

UNIVERSITY OF PIRAEUS



DEPARTMENT OF MARITIME STUDIES

MSc in SHIPPING MANAGEMENT

**The EU-UKRAINE – RUSSIA CRISIS
TRIANGLE: EVIDENCE OF LOCAL AND
GLOBAL CONSEQUENCES FOR
INTERNATIONAL TRADE**

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MND: 21052

A Thesis submitted in the Department of Maritime Studies as a partial fulfillment of the requirements for the Master of Science degree in Shipping Management

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**ΤΟ ΤΡΙΓΩΝΟ ΤΗΣ ΚΡΙΣΗΣ Ε.Ε. –
ΟΥΚΡΑΝΙΑΣ – ΡΩΣΙΑΣ: ΕΘΝΙΚΕΣ ΚΑΙ
ΔΙΕΘΝΕΙΣ ΕΠΠΤΩΣΕΙΣ ΣΤΟ ΔΙΕΘΝΕΣ
ΕΜΠΟΡΙΟ**

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Πειραιάς

Μήνας, 2022

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Abstract

After Russia, Ukraine is the second largest country in Europe. Historically, Ukraine was a major part of the territories inhabited by the Rus (ancestors of modern Russians), until the invasion of the Mongol Empire in the 13th century. Until the beginning of the 20th century, various disturbances occurred. Although Ukraine was an independent country from 1918 to 1920, it was then part of the Soviet Union until the latter's collapse in 1991, when it became fully politically independent.

However, Ukrainian independence was never well received in Russia. In fact, the Russians, due to the history of invasions, from the Mongols to the Nazi Germans, consider Ukraine, like other neighboring countries, something like their "bastions". The expansion of NATO during the 1990s and 2000s, with the inclusion of countries such as Poland, Lithuania, Latvia and Estonia, makes the Russians believe that their vital space is being encroached upon. And this is because they believe that the USA is behind it, which has invaded foreign countries at least twice in the last twenty years: in Afghanistan and Iraq.

Keywords

Russia, Ukraine, European Union, war, energy crisis

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Introduction

The whole planet is watching with bated breath the developments in Ukraine after Russia invaded it and is waiting for the next moves of Vladimir Putin and the international community, which appears rather embarrassed and weak. Of course, the crisis in Russia-Ukraine relations did not suddenly break out, nor does it have a "history" of a few years. As we will see, Russia and Ukraine had a lot of clashes and conflicts in the past. Especially since the mid-19th century when Ukrainian nationalism "awakened", conflicts between the two were a frequent occurrence. But let's take a closer look at the history of Ukraine and its relations with Russia over time.

The United States of America and its state-of-the-art LNG Carriers are so far the winners of the energy crisis and war conflict in Ukraine. According to analysts, recently there has been a significant increase in LNG exports from the US, at a time when, until recently, freight rates for ships transporting liquefied natural gas in the Atlantic were moving downwards, as routes between the US and Europe decreased. At the same time, shipping companies that have entered into long-term LNG Carriers charter contracts are also winners as they will benefit from the rise in LNG demand. Already the spot LNG rates have started to recover and at the same time the modern MEGI type LNG Carriers with two stroke engines show up to 50,000-60,000 dollars per day additional profits than the older technology LNG Carriers.

The two Russian regions contribute 2 million cubic meters every day to the world market and it remains at the same levels compared to the average of the last three years. On the contrary, what VesselsValue data shows, is a decrease of 2 million cubic meters per day from the Persian Gulf compared to the average of the last three years. Moreover, for now it appears that a gain of 3 million cubic meters per day exported from the Gulf of Mexico is more than enough to fill the Middle East gap, VesselsValue notes. The region is a relatively new entrant to the market, with the result that most quantities concern the spot market and are therefore more affected by current prices. According to Drewry, the main sanctions that will affect LNG shipping in the near future are: the ban of Russian ships from European countries, the withdrawal of major oil and gas companies (Shell, BP, Total) from Russian LNG

projects, the Russian banks unable to participate in SWIFT systems and the reluctance of many countries to import Russian LNG.

1. Russia in the Black Sea: Energy, Security Issues and Maritime Trade

During the Cold War, the Black Sea region was located between the dividing line of the two rival coalitions, which meant although there was stability, but on the other hand the area remained isolated far away from its historical role as a trade crossroads of Eurasia¹⁵. Its collapse the Soviet Union, which was a multinational empire, rebuilt it a area at the center of international interest, as in it were noted the more ethnic conflicts. The geopolitical gravity of the Black Sea region Pontus is due to the role it plays as a basis for the promotion and imposition of military power in neighboring regions such as the Caspian Sea, Central Asia and the Middle East, while since the beginning of the 21st century it has been evolving into an important transit route for the energy supply of European markets¹⁶. The Black Sea region already after in 1992 became an important reference point of Russian foreign policy as well constitutes part of its proximity abroad, with the result that Russia opposes any attempt to involve external forces in the political affairs of countries of the area

1.1. Russia's energy policy

Russia is a vast continental country with insufficiently developed however internal movement systems that make it difficult to transport goods and products. In the 20th century, the leadership of the Soviet Union tried to modernize Russia through intense industrialization, trying to follow the technological progress of the rest of Europe, but failed. But since 2000 Russia has changed the strategy and instead of focusing on industrial development, it focused on the export of raw materials, the most important of which is energy (and especially natural gas), but also minerals, wood and precious metals. The energy industry is developing under state direct control and the Russian is stabilizing economy benefiting from the steady rise in oil prices over time 2000.

¹⁵ Ian O. Lesser, Παγκόσμιες τάσεις, περιφερειακές συνέπειες: Οι ευρύτερες στρατηγικές επιπτώσεις στην περιοχή του Εύξεινου Πόντου, (Αθήνα: Εκδόσεις Παπαζήση, 2009), 14

¹⁶ Μάνος Καραγιάννης, «Ο Ρόλος της Μαύρης Θάλασσας ως πυλώνα της ευρωπαϊκής ενεργειακής ασφάλειας» στο Ο Εύξεινος Πόντος: Μία αναδυόμενη περιοχή, επιμ. Δημήτριος Τριανταφύλλου, Παναγιώτα Μανώλη, 115.

The Caspian-Caucasus-Black Sea-SE Europe area is the last two decades an area of intense US-Russian competition in diplomacy pipelines, which concerns the question of which countries have energy resources, in what quantities and through which pipelines they will be channeled to European markets.⁴⁰ Turkey holds central to US regional policy in the region, as it seeks to reduce Russia's traditional role in the region and securing its economic development and political independence of the Central Asian states through the implementation of energy transmission pipelines that will pass through its territories Turkey¹⁷.

The Nabucco West pipeline was proposed to transport gas from the Azerbaijan through Turkey and Bulgaria in Central Europe and rejoiced of full US political support. Its construction was canceled due to finally selected in June 2013 by TANAP, which will be affiliated with TAP and will transport natural gas from the Shah Deniz field in Azerbaijan, following the route Georgia-Turkey-Greece-Albania-Italy, with the first natural gas deliveries expected in 2019.

This pipeline will interconnect the supply infrastructure of most of the southern European countries, which are based mainly in Russian gas. But it is important to emphasize that this pipeline does not act in competition with Russian interests as long as it does not cover the gas markets in south-eastern and central Europe. In addition, since 2007 operates the ITG pipeline, which supplies Azeri gas to Turkey and Greece, with design for interconnection with the Italian network (ITGI). Russia's proposal included the South Stream pipeline, which would have two branches.

Undoubtedly, annexation of the Crimean peninsula strategy and the immediate involvement of Russia in the military conflict in eastern Ukraine played a catalytic role in cancellation of "South Stream". The construction of this pipeline was aimed at bypass of Ukraine, which is an important transit route of the Russian gas to the European market, through a network of Soviet-made pipelines. Reliable and uninterrupted supply of gas to European markets is a top priority for Russia, as it

¹⁷Fiona Hill, «Το Αίνιγμα της Κασπίας: Αγωγοί και Δίκτυα Ενέργειας» στο Ρόλος και Θέση της Σύγχρονης Τουρκίας στον Κόσμο – Σύγχρονη Πραγματικότητα και Μελλοντικές Προκλήσεις, επιμ. Δημήτρης Καιρίδης και Lenore G. Martins, (Αθήνα : Εκδόσεις Ι. Σιδέρης, 2006), 267.

needs European natural demand gas for its economic stability. In 2014 about 70% of export oil and 90% of those of natural gas were channeled to the European market¹⁸.

Russia supplies 100% of its natural gas to Estonia, Lithuania, Latvia, Bulgaria, Sweden and Finland, 80.5% in the Czech Republic, 63.3% in Slovakia, 57.4% in Slovenia, 54.8% in Greece, 54.2% in Poland, 52.2% in Austria, 49.5% in Hungary, 43.2% in Belgium, 39.9% in Germany, 37.1% in Croatia, 27.9% in Luxembourg, 24.2% in Romania, 19.8% in Italy, 17.2% in France and 5.8% in the Netherlands, but with the largest markets German, Italian and French¹⁹. Moldova and Armenia are two countries with very high energy dependence on Russia while Georgia covers the most of its energy needs come from Azerbaijan and Romania.

Energy has become an issue of national and regional scope in the region as well of the Black Sea, which has the strategic advantage of simultaneous production and transit of natural gas from Russia, Azerbaijan, Kazakhstan and Turkmenistan to the West. Energy and energy security while can act as enhancers of regional security and cooperation between the various parties and the pervasive sense of Russia and Turkey in the Black Sea contribute to the strengthening of dividing lines. By designing and completing their construction Baku-Supsa oil pipelines in 1999 and BTC in 2006, despite high costs and political instability in the region, Russia lost the privilege of transporting oil of the Caspian, exclusively through Russian territories. In 2006 was completed and SCP gas pipeline, which meets its energy needs Turkey. Azerbaijan's natural gas reserves through pipelines, which are under construction, will contribute to the differentiation of both sources and road transit to European markets and will reduce its energy dependence Europe from Russia.

The demographic and economic gigantism of Turkey and consequently domestic market after 2000 requires increased energy needs and creation appropriate energy infrastructure. Turkey is its second consumer country Russian gas (57% of imports come from Russia), behind only Germany. Russia is Turkey's second largest trading partner after the EU with energy resources accounting for more than 70% of

¹⁸ Sergi Kapanadze, *Georgia's Vulnerability to Russian Pressure Points*, ECFR, June 2014, 3.

¹⁹ Michael Ratner et al., *Europe's Energy Security: Options and Challenges to Natural Gas Supply Diversification*, Congressional Research Service, August 20, 2013, 10

Russian exports to Turkey²⁰. During the meeting of the Presidents of the two countries in Ankara in December 2014, Russian President described Turkey as a "strategic energy partner" and proposed the construction of a new pipeline that will cross the Black Sea in the direction to European Turkey and will end up at the Greek-Turkish border. Alongside, reported a 6% discount on the price of gas supplied to Turkey, with but the latter to push for a 15% discount. Through this proposed pipeline, which is called "Turkish Stream", will pass 63 billion cubic meters of gas, of which 15.75 billion goes to Turkey market. Russia also proposes "Balkan Stream", a pipeline project which from Greek-Turkish border to receive "Turkish Stream" gas and through Greece and FYROM will supply the market of Serbia, Hungary and Austria, in order to ensure the viability of Turkish Stream. Turkey, if the construction of the above pipeline is implemented, may become an energy hub and guarantor of European energy security, as the "Southern Corridor" (Southern Corridor, consisting of the TANAP and TAP gas pipelines), which in addition to Azeri gas will be able to transport gas even from Turkmenistan and Iran due to the already existing connection of the networks of the three states. The preparatory work for the construction of the "Turkish Stream" pipeline has temporarily suspended following the deterioration of Russian-Turkish relations in November 2015²¹.

However, Ankara, knowing its high degree of energy dependence on Russia seeks to diversify its suppliers and energy mixture. In this context, it has planned the construction of nuclear power plants, the first of which will be built in the city of Akuyu by the Russian company Rosatom, which will also supply nuclear fuel. The completion of the project was expected by 2020. The states of the wider Black Sea region from the first moment that became independent faced and continue to face continuous challenges to their security, with more dramatic form of armed conflict due to pending territorial disputes. In trading procedures and models. Russia has the first say in peace, but it is increasingly being identified as one side involved in the disputes rather than a neutral mediator.

²⁰ Dimitar Bechev, *Russia and Turkey: What does their partnership mean for the EU?*, Policy Brief, 13 February 2015

²¹ Bechev, Dimitar, *Russia and Turkey: What does their partnership mean for the EU?*, European Policy Center, Policy Brief, 13 February 2015.

In addition, Russia, by not resolving the outstanding conflicts, wants to postpone the accession of the States involved to the Euro-Atlantic institutions, knowing that the enlargement of NATO and the EU can not take place as long as the existing ones pending conflicts. The term "ethnicity" describes members of a distinct group of people who are characterized by certain cultural elements (language, religion, customs and traditions, clothing) and is aware of its difference from other similar ones groups²².

The term "nation" refers to the existence of a relatively culturally homogeneous group identified with a demarcated state territory. Ethnic identity pre-exists the nation-state, as opposed to the national identity which is the result of a complex process carried out within the national state. The term "ethnic conflict" refers to armed conflicts between ethnicities living within the same state²³. In three of the four pending conflicts involve the states of the South Caucasus. The fourth concerns Moldova, while since 2014 the conflict in Eastern Ukraine between Ukrainian government forces and Russian-speaking / Russian-born separatists, which tends to acquire the characteristics of a pending conflict. The Caucasus, which is distinguished for its ethnic, linguistic, cultural and religious diversity, is geographically divided into the North Caucasus which belongs to Russia and the South Caucasus, which includes its independent states Georgia, Azerbaijan and Armenia. As a bridge but also as a natural obstacle between East and West has always been a field of competition between different empires, while in modern times two empires were fighting for sovereignty in the region, the Ottoman and the Russian.

Characteristic of the three de facto independent democracies involved in the three outstanding conflicts in the South Caucasus are that within the Soviet Union they enjoyed to a greater or lesser degree some kind of autonomy. Specifically, Abkhazia belonged to the second tier in hierarchy of the Soviet federal system, that is, it was an autonomous democracy that had its own constitution and its own institutions but without it South Ossetia and Nagorno-Karabakh belonged to the third tier, they were

²² Θ. Λίποβατς, «Εθνικισμός και Θρησκεία στη Νεωτερικότητα», Επιστήμη και Κοινωνία, τεύχος 5-6, Φθινόπωρο 2000-Άνοιξη 2001 όπως αναφέρεται στο Μάνος Καραγιάννης, Εθνοτικές Συγκρούσεις στον Καύκασο και την Κεντρική Ασία: Μία Συγκριτική Ανάλυση, (Αθήνα: ΕΚΕΜ, Κείμενο Εργασίας 2/Δεκέμβριος 2005), 9

²³ Μάνος Καραγιάννης, Εθνοτικές Συγκρούσεις στον Καύκασο και την Κεντρική Ασία: Μία Συγκριτική Ανάλυση, (Αθήνα: ΕΚΕΜ, Κείμενο Εργασίας 2/Δεκέμβριος 2005), 9-10.

autonomous regions within the USSR that they had institutionally bodies with limited responsibilities mainly in cultural matters.

