

*Special conference on the international
consequences of the current military
operations in Ukraine*

*The impact of the situation in Ukraine on the global
energy market*



Research Report

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Energy market

Forum: *Special on the international consequences of the current military operations in Ukraine*

Issue: *The impact of the situation in Ukraine on the global energy market*

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Introduction

As a major producer and exporter of both oil and natural gas, The Russian Federation has a significant role in global energy markets. Russia's invasion of Ukraine on 24 February 2022 has potentially serious implications for international energy security.

The tensions between The Russian Federation and Ukraine have been going on for quite some time. It all started in 1991, when Ukraine became independent from The Russian Federation. Russia has never recognized that Ukraine had become a separate country. Tensions ran high in recent years because Ukraine was seeking to join the NATO. The Russian Federation did not agree with this. In February 2022, Russia invaded Ukraine to "save" them from Western ideals.

Russia's massive assault on an independent Ukraine is not only a menace to Eastern Europe, but to the entire human effort, since World War II, to build global peace through the international rule of law. Russia has violated the law.

Ever increasing the energy prices are a direct consequence of the war in Ukraine. Energy prices are rising and the supply of energy lower since the rising tension between Ukraine and Russia has begun. The availability of affordable energy is something that concerns everyone. Due to the rapid increase in energy prices, we have seen in the last year, many households are already plagued by the increased energy prices and are in fear of being left in the cold this winter.

The supply of energy has been used as Russia's political leverage against western Europe, they have been using their energy to make a political statement. The Russian Federation has cut off the gas supply to many countries because they do not agree with the political decisions and demands Russia makes. Whilst Russia does not agree with the support that the countries give to Ukraine. We can conclude that The Russian Federation did this to punish nations that do not agree with their political point of view.

As curtailed Russian gas supplies and record-low nuclear availability raise the possibility of power blackouts in Europe, countries are allowing more coal-fuelled power generation, setting energy price caps and triggering emergency gas plans.

In light of the above, many residents have difficulty paying their energy bills, many companies and institutions make use of special rules against wasting energy, for example not using the lights after 5 o'clock and at many sports facilities you are no longer allowed to shower because it costs them too much energy.

It is an urgent problem that affects many people. Taking this in consideration, it makes sense that it is officially a crisis, an energy crisis.

Definition of Key Terms

The global energy market:

Energy markets are national and international regulated markets that deal specifically with the trade and supply of energy. Energy market may refer to an electricity market, but can also refer to other sources of energy. In this issue we look at how far Russia's abrupt stop with their gas affects our energy market.

Energy trade

Energy trading involves the buying and selling of various energy commodities such as; crude oil, natural gas, wind power and electricity. This form of trading remains popular, as frequent fluctuations in price and volume can create numerous trading opportunities throughout each trading day.

Tariffs

Energy prices have recently become super high, which is due to the many tariffs (extra prices) that come on top of the, already high, energy prices. For example, transport tariffs, delivery tariffs and taxes, both inclusive and exclusive of VAT. These prices have recently become much higher, due to the large shortage of energy suppliers.

Blackouts

A power outage (also called a powercut, a power out, a power failure, a power blackout, a power loss, or a blackout) is the loss of the electrical power network supply to an end user. This is of course very dramatic if someone suddenly runs out of energy. That is why governments are doing as much as possible to prevent those blackouts.

General Overview

Energy prices are present in many everyday conversations right now. That's because we all notice it. It is not just the poorest people in Europe who struggle to pay the bills, but also the middle classes, catering companies, schools and other institutions. It concerns all of us that prices have become so high. This is due to a painful combination of several factors that have pushed prices higher and higher. The most prominent of these factors has been Russia cutting back on their export of gas to Europe. Other contributing factors include the bounce back in global demand for power post-Covid restrictions, and the cost of the failure of 31 energy suppliers in Europe. As curtailed Russian gas supplies and record-low nuclear availability raise the spectre of potential power blackouts in Europe, countries are allowing a lot more coal-fired power generation, setting energy price caps and triggering emergency gas plans. In the picture below you can see the growing amount of price of energy in several European countries.

