

Russia halts gas supplies to Poland and Bulgaria

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On 26 April Gazprom Export (Gazprom's subsidiary) notified PGNiG, the Polish gas company, and Bulgargaz in Bulgaria that it would stop supplying gas to Poland and Bulgaria beginning from 27 April. The official reason for this decision is the fact that both importers denied paying for gas supplies in roubles. The new rules of payments were introduced by a special decree signed by Vladimir Putin on 31 March. It includes an obligation for companies buying Russian gas to open foreign currency bank accounts and rouble accounts at Gazprombank and to pay for gas supplies in a two-stage manner: first, by making bank transfers in a foreign currency and then converting the amount paid to roubles. According to the document, the payment is recognised only when it is processed in the roubles account.

Commentary

- Officially, the reason for halting Russian gas supplies to Poland and Bulgaria is that these countries refused to pay for the gas imports in roubles. However, this decision constitutes a breach of the contracts agreed by Gazprom and is politically motivated. It seems Moscow is seeking, above all, to provoke divisions within the EU, which would hamper or, in an optimal scenario for Russia, make it impossible to make joint agreements regarding the restrictions on importing oil and gas from Russia. This week the EU has been planning to approve a sixth package of sanctions against Russia regarding imports of Russian oil. Despite the fact that a vast majority of the EU member states have been critical of the mechanism of paying for gas supplies in roubles, Russia hopes that faced with the risk of halted supplies at least some of the EU countries will decide to accept its terms. Hungary declared the willingness to adapt to the new rules. On 27 April in the morning the Bloomberg agency, citing an anonymous source close to Gazprom, announced that 10 European importers of Russian gas opened accounts at Gazprombank and four had already paid for gas supplies in roubles. It cannot either be ruled out that Russia will use all possibilities foreseen in Putin's decree in order to lead to divisions within the EU regarding payments for gas supplies. One of the decree's provisions makes it possible to grant gas buyers waivers of the new rules and the decision to do so is completely arbitrary and will depend on political will in Russia.
- At the present stage, it is difficult to assess whether Russia is planning to provoke a larger gas crisis in Europe. It cannot be ruled out that in Russia's calculations the move to halt gas supplies to Poland and Bulgaria is linked not only with the deadlines for payments included in the contracts but it is also a pre-emptive measure. In both cases the long-term gas contracts are expiring this year and the governments of the two

countries did not intend to extend them.

- Nevertheless, many issues indicate that, regardless of Russia's calculations, long-term implications of its decision may be rather grave for the country. Firstly, stopping gas supplies proves that Russia is ready to sacrifice its economic interests for the sake of achieving the strategic objectives of its foreign policy in the context of its invasion of Ukraine and the most serious confrontation with the West since the end of the Cold War. Secondly, by following the Russian government's political will, Gazprom is breaching contractual obligations and is thus losing the image of a 'reliable supplier' – a permanent and important element of Gazprom's narrative in its relation with the European partners. In the few coming months and years this will mean greater efforts to diversify sources of gas imports by many countries of the Old Continent, which in turn may lead to Gazprom's declining position on the market it deems strategic. Finally, it is almost certain that gas buyers, having considered Russia's actions to be a breach of contractual obligations, will take legal action in order to claim damages and this may generate financial losses for Gazprom.