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How Russia's war in Ukraine is changing the world's oil markets

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Heard on All Things Considered

Jackie Northam

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Russia's war in Ukraine is causing a profound and permanent shift in the world's oil markets, creating new geopolitical alliances. Analysts say it's comparable to the 1970s Arab oil embargo.



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Transcript

ARI SHAPIRO, HOST:

Russia's war in Ukraine has implications far beyond the battlefield, including energy. The flow of oil, natural gas and refined products like diesel has been upended, leading to one of the largest shifts in the global energy market in decades. NPR's Jackie Northam reports.

JACKIE NORTHAM, BYLINE: Any American around at the time will likely remember the 1973 oil embargo. That's when Arab oil producers cut exports to the U.S. and other nations in retaliation for support of Israel during the Yom Kippur War. Gas stations ran dry. Prices skyrocketed. And the U.S. economy flattened. It also created a profound and permanent shift in energy markets as nations looked for new suppliers beyond the Middle East. Now, Russia's invasion of Ukraine has created another major shift in energy.

DAVID GOLDWYN: This really is the biggest transformation in the energy markets probably since 1973.

NORTHAM: David Goldwyn is with the energy advisory firm Goldwyn Global Strategies. He says these energy shifts aren't just about oil.

GOLDWYN: The Russian invasion of Ukraine has permanently redirected the flows of natural gas, crude oil and refined products.

NORTHAM: What jolted the global energy network was Russian President Vladimir Putin's decision to weaponize energy in retaliation for Europe's support of sanctions. Daniel Yergin is an energy specialist at S&P Global and author of the book "The New Map: Energy, Climate, And The Clash Of Nations." He says before the Ukraine war, Russia and Europe were highly integrated when it came to energy.

DANIEL YERGIN: That's over. Putin's really stopped the flow of most natural gas to Europe. And Europe has slammed the door on Russian oil and simply will not take anymore. And that has forced Russian oil into other markets and at a much lower price, principally India and China.

NORTHAM: Europe used to rely heavily on Russia for refined oil products, such as diesel. Now it's looking to India and China, which have become strategic suppliers of the commodities, says Karen Young with Columbia University's Center on Global Energy Policy.

KAREN YOUNG: The Indians are very, very happy to buy cheaper Russian oil, as have been the Chinese. They can take that Russian oil and turn it into other petroleum products and sell them and do it at quite a nice profit.

NORTHAM: Relying on China for its refining needs could leave Europe dependent on the Asian nation. But Young says sending Russian oil to Asian nations has also had a knock-on effect for other countries, including Saudi Arabia.

YOUNG: There are kind of, you know, long-standing customer relationships between the Gulf states and Asian customers. And so cheaper Russian product is a threat to those relationships.

NORTHAM: And it could give Saudi Arabia more leverage over Europe. David Goldwyn says Europe is looking to other Mideast countries for oil and places like Qatar and Algeria for natural gas. New fields are coming online in Africa. And Goldwyn says the U.S. has also become a critical supplier.

GOLDWYN: Two years ago, most U.S. oil was headed to Asia. Now it's headed to Europe. Two years ago, most U.S. liquefied natural gas was headed to Asia as well. Last year, Europe was the top destination. So the U.S. becomes a much more important strategic player.

NORTHAM: The U.S. may not feel the shock of the 1970s, but it's still vulnerable to sharp rises in the price of oil, which could happen again once China's economy starts to pick up steam. Most analysts agree one thing is certain - Russia's days as an energy superpower are likely over. Jackie Northam, NPR News.

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