

Implications of Russia War on Energy and Climate Policies, Priorities and Practices in Europe

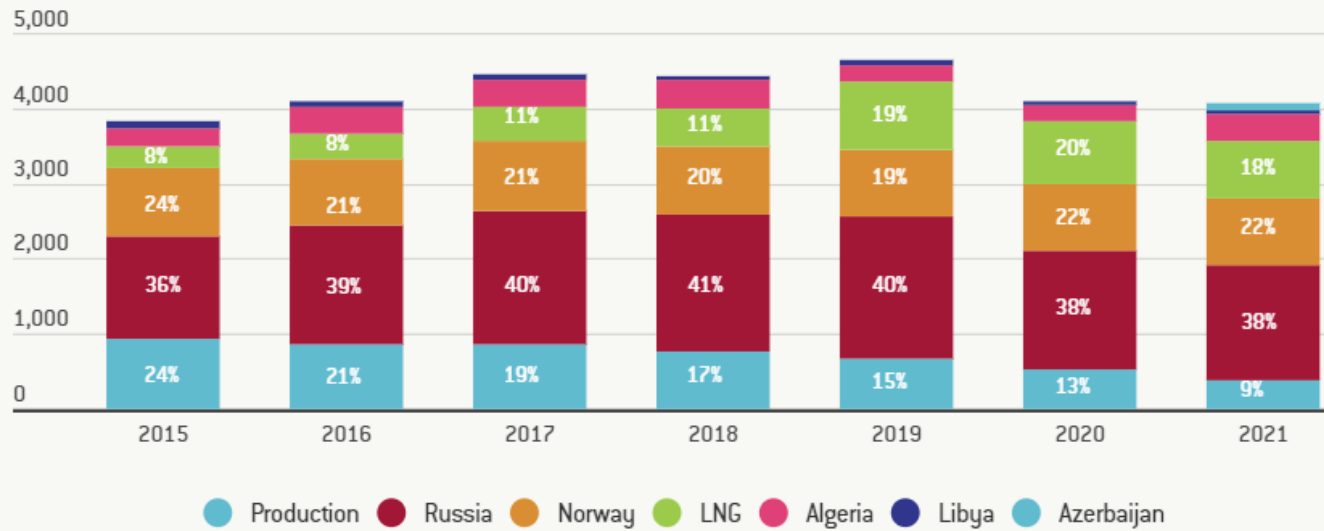
Ben McWilliams, Bruegel
[@McwilliamsBen](#)

Key Issues

- End of low-cost Russian natural gas as transition fuel?
- Increased state intervention into energy markets:
 - Fiscal to protect consumers;
 - Threats to internal EU energy market;
 - Technical to help markets in times of crisis (a ‘managed transition’).

Russian Natural Gas

Figure 1: Annual EU27 natural gas domestic production and imports (TWh)



Source: Bruegel based on ENTSOG, GIGGNL, GIE, NPD.

- <https://www.bruegel.org/publications/datasets/european-natural-gas-imports/>
- <https://www.bruegel.org/2022/02/preparing-for-the-first-winter-without-russian-gas/>