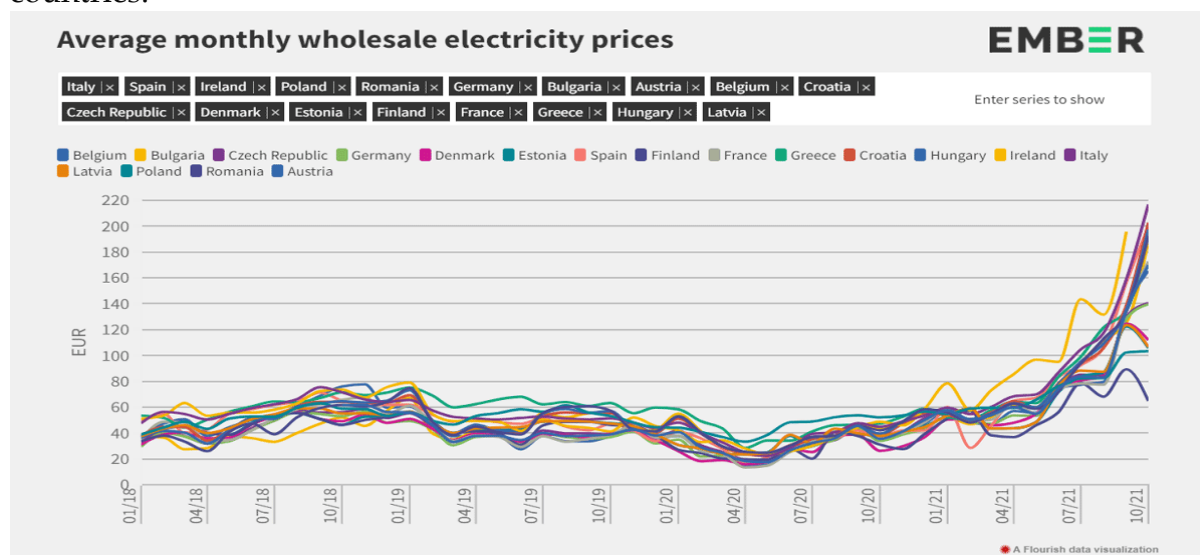


Figure 1, Energy Interview, 2022.

Price caps

By setting energy price caps, energy prices provide a financial incentive for industries and households to reduce their gas consumption - a behavioural change governments are trying to encourage to ensure there is enough fuel to get through winter. But capping the gas price would limit that incentive, and critics say it could even encourage more gas use when governments need to be rolling out policies to reduce consumption.

Effective?

Some analysts have suggested targeted financial support for low-income households and businesses hit hardest by the soaring prices would be a better option than a hasty market overhaul. Other questions remain about how governments could cap the cost of gas-fuelled power in a way that does not encourage gas plant owners to produce less power when countries urgently need it.

Coal-fired power generation

Now that energy prices are skyrocketing, more countries are allowing coal-fired power stations. This is a cheap and reliable energy source. In many countries there is an abundance of coal. So it's easy to use. The technology to generate energy from coal is very advanced. So you would think that this is the solution to solve the energy crisis. Unfortunately, this is not the case because there are many disadvantages attached to it.

Disadvantages

Converting coal into energy is a very polluting process. This method is anything but green and sustainable. This form of energy is also not renewable. Therefore, global warming is a consequence of allowing more coal-fired power stations. And that's a big problem because all countries have signed the Paris climate goals, to meet those goals.

Triggering emergency gas plans

About a quarter of all energy used in the EU is natural gas and many EU countries import almost all of their supplies. Some EU countries also rely heavily on a single source or transport route for most of their gas. Now that Russian federation no longer transports gas to the EU, we are forced to make triggering emergency plans. But what are the good plans of the EU if a large part is polluting the environment and the other part is unfeasible?

Emergency gas plans

EU framework for security of gas supply. The emergency plans drawn up by EU countries are important instruments for guaranteeing security of gas supply.

Emergency plans include measures to eliminate or mitigate the effects of a gas supply disruption.

They do this by introducing various measures. first, by tightening the rules for saving. In total, the EU aims to jointly fill at least 85% of the total underground gas storage capacity in the EU by 2022. Secondly, the EU has set up the Gas Coordination Group. Which is a permanent advisory group that coordinates security of supply measures, especially during crises.

On 5 August 2022, the Council adopted a regulation on coordinated gas demand reduction measures for a voluntary 15% reduction in natural gas demand this winter. It is intended to supplement the security of gas supply regulation.

Major Parties Involved

Russia

Russia exports a lot of natural gas and oil. This was exported to other countries for years. Unfortunately, the export has now been stopped due to the war in Ukraine. This has many consequences for energy prices around the world.

European Union

The European Union is 40% dependent on Russian gas. 36 million Europeans have been affected by the increase in energy prices. That is why the European Union is willing to find a solution as soon as possible to prevent these energy prices from rising further.

The World energy council

The World Energy Council is the largest network of energy leaders committed to providing a sustainable energy system for the greatest benefit of all. During the current crisis, they are engaged in producing more energy, especially green energy, to solve this issue.

The IEA

the International Energy Agency is also involved in this crisis. At first the IEA mainly focused on the problem of petroleum. However, due to the current energy crisis, they are also working on this topic. An example of this is setting goals in the field of energy.

France

In France, there are up to 5.8 million households that can no longer afford energy prices. To prevent this the nation has introduced a maximum price for electricity in France to protect households against rising energy costs. The disadvantage of this is that the government has to deposit a large sum of money to ensure that energy prices remain at this fixed level.

Germany

In Germany energy costs are also an urgent problem. The German government is introducing a support package totalling more than 65 billion euros to combat inflation and high energy costs. The question is whether this solution will help in the long term.

Ukraine

Ukraine is a key country for European and global energy security. Russia's invasion of Ukraine has pushed it to fundamentally reshape its past dependence on energy imports from Russia. As the invasion continues, Ukraine is focused on tracking large-scale energy supply disruptions and actively working to recover power and heating for civilians. It is also putting together an ambitious recovery and reconstruction plan, with a strong focus on energy security.

