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## **GLOBAL ENERGY CRISIS INFLUENCE ON THE EUROPEAN CORPORATE BUSINESS**

Currently global economy has systemic trends such as instability resulting from multiple shocks intensified in 2022 due to Russian aggression in Ukraine and led to global energy, food and financial crises, and world economic fragmentation resulting from the supply chains disruptions and localization replacing previous transnationalisation.

The current European energy crisis became most severe due to cross-influence global and European factors. Major global factors are: raised demand for energy due to post-pandemic economic recovery, increased energy demand from Asia and unstable from China, inflation, energy and food prices growth, central banks interest rates policies, world perceptions for depression. Respectively international energy markets are affecting European economies. Additionally European energy sector has been affected with such factors as: energy prices catch-up with global front runners, markets manipulation by Russia and supply disruptions, Russian war in Ukraine and EU sanctions policy with termination of oil and gas imports from Russia, unstable renewable energy, unbalanced energy pricing structure and energy linked financial instruments speculation, The main features of European energy crisis are: significant increase in energy prices and their inflationary pressure, a reduction in gas supplies from Russia, sanctions against energy from Russia and the need to reduce dependence, the necessity to diversify and increase the efficiency of energy consumption.

The energy crisis in Europe is influencing each country differently following on the energy sources composition, level of import dependence and economic structure. The crisis also has specified impact on major groups of customers such as households, cities, public sector,

corporations and small business. Each group of customers has specific response, resilience and digesting capacity to prices increase as well as sources for mitigating related financial risks.

The energy crisis influence on the corporations and business is differentiated with respect of the energy intensity and position on the energy market. Resources extraction and energy producing corporations are benefiting from the rapid increase of prices and receive extra incomes above average. Energy trading companies are in controversial position balancing between high prices from energy producers and customers having limited capacity to absorb raising prices as well as energy saving which deteriorate their revenues. Energy market influence on the net consumers such as agriculture, industrial corporations and small businesses could be considered from the standpoint of energy intensity of their technology and production.

Energy crisis influence on the European corporations and small businesses could be explained with the following reasons:

- supply shock and supply uncertainty over scaling the increase of demand for energy during post-pandemic economic recovery has driven energy prices;
- military aggression, reduction of natural gas and oil supplies, energy sanctions to Russia are causing the supply uncertainty;
- changes in global flows of energy resources to Asian countries in response to demand for liquefied natural gas, oil and coal;
- instability of renewable energy based upon natural and technology conditions; – continuing use of fossil fuel and nuclear energy production, fossil fuel intensive industrial technologies;
- unbalanced prices for natural gas, oil, coal and electricity with other industrial and consumer prices, different pricing for pipeline and liquefied natural gas, speculative use of energy derivatives which add to market instability.

The energy crisis is influencing on macroeconomic instability and driving inflation, is differentiated from different energy sectors and regions. High inflation in European countries is mainly a consequence of the energy prices growth and volatility causing economic uncertainty. In September 2022, the consumer inflation in the Eurozone reached an all-time high of 10.0% year-to-year, according to Eurostat, with energy inflation at 40.8% year-to-year as the main driver [1]. Fragmentation of

the trajectories and rates of consumer prices in different countries is increasing – the lowest inflation rates (yearly calculations) in September 2022 were in France at 6.2%, Malta 7.3% and Finland 8.4%, and the highest rates were in the Baltic states of Estonia 24.2%, Latvia 24.2% and Lithuania 22.5% [1]. The inflation in Germany as largest European economy has increased in September 2022 to 10.9% for the first time during the last 70 years [4]. Inflation affects the corporate sector, as it causes a reduction in demand for many goods and services, an increase in production costs, a limitation or loss of revenues and income, cause of an operational and financial risks or even bankruptcy of a companies.

The stagnation of production and the risk of depression, the fall of stock indices and the instability of exchange rates lead to a reduction in investment. Industrial inflation is a reflection of such processes. The annual growth of industrial prices in the EU amounted to 43.0% in August 2022 compared to August 2021, according to Eurostat, including industrial prices in the energy sector amounted to 115.4% [2]. It means energy prices could be considered as a major factor of the inflation in national economies and their slowdown.

High energy prices influence on incentive for energy saving, but also may reflect the worsening demand and cost patterns. Drop down in energy consumption in the corporate sector of European countries depend on industrial and technological conditions, degree of energy intensity and progress in energy saving. The anti crisis energy measures in Europe are aiming to reduce of energy consumption, primarily natural gas, by 15%. According to OECD assumptions based on an econometric model, following the level of a general reduction of energy consumption in the economy by 10%, the energy saving could be on industrial enterprises in a range between 1.8% to 5.7% [3]. Possibilities and consequences of energy saving in different European countries are depending on industry specifics and the general regulatory conditions.

There is an energy-related differentiation of the financial state of corporations, primarily the excessive growth of profits of oil and gas producing companies. In this regard, many European countries are looking for introducing special taxation of excessive profits. Such taxation is temporary in nature, and the funds received are directed to energy subsidies for small businesses and households. There is a

concentration of the provision of energy supply services, the transfer of consumers to large companies that receive state support.

In energy-intensive industries – fertilizer production, chemicals, transport, oil refining, urban economy – structural changes are taking place, reduction in the production of the most expensive goods and services, replacement by imports.

Small and medium-sized enterprises (SME) are especially vulnerable to energy prices and risking to lost revenues, liquidity, employment and temporary closure. The SME insolvency will have a short and medium term negative effect on the most economies. Their resilience to energy crisis should be addressed by national governments and local authorities based upon applicable taxation and regulatory conditions, local incentives and possibilities. At the same time the EU has a number of the union-wide programs targeting support for SME and applicable for innovations and technology advancements for the energy saving.

European countries are introducing different incentive and subsidies initiatives for covering energy prices financial impact including corporate and household subsidies, price regulation, corporate financial liquidity support, energy saving innovations funding, energy inclusion support.

The influence of the energy crisis on the corporate sector of European countries has a differentiated nature, which contributes to the general economic instability. The sustainability of the corporate sector and small business could be achieved on the basis of the energy saving, introduction of innovations and energy-saving technologies, the improvement of energy efficiency, and the digitalization of energy and business.

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