

Improving economic policy



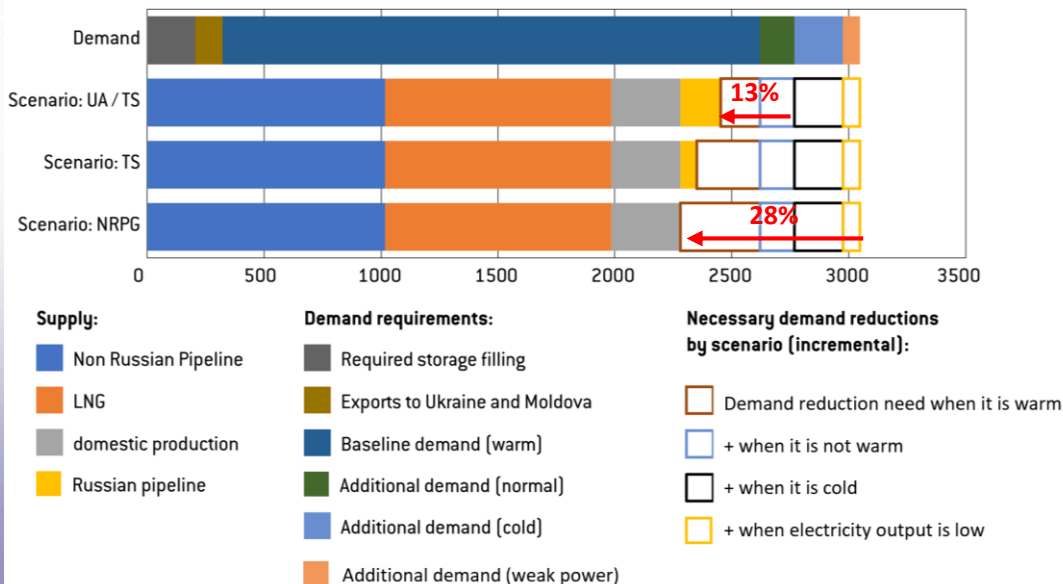
Looking ahead on next winter and the future of energy-intensive industry

Building on work from the Bruegel Energy Team

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Europe needs to keep its gas demand below pre-crisis levels

EU estimated gas balances 1 February 2023 to 30 September 2023

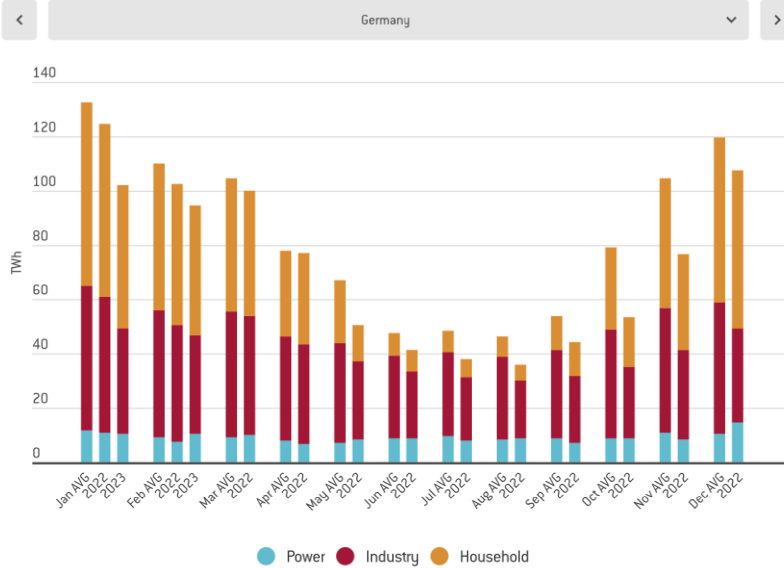


- Even with current Russian flows, EU gas demand needs to decline by **13%** in the baseline scenario
- In a risk-scenario demand might need to decline by **28%**

