The limits of western economic war with Russia and the failure of climate policy

By Simon Pirani

Russia’s war on Ukraine marks a historical turning point. The illegal annexation of four Ukrainian regions in September, and the nuclear threats issued, are a dangerous intensification. It is a matter of principle, in my view, that the labour movement and civil society internationally should support Ukrainian resistance, and I have written about that elsewhere. In this article, I make an initial attempt to understand the economic war being waged alongside the military conflict, the resulting disruption of energy markets, and their place in the broader social and ecological crises shaking capital.

In the first section, I argue that the western powers’ economic war against Russia is reactive and limited; even now, sections of western capital hope to mend ruined business relationships with Russia. In the second section, I show that, until 2014, western policy was focused on integrating Russia into the world economy on the west’s terms: even after the Kremlin’s military intervention in Ukraine, the western response remained reactive. The third section is about the consequences of this year’s invasion for energy markets – particularly the European gas market – and the energy transition. Narratives of “energy crisis” are being used to double down on fossil fuel investment and undermine the western powers’ commitments to reduce greenhouse gas emissions, magnifying the impact of the war and climate crisis for the whole of humanity.

1. Economic warfare and its limits

The aim of the western powers’ sanctions on Russia is to try to discipline the Putin government, not to destroy it. Russia’s invasion of Ukraine in February, and illegal annexation of four Ukrainian regions in September, marks the breakdown of the relationship established in 1990-92 between Russia and the European powers, especially Germany – a breakdown that those powers had desperately hoped to avoid. This breakdown will transform not only capital’s military arrangements in Europe, but also the energy system, in which cheap Russian gas has been a key element for four decades.

Three types of economic sanctions are being used against Russia: on finance; on trade; and on individual owners of businesses that have links to the Kremlin. The financial sanctions include the freezing of dollar-denominated Central Bank assets and restrictions on the use of

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1 For example: S. Pirani, “Supporting the Ukrainian resistance. Six questions” (People & Nature, 19 April 2022).

peoplenature.org
payment systems; Gazprombank, through which payments are made for gas exports, is exempted. Trade sanctions are directed against exports, chiefly of oil and gas, and imports, especially high-tech ones. The sanctions against individual business people (freezing assets, denying visas, and so on) have “won the most publicity”, but are also the least effective, a survey by The Economist showed. It estimated that out of $400 billion blocked on paper, only $50 billion had been frozen.2 Transparency International concurred: “While high-profile yacht seizures have been making international headlines, these are only a small fraction of kleptocrats’ illicit wealth stashed abroad.” The system that allows them to keep their assets out of tax authorities’ reach had been “abused for decades”.3

Here I summarise the effect of sanctions on oil and gas; some reasons for Russian kleptocrats’ impunity; and the effects on the Russian economy.

Oil

Russia is the third largest oil producer behind the US and Saudi Arabia. It accounts for 12-13% of world crude oil production, and refines more than half of this in Russia. About three quarters of the output is exported, mostly (about two thirds) as crude oil, some as refined products. Oil exports are the mainstay of the Russian economy, contributing about 45% of total export revenues and about one third of the federal budget.

So far, western sanctions on Russian oil have been limited: the most significant, an EU embargo on crude oil imports, will only take effect in January 2023, followed by an embargo on refined products in February.4 Sanctions on Russian shipping and insurance, and financial sanctions, have made some impact. These measures reduced Russian exports to Europe and the US, but much of this oil was bought elsewhere, primarily by India and China, albeit at a discount. Before February, Russian production was just short of 12 million barrels per day (mbpd) and crude exports were about 5 mbpd. In the first six months after the invasion of Ukraine, exports to the US and Europe fell by 0.76 mbpd, but an extra 0.5 mbpd is going to Asian buyers. In March, the International Energy Agency forecast that, by next year, Russian oil production would fall by 3 mbpd, more than a quarter; in September it revised that to a 1.9 mbpd fall.5

While Russia is exporting less actual oil, it is earning far more from it, due to high prices. Oil prices rose steadily during 2021, as the post-pandemic economic recovery began. They surged above $120/barrel in February, straight after the Russian invasion of Ukraine, and eased back to around $90/barrel by September. Russia’s fossil fuel export revenues (including oil, gas and coal) have soared: in the first six months since the invasion, they totalled $158 billion, including $43 billion for the state budget. More than half of this came from the EU.6

The G7 nations are considering imposing a price cap on purchases of Russian oil, e.g. by banning insurance services for ships delivering above a certain price – but there are doubts about its effectiveness.7 Ever since sanctions were imposed on Iranian oil, traders worldwide have developed increasingly sophisticated methods of evading them. The western nations are

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2 “Split reality”, The Economist, 27 August 2022
3 Transparency International, Up to the task? The state of play in countries committed to freezing and seizing Russian dirty money, May 2022
4 European Council, “EU sanctions against Russia explained”.
5 “Briefing: global energy flows”, The Economist, 24 September 2022; “Western sanctions have had ‘limited impact’ on Russia”, FT 11 Aug; “EU embargo to hit Russian oil output, says IEA”， Financial Times, 14 September 2022
6 Centre for Research of Energy and Clean Air, Fossil fuel exports from Russia in the first six months of the invasion of Ukraine, August 2022
7 “Fuel for thought: G7 price cap” by Robert Perkins, S&P Global Commodity Insights
also constrained by a shortage of refining capacity: as the EU’s measures take hold, more Russian oil may go to China and India for processing and re-export.

