

How Europe Became So Dependent on Putin for Its Gas

Russian gas is attractive to Europe because it's usually cheap, easy to transport and almost always available. Some European Union countries depend on it because they are shutting coal plants, and Germany is even planning for the end of nuclear power. Russia's dominance has been enhanced by the depletion of North Sea fields controlled by the U.K. and the Netherlands. Gazprom PJSC supplies about a third of all gas consumed in Europe and, before the Russian invasion of Ukraine, was on track to become even more important as the continent shrinks its own production. In March, however, Russia threatened to cut supplies, and the European Union began mapping out a path to reduce its dependence.

1. How did Russia become so significant?

With its vast Siberian fields, Russia has the world's largest reserves of natural gas. It began exporting to Poland in the 1940s and laid pipelines in the 1960s to deliver fuel to and through satellite states of what was then the Soviet Union. Even at the height of the Cold War, deliveries were steady. But since the Soviet Union broke up, Russia and Ukraine have quarreled over pipelines through Ukrainian territory, prompting Russian authorities to find other routes.

2. How vulnerable is Europe?

A supply crunch in late 2021 provided a vivid insight into Europe's reliance on gas flows from Russia. Storage tanks in the EU fell to their lowest seasonal level in more than a decade after longer-than-usual maintenance at Norwegian fields and Russia rebuilding its own inventories. Benchmark gas prices more than tripled. The EU vowed a decade ago to reduce

its dependence on Russian energy, and continuing purchases by member nations have been a contentious issue within the economic bloc and caused rifts with the U.S.

3. What role does Ukraine play?

About a third of Russian gas flowing to Europe passes through Ukraine. Even as the crisis in the region escalated into war, analysts said Russia, with a history of supply disruptions over price disputes, probably would strive to be seen as a reliable supplier. Gazprom's shipments to Europe and Turkey were about 177 billion cubic meters in 2021, according to calculations by Bloomberg News and BCS Global Markets based on the company's data. When Ukraine and Russia reached a five-year gas transit deal in December 2019, assuring supplies until 2024, Ukrainian President Volodymyr Zelenskiy said the nation would earn at least \$7 billion from transit fees.

4. How has Russia disrupted the market before?

In 2006 and 2009, disputes with Ukraine over pricing and siphoning of gas led to cutoffs of Russian supplies transiting through the country. The second shutdown lasted almost two weeks in the dead of winter. Slovakia and some Balkan countries had to ration gas, shut factories and cut power supplies. Since then, the most vulnerable countries have raced to lay pipelines, connect grids and build terminals to import liquefied natural gas, a supercooled form of the fuel that can be shipped from as far as Qatar and the U.S.

5. What supply networks are there?

Outside supplies, mostly from Russia, Norway and Algeria, account for about 80% of the gas the EU consumes. Some of the biggest economies are among the most exposed, with Germany importing 90% of its needs – much of it via a pipeline under the Baltic Sea called Nord Stream, which has been fully operational since 2012. (This was the supply line Russia on March 7 suggested could be cut as part of its response to

sanctions imposed over the invasion of Ukraine.) Belgium, Spain and Portugal face the problem of low storage capacity, as does the U.K., which no longer is part of the bloc and closed its only big gas storage site. The continent has a mass of pipelines, including Yamal-Europe, which runs from Russia through Belarus and Poland before reaching Germany, and TAG, which takes Russian gas to Austria and Italy. Many cross several borders, creating plenty of possible choke points.

6. What about the Nord Stream 2 pipeline?

It was against this background that Nord Stream 2, a new Russian pipeline alongside the first, was completed in late 2021. But it has become entangled in politics and a lengthy regulatory process. There was strong opposition from the U.S., which imposed sanctions that delayed construction. Following the eruption of the war in Ukraine, Germany suspended its certification process for Nord Stream 2, and the EU's executive arm readied a revised energy strategy for the bloc to "substantially reduce our dependency on Russian gas this year."

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Russia cuts gas flows further as Europe makes savings plea



Reuters/Berlin/Frankfurt

Russia delivered less gas to Europe yesterday in a further escalation of an energy stand-off between Moscow and the European Union that will make it harder, and costlier, for the bloc to fill up storage ahead of the winter heating season.

The cut in supplies, flagged by Gazprom earlier this week, has reduced the capacity of Nord Stream 1 pipeline – the major delivery route to Europe for Russian gas – to a mere fifth of its total capacity.

Nord Stream 1 accounts for around a third of all Russian gas exports to Europe.

On Tuesday, EU countries approved a weakened emergency plan to curb gas demand after striking compromise deals to limit cuts for some countries, hoping lower consumption will ease the impact in case Moscow stops supplies altogether.

The plan highlights fears that countries will be unable to meet goals to refill storage and keep their citizens warm during the winter months and that Europe's fragile economic growth may take another hit if gas will have to be rationed.

Royal Bank of Canada analysts said the plan could help Europe get through the winter provided gas flows from Russia are at 20-50% capacity, but warned against "complacency in the market

European politicians have now solved the issue of Russian gas dependence.”

