukraine, and July 31, wholesale gas prices in Europe rose by 115%, while electricity prices increased by 237%. As the conflict escalated, price pressure extended from the spot market to long-term energy contracts.<sup>6</sup>

It concludes that the Russian invasion of Ukraine has significantly increased energy prices, causing a 9% rise in energy prices in Organization for Economic Co-operation and Development (OECD)

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<sup>2</sup> 'What Importance Does the Fuel and Energy Complex Have to Russia?' *ISPI*, 15 May 2024, <https://www.ispionline.it/en/publication/what-importance-does-the-fuel-and-energy-complex-have-to-russia-166793>.

<sup>3</sup> 'In Focus: Reducing the EU's Dependence on Imported Fossil Fuels'. *European Commission*, 20 Apr. 2022, [https://commission.europa.eu/news/focus-reducing-eus-dependence-imported-fossil-fuels-2022-04-20\\_en](https://commission.europa.eu/news/focus-reducing-eus-dependence-imported-fossil-fuels-2022-04-20_en).

<sup>4</sup> 'Ukraine Energy Profile'. *IEA*, Apr. 2020, <https://www.iea.org/reports/ukraine-energy-profile>.

<sup>5</sup> Ejazul Haq Ateed, *The Impact of Russia-Ukraine War on the Global Energy Crisis*. 2024, <https://www.igi-global.com/chapter/the-impact-of-russia-ukraine-war-on-the-global-energy-crisis/335606>.

<sup>6</sup> Andrea Gazzani, and Fabrizio Ferriani, 'The Impact of the War in Ukraine on Energy Prices: Consequences for Firms' Financial Performance'. *VoxEU*, 7 Oct. 2022, <https://cepr.org/voxeu/columns/impact-war-ukraine-energy-prices-consequences-firms-financial-performance>.

nations. The conflict between Russia and Ukraine affected the energy prices of European Union (EU) and North Atlantic Treaty Organization (NATO) states but did not affect nations outside the EU and NATO.<sup>7</sup>

## 2. Sanctions and trade shift

The EU imposed sanctions on sea imports of Russian crude oil on December 5, 2022. Consequently, China and India became important buyers of Russian crude oil. They purchased 48% and 35% of Russian crude oil exports from December 5, 2022 to the end of April 2024, respectively. Concurrently, the US became Europe's top oil supplier, replacing Russia. Moreover, the EU raised oil imports from Norway, Saudi Arabia, Iraq, Brazil, and Angola.

The EU has permitted crude oil imports via the southern part of the Druzhba pipeline, ensuring these supplies continue to reach Slovakia, Hungary, and the Czech Republic.

On February 5, 2023, the EU introduced restrictions on imports of Russian crude oil product. Consequently, Turkey became an important purchaser of Russia's crude oil products. This country bought 24% of Russian oil product exports from February 2023 to April 2024. Other key buyers include China (12%) and Brazil (10%).

Russia's liquefied natural gas (LNG) continues to flow to the EU, largely through ports in Belgium, Spain, and France. In 2023, 13% of the EU LNG imports came from Russia.<sup>8</sup>

### Global responses

- **EU response**

The EU and its allies have firmly denounced Russia's invasion of Ukraine. The EU has enormously broadened sanctions against Russia in response to the military invasion, targeting key individuals, institutions, and sectors.<sup>9</sup>

To further increase pressure, the EU adopted its 13th package of sanctions. The goal of these sanctions is to reduce essential elements of Russia's military resources by increasing sanctions on

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<sup>7</sup> Liu, Tie-Ying, and Chien-Chiang Lee, 'Impacts of the Russia-Ukraine War on Energy Prices: Evidence from OECD Countries'. Policy Studies, July 2024, pp. 1–33. DOI.org (Crossref), <https://doi.org/10.1080/01442872.2024.2384431>.

<sup>8</sup> Stanislav Zinchenko, 'How the Russia-Ukraine War Has Impacted on Logistics Routes and Supply Chains'. GMK, 11 July 2024, <https://gmk.center/en/posts/how-the-russia-ukraine-war-has-impacted-on-logistics-routes-and-supply-chains/>.

<sup>9</sup> 'EU Response to Russia's War of Aggression against Ukraine'. European Council, <https://www.consilium.europa.eu/en/policies/eu-response-russia-military-aggression-against-ukraine/>.

the export and import of Russian goods. The sanctions focus on significant areas of the Russian economy, such as energy, by banning the export of goods and technology vital to Russia's oil and gas industries. The sanctions also prohibit new investments in Russia's power sector. The EU has imposed restrictions on importing Russian coal, oil, and petroleum products by sea and introduced a G7-coordinated price limit on Russian oil exports to third states.

