

“The Rubicon Crossed: The Energy World Turned Upside Down After The Ukraine War”

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- **The Russia Sanctions**
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IN A NUTSHELL...1

- The Ukraine war and anti-Russia sanctions constitute a watershed moment in history
- The trust in the US-dominated “international rules-based order” —which was broken by their sanctions against Russia— will be almost impossible to repair
- The future global financial and energy order will be less efficient, with more expensive fuels and greater inequalities of access

IN A NUTSHELL...2

- The transition to a multi-polar world will be fractious and the battle lines cross three dimensions
- Geo-political and civilizational
globalizing, post-modern West vs. nationalist, traditionalist East
- Inter-class and inter-generational
“educated” elite and political class vs. populists and “working folk”
- Ideological
Elite Malthusian narrative vs. proletarian/populist hope

THE RUSSIA SANCTIONS



Siege of Carthage, Scipio Africanus

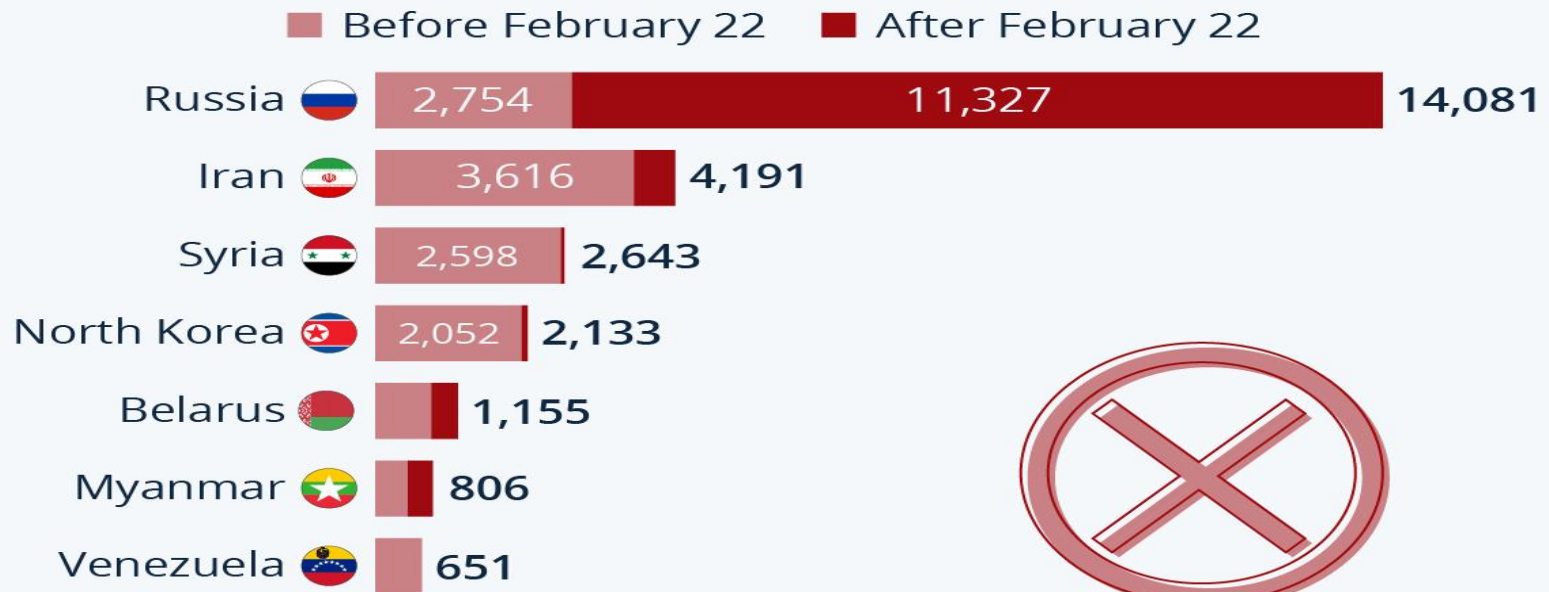
RUSSIA SANCTIONS: “WEAPON OF FINANCIAL DESTRUCTION”

- After Russia invaded Ukraine, the U.S., U.K., EU and allies imposed the most comprehensive and unprecedented economic attack on a sovereign nation in recent history.
- The Western alliance expropriated half of the Russian Central Bank’s foreign exchange reserves held offshore – which had totalled some \$630 billion — and blocked key Russian banks’ access to the SWIFT international payments system.
- Since February 2022, multiple sanctions have been applied on Russian individuals and institutions, with a focus on the country’s main export earners oil and gas
- The all-out economic warfare launched on Russia was meant to devastate the Russian economy, collapse the ruble and possibly lead to regime change with the ouster of President Vladimir Putin.

RUSSIA: MOST SANCTIONED BY FAR

The World's Most-Sanctioned Countries

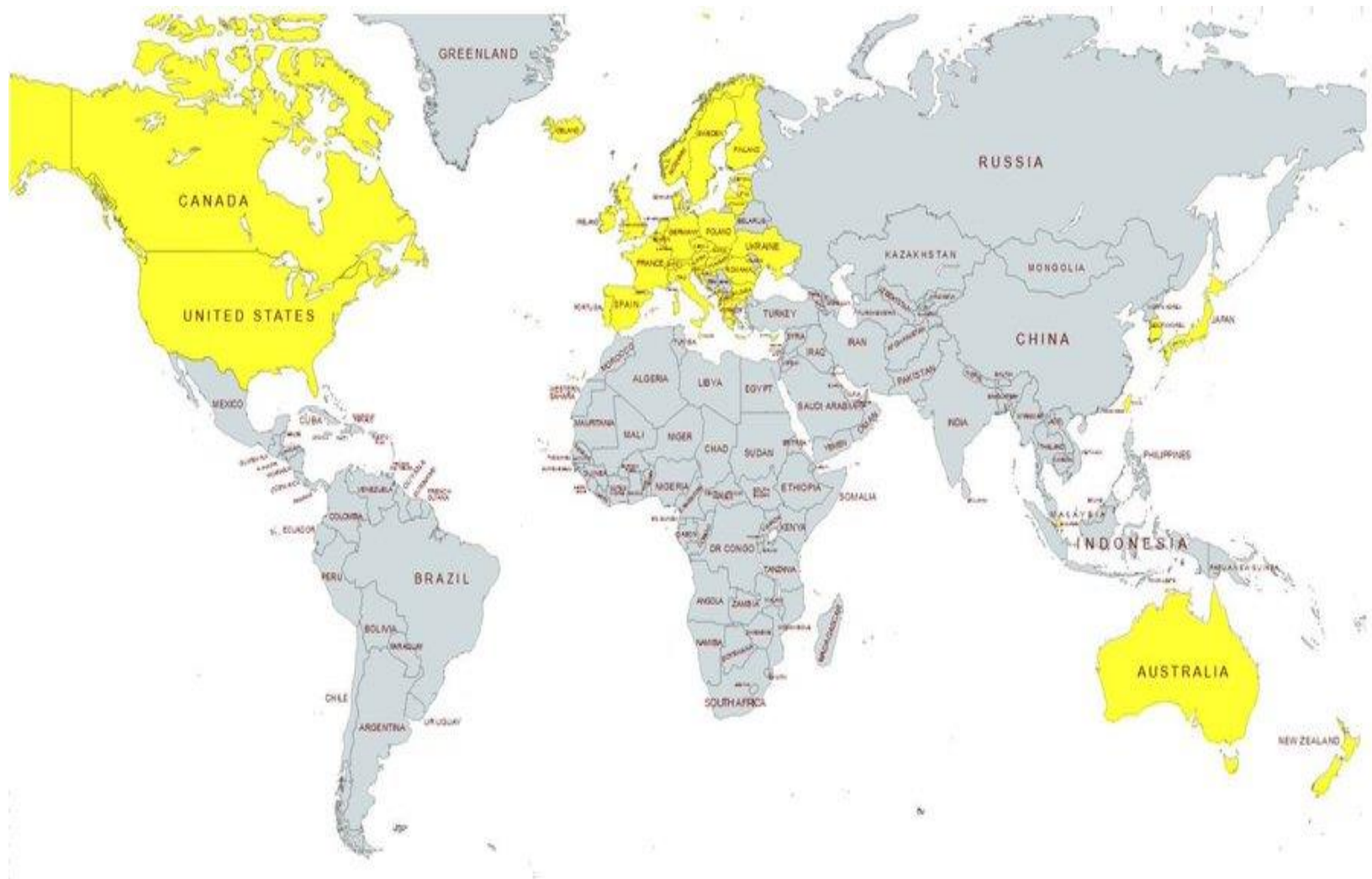
Number of currently active sanctions by target country



