

Simultaneous Energy Price Hikes and Their Implications for Energy Policies

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In “A Japanese Perspective on the International Energy Landscape (554),” I analyzed the features and causes of recent energy price hikes and considered the background of the simultaneous energy price hikes based on hypotheses. In a follow-up to this, I would like to discuss the implications of energy price hikes for energy policies.

Energy price hikes have yet to calm down. Ahead of winter, concerns are lingering about further tightening of the supply-demand balance and more price hikes through cold waves or unexpected disruptions to energy supply. In fact, the benchmark West Texas Intermediate crude oil futures price topped \$85 per barrel on October 25. The Brent futures price has also risen beyond \$85/bbl. Compared with unusual hikes in Asian spot liquefied natural gas prices exceeding \$50 per million British thermal units and in European gas hub prices, crude oil price rises above \$80/bbl still far from record highs seem less serious. Given that oil is the largest internationally traded energy commodity, however, oil price hikes have great impacts on the global economy. Crude oil price rises have attracted global attention as a downside factor for the global economy and a factor behind inflation fears.

In addition, coal and electricity prices have risen in a manner to exert pressure on national economies and civic lives, as noted in my 554th report. The current price hikes are excessive in a sense and could be reversed and corrected on some development. If the simultaneous energy price hikes are accelerated and combined with rising energy demand under cold waves and unexpected supply disruptions, supply shortages and price hikes may trigger an energy crisis. Some market players are speculating about such an event. Future energy prices are extremely uncertain.

Energy is indispensable for civic lives and economic activities. When energy markets are stable, with prices being at affordable levels, people perceive energy as provided like water or air and are indifferent to stable energy supply. Once price spikes become real and more serious in a manner to attract public attention, however, the situation may turn around. Given that energy is indispensable, short-term demand’s elasticity to prices is limited. If demand is strong, market participants may race to acquire energy sources, triggering price hikes. In a rare case where it is physically difficult to acquire some energy sources, physical shortages may arise, exerting grave impacts on civic lives and economic activities. In such an event, governments or authorities may have no choice but to give top priority to energy supply stabilization measures.

In Europe that is one of the centers of the current simultaneous energy price hikes, the European Commission and national governments have taken initiatives to secure stable energy supply and mitigate damage from the price hikes. On October 13, the European Commission released a policy document titled “Tackling Rising Energy Prices: A Toolbox for Action and Support,” proposing short to medium-term measures to tackle energy price hikes. Short-term

measures include direct subsidies covering part of payments for energy, a moratorium on such payments, the avoidance of supply halts and temporary tax cuts for low-income people to protect European consumers who have already been affected economically by the COVID-19 pandemic. National government subsidies based on European Union rules have also been proposed for companies and industries that have plunged into severe business conditions due to energy price hikes.

Medium-term measures include regulatory reform for effective functions of gas inventories or reserves and the joint procurement of gas for additional reserves. These measures address the gas supply security challenge facing Europe, indicating that the tightening gas supply-demand balance has become a significant policy challenge for Europe. The policy document also emphasizes the European Green Deal including the promotion of investments in renewable energy as significant for energy security. Nevertheless, short-term measures indicate that the current energy price hikes are a serious issue for the EU and that the European Commission is concerned about further tightening of the energy supply-demand balance and more energy price hikes. The current energy price hikes and concerns about their escalation are exerting some impact on EU energy policies.

Another interesting point is that the EU, though retaining the policy of giving priority to renewable energy and pursuing energy transition through the promotion of renewables, has shed light on other energy sources like nuclear and natural gas in consideration of the current energy price hikes. On October 22, European Commission President Ursula von der Leyen said that the EU would need nuclear as a stable energy source and natural gas as a transitional source while giving top priority to the promotion of renewables. She was discussing the energy price hikes and the future EU energy mix at a press conference. The EU is considering how to position nuclear and natural gas in talks on the EU taxonomy to classify green investments that conform to environmental sustainability. The remark by the European Commission president came amid such talks, attracting my interest. The current energy price hikes may provide new viewpoints for energy policy talks in the EU or each EU member country, exerting some impacts on such talks.

The above focused on Europe but is basically common to the world. In a situation in which substantial energy price hikes become a serious issue for civic lives and economic activities, energy security may emerge as a significant challenge in any country in the world. If physical energy shortages rather than price hikes become a matter of great concern, energy security may be viewed as an even more serious challenge requiring policy response. In such a situation, people may question how the current energy price hikes would affect climate change initiatives that have been given top priority regarding energy issues. An answer would be that international arguments would call for taking more care of energy security and avoiding the impacts of energy price hikes as much as possible while retaining the attitude of giving top priority to climate change. As energy is reaffirmed as indispensable, growing international arguments may call for paying greater attention to the adverse impacts of energy price hikes on low-income citizens and countries. We should pay attention to future energy price trends and the potential energy crisis from the viewpoint of implications for energy policies.

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