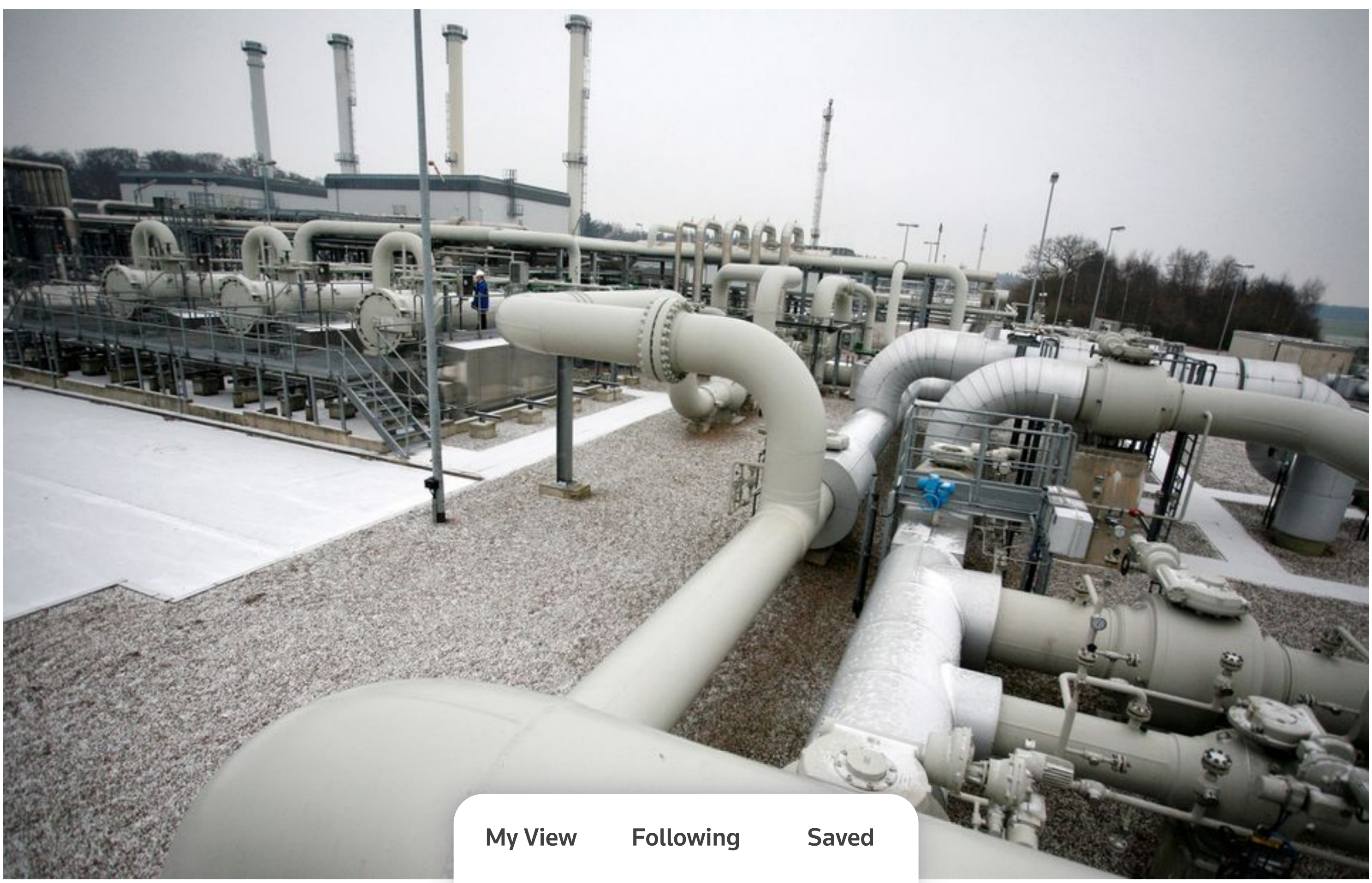
April 3, 2022 · 8:29 PM CDT
Last Updated 12 hours ago

Energy

Analysis: In Russia-Europe gas standoff, both sides lose

By Nina Chestney

6 minute read



A general view of the WINGAS gas storage facility near the northern German town of Rehden January 7, 2009. REUTERS/Christian Charisius (GERMANY)

Summary

Russia demands buyers pay for gas in roubles or risk supply

Supply concerns prompt emergency plans in Europe, gas scramble

Russia could lose important revenue stream

LONDON, April 1 (Reuters) - Europe and Russia will both lose heavily if President Vladimir Putin follows through on his threat to cut gas supplies to countries he judges "unfriendly" unless they pay in roubles.

Even at the height of the Cold War, Moscow never cut gas to Europe, but on Thursday, Putin signed a decree ordering foreign buyers to pay in roubles instead of euros from April 1 or face going without Russian supplies. read more

European capitals rejected the ultimatum and on Friday Kremlin spokesman Dmitry Peskov said it would not affect settlements until later this month.

Although the threat of shortages comes after the peak demand European winter season, Europe still has much to lose when its businesses and households are already reeling from record energy prices, while Moscow could be cutting off one of its main sources of revenue.

Russia exported around 155 billion cubic metres (bcm) of gas to Europe last year, providing more than a third of its gas supply.