As of Feb. 19, 2023
Source: Castellum.AI



SANCTIONING VS. NON-SANCTIONING COUNTRIES



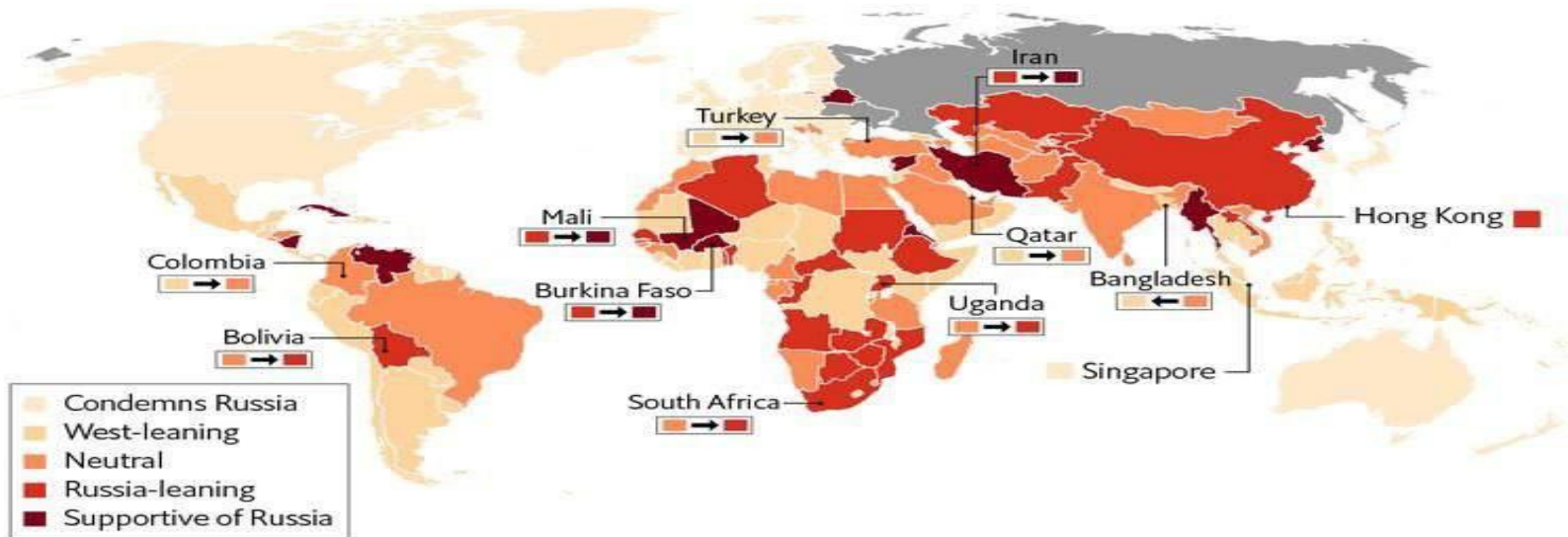
REST OF THE WORLD: NOT TAKING SIDES

- Most countries outside the Western alliance not taking sides on the sanctions question
- Do not want to be pawns in global geo-political rivalry; most countries will trade with Russia according to perceived needs
- When asked “whose side” India is on, India’s Foreign Minister replied:

“I am one-fifth of the world’s population. I am what today the 5th or 6th largest economy in the world... I feel I am entitled to have my own side. I am entitled to weigh my own interests and make my own choices. My choices will not be cynical and transactional. They will be a balance of my values and my interests. There is no country in the world which disregards its interests.”

EIU REPORT: RUSSIA IS NOT ISOLATED

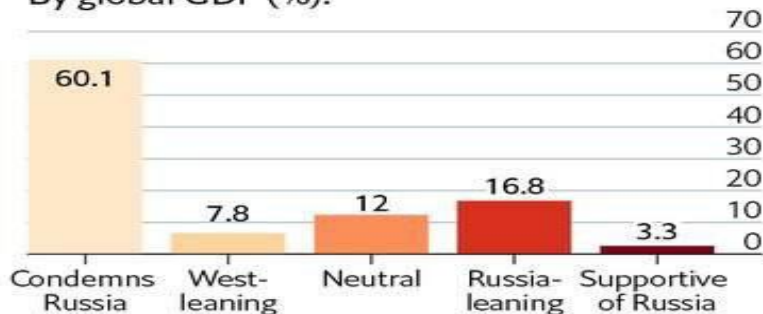
One year after the start of the war, an increasing number of countries are siding with Russia



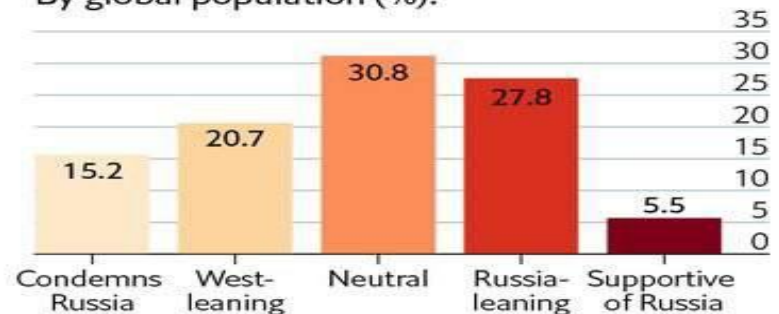
Notable country position shifts since 2022



By global GDP (%):



By global population (%):



