

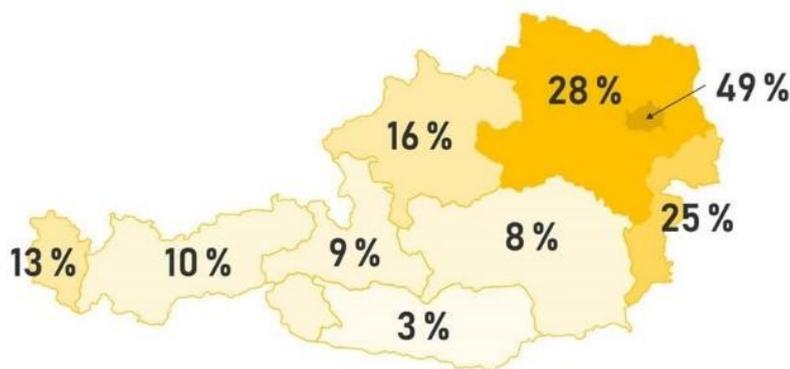
Rāpopoto - Summary

- Austria's energy sector is import-oriented. Around 80% of its gas is sourced from Russia. Energy prices are volatile and are the main driver of inflation, having risen over 300% in the last year. While energy supply is tight, it remains manageable, although costly.
- Austria has filled its reserves with (expensive) imports from other countries, as Russian gas supply has reduced significantly and is expected to stop completely. While regional supply shortages are unlikely this winter, the real challenge will be stocking reserves with non-Russian gas next year. Experts foreshadow 1-2 difficult years ahead before energy prices drop permanently by 2023-2025.
- With Europe being a major export market for Aotearoa New Zealand, economic developments in the region particularly in core services like energy remain relevant for New Zealand exporters.

Pūrongo - Report

The Austrian government plays a powerful role in the energy sector, with the constitution stipulating that states have the majority share in Austria's largest energy company OMV, and that the nine provincial energy providers must be in the public sector. At 22% (or 89 TWh) natural gas is the second most important energy source after oil (37%). Because of the pandemic, gas consumption fell in 2020, but by 2021 it was back at 2019-levels.

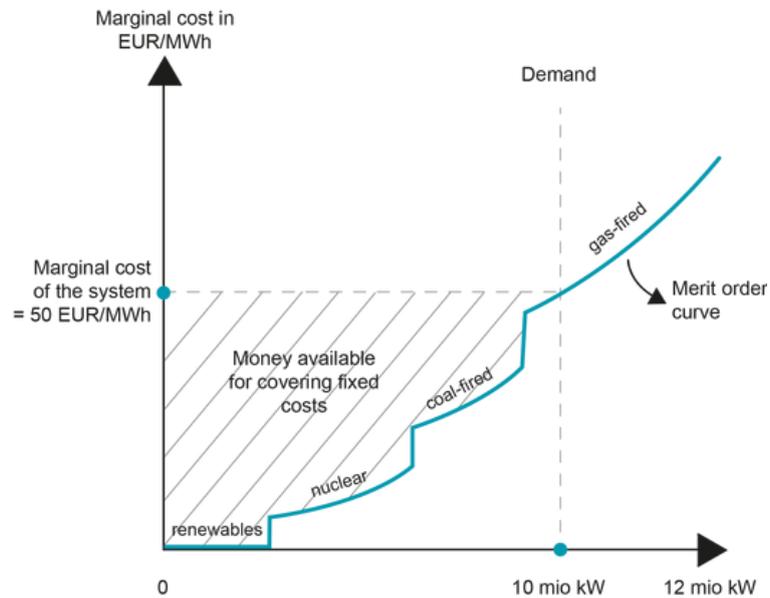
A large proportion of Western Europe's gas imports from the Middle East transit Austria. Austria imports around 80% of its gas from Russia. However, Austrian dependency on gas varies regionally. While Vienna has 49% of heating derived from natural gas, in Carinthia only 3% and Salzburg 9% of heating is derived from gas.



Energy prices in Austria linked to EU markets

In Austria, the price of electricity is determined on the open market and depends on supply and demand. This means that rising demand also results in higher electricity prices. If demand cannot be met from low-cost renewable sources, then fossil-fuel powered power plants have to be used. These more expensive power plants then determine the price of electricity as a result of the European energy market's "merit order principle". According to the principle, the most expensive power plant determines the energy price, which in turn incentivises all power plant operators to improve efficiency in order to maximise

