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## **What led to the persistent dependence of the EU on Russian energy?**

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## **Abstract**

The European Union intends to impose an embargo on oil imports from Russia. It is about giving up Russian oil, which pays for 25 percent of imports. If the oil embargo is implemented, it will lead to a sharp decline in Russia's foreign exchange earnings. Thus, crude oil and oil products account for 37% of Russia's exports, and 70% of these products were exported to the US and European markets. Last year, Russia's annual revenue from oil exports to Europe was \$ 104 billion.

Germany is the largest buyer of Russian oil in Europe. Berlin paid Moscow \$ 23.6 billion a year for oil. Poland spends \$ 14.7 billion a year on Russian oil and the Netherlands over \$ 11.4 billion. Finland, Belgium and the United Kingdom each paid about \$ 7 billion a year in oil imports to Russia. This means that the embargo will cost Russia at least more than \$ 100 billion. At current prices, this is expressed in larger numbers. It is clear that in terms of infrastructure, as well as the severity of sanctions, it is unlikely that Russia will find alternative markets, not only in the short and medium term.

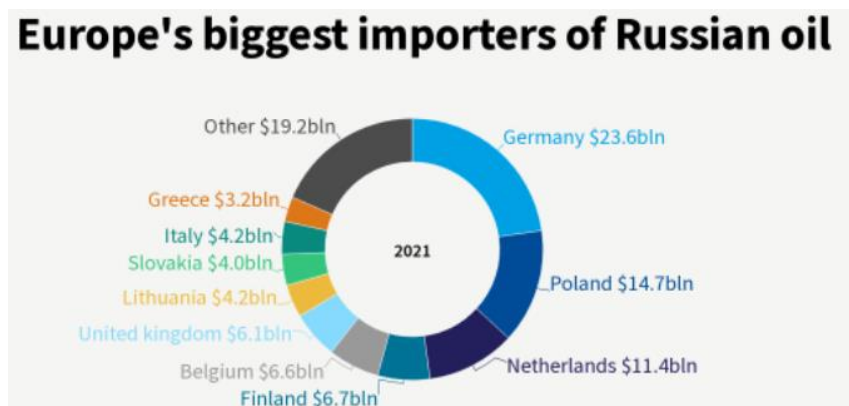
The oil embargo could lead to a sharp rise in the price of "black gold". It is true that the OPEC is trying to bring more oil to the market from domestic sources, and this will continue. But even OPEC's chances of filling the gap in the short term are not high. Although rising world oil prices have led to an increase in foreign exchange earnings for energy countries, including Azerbaijan, stock market uncertainty may not be effective in the long run. Along with all this, the reality is that volatility in the stock market will remain high for some time to come.

## Introduction

Reducing Europe's dependence on the Russian energy supply is a widely discussed issue of the recent decade in Brussels. Notwithstanding the annexation of Crimea in 2014, Europe put no halt to gas supplies from Russia, and, in a contradictory scenario, pipeline gas deliveries to Europe after 2014 surged. The dependence stems from mainly 3 reasons. Europe's natural gas production began to decelerate at a rapid phase after 2010, although in the 2000s 50-60% of gas demand was met within EU production. European demand for gas stabilized over the past period, and the failure of alternative supplies to close the growing gap is considered another hurdle in this vein.

To put the analysis in figures, in 2020, the amount of the gas imported by Europe including Turkey accounted for 185 billion cubic meters equating to 36 % of Europe's total gas demand in 2020, while in 2021, 45% of EU's gas imports were sourced by Russia. Russia is by far the largest gas supplier of Europe and the refusal to it would consider the building of massive renewable energy power stations of huge cost.