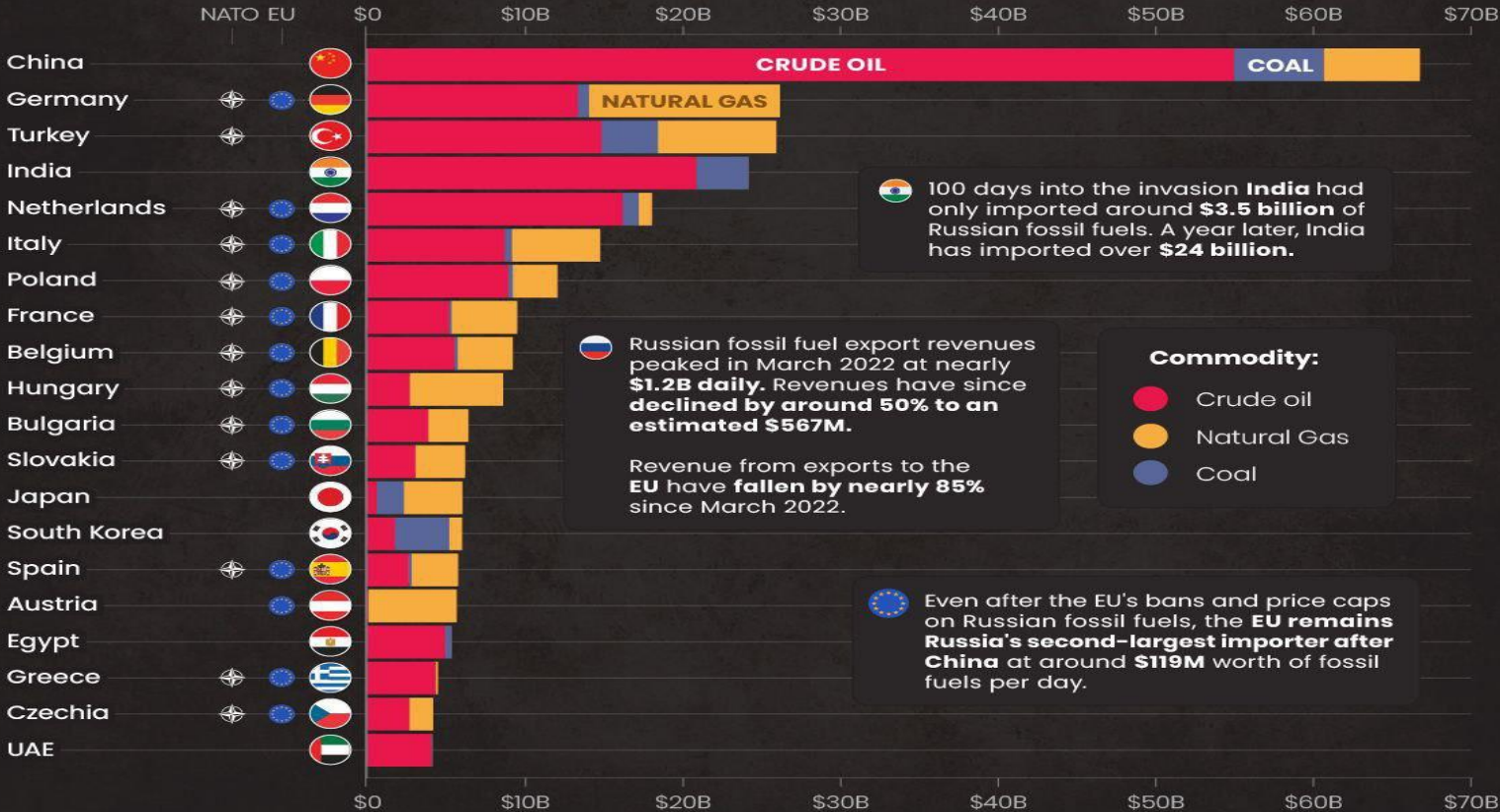
Source: EIU.

HOW ARE THE SANCTIONS WORKING?

E

Who's Been Buying Russian Fossil Fuels Since the Invasion?

IMPORTS SINCE THE START OF THE INVASION: FEB 24TH 2022 – FEB 26TH 2023



100 days into the invasion India had only imported around \$3.5 billion of Russian fossil fuels. A year later, India has imported over \$24 billion.

Russian fossil fuel export revenues peaked in March 2022 at nearly \$1.2B daily. Revenues have since declined by around 50% to an estimated \$567M.

Revenue from exports to the EU have fallen by nearly 85% since March 2022.

Commodity:

- Crude oil
- Natural Gas
- Coal

Even after the EU's bans and price caps on Russian fossil fuels, the EU remains Russia's second-largest importer after China at around \$119M worth of fossil fuels per day.

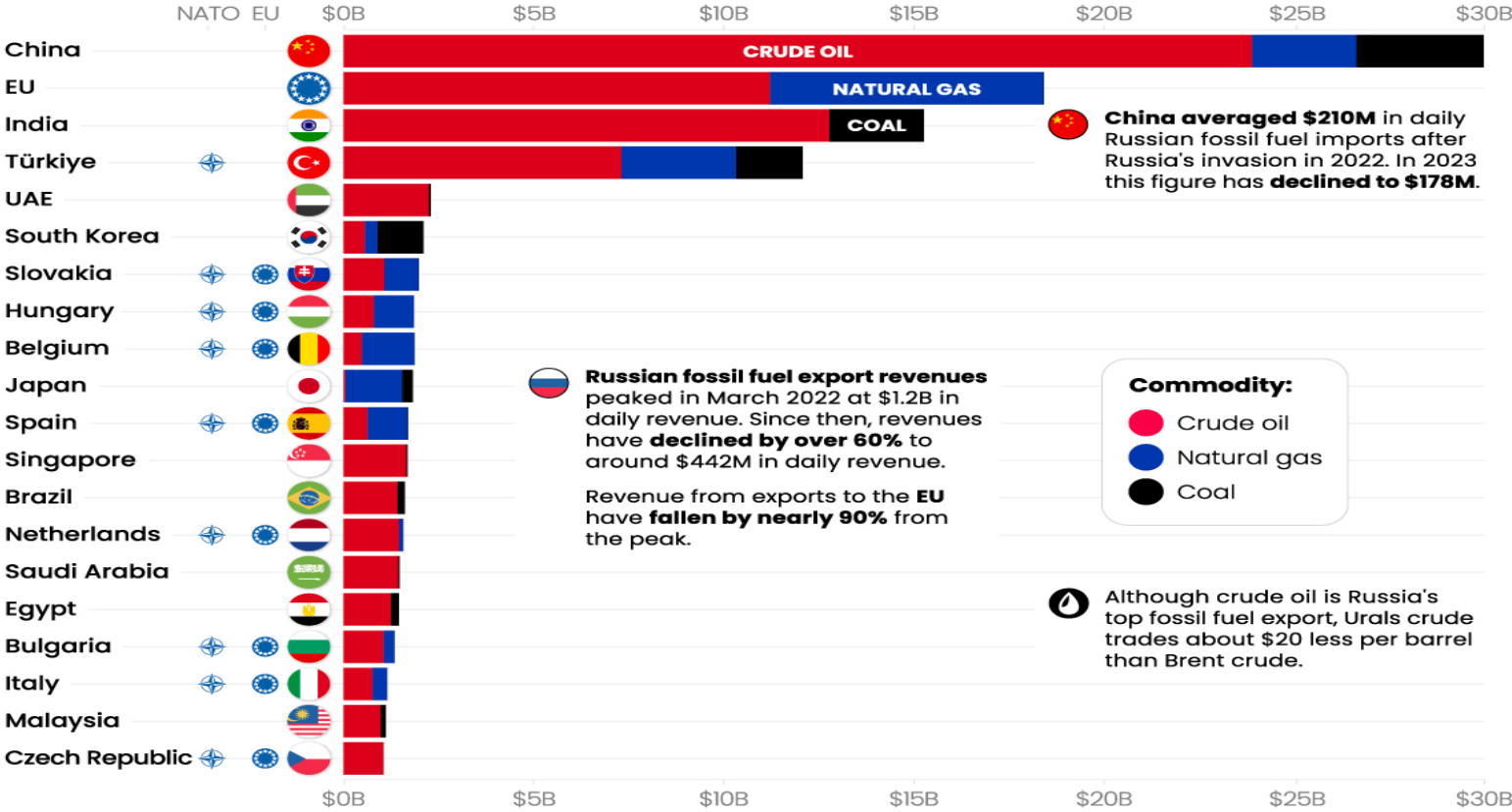
HOW ARE THE SANCTIONS WORKING?

