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THE IMPACT OF THE EUROPEAN ENERGY CRISIS OF 2022 ON BANKRUPTCY

Abstract: *Thus, the purpose of this article is to highlight the consequences of the 2022 energy crisis for EU countries and businesses, to describe the general measures to reduce high energy prices and support businesses adopted by EU countries, as well as the adopted political agreements of EU Energy Ministers. In addition, this article highlights the disagreement among EU countries on measures to combat the energy crisis.*

Keywords: *bankruptcy, crisis, economic shield, energy crisis, European Union, Russo-Ukrainian war.*

Introduction

The energy crisis in different countries of the world has the same prerequisites.

First of all, it is an excess of demand over supply owing to the economic recovery after the pandemic, an attempt to limit the financing of traditional energy projects, and, as a result, the decrease in production capacity.

The energy crisis of 2022 caused by the aggression of Russia against Ukraine caused a serious blow to the profitability and solvency of businesses in Europe.

Due to the high cost of gas in Europe in 2022, many enterprises had completely stopped production, while others had reduced it.

This happened because the high cost of energy increased the cost of goods which, in turn, made them uncompetitive with similar goods from the other countries such as the US or China. As a result, the increase in the cost of gas led to a decrease in its consumption in Europe.

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According to the estimate of the International Energy Agency, the gas consumption in the European Union in 2022 decreased by approximately 50 billion cubic meters, i.e. by approximately 10%. At the same time, the Bruegel Institute estimates an even bigger decrease of 12%. Both institutions agree that the main decrease occurred in the industrial sector.

A decrease in the overall gas consumption in the European Union was one of the real reasons for the decline in gas prices which began in December 2022. Thus, the decrease in gas purchases led to a decrease in its deficiency.

Protective measures against the energy crisis in EU countries

During the energy crisis, the most significant national measure so far has been the massive German economic "shield" supporting the industry and households worth 200 billion Euros (5.6% of GDP) aimed to subsidize primarily the "base volume" of electricity and gas and to reduce the VAT for gas and district heating to 7% until spring 2024. The total cost of gas price subsidies constituted EUR 96 billion (2.7% of GDP).

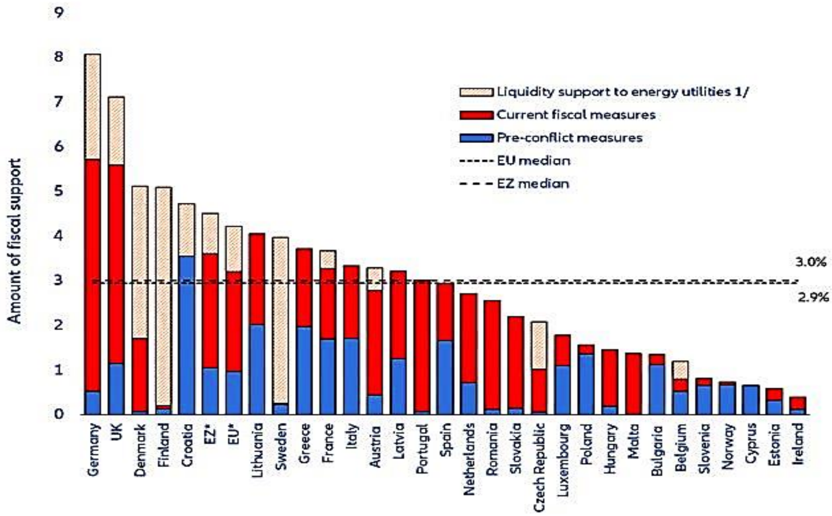
The energy ministers of EU countries also reached a political agreement on the measures to reduce high electricity prices:

1. Restriction of income for infra-margin technologies. The market revenue limit has been set at 180 EUR/MWh for renewables, nuclear, and lignite power plants. The choice of measures has been left to the discretion of the Member States, as well as the decision to set a lower limit for some technologies. The collected revenues will be redirected to end customers.
2. Solidarity contribution to the fossil fuel sector. The mandatory temporary fee for the companies operating in the crude oil, natural gas, coal, and refining sectors has been set at 33% of taxable income in the fiscal year 2022 and/or 2023.
3. Measures to support small and medium businesses. The Member States may temporarily set the price for the supply of electricity to alleviate the pressure of high energy costs. The sectors of construction, transport, telecommunications, machinery and equipment, retail, household appliances, electronics, automobiles, and textiles are also in the list of special attention.

