

WORSENING ENERGY CRISIS in EU¹

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The world continues to struggle with an intense and increasingly violent energy crisis centered on the EU and Asian markets. The stagnation that started with the pandemic process, the inadequacy faced with normalization steps and then the Russian-Ukrainian War take the global integration process to a completely different point. In an environment that has become even tenser with the break in value chains, shrinkage in insurance and logistics processes and new sanctions make nearly all liberal models that are based on globalization fall in a higher fragile situation. Furthermore, if they exhibit an intense foreign dependency in energy, their endurance becomes weaker.

Therefore, we can easily understand that the EU draws attention as the biggest loser of the energy crisis in such a picture.

In this concept, let us initially start with slightly remembering the energy crisis started in September 2021.

What had happened?

During the pandemic period, investments in hydrocarbon resources were interrupted due to reasons such as complacency in the field of energy, stagnating growth rates and contraction in sectors such as transportation.

During such a lethargy era, many international bodies (even G7 leaders and some institutions such as the IEA) started to claim:

- Let alone coal and oil, even natural gas and nuclear, their era is over!
- In addition to coal, discovered new oil and natural gas fields should not be developed and put into production!
- Renewable age is near and clean renewables will be enough to meet the global demand!

Nevertheless, what happened when the stagnation and complacency in the pandemic period ended?

Actually, supply could not meet the demand. The fluctuation that started in the Asian coal markets spread to the global LNG markets and Europe in particular was faced with a deep energy crisis.

All these consecutions happened before the Russia – Ukraine War!

At that time, the climate-mongers, who attracted attention with their inconsistent comments, fell into silence. Then, unfortunately, (with the fire of the USA!) the war between Russia and Ukraine officially started.

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What happened next?

The cost of the entire energy crisis was directly dumped in Russia's lap. No one was talking about the fact that wrong energy policies might have been followed! Russia was suddenly described as the greatest evil in the world! The Nord Stream 2 pipeline, which is actually very important for EU energy security, was suspended just as it was completed and started to operate! The United States has ensured that the pipeline, which it could not prevent from being built, is shelved at the last minute!

On the other hand, USA also has achieved the position of being the largest LNG exporter in the world with the investments it has made in its country for years. While an average gas producer in the USA (excluding taxes) can make a profit of close to 50% in the domestic market, this rate has risen to over 500% thanks to LNG exports to the EU! In addition, US exporters profited hundred billions of dollars in 1 year! US LNG was not a long-term cure for the EU's troubles and could not replace Russian gas, but it was still important for the US to take the confused-minded EU under its shoulders.

As of June 2022, with the maintenance period on the Nord Stream-I pipeline (which can be technically accepted as a reasonable annually scheduled maintenance, as happened in the previous year, at the same season), gas flow on the corresponding line decreased up to %20 levels.

Russia mentioned that it could not efficiently manage the maintenance process due to existing sanctions. The panic atmosphere in the EU deepened and Russia was blamed of using energy trade as a political argument. However, if Russia had really wanted, it could have locked the EU markets by pulling the maintenance to March and closing the Ukraine and Belarus lines for technical reasons (which are currently active)! However, it did not act in such a manner.

In the EU side, on the other hand, a panic atmosphere was created by the highly trenchant words of some leaders. This naturally increased the pressure on the markets and the prices.

Then, EU energy ministers accepted to decrease gas demand around %15. However, they could not enucleated a reassuring road map. Again, some leaders started to advise as their citizens, not to take a shower, not to wear a tie, etc. Accordingly, every clownish, nonsensical or vacuous move/statement caused more insecurity in the markets and increased the prices. Electricity prices raised up to 10 times higher than they should be, natural gas prices raised 5 times higher and coal prices were 4 times higher. High-energy intensive industries started to shift production to other countries with cheaper energy costs. Of course, priority again was given to the USA for such investments.

In addition to the increasing distrust and unrest within the EU, the thoughts about leaving the EU started to draw attention in powerful states such as France. (It has once again been understood that the UK has decided on Brexit by predicting the pandemic and the processes after it long before, just in time!)

On the other hand, coal consumption increased and some of the old coalmines reopened. Some EU members surprisingly decided to relax the ban on cutting trees for heating.

Natural gas and nuclear were also re-included in the clean energy category.

The global climate lobby, meanwhile, continued to blame Russia.

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At those days, Russia declared a 3-day full closure of the Nord Stream-I pipeline for maintenance. However, some EU leaders criticized Russia by assuming it will not re-activate the pipeline anymore.

Perhaps, Russia would have activated again the 20% flow of the pipeline in 3 days, however, at the latest G7 summit, some declarations introducing a ceiling price limit on Russian oil imports broken all the balances.

This act, naturally brought Russia into a critical point and Russia started to use energy as a political argument.

For a product with an international market system such as oil, such a policy would not be both fair and viable. Moreover, this application could easily be pierced with backdoor sales. However, the due lobby had already started working and harsh rhetoric was flying in the air.

On top of that, Russia stated that the Nord Stream-I pipeline (which has already had problems in the maintenance - repair process due to embargoes) cannot be re-activated until the sanctions are lifted. In the face of this rest, the EU started to talk about the possibility of introducing an upper price quota for Russian gas. The EU's counter move resulted in Putin's intervention and the voicing of the threat of a much heavier and clearer power cut.

Of course, after this point, it is certain that EU leaders will not be able to come together and agree on a realistic ceiling price for natural gas (or at least only Russian gas). However, relations are still strained. Winter is at hand. Although the occupancy rates in the underground storages are not so bad, how the winter can be managed is a serious question mark.

In this context, we can suggest to EU leaders that they might start negotiating with Russia to put the Nord Stream-II pipeline (which is in standby) into operation, at least until Nord Stream-I is reactivated. Such a move will directly reduce the price bubble in the EU markets to lower levels and prices may be reduced up to \$35/mmBTU.

Of course, it also seems difficult for EU leaders to demonstrate the will to do this and to take joint decisions in this context.

So again, this winter, every EU member country has to focus on taking care of itself. In summary, a very difficult winter awaits the EU.

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