Timeline of Events

Date	Description of event
01.12.2021	Start of the tension between Ukraine and Russia.
24.02.2022	Start of the war between Ukraine and The Russian Federation.
28.02.2022	<i>Energy ministers discuss energy market situation following Ukraine crisis.</i>
10.03.2022	<i>EU leaders agree on how to reduce energy dependencies.</i>
19.05.2022	<i>Gas storage: Council and Parliament reach a provisional agreement.</i>
03.06.2022	<i>EU adopts sixth package of sanctions against Russia.</i>
07-10-2022	<i>EU leaders discuss measures to reduce energy demand, ensure security of supply and guarantee affordable prices.</i>

Previous Attempts To Solve The Issue

The European Commission announced temporary measures that the Member States could implement to deal with the rising prices, whilst remaining within the European legislation, notably in terms of the competition policy. Among the proposed solutions, the Member States could “mitigate the impact of rising prices through price caps and temporary tax reductions for vulnerable energy consumers, or vouchers and subsidies for consumers”.

In terms of medium-term responses, the Commission emphasizes an intensification of the climate transition as the best way to avoid further energy price increases in the future. Meaning:

- Strengthening investments in renewable energy, retrofitting, energy efficiency and speeding up auctioning and authorization procedures for renewable energy.
- Development of energy storage capacity, including batteries and hydrogen
- Audit by the European Energy Regulator (ACER) to study the advantages and disadvantages of the current electricity market organization.
- Possible revision of the Security of Supply Regulation to ensure better use and functioning of gas storage in Europe.
- Study of the likely benefits of voluntary joint procurement of gas stocks by Member States.
- Establishment of new cross-border, regional gas risk groups to analyse risks and advise Member States on the design of their national prevention and emergency action plans.
- Strengthening the role of consumers in the energy market by empowering them to choose and switch suppliers, generate their own electricity, and join energy communities.

Of course, these responses are an intensification of the climate transition as the best way to prevent further increases in energy prices in the future, but there are also disadvantages associated with them. As discussed earlier, the price caps are not a good solution and even though these responses have been there for a while, we see that the energy price is still going up.

Meeting in Czech Republic

The Czech Republic, which holds the rotating presidency of the EU, has called an extraordinary meeting of energy ministers on 9 September. The EU has so far put most of the focus on countries reducing their gas consumption and filling up storage facilities. More gas has been imported from the Middle East and the US to help. However, even with these measures, demand will remain strong and prices high, and there is still a risk of blackouts for households and businesses.

UN Involvement, Possible Resolutions, Treaties and Events

the World Energy Council

The World Energy Council actively contributes the insights needed by energy leaders to make effective strategic, policy and business decisions about the energy transition. They provide reliable data, useful tools and impartial comment.

Their interactive Energy Transition Toolkit includes five comprehensive tools that can be used together or separately. They have been proven to drive effective change and bring us closer to achieving a successful energy transition.

international solutions

It seems increasingly likely that forms of coordinated international action will be taken, reflecting responses to the global financial crisis, the eurozone debt crisis and the Covid pandemic.

Former Italian Prime Minister Mario Draghi put forward the idea of "a cartel of buyers" during a meeting with US President Joe Biden in May. This would mean major oil consumers working together to negotiate prices. Draghi also suggested a "preferred path" to persuade Opec and other major manufacturers to increase production. This suggestion is a greater necessity for the US, while the EU is more focused on buying gas.

Draghi and Biden also discussed introducing a cap on wholesale gas prices. The European Commission has so far rejected this idea, arguing that such a cap could reduce the incentive for companies and countries to switch to cheaper, green energy.

Ending the war

A logical solution is to end the war between Russia and Ukraine. But how does this really happen? Russia still has the means to do a lot of damage and can continue to destroy Ukraine and threaten the West. The most urgent short-term goal is to stop the war without showing weakness. This also means that Russia should not be humiliated unnecessarily. However, the West must clearly show that further military aggression will be answered with determination. It is a good sign that European countries, especially Germany, have recognized the need to step up their defence efforts.

It is also encouraging that direct talks between Kiev and Moscow have begun. But now there must first be a ceasefire, and then a solution can be found. Of course, Russia should be humiliated as little as possible, so that they are inclined to share their gas supplies with the rest of the world again. So energy prices will fall again.

Possible Solutions

In the UK and Europe, the electricity market was designed around coal-fired generation - a system that seems increasingly obsolete as countries increasingly try to get rid of coal-fired energy.

In July, UK regulator Ofgem proposed to split the wholesale market to decouple electricity produced from renewable energy from fossil fuel production. So this is already a step to reform the market. The second is that the UK Treasury Department estimated that electricity producers had made £10 billion in additional profits.

The government proposed a new independent "future grid operator" at the national level and a possibly similar model at the local level. This will help the market in the sense that no profit will be made from the high energy prices.

Unfortunately, there is little time this winter to implement these kinds of complex measures.

Several consultancies have suggested that to help this winter, the government subsidizes the cost of gas burned in power plants, which could cut bills by tens of billions of pounds. It argues that supplying gas to power plants at a lower price would lower wholesale electricity costs and prevent old solar, wind and nuclear plants from making profits that push up bills.

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