The region is not distinguished for democratic institutions, good governance and institutions of legitimacy (regular and free elections, independent justice), but it is not surrounded by democracies either. In the south, on the other hand, is Iran with a theocratic status, in the east are the states of Central Asia with authoritarian-type governments, while to the north is Russia, which is increasingly moving more towards authoritarian power²⁴. The outstanding conflicts remain the main cause of the weakness for democratic reforms and the main threat to growth and stability in both Moldova and the South Caucasus.

The absence of control hierarchy of security forces and lack of strict discipline often leads in border incidents, in violation of the ceasefire and in the manifestation of small or medium the size of the hostilities along the border. In addition, opacity, corruption and links to organized crime create personal interests in senior ranks of the military and security forces for maintaining the status quo.

1.2. The Russian factor in the outstanding conflicts

Nagorno - Karabakh

Nagorno-Karabakh is an autonomous region located within it Azerbaijan²⁵.⁶⁶ The dispute over ownership of the region, whose population was in large percentage of Armenians, started in early February 1988, when the Armenians of Nagorno-Karabakh protesting deliberate economic downturn they demanded his secession from Azerbaijan and integration into Armenia. The Kremlin has ruled out such an eventuality, as its annexation to Armenia would be a precedent for other ethnic groups to call for a change of borders. In September 1991, Nagorno-Karabakh declared its independence democracy, taking advantage of the political instability that prevailed in Moscow at that time tensions escalated into a large-scale transnational

²⁴Svante Cornell et al., *Η Ευρύτερη περιοχή του Εύξεινου Πόντου: Ένας νέος κόμβος στην ευρωπαϊκή ασφάλεια*, (Αθήνα: Εκδόσεις Παπαζήση, 2007), 44.

²⁵Svante Cornell et al., *Η Ευρύτερη περιοχή του Εύξεινου Πόντου: Ένας νέος κόμβος στην ευρωπαϊκή ασφάλεια*, (Αθήνα: Εκδόσεις Παπαζήση, 2007), 44.

conflict with these of heavy weapons by Soviet units in the disbanded area, between two more independent states of Armenia and Azerbaijan, in 1992-1994.

The continuous defeats of the Azeri side significantly worsened the policy situation in Azerbaijan, which stabilized after his election as President Haidar Aliyev in October 1993. The ceasefire agreement in May 1994, following Moscow's intervention, found Armenia to occupy 24% of the territory Azerbaijan (Nagorno-Karabakh and its neighboring territories), while the conflict caused more than 20,000 deaths and nearly 1.5 million refugees, of whom one million were Azeris²⁶. Aliyev's policy only temporarily favored Russia, with the accession of the Azeri state to the CIS, as after the initial concessions Aliyev consolidates power, destroys political opponents, refuses the deployment of Russian military forces on Azeri territory, links their foreign policy with the exploitation of the Caspian oil fields by foreign companies and pursued a clearly pro-Western policy. The outstanding territorial dispute for the Nagorno-Karabakh region is the only one involving two independent states, Armenia and Azerbaijan. For promoting the negotiation process, in 1992 the Minsk Group was set up OSCE, co-chaired by Russia, France and the US and attended other eight countries, including Armenia and Azerbaijan²⁷. The however, meetings between stakeholders have not yielded results despite the proposals that have been made, and both states do not trust the negotiation process, with Azerbaijan having repeatedly expressed its distrust due to the existence of a large Armenian diaspora in its three states co-chairmanship. A major obstacle to finding a solution, in addition to its complexity the issue is that the leaders of the two countries consider that time works in its favor each separately.

Nagorno-Karabakh has become an absolute issue of Armenian nationalism. Armenia believes that the international climate is in favor of the right of self-determination and the future solution of the problem should guarantee the security of the Armenians of Nagorno-Karabakh, while Azerbaijan relies on the principle of non-redefinition of national borders and believes that its economic magnification that allows him to increase his military power improves the condition trading.

²⁶ Svante E. Cornell, *Small Nations and Great Powers: A study of ethnopolitical conflict in the Caucasus*, (London and New York: RoutledgeCurzon, Taylor & Francis e-Library, 2005), 47

²⁷ <http://www.osce.org/mg/108306>.

Maintaining the status quo in Nagorno-Karabakh serves the Russian interests in the region, as unresolved conflict necessitates existence Russian military bases in Armenia, which is completely dependent on Russian diplomatic, financial and military support. Besides, since August Russia and Armenia have signed a Friendship, Cooperation and Cooperation Agreement Mutual Support, which includes a clause for the obligation of each party to assist the other in the event of an attack by a third country. Azerbaijan on the other hand has been steadily increasing its defense spending since 2006 and based on revenue from oil sales²⁸. The Permanent Nagorno-Karabakh Conflict Remains to produce incessant skirmishes and episodes of violence along the borders that were drawn up with the ceasefire in 1994. The danger of continuing violence will could lead to a recurrence of hostilities given the involvement and other regional powers in the conflict

South Ossetia and Abkhazia

Georgia was the first of the Soviet republics to organize free parliamentary elections in October 1990, which elected him President Ziad Gamsahurdia, while in April 1991 declared its independence. The existence of autonomous political entities within the Soviet federal system, mentioned above, enabled it to be created gradually a political and economic leadership of the ethnic minority, which had taken over the management of resources and had acquired specific interests. The political and economic disintegration in which the Soviet Union came to an end in the 1980s fueled a climate of competition between its ethnicities in the South Caucasus for control over the local state mechanism and conservation of financial resources. This favored secession and unification efforts with neighboring political entities²⁹.

Georgia has abolished the existing autonomous regime in the region and declared South Ossetia a state of emergency. In mid-1991 Georgian forces bombed the southern capital Ossetia, Tsinvali, but the political instability in Tbilisi due to its overthrow of President Gamsakhurdia by military forces in late 1991 prevented the escalation of conflicts. New President Eduard Shevardnadze followed a suitably calming policy, but Georgian paramilitary forces bombed them in April in Chinwali again. The massacre of Ossetian refugees escalated the tension, with Russian helicopters to bomb

²⁸ Panagiota Manoli, *The Dynamics of Black Sea Subregionalism*, (Ashgate, 2012), 137.

²⁹ Μάνος Καραγιάννης, *Εθνοτικές Συγκρούσεις στον Καύκασο και την Κεντρική Ασία: Μία Συγκριτική Ανάλυση*, Αθήνα, ΕΚΕΜ, 2005, 60

Georgian forces and cut off North Ossetia the supply of natural gas to Tbilisi through a passage through its territories pipeline. The prospect of the involvement of third forces in the conflict, namely the North Ossetia and Russia, led to the end of hostilities by signing agreement between Georgia and Russia in June, which set out growth peacekeeping forces from Georgia, South Ossetia, North Ossetia and Russia. The death toll from the Georgian-Ossetian conflict is estimated at 700 dead and 100,000 refugees. South Ossetia remained a de facto independent state without some agreement between the two sides on the final status. Although Tbilisi in the following years he showed compromise, proposing the maximum possible degree autonomy for its reintegration into Georgia, the Ossetian leadership insisted on North Ossetia and Russia³⁰

The Shevardnadze government was forced to call for the intervention of Russian forces to deal with them, with but in exchange for Georgia's accession to the CIS and the concession to Russia four military bases on its territory. After lengthy negotiations between Georgia and Russia, the last Russian military forces withdrew in end of 2007 from Georgian territory. The last ceasefire agreement was signed in May 1994 which put an end to the Georgian-Abkhazian conflict with the creation demilitarized zone and the development of a CIS peacekeeping force, consisting only of Russian soldiers, whose neutrality constitutes subject to dispute, while observers were in the area until 2008 of the UN. It is estimated that 10,000-30,000 Georgians were killed during the conflict, 3,000 Abkhazians, while 200,000-240,000 Georgians became refugees. In 1998, at the largest outbreak occurred between Tbilisi and Sukhumi since the 1994 truce, the Abkhazians forced another 30,000-40,000 Georgians to leave the Gali zone.

Serious clashes between Georgian and Ossetian forces in July and August 2004, they again raised tensions in the region, following the rise to power Georgia's pro-Western Mikheil Saakashvili, who sought the immediate accession of Georgia in NATO. The events of 2004 and the financial embargo imposed by Russia in Georgia in 2006 were the prelude to the military conflict that will followed 4 years later. The Russian-Georgian conflict in August 2008 which started on August 7 was the culmination of a constantly escalating tension throughout during the year between Georgia and Russia.

³⁰ Μάνος Καραγιάννης, Εθνοτικές Συγκρούσεις στον Καύκασο και την Κεντρική Ασία: Μία Συγκριτική Ανάλυση, Αθήνα, ΕΚΕΜ, 2005, 25

After its bombing Tskhinvali, the capital of South Ossetia, by Georgian forces and the occupation of Russian troops enter South Ossetia, overthrow Georgian forces and then invaded Georgia and occupied Georgian lands and cities, making a show of strength. At the same time, Abkhazian forces with the Russian air support occupied the Contori area. It was the first time Russia deployed military forces across its borders during the post-Cold War period. A ceasefire was signed by the Presidents of France on 15 August, of Russia and Georgia. Russia's financial, diplomatic and military support has been paramount factor that contributed to the de facto independence of Abkhazia and the South Ossetia during the ethnic conflicts in the early 1990s and beyond their strengthening in the 2000s. Despite the internationalization of settlement processes with the participation of the OSCE and the UN, Russia's dominant role in models of peace and negotiation helped maintain the current reflecting the acquired Russian geopolitical interests in the region.⁸⁵ Russian policy can serve the interests of their leaders de facto independent democracies which is to avoid a return to its governance Georgia, but at the same time reduces their role in negotiations and disputes these are increasingly evolving into disputes between Russia and Georgia. Despite the new situation that emerged after the 2008 conflict, Georgia maintained its Euro-Atlantic orientation and in November 2013 signed Association Agreement with the EU.

Transnistria

Transnistria is a breakaway region of the Republic of Moldova, which is bordered on the west by the river Dniester and on the east by Ukraine. Moldovans make up 32%, Russians 31% and Ukrainians 29% total population of the region. Its Russian population during its period of the collapse of the Soviet Union in the early 1990s, he wanted to stay in the USSR or integration into Russia and not integration into an independent Moldova and the adoption of the Romanian language. A short one followed escalating conflict in 1992 between Moldovan forces and separatists that caused about 1,500 deaths and ended with the intervention in favor of the separatists, Units of the 14th Russian Army stationed in Transnistrian capital, Tiraspol³¹. This particular outstanding conflict does not due to intense inter-ethnic, intra-community or

³¹ Nicu Popescu, *The EU in Moldova – Settling conflicts in the neighbourhood*, (Paris: The European Union Institute for Security Studies, Occasional Paper No 60, October 2005), 15.

religious conflicts such as pending conflicts in the South Caucasus. The incentives of the industrialized Transnistria to remain an independent entity is basically financial.

The local government has greatly developed foreign trade compared to all other de facto independent Black Sea democracies and the economic situation of Moldova is not an attractive factor for Transnistria's reintegration into it. In addition, the independence of the region does not only serve established group interests in Tiraspol but also in Chisinau, Kyiv and Moscow, as the area is a hub for organized crime, as the illicit trafficking in goods, weapons, drugs and people generates significant revenue.

To secure the demilitarized zone between Transnistria and Moldova has developed a peacekeeping force of Russian troops of both involved, overseen by a Joint Audit Committee consisting of Moldova, Transnistria and Russia and as observers the OSCE and the Ukraine. At the same time, there is a political negotiation process consisting of Moldova and Transnistria and Russia as mediators, Ukraine and the OSCE³². The EU and the US are participating as observers since 2005, completing the so-called "5 + 2" negotiating team. But Russia maintains a dominant role in trading processes and a high degree of control over the involvement of international organizations through its veto power in OSCE, in a model that met the needs of the early 1990s.

Transnistria would be involved in foreign policy decisions that affected it and would have the right to develop a separate international economic activity with the consent of Moldova³³. In 2003 with the so-called Kozak Memorandum, Russia proposed to Moldova as a solution the federation to unite Moldova with Transnistria, which would but he gave the veto to the latter in all its important matters unified state and was finally rejected in November by the Moldovan President Vladimir Voronin³⁴.

Since 2003, Moldova has sought closer cooperation with both the EU through the Action Plan (Action Plan) of the European Neighborhood Policy and with NATO through the Individual Action Plan. The mission EU Border Assistance Mission at the

³²Nicu Popescu, *The EU in Moldova – Settling conflicts in the neighbourhood*, (Paris: The European Union Institute for Security Studies, Occasional Paper No 60, October 2005), 16.

³³Nicu Popescu, *The EU in Moldova – Settling conflicts in the neighbourhood*, (Paris: The European Union Institute for Security Studies, Occasional Paper No 60, October 2005), 16.

³⁴Riina Kaljurand, *Russian influence on Moldovan politics during the Putin era (2000-2008)*, ICDS, November 2008

Moldovan border -Ukraine to ensure more effective controls and the joint declaration on customs, which entered into force in March 2006, contribute to its support sovereignty of Moldavia³⁵. Russia for its part disapproved of the common declaration on customs, citing the further blockade of Transnistria, while overall Russia-Moldova relations have entered a path of deterioration³⁶.

In the spring of 2006, Russia imposed a trade embargo on Moldovan wines and agricultural products negatively affecting the Moldovan economy, as well as Russia imported 80-90% of wine production³⁷. The ongoing conflict in Transnistria allows Russia to maintain a significant military presence in the area, as part of the peacekeeping force, which is essentially the guarantor power of Transnistria, but also a lever of pressure against Moldova. Resolving the conflict would mean its withdrawal Russian presence from the region and its inevitable replacement by some other unfriendly force³⁸. In June 2014, Moldova concluded an Association Agreement with the EU, while the visa requirement was abolished in April of the same year entry of Moldovan citizens into EU countries

1.3. Russia and Maritime Trade – Historical Background

One of the results of the Syrian crisis (2011-) is the strengthening of the Russian presence in the eastern Mediterranean. She manifests in many forms. One of them is the presence of a fleet. But it was not a new event as history teaches. The desire of the Russians to reach the Mediterranean Sea ("warm waters") was born because the ports in the northern seas froze in winter and also the Mediterranean countries offered opportunities for the development of trade. Under Tsar Peter I, who consolidated his sovereignty in the Sea of Azov, this was a feasible scenario³⁹.