So sanctions on the oil trade have failed to stop Russia earning more export revenues in the short term, but will probably push down its oil output in the medium term. The greatest effect, though, will be felt over the long term, as cooperation with multinational oil companies and imports of western technology dry up.

In March, the three largest multinational oil investors in Russia – BP, Shell and ExxonMobil – said they would quit, along with other foreign companies. TotalEnergies of France, by contrast, has stayed. In August, a presidential decree forbid foreign investors to sell assets. The oil majors are now talking to the government, and Saudi, Chinese and Indian investors, about how to sell up. Russia relies heavily on imported technology and expertise for the complex upstream operations that contribute an increasing share of its oil output, and so this exodus could be damaging. In July, ExxonMobil recalled foreign staff from the Sakhalin I project that it operates in partnership with Rosneft, the largest state-owned Russian oil company, and output fell by more than 95%.

Gas

Russia is the world’s second-largest gas producer; historically it was the largest, but in 2011 fell behind the US, as shale gas output rose there. Most Russian gas – just short of two-thirds in recent years – is consumed in Russia. In recent years Russia has begun to export relatively small volumes of gas via a new pipeline to China, and as liquefied natural gas (LNG) from projects in the Far East and the Arctic, but the bedrock of its export business has always been supplies via pipeline to Europe. Gazprom, the giant state-controlled gas company, has a monopoly over these.

Russian gas has in recent years comprised more than one third of total EU gas consumption. But some countries are more dependent on it than others: Germany relies on Russia for more than half of its gas; the Czech Republic, Hungary and Slovakia are even more dependent. As a result of the Russian attack on Ukraine, not only did European governments set out to reduce dependence on Russian gas imports, but Gazprom – at the Kremlin’s direction, and at odds with its commercial interest – sought to reduce exports.

While the Kremlin hopes to keep oil exports as high as possible, it sees withholding gas supplies from Europe as an instrument of economic warfare. Already in 2021, as the Russian troop build-up on Ukraine’s borders heightened political tensions with Europe, Gazprom stopped filling gas storage facilities in Europe and, while it kept delivering gas under long-term contracts, it stopped selling additional volumes on European spot markets. This supply squeeze, along with rising demand post-pandemic, led to a sharp increase in wholesale gas prices.

In February, after the Kremlin recognised the Donetsk and Luhansk “republics”, Germany blocked completion of the Nord Stream 2 pipeline, a nearly-finished Gazprom project aimed at sending gas to Germany by a non-Ukrainian route. Economic war was declared, alongside the shooting war; the German policy of building a strong trading relationship, first with the Soviet Union and then Russia, had come to an end. (On the impact of the gas supply squeeze on European energy systems, see part 3 below.)

8 “Neft’ zasakhalilas’”, Kommersant, 7 July 2022; “Exxon prigrozal podat’ v sud”, Kommersant, 30 August 2022; “Rosneft says normal operations at Sakhalin 1 could help”, Reuters, 30 August 2022
9 The RePowerEU policy, adopted by the European Commission in May, calls for Europe to be “independent of Russian fossil fuels well before 2030”, implying a reduction to zero of gas imports.
10 See S. Pirani, “Putin has sacrificed Russia’s economy for this war on Ukraine’s people”, Truthout, 21 March 2022.
In response to this and to financial sanctions, Russia cut gas deliveries further. In March, Putin issued a decree that payment had to be made in rubles; flows to Poland, Bulgaria, Finland, the Netherlands and Denmark were cut when companies refused. Over the summer, sanctions and counter-sanctions cut flows via three of four main pipeline routes – via the Baltic, Poland, and Ukraine – while those via Turkey continued. Gazprom failed to meet contractual obligations, another nail in the coffin of business relationships built up over half a century. European gas prices have soared, much further and faster than oil prices. Gazprom, like the oil companies, will have earned substantial export revenues. But the crisis shaking the company epitomises the effect of economic warfare. In the 1990s, Gazprom carried Russia through the world’s deepest ever peacetime recession, supplying cheap gas to businesses and households while oil companies were privatised for a song and revenues stashed offshore. Today, it has fallen victim to the Kremlin’s decision to subordinate economic management to its military adventure. The industrial-scale theft from Gazprom by Putin and his close colleagues has been documented by anti-corruption campaigners; a senior executive of Ukrainian family background has fled to Kyiv and denounced the war, while several others have died in mysterious circumstances and in September, both branches of the Nord Stream pipeline – Gazprom’s flagship infrastructure project – were sabotaged by unknown perpetrators.

Russia’s total gas exports to Europe, from 150-170 billion cubic metres per year (bcm/year) in recent years, will probably fall to 90 bcm this year and zero next year. The Kremlin has spoken about diverting flows to China, but the potential is comparatively modest (48 bcm/year of contracts now, which could be doubled at best) and the geography very unfavourable. Russia may have lost two of its largest gas export markets, Germany and Ukraine, permanently.