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Who's Still Buying Fossil Fuels From Russia in 2023?

FOSSIL FUEL IMPORTS IN 2023: JAN 1ST – JUNE 16TH 2023



Source: Centre for Research on Energy and Clean Air

NOT MUCH REDUCTION IN RUSSIAN EXPORTS OF FOSSIL FUELS

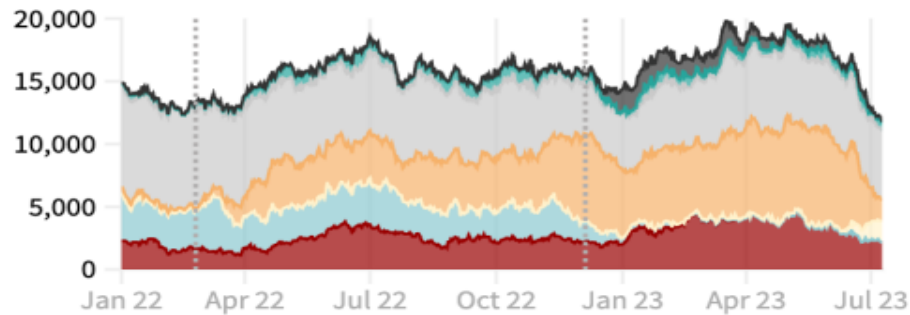
Ship capacity loaded with Russian fossil fuels