Since Russia's military invasion of Ukraine started in February 2022, the EU has introduced 12 sanctions packages. These sanctions focus on creating harsh economic implications for Russia and weakening its capability to continue the ongoing conflict in Ukraine. The sanctions were imposed on over 1900 individuals and institutions linked to Russia's invasion of Ukraine. Broad economic sanctions include trade bans, restrictions on energy financing, and dual-use capabilities.<sup>10</sup>

- **NATO**

NATO has strongly denounced Russia's unjustified and violent invasion of Ukraine, which is a sovereign, peaceful, and democratic state and an important ally of NATO. Following Russia's annexation of Crimea in 2014, NATO partners decided to halt all practical civilian and military ties with Russia. However, they kept channels open for political and military dialogue. NATO has introduced measures to limit Russia's access to resources critical to its military campaigns. Allies continue to improve these sanctions to increase pressure on Russia. These sanctions will make it more difficult for Russia to repair its tanks, produce missiles, and fund its war. <sup>11</sup>

- **G7**

The leaders of the G-7 issued a statement denouncing Russia's attack on Ukraine's independence, sovereignty, and regional integrity. In the statement, the attack was called "completely unjustified and unprovoked," an essential violation of international law and a gross breach of the UN Charter.<sup>12</sup>

The G7 is committed to giving Ukraine the financial, humanitarian, military, and diplomatic support it needs. The G7 is enforcing sanctions and taking steps to increase the economic and strategic costs

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<sup>10</sup> Yuxin Nie, *EU Imposes 13th Sanctions Package on Russia over Ongoing War in Ukraine*. 22 Feb. 2024, <https://www.jurist.org/news/2024/02/eu-imposes-13th-sanctions-package-on-russia-over-ongoing-war-in-ukraine/>.

<sup>11</sup> "Relations with Ukraine". 3 Oct. 2024, [https://www.nato.int/cps/en/natohq/topics\\_37750.htm](https://www.nato.int/cps/en/natohq/topics_37750.htm).

<sup>12</sup> Scott R. Anderson, et al, 'The World Reacts to Russia's Invasion of Ukraine'. *Lawfare*, 24 Feb. 2022, <https://www.lawfaremedia.org/article/world-reacts-russias-invasion-ukraine>.

for Russia and its partners supporting the military campaign. The G7 adopted sanctions, import restrictions, and other measures to reduce its reliance on Russian sources of energy.<sup>13</sup>

- **India**

India has not issued a condemned statement against Russia's attack on Ukraine because of its strong ties with Russia. Indian Prime Minister Narendra Modi called Putin a 'dear friend'. Much of India's military assistance comes from Russia and India refrained from a vote against Russia's invasion at the UN.<sup>14</sup>

### Impacts on Pakistan

Pakistan has continued stable economic ties with both Russia and Ukraine. The conflict between Russia and Ukraine has had widespread impacts on Pakistan. The Russian war in Ukraine has caused a significant rise in LNG prices due to disturbances in the global supply chain. This has created critical problems for Pakistan because LNG firms have canceled their contracts with Pakistan to capitalize on profitable European markets. Pakistan is now forced to obtain high-priced LNG. Moreover, Pakistan has stopped importing fossil fuels, LNG, oil, and coal from Ukraine. People in Pakistan will face with frequent and lengthy power cuts, high utility bills, and interruptions to various services in the coming months.<sup>15</sup>

### Recommendations

#### For Pakistan

- Develop energy reserves and expand LNG supply sources to handle global market problems.
- Emphasize solar and wind power initiatives to reduce dependence on fossil fuel imports.
- Enhance ties with energy-exporting and global organizations to negotiate better terms for energy imports.
- Enhance negotiation policies to decrease national energy usage and costs. <sup>16</sup>

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<sup>13</sup> 'G7 Leaders' Statement on Ukraine'. *European Council*, 19 May 2023, <https://www.consilium.europa.eu/en/press/press-releases/2023/05/19/g7-leaders-statement-on-ukraine/>.

<sup>14</sup> 'Global Response to the Russia-Ukraine Conflict'. *Globaldata*, <https://www.globaldata.com/data-insights/macroeconomic/global-response-to-the-russia-ukraine-conflict/>.

<sup>15</sup> 'Ayesha Mirza, *Ukraine, Russia War: Implications for Pakistan*. 5 July 2022, <https://tribune.com.pk/story/2364775/ukraine-russia-war-implications-for-pakistan>.

<sup>16</sup> 'Renewable Energy'. *International Trade Administration*, 12 Jan. 2024, Pakistan - Renewable Energy. 12 Jan. 2024, <https://www.trade.gov/country-commercial-guides/pakistan-renewable-energy>.

## For Europe

- To decrease reliance on fossil fuels, different power sources, such as solar, wind, natural gas, and nuclear power, should be utilized.
- Improve energy efficiency regulation for equipment, buildings, and industries to reduce energy usage and costs.
- Better terms must be negotiated with states that export energy and global organizations to secure more dependable and affordable energy imports.
- Develop strategic alliances for LNG imports to broaden supply sources and decrease price fluctuations.
- Promote cybersecurity strategies to secure key energy infrastructure from cyber risks.<sup>17</sup>

## Conclusion

The war in Ukraine has significantly affected the global energy markets, resulting in increased energy prices, interruptions in supply chains, and changes in trade flows. Western-imposed sanctions against Russia have reduced its energy exports to Europe, while states like India, China, and Turkey have become major purchasers of Russian energy.

International organizations such as the EU, NATO, and G7 have imposed sanctions on Russia to weaken its military capabilities. While India has maintained a neutral stance due to its strong relations with Russia. Following the conflict, Pakistan faced higher energy prices and LNG shortages, leading to economic problems.

To overcome these challenges, Pakistan must strengthen its energy security by diversifying energy sources, promoting renewable energy, and improving efficiency. Similarly, Europe should focus on expanding its energy sources and strengthening its infrastructure. These initiatives are necessary to address the ongoing energy crisis and strengthen resilience to future challenges.

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<sup>17</sup> 'EU Energy Policy'. *European Commission*, 20 Dec. 2024, [https://energy.ec.europa.eu/index\\_en](https://energy.ec.europa.eu/index_en).