

How low energy prices affected European economy
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Как низкие цены на энергетику повлияли на Европейскую экономику
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Abstract: *the article analyzes the causes of decline in energy prices in 2014, as well as the impact of this situation on the European Union economy.*

Аннотация: *в статье анализируются причины снижения цен на энергетику в 2014 году, а также влияние этой ситуации на экономику Европейского союза.*

Keywords: *energy, EU, European Union, policy, economy, analysis.*

Ключевые слова: *энергетика, ЕС, Европейский союз, политика, экономика, анализ.*

The international natural gas market is suffering from low prices since 2014 and it is important to see how it affected the world market and the situation in Europe. First, I will give an analysis of oil and gas prices and their impact on gas supply and demand. After that, I will try to see how the situation in Europe is and how we could overcome the political and economic pressure, what are our sources of gas deliver and the competitiveness of LNG on European market.

The 2008 Financial crisis highly affected the demand of natural gas and oil that lead to crush in prices. What concerns natural gas, we have to separate regional reference prices that are linked to oil product prices and prices that depends on supply and demand. For instance, the Fukushima disaster lead to increased demand of LNG and the prices reached the maximum in March 2013. In contrast, Henry Hub prices depressed as a consequence of shale gas production continuing to outstrip demand growth.

In Europe, the link between oil and long-term gas contracts prices started decreasing by the end of 2014, as producers like Gas Terra and Statoil withdrew from the indexation of petroleum products in the direction of the hub indexing, as well as due to the fact that Gazprom has introduced price concessions and discounts .

As it has been broadly discovered throughout the media, oil prices were declining since summer 2014 because of the slow global demand and the rise of the US oil production, but after 27 November 2014, OPEC Meeting, prices dropped dramatically, with Brent falling to \$66/bbl [1]. This immediately affected the gas prices that are associated to oil or oil product prices.

World natural gas consumption grew only by 0.4% [2]. Growth was below average in both the OECD and emerging economies: the EU (-11.6%), the Europe & Eurasia region (-4.8%). The total growth was due to such countries as the US (+2.9%), China (+8.6%) and Iran (+6.8%). EU production declined dramatically (-9.8%) to its lowest level since 1971. The US (+6.1%) recorded the world's largest increase, accounting for 77% of net global growth.

Since 2008, European gas demand has declined due to several reasons: (a) economic crisis and recession; (b) Replacement in power sector by coal (UK, Spain) and by renewables (Germany, UK, Spain and Italy)

According to Figure 2, in 2010 the European demand increased because of the cold winter and consequently declined in 2013-2014 as a cause of mild winter temperatures. Yet, it is really difficult to predict the situation with EU demand and there are dozens of projections of future gas demand.

More than 50% of the European Union's energy comes from countries outside the EU, and this proportion is growing as a whole over the past decade. Most of this energy comes from Russia, whose disputes with transit countries threatened to disrupt supplies in recent years. In November 2010, an initiative titled 'Energy 2020 strategy for a competitive, sustainable and secure energy was adopted by the European Commission. This strategy defines the energy priorities for the period of 10 years and puts forward actions that could be taken in order to solve various problems, including achieving a market with competitive prices and security of supply, improving technological leadership, and effectively negotiate with international partners.

In addition, In order to continue the development and deployment of renewable energy technologies, the EU adopted the 2009 Renewable Energy Directive [3], which included a 20% renewable energy target by 2020 for the EU.

The ongoing construction of the Southern Gas Corridor will allow gas from Azerbaijan (reserves in the Caspian Sea) to achieve the EU Member States in 2020, providing an alternative source of energy. However, the initial projected volume of supply is only 10 billion cubic meters (compared to 160 billion cubic meters of Russian pipelines), so that the new pipeline will not have an impact on the European gas markets in the medium term.

Iran and Iraq are seemed to become potential suppliers but not for a short and medium term due to political reasons and Iran's nuclear program. Egypt is another traditional gas supplier to Europe, but it too is becoming an importer because of its growing domestic market – over the last 20 years, consumption has grown by 8 percent a year [4].

It is important to state, that the production in Europe will decrease as well, mostly in UK, Netherlands and Norway. It means that the EU will need more imports and as Europe does not want to depend on Russian gas, the demand, from my opinion, is likely to be provided by LNG. Today, of gas imports to the EU, 80-85% are delivered through pipelines, the remaining 15-20% in the form of LNG [5].

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