By declared destination

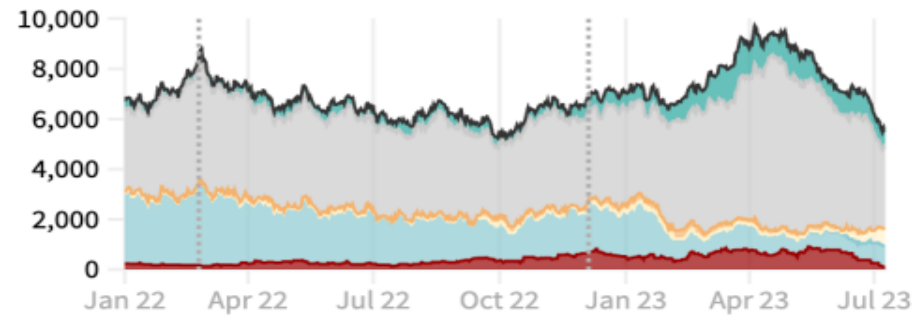
Thousand tonnes

■ China ■ EU ■ For orders ■ India ■ Others ■ Turkey ■ Unknown

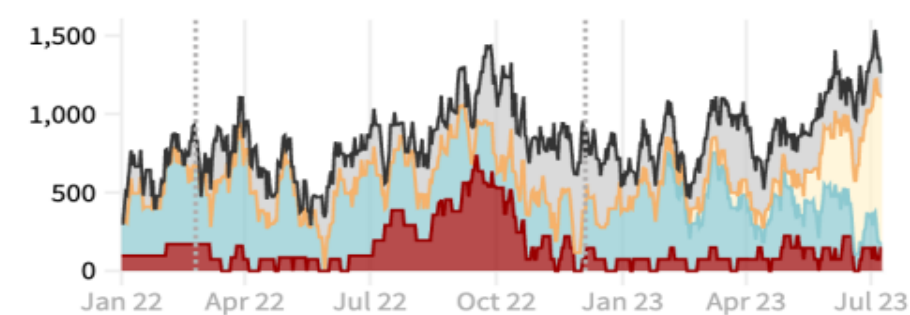
Crude oil



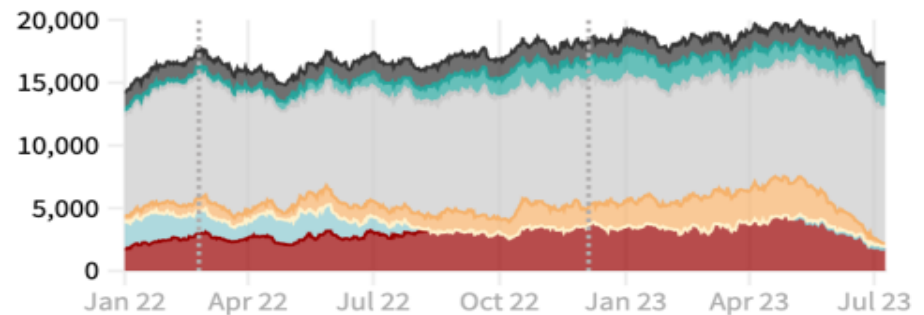
Oil products and chemicals



LNG



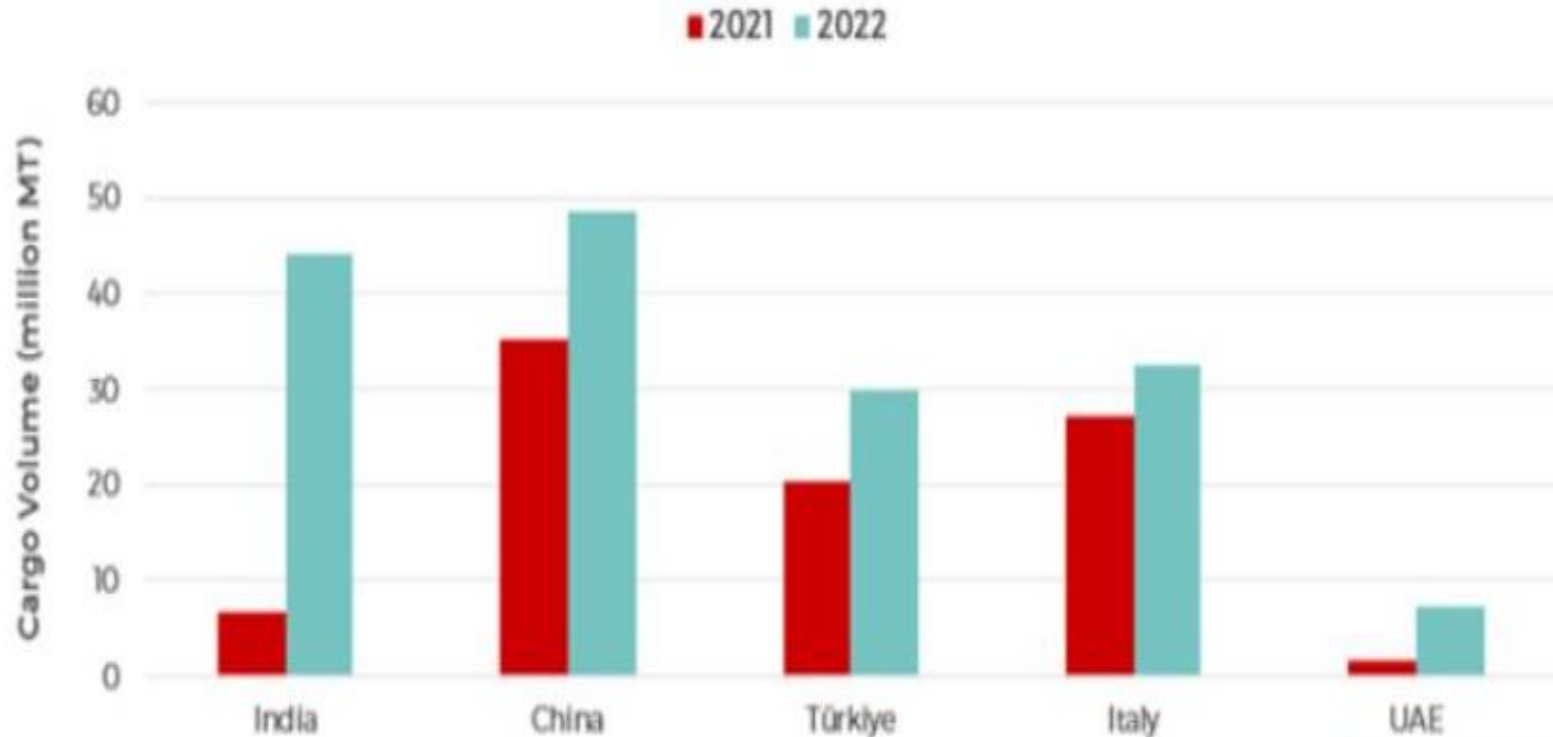
Coal



Source: CREA analysis. • Dotted lines represent the beginning of the war and of EU's oil ban & the wider price cap respectively.

INCREASED RUSSIAN OIL CARGOES

Top 5 Country Increases of Russian Oil Cargo 2021 vs 2022

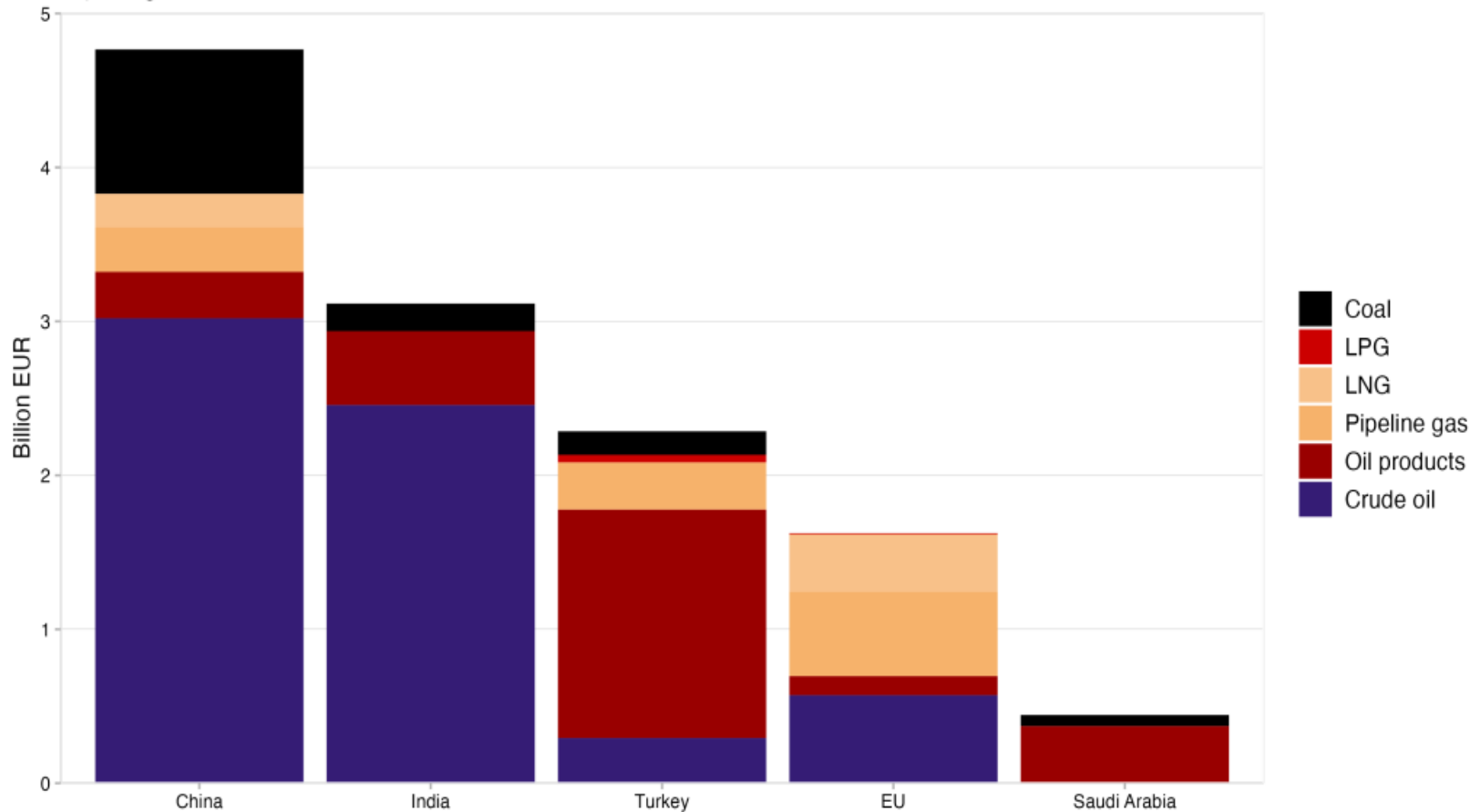


Source: VesselsValue February 2023

TOP FIVE BUYERS OF RUSSIAN FOSSIL FUELS

Who's buying Russia's fossil fuels in June 2023

Top-5 regions



Source: CREA analysis based on Kpler, Marine Traffic, ENTSOE and customs data.



THE RUSSIAN ECONOMY: CONSTRAINED BUT NO COLLAPSE

- “Ruble to rubble”: after the rubles rapid fall to half its value after the invasion in February, by June the ruble was at its strongest in more than seven years — earning it the distinction of being the best-performing currency in the world
- Russia posts record current account surplus of \$227 billion in 2022, up 86% from 2021
- Replaced revenues lost from its oil and gas exports to Europe with a pivot to China, India and other Asian countries

