

Is Putin's war driving up commodity prices?



By Daniel Gros/ Florence

- **Understanding why prices are high is essential to devise the right policy response**

Sky-high commodity prices have the world reeling. Inflation has reached 7% in both the United States and in Europe – a level unseen for decades – with European consumers facing losses of purchasing power equivalent to those caused by the oil shocks of the 1970s. The economic recovery from the pandemic is now at risk of stalling, and the spectre of stagflation looms over developed countries from the European Union to Japan.

One might assume that Russian President Vladimir Putin's war in Ukraine is the primary cause of spiking energy and commodity prices. Russia is, after all, the world's largest exporter of oil and petroleum products, and, together with Ukraine, it accounts for a third of global wheat and barley exports. But there are two compelling reasons to doubt this

explanation.

First, the war has not led to large-scale interruptions in the supply of oil, gas, or other important commodities (at least not yet). Of course, the mere expectation in markets that a shortage is imminent can be enough to drive up prices. But such an expectation so far seems to have little basis.

Yes, wheat deliveries from Ukraine have been halted, and this year's harvest is in doubt, because Ukrainian farmers cannot work their fields. But Ukraine produces only about 3% of the world's wheat. Russia, meanwhile, produces 11%, and both production and exports remain uninterrupted. Moreover, while Russia has threatened to cut off gas supplies to "hostile countries" unless they pay in roubles – an ultimatum Europe has so far rejected – there is little indication that Russian oil or other commodities will be withdrawn from the market. For most commodities, the war should not affect supply.

A second reason to doubt that the war is responsible for today's high commodity prices is that most of the price increase happened before the invasion. The International Monetary Fund's commodity-price index remains below its 2008 peak, standing close to levels seen in 2012-13. And spot prices for gas are in line with their "pre-war" level from the end of last year, when few expected a full-scale invasion of Ukraine.

While oil prices have risen since the start of the war, the increase has been a modest 20%. Although natural-gas prices have been attracting more attention, because they directly affect household heating bills, oil prices are much more important for Europe, because the value of its oil imports is traditionally about five times higher.

If the Ukraine war is not to blame for high energy and commodity prices, what is? One contributing factor might be what economists call the "hog cycle." The term stems from a phenomenon observed in the Danish hog industry: farmers would rear more animals when prices were high, thereby producing a glut, which reduced prices the following year, causing farmers to rear fewer animals, which then sold for higher prices.

Likewise, when commodity prices are high, there is a larger incentive to invest in exploration and mining. But when they are relatively low – as they have been in recent years – the profitability of such investment declines, leading to reduced production and higher prices in later years. And, indeed, the International Energy Agency has provided powerful evidence that years of under-investment in exploration have reduced production capacity.

The fall in demand in 2020, caused by the Covid-19 recession, masked this development. But when Europe, Asia, and the US began to recover strongly, there was not enough spare capacity to meet rising demand. This put upward pressure on prices throughout 2021.

Another factor contributing to high energy and commodity prices might have been the rise of environmental, social, and governance (ESG) investing, which has increasingly led investors to refuse to finance fossil-fuel exploration and development. They hope that denying the fossil-fuel industry capital will discourage production and spur progress toward a green economy based on carbon neutrality.

This phenomenon has been concentrated in the West. While upstream investment by the major Western oil and gas firms fell by nearly half between 2015 and 2020, such investment remained stable among Middle Eastern producers and rose in China. All of these producers have the same price incentives, but Western firms are the ones that are subject to ESG guidelines.

Understanding why prices are high is essential to devise the right policy response. If the war was responsible for high prices, it would be politically difficult to refuse price caps and generous compensation to help consumers and enterprises cope. Moreover, one could hope that prices would fall when the war ends.

But if high commodity prices are the result of a hog cycle and ESG pressures, they are sending an appropriate signal to markets; in fact, ESG rules are supposed to lead to higher prices. In this case, the economy needs to adjust to a new

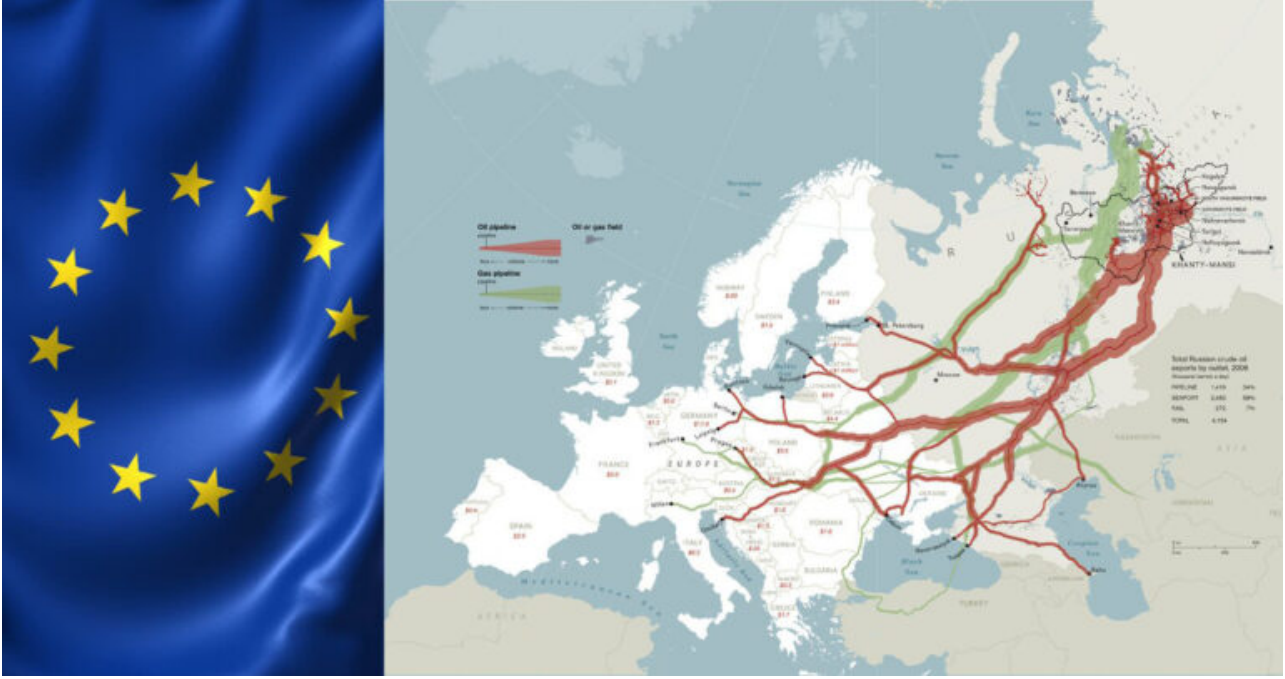
level of scarcity – and consumers should not be compensated for their lost purchasing power.

