

New: Year | Era | Energy
IRM Energy & Renewables SIG Webinar

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Rising levels of macroeconomic uncertainty and business cyclicality

General overview



The past two and a half years have been extraordinary in terms of **rising levels of macroeconomic uncertainty and business cyclicality**. According to the US National Intelligence Council, in the next two decades, **competition for global influence is likely to reach its highest level since the Cold War**

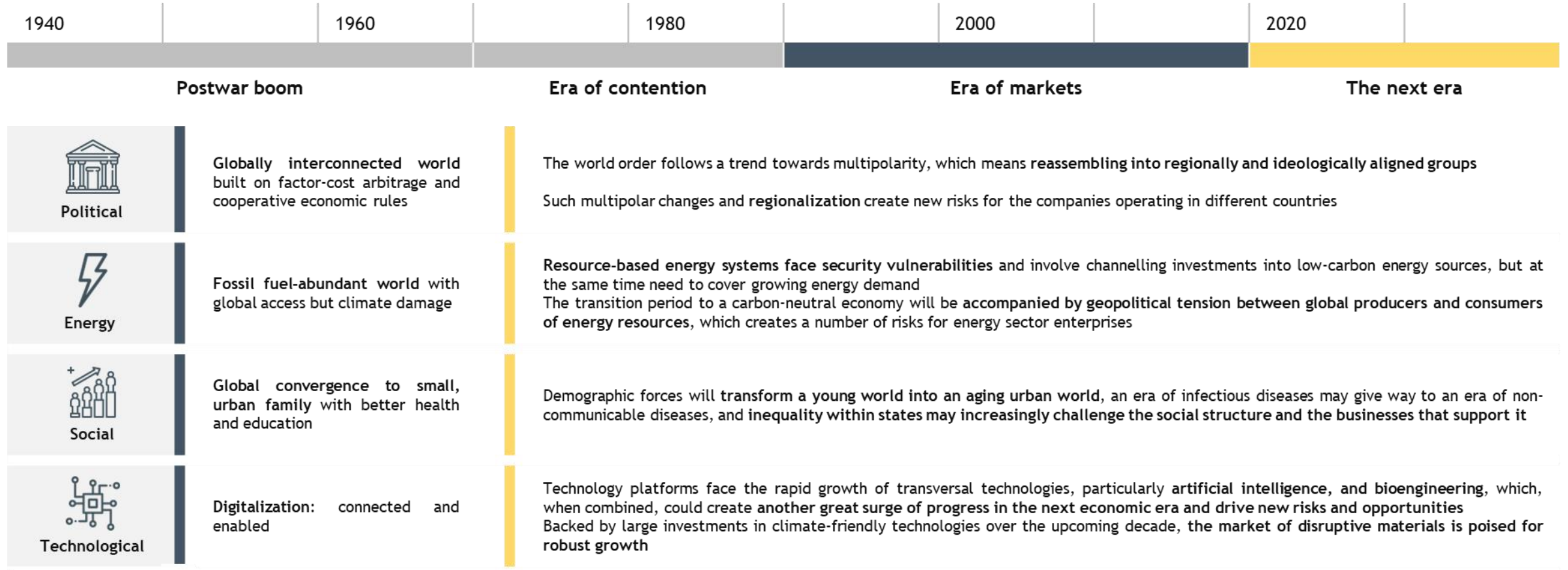


Together with global pandemic, energy shortages, soaring inflation and rapidly evolving technologies, this creates a **troubling combination of new challenges for businesses around the world** bringing risk management and resilience topics on the top of corporate boards' table



These factors create a **new perspective of risk management**, when businesses seek to manage risk across all parts of their organization so that at any given time, they are **taking exactly as much of the right types of risk as is necessary to effectively achieve the organization's strategic goals**

The new economic era - PEST analysis



Geopolitical factors will have high influence on crude oil prices

China's strengthening of COVID-related quarantine norms

The first COVID-19 outbreak in China, the world's largest importer of hydrocarbons, in 2020 triggered significant reduction in demand for oil. Together with the global oil storages being filled to 95-98%, this led to negative prices for oil in the period. During summer 2022 China increased its crude oil imports from Russia benefiting from the discounted prices due to the sanctions. This helped to ensure national oil storages filling to 80-85%. Hence, the further strengthening of COVID-related quarantine norms in China may drive downwards pressure on oil prices

Russia's ban on crude oil & oil products exports

On Dec 27, 2022, Putin signed a decree that bans the supply of crude oil and oil products to nations that abide the \$60-per-barrel price cap on Russian seaborne crude oil. The ban should be valid during Feb 1-July 1, 2023 period (5 months)

Russia is the world's second largest oil exporter after Saudi Arabia, and a major disruption to its sales would have far reaching consequences for global energy supplies

Tectonic changes in the EU energy market benefiting MENA region countries

Tectonic changes in the EU energy market



According to the results of 2021, the share of Russian gas in the EU market was about 40%. After the Russian military aggression against Ukraine in Feb 2022, Russia (a state sponsor of terrorism according to the European Parliament) became the world's record holder in the number of sanctions imposed on, that also cover energy sector. This led to the tectonic changes in the EU energy market:

