



## The Eurasia Center's US-European Program

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# The European Natural Gas Crisis



*A compressor station at the Yamal-Europe pipeline. Reuters/Vasily Fedosenko*

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**Major Russian Gas Pipelines to Europe**

Europe is in a natural gas crisis. At the start of 2021, the price of a megawatt hour of natural gas was 19 euros. By mid-December, the same amount of natural gas cost over 180 euros. Although over the last few weeks gas prices have dipped back to double digits, both the price of natural gas and its demand in Europe remains massive.

Europe solves its high demand for natural gas with imports primarily from two places, Russia and the United States. Recently, reliance on Russia for natural gas has become a significant detriment to European markets. One way that this has manifested is in the Yamal-Europe Pipeline. Imports from Russia account for about 30% of Europe's natural gas market, and the Yamal-Europe pipeline is about one-sixth of Russian natural gas exports. Normally, the pipeline carries gas from Poland to Germany, supplying Europe with natural gas. As of January 23, the pipeline has been moving in the opposite direction for over a month, raising European natural gas prices even higher and causing some European energy companies to declare bankruptcy. High prices have discouraged purchases of spot volumes from Russia and buyers have resorted to using stored gas reserves in Europe, as storage levels have fallen below their five-year average. Gazprom, a major state-owned Russian energy company, is expected to change the flow of the Yamal-Europe pipeline back to its normal westward movement sometime soon, but the company has few plans for European exports in February and damage to the European gas market has already been done.

Issues with Russian natural gas imports are just one major part of the clashes between Russia and the rest of Europe. Despite their denial, Russia appears ready and willing to invade Ukraine, and historically Europe would impose economic sanctions on Russia to prevent aggressive Russian actions or as punishment for said actions. However, if Europe imposes sanctions, their energy issues would get worse as a result of overreliance on Russian natural gas. At the center of both of these issues is Ukraine, which filed a complaint to the European Union alleging that Gazprom intentionally cut shipments of natural gas to Ukraine and that the company prevented other companies from filling in the gaps left by the lack of natural gas flowing into the country. Russian President Vladimir Putin has said in response that any lack of shipments from Gazprom is a result of a lack of requests. Some European Union politicians have claimed that Russia is using the diplomatic crises with Ukraine as leverage, and that the restricted gas flows have been implemented to ensure that the EU will support the use of a new Russian pipeline, allowing for greater dominance of European natural gas imports. Russia has denied these allegations, saying that the new pipeline will be mutually beneficial, allowing Russia more exports and helping lower Europe's gas prices.

Russia, then, has Europe between a rock and a hard place. Europe is left with two bad choices on the Russian front. One option is imposing sanctions on Russia, which may bring greater stability in Eastern Europe at the cost of an increase in natural gas prices. Alternatively, they can

give Russia free reign over Ukraine, hoping that backing away from supporting Ukraine in any potential conflict will help restore regular Russian natural gas exports. Clearly, both options have significant pros and cons. This is why Europe is trying to fix their overreliance on Russian natural gas by turning to their other major trade partner, the United States.



*A natural gas tanker. Reuters/Issei Kato*

With Russia locked in a diplomatic battle and natural gas still flowing the wrong way, Europe has turned to the United States, its other major natural gas trade partner, to help lower prices and make up for the lack of Russian exports. Early in 2021, 37% of US natural gas exports went to Europe. In December, that number reached around 50%. The United States has even begun diverting natural gas from Asia to Europe as natural gas demand in Asia remains steady and demand in Europe skyrockets. Although the diversion of US exports is a temporary fix, it should help alleviate some of the problems driven by the lack of Russian natural gas, allowing Europe to put international pressure on Russia. There may, however, be a limit to the assistance that the United States can provide, as processing plants were nearing maximum capacity in December and there are few plans to build more natural gas processing plants as spending on natural gas refineries has fallen amid trade issues with China and the COVID-19 pandemic.