Of course, these explanations are not mutually exclusive; all three factors – the hog cycle, ESG standards, and the war – are probably contributing to higher commodity prices. But price trends before the invasion suggest that the war is a minor factor.

This is not the most politically convenient explanation: if the war is the culprit, it absolves consumers and government of the responsibility to adjust, with the former receiving compensation and the latter running higher fiscal deficits. But it is the more economically sound explanation, and thus the one that should dictate a responsible policy response, despite the pain that adjustment might bring. – Project Syndicate

• *Daniel Gros is a member of the board and a distinguished fellow at the Centre for European Policy Studies.*

الحرب بين روسيا وأوكرانيا
وسعي أوروبا الخاطئ إلى أمنها
في مجال الطاقة



بقلم: رودى بارودى

لقد كشف تردد أوروبا في استهداف قطاع الطاقة الروسية لمعاقبة موسكو على غزوها لأوكرانيا مدى هشاشة إمدادات الطاقة للقارة، حيث تتطلب أفضل الحلول، فهماً أعمق لكيفية وصول الوضع الأوروبي إلى ما هو عليه اليوم.

التفسير البسيط هو أن ألمانيا والعديد من الدول الأوروبية الأخرى أصبحت تعتمد بشكل مفرط على واردات الغاز الطبيعي الروسي. لكن هذا ليس صحيحاً تماماً، لأن العديد من العوامل الأخرى تزيد من ضعف أوروبا، وبينما يلعب سوء التوقيت دوراً في بعضها، فإن البعض الآخر ينبع من إخفاقات كبيرة على مستوى صناعة القرار الاستراتيجي.

قررت حكومات أوروبية عدة إغلاق محطات الطاقة النووية والفحم في السنوات الأخيرة، الأمر الذي لم يؤد سوى إلى زيادة حاجة أوروبا للطاقة - وبالتالي الاعتماد على - الغاز الروسي. هذا لا يعني أنه لم تكن هناك أسباب مقنعة لهذه القرارات، وأن تزامن فترة ما بعد الاعتماد على الطاقة النووية مع الأزمة الروسية الأوكرانية يعد سوء طالع إلى حد ما، ومع ذلك لا يمكن إنكار حقيقة أن التخلي عن هذا الكم الهائل من مولدات الطاقة النووية قد ترك لأوروبا عدداً قليلاً من البدائل العملية والقابلة للتطبيق. لكن المشكلة الحقيقية لم تكن بالإغلاق التدريجي لوحدات التوليد النووية؛ بل الفشل المتمثل في عدم الاستعداد بشكل مناسب للعواقب من خلال تجهيز مصادر طاقة

بديلة جديدة كافية، وخاصة مصادر الطاقة المتجددة.

في ألمانيا أيضاً، وإلى جانب سياسة التخلي عن الطاقة النووية نسبياً، تم تأجيل انشاء محطتين جديدتين لاستقبال شحنات الغاز الطبيعي المسال المنقولة بحراً لأكثر من عقد. وهذا يعني أنه، حتى لو تمكنت أوروبا من تأمين ما يكفي من الغاز الطبيعي المسال لاستبدال الغاز الذي يُضخ إليها من روسيا عبر الأنابيب، فإنها تفتقر إلى القدرة الكافية على إعادة تحويل الغاز المسال إلى غاز جاهز للاستهلاك يمكن الاستفادة منه بالكامل.

وفي منحى مماثل، فإن خط أنابيب نابوكو المقترح - الذي كان سينقل الغاز الأذربيجاني والمصري والعراقي و / أو التركماني من تركيا إلى النمسا - تعرض أيضاً لعراقيل متكررة وإلغاء نهائي في عام 2013، مما زاد من أهمية اعتماد أوروبا على الغاز الروسي وخطوط الأنابيب الروسية.

وبالرغم من ضياع هذه الفرص وغيرها على أوروبا والتي كانت ستؤمن لها المرونة في الاستفادة من مصادر طاقة متعددة من خلال تنويع مصادرها ووسائلها وطرق إمدادها، فإنه لا يزال أمام أوروبا الوقت لتحسين وضعها بشكل كبير، لا سيما على المدى المتوسط الطويل. أحد الخيارات الواعدة هو ربط فرنسا وإسبانيا بالجزائر والمغرب بوسائط نقل الغاز بأنابيب تحت البحر مع امكانية كبيرة لإعادة تكرير الغاز المسال الى غاز قابل للاستهلاك، حيث يمكن بعد ذلك توزيع الإمداد بالغاز إلى دول اوروبية أخرى. إلا أن مسائل سياسية وعراقيل مختلفة قد أدت إلى إبطاء هذا الاقتراح أيضاً، لذلك لا يسعنا إلا أن نأمل أن تساعد الأزمة الأوكرانية في تسليط الضوء مجدداً في مدريد وباريس على هذا المقترح.

هناك خطوات أخرى يمكن أن تتخذها أوروبا أيضاً، بعضها مباشر وتتطلب تسهيل التعاون عبر الحدود وتجاوز تطبيق بنود الاتفاقيات التي يمكن أن تستغرق وقتاً طويلاً لتحقيق. يتمثل أحدها في تعزيز قدرة القارة على تحمل حالات انقطاع واردات الغاز من خلال زيادة قدرتها التخزينية، سواء للغاز التقليدي في كهوف الملح تحت الأرض أو للغاز المسال في مستودعات الغاز الطبيعي الجديدة أو الموسعة.

وهناك خطوة ثانية تتمثل في تأجيل الألمان والبلجيكيين وغيرهم إغلاق

المحطات النووية المقرر إيقاف تشغيلها. والثالثة هو أن يقوم الهولنديون بتوسيع موانئهم الحالية لاستقبال الغاز الطبيعي المسال، أما الخطوة الرابعة فقد بدأت في الأيام القليلة الماضية حيث استهل الألمان العمل في مرافق الاستيراد الخاصة بهم. وقد تكون الخطوة الخامسة هي العمل فوراً على ربط حقل غاز شرق البحر الأبيض المتوسط عبر خط أنابيب إلى تركيا ومن بعدها إلى أوروبا.