- ▶ Russian gas monopolist Gazprom has lost the status of a reliable gas supplier to the EU, its share of the energy market approached 9% in the end of Q3 2022 with further decrease
- ▶ the share of other players is constantly growing with increase pipeline supply from Norway and North Africa and LNG imports mainly from USA and Qatar. Many European countries (Germany, Italy, France, Estonia, Poland, and others) expand their LNG import capacity by deploying new terminals in 2023
- ▶ the terms of decommissioning of coal-fired power plants are revised, with possible “greening” initiatives of nuclear energy under debate



Overall, the effects of the Russian war in Ukraine on the commodity markets and of its associated economic sanctions are **positive economic driver for MENA region countries** improving their macroeconomic balance

Australia, Qatar and USA to mitigate the LNG market supply side challenges

LNG market supply side challenges



With current conceptualization of LNG as a sort of solution for gas shortages, the **Asian and European demand for LNG is surging**. But this creates a **risk related to the supply side**. LNG supply chain starts from the development of natural gas resources, continue by transporting to LNG liquefaction terminal, load on a proper carrier and bring to regasification terminal in the consuming region. **The liquefaction terminals are typically the most expensive and long-term piece to build** of the entire LNG supply chain



The rapid construction of the new regasification capacities worldwide will **boost the demand growth that may overrun the supply capacities** and in turn drive LNG prices up based on the demand-supply law



Australia, Qatar and USA being the world's largest LNG suppliers, will play an **important role in overcoming the LNG market supply side challenges**, that sequentially will increase their geopolitical influence

Commodities supercycle may create a new market niche for coal miners

New life of coal miners



The global energy transition implies **shifting away from the traditional energy sources like coal to the renewables**. But this transition does not mean the end of use of mineral resources that are actively utilized in **production of power grids, cables, electric vehicles, etc.**



These growing production volumes **boost massive demand for copper, lithium, cobalt, manganese**. For example, an **electric car requires more copper than a traditional one**. Copper is key also in onshore and offshore wind as well as in solar panels and in batteries



The **UN Sustainable Development Goal #7 “Affordable and clean energy”** may strengthen this demand even more. Overall, this growing demand may trigger a start of the commodities supercycle that in turn will create a new market niche and opportunity for coal miners, who can benefit from their assets, knowledge, and experience with a shift to the highly demanded mineral resources

Cutting-edge technologies + Decentralization = Energy security

Effective methods of fighting the Russian terrorism



During Nov-Dec 2022, Russia (a state sponsor of terrorism according to the European Parliament) launched **2 000+ missiles and drones aimed to destroy Ukrainian energy system** and cause a country-wide blackout. In order to mitigate the blackout risk, a series of private and governmental initiatives was launched to establish a parallel **independent infrastructure of electricity production** through generators and renewable energy sources



In Dec 2022, the National Bank of Ukraine together with 14 leading Ukrainian banks created a **joint banking network 'Power Banking'** that will work even in **blackout conditions**. This is a country-wide joint network of bank branches, which will work and **provide a certain list of urgent banking services to clients even in a critical situation during a blackout**. Branches of the common network have alternative energy sources and backup communication channels



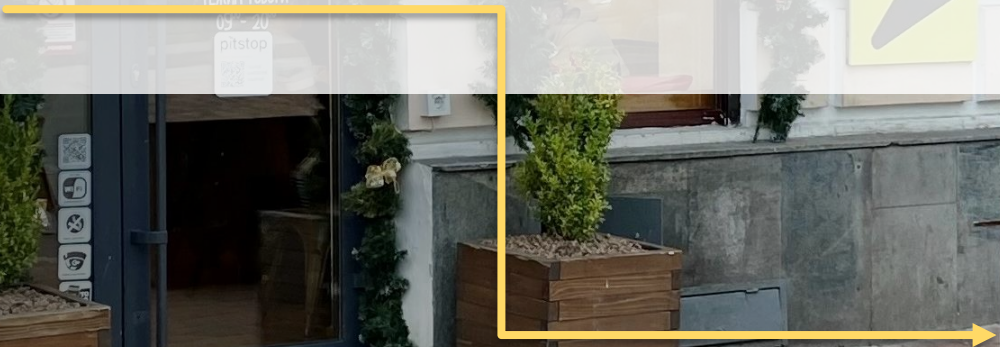
During **COP27 Climate Conference** (Nov 2022) Ukraine and US announced a **Clean Fuels from SMRs Pilot project** that will demonstrate **production of clean hydrogen and ammonia using secure and safe small modular nuclear reactor (SMR)** and cutting-edge electrolysis technologies in Ukraine



1,5 GW+ operating thermal powerplant machinery hall ruined by Russia (a state sponsor of terrorism according to the European Parliament) during missile attack on Jan 14, 2023



What is this?



Useful links & Contacts



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The Podcast looks at managing risk in extreme environments or crisis
Season 1 of the podcast is focused on the geopolitical risk management and ripple effect of the Russia's war in Ukraine

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