



THE EU ENERGY CRISIS: SAVINGS MEASURES AND SUGGESTIONS

Since February 25, 2022, when Russia's attacks on Ukraine began, Western countries, especially the European Union (EU), have implemented the ninth sanctions package against Russia. Each sanction package aimed to stop Russia's attacks by targeting different sectors and individuals each time. But instead of backing down, Putin intensified the attack, which caused the US to announce sanctions targeting the energy sector. In retaliation for these sanctions, Russia has announced that it will export natural gas to Europe in rubles [Euractive.com, 2022]. This was seen as a way for Russia to support its unstable currency and at the same time retaliate against its European neighbors against Western sanctions over the invasion of Ukraine. Thus, by forming a new front in the war, Moscow signaled its willingness to use Europe's over-dependence on Russian gas as a political trump card.

After Poland and Bulgaria refused to pay for Russian gas in rubles, Russia's halting gas shipments to these countries on April 28, 2022 [Reuters, 2022] has been a sign of the escalation of the European energy crisis. On the other hand, Uniper, the parent company of Hungary and Germany, which has so far only imported Russian gas, stated that they can comply with the Kremlin's proposal to make gas payments in rubles without violating European Union sanctions [Dailymail.co.uk, 2022].

According to the data, in 2021, 38.2% of the EU's natural gas needs come from Russia, 21.9% from Norway of which 18.4% as liquefied natural gas (LNG), 9.4% from Algeria, 9.1% from EU countries' production, 2.2% from Azerbaijan and 0.8% from Libya. LNG, which makes up 20% of the EU's total gas imports, of the total 80 billion cubic meters of LNG supply in 2021, 20% comes from the US, 20% comes from Qatar, 18% comes from Russia, 17% comes from Nigeria, 14% comes from Algeria, 2% comes from Norway and the remaining 9% comes from other suppliers [Anadolu Agency, 2022].

While the data reveals that the main gas supplier to the EU is Russia, gas from this country is mostly transported to Europe via the Yamal-Europe pipeline passing through Belarus and Poland, the Nord Stream pipeline passing through the Baltic Sea, and the Soyuz and TurkStream pipelines through Ukraine. Europe imported about 40% of natural gas, i.e. 175 billion cubic meters, from Russia in 2021. Thus, Russian gas transported through Ukraine decreased by 70%. Accordingly, the supply, which was 140 billion cubic meters in 1998, decreased to 42 billion cubic meters in 2021. Natural gas from Ukraine mostly reaches Slovakia and then to Austria and Italy [Euronews.com, 2022].

The EU imports nearly 40% of natural gas from Russia, the same dependency is also valid for other fossil fuels. The EU also supplies about 30% of the oil and 54% of the coal from Russia. While this dependence on Russian energy strengthens Russia's hand in political negotiations, it weakens the EU's position. As a result, the EU has put forward the "RePowerEU" plan in order to reduce dependence on Russian energy and then completely get rid of this dependence on May 18, 2022. There is a double urgency to end Europe's reliance on Russian fossil fuels used as an economic and political weapon, costing European taxpayers nearly €100 billion a year, and to redesign the Union's energy system to combat the climate crisis. According to the plan, by acting as a Union, Europe can more quickly eliminate its dependence on Russian fossil fuels. 85% of Europeans believe that the EU should immediately reduce its dependence on Russian gas and oil to support Ukraine. In this context, the measures in the REPowerEU plan can respond to this goal by accelerating renewable energy, diversifying energy sources and replacing fossil

fuels in homes, industry and electricity generation [Ec.europa.eu, 2022a].

Energy saving, which is one of the important elements of the Plan, has already started to be implemented in Europe. For instance, it was decided in France to reduce natural gas prices to October 2021 levels, limit the electricity price increase to 4%, and operate heating at 19 degrees. In England, £650 was paid to those who received public assistance, an additional contribution of €300 was provided to retirees, and the total of household energy bills was fixed at £2,500 per year. In Germany, citizens are provided with invoice support and unlimited tickets are applied for public transportation, and it has been decided to heat public buildings at 19 degrees. In Bulgaria, electricity and natural gas taxes were abolished, and the increase in electricity prices was limited to 3.4%. In Spain, it was decided to limit heating to 19 degrees and reduce the VAT on natural gas from 21% to 5%. In Belgium, VAT on electricity and natural gas will be reduced to 6%, and public buildings will not be illuminated between 19.00 and 06.00. In Hungary, the use of natural gas in the public sector has been reduced by 25%, making it easier to cut trees for firewood [Seker, 2022].