يمكن أيضاً تحسين الوضع من خارج القارة. فقد ضاعفت الولايات المتحدة، على سبيل المثال، صادراتها من الغاز الطبيعي المسال إلى أوروبا، وينبغي أن تكون قطر - التي أوفت بكل التزام من التزامات التسليم على الرغم من الحصار غير القانوني لمدة عامين ونصف العام الذي فرضه عليها بعض جيرانها - قادرة على زيادة شحناتها أيضاً، الأمر الذي من شأنه أن يعيد الثقة بأسواق التوريد. أما إسبانيا فإلى جانب تلقيها الغاز عبر الأنابيب فهي أيضاً تتزود بالكهرباء المولدة من مزارع الطاقة الشمسية في شمال إفريقيا، بالإضافة إلى نطاق شبكات تعاون المشتركة الهائل على امتداد المنطقة الأورو متوسطية.

أخيراً وبالتأكيد ليس آخرًا، يمكن لأوروبا أن تخدم مصالحها على أفضل وجه - بكل ما للكلمة من معنى - من خلال الموافقة على دعمها المالي لمشاريع النفط والغاز المستقبلية للسنوات القليلة المقبلة، وأن تصبح أكثر جدية بشأن مصادر الطاقة المتجددة. تمتلك دول الأورو متوسطي وحدها إمكانات كافية من طاقة الرياح البحرية لتحل محل الصناعة النووية العالمية بأكملها، بالإضافة إلى تقنيات أخرى، بما في ذلك الطاقة الشمسية والأمواج والمد والجزر والطاقة الحرارية الأرضية تحت سطح البحر.

كل هذا يجب أن يوفر الاستقلالية عن الغاز الروسي وأن يعبد الطريق نحو السلام وليس الحرب.

Ο πόλεμος και η προβληματική αναζήτηση της Ευρώπης για ενεργειακή ασφάλεια



ΗΜΕΡΗΣΙΑ

OPINIONS – 25.03.22 17:42

Roudi Baroudi

Τι πρέπει να γίνει για να υπάρχει απεξάρτηση από το ρωσικό αέριο και να κινούνται τα αγαθά για την ειρήνη, όχι για τον πόλεμο

Οι επιφυλάξεις της Ευρώπης να βάλει στο στόχαστρο τη ρωσική ενεργειακή βιομηχανία για να τιμωρήσει τη Μόσχα για την εισβολή της στην Ουκρανία έχει αποκαλύψει

ότι **οι ενεργειακές προμήθειες της ηπείρου δεν είναι επαρκείς**, με τις καλύτερες λύσεις να απαιτούν βαθύτερη κατανόηση του πώς η ευρωπαϊκή κατάσταση έφτασε στο σημείο που είναι σήμερα.

Η απλή εξήγηση είναι ότι η Γερμανία και πολλές άλλες ευρωπαϊκές χώρες έχουν γίνει υπερβολικά εξαρτημένες από τις εισαγωγές ρωσικού φυσικού αερίου. Αλλά αυτό είναι μόνο εν μέρει αλήθεια, καθώς πολλοί άλλοι παράγοντες τονίζουν την αδυναμία της Ευρώπης, άλλοι το αποδίδουν σε ατυχή συγκυρία, άλλοι το ερμηνεύουν ως **αποτυχία στο επίπεδο λήψης στρατηγικών αποφάσεων**.

Πρώτον, **πολλές κυβερνήσεις αποφάσισαν να κλείσουν τους πυρηνικούς σταθμούς** και τους σταθμούς ηλεκτροπαραγωγής με άνθρακα τα τελευταία χρόνια, γεγονός που απλώς αύξησε την ανάγκη της Ευρώπης και συνεπώς την εξάρτησή της από το ρωσικό αέριο. Αυτό δεν σημαίνει ότι δεν υπήρχαν επιτακτικοί λόγοι για αυτές τις αποφάσεις, και η σύμπτωση αυτής της μεταπυρηνικής περιόδου με την κρίση Ρωσίας-Ουκρανίας είναι τουλάχιστον εν μέρει κακή τύχη.

Ωστόσο δεν μπορεί να αμφισβητηθεί το γεγονός ότι η αδράνεια ή η ανικανότητα σε μεγάλες παραγωγές **έχει αφήσει την Ευρώπη με λίγες πρακτικές και βιώσιμες εναλλακτικές λύσεις**.

Το πραγματικό πρόβλημα, ωστόσο, δεν ήταν οι πυρηνικές διακοπές λειτουργίας των ίδιων των τοπικών μονάδων παραγωγής, αλλά μάλλον μια **αποτυχία επαρκούς προετοιμασίας για τις συνέπειες** προσθέτοντας άλλες εναλλακτικές όπως τις ανανεώσιμες πηγές ενέργειας.

Επίσης στη Γερμανία, και εν μέρει παράλληλα με τις διαδικασίες αποπυρηνικοποίησης, δύο νέοι τερματικοί σταθμοί για την παραλαβή υγροποιημένου φυσικού αερίου (LNG) έχουν καθυστερήσει για περισσότερο από μια δεκαετία.

Αυτό σημαίνει ότι **ακόμη κι αν η Ευρώπη μπορούσε να εξασφαλίσει αρκετό LNG** για να αντικαταστήσει το φυσικό αέριο που λαμβάνει από τη Ρωσία, **δεν έχει επαρκή ικανότητα επαναεριοποίησης για**

να το χρησιμοποιήσει πλήρως.

Ομοίως, ο προτεινόμενος **αγωγός Nabucco** -ο οποίος θα μετέφερε αέριο από το Αζερμπαϊτζάν, την Αίγυπτο, το Ιράκ ή και το Τουρκμενιστάν από την Τουρκία στην Αυστρία- σημείωσε επίσης επανειλημμένες καθυστερήσεις και τελικά ακυρώθηκε το 2013, επιβάλλοντας περαιτέρω τη σημασία του ρωσικού φυσικού αερίου και των ρωσικών αγωγών.

Παρά το γεγονός ότι η Ευρώπη έχασε αυτές και άλλες ευκαιρίες να γίνει πιο ευέλικτη και πιο ανθεκτική διαφοροποιώντας τις πηγές, τα μέσα και τις οδούς εφοδιασμού της, **έχει ακόμη χρόνο να βελτιώσει ουσιαστικά τη θέση της**, ιδίως μεσοπρόθεσμα και μακροπρόθεσμα.

Μια πολλά υποσχόμενη επιλογή είναι μια **διασύνδεση φυσικού αερίου** που θα επεκτείνει ριζικά τη χωρητικότητα του αγωγού **μεταξύ της Ισπανίας**, με υποθαλάσσιους αγωγούς προς την Αλγερία και το Μαρόκο και μια σημαντική αχρησιμοποίητη ικανότητα επαναεριοποίησης, **και της Γαλλίας**, από όπου οι εν λόγω προμήθειες θα μπορούσαν στη συνέχεια να διανεμηθούν σε άλλα σημεία της Ευρώπης.