The next step was the sovereignty of the Black Sea, a necessary condition for access to the Mediterranean. It was fateful that the Russian Empire clashed with the Ottoman

³⁵ Radu Vrabie, *EU Role in the Settlement of the Transnistrian Conflict*, APE, Chisinau, 2010, 5-6.

³⁶ Svante Cornell et al., *Η Ευρύτερη περιοχή του Ευξείνου Πόντου: Ένας νέος κόμβος στην ευρωπαϊκή ασφάλεια*, (Αθήνα: Εκδόσεις Παπαζήση, 2007), 98-99

³⁷ Igor Munteanu, «Η πολιτική της Μολδαβίας στην περιοχή του Ευξείνου Πόντου και τον ΟΣΕΠ», στο *Ξεδιπλώνοντας την Οικονομική Συνεργασία του Ευξείνου Πόντου: Απόψεις από την περιοχή*, επιμ. Παναγιώτα Μανώλη, (Αθήνα: Εκδόσεις Παπαζήση, 2009), 492-493

³⁸ Nicu Popescu, *The EU in Moldova – Settling conflicts in the neighbourhood*, (Paris: The European Union Institute for Security Studies, Occasional Paper No 60, October 2005), 24-25.

³⁹ Abulafia David (Ed.), *The Mediterranean in history*, London, Thames & Hudson Ltd, 2003

Empire, which controlled the exits to the Aegean Sea. Something like this happened in the second half of the 18th century with the war of 1768-1774. "Orlovika" was also part of the conflict. It was a rebellion in Greece which was then under the authority of the sultan. The rebellion was instigated by Russia by Empress Catherine II who seized the opportunity to undermine the Ottomans and exit to the Aegean⁴⁰.

The Ottomans blockaded the Dardanelles and Russia was forced to send ships from the Baltic fleet to lift the blockade. Indeed, the Russian armada reached the Aegean (1770) where it laid siege to the fortress of Koroni, put part of the Ottoman fleet to flight in the Argolic Gulf and in June reached the coast of Asia Minor. The Ottomans were forced to give battle at Cesme in July (1770) because the Russians were behind them. The naval battle ended with a Russian victory. Another naval battle followed in the same month in Chios, again with the defeat of the Ottomans. The Russian naval presence was undeniable. In fact, with the Treaty of Kyuchuk Kainartzis (1774) where the Russians and the Greeks obtained commercial benefits, the power of the Ottomans decreased⁴¹.

With the advent of the 19th century the Russian desire would not change. The Russians had achieved a lot but with their everincreasing power they wanted greater dominance in the Mediterranean. Thus, a new war broke out against the Sultan (1806-1812). While Europe was in the throes of the Napoleonic wars there were uprisings in the Ottoman lands. Russia began war preparations and the Sultan ordered the blockade of the Straits by the Ottoman fleet. Tsar Alexander I ordered his fleet to break the blockade. In May 1807, the naval battle of the Dardanelles took place. It ended with the defeat of the Ottomans. In Constantinople, Sultan Selim III was dethroned and the Russian fleet left the Aegean. At the naval battle of Athos in June, the Russian fleet once again defeats the Ottomans. As a result, the Russian naval presence was established in the archipelago. The purpose of the West was to limit it. The occasion was given by the new Russian-Turkish conflict. The destruction of the Ottoman fleet in Sinop by the Russian under Admiral Nakimov on November 30, 1853 worried the West which, wanting to keep the Ottoman Empire "alive" which

⁴⁰Bruce Anthony, Cogar William B., *Encyclopedia of naval history*, Chicago-London, Fitzroy Dearborn Publishers, 1998.

⁴¹Sozaev Eduard, Tredrea John, *Russian warships in the Age of Sail 1696-1860: design, construction, careers and fates*, Yorkshire, Seaforth Publishing, 2010.

would prevent the Russian descent, decided to intervene. The Crimean War broke out (1853-1856) which ended with the defeat of the Russians. This development weakened the Russian fleet and reduced the threat to British interests in the Mediterranean. The new Russian-Turkish war (1877-1878) did not involve the Russian fleet in the Mediterranean⁴².

The entry of the 20th century would find Russia in a difficult position. Internal turmoil, question of modernization and the outbreak of the First World War (1914-1918) would result in the disintegration of the Russian Empire and the end of the Romanov dynasty. The Russian fleet had little presence in the theaters of war. Entente tried to help the tsar by opening a corridor across the Straits. Fate turned against the Ottomans. The operation at Gallipoli (1915-1916) ended in failure of the Entente while the Russian fleet was reduced to operations in the Black Sea⁴³. From 1917 to 1945 the Russian presence in the Mediterranean was minimal to non-existent. The most important fact was that with the Bolsheviks in power and the rearmament of the USSR, the West became alarmed and the Treaty of Montreux was signed in 1936 giving control of the Straits to Turkey and limiting Russian presence in the Mediterranean.

With the beginning of the post-war period that coincided with the beginning of the Cold War and the independence of the Middle Eastern states, the facts changed. Moscow was worried about the presence of the 6th American Fleet in the Mediterranean. Thus he proceeded to establish the 5th Mediterranean Squadron. The purpose was to be an "opponent" in awe of the Americans and by acquiring naval bases in Egypt and Syria to oppose the US admiralty. in Italy. Also, the responsibility of the Squadron would be the protection of the Soviet merchant navy. The Squadron from 1967 began to have a dynamic presence in all major crises and conflicts. Of course, its bases were limited to Syria (Tartus) from 1973, but this did not significantly reduce its presence. The squadron was finally disbanded in 1992 and

⁴²Whetten L. Lawrence, *The soviet presence in eastern Mediterranean*, National Strategy Information Center, 1971.

⁴³Wang James C. F., *Handbook on Ocean politics and law*, Connecticut, Greenwood Publishing Group, 1992.

reconstituted in 2013 in order to be the "tip of the spear" of the Russian naval presence in the Mediterranean⁴⁴.

2. The EU-Ukraine – Russia Crisis Triangle: Evidence of Local and Global Consequences for International Trade

2.1. Discreet cooperation between Ukraine and NATO

With the approach of the country's borders the importance of Ukraine for the Alliance was growing, and mainly concerned its geopolitical dimension. During the procedure of Ukraine's expansion to NATO, made it extremely important its geostrategic importance. If the accession of the Baltic States to NATO, it meant the completion of NATO's northeastern wing, then its accession of Ukraine, would mean the completion of the south-eastern wing of the Alliance⁴⁵. The decision of the National Security and Defense of Ukraine to start a process of whose ultimate goal is NATO membership, is vital for the country, not only because it determines the outlook of external security, but also because it provides guarantees for the internal democratic and economic reforms⁴⁶.

The accession to NATO will solve important issues for the future of Ukraine, as an independent and sovereign European state, such as:

- Providing strong guarantees of national security, territorial integrity and the national sovereignty. Joining NATO allows avoiding these global and regional threats that Ukraine cannot face alone

⁴⁴Papastratigakis Nicholas, *Russian imperialism and naval power, military strategy and the build-up of the russo-japanese war*, New York, I.B. Tauris, 2011.

⁴⁵Vladimir Putin, "Direct Line with Vladimir Putin," Official Site of the President of Russia, April 17, 2014.

⁴⁶Adam Withnall, "Ukraine Issues Warning as Key City 'declares Independence from Kiev'," *The Independent*, April 07, 2014

- Strengthening the country's national defense, forcing it to bring in the armed forces according to modern standards
- Facilitate participation of high technology for the defense industry and fuller implementation of the scientific and technical potential of our country
- Strengthening the internal and social stability of the country, as well as its member countries NATO are world leaders in providing socio-economic and socio-political standards
- Creating favorable political conditions to attract powerful Westerners investments in the economies of the member states
- Facilitating the consolidation of society, strengthening democracy, the rule of law and of human rights
- Possibility of withdrawal of Ukraine from the sphere of geopolitical sovereignty and achieving equal relations with NATO member states
- Integration with the European Community and its political and economic structures, especially in the EU
- Increasing Ukraine's international prestige, with more active participation in European ones procedures, strengthening its role of stability and security in the Black Sea Eastern Europe

Thus, joining the Alliance – is a problem of historical choice between Europe and Eurasia, i.e. between democracy and authoritarianism. And such a historical one each country located in Europe should make a choice. Joining NATO for Ukraine requires significant and sustained efforts. To achieve these objectives, it should develop a clear and reasoned strategy for the Euro - Atlantic integration of it, which will take into account national interests, conditions of foreign policy and its internal capabilities⁴⁷.

The Alliance, was placed from the beginning negative towards the events in Ukraine. During the NATO Foreign Affairs Summit, in December of 2013, a statement was issued which condemned the use of excessive force against protesters under the Yanukovich regime. Since then, developments in Ukraine have been subject of permanent reflection in the NATO context. NATO disapproves of them Russian actions in Ukraine, he is, however, in favor of a peaceful resolution of the crisis⁴⁸. On

⁴⁷"Ukraine Crisis: EU Signs Association Deal," BBC News, March 21, 2014.

⁴⁸Nick Paton Walsh. Diana Magnay and Matt Smith, "Ignoring West, Crimea Readies Vote on Joining Russia," CNN, March 12, 2014.

March 17, 2014, the Alliance condemned the referendum in Crimea, calling it illegal and undermining discovery efforts political solution to the crisis, and called on Russia to contribute to its de-escalation, avoiding annexing the area, which would be a clear violation of the United Nations Charter. In response to Russian activities in Eastern Ukraine, the Foreign Ministry - NATO Summit ratified the decision to suspend its practical and military cooperation with Russia, within the framework of the NRC (NATO – Russia Council), maintaining only one channel of communication at the embassy level. Also, the Secretary General of NATO, made a visit to Kyiv, where he repeated the NATO's support for the sovereignty and territorial integrity of Ukraine, he characterized the NATO-Ukraine Partnership strong and long-term and assured about closer cooperation for the reform of its defense structures⁴⁹. According to meeting of the NATO-Ukraine Commission at the level of Heads of State and Governments, as part of the Wales Summit in September 2014, an exchange of views was held with President Poroshenko on the Ukrainian issue crisis and a Joint Statement of the NUC was adopted. In the discussions, the party was confirmed of the Allies commitment to strengthening the NATO-Ukraine Partnership, as Distinguished Partner⁵⁰. At the same time, in the Text of the Joint Declaration of the NATO Committee – of Ukraine, the condemnation of the annexation of Crimea is confirmed and is restated, that an independent and stable Ukraine, adhering to its principles democracy and the rule of law, is key to Euro-Atlantic security.

In this regard, it is noted that during the Summit, President Obama, with an intervention of, emphasized the need for US and EU unity to send a strong politician message to Russia reiterating the call for assistance in Ukraine to security sector.

On the domestic front, there were three important developments:

- i. The Minsk Protocol, consisting of twelve points, imposed an immediate cessation fire. In an attempt to deal with his constant violations a was signed follow-up memorandum which attempted to clarify the provisions of the Protocol. Despite its continuous violations, until today, this text is the only one binding agreement on cessation of hostilities.

⁴⁹Barack Obama, "Readout of the President's Call with President Putin," National Archives and Records Administration, March 16, 2014.

⁵⁰Heidi Reisinger and Aleksadr Golts, "Russia's Hybrid Warfare: Waging War below the Radar of Traditional Collective Defense," NATO Defense College, November 1, 2014, 3

- ii. The Ukrainian parliamentary elections of 26 October. Their result was overwhelmingly in favor of pro-European parties, with additional positives estimate the fact that 50% of the deputies were elected for the first time and that they stayed outside Parliament, extreme political formations.
- iii. The "elections" in the regions controlled by the separatists. Despite appeals for their postponement and abatement, the election proceeded as normal, creating another focal point of friction in relations with Russia. It was about elections which were conducted without democratic guarantees, the result of which was not recognized from any country officially, not even from Russia. According to the Ukrainian Government, the conduct of these elections was a gross violation of the Minsk Protocol, while Russia claimed that such a provision existed in its undisclosed document Minsk agreement.

2.2. The Ukraine War and EU-Russia Energy Relations

Changing borders on the basis of asymmetric power and induced military action refers to the dark Europe of power politics and hard power. At the same time, it sows terrible concern for a possible continuation of this example in a series of frozen crises in the common neighborhood of the EU and Russia (such as Nagorno-Karabakh, South Ossetia, Abkhazia, Adjara and Transnistria). On the contrary, I do not think that Europe would oppose a process based on the rules of international law that would allow, over time, the gradual autonomy and, perhaps, integration of the Crimean peninsula into Russia, given the history of the region as well as its population composition. On a geopolitical level, the re-emergence of the Kremlin dressed as the Russian bear is frightening a Europe that has consciously renounced violence. At the same time, however, due to the special relationship between the two sides in the energy sector, the crisis in Ukraine casts its shadow on the European debate on energy security, both in the short term and in the long term.

The EU obtains a large proportion of its total oil and gas consumption from Russia. However, the debate is focused on natural gas for a number of reasons. While the oil market is global, natural gas markets are essentially regional. We can distinguish the Eurasian market (EU, Russia, N. Africa), that of Southeast Asia (Japan, S. Korea, Malaysia, Indonesia), the market of N. America (Canada, USA, Mexico) and that of S. America. While there are overlaps between these markets (for example, the EU

sources gas from the Caribbean, Nigeria supplies both EU members and the US, etc.), these systems are distinguished by the fact that the partners engage in stable energy flows that are more or less cover all their imports/exports. This is because natural gas is mainly transported through pipelines, due to its nature as a gas. Only a small part of the gas traded globally is transported in liquefied form (LNG).

In the oil sector the situation is inversely proportional, which implies that the trading of oil is much easier as there is an abundance of suppliers, customers and routes. Consequently, an interruption of Russian oil supply will hurt the world market which can be seen in the rise of world prices. However, given the range of oil producers, Europe can find alternative sources. In the natural gas sector, on the other hand, Russia accounts for approximately 1/3 of the EU's natural gas imports. The other two main suppliers (Norway and Algeria) have neither the reserves nor the infrastructure to replace a possible loss of Russian supplies (this is much more the case for the rest of the EU suppliers which account for less than 1/8 of total imports of the EU in natural gas). The fact that Russia has the largest natural gas reserves in the world (about 1/4 of the world's reserves), the second-largest country in reserves, Iran, remains isolated geopolitically and energy-wise, and the Caspian remains, in terms of infrastructure, blocked from the European gas market make the EU's dependence on Russia for natural gas extremely critical. It should be noted, however, that Russian dependence on the European market is also high. For more precisely, it is greater, given that 2/3 of Russian natural gas exports are directed to the European market. As much as Europe needs Russian gas, Russia needs European money even more. We are talking about a relationship of interdependence, not unilateral dependence

In 2007 the Italian ENI agreed with Gazprom for the construction of the South Stream pipeline that would bring Russian gas again under the sea to Bulgaria and from there through a branch to most of the states of western and central Europe. After the energy crisis of 2009, the two companies announced their intention to significantly increase the transit capacity of the pipeline, from 33 to 63 billion cubic meters. This pipeline is

at the economic and technical study stage. If completed it will be able to almost completely replace the pipeline network that runs through Ukraine⁵¹

In parallel to the above, in the last two decades European companies concluded a series of new contracts with Gazprom. Shortly after the explosion of the global financial crisis, the traded quantities had skyrocketed to approximately 155 billion cubic meters. Since 2009, the quantities have decreased and today the amount of imports is around 135 billion cubic meters. Behind the increase in energy cooperation is not only the mutual understanding that it is a positive-sum/win-win game that brings energy to the EU and cash to Russia. The energy cooperation is part of a wider framework of economic cooperation between, first of all, German and Russian companies in a number of sectors, the City of London and Russian businessmen and high European investments in the Russian market⁵².