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11 See Oxford Institute for Energy Studies Quarterly Gas Review, August 2022; and J. Sharples, Falling Like Dominoes: the impact of Nord Stream on Russian gas flows to Europe (Oxford Energy Insight, August 2022)
12 See Go-Getters: how the Chekists privatised national wealth, Proekt, 16 June 2022
13 Igor Volobuyev, former Gazprombank vice president, fled to Ukraine.
14 Senior managers of Gazprom and related companies who have died in unexplained circumstances this year are: Leonid Shulman, head of transport, Gazprominvest; Vladislav Avayev, ex vice president, Gazprombank (apparent suicide); Alexander Tyulyakov, a corporate security executive (apparent suicide on 25 February); Yuri Voronov, founder of Astra Shipping, whose main business was Arctic contracts with Gazprom (apparent suicide). A senior manager of Novatek, Sergei Protosenya, also died in an apparent suicide.
15 See for example: Centre for Eastern Studies (OSW), Sabotage of the Nord Stream 1 and Nord Stream 2 pipelines, 29 September 2022
16 “Briefing: global energy flows”, The Economist, 24 September 2022
Kleptocrats' impunity

The relative impunity with which Russia’s kleptocrats are surviving the sanctions regime is largely due to the growth of offshore tax havens, as a result of the neoliberal offensive. Here I argue that kleptocracy (defined as the systematic theft of public resources by the elite) that has emerged in former Soviet states over the last three decades is not an aberration at the neoliberal stage of capitalism, but integral to it.\(^\text{17}\)

After the second world war, when the most powerful capitalist nations set up international legal frameworks for further expansion, these included exchange controls and capital controls that subordinated the financial institutions of each country to its state, and regulated international relations through the US dollar as the reserve currency. But from the 1970s, the financial system became increasingly globalised, financial institutions increasingly operated across state borders, and offshore zones opened up, via which elites could avoid tax levied by individual nations.

The Soviet system had developed its industries autarchically, behind the protective wall of a non-convertible currency. By the time that wall came down in 1990-92, and sections of the Soviet elite started appropriating state-owned assets and turning themselves into capitalist owners, the offshore zones were highly developed, and able to receive tens of billions of dollars of flight capital from Russia, Ukraine and other former Soviet states.

The form of capitalism established in Russia in the 1990s – with world-beating levels of inequality, and an especially monstrous concentration of wealth in a small elite group, whose influence over the state often overrides regulation – persists today, although power and wealth has shifted from some of the original Yeltsin-era kleptocrats to a new generation closely linked to the security services.\(^\text{18}\)

Capital flight is not incidental to the form that capitalism took in former Soviet countries, but central to it. The journalist Oliver Bullough, in *Moneyland*, cites the French economist Gabriel Zucman, who estimated that in 2014, 8% of the world’s financial wealth was in tax havens. But, while only 4% of US financial assets were offshore, for African countries the average was 30%, Russia – 52%, and Gulf countries – 57%. The very nature of the offshore zones makes it difficult to measure these assets, and in 2010 the range estimated by James Henry, another economist, was $21-32 trillion, about four times greater than Zucman’s total figure of $7.6 trillion.\(^\text{19}\)

It has become the very function of some of the rich countries, the UK in particular, to provide the financial tools that facilitate the looting of the former Soviet bloc and the global south. From another journalistic investigation, Tom Burgis concluded that the UK is in a “long fade from imperial power” to becoming a “global network of financial secrecy connected to the City of London and servicing new, private empires”; the UK’s bankrupt political class “take money and inspiration from the Ur of Kleptopia, post-Soviet Moscow”.\(^\text{20}\)

Russia has been integrated into the world economy both as an exporter of raw materials and a supplier of financial wealth into the offshore zones. The Putin regime is not some sort of opposite to

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\(^{17}\) See also Mary Kaldor, “Putin is the product of a corrupt economic system”, OpenDemocracy 1 March 2022. The Oxford dictionary defines kleptocracy as "a form of government in which the leaders use their power to steal money and resources from the country that they rule".

\(^{18}\) Journalists’ accounts of this shift include: M. Zygar, *All the Kremlin’s Men: inside the court of Vladimir Putin* (PublicAffairs, 2016), and Catherine Belton, *Putin’s People: how the KGB took back Russia and then took on the west* (Collins, 2020).

\(^{19}\) Oliver Bullough, *Moneyland: why thieves and crooks now rule the world and how to take it back* (Profile Books, 2019), pages 48-49. One of the examples in Bullough’s brilliantly researched book is Ukraine under Viktor Yanukovich. Tom Burgis, *Kleptopia: how dirty money is conquering the world* (Collins, 2020) focuses on Kazakhstan. Both write about Russia. The argument in this section owes much to my reading of both books.

\(^{20}\) Burgis, *Kleptopia*, page 337
neoliberal capital and its state authorities, but their Frankenstein’s monster, now out of control.

Impact on the Russian economy, and conclusions

Oleg Ustenko, chief economic adviser to Ukrainian president Zelensky, in August denounced western sanctions as a “phantom” that covered less than 5% of Russia’s pre-war crude oil exports; rising prices, he added, had “far more” to do with energy companies’ profiteering than sanctions. He pointed out that in July some measures had been relaxed: EU sanctions were amended to allow buyers to make “strictly necessary” payments to Russian oil companies, and a plan to block Russian access to shipping insurance delayed.21

This is the sanctions’ political character: the western powers are prepared to damage the Russian economy, and the well-being of the Russian population, but are tempered by their need to protect their own structures of power and wealth, and to manage their relationship with their own populations. While the sanctions have been as ineffective in blocking export revenues as Ustenko claimed, they are taking their toll on the Russian economy in other ways.

