COMMITTEE: ECOFIN

Topic: Energy Crisis in Europe

Chairs: Adam Young, Zoey Ragan

**Report of the Chairs**

**Rationale**

The recent war between the Russian Federation and Ukraine has created a large-scale energy crisis for all of Europe. Given recent events in which the European Union (EU) leaders suspect deliberate tampering with the Nord Stream 1 pipeline, which supplies EU states with “35% of all the gas they imported from Russia,” and the nearing winter Europe faces a severe energy crisis (Horton and Palumbo). Energy conditions have been further exacerbated due to the EU’s ban of seaborne imports of Russian crude oil which will go into effect on 5 December 2022, as well as ban on petroleum product imports which will go into effect on 5 December 2023 (Cahill). In their attempts to isolate Russia from international trade, European states threaten the stability of oil markets. Instability in these markets provide a great humanitarian risk as winter fast approaches and people will struggle to heat their homes. Additionally, increased prices for basic economic inputs such as crude oil and petroleum will exacerbate already high inflation. The international community remains deeply troubled by looming threats of unstable energy markets and must work to resolve these issues.

**Background of the Topic**

Historically, the Russian Federation and Ukraine have been economically linked because many Russian oil pipelines have flowed through the former Soviet state to the rest of Europe. The ability of Russia to decrease oil flows to Western Europe has always been a keystone component of advancing their foreign policy goals. Disputes over the supply of oil have historically coincided with disputes between Ukraine and Russia.

In 2006, two years after the Orange Revolution, which brought pro-Western candidate Viktor Yuschenko to power, Russia accused Ukraine of stealing Russian oil. Ukraine did eventually admit it had diverted some oil from pipelines to their domestic territory to survive the harsh winter. This conflict was further exacerbated because in retaliation, Russia raised the price of 1000 cubic meters of gas from “$50 to $230” (“BBC NEWS | Europe | Ukraine 'stealing Europe's gas'”). Russia justified this significant increase in prices as a result of reflecting ‘“world market prices’” (Durkot). This initial dispute was at its most severe on 1 January 2006 when Russian energy company, Gazprom, decided to stop all oil flow to Ukraine. This decision had far reached implications for the rest of Europe with countries such as Hungary reporting a decrease of up to “40% of Russian supplies” (Stern). This conflict was resolved on 4 January 2006 due to a five-year contract signed between Naftogaz, Ukraine’s largest oil and gas company, and Gazprom, Russia’s largest oil and gas company. The most significant terms of the agreement were as follows (Stern):

Gazprom will pay Naftogaz a of $1.60/mcm/100km for transit of gas to Europe.

RosUkrEnergo will be the company which delivers gas to Ukraine. Gazprom will not deliver Russian gas to Ukraine, and Naftogaz will not export any gas which it has received from Russia.

RosUkrEnergo and Naftogaz will form a joint venture by February 1, 2006, in order to market gas in Ukraine which has been received via the territory of the Russian Federation,

Transit payments and gas prices may only be changed by the agreement of all parties.

The next most significant energy dispute erupted in 2009 due to Ukraine owing Gazprom $2.4 billion in gas already consumed and Gazprom’s refusal to reissue the contract between Naftogaz and itself. On 1 January 2009, Russian Prime Minister Vladimir Putin ordered a stop to all gas flowing to Ukraine (Reuters Staff). The crisis worsened when on “4 January 2009, Gazprom claimed Ukraine had ‘stolen’ 50 million cubic metres (mmcm) in the 24 hours up to 10.00am on that day” (Pirani et al). The crisis then spread to the rest of Europe on 7 January 2009 when “gas was completely cut off to Southeastern Europe which is 100 percent dependent on Russian imports” (Pirani et al.). For the following weeks, Russia claimed gas was being stolen by Ukrainians, while Ukrainians claimed that the gas was never being sent from Russia. The role that the European Commission played during this time was to send representatives to the Ukraine-Russia border to determine the cause of the transmission problem. On 19 January 2009, Prime Ministers Putin and Timoshenko signed an agreement to end the dispute, and the heads of Gazprom and Naftogaz signed supply and a transit contract, both covering the ten-year period 2009–19. The most important provisions from the supply contract are as follows: from 2010 onwards the price of gas will be set at the “European price,” Naftogaz will face strict price consequences for taking extra gas, and sales will be made directly from Gazprom to Naftogaz (Pirani et al.). The most important provisions from the transit contract are as follows: the annual transit volume will not be less than 110 bcm, and Gazprom will make an advance payment for transit services of $1.7 billion (Pirani et al.).