This policy, summed up in the "Russia first policy" doctrine, can certainly change in the event that Russia intensifies its dynamic stance and intervenes directly in the eastern part of Ukraine. However, Russia is weighing its options and maintains a wait and see approach for the time being. It recognizes that its energy interests are at stake it is counterproductive. That is why, after all, it is not proceeding to cut off Ukraine's supply even though its apparent inability to pay and the accumulation of exorbitant debt (and the terms of the contract that binds the two sides) give it that right. The new infrastructure systems, moreover, allow the two sides to cover most of their trade even bypassing Ukraine entirely. The existence of important storage facilities, finally, both in various European states and in Ukraine, offers the necessary flexibility for a few weeks-months in case of a temporary interruption of the supply⁵³

The concern that has arisen regarding the future of Euro-Russian relations has led both sides to second thoughts about the construction of South Stream. The outcome of the crisis and how the EU and Russia approach each other will play an important role in whether or not the construction of the pipeline goes ahead. A departure from the original plans would have medium-term implications for Euro-Russian trade.

⁵¹ Proedrou, F. (2007), *The EU–Russia energy approach under the prism of interdependence*. *European Security* 16.3-4: 329-355

⁵² Egenhofer, C. and Behrens, A. (2008), *Two sides of the same coin? Securing European energy supplies with internal and external policies*, CEPS, Brussels, pp. 1-13

⁵³ CIEP (2008), *The gas supply outlook for Europe. The roles of pipeline gas and LNG*, Clingendael International Energy Programme, The Hague, pp. 1-77

However, it is beyond certain that it will be implemented unless the Ukraine crisis spirals out of control. For the time being, the public projection of concerns about the completion of South Stream is normal on a symbolic and rhetorical level. Second, Russia is moving to build infrastructure to supply Crimea, which until recently was supplied with gas through the domestic Ukrainian network. Third, the US was quick to announce plans to supply the – more sensitive due to geographic proximity and history⁵⁴ – Baltic countries with LNG in order to pre-empt any aggressive Russian tactics in the energy sector targeting the small Baltic states. Fourth, EU packages of measures to freeze the assets of some Russians and ban them from entering the EU are framed by corresponding Russian plans to freeze Western assets in Russia.

In its broadest sense, the future of EU-Russia energy relations tends towards more stability and fewer problems. The first main reason advocating in this direction is the largely accomplished unblocking of Euro-Russian trade by transit countries that maintain problematic relations with Russia. The other is the creation of common infrastructures that bind the two sides in decades of cooperation. The pressure of companies that have invested huge amounts and will reap profits over the years is an important factor in consolidating and perpetuating the smooth energy trade⁵⁵.

At the same time, while the EU is slowly but surely seeing small quantities flow in from third producers (Azerbaijan, other African states, soon from Israel and later from Cyprus), Russia is making timid openings to China, Japan and more distant markets with shipments LNG. This will defuse discussions of over-reliance on both sides. At the same time, it does not create a dynamic of complete conversion from one market to another, or from one supplier to another, given that in the immediate future neither the alternative markets can absorb all Russian exports, nor can Europe cover the needs of natural gas without Russia's assistance. That is why, in the medium term, the cooperation on the basis of the investments and pipelines that have been carried out and the contracts that have been signed in recent years will naturally continue. Finally, the construction of European networks that will connect the national markets of the members implies the completion of the interconnection of the single European

⁵⁴ Helm, D. (2007), *The Russian dimension and Europe's external energy policy*, Oxford: University of Oxford, pp. 1-63.

⁵⁵ Checchi, A. et al. (2009), *Long-term energy security risks for Europe: a sector-specific-approach*, CEPS Working Document, no. 309, pp. 1-52

energy market. This move shields the EU and its members most exposed to Russian energy dependence (in the "new" Europe) and therefore also shields Euro-Russian energy cooperation⁵⁶.

From the above, it can be concluded that the Ukraine crisis, while creating friction and problems in Euro-Russian relations and no one can rule out a significant escalation of the confrontation, is by no means certain to disrupt the solidly founded EU-Russia cooperation in the field of natural gas⁵⁷. However, there are growing voices calling for the EU to rethink its dependence on Russia. The first reason is geopolitical. Dependence on Russia limits the scope of an already limited European foreign policy based on intergovernmental cooperation and therefore appears weak. The second has to do with the continued dependence on fossil fuels in an era characterized by the dual challenge of the advancing scarcity of natural resources and, above all, climate change caused mainly by the burning of fossil fuels⁵⁸. In this context, the radical diversification of the energy mix through a network of major investments in renewable sources, increasing energy efficiency, taxation of fossil fuels and of their emissions and more efficient management of energy demand⁵⁹.

This debate had been opened in the previous decade, but in the context of the Eurozone crisis, the emphasis was placed again on traditional means of ensuring energy security. Random and seemingly unrelated events, such as the Ukraine crisis and a rift with Russia, can act as drivers for the adoption of such policies. If the EU historically learns from the crises it has to face, then the turmoil in Ukraine, even without the further escalation of the crisis, can be an opportunity for a more comprehensive assessment of European energy security. This cannot take into account only its first two dimensions, i.e. the obtaining of sufficient quantities at relatively

⁵⁶ Stern, J. (2005), *The future of Russian gas and Gazprom*, Oxford: Oxford University Press

⁵⁷ Proedrou, F. (2010), Sensitivity and vulnerability shifts and the new energy pattern in the EU–Russia gas trade. *Studia Diplomatica* 63: 1, pp. 95-104.

⁵⁸ Proedrou, F. (2012), *EU Energy Security in the Gas Sector: Evolving Dynamics, Policy Dilemmas and Prospects Surrey: Ashgate*; Finon, D. and C. Locatelli (2007), *Russian and European gas interdependence. Can market forces balance out geopolitics?*, CIREN Working Paper, pp. 1-35.

⁵⁹ Pirani, S. et al (2014), *What the Ukraine crisis means for the gas markets*, The Oxford Institute for Energy Studies, Oxford Energy Comment.

affordable prices, but also the part of its sustainability which is imperatively posed by the reduction of natural resources and climate change⁶⁰.

2.3. The effects of the war on maritime trade

2.3.1. General

The aim of the analysis carried out by the International Energy Agency is to identify immediate actions for the de-addiction and short-term resilience of the European gas system, minimizing difficulties for the vulnerable. Many of the proposals put water on the energy transition, since a return to coal and oil is proposed, while also targeting the surplus profits of energy groups that benefit from wholesale prices. It proposes, among other things, not to renew the contracts of European companies with Gazprom that expire in 2022. We should emphasize here that in Greece contracts with Gazprom are held by DEPA Emporias, which expires in 2026, and Mytilineos, which was made in 2020 and it is a long term contract.

Mytilineos' cooperation with Gazprom has been built since 2017, when the Greek company began to procure the first quantities of natural gas, but not with long-term agreements, and the same tactic was followed in 2018 and 2019. According to the International Energy Agency, in 2021 the EU imported 155 billion cubic meters of gas from Russia, covering 45% of its consumption. The aim of the analysis is to identify immediate actions that can be taken for de-addiction and for the short-term resilience of the European gas system, minimizing hardship for vulnerable consumers.

The ten points International Energy Agency suggests are:

- End of new supply contracts with Russia

If Europe takes advantage of the expiring long-term contracts, then it will reduce take or pay levels of Russian imports and have greater supply diversification.

- Replacing Russian supplies with gas from alternative sources

⁶⁰Victor, D. et al (eds.) (2006), *Natural gas and geopolitics: From 1970 to 2040* Cambridge: Cambridge University Press;

The IEA's analysis shows that European production and imports from other countries (such as Azerbaijan and Norway) can increase by 10 billion cubic meters in relation to 2021. Also, the EU can theoretically increase LNG inflows by 60 bcm. per year, but this would mean a very "tight" LNG market and very high prices. However, EU estimates that the import of 20 billion cubic meters is feasible.

- Introduction of minimum storage obligations

Natural gas storage plays a key role in meeting seasonal demand. The current seasonal differences in storage prices do not provide sufficient incentives for inflows ahead of the summer period, as shown by the recent EU capacity auctions. The IEA's analysis shows that 90% storage levels are needed on October 1, so inflows should be 18 bcm. higher than they were in 2021.

- Accelerating the development of new wind and photovoltaics

This year, record wind and solar additions combined with mild weather are already forecast to boost renewables generation by 100 terawatt hours, up 15% from last year. If there is a concerted effort to install more RES, production can be increased by another 20 terawatt hours.

- Maximize production from bioenergy and nuclear

In 2021 several nuclear reactors were shut down for maintenance. Their return this year together with the new Finnish station can boost European production by 20 terawatt hours. On the other hand, four reactors are scheduled to be decommissioned by the end of the year and one more in 2023. A temporary postponement of decommissioning could reduce gas needs by 1 billion cubic meters monthly. Also, bioenergy plants that operated at 50% last year can generate 50 more terawatt hours this year if they have the right incentives and supplies, for a total of 70 terawatt hours with nuclear.

- Short-term measures to protect vulnerable consumers by taxing excess profits in electricity production

With current market design, high gas prices in the EU translate into high wholesale electricity prices in a way that can make excessive profits for producers. The IEA considers that this has important implications for access to electricity, as well as for the financial incentives to electrify the energy sector. Support measures for vulnerable

consumers in the EU already amount to 55 billion euros. The current wholesale electricity markets generate surplus profits for the energy groups, far beyond their costs, in the order of 200 billion euros for this year

- Accelerating the use of heat pumps instead of gas boilers

Replacing natural gas heating boilers with heat pumps can reduce gas consumption by 2 billion cubic meters this year.

- Accelerating energy efficiency in buildings and industry

Gas consumption for heating can be reduced by 2 billion cubic meters per year, while reducing bills and enhancing industrial competitiveness.

- Encourage consumers to lower the thermostat

If the thermostat is reduced by just 1 degree Celsius, the demand for gas is reduced by 10 billion cubic meters annually.

- Efforts to diversify and decarbonize sources of flexibility

A boost to innovation is needed in the short term, which can decouple the strong link between gas supply and electricity sufficiency. Real-time electricity price signals can unlock more flexible demand and reduce the need for gas-fired peak generation.

The conflict between Russia and Ukraine has its roots from the February 2014. Russia's invasion of Ukraine began on the 24th February 2022, at the behest of Vladimir Putin, culminating in ongoing Russian-Ukrainian conflict for years. A few days earlier, on February 21, 2021, Russia declared Donetsk and Lugansk regions as independent states⁶¹. The very next day, Russia decided the military intervention, with the soldiers to invade both areas⁶². The former U.S minister of foreign affairs American, Henry Kissinger, stated that the Ukrainian issue was an issue

⁶¹Notteboom, T., Pallis, T., & Rodrigue, J. P. (2021). Disruptions and resilience in global container shipping and ports: the COVID-19 pandemic versus the 2008–2009 financial crisis. *Maritime Economics & Logistics*, 23(2), 179-210.

⁶²Chowdhury, B.M. (2022, February 23). February 22, 2022 Ukraine-Russia crisis news. CNN. https://edition.cnn.com/europe/live-news/ukraine-russia-news-02-22-22/h_59a413ce984eda5954ce5b9c4655bcc5

confrontation between East and West that has always been on the table, on which side the country will join⁶³.

The start of the war was a pivotal point for its climax deterioration of Russia-Ukraine relations since 2014, causing it reaction of Western governments. The war in Ukraine causes special concern about what the effects on a global economy will be that it has suffered a huge blow from COVID-19 and climate change, with the most devastating effects on developing countries. According to recent forecasts of UNCTAD, it is estimated that the GDP of the world economy will be 1% less than expected due to the war, which creates intense disruption in the energy, food and financial markets⁶⁴

The system of ships and ports that connect the world is complex and world trade is directly dependent on this. To achieve one smoothness of world trade, it is imperative to ensure that the Ukrainian ports are available for international shipping and how to cooperate with those interested in the transport industry still offers services. Also, alternative modes of transport should be sought and strengthened investment in the weaker economies and in transport.