Sanctions on oil, gas and other exports have helped to push prices up, and to increase revenues to the Kremlin, but sanction on imports have already done substantial damage to Russian industry. While much Russian economic and trade data has been made secret since February, production statistics that are still available show disastrous reductions in industries that rely on imported technology and components: output of cars was down in June, year on year, by 62%. The production of other consumer goods, including fridges and washing machines, was down by more than one third in the first half of this year.22 It is agreed among observers that the lack of high-tech imports will do the most damage over the long term, both to oil and gas production (see above) and other key industries.

Economists expect Russia’s GDP to shrink by 5-6% this year, but are divided over the longer-term outlook, the impact of Russia’s positive trade balance, and of measures by the Central Bank to strengthen the ruble. The discussion is itself highly politicised. One of the most comprehensive surveys of sanctions, by researchers at Yale University, draws an obviously exaggerated conclusion that “there is no path out of economic oblivion for Russia, as long as the allied countries remain unified in maintaining and increasing sanctions”. Other analysts point out that the Russian economy recovered from the disastrous slumps of 1992-94 and 2010-11; “oblivion” is relative.23 What seems almost inevitable is that the poorest Russian households will suffer a further substantial deterioration in living standards – while, at the same time, men from Russia’s poorest households, and its ethnic minorities, stand a far greater chance of being conscripted to its demoralised army.

2. The causes of war

The western powers’ limited economic war against Russia is effect, not cause. Their Russia policy has aimed at integrating Russia economically, and making it a junior partner – not an enemy – politically. They have been forced to change by Russia’s imperial assault on Ukraine in February, and by Ukrainian popular resistance to it. In order to understand what

21 Oleg Ustenko, “The west’s phantom energy sanctions fuel Russia’s war machine”, Financial Times, 7 August 2022; “West eases efforts to restrict Russian oil trading”, Financial Times, 31 July 2022
22 O promyshlennom proizvodstve v I polugodi 2022 goda
23 See J.A. Sonnenfeld et al, “Business Retreats and Sanctions are Crippling the Russian Economy”, August 2022. Comments in response were published by Macro Advisory in Moscow See also, e.g.: Vladimir Milov, “Yes it hurts: measuring the effect of sanctions”, GlobSec, 21 July 2022; and “Russia’s huge trade surplus is not a sign of economic strength”, Bruegel, 8 September 2022
happens next, and how this relates to the western powers’ historic failure to deal with climate change, it makes sense to review the history of these relationships.

An approach grounded in Marxism is proposed here, that takes into account both state and political forces, and the economic relationships underlying them. Those in the western “left” who hold that “NATO expansion” is the chief cause of the military conflict (up to and including Russia’s threat to use nuclear weapons), and that Ukraine is fighting a “proxy war” for the US, are both wrong and politically wretched. They act in effect as apologists for the Kremlin’s murderous actions. They ignore the obligation on all who seek to develop a Marxist analysis to uncover concretely how state and political forces are anchored in economic relationships. So an editorial about the war in Monthly Review, a premier English-language Marxist journal, focuses on “the central role that the US and NATO have played [...] from the start”; denies that Russia invaded Ukraine in 2014 (!); and, along with an associated 6800-word article by the journal’s editor, says not one single word about the economic relationship between Russia and international capital.24 Not one.

Here I offer an alternative explanation that takes into account economic and political factors. I then illustrate it with the specific example of the disputes over the gas trade.

**Before and after 2014**

In 1989-91 the Soviet system collapsed, and so too did the two-power system of international regulation that had persisted since 1945. The Soviet Union’s autarchic, state-controlled model had run its course; labour unrest and social movements helped to finish it off. The western powers’ long-time military adversary was in chaos, but even then, neoliberal hegemony expanded into the post-Soviet space not only, or even mainly, by means of NATO. The most devastating changes were economic. Russia, Ukraine and other former Soviet republics were plunged into the greatest peacetime slump anywhere, ever; swathes of industry were junked; social welfare systems collapsed; working people suffered unemployment and poverty. Western capital did not always seize property, or try to. Russia’s oil, gas, minerals and metals industries were mostly transferred into the hands of domestic business groups founded by canny former bureaucrats. So were Ukrainian steel, coal and chemicals. The drive from the west was to break up state property and trash every obstacle to the working of markets.

The most significant round of NATO expansion belongs to this first post-Soviet period. In 1999, Hungary, Poland and Czechia joined, and plans for accession were agreed with Bulgaria, Romania, Slovakia, Slovenia, Lithuania, Latvia and Estonia. They all joined in 2004. Since then four small Balkan nations have joined NATO (Albania and Croatia in 2009, Montenegro in 2017 and North Macedonia in 2020); as for Ukraine, while NATO countries long supplied it with relatively small quantities of defensive weapons, no accession plan was begun. Some Washington-centric “leftists” portray the US as the only driver of this process; in reality, eastern European states that had repeated historical experience of being invaded by Russia, and none of being invaded by the US, were themselves actors.