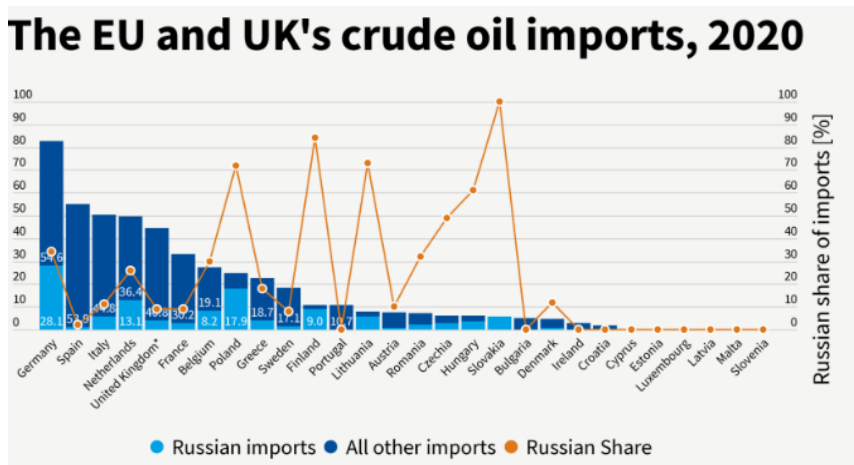
*Figure 1: Big oil importers from Russia*



Source: World Bank, 2022

From the perspective of oil imports to the EU, Russia receives \$285 million on a daily basis from Europe due to oil exports. In the year 2021, the EU including the UK paid a bill of \$104 billion to Russia. Figure 1 illustrates the biggest importers of Russian oil in the EU.

**Figure 2: EU's and UK oil imports in 2020**



Source: [www.transportenvironmet.com](http://www.transportenvironmet.com) 2021

Europe's dependency on Russian oil is estimated to be over a quarter indicating a considerable proportion in the domestic energy consumer market. Unlike gas, most oil imports into the union come from oil tankers and ports meaning that changing the direction of the source seems to be possible. However, this scenario fails to solve the EU's dependency. EU is due to adopt a new energy strategy against the risk of energy supply disruption and increasing energy prices where the sufficient absence of an oil embargo on Russia is seen. A comprehensive energy strategy should include preparatory measures for oil market disruption. It should be noted that by now no unanimous agreement on a complete embargo on Russian oil is reached at the union level.

**What if the full ban is introduced by the EU and what implications for Azerbaijan.**

A ban on Russian oil could have meaningful consequences for the world energy market pushing the prices further to a higher frontier coupled with the increasing inflation rate. Europe generates an incomparably higher amount of its energy supply from Russia than the USA. As energy markets are of global importance, shrinking supply sources could have adverse effects for the economy of energy importers. Some EU members refrain from imposing a ban on energy import from Russia stating their high dependency would have hurt their economies higher than Russia.

The supposedly exacerbated energy market by the EU could further reduce the supply source of energy markets leading to an upsurge in prices that can additionally stack up foreign currency reserves of Azerbaijan and strengthen the exchange rate of manat bringing financial stability. This, in turn, can translate into investor confidence. Moreover, the growing gap in supplies from the new embargoes can discern the importance of Azeri gas&oil boosting demand for Azerbaijan in the energy consumption market and energy diversification strategies of Europe. In another light, the rising demand for our energy promotes and further backs up the geopolitical relevance of the region and draws international attention.

In 2021, Azerbaijan exported 8.2 billion cubic meters of natural gas through Southern Gas Corridor which is expected to reach 9.1 billion cubic meters in 2022. Based on initial estimations, Azerbaijan is expected to provide EU countries with 11 billion cubic meters of natural gas in 2023. Energy-rich Azerbaijan has a long-term strategy for export growth in the energy field to Europe which is partially dedicated to its own increasing use of renewables. By means of renewable energy sources consumed domestically, increasing extraction of natural gas and surplus in the market necessitates the country to think of new contractors.

Azerbaijan intends to have a remarkable position in the energy structure of Europe and, by no account, the country is likely to be an energy competitor in the European market against Russia due to the higher volume of imports from the latter. Baku will aim to carefully balance its energy and political links with all parties and major players at the intersection of multi-factored foreign policy and following the reestablishment of the Zangazur Corridor that will provide a fertile background for the implementation of far more energy and transportation projects with Europe.

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