Also for Germany – no space for mistakes

Figure 1: Monthly Natural Gas Demand by Country, 2023, 2022 vs 2019-21

Average



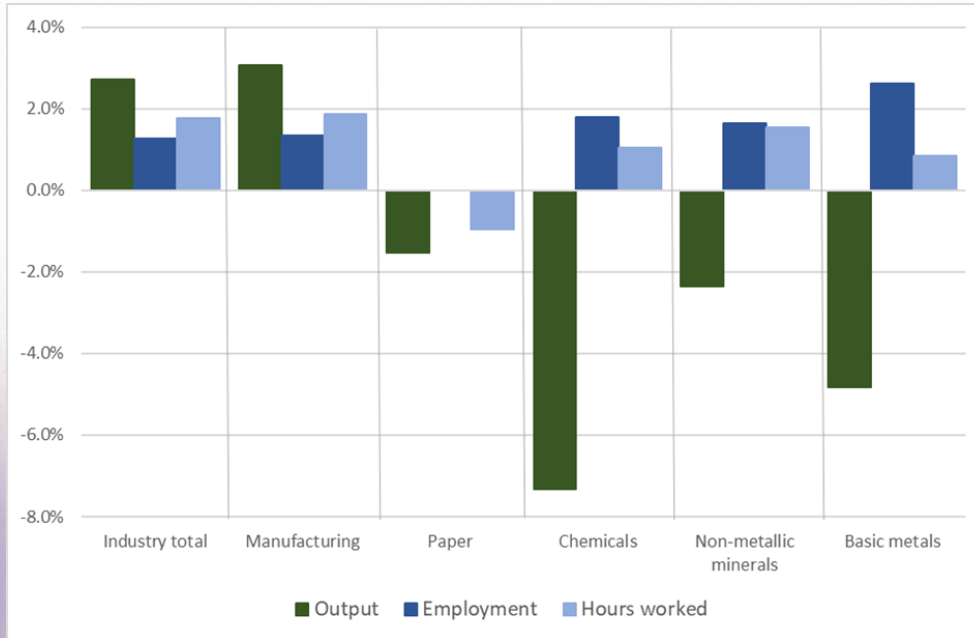
- In Feb23, Germany reduced by 14% vs. Feb19-21
 - -12% households
 - -22% industry
 - +11% power
- Using Ukrainian storages

What has happened so far?

Impacts on the labour market and industrial output



Change in industrial output, employment and hours worked, in EU27 Q3_2022 Y-o-Y%



In Summer 2022 industrial employment in the EU27 increased.

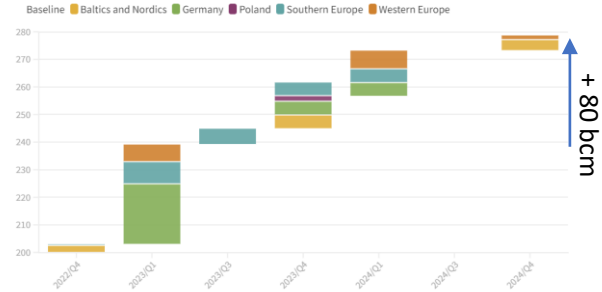
Total output in manufacturing was also higher (3% YoY in Q3, which continued at the same level in Q4).

However, output the four energy-intensive sectors went down, with chemicals experiencing the biggest fall

Gas import strategy is risky

- Current approach is to “last out” until the tankers arrive
- But gas will be more expensive
- Convergence via factor, intermediary product or final product trade?
- And we risk killing the global climate agenda

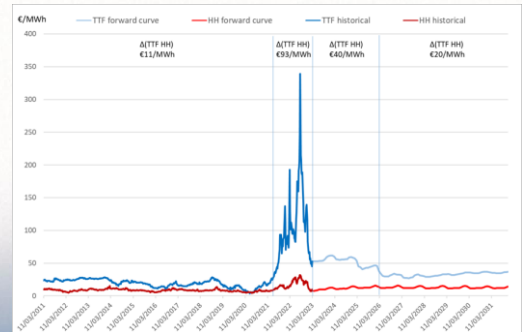
Additional regassification capacity in EU-27 and the UK
From LNG infrastructure coming online in 2022 Q4 -2024 Q4, in bcm/year



Source: Bruegel on publicly available data. • Note: The new EEMS Energy Terminal that has become operational in 2022 Q3 is included in the baseline. Natural gas amounts coming online in 2023 and 2024 due to LNG infrastructure developments is grouped in regions: Baltics (Estonia and Latvia), Germany, Poland, Southern Europe (Croatia, Cyprus, Greece and Italy) and Western Europe (Belgium, France and Netherlands).
Last update: 16 December 2022.

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Price divergence EU-US



Bruegel based on Bloomberg

Some re-location must be efficient



• What will Germany/France import – and from where:

- Electricity?
- Hydrogen?
- Green Methane?
- Green Ammonia?
- Green steel?
- Green cars?



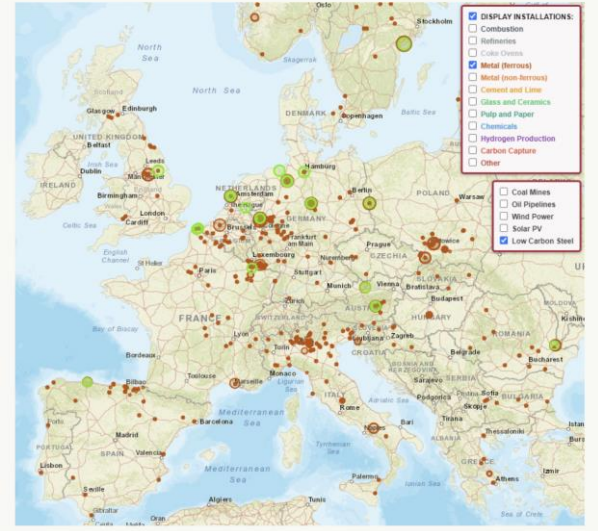
Drivers for onshoring:

- Infrastructure
- Support policies (e.g. for H2 imports)
- But not CBAM

Relocate Industry

- Zonal pricing debate

Figure 4: Low carbon steel plants planned next to existing capacity



Thank you!

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