Putin’s accession to the presidency in 2000 marked a turning point. The Russian state was rescued from the chaos of the 1990s. The business groups were disciplined and forced to pay tax. Riches were taken from the Yeltsin-era oligarchs and put under the control of the former security services officers (siloviki); the assets of the largest privately-owned oil company, Yukos, were confiscated and handed to state-controlled Rosneft. As oil prices rose, to peak in 2009, Russian capitalism boomed as never before or since. Significant steps were taken to

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25 This section summarises an argument made more fully in S. Pirani, “Ukraine: the sources of danger of a wider war”, People & Nature, March 2022
merge Russian capital with western markets, including financial sector development and the
sale of minority shareholdings in materials exporters to foreign owners.

With Russia’s second war on Chechnya (1999-2002), Putin – enthusiastically supported by
NATO – staked his claim as a gendarme for capital in Russia’s sphere of influence. The
NATO powers were less happy with his first military adventure outside Russia’s borders, the
invasion of Georgia in 2008, but turned a blind eye. Government attention moved elsewhere:
a few weeks later, the financial crash unfolded in the US.

The post-2008 economic downturn formed the backdrop to the Maidan uprising that
overthrew Ukrainian president Viktor Yanukovych in 2014. Improvements made in the 2000s
to Ukrainian living standards had been wiped out. No single cause brought people out to
the streets, but resentment at the corruption of Yanukovych and the eastern Ukrainian
bourgeoisie (owners of mines, steelworks and manufacturing capacity) that he represented
was a factor. So was the push by other elements in Ukraine’s ruling elite for closer links with
Europe and political distance from Russia. The description by Monthly Review and others of
these events – in which millions of people participated and during which the police force
collapsed – as a “coup” is as irrational as it is politically slanted.

The Kremlin’s decision to intervene militarily in Ukraine in 2014, and to annex Crimea, was
provoked firstly by fear that the chaotic movement that swept away Yanukovich could be
replicated in Russia. Putin had already faced the first large-scale protest movement of his
presidency against ballot-rigging in the elections of 2011-12. Frustration at the Ukrainian
ruling elite’s closer links with Europe was also a factor. NATO’s limits were tested.

Even after 2014, the western powers amended, but did not abandon, their approach. While the
US and its allies were determined to place limits on Russia’s military ambitions, it remained a
gendarme in the former Soviet space. The western powers imposed sanctions that undid years
of work by Russian companies to integrate more closely with the world financial system;
Russian economists’ hopes of diversifying from dependence on hydrocarbons were dashed.
But Russia’s functions as a supplier of oil, gas and metals to the world market, and of flight
capital to offshore zones, was largely untouched.

The narrative of “NATO expansion” does not fit with the most basic facts. During Putin’s
next military adventure, in Syria in 2015-16, “red lines” laid down by the US administration
were clearly crossed by Russia and its Syrian ally. NATO’s failure to respond was
humiliating. Russia spent several more years in the economic doldrums; Putin’s hopes that
the new Ukrainian president, Zelensky, would prove more pliable in negotiations over the
Donbas than his predecessor, were not realised; only then did Putin move
to a more extreme
form of near-fascist
militarism and order
the 24 February
invasion.

Only after that, and
only after Putin’s
hopes of rapidly
taking Kyiv were
undone by
Ukrainian
resistance, did the
western powers
abandon their
previous policy of
strictly limiting
arms supplies for Ukraine. As the Ukrainian writer Oleksiy Radynski argues: “An informal
agreement between two imperialist powers [Russia and Germany] has been thrown into
disarray by one factor that remained out of reach of these imperial designs: Ukraine’s popular
resistance.”

The gas trade

The gas trade, long central to Russia’s economic relationships with both Ukraine and Europe,
is now falling victim to the economic war. Here I review its history, to see what light can be
shed on the causes of conflict, both military and economic. (This was a principal area of my
research during 15 years at the Oxford Institute for Energy Studies, up to last year.)

Ukraine entered the post-Soviet period as (i) the transit route for gas from Russia’s giant
Siberian fields to European customers, and (ii) a major consumer of gas, Gazprom’s second
largest export market after Germany. From 1992, payment by Ukraine for gas consumed, and
by Russia for gas transit through Ukraine to Europe, formerly settled by intra-Soviet
accounting transfers, overnight became payable in dollars. The Russia-Ukraine “gas wars”
began, centred on unpaid bills for gas consumed. In the 2000s, as both economies recovered,
the value of gas sales to Ukraine for Gazprom, and of transit fees for Ukraine, increased
significantly. At first, Russia sought to control both transit and the Ukrainian market – but by
the 2010s had abandoned both those aims.

26 Oleksiy Radynski, “Russian Fossil Fascism is Europe’s Fault”, Soniakh, October 2022
27 S. Pirani, Ukraine’s energy policy and prospects for the gas sector (Oxford Energy Insight, December 2021),
pages 2-6, summarises some points and refers to other earlier publications.
First: what does this story tell us about Russian political and economic strategy towards Ukraine? In the 2000s, as the Ukrainian political pendulum swung back and forth between pro-European and pro-Russian politicians, Gazprom focused on securing control over the Ukrainian transit system. Ultimately, the Ukrainian parliament blocked all proposals for joint ownership. Gazprom reacted by driving a tough bargain on the price and contractual terms for Russian gas exports to Ukraine; this led in January 2009 to the most serious “gas war” yet, when flows not only to Ukraine but to Gazprom’s European customers were cut off.