Πολιτικές και άλλες ανησυχίες έχουν επιβραδύνει και αυτή την πρόταση, επομένως μπορούμε μόνο να ελπίζουμε ότι το επεισόδιο της Ουκρανίας θα βοηθήσει να ανανεωθεί η εστίαση στη Μαδρίτη και το Παρίσι.

Υπάρχουν και άλλα βήματα που θα μπορούσε να κάνει η Ευρώπη, μερικά από αυτά αρκετά απλά και απαιτούν λιγότερα από τη διακρατική συμφωνία και συνεργασία που **μπορεί να πάρουν τόσο πολύ χρόνο για να επιτευχθούν και να ενεργοποιηθούν**.

Το ένα είναι να ενισχύσουμε την ικανότητα της ηπείρου να αντέχει τις διακοπές παράδοσης αυξάνοντας την ικανότητα αποθήκευσης, είτε για συμβατικό αέριο σε υπόγεια σπήλαια αλατιού είτε για την υγροποιημένη έκδοση σε νέες ή διευρυμένες αποθήκες LNG. Ένα άλλο είναι **να καθυστερήσουν οι Γερμανοί, οι Βέλγοι και άλλοι το κλείσιμο των πυρηνικών σταθμών** που επί του

παρόντος προγραμματίζονται για παροπλισμό.

Ένα τρίτο είναι **να επεκτείνουν οι Ολλανδοί τα υπάρχοντα λιμάνια λήψης LNG** και ένα τέταρτο ξεκίνησε τις τελευταίες ημέρες, καθώς οι Γερμανοί άρχισαν να εργάζονται για τις δικές τους εγκαταστάσεις παραλαβής. Ένα πέμπτο είναι να εργαστεί άμεσα **στο κοίτασμα φυσικού αερίου East Med Leviathan** για σύνδεση μέσω αγωγού με την Τουρκία και μετά με την Ευρώπη.

Η κατάσταση μπορεί επίσης να βελτιωθεί από χώρες εκτός Ευρώπης. Οι **Ηνωμένες Πολιτείες**, για παράδειγμα, έχουν διπλασιάσει τις εξαγωγές LNG στην Ευρώπη, και το **Κατάρ** -το οποίο τήρησε κάθε μία από τις δεσμεύσεις του για παράδοση παρά τον παράνομο αποκλεισμό δυόμισι ετών που του επέβαλαν ορισμένοι από τους γείτονές του- θα πρέπει να είναι σε θέση να αυξήσει και τις αποστολές του, κάτι που θα αποκαθιστούσε την εμπιστοσύνη στις αγορές εφοδιασμού.

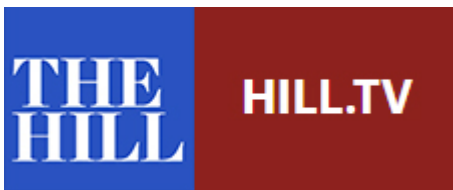
Εκτός από το φυσικό αέριο που διοχετεύεται με αγωγούς, η Ισπανία λαμβάνει επίσης ηλεκτρική ενέργεια που παράγεται από **ηλιακά πάρκα στη Βόρεια Αφρική** και τα περιθώρια για παρόμοια κοινά δίκτυα στην ευρωμεσογειακή περιοχή είναι τεράστια.

Τελευταίο, αλλά σίγουρα εξίσου σημαντικό, η Ευρώπη μπορεί να εξυπηρετήσει καλύτερα τα δικά της συμφέροντα -με όλη τη σημασία της λέξης- **εγκρίνοντας τη χρηματοδοτική της υποστήριξη σε μελλοντικά έργα πετρελαίου και φυσικού αερίου** για τα επόμενα χρόνια και λαμβάνοντας ακόμη πιο σοβαρά τις ανανεώσιμες πηγές ενέργειας.

Οι ευρωμεσογειακές χώρες από μόνες τους έχουν αρκετό **υπεράκτιο δυναμικό αιολικής ενέργειας** για να αντικαταστήσουν ολόκληρη την παγκόσμια πυρηνική βιομηχανία, και άλλες τεχνολογίες καλούν επίσης, όπως ηλιακή, κυματική, παλιρροιακή και υποθαλάσσια γεωθερμία.

Όλα αυτά για να υπάρχει απεξάρτηση από το ρωσικό αέριο και να κινούνται τα αγαθά για την ειρήνη, όχι για τον πόλεμο.

The Russia-Ukraine war and Europe's flawed quest for energy security



BY ROUDI BAROUDI, OPINION CONTRIBUTOR – 03/25/22 02:30 PM EDT
THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE
VIEW OF THE HILL

Europe's hesitance over targeting Russia's energy industry to punish Moscow for its invasion of Ukraine has exposed the precariousness of the continent's energy supplies, with best solutions demanding a deeper understanding as to how the European situation got to where it is today.

The simple explanation is that Germany and several other European countries have become over-reliant on imports of Russian natural gas. But this is only partly true; numerous other factors accentuate Europe's vulnerability, and while some amount to unfortunate timing, others stem from significant failings at the strategic decision-making level.

For one thing, several governments have decided to close their nuclear and coal power plants in recent years, which has only increased Europe's need for – and therefore dependence on – Russian gas. This is not to say that there were no compelling reasons for these decisions, and the coincidence of this post-nuclear period with the Russia-Ukraine crisis is at least partly bad luck, yet there is no denying the fact that the idling of so much output capacity has left Europe with few practical and viable alternatives. The real problem, though, was not the nuclear shutdowns phasing out local generating units themselves; rather, it was a failure to adequately prepare for the consequences by adding enough new capacity, especially renewables.

Also in Germany, and partly alongside the denuclearization process, two new terminals for receiving seaborne shipments of liquefied natural gas (LNG) have been delayed for more than a decade. This means that even if Europe were able to secure enough LNG to replace the piped gas it gets from Russia, it lacks sufficient regasification capacity to make full use of it.

Similarly, the proposed Nabucco pipeline – which would have carried Azerbaijani, Egyptian, Iraqi, and/or Turkmen gas from Turkey to Austria – was also subjected to repeated delays and eventual cancellation in 2013, further entrenching the importance of Russian gas and Russian pipelines.

Despite having missed these and other opportunities to make itself more flexible and more resilient by diversifying its sources, means, and routes of supply, Europe still has time to

substantially improve its position, especially in the medium and long terms.

One promising option is a gas interconnector which would radically expand the pipeline capacity between Spain, with both undersea pipelines to Algeria and Morocco and a considerable unused regasification capacity, and France, from where the supplies in question could then be distributed to other points in Europe. Political and other concerns have slowed this proposal as well, so we can only hope that the crisis in Ukraine will help renew the focus in Madrid and Paris.

