

Europe Has Dodged An Energy Crisis

Effort and luck kept European nations from enduring a worst-case winter.

By Vaibhav Tandon



Hope is not a strategy. Europeans can vouch for this maxim: after Russia cut off most energy supplies last summer amid the war and sanctions, there were fears that the region would run out of gas this winter. Those concerns have largely faded.

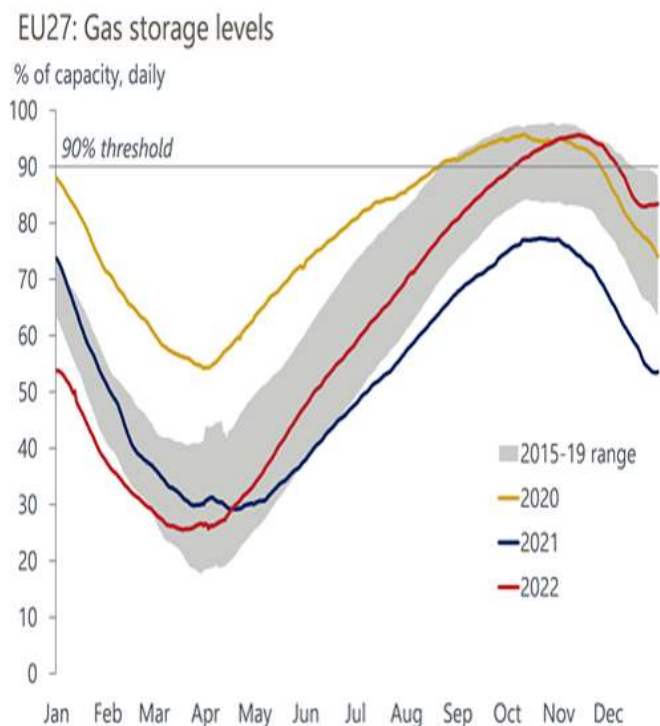
Prior to the war, Russia accounted for about 40% of continent's supply of gas. It was used for heating homes, generating electricity and running businesses. Moscow's weaponization of its energy exports in retaliation to sanctions drove European natural gas prices to record levels. Russian gas exports to Europe via pipelines plummeted to a post-Soviet low in 2022, pushing

the prices from around €45 per megawatt-hour in mid-2021 (MWh) to an astonishing peak of €345/MWh last summer.

Despite the supply shock, the European Union (EU) managed to increase its reserves by a record amount in 2022. Storage levels are over 80% full as of mid-January, compared with year ago stocks at 45%. EU and U.K. storage is on course to exit the winter about 50% full, well above the average of 35% recorded over the previous 12 years. As desperation has faded, so have natural gas prices in Europe, which are now less than one-fifth of their summer levels. The threat of severe rationing forced European governments to act decisively to secure adequate supplies for the winter. Imports of liquified natural gas (LNG) from countries like the U.S. and Qatar increased 58% year over year in 2022. In the first half of the year, the U.S. was the largest LNG supplier to the EU, representing almost half of total imports.

While the existing LNG infrastructure is enough to meet around 40% of European gas demand, more capacity is being developed. Energy companies and governments are spending large amounts of money to fill up storage facilities within their borders. Over a dozen LNG terminals are in the pipeline, of which a few are already under construction. Germany recently completed the construction of a floating LNG terminal. A number of these investments will be treated as EU Projects of Common Interest, making them eligible for funding from the **Connecting Europe Facility**.

A mild winter and energy conservation have boosted storage levels. Unseasonably warm weather has reduced the need for heating, preventing the natural gas inventory from depleting quickly. Both European industries and consumers had cut their gas consumption by about 20% in the run-up to the winter season; this conservation has also been an important part of Europe's energy equation.



Sources: Bloomberg, Oxford Economics, Gas Infrastructure Europe

Europe has avoided an energy breakdown.

Ramping up renewable energy production has helped head off more severe rationing. Solar and wind power accounted for about a quarter of EU electricity produced from March to September 2022, up from 21% in 2021. This helped offset the fall in hydroelectricity output caused by droughts and a decline in nuclear production from a series of problems at French nuclear plants.

Higher reserves have kept the region's economies on track to ride out this winter without major stress. Falling gas prices have brought a much needed reprieve for consumers and policymakers. With the threat of gas rationing almost ruled out for this winter, the recession risk for Europe may not be as bad as feared just a few months ago.

That said, Europe's energy security is still far from guaranteed. The bloc faces the task of refilling its storage before next winter with little gas likely to flow from Russia. Supplies of LNG could become tight as the Chinese economy, the world's second largest importer, returns to normalcy. Mild winter temperatures are not guaranteed for the remainder of this winter, nor for 2023-24.

Surviving future winters will require developing more LNG terminals, building more pipelines and accelerating the transition to renewable energy. All will be expensive or time consuming. But Europe's performance through this challenging year gives us hope they can continue to adapt to a changing energy landscape.



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