The destruction of important infrastructure, restrictions on trade, regional logistics disruption, increased insurance costs, disruption of port operations in Ukraine, and the highest fuel prices are all factors involved in the logistical obstacles that arose in the Black Sea region and in a global environment more costly for shipping and trade. There were not a few countries that had to look further away for natural gas, oil and grain suppliers. That's what it was like consequently, to increase shipping distances, costs and transit times⁶⁵

Although Ukraine and the Russian Federation are not participating in largely in global container shipping and its networks value chain, trade restrictions and conflict have an influence on this shipping department. As we can see in Figure 1, the transporters of

⁶³Παμπουχίδου, Γ. (2022, March 2). Ανάλυση: Πόλεμος στην Ουκρανία: Πώς φτάσαμε ως εδώ – Τα ιστορικά γεγονότα που οδήγησαν στην εισβολή της Ρωσίας. [www.ertnews.gr. https://www.ertnews.gr/roi-idiseon/analysi-polemos-stin-oykrania-pos-ftasame-os-edo-ta-istorika-gegonota-poy-odigisan-stin-eisvoli-tis-rosias/](https://www.ertnews.gr/roi-idiseon/analysi-polemos-stin-oykrania-pos-ftasame-os-edo-ta-istorika-gegonota-poy-odigisan-stin-eisvoli-tis-rosias/)

⁶⁴UNCTAD (2022). The impact on trade and development of the war in Ukraine. Unctad Rapid Assessment 16 March. <https://unctad.org/webflyer/impact-trade-and-development-war-ukraine>

⁶⁵UNCTAD (2022). Maritime Trade Disrupted: The war in Ukraine and its effects on maritime trade logistics (2022, June 28). <https://unctad.org/webflyer/maritime-trade-disrupted-war-ukraine-and-its-effects-maritime-trade-logistics>

containers reduced the transport capacity of the ships they had assigned to Russia and suspended operations in Ukrainian ports. Cargoes destined for the Russian Federation and Ukraine are now concentrated in ports such as Rotterdam in the Netherlands, of Constanta in Romania, of Istanbul in Turkey, of Hamburg in Germany etc. The charterers with the various delays that face due to route changes, are expected to see an increase of port booking fees. Fares had already risen since the pandemic COVID-19 and the need to redefine containers and of ships during the war, put even more pressure on the prices of rates upwards⁶⁶

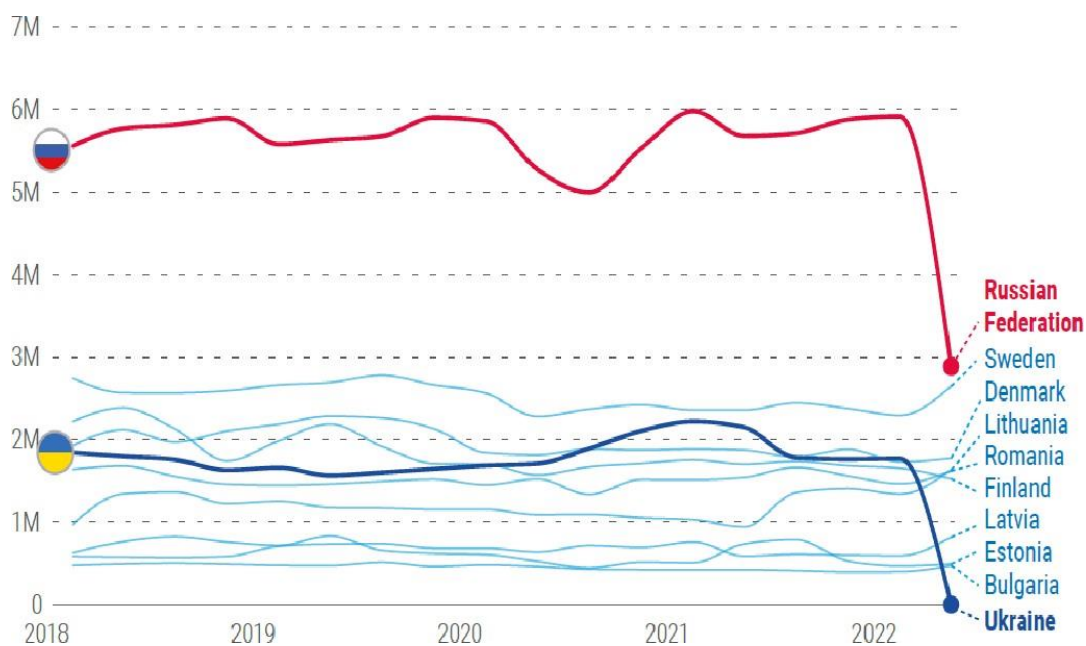


Figure 1: Container shipping growth is going down for the Russian Federation and Ukraine.⁶⁷

UNCTAD in its simulation on 12-14 July 2022, concludes that the high cost of container transport that occurred in the period 2021-2022 will be passed on to consumers, thus adding further growth in their price by 1.6% globally. Still, it suggests that it will there has been an increase in global import price levels by 11.6% on average term, as a result of constant fare increases. More specifically, small island developing states will be hit hardest with an increase of 8.1%. Their import prices

⁶⁶UNCTAD (2022). Maritime Trade Disrupted: The war in Ukraine and its effects on maritime trade logistics (2022, June 28). <https://unctad.org/webflyer/maritime-trade-disrupted-war-ukraine-and-its-effects-maritime-trade-logistics>

⁶⁷UNCTAD (2022). Maritime Trade Disrupted: The war in Ukraine and its effects on maritime trade logistics (2022, June 28). <https://unctad.org/webflyer/maritime-trade-disrupted-war-ukraine-and-its-effects-maritime-trade-logistics>

may face a cumulative increase of 26.7%. Their transportation costs for imports are double to even triple that of global average. Also, the effects on their economy are much more serious when transport costs increase, beyond the already high level transportation costs ⁶⁸

2.3.2. Strong blow to maritime trade from the Russia-Ukraine conflict

2.3.2.1. Sea trade: 58% decrease with Russia due to war

Sea trade with Russia has fallen by 58% since the start of the invasion of Ukraine, new figures from economic data provider Refinitiv reveal as images of empty shop shelves in several cities in the world's largest country emerge. Sanctions and the inherent dangers of being close to the war zone – with five merchant ships coming under fire in the war so far – have ensured that Russia has been massively cut off from global maritime trade in recent weeks.

The drop in ship arrivals at ports is felt far beyond the war conflict. Baltic Sea ports such as St Petersburg, responsible for a third of Russia's maritime trade, now have 65% fewer ships plying, according to calculations by investment bank UBS. Ports in the Pacific, such as Vladivostok, have seen a 52% reduction since the start of the war on 24 February. Behavioral data from the Israeli maritime artificial intelligence platform Windward clearly shows a decrease in crude oil tankers approaching ports in Russia.

Additionally, published data shows that crude oil ships departing from Russia no longer stop at ports in Europe, Asia and North America. However, there is a line to an "unknown" destination followed by ships that have not yet reached their destination. As the data shows, there are still about 46 million barrels of Russian oil on its way to a destination outside of Russia, according to Windward.

It is worth noting that in terms of officers, the combined supply of Russia and Ukraine represents about 13% of the global supply. In the liquid bulk and natural gas sector, shipowners are more exposed to a possible drop in Russian and Ukrainian crew

⁶⁸UNCTAD (2022). Maritime Trade Disrupted: The war in Ukraine and its effects on maritime trade logistics (2022, June 28). <https://unctad.org/webflyer/maritime-trade-disrupted-war-ukraine-and-its-effects-maritime-trade-logistics>

availability and a consequent increase in vessel operating costs from changes in crew composition.

2.3.2.2.Black Sea ports

Black Sea Ports are major export hubs for grain, coal, iron ore - Exports of 231 million dry bulk tons in 2021. The drums of war that are sounding louder day by day between Russia and Ukraine threatening Europe with another war have alarmed the global shipping industry as well. The presence of warships in the Black Sea and the exercises they conduct create serious problems in the conduct of maritime trade.

The Black Sea is one of the hub trade arteries through which important commodities such as crude oil, LPG, steel, refined products, grain and other agricultural products are exported. It is estimated that in 2021 Black Sea ports exported 231 million tons of dry bulk cargo such as grain, coal, iron ore with 85% coming from Russia and Ukraine. Grain exports from the Black Sea are important cargoes for panamax, supramax and handy size cargo ships. In 2021, 39.3 tons of grain were transported with panamax and 23.9 tons with supramax and handy size. Coal, which is another important commodity exported through the Black Sea, reached 53.9 million tons in 2021 and is transported mainly by large cargo ships, capesizes.

A special analysis was made by the evaluation company VesselsValue, according to which it is certain that the unregulated situation, let alone a war, will have a negative effect on the volume of transactions. In particular, the analysis mentions the following: Bulk cargo exports, although in January 2022 they rose to 35 million tons from 28 million in the same month of 2021, in February the picture changes. With the figures so far, cargoes are just under 20 million tons and 15% lower than the average of the last 5 years for the winter period.

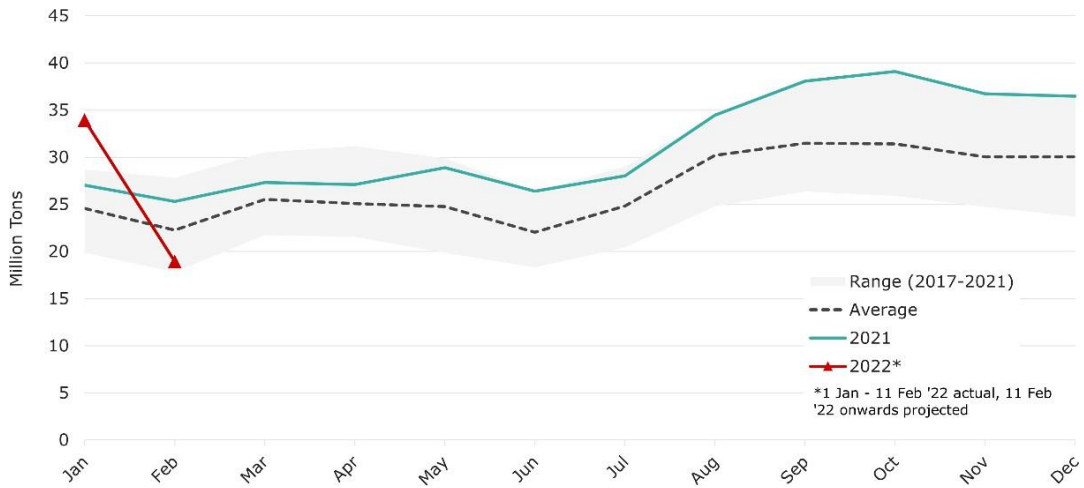


Figure 2: Black Sea Seaborne Dry Bulk Exports⁶⁹

A worse picture exists for oil exports, although other factors such as low demand from Chinese refiners for Caspian crude are contributing to this. The picture is also negative for LPG transport ships.

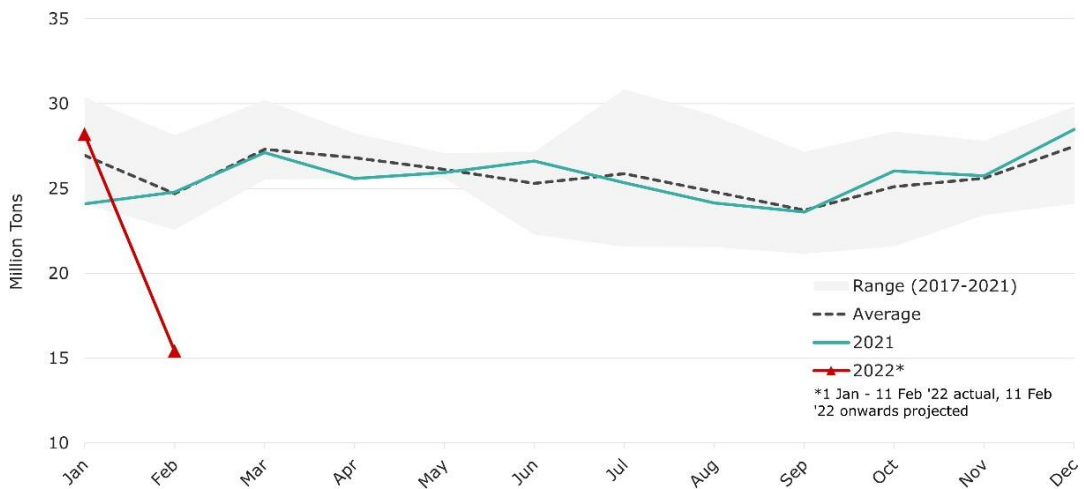


Figure 3: Black Sea Oil Exports⁷⁰

⁶⁹<https://www.vesselsvalue.com/>

⁷⁰<https://www.vesselsvalue.com/>

At the same time, they intensify malfunctions and the lack of seafarers according to the International Maritime Employers' Council. The outbreak of the coronavirus in the Philippines and India and the draconian prevention measures imposed by China again created huge issues with crew changes. What is missing now is a war in Ukraine. IMEC fears a repeat of the problem of 2014 when the West imposed sanctions on Russia over its invasion of Crimea making it very difficult to pay, recruit and repatriate sailors.

Only 15% decreased the departures of ships from Russian ports compared to the period before the invasion of Ukraine after the various bans. Lloyd's List Intelligence estimated that a total of 6,593 merchant ships left Russia and traveled to foreign ports in the second quarter of 2022, compared to 7,784 during the same period in 2021, according to ship tracking data.

There are 88 countries that had inbound routes from Russia during the second quarter of 2022. Algeria, Bulgaria, China, Georgia, India, Mexico, Moldova, Slovenia, South Africa, Turkey and the United Arab Emirates received the largest number of ships between April and June compared to the same period last year. China and India are the two countries that have seen an increase in the number of ships coming from Russia. China recorded 810 inbound arrivals in the second quarter of 2022, up from 576 in the year-ago period, and India had a 284% increase in arrivals in the second quarter of this year compared to the previous year, with 196 inbound routes.

2.4. US-Russia Maritime Trade

Russian goods worth \$1 billion a month have been exported to the US since the war began reduced but "alive" maritime trade between Russia and the US remains despite the embargo, according to reports by international agencies⁷¹.

US President Joe Biden has imposed an embargo on a number of Russian products, mainly energy products such as oil, gasoline, natural gas and all energy products in general, but also products such as gold, diamonds and even drinks such as vodka. However, there are still dozens of products of particular value that are traded normally. After an investigation, the Associated Press found that more than 3,600

⁷¹<https://www.govinfo.gov/content/pkg/CHRG-115shrg40371/html/CHRG-115shrg40371.htm>

shipments of wood, metal, rubber and other goods have arrived at American ports from Russia since the war began. This may be a significant decrease from the same period in 2021, when they reached around 6,000 shipments, but it is still a trade worth more than \$1 billion per month. As the agency points out, in reality none of those directly involved expected that trade would actually stop after the invasion. Banning imports of certain items would probably do more damage to those sectors in the US than in Russia⁷².

The agency refers to a range of products that trade continues as normal. For example it states that Russia is a major exporter of metals such as aluminum, steel and titanium. Cutting off that trade could dramatically raise prices for Americans already struggling with inflation. Most US metals companies have longstanding relationships with Russian suppliers. This trade, especially of aluminum, has continued almost uninterrupted since the beginning of the war. The Associated Press found more than 900 shipments totaling more than 264 million tons of metal since February. Russia is one of the largest producers of crude aluminum outside of China and a major global exporter. Russian aluminum ends up in American auto parts and airplanes, soda cans and cables, ladders and solar panels.

Another product of particular importance is wood. Russia's vast forests are some of the largest in the world. After Canada, Russia is the second largest exporter of wood and has some of the only factories that can make strong, solid Baltic birch plywood, the flooring used throughout the US. While some US importers are sourcing materials from alternative sources, others say they have no choice. In the case of imported timber, Russia's dense forests produce such durable wood that most American wooden classroom furniture and many home floors are made from it. Containers of Russian goods such as wheat, weightlifting shoes, mining tools and even pillows arrive at American ports almost daily⁷³.

An analysis of imported goods from Russia shows that some items are clearly legal and even approved by the Biden administration, such as the more than 100 shipments of fertilizer that have arrived since the invasion. But now-banned products, such as

⁷²<https://economictimes.indiatimes.com/news/international/world-news/six-months-into-war-russian-goods-still-flowing-to-us/articleshow/93788860.cms>

⁷³Elliott, L. (26 April, 2022). Ukraine war 'will mean high food and energy prices for three years.' The Guardian.