There are other steps Europe could take as well, some of them quite straightforward and requiring less of the cross-border agreement and cooperation that can take so long to reach and activate. One is to bolster the continent's ability to withstand delivery interruptions by increasing its storage capacity, whether for conventional gas in underground salt caverns or for the liquefied version in new or expanded LNG depots. Another is for the Germans, Belgians, and others to delay the closure of nuclear plants currently slated for decommissioning. A third is for the Dutch to expand their existing LNG receiving ports, and a fourth has got under way in the last few days as the Germans have started work on their own receiving facilities. A fifth is to work immediately on the East Med Leviathan gas field to connect via pipeline to Turkey and onward to Europe.

The situation can also be ameliorated from the outside. The United States, for example, has doubled its LNG exports to Europe, and Qatar – which met every single one of its delivery commitments despite the illegal two-and-half-year blockade imposed on it by some of its neighbors – should be able to increase its shipments, too, something that would restore confidence in supply markets. In addition to pipelined gas, Spain also receives electricity generated by solar farms in North Africa, and the scope for similar shared grids across

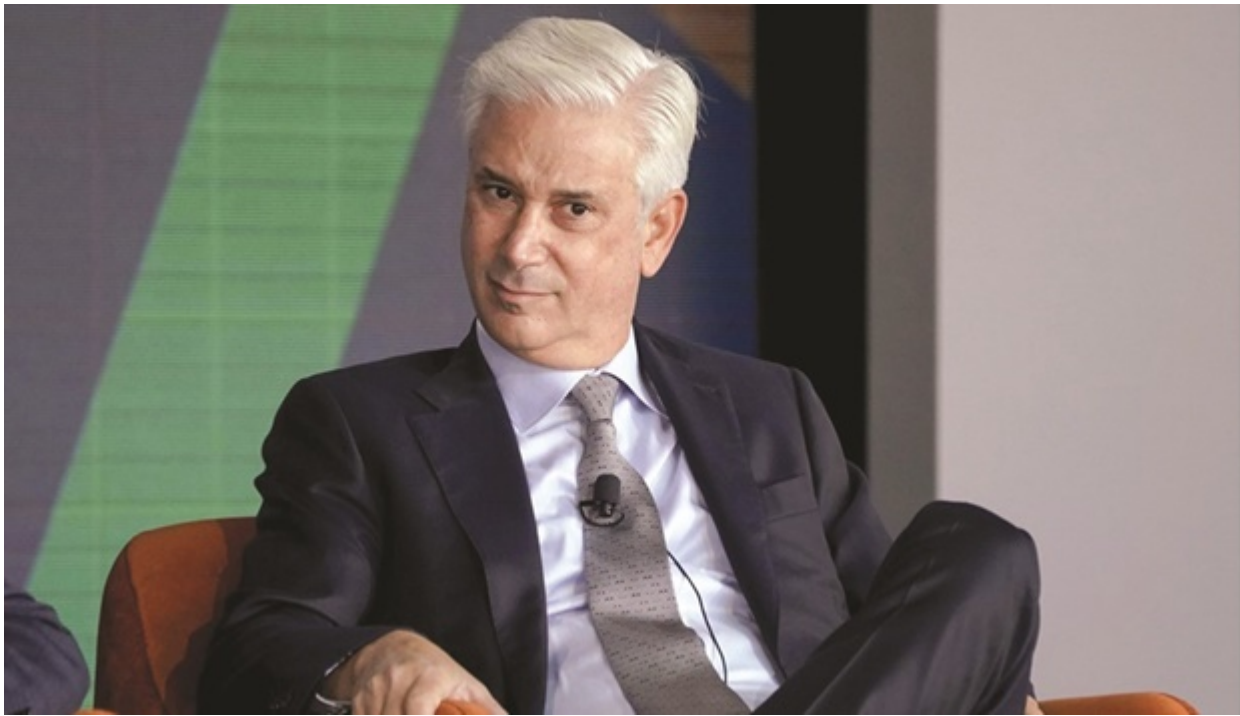
the Euro-Mediterranean region is enormous.

Last, but certainly not least, Europe can best serve its own interests – in every sense of the word – by approving its financial support on future oil and gas projects for the next few years and getting even more serious about renewables. The Euro-Med countries alone have enough offshore wind power potential to replace the entire global nuclear industry, and other technologies beckon as well – including solar, wave, tidal, and undersea geothermal.

All this to become independent of Russian gas and to move for peace, not war.

Roudi Baroudi is a senior fellow at the Transatlantic Leadership Network and the author of “Maritime Disputes in the Mediterranean: The Way Forward” a book distributed by the Brookings Institution Press. With more than 40 years of experience in fields including oil and gas, electricity, infrastructure and public policy, he currently serves as CEO of Energy and Environment Holding, an independent consultancy based in Doha, Qatar.

Wells Fargo's \$28bn oil lenders ready for boom



One year after Wells Fargo & Co became one of the last big US banks to make a net-zero promise, essentially marking its enormous oil and gas loan business for extinction, the bankers who dole out billions of dollars to fossil fuel aren't panicking.

The specialists in oil and gas have worked through a streak of money-burning years capped by a brutal pandemic. Now the hydrocarbon business is roaring back, and Wells Fargo's lenders sit right at the top. No one in the world put together more fossil fuel loans last year as book runner, according to data Bloomberg compiled: The bank's 2021 tally in the sector topped \$28bn; it's racked up more than \$188bn in oil and gas loans since late 2015, when the landmark Paris Agreement was adopted. That sum is more than the market capitalisation of BP, Marathon Petroleum, and Valero Energy – combined.

There are good reasons for the leaders in fossil finance to be anxious. Start with the bank's net-zero goal: Wells has joined more than 100 financial institutions with midcentury deadlines for axing greenhouse gas. Few bankers like to be in a line of work practically marked for elimination. Even if you happen to distrust corporate pledges, the explosion of environmental, social, and governance considerations into a multi-trillion dollar industry puts pressure on those in the business of

funding oil, gas, and coal.

But Wells bankers are playing the long game. “There’s this idea or dynamic that it’s a light switch,” says Scott Warrender, who runs the energy and power team. The green revolution? “Our view – and in reality – it will play out over a much longer time frame.”

Wells executives won’t stop making hydrocarbon loans when the rest of us are consuming so much of it, according to interviews with 10 current and former people there. Few veterans of this business are quite sure where it goes from here. Their attitude toward the crisis of climate change veers between pragmatism and, in the case of one former executive, disdain.