The next energy crisis erupted in June 2014, quickly following Russia’s annexation of the Crimea in February 2014 and the ousting of pro-Russian Ukrainian President Yanukovych. On 16 June 2014, Russia once again shut off oil supply to Ukraine on the grounds that Ukraine had failed to pay its debt of $5.3 billion (Kirby). In October of 2014, under EU supervision, Ukraine and Russia reached an agreement in which Ukraine will pay $378 per 1,000 cubic meters to the end of 2014, and $365 in the first quarter of 2015 (BBC Staff). Furthermore, the International Monetary Fund would act as a guarantor on Ukraine’s payments to Russia.

Ultimately, all resolutions to end perennial energy disputes between Russia and Ukraine have been unsuccessful. The pattern of energy disputes remains the same: there is an initial political conflict between Russia and Ukraine, Russia accuses Ukraine of failing to pay for oil, Russia then shuts of the supply of oil to Ukraine then to the rest of Europe, and ultimately the EU intervenes and ensures that Ukraine will pay its debts. All past attempts have been unsuccessful in ensuring energy market stability.

Contemporary Evidence of the Topic

The hope of quickly resolving the energy crisis before the arrival of winter is quickly diminishing. Currently, European state officials are working to find alternatives to importing Russian oil, natural gas, and other petroleum products. To this end, Norway has become Europe’s largest supplier of natural gas, and imports of oil from the United

States have increased to 213.1 billion barrels (Rauhala) (Tobben and Kumar). Countries such as Italy have issued decrees to citizens to regulate house heating to artificially reduce demand for Russian oil and gas (Lowen and Maishman). Additionally, IEA member countries committed to release 62.7 million barrels of emergency oil stocks. On 1 April, they agreed to make a further 120 million barrels available from emergency reserves, the largest stock release in the IEA’s history, which coincided with the release of additional barrels from the US Strategic Petroleum Reserve (IEA). While there are strong counter efforts in place to cope with a reduction in the supply of natural gas and oil from Russia, the issue of exorbitant prices for these essential goods remains pressing. The ability of already strained supply chains to meet increased demand in European markets does not bode well for the future.

European leaders have recently met in Prague to discuss the possibility of placing a “cap on gas prices,” as well as “windfall taxes on surplus profits made by fossil fuel companies and a levy on excess profits made by non-gas electricity producers” (Kirby). These solutions are, however, not feasible to maintain in the long run as markets must eventually return to their equilibria. The International Energy Agency has warned that if the quantity demanded of Russian oil and natural gas persists in Europe, current EU stores of energy could drop to as low as “20%” (Kirby).

President Putin has denied claims that Russia is responsible for the energy crisis in Europe and states that if the “European Union wants more gas it should lift sanctions preventing the opening of Nord Stream 2” (Reuters Staff). Nord Stream 2 has the capacity to carry 55 billion cubic meters of gas per year. President Putin instead cites the decision of the European Union to use alternative and renewable sources of energy as the major catalyst of the energy crisis. The European Union for Institute of Security Studies states “the recent surge in energy prices offers a glimpse of a future where a transition to a low-carbon economy that is not properly managed or stress-tested against scarcity and volatility might produce recurrent market crunches and hinder the decarbonisation trajectory” (Popkostova).

This energy crisis because of the Russia and Ukraine conflict is of a far greater magnitude than any other one previously. The ramifications of the energy crisis coupled with inflation has increased the risk of developing countries being priced out of the energy market (United Nations). While short term solutions such as price caps and use of energy reserves has mitigated the short-term impact, the long term solution must be found.

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**Note to the Delegates**

Esteemed delegates, we are honored to have the opportunity to moderate a conference on the pertinent issue of the looming energy crisis in Europe because of the Russian-Ukrainian war. This most recent energy crisis follows from a long history of underlying tension between Russia, Ukraine, and Europe as a whole. This most recent energy crisis differs from all previous ones, however, due to Russia and Ukraine engaging in open conflict with a significant military presence. Recognizing the added layer of open armed conflict, how will this change approaches to reconciliation between the two states? What can be learned from past failed resolutions between Naftogaz and Gazprom? What can be learned from past failed resolutions between Russia and Ukraine? What implications are there for global energy markets?

**Should you have any questions, feel free to contact me at:**

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**Listed below are the respective countries that delegates can choose from upon registration:**

Russia

Ukraine

United States

United Kingdom

Belarus

Lithuania

Moldova

Latvia

Serbia

Austria

Bulgaria

Finland

Slovakia

Greece

Hungary

Slovenia

Switzerland

Czechia

Poland

Germany

Italy

Romania

Croatia

France

Belgium

Estonia

Georgia

Turkey

Netherlands

Norway

Sweden

Albania

North Macedonia

Japan

China

Spain

North Korea

India

Nigeria

Morocco

Egypt

Libya

Angola

Australia

Canada

Chile

Colombia

Costa Rica