Russian oil and natural gas, continued to arrive at US ports long after the sanctions were announced because of "implementation" periods that allow companies to complete existing contracts⁷⁴.

2.5. The economic impact of the war

The war between Russia and Ukraine is a huge humanitarian one disaster affecting millions of people and a severe economic shock of uncertain duration and magnitude. Russia's recent attack on Ukraine in 2022 called into question its economic recovery from the pandemic Covid-19, further exacerbating the situation as the global economies have the potential to witness yet another rise in prices of commodities and the 'sink' in the supply chain. The war in Ukraine and the severe economic impact on Russia due to of harsh economic sanctions "do not only cause economic destruction to Russia of President Vladimir Putin. The implications also threaten her global economy, shake up financial markets and make life more dangerous for everyone". Ukraine and Russia are key players in the export of natural gas, oil, coal, wheat and others goods on the world market. The various disorders caused her rising global prices, especially for natural gas and oil; the World Bank predicts a 50% increase in energy prices in 2022, as result of the disruptions of production and trade brought about by war. He also expects an increase in wheat prices of more than 40%, putting pressure on import-driven developing economies wheat of Russia and Ukraine⁷⁶

Indermit Gill, Vice President of the World Bank, stated that: "Overall, this amounts to the biggest shock in the commodity sector which we have experienced since the 1970s. As it was then, the shock exacerbated by increasing restrictions on trade in food, fuel and fertilizers"⁷⁷. In addition, the Washington-based development agency in an analysis of it stated that there is a serious possibility that we will be led to stagflation due to the prolonged and persistently high cost of goods. The conflict

⁷⁴Elliott, L. (26 April, 2022). Ukraine war 'will mean high food and energy prices for three years.' The Guardian.

⁷⁶Elliott, L. (26 April, 2022). Ukraine war 'will mean high food and energy prices for three years.' The Guardian. <https://www.theguardian.com/business/2022/apr/26/ukraine-war-food-energy-prices-world-bank>

⁷⁷Kammer, A., Azour, J., Selassie, A. A., Goldfajn, I., & Rhee, C. (2022). How war in Ukraine is reverberating across world's regions. Washington: IMF, March, 15, 2022

between Russia and Ukraine will affect the global economy through three main channels, as stated by Kammer, Azour et al. (2022)⁷⁸:

- Higher prices for commodities like energy and food will continue to increase inflation which in turn will reduce the value of incomes and will burden demand.
- In particular neighboring economies will face disruptions in supply chains, trade and remittances, as well as a historical increase in refugee flows.
- Lower business confidence and greater uncertainty of investors will weigh on asset prices, tightening financial conditions and potentially will lead to capital outflows from emerging markets.

According to Agathe Demarais, global director of forecasting and manager of the Economist Intelligence Unit “the economic impact of of EU and US sanctions will therefore be small outside of Russia, although the Western companies that are highly exposed to Russia will continue to be affected”⁷⁹. Therefore, EIU expects that the most significant effect that will the world economy suffered from the conflict between Russia and Ukraine find pressure on higher commodity prices. The prices of goods they could soar due to three factors: concerns about the supplies, the destruction of physical infrastructure and sanctions⁸⁰. More specifically, oil and natural gas prices will see a huge increase due to the narrowness of the market and the uncertainty about supplies. Also, as we see in Figure 4, the prices of many base metals (titanium, palladium, aluminum and nickel) and of agricultural products (wheat, barley, corn, and canola) have soared since the start of the war, as Russia and Ukraine are major producers and exporters of these, although they have not been significant interruptions in production or export volume⁸¹

⁷⁸Kammer, A., Azour, J., Selassie, A. A., Goldfajn, I., & Rhee, C. (2022). How war in Ukraine is reverberating across world's regions. Washington: IMF, March, 15, 2022

⁷⁹Kammer, A., Azour, J., Selassie, A. A., Goldfajn, I., & Rhee, C. (2022). How war in Ukraine is reverberating across world's regions. Washington: IMF, March, 15, 2022

⁸⁰Economist Intelligence Unit (3 March, 2022). Economic impact of Russia-Ukraine war. <https://www.eiu.com/n/global-economic-implications-of-the-russia-ukraine-war/>

⁸¹OECD. (2022). OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine. OECD. <https://doi.org/10.1787/4181d61b-en>

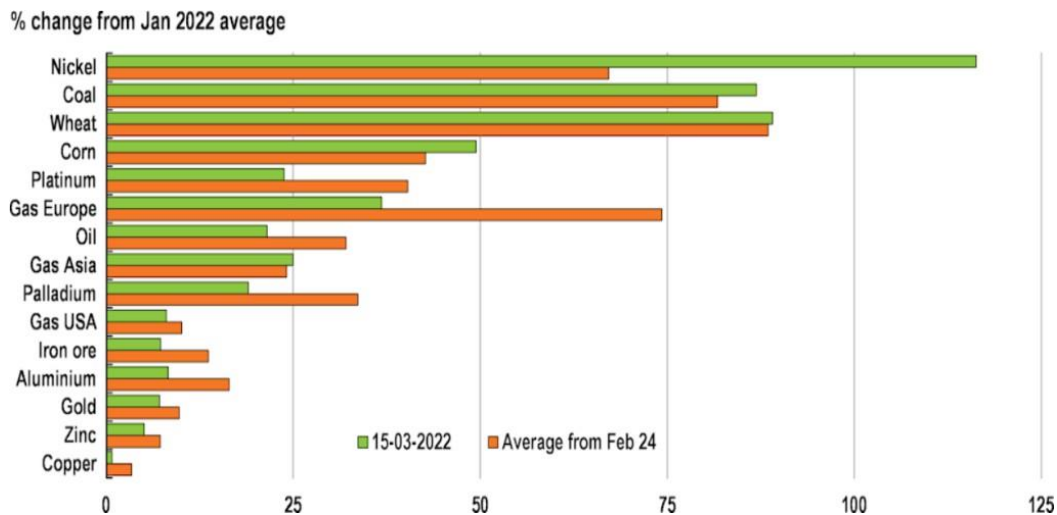


Figure 4: The prices of the main export products of Russia and Ukrainian have risen sharply⁸²

In addition, financial sanctions will also affect the chains supply and trade, as companies will face difficulty in finding financial channels through which to conduct trade with Russia. Disruption of supply chains will come from three sources: the difficulties affecting the land routes, the limitations on air connections and the cancellation of sea freight routes from Ukraine⁸³. In particular, land trade routes between Europe and Asia, air connections will be interrupted between Russia and Europe will appear serious obstacles after the decision by EU countries to close their airspace to Russian aircraft⁸⁴ and the maritime trade routes through it Black Sea will be cancelled.

The impact of the Russian invasion in terms of economic damage will it is greater for the war zone and Europe. Specifically, the measures received by various European countries to stop Russian imports energy combined with official sanctions, will cause a deep contraction in the Russian economy. War is also expected to have significant effects on the global economy and financial markets, as it will contribute to a

⁸²<https://currentthoughtsontrade.com/2022/04/19/recent-estimates-of-global-effects-from-russian-invasion-of-ukraine/>

⁸³Economist Intelligence Unit (3 March, 2022). Economic impact of Russia-Ukraine war. <https://www.eiu.com/n/global-economic-implications-of-the-russia-ukraine-war/>

⁸⁴Newsroom (2022, February 27). ΕΕ: Μπλόκο σε όλα τα ρωσικά αεροσκάφη – Κυρώσεις σε μίντια και Λευκορωσία. ΚΑΘΗΜΕΡΙΝΕΣ ΕΚΔΟΣΕΙΣ ΜΟΝΟΠΡΟΣΩΠΗ Α.Ε. Εθν.Μακαρίου & Φαληρέως 2

significant slowdown in global growth in 2022 and will increase inflation⁸⁵. The global economy, the outlook for inflation and probably the macroeconomic stability will be burdened by a large part of the severe disruptions to global supply chains and markets; goods. The record prices of fuel and food over the already global impact they have caused, they will be hit much harder vulnerable populations.

The International Monetary Fund in its updated forecast April 2022, predicts that global growth will decline from approx. 6.1% in 2021 to 3.6% in 2022 and 2023, i.e. this equates to 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected in January. Inflation forecasts caused by the widened price pressures are 5.7% in advanced economies and 8.7% in developing and emerging economies for 2022, 1.8 and 2.8 percent units higher than forecasts last January⁸⁶.

In an updated forecast in July 2022 the International Monetary Fund announced that global growth will slow to 3.2% in 2022 and to 2.9% in 2023, i.e. 0.4 and 0.7 percentage points respectively lower than in the April 2022 World Economic Outlook. In addition, global inflation has been revised upwards due to of prolonged supply and demand imbalances and prices (food, energy) and is expected to rise to 6.6% for advanced economies and to 9.5% in emerging markets and developing economies this year; with an upward trend of 0.9 and 0.8 percentage points respectively from April forecast⁸⁷.

⁸⁵World Economic Outlook, April 2022: War Sets Back The Global Recovery. (2022, April 19). IMF. <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>

⁸⁶World Economic Outlook, April 2022: War Sets Back The Global Recovery. (2022, April 19). IMF. <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>

⁸⁷World Economic Outlook, April 2022: War Sets Back The Global Recovery. (2022, April 19). IMF. <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>

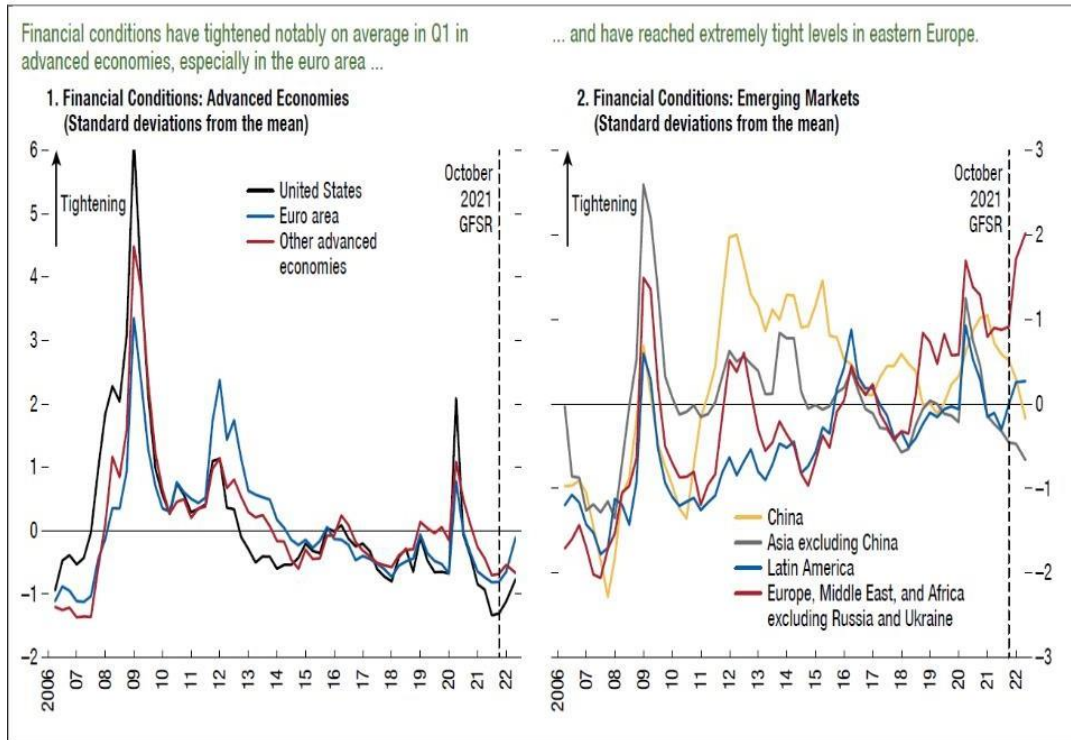


Figure 5: Global economic conditions⁸⁸

Financial market volatility has increased dramatically since Russian invasion of Ukraine, testing its resilience financial system and reflecting the increased uncertainty about the economic and political perspectives. Figure 6 shows two graphs, which refer to the financial conditions of developed countries (left graph) and emerging countries (right graph). Also, in the image we observe strong variations over time intervals, the higher the tighter economies represent. In advanced economies, financial conditions have strengthened significantly in 2022, reflecting the higher yields of government bonds, the decline in corporate valuations and the ongoing expectations for monetary policy normalization⁸⁹. However, compared to historical levels, as we see the time period of the economic crisis of 2008-2009 where the most sharp variation in financial conditions with particular emphasis on United States, economic conditions remain easy or roughly neutral. In emerging countries, financial conditions have reached extremely narrow levels in the Middle East and the East Europe which are directly dependent on Russia, due to the increased exchange rates of the local

⁸⁸<https://www.accaglobal.com/us/en/professional-insights/global-economics/global-economic-conditions-survey-q4-2017.html>

⁸⁹International Monetary Fund. (2022). GLOBAL FINANCIAL STABILITY REPORT, APRIL 2022: Shockwaves from the war in Ukraine test the financial system's resilience. IMF.

currency and the sudden increase of foreign borrowing costs. By contrast, conditions have eased in China, as policy makers in order to offset the economic burden provided additional policy support.

The risks to the outlook are overwhelmingly downward, as inflation becomes more and more of a problem for them people around the world, policy makers should have as a priority his normalization and work hard to him check. It is inevitable that tighter monetary policy will have real financial cost, but waiting to act will make it worse condition. Targeted fiscal support can help mitigate the impact on the most vulnerable in times of economic stress, but policymakers must be careful not to increase government spending or taxes to offset it deflationary impact of the pandemic. The tighter monetary conditions will likely have a negative impact on financial stability, requiring prudent use of macroprudential tools and making them more necessary reforms in the context of debt resolution. There are many policies that can be implemented to address specific impacts on energy and food prices. Some of these policies may include increasing renewable generation energy, developing new energy technologies or increasing trade between countries. Finally, in order to mitigate climate change, the international community should take urgent action to limit emissions and the increase of investments in green technologies⁹⁰.

2.5.1. The food crisis in the "threshold" of Europe and the USA - How close is the lack of food

Russia's invasion of Ukraine in late February literally opened Pandora's box. From a war entrenched in one country, albeit in the heart of Europe, it develops into a spark that ignites a series of crises throughout the world. The fear of energy insufficiency, after Europe's decision to become independent of Russian gas as soon as possible, may prove to be small in front of the risk of a generalized food crisis that will affect developing as well as developed countries on all 5 Continents.

