A widening gap between supply and demand had already disrupted oil and gas markets before the Russian government decided to invade Ukraine. Since then, economic sanctions have cut off Russia from much of the world market, raising concerns about the global energy outlook. Oil prices, which were hovering just under $100 a barrel on February 23, the day before the invasion, spiked to $139 on March 7 and have since traded between about $102 and $110. The war in Ukraine may mark the beginning of the end of Russian energy exports to Europe, but it’s not the end of Russia’s impact on the European energy market: making up for Russian supplies should increase demand for American oil and gas.

Immediate impact

What happens next? In the near term, the futures markets predict that oil will remain just around $100 this summer and slightly lower by autumn. Longer range, oil and gas companies face two major and seemingly contradictory developments: an accelerated transition to renewables, particularly in Europe, and an opening for U.S. producers to raise production.

- Europe looks for alternatives. Europe’s reliance on Russian oil and gas is now seen as a major vulnerability by most European policymakers. Over 40 percent of European natural gas comes from Russia, a level of dependence that the European Union plans to reduce by two-thirds by the end of this year. Germany, which gets about half its gas and coal and a third of its oil from Russia, has also introduced plans to reduce its dependence on Russian energy. Chancellor Olaf Scholz has vowed to “end this dependence—as quickly as possible.”

- LNG, ASAP. Despite the acceleration of renewable energy development, European energy planners will still be looking for new sources of hydrocarbons, particularly natural gas. Just a few days after the invasion, for example, the German government announced plans to accelerate the construction of LNG import terminals at Brunsbüttel and Wilhelmshaven. Even if peace breaks out unexpectedly, sanctions are expected to endure. At the same time, European governments are likely to stay skeptical about relying on Russia as a partner for any strategic commodity, particularly energy.

- US gas suppliers ramp up. For U.S. gas suppliers, Europe’s need for new supplies may become a new market opportunity. Already, the U.S. has announced a plan to provide the EU with 15 billion additional cubic meters of LNG on top of the 22 billion it already exports.

We expect to see major investments in northern European LNG terminals, facilitated by an extraordinary level of regulatory support to open this new transatlantic supply channel as expeditiously as possible.

Longer-term implications

- The energy transition accelerates. Partly under pressure from investors looking for progress on ESG (environmental, social, and governance) vulnerabilities, oil and gas companies have begun to make the investments (and divestments) they need to make to position themselves to thrive in a low carbon/no carbon future.

Germany in particular remains committed to more ESG progress. Over the past two decades, Germany has increased the share of electricity it gets from renewables to 41 percent in 2021, from 10 percent in 2005. Now, in response to the invasion, the country is

Source: "Economic outlook: The impact of the Russia-Ukraine war," KPMG LLP, 2022
redoubling its energy transition efforts, to develop what German Finance Minister Christian Lindner calls Freiheitsenergien (freedom energy), energy sources independent of Russia or other countries.

European energy companies such as ENGIE are already mobilizing to try to make up a possible energy shortfall. At the same time, US oil and gas companies like EQT Corporation have positioned themselves as energy companies who can help fill the gap for Europe.

- **Domestic production rises.** Under the Biden administration, a transition away from hydrocarbons has been the primary focus of energy policy. Even though the war will not materially affect availability (Russian crude oil comprised only 3% of the total crude oil imports to the U.S. in 2021), the impact on affordability has raised calls to increase domestic production. This is an opportunity for energy companies, consumer groups, government, regulators, and society in general to work together to shape reasonable regulation and hasten permitting processes. We expect the new sense of energy vulnerability will sharpen the focus on faster permitting processes and make it easier for US companies to obtain permits to build energy infrastructure—particularly for energy transport and LNG.

- **Investors will continue to prioritize free cash flow.** While developing more renewable resources will remain a priority, policymakers will be more concerned going forward with ensuring the transition to a sustainable energy economy is smooth. However, investors who soured a few years ago on investing in exploration and development will still need to be convinced that this time really is different and global demand for oil and gas will stay strong.

### What you can do now

The current geopolitical events and oil and gas supply and demand challenges have sharpened the focus on oil and gas companies and how they can help design the path to decarbonization and energy security. For the oil and gas sector, this has several implications:

- **It’s important to think about the energy system in four key pillars:** sustainability, availability, reliability, and affordability. In recent years, policymakers have focused almost exclusively on sustainability. Most Americans think about availability, reliability and affordability as givens. Recent events have challenged that paradigm. Energy sector leaders need to make sure all four pillars are part of the energy transition conversation. The energy transformation presents oil and gas companies an opportunity to lead from the front. No other sector is more equipped to lead the energy transition than an industry that already has experience developing advanced technologies and building and operating complex engineering projects. The key is to make sure all the stakeholders — including investors, governments, regulatory bodies, consumers and adjacent sectors such as automotive and industrial manufacturing — are effectively engaged. Oil and gas companies should have a strategy, communicate the plan and have appropriate measures in place to build understanding and dialogue across all stakeholders.

- **Focus on people.** The oil and gas sector is responsible for millions of good-paying jobs across the country and around the world. Today, workers are wondering how their skills translate as we move through the energy transition, and some are concerned that they may be left behind. The truth is that many of these skill sets are transferable to jobs in a lower carbon environment. The energy transformation also presents a fantastic opportunity for attracting new talent who may otherwise have never thought about working in the oil and gas industry. Recent events have further highlighted that the sector has the opportunity to attract a new generation of talent excited to work toward a lower carbon and more secure energy future.

### Contact

Angie Gildea  
Principal, Advisory, NSL & Teams  
M: 832-689-6732  
E: angelagildea@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

DASD-2022-7038