

Russian threats to cut off gas supplies to the EU

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The G7 countries (USA, Canada, Great Britain, Germany, France, Italy and Japan) have declared that they do not intend to switch to paying for Russian gas supplies in roubles. Chancellor Olaf Scholz announced that the vast majority of contracts concluded by German companies provide for payment for gas imports from Russia in euros. The Japanese government intends to recommend that its domestic companies reject Moscow's demands in this matter. In turn, Ukraine's Energy Minister Herman Halushchenko has announced that Kyiv will not agree to pay for transit services in roubles if Gazprom makes such a demand in the future.

Representatives of the Russian government have begun threatening to stop gas deliveries to those customers who do not comply with the Kremlin's demands. Presidential spokesman Dmitry Peskov has stated that Moscow will not engage in charitable activities, then added that if it does not receive payment in roubles, it will not supply natural gas. At the same time, he noted that no final decision has yet been taken on how it will react if its trade partners refuse to pay in roubles. The Kremlin spokesman said that according to Vladimir Putin's directive, the Central Bank of Russia, the government and Gazprom are to prepare the relevant procedures by 31 March. In turn, the Russian permanent representative to the European Union expressed the opinion that the EU is not ready to give up Russian gas.

Other countries and companies have declared their readiness to reduce imports of energy resources from Russia. On 28 March, the head of the Italian company Eni stated that the company could reduce its purchases of raw materials from Russia by half before the next heating season begins. Meanwhile Leonhard Birnbaum, the CEO of the German company E.ON, has announced that it could take Germany three years to find alternative sources of gas imports. He added that in the case of oil, such a search could take a year, and in the case of coal, a shorter period. At the same time, he noted that without gas imports from Russia, the country's economy, including in various industrial sectors, could suffer serious damage which should be avoided at all costs.

According to industry media, demand for Russian oil is steadily declining. In the period from 17 to 23 March, its exports fell by 26.4% compared to the previous week. Traders have confirmed earlier forecasts from the International Energy Agency (IEA) that oil production in Russia may fall by as much as 3 million barrels per day in the coming weeks. A representative of Trafigura has stated that since the outbreak of the war, the supply of Russian oil has fallen by about 1 million barrels per day, and of petroleum products by more than 1 million barrels per day.

Sergei Kashuba, chairman of the Union of Gold Producers in Russia, said on 28 March that the country's gold production in 2022 could shrink by 10% from last year (to 301 tonnes) due to logistical and disposal problems. This is a direct result of the expansion of US sanctions to cover transactions with Russian gold.

The number of companies limiting or suspending their operations in Russia is growing. The Bloomberg agency has ceased providing services to clients from this country. Brewing concerns such as Denmark's Carlsberg (which also plans to sell all its assets) and the Netherlands' Heineken are also withdrawing from the Russian market. On 5 April, Japan will ban exports of luxury goods to Russia, including premium cars and jewellery.

The Ministry of Labour of the Russian Federation, having consulted with the ministries of finance and economic development, is expected to submit proposals soon to raise minimum wage and benefit levels.

Bread producers in Russia have announced that prices will be frozen at the level of mid-March 2022.

At the opening of the Moscow stock exchange on 29 March, the basic IMOEX rouble index rose to 2456 points (compared to 2431 at the close of the previous day), and the RTS dollar index rose to 857 points (compared 823 at the close of the previous day). On 28 March, the rouble continued its upward trend: at the end of the day the dollar was worth around 90 roubles on the Moscow exchange, and 92 at the opening the next day. Oil continues to fall: at the end of the 28th, a barrel of Brent in June contracts cost US\$109.40 (in the morning of 29 March it cost \$108.10). Gas prices have been fluctuating during the day auctions, but have noticeably increased. At the end of 28 March they were at US\$1240 per 1000 m³. In comparison, on 25 March gas on the TTF hub cost about US\$1120 per 1000 m³.

Commentary

- Although the Russian side has begun to openly threaten that it will stop gas deliveries to those countries which will not agree to payments in roubles, this scenario – although not unlikely – still does not seem really feasible. First, such a decision would destroy the image of Russia as a reliable supplier, and could accelerate the implementation of plans currently being prepared and considered by many European customers to reduce their energy dependence on that country. If gas imports fall significantly, that would require Gazprom to substantially cut the volume of its exports for several years at least (in 2021, the EU market accounted for 71% of Russian gas exports via the pipeline system), because the supplies sold in Europe cannot be redirected to other markets (particularly China), due to the lack of an appropriate transmission infrastructure. The company also lacks the capability to liquefy the gas currently supplied to Europe through pipelines, as it does not have any large-scale LNG production plant (i.e. one with an annual production capacity exceeding 2 million tonnes) in the European part of Russia. Furthermore, withholding supplies would violate contractual obligations, and the company would then risk having to pay compensation to European partners. Since the beginning of the invasion of Ukraine, Gazprom has met all its obligations to recipients in Europe; the volume of transit through Ukraine increased just after the outbreak of the war, and still remains at the level contracted in December 2019. Earlier, Putin also assured that Russia would abide by all the gas supply agreements it had concluded, including with the so-

called unfriendly countries. Thus, Moscow's more zealous rhetoric may be aimed at putting political pressure on its European partners to drop demands, increasingly appearing in the public space, to impose an embargo on imports of Russian energy resources. One important signal as to Russia's true intentions will be the final shape of the settlement procedures which it should prepare by 31 March 2022.