⁹⁰<https://www.imf.org/en/Publications/GFSR/Issues/2022/04/19/global-financial-stability-report-april-2022>



Figure 6: Food as a share of household expenditures⁹¹

The disruption of Ukraine's exports after the outbreak of the conflict pushed the Food and Agriculture Organization's (FAO) food price index to its highest point in March 2022 since records began in 1990. Russia's invasion of Ukraine is the latest development in a growing global food crisis that has until now been playing out in other parts of the world, out of sight in the commodity-rich countries of Europe and the US. But now the picture is changing and the lack of food and basic products is affecting everyone. According to official data, presented by Reuters, in recent months the price has increased: grains by 47.1%, oils by 137.5%, dairy by 47.1%, meat by 21.9% of sugar by 21.8%. This has pushed commodity prices up 58.5% globally.

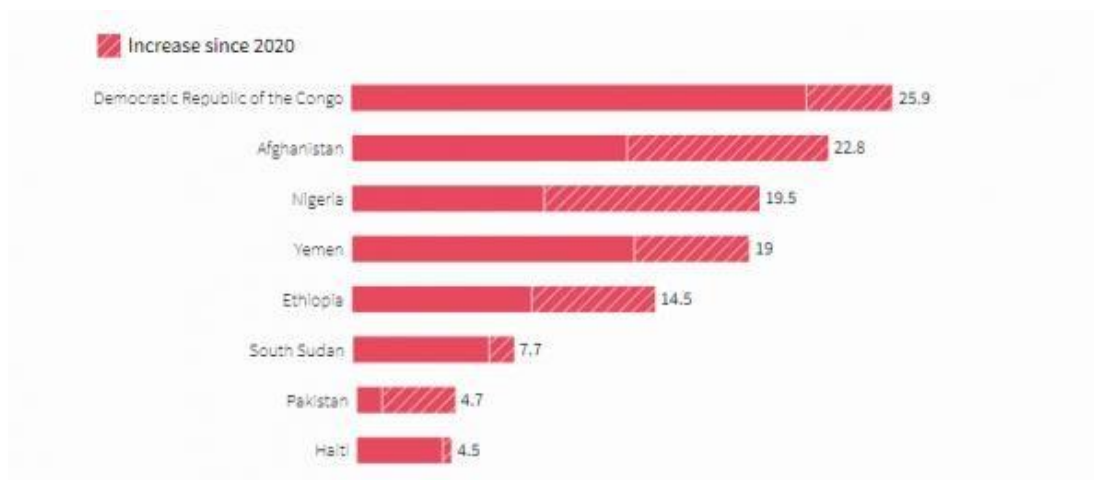


Figure 7: Million of people forecast to experience food crisis in 2022⁹²

And while post-pandemic global demand, extreme weather, dwindling food stocks, high energy prices, supply chain problems and export restrictions have weighed on

⁹¹<https://www.oecd.org/ukraine-hub/policy-responses/the-supply-of-critical-raw-materials-endangered-by-russia-s-war-on-ukraine-e01ac7be/>

⁹²<https://www.oecd.org/ukraine-hub/policy-responses/the-supply-of-critical-raw-materials-endangered-by-russia-s-war-on-ukraine-e01ac7be/>

the food market for two years, Russia's invasion of the famous world's granary, dramatically increased food inflation rates around the world.

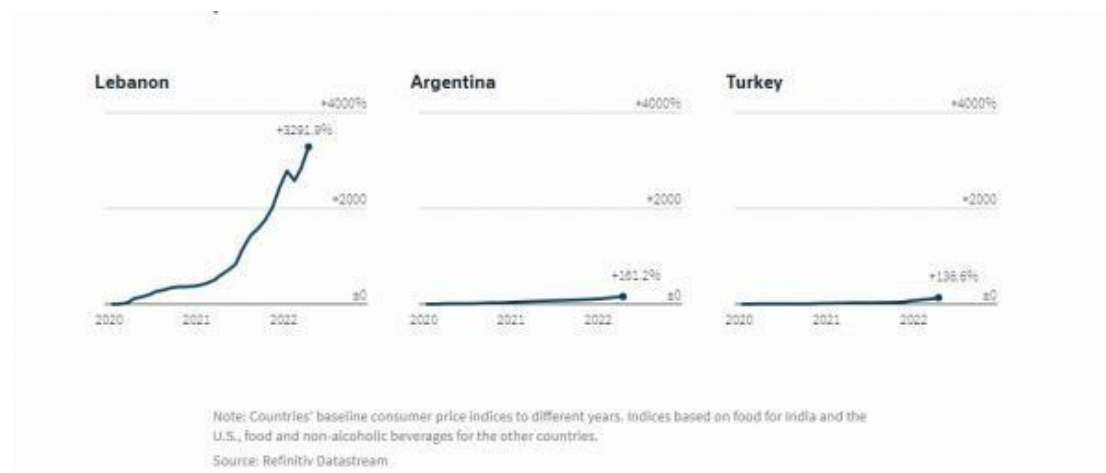


Figure 8: Countries' baseline consumer price indices to different years, indices based on food for India and the U.S., food and non-alcoholic beverages for the other countries⁹³

In Europe, the Consumer Price Index for food has risen sharply in all of the continent's largest economies, while in the United States it has increased by more than 14 percentage points since January 2020. In developing and emerging countries, the change in the index is even more dramatic, leaving consumers facing much higher prices for staple foods. The most extreme example of food inflation is recorded in Lebanon, a country highly dependent on food imports, where most of its wheat is imported from Ukraine. The country has seen its price index rise more than 3,000 percentage points since the start of 2020.

Rising prices of food staples have already sparked protests in countries around the world, including Argentina, Indonesia while in Iran, protesters took to the streets when prices of the flour-based staple rose by up to 300%.

The war has disrupted global agricultural exports from Russia and Ukraine, two key grain exporters that accounted for 24% of global wheat exports by trade value. They also export 57% of sunflower oil and 14% of corn from 2016 to 2020, according to data from UN Comtrade.

⁹³<https://www.oecd.org/ukraine-hub/policy-responses/the-supply-of-critical-raw-materials-endangered-by-russia-s-war-on-ukraine-e01ac7be/>

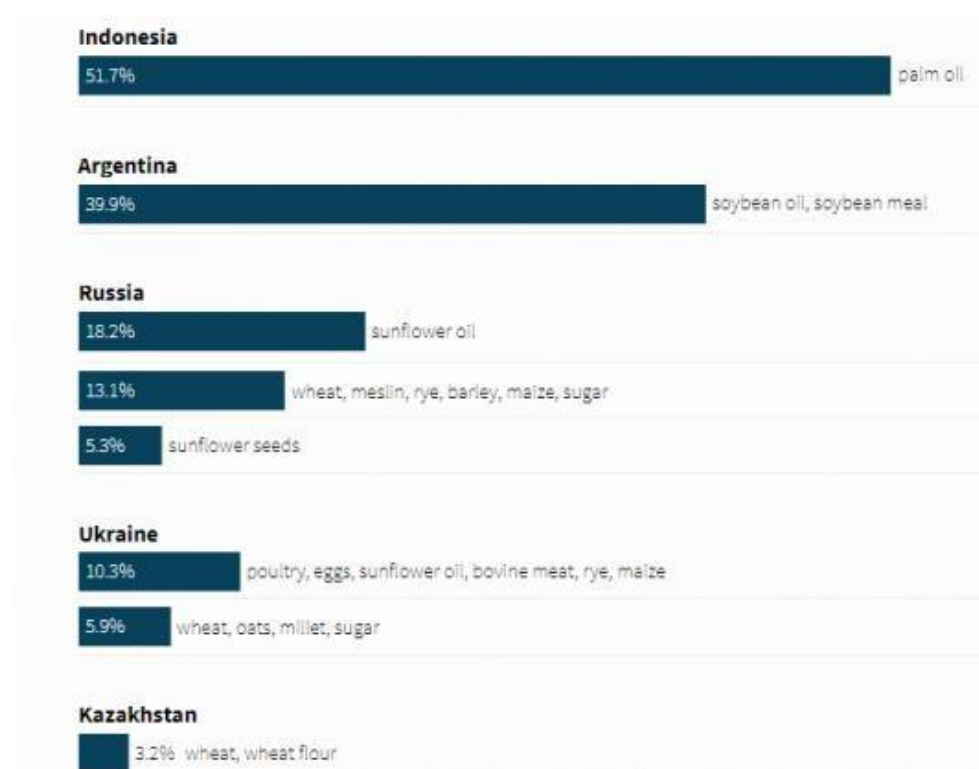


Figure 9: Top restricted products as a percentage of worldwide imports⁹⁴

In the 8 months before the invasion, 51 million metric tons of grain passed through Ukraine's seven Black Sea ports, according to the United Nations World Food Program (WFP). Since the invasion, much of Ukraine's current grain export stock has been stranded in the war-torn country due to damage to rail infrastructure, closed ports and Russian blockades on the Black Sea. At the same time, millions of tons of grain have been burned or "stolen" from Russia and there will not be enough storage space available when the 2022 harvest comes, according to the WFP. The shortfall could be devastating for many countries that relied on Ukraine and Russia for half of their wheat imports from 2016 to 2020, including Egypt, which recently struck a deal with India to replace some of the 80 % of its wheat with imports coming from Russia and Ukraine.

In Europe, the war in Ukraine has destroyed major sea freight lines through the Baltic and Black Seas, and many key European countries have banned Russian-flagged ships from using their ports, blocking shipments of Russian grain. The global supply chain problem is further exacerbated by China's harsh COVID-19 lockdowns, while

⁹⁴<https://www.oecd.org/ukraine-hub/policy-responses/the-supply-of-critical-raw-materials-endangered-by-russia-s-war-on-ukraine-e01ac7be/>

Russia's invasion of Ukraine is causing long delays in product shipments at ports that are skyrocketing transportation costs.

As food prices soar, more and more countries are deciding to ban exports of staples they produce in order to meet domestic demand and stabilize prices in local markets. Since Russia's invasion of Ukraine, more than 20 countries around the world have imposed restrictions on food exports, including export licenses and taxes, up to outright bans. In late April, Indonesia banned most palm oil exports to protect domestic cooking oil supplies. The ban shut the rest of the world out of the world's largest producer of the edible oil, which is used in everything from cakes to margarine. India's ban on wheat exports in May dealt a fresh blow to global markets as heatwaves in the country curtailed production and domestic prices hit a record high. Grains and vegetable oils are major components of biofuels, demand for which has increased as countries seek alternatives to fossil fuels. Biofuels had become particularly attractive to the EU which is trying to reduce its dependence on Russian oil and natural gas.

The EU, already in the midst of an energy crisis – it depends on Russia for 40% of its natural gas and 27% of its oil imports – produces 34% of the world's biodiesel from vegetable oils, according to figures from the Organization for Economic Co-operation and Development - Food and Agriculture Organization⁹⁵ (OECD-FAO).

High fertilizer prices are forcing farmers around the world to reduce planned harvests and the amount of land they plant. The fertilizer crisis is in some ways more worrisome because it could hold back food production in the rest of the world, which could help offset the slack from delayed grain deliveries to Ukraine and Russia, according to Maximo Torero, head economist for the Food and Agriculture Organization of the United Nations. Western sanctions on Russia, a major exporter of potash, ammonia, and other soil nutrients, have disrupted shipments of these natural resources around the world. China last year imposed restrictions on fertilizer exports to protect its own farmers as global prices soared on strong demand and high energy

⁹⁵<https://www.oecd.org/ukraine-hub/policy-responses/the-supply-of-critical-raw-materials-endangered-by-russia-s-war-on-ukraine-e01ac7be/>

prices. Russia and China exported 28% of the world's fertilizers in terms of trade value from 2016 to 2020, according to a Reuters analysis of UN Comtrade data⁹⁶.

2.5.2. The effect on commodity prices and energy

Not all developments in global shipping can be correlated with a specific cause. One of the many burning issues it affects at the present time international maritime transport is the war on Ukraine, combining other challenges such as port congestion, the COVID-19 pandemic, the need to switch to low-emission fuels carbon, are some of them. Even before the start of the war, the transportation costs were multiple times the historical average, making it difficult for them rerouting efforts and increasing import costs and consumer prices in all sectors. Looking at Figure 10, it is evident that a large percentage of high shipping cost came from the disruptions and huge demand in miles caused by the war in Ukraine. The biggest concern is about commodity markets food and fuel. On June 28, 2022, UNCTAD published a report stating that “cereals are of particular concern given the leading role of the Russian Federation and Ukraine in agricultural food markets and their relationship with food security and poverty reduction”. Together, these two countries represent 27% of world trade in wheat and 53% in sunflower oil and seeds around the world⁹⁷. A total of 36 countries import more than 50% of their wheat from the Russian Federation alone and Ukraine⁹⁸. Ukraine exported about 50 million tons of grain in 2021. Pre-war estimates had forecast a 3% increase in global seaborne grain exports. However, on current data they are projected to shrink by 3.8% in 2022⁹⁹

⁹⁶<https://www.ifpri.org/blog/high-fertilizer-prices-contribute-rising-global-food-security-concerns>

⁹⁷UNCTAD (2022). Trade and Development Report Update (March 2022). Tapering in a Time of Conflict.