The European Commission (EC) then presented a new package of measures to combat the energy crisis in the countries of the Union on October 18, 2022. The initiatives involve "targeted intervention in market prices", especially for gas. To this end, it is proposed to establish new rules for stock exchange trading of raw materials by introducing a mechanism to limit prices through the Title Transfer Facility (TTF), the main European gas exchange, including LNG. The EC considered that in this way it would be possible to avoid price spikes. Moreover, in order to reduce "uncoordinated tenders for gas supply between member states", it has been proposed to establish solidarity rules and joint blue fuel purchases between EU members in case of gas shortages from one member [Ec.europa.eu, 2022b].

The EC needs to detail the following measures proposed earlier. Compulsory joint gas purchase at the level of 15% of the total EU demand should be agreed. A new benchmark for gas prices should be established by early 2023. A framework program for limiting gas prices for electricity generation should be prepared by creating a temporary gas price corridor designed to prevent fuel overpricing. Measures to improve the functioning of the energy market to "increase transparency and maintain financial stability"; in the case of gas supply interruptions, "energy solidarity" measures and permitting for the commissioning of renewable energy sources and energy networks need to be simplified and efforts to save energy need to be accelerated.

The EC needs to create a new pricing benchmark for LNG by March 2023, as the current price on the TTF (spot gas futures) exchange is more reflective of the situation in the pipeline gas market. Also, countries should share gas in case of shortage. The statement also announced plans to allocate about €40 billion to help citizens and businesses due to a sharp increase in energy prices.

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households and businesses across the Union, and maintain the integrity of the common market [Savenkova, 2022, Duhanova & Medvedeva, 2022].

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Hungary disapproved of the EC initiative, announcing that consumers cannot lower their energy prices and this can only be achieved through diversification and competition [Koroleva, 2022]. The lack of unanimous approval of the measures proposed by the EC to combat the energy crisis is primarily due to the fact that it is impossible to unify the situation in the energy sector of each of the EU member states.

According to Michal Kocurek from the consulting company EGU Brno, in terms of filling gas storage facilities in Europe, things are relatively good. The situation is much better than in 2021. The common European filling parameter is 91%. However, the supply situation in the future is more difficult. Cost-saving measures must be included in the preparation system. Also, a functioning model of solidarity is needed for individual states to help each other [Kaymakov, 2022].

The Europeans fail to agree on sanctions, restrictions on the supply of Russian gas or the introduction of marginal prices for it. But its deliveries through pipelines have already been significantly reduced by now compared to February 2022. According to Gazprom, as of October 21, 2022, pumping through the gas transportation system of Ukraine, will amount to 42.4 million cubic meters. On September 26, 2022, it became known about the damage in the exclusive economic zones of Sweden and Denmark of two lines of Nord Stream 1 and one of the two lines of the constructed but not launched Nord Stream 2 pipeline [Meredith, 2022]. At the beginning of October 2022, Russia exported to the EU an average of about 75 million cubic meters of gas per day, and in October last year - 322.8 million cubic meters per day. According to the Intercontinental Exchange, on October 21, 2022, November gas futures on the TTF hub were trading at about \$1.200 per 1.000 cubic meters [Tass, 2022].

Igor Yushkov, a leading analyst at the National Economic Security Fund, believes that all the proposals of the European Commission are challenging to implement. In particular, the idea of a single gas purchaser contradicts not only the EU anti monopoly law but also the terms of long-term contracts for gas supplies. If the EU tries to set the price of LNG as a directive order lower than in Asia, suppliers may go to eastern markets. Attempts to consolidate gas purchases can be made again but after the end of the current heating season. But all these measures, in his opinion, will not solve the main problem that started the energy crisis in the EU - the shortage of gas. New capacities for the production of LNG, which is now the largest source of gas for Europe, will be launched in the US and Qatar only in 2025-2030. Europeans will flood the crisis with financial support, and gas purchases of the end consumers will be subsidized, as well as gas, electricity and heating costs for households [Savenkova, 2022].

In summary, the EU will pass this winter with difficulties and struggles. It is obvious that the EU cannot approve any proposals other than the realization of energy-saving implementation packages. This is due to the differences and positions of the countries among themselves. Therefore, this winter each country will try to overcome the energy crisis by taking care of themselves and providing their own energy-saving packages across the country. However, it seems highly likely that these proposals will be reviewed and met at some point next year.

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