THE RUSSIAN ECONOMY: CONSTRAINED BUT NO COLLAPSE

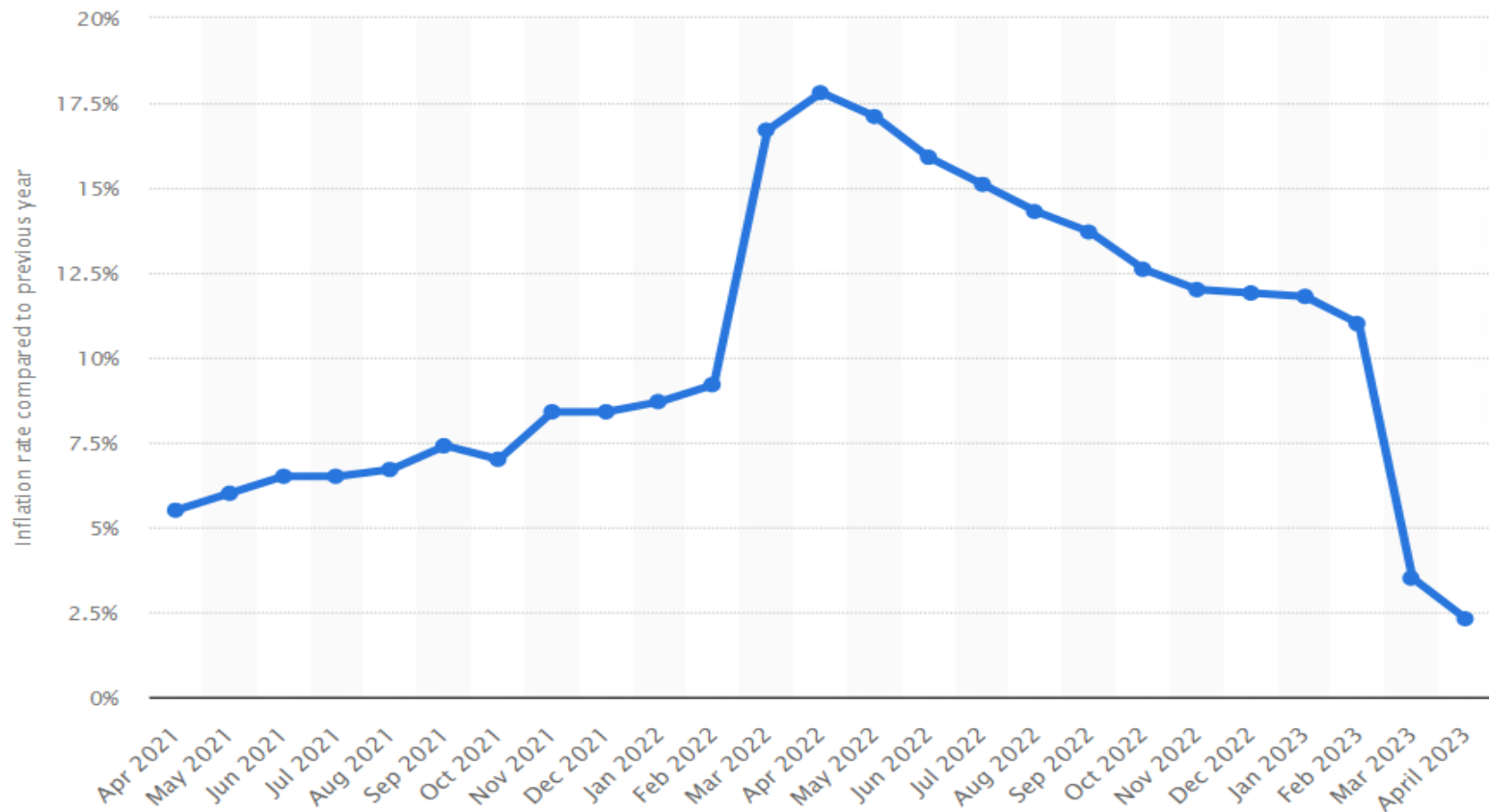
Russian rubles per U.S. dollar



Source: Wall Street Journal (30 June 2023)

THE RUSSIAN ECONOMY: INFLATION TAMED

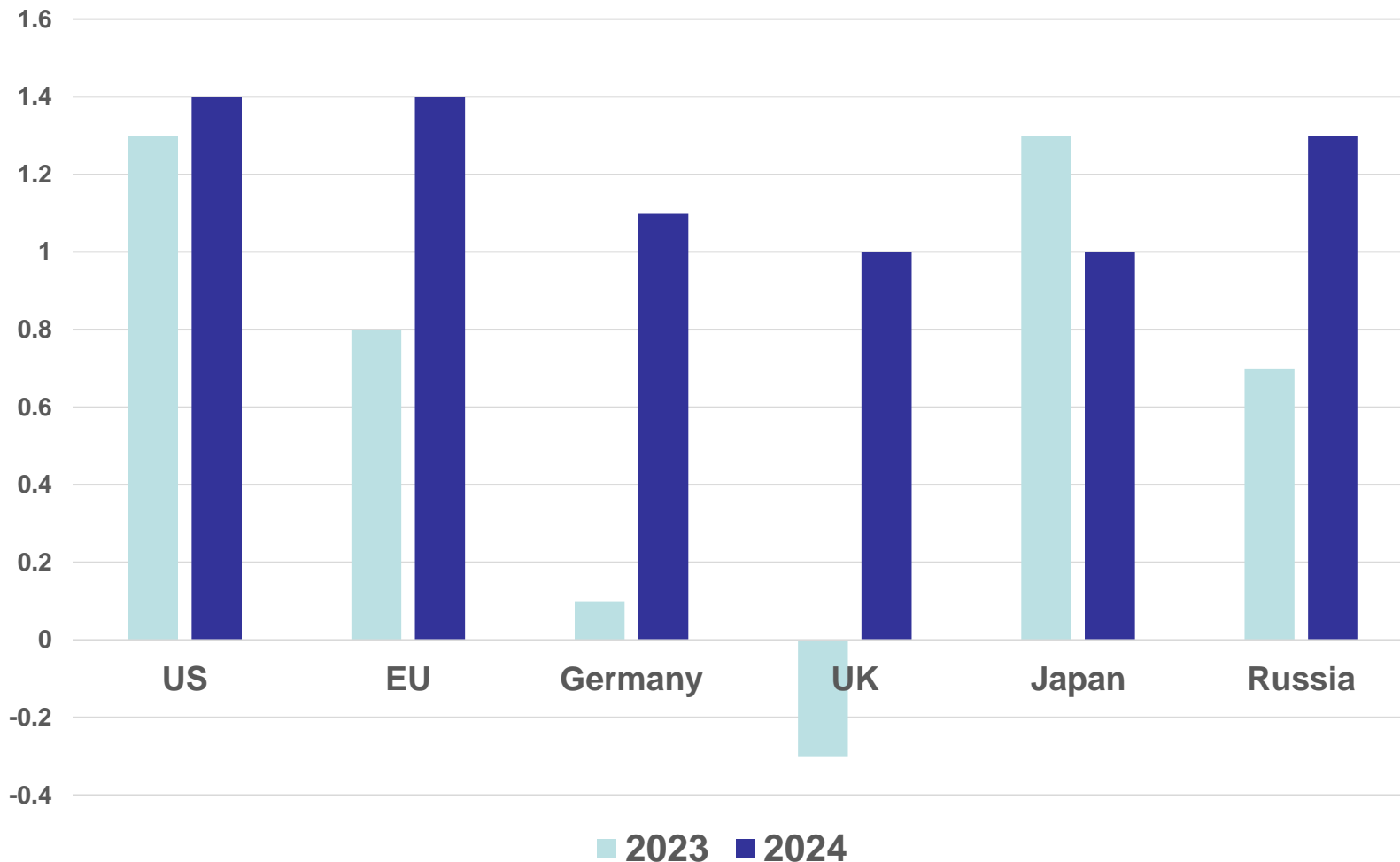
Russia: Inflation rate from April 2021 to April 2023
(compared to the same month of the previous year)



<https://www.statista.com/statistics/276323/monthly-inflation-rate-in-russia/>

IMF RUSSIAN GROWTH OUTLOOK COMPARES FAVORABLY TO GERMANY AND THE UK

IMF Forecasts for Real GDP Growth



“ARE SANCTIONS REALLY WRECKING LIFE IN RUSSIA?” (*DAILY MAIL*, 6 MARCH 2023)



“Filton Asda in Bristol. As British supermarkets ration eggs and an array of fruit and vegetables amid shortages provoked in large part by the Ukraine war, no such hardships afflict Vladimir Putin's citizens”



“Food market in the city of Perm, Russia. The images suggest the West's much-vaunted sanctions on Russia, imposed to punish President Putin for his invasion, are not having a deep bite”