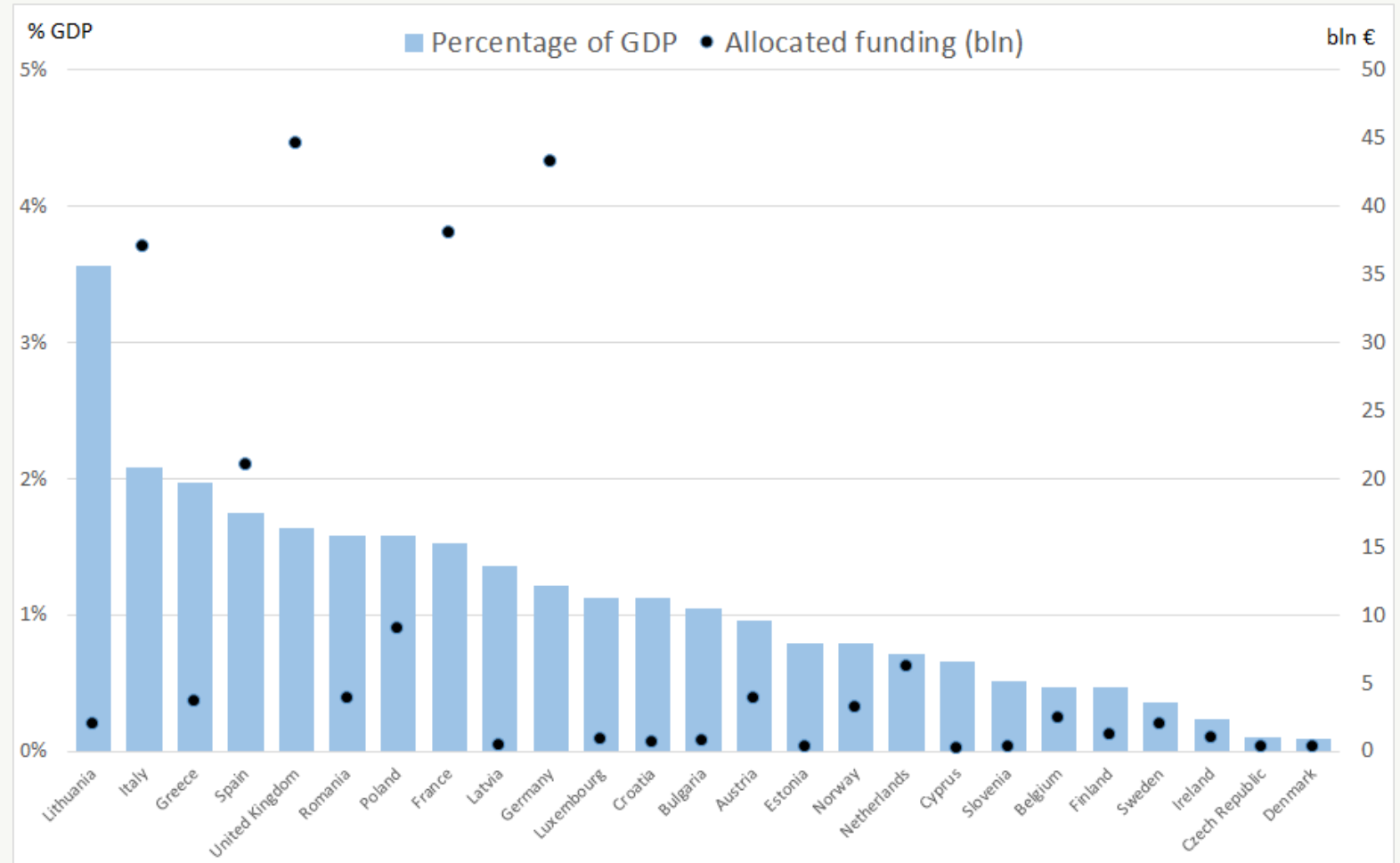


Russian Natural Gas

- End of low-cost natural gas:
 - Compete on international markets for alternative gas supply, as well as other fossil fuels
 - Double-down on implementation of Green Deal and deployment of renewables
- European Commission proposes:
 - Increased energy efficiency targets, increased renewables penetration target
 - Shift in targets from reduce carbon emissions, to simultaneously reduce carbon emissions + natural gas consumption.

