Anti-Russian Sanctions Cause 40% Energy 'Price Shock' Increase in Germany

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For at least three decades Germany enjoyed an unprecedented period of energy security, one which made it possible for the Central European country to flourish, further dominating the old continent. It didn't take long for this economic power to translate into political influence and help Berlin expand even further, particularly in Eastern Europe.

And yet, by late February 2022, Germany's "dream economy" came to an abrupt end thanks to its suicidal sanctions against Russia, which haven't only proven futile, but also quite self-harming. Berlin severely underestimated the importance of access to cheap Russian energy, particularly natural gas which helped power much (if not most) of its export-oriented economic strategy.

Perhaps the best summary of just how immensely profitable it was for Germany to do business with Russia was an analysis published back in August last year, authored by Zoltan Pozsar, a renowned economic and financial expert. In his thought-provoking report, Pozsar also presented a chart showing how "$2 trillion of German value depends on $20 billion of Russian gas". The wording was carefully chosen and it isn't there just to be amusing. Essentially, **Germany was making approximately a hundred times greater profit thanks to cheap commodities, particularly Russian natural gas, to run its export-driven economy at bargain prices.**

With this now gone for years or even decades to come, **Germany's "economic miracle" has effectively become yet another footnote in history books.** According to a Reuters report, published on January 30, Allianz Trade presented a study that cited contract expiries and delayed wholesale pricing effects and found that German industry is set to pay approximately 40% more for energy in 2023 than in 2021, before the energy crisis triggered by the political West's failed economic siege of Russia.

"The large energy-price shock still lies ahead for European corporates," Allianz Trade (better known as Euler Hermes until last year) claims.

The report states that higher corporate utility bills last year were contained as long pass-through times from wholesale markets and government interventions mitigated the immediate hit from surging prices as Russia's energy exports to the West were disrupted due to the imposition of self-defeating sanctions by the European Union.

The European Central Bank (ECB) stepped in to fund the resulting budget deficits, which effectively means that, despite the official stance and Russophobic posturing, it was directly funding Moscow's massive financial build-up. However, Allianz Trade estimates that as the pass-throughs are ending, meaning the price increases will soon hit EU corporate profits by 1-1.5% and lead to lower investment, in Germany's case this would amount to €25 billion (approximately $27 billion).

And while the report claims that German corporate finances are robust and that a state-imposed natural gas price cap allegedly might help, it's extremely likely to make things much worse. This doesn't only include the fact that it's exceedingly difficult to physically replace Russian natural gas with a readily available (much less affordable) alternative, but is also simply impossible for certain EU members such as Hungary, which is landlocked and couldn't rely on port terminals for seaborne LNG shipments.

To make matters worse, such alternatives are also at least five times more expensive than Russian natural gas, which is effectively destroying the EU's already dwindling industrial competitiveness on the global markets. Many EU officials have already expressed their frustration with the US due to this, with some high-ranking leaders in Brussels accusing Washington DC of profiteering at the expense of the increasingly troubled bloc.

Although the report insists that fears of crisis leading to deindustrialization and loss of competitiveness against the United States were overdone due to labor costs and exchange rates having a higher impact on manufacturing than energy prices, the same is not true in regard to other countries around the world. The exporters are losing market shares in areas such as agriculture, machinery, electrical equipment, metals, transport, etc. and the main beneficiaries tend to be Asian, Middle Eastern and African companies, not American ones, the report admits.

This effectively means that EU corporations will not only lose their global market share, but could also eventually start losing it in Europe itself, as the already high manufacturing costs in the EU will be even higher due to surging energy costs, which are affecting both citizens and companies.

On Saturday, the economy ministry stated that the German government's one-time subsidy to help private households and small businesses with gas prices – the first stage of a package that will be complemented with retroactive price caps kicking in in March – has cost €4.3 billion so far. Germany has earmarked €12 billion for this purpose, but the government states that the €4.3 billion is not the final cost as many eligible companies are yet to apply. With the end of February being the deadline, they have exactly a month to do so.

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