THE SANCTIONS BOOMERANG



WE LIVE IN INTERESTING TIMES (2022): THE SANCTIONS BOOMERANG

- [*Business Insider*](#), March 4th: “Russia’s war against Ukraine could spiral into the world’s worst energy crisis since the 1970s, a top economic historian says”
- [*Financial Times*](#), April 21st: “‘Worst crisis since the second world war’: Germany prepares for a Russian gas embargo”
- [*Sydney Morning Herald*](#), May 17th: “‘Apocalyptic’ food shortage threatens, says Bank of England governor”
- [*United Nations*](#), May 19th: “Forty-Nine Million People in 43 Countries One Step Away from Famine, Secretary-General Warns in Briefing to Security Council on Conflict, Food Security”

THE DE-INDUSTRIALIZATION OF EUROPE: GERMANY

2022 HEADLINES

- [*Bloomberg*](#), July 2022: “Germany’s union head warns of collapse of entire industries”
- [*Financial Times*](#), July 2022: “German recession looms as business confidence slumps to two-year low”
- [*Reuters*](#), September 2022: “In Germany, energy price shock triggers fears of insolvency wave”
- [*The Guardian*](#), September 2022: “Recession fears shake Germany as energy costs hit business”
- [*The Economist*](#), September 2022: “Germany faces a looming threat of de-industrialization”

“RUSSIA IS A GAS STATION MASQUERADING AS A COUNTRY”

[SEN JOHN MCCAIN IN 2015]

- **“a full-spectrum commodity superpower, less vulnerable to sanctions than Europe itself” (Ambrose Evans-Pritchard, [*The Daily Telegraph*](#))**
- **a major food producer, the world’s largest wheat exporter**
- **world’s largest fertilizer exporter**
- **3rd largest aluminium exporter**
- **4th or 5th largest iron and steel exporter**
- **leading exporter of key industrial metals palladium, platinum, nickel, copper and rare earths**
- **2nd largest exporter of wood products**
- **Most critically, a heavyweight fossil fuel exporter**
 - **World’s largest natural gas exporter**
 - **2nd largest oil exporter (after Saudi Arabia)**
 - **3rd largest coal exporter (after Australia and Indonesia).**

THE BRICS BLOC



BRICS+ LIKELY MEMBERS

- June 2022: Algeria, Argentina, and Iran applied for membership ([AlJazeera](#)); Saudi Arabia, Turkey and Egypt are “on course to become the latest members of the BRICS International Forum group and could submit applications next year” ([President of BRICS International Forum](#))
- April 2023: BRICS draws membership bids from 19 nations before summit ([Bloomberg](#))
- Saudi Arabia – Iran [rapprochement](#) brokered by China raises the possibility that both major oil and gas producers join BRICS

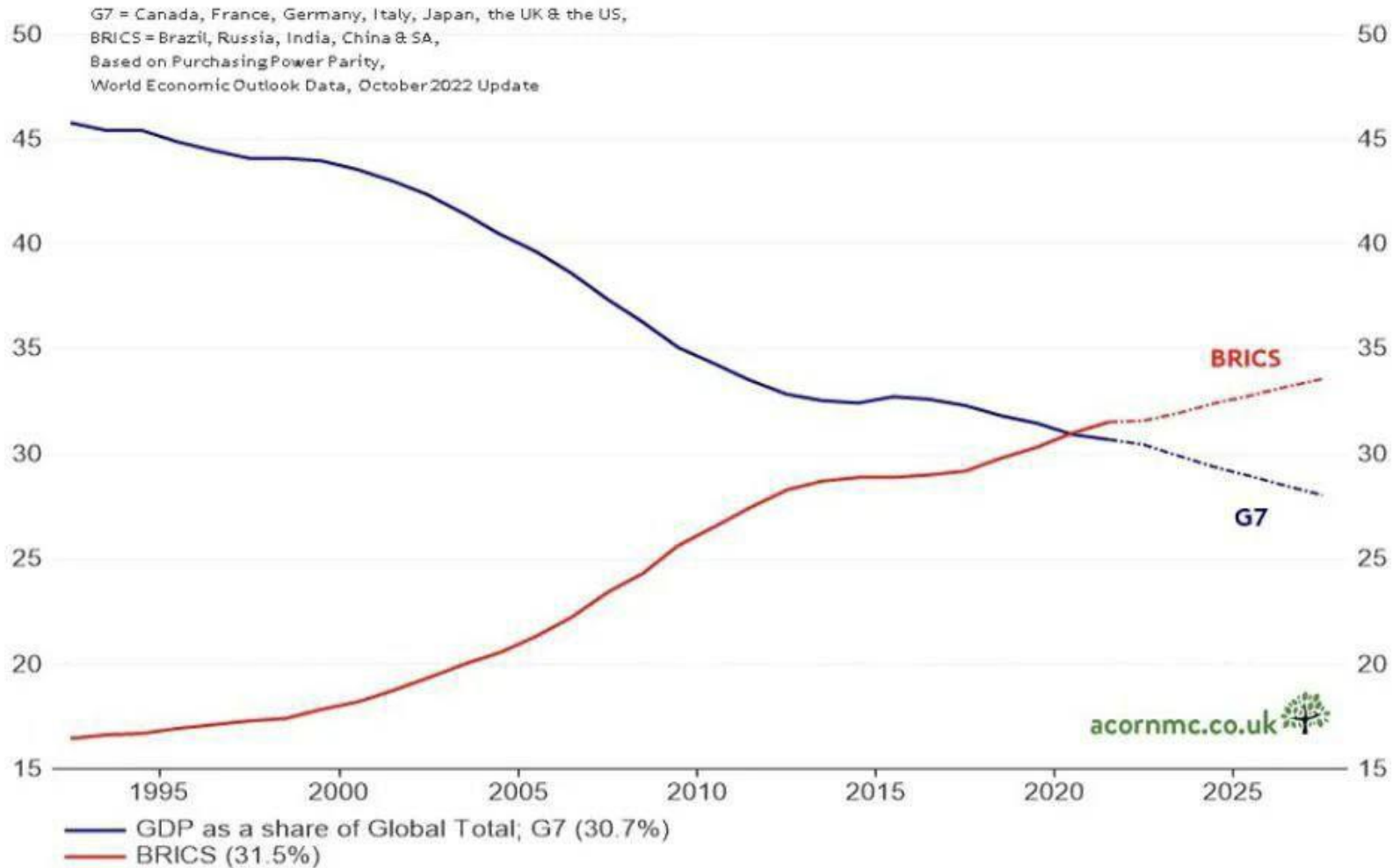
BRICS & BRICS+

Proposed BRICS Expansion

- Current BRICS members
- Proposed BRICS members



BRICS v. G7: RELATIVE GDP (PPP)



Source: Refinitiv Datastream, Acorn MC Ltd

BRICS+ : THE “G7” OF THE EAST?

- China is by far the largest economy in the BRICS group (> 70% of collective GDP); Intra-BRICS trade has not been of particular significance since its founding in 2010.
- But after the Russia-Ukraine war, intra-BRICS trade suddenly gained an unprecedented strategic role in oil geopolitics: Western-sanctioned Russian oil and gas exports, offered at discounted prices, re-directed to China and India as well as a range of mid-sized importers such as Brazil, Egypt, Saudi Arabia, UAE
- Moscow and Beijing are working on the creation of an international reserve currency and an integrated inter-bank payments system based on a basket of BRICS currencies to counter Western sanctions
- For countries outside the US-led Western alliance, BRICs membership serve as a hedge to the threat of sanctions

OPEC To OPEC+

- Gone are the days when the OPEC cartel with its Saudi lynchpin played a role as the US-allied “central banker of oil”; Saudi Arabia has repeatedly rebuffed Biden administration requests to expand oil supplies
- Now OPEC+ group is in the driver’s seat combining Saudi Arabia (and its Gulf allies) with Russia; the former is the world’s largest exporter of crude oil while the latter is the world’s second largest oil exporter and largest natural gas exporter.
- Absurdly enough, the third heavy weight contender in the global oil and gas trade, the US itself, is hobbled by an administration which boasts a ‘whole-of-government’ commitment to anti-fossil fuel climate policies.