It all adds up to a high-stakes moment for the energy industry, the warming world, and Wall Street, especially for a bank that chief executive officer Charlie Scharf is trying to turn around after years of scandals. Since access to capital is so important to the fossil fuel industry, which ploughs through money, the moral and financial calculations of bankers like those at Wells will play a key role in the future of the climate.

Until the economy and society both evolve, Warrender says, “our view is we need to bank the broad energy sector in all of its forms.” Over decades as an energy banker, he’s watched the hydrocarbon industry dive into busts and then climb back into big-money booms. He’s survived the tumult and learned to stick it out through the endgame, he told a journalist over a decade ago, back when he likened his job as an energy banker to his pastime of amateur boxing. Today, he says, his hobby has switched to cycling, but his focus on energy is unchanged.

“That’s going to be what’s interesting,” says Derek Detring, who had a stint eight years ago as a Wells energy banker before he started a firm advising the energy industry. “Now that we’re making money again, will investors stay away?” As the long-suffering industry returns to being lucrative, he says, “it will be harder for them to leave.”

Indeed, oil prices soared after the invasion of Ukraine and

moves by the US and UK to ban Russian oil. Energy executives and their bankers are used to volatility. Wells Fargo's fossil fuel lending has stayed at the top of the industry even as annual totals bounced around – from \$23bn in 2016, up to \$48.3bn in 2018, and then back down to \$28.7bn last year.

Historically, bankers haven't been under much pressure from shareholders to move faster on climate. But that could change. Last year, ahead of the United Nations climate conference, Wells joined the Glasgow Financial Alliance for Net Zero, a group of banks and fund managers representing \$130tn in assets. (Michael Bloomberg, the owner and founder of Bloomberg LP, is co-chair of the alliance.) The big banks, in addition to pledging to zero out emissions, have agreed to eventually begin accounting for the carbon in their vast portfolios. Coming up with measurements for "financed emissions" will be hotly contested, and activists will be watching. In December the investor group Interfaith Center on Corporate Responsibility asked Wells and other banks to adopt a policy by the end of 2022 to ensure that lending and underwriting don't contribute to new fossil fuel development.

For now, though, a Wall Street giant can go green and underwrite the clean-energy future while also doing deals on gas pipelines and oil fields. Wells was just ahead of JPMorgan Chase & Co last year as the book runner on syndicated loans, which means being the bank in charge when several are involved. Looking at loans gives a good sense of how fossil fuel companies finance themselves, but they also work with Wall Street to issue bonds. Wells wasn't the biggest in that space last year – the \$7.7bn it managed was about half of JPMorgan's \$15.8bn.

"We've been a leading financial partner to traditional energy companies, such as oil and gas producers and electric utilities, as well as the emerging renewables business, for many years," said a Wells spokesperson. "We will continue to support our clients in this industry as they provide the fuel that powers society today, and as they respond to the evolving market."

None of the bank's recent oil and gas lending deals have been bigger than the \$5bn revolving loan it led in 2018 for Energy Transfer LP, whose Dakota Access Pipeline is at the heart of the battle between the oil industry and the Standing Rock Sioux Tribe. Billionaire Kelcy Warren, the chairman of the Dallas-based pipeline operator, has a relationship with Wells that stretches back decades. Not long before the loan, advisory group Institutional Shareholder Services Inc recommended that Wells investors support a resolution requiring policies to help protect Indigenous groups. Protesters made their way in 2017 to the California home of Tim Sloan, then the boss of the bank, and set up an inflatable pipeline.

That didn't scare Wells out of the business. Its most significant syndicated fossil fuel loan last year was a \$3bn deal with Enterprise Products Partners LP. The Houston pipeline owner agreed in January to buy Navitas Midstream Partners and its 1,750 miles of pipeline in the Permian Basin for \$3.25bn in cash.

The story of energy lending isn't just about the future of climate – it's also about consolidation turning dozens of banks into just a few. Wells ended up a giant in fossil loans after a string of acquisitions.

**Faced with energy turmoil,
China turns to its old
reliable: Coal**



Bloomberg

Anyone who's ever tried to make a lifestyle change knows that it's easy to start a new habit when times are good. It's sticking with it when times are tough that's the hard part.

That's what's made the past few months in China, capped off by this month's National People's Congress in Beijing, so difficult for people who want to see the nation succeed in helping stave off the worst impacts of climate change.

Gone are the heady days of late 2020, when think tanks, newspapers and state-run enterprises issued a flurry of optimistic outlooks and officials talked about completing the largest energy transition in mankind's history by zeroing out emissions in the world's biggest polluter by 2060. Now, with fears of energy shortages growing around the world and concerns that rising coronavirus cases could hinder economic growth at home, the country's leaders are doubling down on fossil fuels.

Faced with energy turmoil, China is returning to its old habit of coal, no matter what damage it does to climate momentum.

"To a country where coal has been dominant for so long, one of the biggest challenges to get to net-zero is a mindset shift," said Qin Yan, a carbon analyst at Refinitiv. "Giving the power

back to coal now only makes the shift, which had only just begun to slowly take off, harder to complete.”

The shift has been months in the making. Ever since a shortage of coal sparked widespread power curtailments in September and October, leaders have drummed home the message that the dirtiest fossil fuel is also the most important to ensuring continued growth. China has approved mining expansions that’s pushed output to record levels and started construction on new generators powered by the fuel, even as such efforts are shunned in most other parts of the world.

Recent comments from top officials have made clear this isn’t a temporary shift. In a high-level climate meeting this month, Han Zheng, China’s vice-premier, called coal the country’s “last barrier” to energy security. In the same week, President Xi Jinping told a group of lawmakers from China’s coal hub of Inner Mongolia that “we can’t toss away what’s feeding us now while what will feed us next is not yet in our pocket.”

The National Development and Reform Commission, the nation’s top economic planner, told officials from major mining regions at a meeting late last week that it wants to boost domestic production capacity by about 300mn tonnes, according to people familiar with the matter, Bloomberg reported on Monday. It also plans to build a 620mn-tonne stockpile of the fuel.

“The risks China faces now are at a high level unseen for years, and the uncertainties they bring to China’s climate work are still growing,” said Li Shuo, a climate analyst at Greenpeace East Asia, “In the short term, it’s obvious a preference for coal is swinging back.”

That doesn’t mean the country is turning its back on renewables, a sector dominated by Chinese manufacturers. Officials confirmed this month that a massive desert wind and solar power program will grow to at least 450 gigawatts in size, larger than most countries’ total power fleets. And China’s main solar industry group has already projected a record amount of new panels this year.

But pushing both coal and renewables to grow at the same time carries added risks. Investments in new coal facilities could

take decades to be paid off, and a growing renewable sector could make them obsolete before that's done. The government needs a long-term plan to write those coal projects off when renewables are ready to take over, which would involve another round of struggling among different interest groups.