However, gas pricing has become the subject of controversy among the EU countries. Italy, Greece, Poland, and Belgium have proposed a 5% or 10% trading range within the agreed maximal gas price. However, the majority of EU countries do not agree that the companies producing electricity from gas should be compensated or that the burden should lie solely on the suppliers.

For example, Norway, which currently provides a quarter of European gas, has already expressed its disagreement with the restriction that will be applied to suppliers.

Figure 1. Europe: Scale of fiscal measures to address the impact of the energy and cost-of-living crisis (% of GDP)



Source: *National bodies, Bruegel, Allianz. Whatever it takes reloaded? Europe's fiscal response to the energy crisis. Allianz Research 2022.* <https://www.allianz-trade.com/en_global/news-insights/economic-insights/europe-fiscal-response-energy-crisis.html> (03.12.2023).

Following the conclusions of the European Council summit held in December 2022, the European Commission was called to take all the relevant national measures as soon as possible[2].

However, France and Germany considered these measures insufficient. As a result of their joint summit France and Germany issued a declaration demanding that the European Commission radically simplify the procedures for obtaining state aid by European enterprises.

The opinions of the EU countries on the reforming of the electricity market were also controversial. Some countries advocated drastic measures and direct regulation by the state, while others favored a softer approach with a predominance of market mechanisms.

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[2] *European Council Conclusions, 15 December 2022* <https://www.consilium.europa.eu/en/meetings/european-council/2022/12/15/> (03.12.2023).

The traditionally more left-wing governments of Spain and France have become the main supporters of expansion of the state regulation. Minister of Economy of France Bruno Le Maire in March 2022 named the current system absurd and called for electricity prices to be linked to the average cost of producing decarbonized electricity, but not to the fossil fuel and gas prices[3].

The coalition of countries led by Denmark and Germany, in turn, sent an open letter to the European Commission against such strong measures, stating that the advantages of the existing market structure must be preserved, and any drastic measures should be seriously considered but not taken in a crisis mode.

The EU energy ministers managed to reach an agreement on gas prices only in December 2022. The regulation is aimed to limit the excessive fluctuations in gas prices in the European Union using a dynamic trading limit. The Agency for Cooperation of Energy Regulators (ACER) has been entrusted with controlling the price market.

EU industrial support measures in 2023

The pan-European aid program contains the proposed alternative scenario for solving the EU industry support dilemma in 2023. In December 2022 Ursula von der Leyen, the president of the European Commission, announced the establishment of the European Sovereignty Fund aimed not only to co-finance the European industrial policy in its fight against climate change but also to counter the fragmentation of the single market[4].

The source of financing for the said fund shall be the EU public debt. In other words, this option involves collective loans for subsequent more even distribution of funds among the EU countries.

This idea was supported by France, but at present, it has been opposed by a new coalition of countries led by Germany. According to the German Ministry of Finance, measures such as the issuance of debt can lead to a loss of mutual confidence in the financial markets and undermine inflation control policies[5].

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[3] N. Moussu, *France leads calls to reform 'absurd' EU energy market*, <https://www.euractiv.com/section/energy/news/france-leads-the-way-in-reforming-absurd-energy-market/> (03.12.2023).

[4] J. Allenbach-Ammann, *Commission President: EU Sovereignty Fund will be proposed in summer*, <https://www.euractiv.com/section/economy-jobs/news/commission-president-eu-sovereignty-fund-will-be-proposed-in-summer/> (03.12.2023).

[5] *German finance ministry firmly rejects new EU common debt*, <https://www.euractiv.com/section/economy-jobs/news/german-finance-ministry-firmly-rejects-new-eu-common-debt/> (03.12.2023).

France and Spain are calling for the mass introduction of mandatory long-term contracts for the purchase of electricity with end users[6]. This option has been opposed by seven European countries - Denmark, Germany, the Netherlands, Finland, Luxembourg, Latvia, and Estonia, because these states are much more dependent on fossil sources. For example, only about 50% of electricity in Germany in 2021 was produced from renewable sources or nuclear power, while in Estonia, fossil sources ensured almost 70% of production in 2021. In addition, many large plants in Germany are still operating on traditional energy sources[7].

EU economies in 2022 – 2023

The economic achievements of the European Union since the start of war in Ukraine are very mixed. On the one hand, the EU managed to avoid a recession: despite the reduction of the growth rate due to the war and energy crisis, the GDP of the Eurozone in real terms increased by 3.1% in 2022, and the same of the EU - by 3.2%.