After that dispute, the Russian approach changed. Attempts to involve Russian-controlled companies in the Ukrainian domestic market and in transiting gas were abandoned. Instead of seeking commercial concessions, Russia sought political ones. In 2010, Russia swapped cheaper gas for an extension of Ukraine’s lease to Russia of its naval base in Crimea. In 2013, the Kremlin offered a substantial discount on gas sales as part of a generous trade package, conditional on Ukraine abandoning its talks on an association agreement with the EU; Yanukovych’s support for that package was among the sparks that set off the Maidan revolt. In 2016, in response to Russia’s military activity in eastern Ukraine, the national gas company Naftogaz Ukrainy ceased direct purchases of Russian gas all together.

In the 2000s Russia had held out hopes of profiting from its powerful position in the Ukrainian gas sector; in the 2010s it sacrificed those hopes in pursuit of territorial gain.

What about Russian strategy towards European governments and companies? After the January 2009 dispute, Gazprom prioritised construction of pipelines to bring gas to Europe by non-Ukrainian routes. It aimed to rid itself of dependence on transit through Ukraine at all costs: the decision to go ahead with Nord Stream 1, directly from the Baltic Sea to Germany, was taken in 2010 despite the onset of the worst recession since the 1930s. Most of the powerful European energy companies that bought Russian gas saw Ukraine as mostly to blame for the cut-off in January 2009, and approved, or joined in, this project.

Throughout the 2010s, there were tensions between Russia and Europe over gas: this was not about Ukraine, though, but about the EU’s market rules, which cut across the traditional oil-linked long-term contracts that Gazprom and its big customers preferred. In other words, it was about the terms on which Russia, as a raw materials exporter, would supply world markets – a relationship both sides sought to continue.

Finally, what about western governments’ and companies’ strategies towards Russia? Surely, if western threats were the dominant factor stoking military conflict, the major oil companies would at least bear that in mind. But both before and after 2014 they invested billions in projects in Russian upstream projects; Ukraine, seen as having less favourable terms of entry, was to all intents and purposes ignored. The biggest ownership deal ever between western and Russian oil companies, BP’s swap of its shareholding in TNK-BP for 20% of Rosneft, went through in 2013. Rosneft, and its politically powerful chairman Igor Sechin, were sanctioned by the US in 2014 after Russia’s annexation of Crimea; BP’s cooperation with Rosneft continued and deepened.

The 2014 US sanctions did threaten the Nord Stream 2 project, that aimed to complete the diversification of gas transit away from Ukraine. Germany, though, wanted the pipeline to be completed. After lengthy negotiations, in July 2021 – with the Russian troop build-up on Ukraine’s borders well underway – Germany and the US concluded a deal under which the sanctions on the pipeline were dropped, in exchange for German commitments of investment in Ukraine.28 This action by two NATO powers was predicated on the assumption that efforts to profit from Russia’s resources – by means of business relationships with Russian companies, rather than offensive military action – would continue. This attitude changed only on 22 February, after the Kremlin had recognised the two separatist “republics” in the Donbas, and the German government blocked completion of the pipeline. Following the

28 Joint Statement of the US and Germany, July 2021
damage to the pipeline by sabotage in September, it seems doubtful it will ever be resurrected. Some of Putin’s apologists in the western “left” hurried to blame the US for the damage, despite having no evidence one way or the other. What is certain, though, is that their claims that the sabotage cut across Gazprom’s commercial interests are baseless. Gazprom’s entire European sales business, built up painstakingly over half a century, had already been wrecked, over the summer – by the Kremlin, when it ordered gas shipments to be reduced, in its attempt to weaken European military and political support for Ukraine.

3. Deconstructing the “energy crisis”

The war, and the breakdown of the western-Russia economic relationship, have squeezed the supply of fossil fuels, and some foodstuffs and other raw materials. Prices, especially in the wholesale gas market, have soared. This has both stimulated a gigantic profiteering spree, and also disrupted capital’s plans for post-Covid recovery. European energy policies, in which cheap Russian gas plays a central part, are ruined. Capital is responding in the way it knows best: expanding still further the fossil-fuelled technological systems on which it relies, and pushing out the frontiers of exploitation globally. US and European political leaders have undermined their own climate-related greenhouse gas emission reduction targets – once again
to encourage new investment in fossil fuel production. The crisis in which capital finds itself is real enough – but narratives of “energy crisis” and “energy security” must be questioned. The labour movement and social movements need to find ways of uniting around policies that both challenge the new assault on living standards and hasten the transition away from fossil fuels.

A proposed interpretive framework

To work out socialist responses to this crisis, it is important, first, to question categories such as “energy security”. The Russian invasion of Ukraine is presented, by the European Commission, the UK government and other state bodies, as a threat to “energy security” – that is, “the uninterrupted availability of energy sources at an affordable price”, according to the International Energy Agency.29 But to whom must these energy sources be available? And how is “affordable” determined?