And in the near-term, Xi's plans to secure a third term at the 20th Party Congress this November mean stability and economic growth will be prioritised at any cost, including the climate. The government set a gross domestic product growth target of 5.5% for this year, higher than most estimates. That means a likely return to Beijing's old doctrine of massive infrastructure spending, which means more energy required to produce steel and concrete and move goods and materials around the country.

"Looking forward at China's climate work in 2022, it would mark a 'success' if there isn't a big regression," said Li Shuo.

Oil surges as Russian supply shortfall looms



Oil surged on Friday, ending the week at multi-year highs as Russia's invasion of Ukraine intensified and oil buyers avoided barrels from Russia. Brent futures rose \$7.65, or 6.9%, to settle at \$118.11 a barrel, while U.S. West Texas

Intermediate crude (WTI) rose \$8.01, or 7.4%, to end at \$115.68. Crude prices posted their largest weekly gains since the middle of 2020, with the Brent benchmark up 21% and U.S. crude gaining 26%. Oil surged throughout last week as the United States and allies heaped sanctions on Russia that, while not aimed at Russian oil and gas sales, nonetheless squeezed its industry, and threatens a growing supply crunch in coming months. Russia exports 4 million to 5 million barrels of oil daily, making it the second-largest crude exporter in the world after Saudi Arabia. Meanwhile, the Biden administration, under pressure from lawmakers, said it is considering options for cutting U.S. imports of Russian oil even as it tries to minimize the impact on global supplies and on consumers. Britain will look to target Russia's energy sector in future rounds of sanctions, its foreign minister said Friday. The government has resisted this move so far, due to concerns that it will push up energy bills.

Asian LNG prices surge as buyers shun Russian gas

Asian spot liquefied natural gas prices rose last week, buoyed by concerns over Russian supply to Europe as buyers shun Russian gas and LNG in response to its invasion of Ukraine. The average LNG price for April delivery into north-east Asia was estimated at \$40.5 per metric million British thermal units (mmBtu), up \$3, or 8% from the previous week, industry sources said. Although the market remains extremely strong and extremely volatile, Asian buyers may be unwilling to replicate the price surge in Europe beyond a notional \$50 per mmBtu, according to analysts, and may adopt a wait-and-see approach or switch to cheaper alternative fuels such as coal. In Europe, gas prices soared on Friday, with some contracts hitting all-time highs, as market participants continued to fear disruptions to Russian gas supplies to Europe in light of the war in Ukraine. The Dutch front-month contract rose by \$17.65 per mmBtu on Friday, as the volatile and uncertain geopolitical landscape continues to drive prices. Meanwhile, an export ban by the Ukrainian government of gas held in the country, including stored gas usually held by Western Europe

operators, was not impacting transit flows of Russian gas.

– By the Al-Attiyah Foundation

The Economic Consequences of the Ukraine War



Feb 25, 2022 JASON FURMAN

Russia's invasion of Ukraine has been rapid and dramatic, but the global economic consequences will be much slower to materialize and less spectacular. Yet, other than Ukraine, Russia will likely be the biggest long-term economic loser from the conflict.

CAMBRIDGE – Russia's invasion of Ukraine has been rapid and dramatic, but the economic consequences will be much slower to materialize and less spectacular. The war itself is enormously tragic, first and foremost for the Ukrainian people, but also for the Russian people and the global order more generally. When something like this happens, we expect it to be like a

morality play in which all the bad consequences play out equally dramatically in every dimension, including the economy. But the economy does not work that way.

True, financial markets reacted swiftly to news of Russia's invasion. The MSCI All Country World Index, a leading global equity gauge, fell to its lowest level in almost a year. The price of oil rose above \$100 a barrel, while European natural gas prices initially surged by almost 70%.

These energy-price increases will negatively affect the global economy. Europe is especially vulnerable, because it did little in recent years to reduce its dependence on Russian gas, and in some cases – notably, Germany, which abandoned nuclear power – even exacerbated it.

Oil-importing countries will experience a headwind from higher prices. The United States is more hedged: Because its oil production is equal to its oil consumption, more expensive oil is roughly neutral for GDP. But higher oil prices will hurt US consumers while helping a more limited segment of businesses and workers tied to the oil and gas industry. The price surge will also add to inflation, which is already at its highest levels in a generation in the US, Europe, and other advanced economies.

But some perspective on these immediate consequences is in order. At \$100 a barrel, oil is about one-quarter below its inflation-adjusted price during 2011 to 2014. Moreover, prices for oil futures are lower than spot prices, suggesting that the market expects this increase to be temporary. Central banks may therefore largely look through events in Ukraine, neither holding off on tightening nor speeding it up in response to higher headline inflation. And global stock markets are still up over the last year.

Similarly, although the Russian stock market has fallen significantly since the start of the invasion, Western

sanctions are unlikely to have immediate dramatic effects. Sanctions rarely do; they are simply not the economic equivalent of the bombs that Russia is currently dropping on Ukraine.

Moreover, Russia is better prepared than most countries to weather sanctions. The country has been running an enormous current-account surplus and has accumulated record foreign-exchange reserves of \$630 billion – sufficient to cover nearly two years of imports. And while Russia is dependent on revenue from Europe, Europeans are dependent on Russia's oil and gas – which may be even harder to replace in the short run.

But, in the longer term, Russia will likely be the biggest economic loser from the conflict (after Ukraine, whose losses will go well beyond what can be measured in the national accounts). Russia's economy, and the well-being of its population, have been stagnant since the Kremlin's 2014 annexation of Crimea. The fallout from its current, large-scale invasion will almost certainly be more severe over time. Sanctions will increasingly take a toll, and Russia's growing isolation, as well as heightened investor uncertainty, will weaken trade and other economic links. In addition, Europe can be expected to reduce its fossil-fuel dependence on Russia.

The longer-term economic consequences for the rest of the world will be far less severe than they are for Russia, but they will still be a persistent challenge for policymakers. There is a risk, albeit a relatively unlikely one, that higher short-run inflation will become embedded in increasingly unanchored inflation expectations, and thus persist. If that happens, central banks' already difficult job will become even more complicated.

In addition, defense budgets are likely to rise in Europe, the US, and some other countries to reflect the increasingly dangerous global situation. This will not reduce GDP growth,

but it will reduce people's well-being, because resources dedicated to defense are resources that cannot go toward consumption or investment in education, health care, or infrastructure.