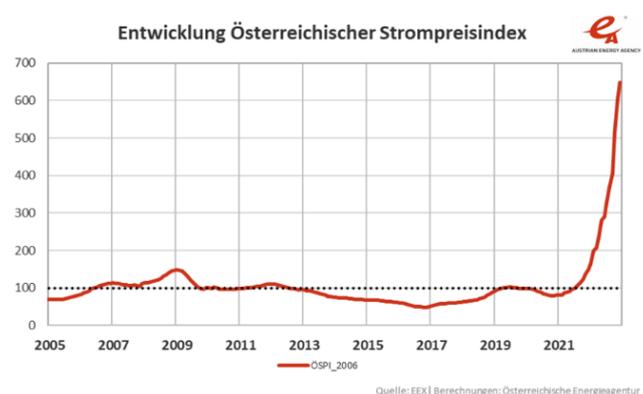
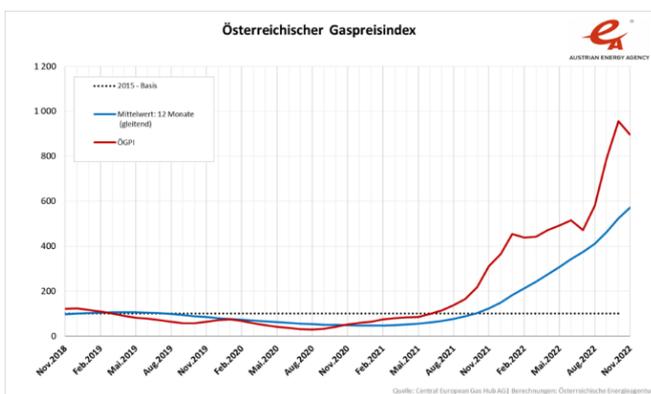
profit. In theory, and under normal market conditions, this encourages the transition to renewable energy sources. The current situation means that if available power plant capacity is low and gas prices are high, even a small gas-fired power plant will cause electricity prices to rise significantly.



Energy price is the main driver of inflation

As a result, electricity and gas prices in Austria have risen exponentially during recent months. Compared to September 2021, gas prices have increased 376.5 %, and electricity has risen 319.9 %, though these price increases have not yet reached end-customers. Gas prices are expected to rise further if Russia halts gas exports to Europe. As a result, Austria is also experiencing large price increases for firewood, wood pellets and electricity. Statistics Austria recently reported that inflation is expected to have increased by 11% in October (having reached double digits – 10.5% – for the first time in 70 years in September).

Austrian gas/electricity price index:



These difficulties are expected to last for 1-2 years, with energy prices expected to drop permanently by 2023-2025. In the long term, Europe is well-placed with possible alternative sources for gas imports and investments in renewable energy.

Media reports suggest that European consumers are cutting back spending on everyday items including food, as they deal with the cost of living crisis, with inflation being driven by rapidly rising energy costs. According to a recent poll, two-thirds of Austrian citizens are concerned about their financial situation due to rising energy and food prices, with every sixth household using loans to cover its fixed costs.

Impact on Austrian energy providers

The increase in gas and electricity prices has affected Austrian energy providers in different ways. Whereas providers with a high share of renewable energy profit from the current situation, other providers that rely on natural gas suffer.

For example, the increase in wholesale price for gas and electricity have caused financial issues for the energy provider *Wien Energie*, which recently needed a €6 billion bailout from the Austrian government to prevent bankruptcy. The company is the largest private energy supplier in the country, with over 2 million customers. *Wien Energie* was trading on energy exchanges in order to secure enough supply to meet demand from its customers, but was accused of speculation and mismanagement.

In contrast, private energy company *Verbund's* investments in renewable energy are paying off thanks to the Europe-wide merit order. Not only is renewable energy unaffected by gas shortages, but higher energy prices have boosted *Verbund's* net profit by 151.8% to €817.1 million in the year to June.

Windfall profits like these have kicked off a public debate in Austria and across the EU about a possible windfall tax. The Austrian Economic Research Institute believes that taxing excess profits wouldn't be sensible, because the Austrian government remains the major shareholder in the energy sector. Meanwhile, EU Commission President Ursula von der Leyen has announced plans to curb high energy prices through windfall profit levies, steps to decouple electricity and gas prices, and mandatory measures to reduce electricity consumption during peak times. Austrian Energy Minister Leonore Gewessler (Greens) welcomed the initiative stating that "we need European and joint solutions for the problems we are facing on the European market".

Austrian government approves energy relief package

In response to increasing energy prices, the Austrian Government has reached an "electricity price brake" agreement to curb high energy costs, which includes annual relief of about €500 per person (€250 for children). It is hoped that the measure will be an incentive to save energy. Every household will pay a lower electricity price for the share of electricity consumption that corresponds to 80% of average household consumption in 2021. The government's energy savings campaign suggests lowering room temperatures, insulating windows, defrosting the freezer, or using the energy-saving programmes on washing machines and dishwashers.

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