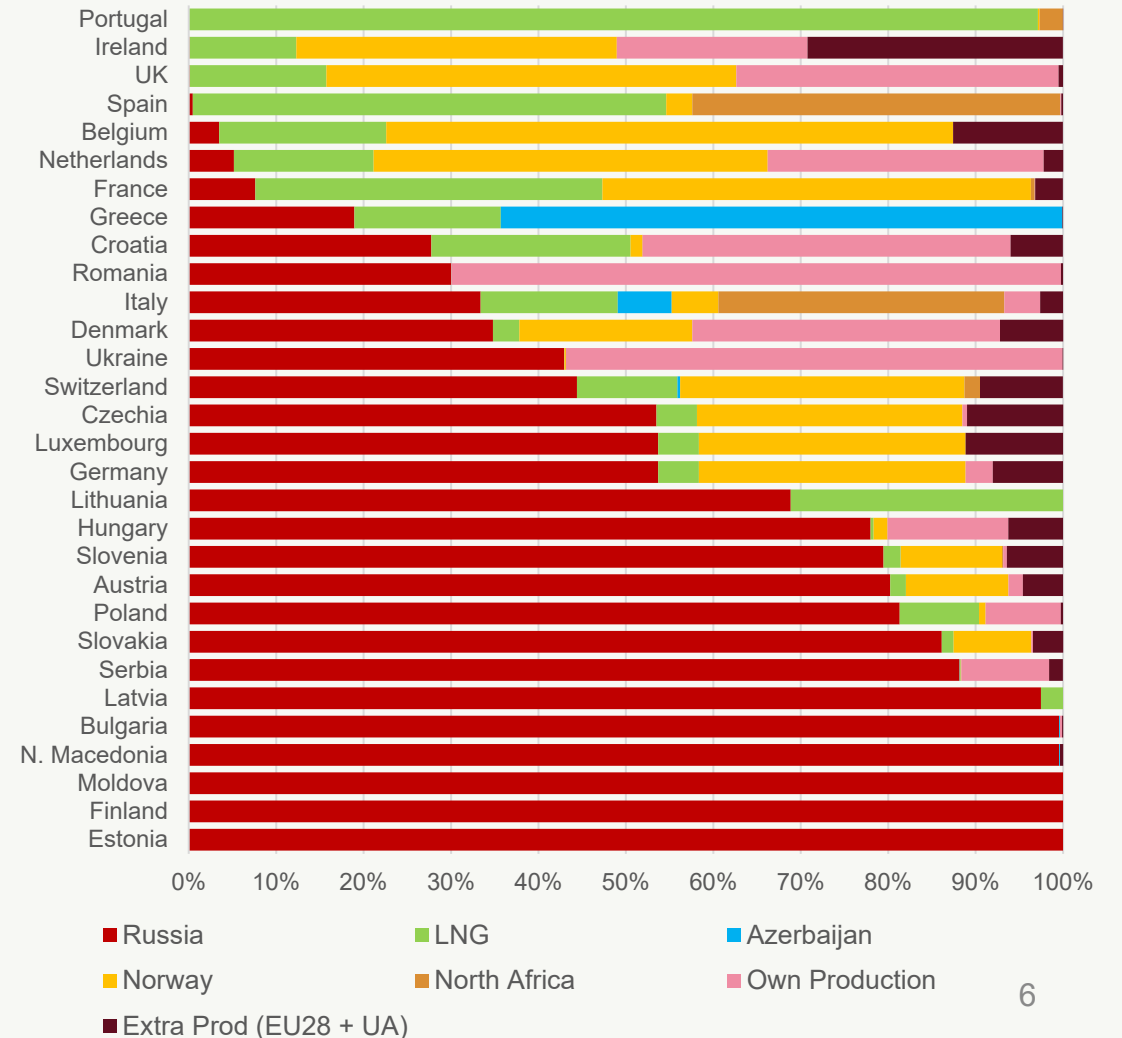
Intervention: Fiscal

- Countries step into markets to blunt impact on consumers (households and industry)
- Concerns around weakening price signals
- Magnitudes of spending are diverse



Intervention: Regional impacts

- Very diverse countries exposure
 - Infrastructure question (e.g., reverse flow capacity, LNG location)
 - Political solidarity question
- Demand side = Political decisions.

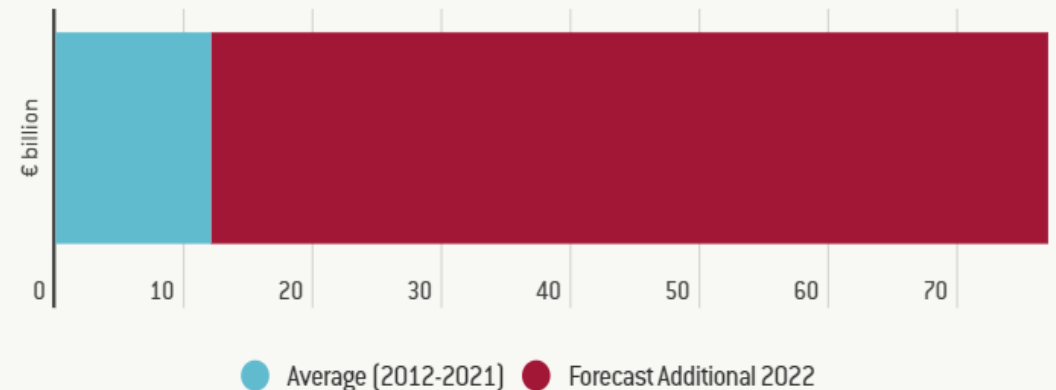


Intervention: Technical (gas storage)

The cost of refilling EU' storage has passed from €12 bln to €77 bln

- Private companies are profit-maximising and risk-adverse
- Storage obligations
- Risk sharing between the State and companies (CFD)
- Joint gas procurement

Figure 4: Cost for filling up storage in April-Oct 2022 (€ billion)



Source: Bruegel based on Bloomberg and AGSI+

Note: estimates are based on TTF historic and forward-looking prices for the period April to October. Taking the 2012-2020 average price (hence excluding 2021) the average cost is 10.1 bln. The 2022 target storage in TWh is set at 1000 TWh (vs the 2012-2021 average of 922 TWh and 1090 TWh obtained by mid-October in 2019).

Closing Remarks

- ❑ Rapidly reducing natural gas consumption forces a rethink of the EU's decarbonisation strategy.

- ❑ Greater intervention into markets driven by:
 - ❑ High energy prices;
 - ❑ Geopolitical risk;
 - ❑ Challenge of aligning clean and fossil fuel investments for transition pathway.

Thank you!