The medium- and long-term consequences for the global economy of Russia's invasion of Ukraine will depend on choices. By invading, Russia has already made one terrible choice. The US, the European Union, and other governments have made initial choices on sanctions, but it remains to be seen how Russia will react to them or whether further penalties will be imposed. To the extent that sanctions and counter-responses escalate, the costs will be larger – first and foremost for Russia, but also to some degree for the rest of the global economy.

Global economic relations are positive-sum, and Russia's growing isolation will remove a small positive. More broadly, uncertainty is never good for the economy.

But, as the world continues to respond to the Russian invasion, concerns about GDP seem minor by comparison. Far more important is a world where people and countries feel secure. And that is something worth paying for – even more than the world's leaders have paid so far.

U.S. oil drilling rises in response to higher prices



By John Kemp

LONDON, Feb 25 (Reuters) – Prominent business leaders in the U.S. shale industry have been proselytising about their newfound commitment to restricting output growth to protect prices and profit margins.

But the rate of new drilling and production is climbing in response to rising prices – albeit more slowly than during the frenzied growth of the first (2009–2014) and second (2016–2019) shale booms.

Nearly 80 weeks after hitting a cyclical low, the number of rigs drilling for oil has risen by 348 (an average of 4.4 per week), according to data from oilfield services company Baker Hughes.

The rise compares with increases of 433 (5.5 per week) and 584 (7.4 per week) at the same point after the last two cyclical lows in 2016 and 2009 respectively.

The number of rigs is rising at roughly similar rates in the

Permian Basin (2.4 per week) and the other oil-rich shale plays (2.0 per week).

As a result, onshore production from the Lower 48 states rose in six of the seven months between May 2021 and November 2021, the most recent month for which production statistics are available.

Onshore production was rising at an annual rate of roughly 630,000 barrels per day (bpd) at the end of 2021, according to the U.S. Energy Information Administration.

The agency predicts a similar increase of 630,000 bpd by the end of 2022 and a slightly slower one of 470,000 bpd by the end of 2023 ("Short-term energy outlook", EIA, Feb. 8).

Output is increasing much more slowly, only a quarter to a third as fast, as at height of the last boom in 2018, when onshore production was increasing by as much as 1.8 million bpd over twelve months.

In that sense, shale industry leaders are being true to their word, increasing the number of new wells and production more slowly than before to protect prices and profit margins and return capital to shareholders.

But the industry's commitment to limiting investment is being tested as prices continue rising to levels that are well above the long-term average after adjusting for inflation.

Faster production increases look likely as a result of the continued escalation in oil prices since the start of the year.

DELAYED RESPONSE

Shale drilling has become much more efficient since horizontal drilling and hydraulic fracturing techniques began to be widely applied to oil-rich plays at the start of the last decade.

In the short run, however, drilling exhibits diminishing marginal returns during an upswing; additional rigs add smaller increments to output as they are deployed to less promising sites with less experienced crews using older equipment.

Current rig counts cannot usefully be compared with those five let alone ten years ago, but short-term changes in the rig count can provide a useful directional indicator for output changes over the next 12 months.

Changes in oil futures prices generally filter through into changes in drilling activity with a lag of just under 20 weeks.

The explanation is that it takes four-to-five months for producers to see if price changes will be sustained before deciding to alter the drilling programme, contract with drilling firms, wait for rigs to arrive on site, set up and begin boring.

Current drilling rates therefore reflect prices in September–October 2021, when front-month futures were trading around \$70–80 per barrel.

On average, it will take another six months for wells being drilled at present to be fractured, completed, hooked up to gathering systems and enter commercial production, which should keep output rising through at least August.

Since September–October, however, prices have risen by another \$10–15 per barrel which will ensure the number of rigs keeps rising throughout the second quarter, and production climbs faster through the end of the year.

The rapid escalation in spot prices and severe backwardation in futures is signalling the urgent need for more crude to meet strong consumption growth as the economy rebounds after the pandemic-driven recession.

U.S. oil producers are starting to respond by increasing their drilling programmes in the core shale plays of Texas and more marginal ones elsewhere, which should improve oil availability later this year and especially in 2023.

COMMODITIES Feb 22, 2022

OPEC+ sees no need to pump faster as oil heads toward US\$100



Several key OPEC+ members see no need to accelerate output increases even as oil heads toward US\$100 a barrel amid worsening tension over Ukraine.

Iraq and Nigeria said the group's strategy of gradually

raising production is enough to balance the market and the group has no need to be more aggressive.

Many delegates echoed that view privately on Tuesday, saying it wouldn't make a difference if crude did hit triple digits.

The 23-nation alliance, led by Saudi Arabia and Russia, next meets on March 2. It is factoring in growth in output from non-OPEC+ members such as Brazil and Canada and doesn't want to see any increase in commercially-stored oil around the world, according to Iraq's Energy Minister Ihsan Abdul Jabbar.

"The market will have more and more oil so we think there's no need" to diverge from today's strategy, he said in an interview in Qatar, where he's attending a natural gas conference. "We will not create any growth to the commercial storage. We will secure all the demand by making the required supply."

Brent crude rose 3.6 per cent to US\$98.94 a barrel as of 10:04 a.m. in London, extending this year's jump to 27 per cent. Tuesday's gain came after Russian President Vladimir Putin announced he's recognizing two self-proclaimed separatist republics in eastern Ukraine and plans to send "peacekeeping forces" to the region in a dramatic escalation of the conflict. Moscow has consistently denied having plans to invade Ukraine.

KEEP STEADY

Nigeria's energy minister, Timipre Sylva, backed Jabbar's comments.

"We won't do anything extraordinary at this time because we are expecting a lot of production" from outside of OPEC+, Sylva told reporters at the same event. There's "no need at all to bring on more barrels than the current plan."

Several of OPEC+'s biggest producers want to continue to add

400,000 barrels a day of crude to the market each month, Bloomberg reported on Monday.

Iraq's Jabbar said the Organization of Petroleum Exporting Countries and its partners will make their decision for April at the March meeting, after reviewing fresh data on supply and demand.

Some major oil importers have called on OPEC+ to pump faster and put pressure on the likes of Saudi Arabia to use up some of their spare capacity.

Read more: OPEC+ Must Fix Its Million-Barrel Supply Gap, IEA Says

Jabbar said it would be "unfair" for any OPEC+ state to raise output beyond its quota, despite many members struggling to reach theirs. Last week, the International Energy Agency, which advises rich countries, said OPEC+ was pumping almost 1 million barrels a day below its target.

"We have come from the recovery from COVID," the Iraqi minister said. "It is not fair that you will give the increase just for some countries."

Iraq undershot its output target last month because of bad weather at ports, Jabbar said. The country should meet its quota for February of around 4.3 million barrels a day, he said.