

The Global Energy Crisis

The world is in the middle of a rapid global energy crunch. The current crisis could end up being the worst energy crisis since the oil crisis of the 1970s. Asian and European natural gas prices have reached a record high. Oil prices have skyrocketed, in response to gas supply shortages, reaching a three-year high. These same supply shortages have sent the price of coal soaring

The power supply crunch has already triggered unprecedented rolling blackouts in three north-eastern Chinese provinces last month. The ripple effects of the crisis are already showing, with several UK utility providers declaring bankruptcy. As winter is approaching in the Northern Hemisphere, worries about the effects of the crisis are mounting.

This crisis is going to severely affect both the EU and Greece as electricity and energy prices are forecasted to soar through the winter.

One area of inquiry is whether the EU and Greece were sufficiently prepared for this energy crunch. Both the EU and Greece are heavily depended on Russian natural gas. This dependence has led many analysts to argue that the EU was strategically exposed. Even though Europe learned from 2009 natural gas cut-offs, implementing regulations that render similar cut-offs unlikely, it is still significantly exposed to the price volatility of gas. The absence of an integrated EU energy security policy that included gas reserves and a plan for transitioning away from Russian gas left the bloc exposed. Greece, as an EU member state with a relatively low domestic renewable energy share (18% in 2019), is also acutely vulnerable to this energy crunch.



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The EU is divided over the short-run response to the crisis. One bloc of countries suggests that this crisis is transitory and can be contained through the toolbox of measures that the European Commission released, which includes direct income support, state aid and tax reductions. Greece has joined another bloc of countries that proposes more ambitious measures such a strategic gas reserve and a “decoupling” of electricity prices. EU electricity prices today are calculated on marginal pricing, so they are heavily correlated to the price of natural gas. Spain proposed to calculate an average price of all the energy sources used in a country’s mix to decrease electricity prices and use these funds for the energy transition. At the time of writing, Spain’s proposal, which is backed by Greece, was rejected.

In the long run, the EU is committed to the renewable energy transition. Yet, natural gas is likely to remain in the energy mix as a transitional fuel. The crisis has increased fossil fuel consumption, putting the 2030 and 2050 energy goals in jeopardy. Far-right governments are already arguing against a fast transition due to increased costs. There will be no easy solutions to this crisis. The EU and Greece will have to exhibit political

Gas price in Europe

Averal price in dollars per milion BTU*



Source: World Bank | September 2021
 *A British thermal unit (BTU) is a measure of the heat content of fuels or energy sources — 1 million BTU equals 26.4 cubic meters of gas

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will and formulate an energy agenda that will simultaneously fortify the energy market and safeguard the transition to renewable energy.

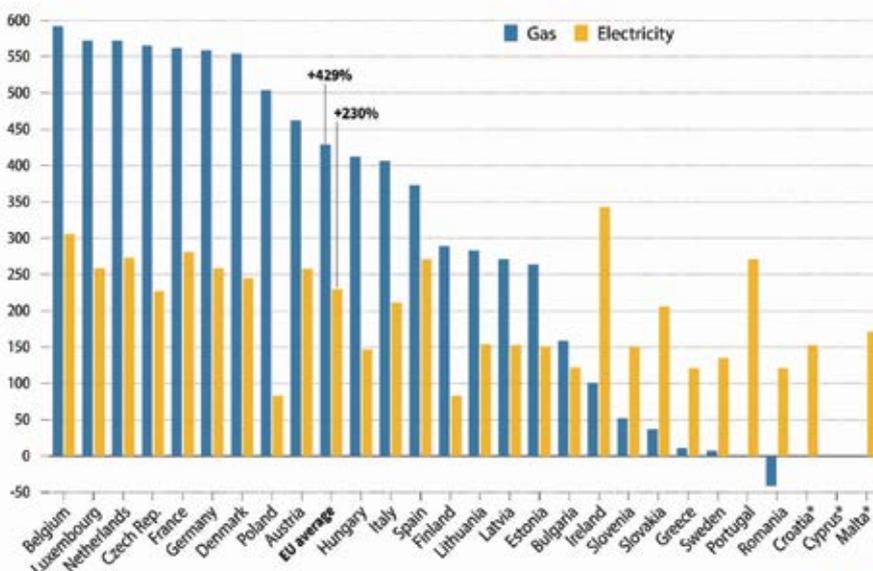
The future of the energy market

Analysts are split on whether this is going to be a recurring crisis. One position suggests that natural gas demand is going to outstrip supply in the future, recreating the conditions of the current crisis. According to this view, natural gas demand is going to continue to increase rapidly as we transition to renewable energy. Natural gas is less polluting than other fossil fuels and it's likely to be used as a transition fuel. Natural gas supply will not increase as rapidly as the long-term investment prospects for gas are uncertain. This market imbalance will create a bullish natural gas market that will in turn recreate the current energy crunch. The other position indicates that this crisis was grounded in unique conditions and will not be repeated. This view assumes that natural gas supply is going to increase with more LNG terminals opening; renewable energy is not going to continue to underperform, and weather conditions are going to be more favorable in the coming years.



Increase in energy prices in the European Union

Wholesale gas and electricity price changes in % compared to 2019



Source: European Commission

*No data