The market values identically a cubic metre of gas burned to heat a pensioner’s home; another cubic metre wasted, by sending heat into the air above that pensioner’s home, because it is not properly insulated; and a third cubic metre used in a petrochemicals plant, to produce plastic packaging, to reduce the costs of transporting luxury goods to a rich consumer. “Energy security” policy often favours the cubic metres wasted or used on luxuries, because construction companies that build poorly insulated homes, and petrochemicals, transport and luxury goods businesses, all have vocal lobbying power, whereas the pensioner only has a voice insofar as civil society can amplify it. “Energy security” assumes that energy demand is inflexible, and leaves untouched the mountain of economic relationships built over decades, on the assumption that fossil fuels will always be plentiful and cheap.

“Energy security” assumes a pact between capital and the state, in which the state is subordinate. In the early and mid 20th century, as social relations dominated by capital consolidated and expanded worldwide, a tension persisted between capital’s control of fuels and electricity and efforts in many countries by the state to provide these – at least to industry, if not to the population – as state-funded, or at least closely regulated, services. From the 1980s, the state’s role was weakened: international markets for fuels were commodified; neoliberal governments tried, albeit with only patchy success, to commodify electricity. In the 1990s, at the very moment that climate science pointed to the need for more state direction, the imperatives of neoliberalism demanded less.30 According to its dogma, “energy security” was to be assured by markets and corporations.

Ultimately, the same crisis of capital that in Russia produced the Putin government also produced in Europe an “energy system” dominated by fossil fuel-producing companies on one hand and industrial consumers of gas and electricity on the other. Today, “energy security” is in the first place a defence of their interests. Against this, the labour movement and civil society need to develop an approach that defends working people from the assault on their living standards; advances the principle of fuel and electricity provision as services, not commodities; and at the same time paves the way for the transition away from fossil fuels.

29 The UK’s policy response, published in April, was entitled “British Energy Security Strategy”. The EU’s RePowerEU proposals state in the first paragraph that the invasion has “disrupted the world’s energy system”, causing hardship via high prices and “heightened energy security concerns”. The IEA definition is here.
30 See also S. Pirani, Burning Up: a global history of fossil fuel consumption (Pluto Press, 2018) and S. Pirani, “How energy was commodified and how it could be decommodified”
European wholesale gas prices started to rise in 2021 (see above). This year, they have been driven to 8-10 times the levels of 2020 by the shortage of Russian gas, and the expectation that next year there will be none at all. The squeeze on Russian supply of oil – and on Russian and Ukrainian supplies of other commodities, including wheat, vegetable oil and some metals – has driven other prices up. Many economists expect that countries emerging from recession, post-pandemic, will be pushed back into it.

The war’s effect on gas markets has been most extreme, first, because it comes after 30 years of liberalisation, that tends to increase market volatility; second, because of the high level of dependence of European, and especially German, industry and urban infrastructure on these imports; and, third, because the Kremlin is deliberately cutting flows.

European governments are divided on how to deal with the price impact. Some are imposing windfall taxes on fossil fuel companies and considering blanket or selective price caps. Most have introduced subsidies to retail consumers – in many cases because of elites’ fears that these consumers will be unable or unwilling to pay. The European Commission has proposed a mandatory 15% reduction in gas and electricity use over the winter. From the standpoint of the labour movement and civil society, what matters is that retail prices can be regulated by the state, if necessary in combination with nationalisation of companies, at any level: the “energy crisis” is not an uncontrollable Kremlin-created monster whose consequences have to be borne by working people.

European industry faces a combination of high prices and possible physical shortages of gas. Germany has nationalised Uniper, Germany’s largest gas importer; other suppliers of gas and electricity have asked for state support, as have producers of steel, aluminium, fertilisers and petrochemicals. Governments are hoping to replace gas with coal and nuclear power for electricity generation, and plans to phase out coal-fired power stations have been abandoned in Germany, the Netherlands, Greece and the Czech republic.

Alongside these short-term measures – and under the influence of lobbying by fossil fuel producers – European governments have invested heavily in new infrastructure to import gas and other fossil fuels from non-Russian sources. An investigation by the Financial Times found that European governments, while declaring their belief in the transition away from fossil fuels, have since February adopted plans for more than €50 billion in fossil fuel projects. This is four times more than the €12 billion earmarked for fossil fuels in the RePowerEU strategy, which covers the period up to 2027. Since February, the EU has approved €27 billion in state aid for energy intensive industries and power sector companies, more than EU climate finance to countries in the global south for the whole of 2020.31

Much of this investment is directed to increasing Europe’s capacity to import liquefied natural gas (LNG), i.e. gas that can be brought in without pipelines. Energy researchers regard this as a knee-jerk over-reaction that will lock in excessive fossil fuel use; investing in energy conservation would be more effective. Since May, European politicians have announced deals with the US and Qatar, two of the largest LNG exporters. There has also been a European diplomatic offensive in Africa, where Reuters research showed that oil and gas producers are considering up to $100 billion of investment, mostly in offshore gas production. This would gear African countries to producing fossil fuels for export, instead of developing their own post-fossil-fuel energy systems.32

The success of the fossil fuel companies’ lobbying can be seen in the continuing support by European politicians for hydrogen as an energy carrier. Due to the difficulty of extracting hydrogen from gas without excessive carbon emissions, and the huge energy cost of