⁹⁸UNCTAD. (2022). Global impact of war in Ukraine on food, energy and finance systems. (2022, April 13). Retrieved from <https://unctad.org/webflyer/global-impact-war-ukraine-food-energy-and-finance-systems>

⁹⁹UNCTAD (2022). Maritime Trade Disrupted: The war in Ukraine and its effects on maritime trade logistics (2022, June 28). <https://unctad.org/webflyer/maritime-trade-disrupted-war-ukraine-and-its-effects-maritime-trade-logistics>

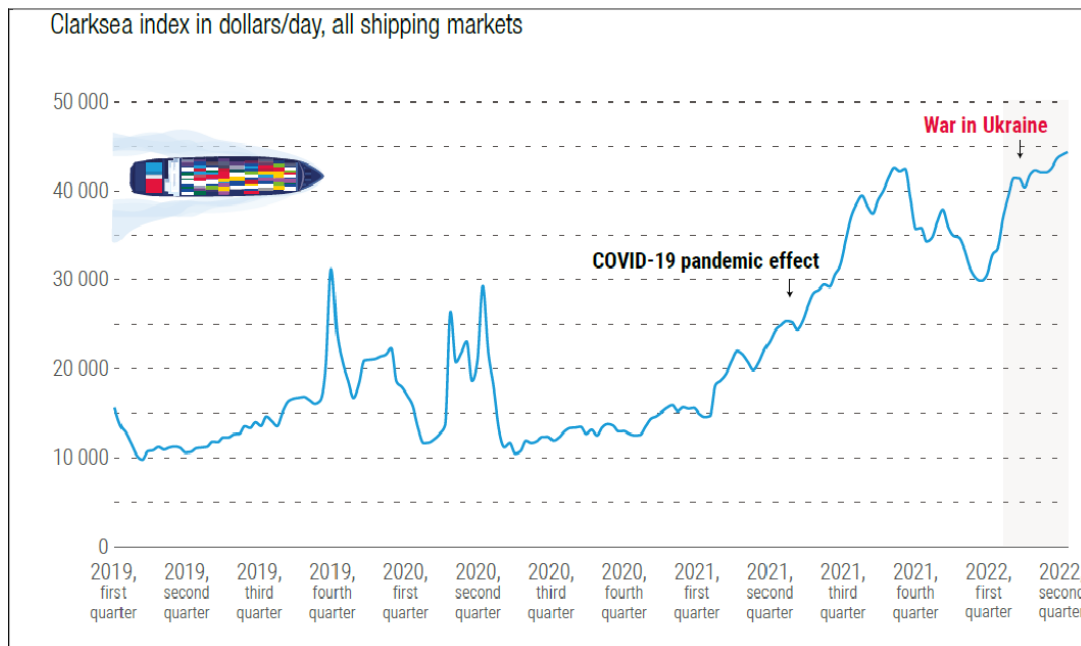


Figure 10: Shipping price goes up again¹⁰⁰

The effects of the war in Ukraine were notable worldwide level due to the country's contribution to food and energy supply. Regarding food there were problems in matters of production and export, which were directly linked to the reduced availability and increases of prices. Trade restrictions caused by the war led to fewer shipments of grain over longer distances, resulting in increase in food prices. From February to March 2022, Mr FAO cereal price index increased by 17.1%, due to the large wheat increases. Also, the level of the FAO food price index it was 33.6% higher than March 2021¹⁰¹ UNCTAD also announces in the report that from February to May 2022, the payment of the price for the carriage of dry bulk cargoes, such as wheat, had an increase of about 60%. It is difficult to make predictions about the long-term effects that can have increases in food prices, but with the help of a UNCTAD's historical analysis sheds light on some troubling issues situations (figure 11). In general, there is a high degree of correlation between agri-food price increases and politics instability. As we observe in Figure 11, commodity cycles of agricultural products have coincided with important political events, such as 2007–2008 food riots and the Arab Spring. As a consequence of the governments' reaction to the crisis

¹⁰⁰<https://oecdecoscope.blog/2021/06/19/how-will-rising-shipping-cost-affect-inflation-in-oecd-countries/>

¹⁰¹FAO Food Price Index posts significant leap in March. (2022, August 4). Newsroom.<https://www.fao.org/newsroom/detail/fao-food-price-index-posts-significant-leap-in-march/en>

caused by pandemic of COVID-19 is the rise in prices for agricultural products. Such examples of reactions are extremely loose monetary policies, the fiscal incentives in some nations, coupled with constraints of exports and storage from specific countries. However, the current state of war I reached the price levels to new and extreme heights, which even exceeded those that had been noted at the beginning Arab Spring. This new price hike could put you at risk food security and political stability in any part of world¹⁰²

In addition, the Russian Federation has a huge contribution to the world trade in fertilizers and fuels, goods which are essential for production process of farmers around the world. Severe supply disruptions of these inputs, may lead to higher and lower prices grain yields, with significant implications for global security supply and in particular to vulnerable economies and dependent countries directly from food imports

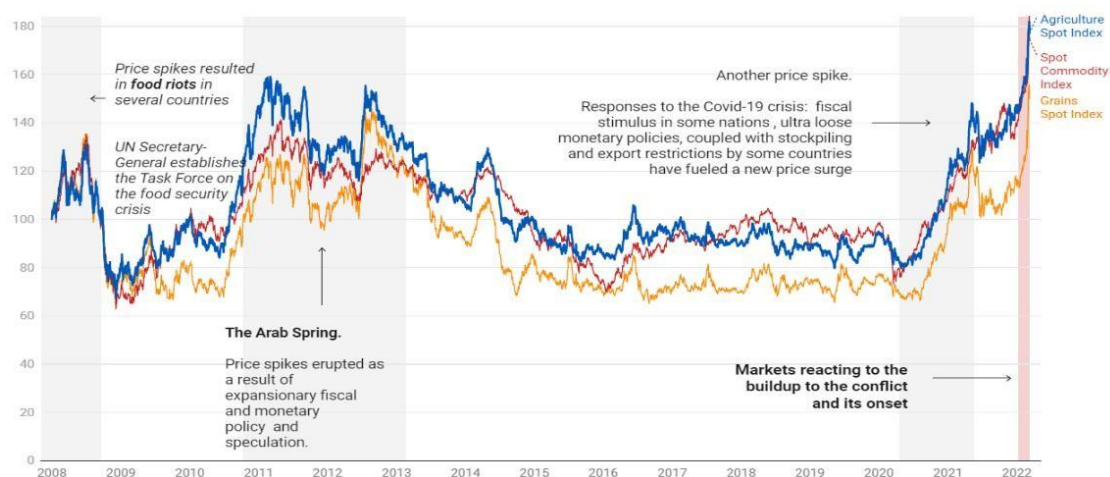


Figure 11: The relationship between food price increases and political instability (until March 9, 2022)¹⁰³

¹⁰²UNCTAD (2022). Trade and Development Report Update (March 2022). Tapering in a Time of Conflict.

¹⁰³UNCTAD (2022). Trade and Development Report Update (March 2022). Tapering in a Time of Conflict.

David Malpas, president of the World Bank, urged them developed economies to boost food aid that provide to developing countries and offer personal work, with in order to increase the production of food, fertilizers and energy, so that reduce shortages and address the resulting price increase from the war between Russia and Ukraine. Adding he said, that one satisfactory way to facilitate the farmers of poor countries to buy fertilizers and continue their production is through provision vouchers or cash. Kristalina Georgieva, head of the International of the Monetary Fund, commented that the crisis widens the gap between them poor and rich countries, giving special emphasis to the issue diversification in the production of energy, food and fertilizers with the aim of reducing dependence on Russia¹⁰⁴

When it comes to the energy sector, Russia is considered great oil and gas exporter. The European Union is immediate dependent, as it imported about 40% of its natural gas, almost half of its coal and more than ¼ of its oil from Russia 2019. Brent prices (the European benchmark for oil) rose more than 25% during the first two weeks of the war. By the end of March, gas prices in Europe were approx. 580% higher than last year¹⁰⁵ The Europe's energy dependence on Russia confronts it with a division due to the embargo on Russian oil imports and the European public is disappointed that its payments for the fossil fuels fund the Russian war machine. The big issue that concerns world leaders is to find some way to stop their energy consumption from Russia. The first countries to ban Russian oil were the United States States and the United Kingdom, but neither country had a large degree of dependence on these imports. Furthermore, the impact of such actions it does not have much influence in Russia, as it can easily change direction and to offer its oil somewhere else on the world market. One embargo would only work if the EU was involved, economists say, because it would be difficult for Russia to quickly find new customers for oil and

¹⁰⁴Economics Observatory (2022, August 26). What does the war in Ukraine mean for the geopolitics of energy prices? <https://www.economicsobservatory.com/what-does-the-war-in-ukraine-mean-for-the-geopolitics-of-energy-prices>

¹⁰⁵Economics Observatory (2022, August 26). What does the war in Ukraine mean for the geopolitics of energy prices? <https://www.economicsobservatory.com/what-does-the-war-in-ukraine-mean-for-the-geopolitics-of-energy-prices>

the natural gas it sends to Europe¹⁰⁶. In a session summit on 10-11 March, European Union (EU) countries agreed to collectively phase out Russian energy imports¹⁰⁷

The European Commission presented the RE Power EU project, responding to disruptions and difficulties in the global energy market and helping it Europe to become independent of Russian fossil fuels earlier than 2030, starting with natural gas, in light of Russia's invasion of Ukraine. This plan describes a series of measures to address the of increased energy prices in Europe and to replenish them gas reserves for next winter. The plan proposed by Commission will strengthen the resilience of the energy system in contexts of the European Union, through the replacement of natural gas in heating and electricity production, accelerating the use renewable energy sources and the diversification of natural supply gas. In this way, it is possible to realize a reduction in its demand EU for Russian natural gas by 2/3 before the end of the year.

This strategy is highly dependent on the increase of of natural gas imports from suppliers outside of Russia. On March 25, Mr US President Joe Biden pledged to send more liquefied natural gas in Europe and Germany has already signed an agreement for it importing the product from Qatar.¹⁰⁸ According to his research Emergency Eurobarometer on May 5, 2022 in all its member states, the 85% of Europeans think the EU should reduce its dependence on the Russian natural gas and oil as quickly as possible to support Ukraine and 84% makes the need for investment in urgent renewable energy because of the war. In times of crisis it is easier for policy makers to argue that existing policies are outdated and needed to adopt new ones¹⁰⁹. Having taken one taste of the impact caused by the energy crises of his decade 1970s, late 2000s and 2014¹¹⁰ we expect that this time the war will focus more on her security

¹⁰⁶Tollefson, J. (2022). What the war in Ukraine means for energy, climate and food. *Nature*, 604(7905), 232-233.

¹⁰⁷Economics Observatory (2022, August 26). What does the war in Ukraine mean for the geopolitics of energy prices? <https://www.economicsobservatory.com/what-does-the-war-in-ukraine-mean-for-the-geopolitics-of-energy-prices>

¹⁰⁸Tollefson, J. (2022). What the war in Ukraine means for energy, climate and food. *Nature*, 604(7905), 232-233.

¹⁰⁹Kern, F., Kuzemko, C., & Mitchell, C. (2014). Measuring and explaining policy paradigm change: the case of UK energy policy. *Policy & politics*, 42(4), 513-530

¹¹⁰Natorski, M., & Surrallés, A. H. (2008). Securitizing moves to nowhere? The framing of the European Union's energy policy. *Journal of Contemporary European Research*, 4(2), 70-89. <https://doi.org/10.30950/jcer.v4i2.88>

energy policy of Europe.¹¹¹ The capacity of Europe facing the issue of recurring energy crises and security, will depend in large part on how they are distributed the costs of adaptation measures and from the corresponding public support adaptation policies.

The aggressive behavior of the main energy supplier and uncertainty in the energy markets, is going to leave marks on the way with which Europe supplies its energy. On the one hand, it is likely to be given competition for available gas, especially in the short term. From other side, special and even greater importance will be given to issues dependence and security of potential new partnerships¹¹²

The new basic scenario for most Europeans is gradual interruption of the Russian energy supply, as there are few European countries expected to keep in touch with Russia by tolerating them consequences of war more than necessary. The eventual scaler cutting off Russian energy imports will be a huge challenge, but this time Europe will appear prepared¹¹³. The rate of this removal will be determined by availability and affordability prices, but also by the intensity of the conflict. The European Commission has approved a series of short-term and long-term measures, with the aim of ensuring a satisfactory supply for the industrial and thermal period of 2022-2023 and the reduction of energy prices. These measures include: the certification of system administrators storage, the forced obligation to store gas, common markets natural gas and the relaxation of rules on market intervention. However, as radical as these measures are, they are still consistent with the existing regulatory framework of the European energy markets

¹¹¹Goldthau, A., & Boersma, T. (2014). The 2014 Ukraine-Russia crisis: Implications for energy markets and scholarship. *Energy Research & Social Science*, 3, 13-15. <https://doi.org/10.1016/j.erss.2014.05.001>

¹¹²Osička, J., & Černoch, F. (2022). European energy politics after Ukraine: The road ahead. *Energy Research & Social Science*, 91, 102757.

¹¹³McWilliams, B., Sgaravatti, G., Tagliapietra, S., & Zachmann, G. (2022). Can Europe manage if Russian oil and coal are cut off?. *Bruegel-Blogs*

Conclusion

The great oil crises of the 1970s taught Western politicians an important lesson about the power of the world's energy superpowers. Fifty years later, that lesson is being repeated. Russia is defending itself against Western sanctions by cutting gas supplies to Europe.

The prospect of a complete shutdown of Russian natural gas is causing near-panic in Europe as Germany and other major economies consider their energy dependence this winter. Meanwhile, the U.S President, Joe Biden, – worried about rising gas prices ahead of the midterm elections – had to forget his campaign rhetoric about treating Saudi Arabia as a pariah.

The lesson seems simple and daunting. In 2022 – just like in 1973 – the world's major oil producers can still make the world's major political powers dance to their tune. The above may be the obvious reading of the facts. But the geopolitics of energy is much more complicated.

Russia has a strong card in the short term, but its position will deteriorate dramatically over the next three years. The US is in big trouble in the short term, but is in a strong position in the long term. The EU has the biggest problems in the short and medium term. Despite bold talk of diversification and decarbonisation, Europeans are still a long way from finding a sustainable new energy strategy.

Russia's aim is clearly to cause an economic crisis in Europe this winter – and thereby weaken EU support for Ukraine. The Hungarian government, known for its lenient attitude towards Putin, is already pushing for a quick ceasefire in Ukraine and has hinted at impending economic disaster. Europeans have several months until winter to prepare for the coming Russian pressure. But even if Moscow's pressure tactics work in the short term, in the long run Putin is destroying one of the pillars of Russian

power. Europe has now learned a bitter lesson about the dangers of energy dependence on Russia and is determined never to be vulnerable again.

Even in the short term, curbing European gas exports is a dangerous game for Russia. About a billion euros still flow into Russia's coffers every day, mostly from Europe. If Putin were to sacrifice this revenue, his ability to wage war would diminish rapidly. Russia can find alternative markets for its oil with relative ease – see the zeal with which India and China are ramping up their oil imports at a discount. But its gas is exported through pipelines and the big pipelines go to Europe. Building new ones in China will take years, so Russia could soon be faced with a stranded asset.

In the short term, however, the global energy crisis caused by the war in Ukraine is increasing demand for non-Russian fossil fuels – including coal, the dirtiest of all. Germany reopens coal-fired power plants and China is clinging even more tightly to its most reliable form of domestic electricity generation. Russia's invasion of Ukraine is bad news for the world. It could be even worse news for the planet.

The war in Ukraine and its significant impact on the production and trade of energy and agri-food commodities, heightens concerns about global energy and food supply security. As the European Central Bank reports in its report, Russia is a leading exporter of energy commodities and, like Ukraine, also a major global exporter of agricultural products. In the report the ECB documents recent developments in trade flows from war-affected areas since the conflict began. And at the same time, it examines the evolution of Russia's imports since the beginning of the war.

Since the Russian invasion of Ukraine, the EU has issued six sanctions packages against Russia, including sanctions on individuals and restrictions on the media, transport and financial sectors, and trade. The initial trade measures targeted military goods and products that serve Russia's military, transportation and technological development. The latest restrictions focus on luxury goods (both imported and exported) and other imported goods that generate revenue for Russia, including coal and oil. Looking at euro area trade flows with Russia, machinery and transport equipment account for most of the overall decline. An empirical analysis shows that the first round of sanctions in March 2022 reduced Russian imports by 15%, with sanctioned products bearing the brunt.

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