THE RUBICON CROSSED



THE BRETTON WOODS SYSTEM

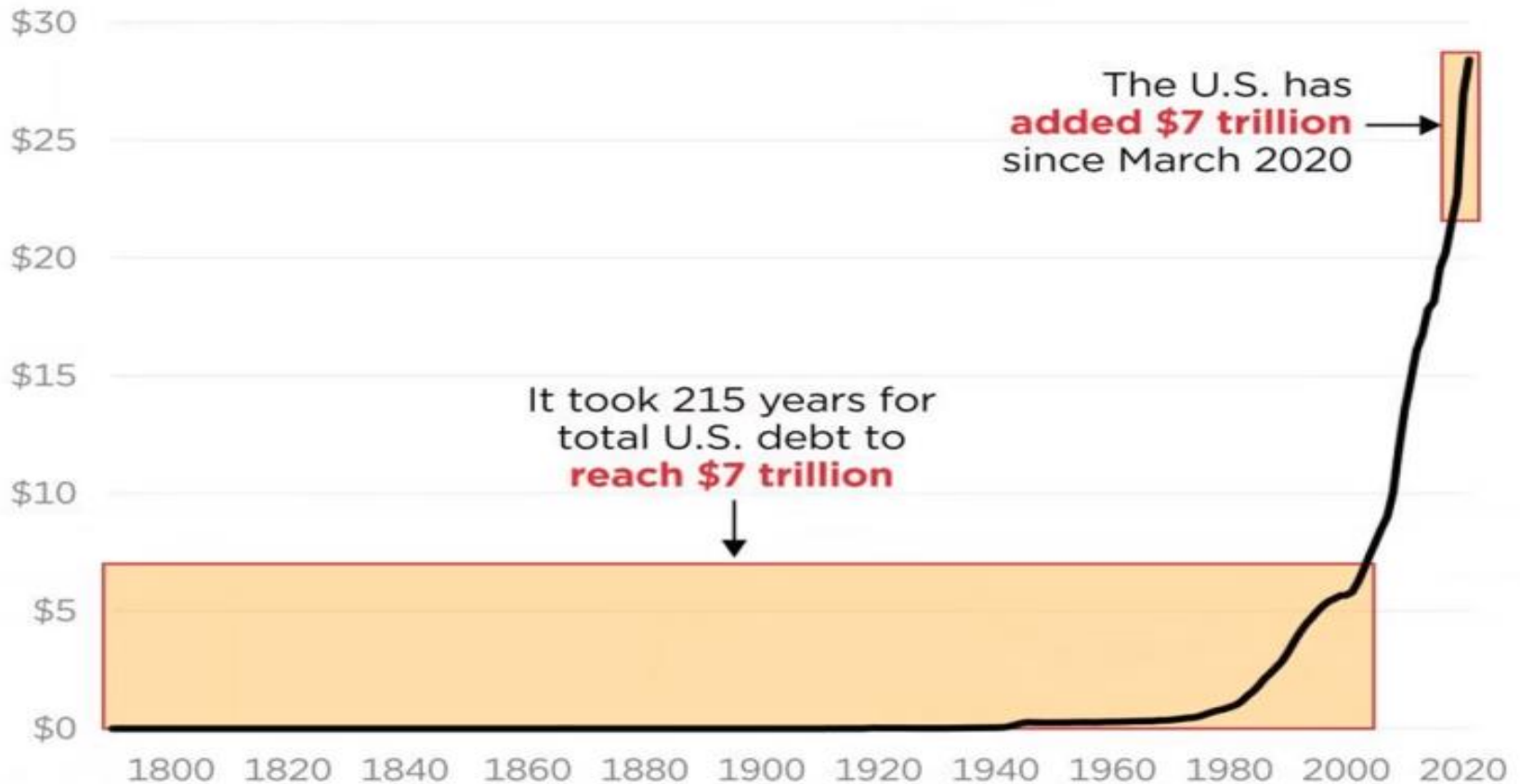
- Bretton Woods I (1945)
 - Currency backed by gold; US\$ as international reserve currency
 - USS Quincy meeting between F.D.R. and Abdul Aziz Ibn Saud (Saudi oil for US protection)
 - US/Europe dominated IMF & World Bank
- Bretton Woods II (1971)
 - Nixon closes the gold window and US\$ becomes a fiat currency
 - Petrodollar Agreement 1973: U.S military sales and defense of Saudi Arabia / oil trade being denominated in U.S. Dollars
 - Store of value: US Treasuries with un-hedgeable risk of expropriation
- Bretton Woods III (2022)
 - Competing currency blocs
 - Non-US\$ currencies backed by commodity exports and gold

A NEW GEOPOLITICS OF FINANCE AND ENERGY TRADE EMERGES

- [Gita Gopinath](#) (IMF Economic Counsellor): “sanctions on Russia could erode the dollar's dominance by encouraging smaller trading blocs using other currencies” (March 2022)
- [Dmitry Medvedev](#) (former Russian Federation President): "The world is waking up: confidence in reserve currencies is melting like a morning fog...Abandoning the dollar and the euro as the world's main reserves no longer looks like a fantasy.” (March 2022)
- [Zoltan Pozsar](#) (strategist at Credit Suisse) “We are witnessing the birth of Bretton Woods III – a new world (monetary) order centered around commodity-based currencies in the East that will likely weaken the Eurodollar system...” (March 2022)

US FED'S "FULL FAITH AND CREDIT" BEING TESTED

At a national debt exceeding \$30 trillion, and increasing by \$1 trillion a year, faith in the US debt market cannot be taken for granted.



Source: U.S. Department of the Treasury.

heritage.org

BRETTON WOODS III: DE-DOLLARIZATION AND COMPETING CURRENCY BLOCS

- The US\$ as international reserve currency will not be replaced anytime soon
- But a process of bifurcation is already taking place: emergence of parallel commodity-based financial blocs in trade, investment, finance and development loans (BRICS' New Development Bank; China's AIIB)
- BRICS and other countries engaging in non-US\$ currency swaps and using alternatives to SWIFT inter-bank clearing system
- Large commodity exporters and importers outside the Western alliance will increasingly trade in non-US\$ currencies
- India's purchases of Russian oil have been settled in other currencies, [“denting” petrodollar dominance](#) ; Saudi Arabia considering accepting [yuan payments](#) for oil exports to China
- Developing countries are reducing share of US\$ in foreign exchange reserves to mitigate risk of US-led expropriation

THE NEW WORLD ENERGY ORDER: A GLIMPSE

- Europe: Loss of cheap Russian gas irreversible, continued energy demand destruction, de-industrialization, fall in living standards, social strife, rise of populist parties
- US gains comparative advantage in manufacturing over Europe with cheaper energy and greater resource endowments
- “Global South” (developing countries in Asia, Africa and Latin America) face more expensive energy supplies and slower economic growth
- The Russia - China axis becomes a major geopolitical determinant; India’s “non-aligned” role remains important in its own right
- Malthusian ideology (climate alarmism) remains a determinant of energy policy and international relations between a globalizing West and an increasingly assertive East in a multipolar world

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Thank You

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