Without it, Europe would have to buy more gas on the spot market where prices are already around 500% higher than last year.

Germany and Austria, both heavily reliant on Russian gas, have activated emergency plans, which include rationing if necessary, and other European countries have plans in place. **read more**

"Buyers' unwillingness to abide by (Putin's) order risks suspending supplies. Both buyers and Gazprom will face losses as a result," said Dmitry Polevoy, analyst at Moscow-based brokerage Locko-Invest.

DASH FOR GAS

European countries will have to compete with Asia to attract additional liquefied natural gas (LNG) from Qatar or the United States, and even among themselves for alternative pipeline supplies from places such as Norway and Algeria.

U.S. LNG exporters have already emerged as big winners of Europe's supply crisis, while Norway has also benefitted. **read more**

Greece said on Friday it could avoid gas supply problems if Russian flows are halted provided sufficient gas is available on the world market.

Last week, the United States said it will work to supply 15 bcm of LNG to the European Union this year but this would not fully replace what Russia sends to Europe via pipelines. **read more**

Apart from trying to get more in an already stretched global gas market, several European countries have also said they will have to use more coal, potentially extend the life of nuclear plants and increase renewables output.

"A disruption of Russian natural gas flows towards Europe remains a tail risk. Europe has more options for alternative supplies, and with demand seasonally low for the coming months, has no risk of running out of supplies this year," said Norbert Rücker at Swiss private bank Julius Baer.

But that risk would increase towards the winter months when gas demand usually rises.

Gas in European storage might be enough for spring and summer without demand curtailment, but Europe will risk entering next winter with only around 10% of gas in store by the end of October without some energy conservation measures, said Kateryna Filippenko, principal analyst at Wood Mackenzie.

To attract more LNG from elsewhere, European wholesale gas prices would need to remain higher than the Asian benchmark LNG price. Rocketing gas prices are already hurting consumers and industries and governments have spent billions of euros on measures to try and shield them.

"We have to be aware that the companies who have signed long-term contracts with Gazprom do receive gas at significantly lower prices than we have to pay in the LNG market. So there will be impact on our energy prices," EU energy commissioner Kadri Simson told EU lawmakers last month.

SELF SABOTAGE?

Russia faces the loss of an important revenue stream for its domestic finances.

In the first nine months of 2021, the latest data available from Russian gas producer Gazprom show its revenue from sales to Europe, Turkey and China was 2.5 trillion roubles ($31 billion) from exporting 176 bcm of gas between January and September.

"For Russia, a decision to restrict supply would be like shooting itself in the foot," said analysts at SEB Research.

If the payment mechanism is designed to shore up the rouble, that could also be short-lived. Prior to the invasion, the Russian central bank required 80% of foreign currency from gas to be converted into roubles. Now it would all have to be switched into the Russian currency.

"The move will cut Russia off from a vital source of foreign exchange (FX) at a time when sanctions have already massively restricted the Russian Central Bank's access to its FX reserves," said analysts at Fitch Solutions.

European buyers have repeatedly said the move constitutes a breach of contract. Gazprom risks being involved in arbitration suits where it could be forced to pay large fines in the future.

Another question is what Russia can do with the gas it usually supplies to Europe. The speaker of Russia's upper house of parliament, Valentina Matviyenko, said last week that Moscow could redirect supplies to Asian markets among others.

However, there is no pipeline that allows Russia to send the gas supplied to Europe to Asia. A pipeline from Russia to China sends gas from other fields that do not supply Europe and there is no interconnector to re-route those flows.

Asian markets might also be reluctant to buy more.

"You make yourself impossible as a gas supplier to other countries. How likely is it, for example, that China or India would choose to rely on Russian gas if Russia so clearly shows that it does not hesitate to use the gas as a weapon," said SEB Research analysts.

Instead, Russia might be forced to pump the gas into domestic storage sites that can hold around 72 bcm. Gazprom-owned storage sites in Europe could hold another 9 bcm.

Gazprom expects domestic gas demand to increase to 260 bcm by 2026 from 238 bcm in 2020 and has plans to expand storage.

But in the short term, if European gas were re-directed to existing storage, it would be full in three to four months and some gas production could then be shut down, damaging long-term growth, analysts said.

($1 = 81.5210 roubles)

Reporting by Nina Chestney, Reuters reporters; Editing by Veronica Brown and Barbara Lewis

Energy

U.S. oil output fell 2% in Jan to lowest since Sept -EIA

Energy · March 31, 2022

U.S. oil production fell in January by 2% to the lowest since September 2021, according to a monthly report from the U.S. Energy Information Administration on Thursday.

Energy

Explainer: What is the SPR, the emergency oil stash Biden is tapping?

March 31, 2022

Energy

Explainer: Russia wants gas payments in roubles. Will buyers make the switch?

March 31, 2022

Energy

U.S. to release 1 mln bbl of oil per day from strategic reserve over next 6 months - statement

March 31, 2022

Energy

Reactions to Russia saying gas buyers must pay in roubles

March 31, 2022

Latest

Home

Media

Videos

Pictures

Graphics

Browse

World

Business

Legal

Markets

Breakingviews

Technology

Investigations

Lifestyle

About Reuters

About Reuters

Careers

Reuters News Agency

My View Following Saved

experience on desktop, web and mobile.

worldwide sources and experts.

relationships and human networks.