31 “Europe’s new dirty energy”, Financial Times, 6 September 2022
producing it from renewables, it can only play a minor part in post-fossil-fuel energy systems. And yet gas companies, who see potential for their infrastructure to be turned over to hydrogen, have won substantial political support for this ultimate illusory techno-fix.33

Conclusions and strategies for the labour movement and social movements
These two apparently separate crises – war and failure to deal with climate change – have their roots in the larger crisis of capital. It must be worth discussing how their roots are entangled, if we are to give meaning to our hopes of social change that goes beyond capital. I suggest starting with the 1980s, when global recessions gave way to a new surge of capital expansion, often described as globalisation. At the Rio summit in 1992, all the world’s strongest powers accepted the conclusions of climate science, that fossil fuel use was the main driver of potentially dangerous global warming, and so had to be reduced – and yet through the 1990s and the 2000s, they presided over an unprecedented expansion of fossil fuel use to turbo-charge expansion of every type of industrial production. Only the recession of 2009-10 temporarily slowed that expansion.

Simultaneously, Russia was emerging from the breakup of the Soviet Union as an exporter of raw materials, oil and gas. When Putin succeeded Yeltsin in 2000, the western powers welcomed the restoration of a strong state in place of the chaos of the 1990s. Russia’s oil-fuelled boom of 2003-09 followed. Globally, oil demand soared and rising Russian supply was welcome; amidst this new round of economic expansion, climate policy was relegated to insignificance. The western powers looked on, first approvingly and then apprehensively, as the Kremlin adopted the role of capital’s gendarme in its sphere of influence; there followed the interventions in Ukraine in 2014 and Syria in 2015-16; Putin was on the road to this year’s disastrous invasion.

That the western powers allowed, or enabled, the Kremlin to take this course is seen by some analysts as the failure of the system of law-governed international relations, set up after the second world war and re-set in the wake of the Soviet collapse. I offer an alternative view, that that system was always beholden to capital, the dynamics of which favoured the Putin regime evolving as it has. The question is not whether that system failed, but whether it could ever have succeeded. The task of reducing greenhouse gas emissions, set at Rio in 1992, was in some ways the most urgent that the international political system had set itself. But this aim was forcefully pushed aside in the new surges of capital accumulation in the 1990s and 2000s. To ever-expanding capital, Russia was a source of new fossil fuels to power this juggernaut.

This was the ground on which the trading relationships, and political compromises, stood. These later formed the basis for Russian aggression against Ukraine. Capitalism and its political apparatus, that have produced the human and ecological disaster of global heating, simultaneously oversaw the emergence of Putin’s militaristic dictatorship. Putin is not an opposite to this system, but its creation.

Bearing these conclusions in mind, I offer for discussion some principles on which actions by the labour movement and civil society could be based.

First, civil society changes things. The resistance of the Ukrainian population was a necessary factor in the defeat of the Russian advance on Kyiv in March and the Ukrainian recovery of territory in the east and south in September and October. The Russian population’s attitude matters too: no-one there wants to join the army. In the labour movement and civil society in the rest of Europe, we need to build solidarity with Ukrainian resistance, welcome refugees

33 See e.g. S. Pirani, “The hydrogen hoax”, The Ecologist, December 2020; and J. Rosenow, “Is heating homes with hydrogen all but a pipe dream?”, Joule no. 6, October 2022,
from the war, and so on, alongside facing the consequences of the “energy crisis” and inflation.

Second, we should seek ways of linking the immediate issues faced by working people in European countries – unpayable gas and electricity bills on one hand, possible layoffs from work on the other – with longer-term policies that look towards the transition away from fossil fuels and the development of energy supply systems that serve people, not capital. The labour movement has throughout its history advocated the supply of fuels and electricity, along with other municipal services, as services, as rights, not as commodities. The case for forms of public and common ownership is compelling. We need to make these issues central to the struggles of the 2020s.

Third, we need to find ways to actualise the link between the immediate cost-of-living issues and the longer term issue of climate change. An obvious example is the call for the mass retrofitting of homes with insulation and electric heat pumps. Millions of European households are trapped in a system dominated economically by corporations, and technologically by fossil fuels: they pay exorbitant bills for gas and electricity that those systems compel them to use.

Energy systems researchers have shown that conservation measures could slash gas demand by nearly one-third of the EU’s total consumption within a few years. In parallel, an environmentalist alliance has advocated reducing EU consumption by 100 bcm/year – two thirds of the volumes imported from Russia in recent years – via energy efficiency measures, heat pumps and electrification in buildings, and more renewable electricity.  

Such proposals need to be taken beyond the confines of research reports and discussed widely in civil society.

Looking to the longer term, insulation and heat pumps are small technological steps towards post-fossil-fuel energy systems; so are public transport networks geared to minimising road traffic. These technologies will only realise their potential – and help to avert dangerous global warming – when combined with social transformation that free us from capital’s domination and enable us all to live better, more purposeful lives.

These are just indications of the way I believe labour movements and civil society can face the crisis through which we are living. Others will be able to develop these lines of thought much further. Most important is the direction taken by working people as they act, collectively, to defend social life in the face of the multi-faceted crisis that the long-outmoded capital system is now inflicting on humanity. Showing how such actions can come together, to move towards the necessary radical systemic change – beyond capital, to a truly human future – must surely be the goal of any analysis directed towards the practice of the labour movement and social movements. 17 October 2022.

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