However, despite avoiding the catastrophe in 2022 the forecasts for 2023 both for the largest economies in Europe and for the entire community are rather restrained. The European Commission believes that the EU economy in 2023 will stagnate (GDP growth - 0.8%) but will avoid a recession[8].

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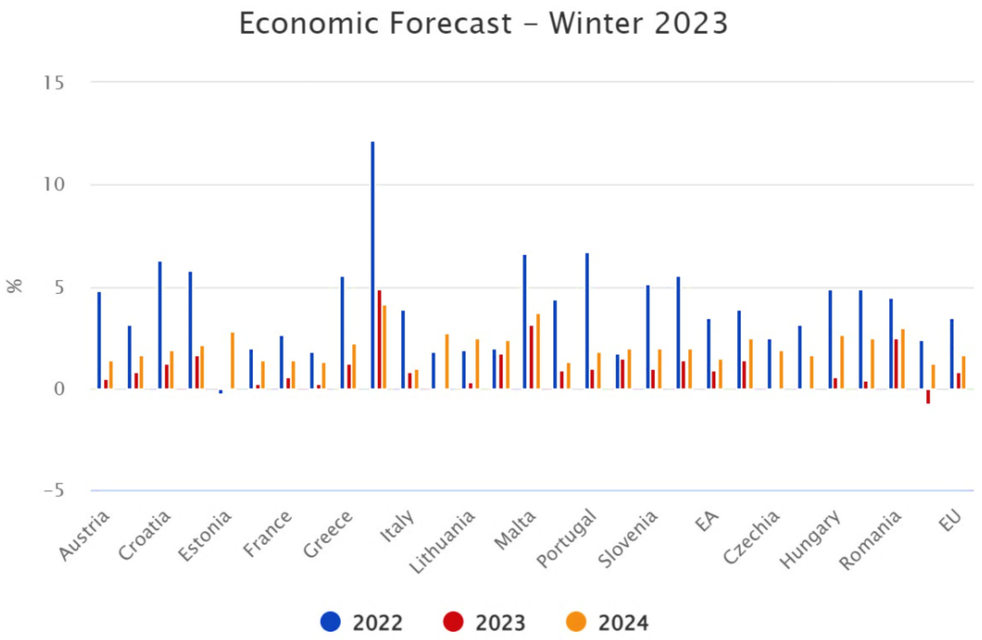
[6] T. Ribera, *A new EU electricity market design for a decarbonised energy system*, <https://www.euractiv.com/section/electricity/opinion/a-new-eu-electricity-market-design-for-a-decarbonised-energy-system/> (03.12.2023).

[7] H. Ritchie, M. Roser, *Estonia: Energy Country Profile*, <https://ourworldindata.org/energy/country/estonia> (03.12.2023).

[8] *Winter 2023 Economic Forecast: EU Economy set to avoid recession, but headwinds persist*, <https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/winter-2023-economic-forecast-eu-economy-set-avoid-recession-headwinds-persist_en> (03.12.2023).

Figure 2. EU GDP Forecast - Winter 2023 (% GDP)



Source: *Economic Forecast. Winter 2023 Economic Forecast: EU Economy set to avoid recession, but headwinds persist (2023).* <https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/winter-2023-economic-forecast-eu-economy-set-avoid-recession-headwinds-persist_en> (03.12.2023).

The impact of the energy crisis on bankruptcy

As a result of the energy crisis, there are still a small number of bankruptcies registered in the US, China, Germany, Italy, and Brazil. At the same time in most EU countries, there was a double-digit increase in business insolvency in the first half of 2022 - 60% of industries went bankrupt: the food, housing, manufacturing, and B2C services have already returned to pre-pandemic insolvency levels, and large company bankruptcies are all are still under control (58 cases in the third quarter of 2022 and 182 in the first three quarters compared to 187 and 332 in the same period of 2021 and 2020).

Conclusions

1. The war in Ukraine has significantly weakened the EU economies and left them vulnerable to a possible subsidy race.

2. The EU countries coped with the energy crisis of 2022 and showed the ability to withstand modern threats.
3. In order to recover sustainable growth in the EU, it is necessary to support the European industry and reform the electricity market.
4. For the European economy it is important to make informed and fundamental decisions since a reliable energy supply is one of the cornerstones of the stability of business and the well-being of people.

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3. *European Council Conclusions*, *15 December 2022*, <https://www.consilium.europa.eu/en/meetings/european-council/2022/12/15/>.
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