While Moscow has blamed various technical problems for the supply cuts, Brussels has accused Russia of using energy as a weapon to blackmail the bloc and retaliate for Western sanctions over its invasion of Ukraine.

Kremlin spokesman Dmitry Peskov said Gazprom was supplying as much gas to Europe as possible, adding that sanctions-driven technical issues with equipment were preventing it from exporting more.

Yesterday, physical flows via Nord Stream 1 tumbled to 14.4mn kilowatt hours per hour (kWh/h) between 1000-1100 GMT from around 28mn kWh/h a day earlier, already just 40% of normal capacity.

The drop comes less than a week after the pipeline restarted following a scheduled 10-day maintenance period.

European politicians have repeatedly warned Russia could stop gas flows completely this winter, which would thrust Germany into recession and send prices for consumers and industry soaring even further.

The Dutch wholesale gas price for August, the European benchmark, jumped 9% to 205 euros per megawatt hour yesterday, up around 412% from a year ago.

German finance minister Christian Lindner said he was open to the use of nuclear power to avoid an electricity shortage.

Germany has said it could extend the life of its three remaining nuclear power plants, accounting for 6% of the country's overall power mix, in the face of a possible cut-off of Russian gas.

Klaus Mueller, head of Germany's network regulator, said the country could still avoid a gas shortage that would prompt its rationing. Germany, Europe's top economy and its largest importer of Russian gas, has been particularly hit by supply cuts since mid-June, with its gas importer Uniper requiring a 15bn euro (\$15.21bn) state bailout as a result. Uniper and Italy's Eni both said they received less gas from Gazprom than in recent days.

Mueller issued another plea to households and industry to save gas and avoid rationing.

“The crucial thing is to save gas,” Mueller said. “I would like to hear less complaints but reports (from industries saying) we as a sector are contributing to this,” he told broadcaster Deutschlandfunk.

German industry groups, however, warned companies may have no choice but cut production to achieve bigger savings, pointing to slow approval for replacing natural gas with other, more polluting fuels.

Mercedes-Benz chief executive Ola Kaellenius said a mixture of efficiency measures, increased electricity consumption, lowering temperatures in production facilities and switching to oil could lower gas use by up to 50% within the year, if necessary.

Germany is currently at Phase 2 of a three-stage emergency gas plan, with the final phase to kick in once rationing can no longer be avoided.

Absorbing energy transition shock



By Owen Gaffney/ Stockholm

The challenge for politicians is to devise fair policies that protect people from the inevitable shocks

Russia's war on Ukraine has sent shockwaves around the world. Oil prices have skyrocketed and food prices have soared, causing political instability. The last time food prices were this volatile, riots erupted across the Arab world and from Burkina Faso to Bangladesh. This time, the energy and food shock is happening against the backdrop of the Covid-19 pandemic. When will the shocks end?

They won't. So, we can choose either resignation and despair, or a policy agenda to build social and political resilience against future shocks. Those are our options, and we had better start taking them seriously, because the shocks are likely to get worse. On top of geopolitical crises, the climate emergency will bring even greater disruptions, including ferocious floods, mega-droughts, and possibly even a simultaneous crop failure in key grain-producing regions worldwide. It is worth noting that India, the world's second-largest wheat producer, recently banned exports as part of its response to a devastating heatwave this spring.

But here's the thing: reducing vulnerability to shocks, for example, by embarking on energy and food revolutions, will also be disruptive. The energy system is the foundation of industrialised economies, and it needs to be overhauled to phase out fossil fuels within a few decades. Huge industries like coal and oil will have to contract, and then disappear. And agriculture, transportation, and other sectors will need to change radically to become more sustainable and resilient. The challenge for politicians, then, is clear: to devise fair policies that protect people from the inevitable shocks.

One idea with significant potential is a Citizen's Fund, which would follow a straightforward fee-and-dividend equation. Companies that emit greenhouse-gas emissions or extract natural resources would pay fees into the fund, which would then distribute equal payments to all citizens, creating an economic cushion during a period of transformation and beyond. This is not just an idea. In 1976, the Republican governor of Alaska, Jay Hammond, established the Alaska Permanent Fund, which charges companies a fee to extract oil and then disburses the proceeds equally to all the state's citizens. In 2021, each eligible Alaskan received \$1,114 – not as a “welfare payment” but as a dividend from a state commons (in this case, a finite supply of oil). The largest dividend ever paid was during Republican Sarah Palin's governorship in 2008, when every Alaskan enjoyed a windfall of \$3,269.

In 2017, James Baker and George Shultz, two former Republican secretaries of state, proposed a similar plan for the whole United States, estimating that fees on carbon emissions would yield a dividend of \$2,000 per year to every US household. With backing from 3,500 economists, their scheme has broad appeal not just among companies and environmental-advocacy groups but also (and more incredibly) across the political aisle.

The economics is simple. A fee on carbon drives down emissions by driving up the price of polluting. And though companies would pass on these costs to consumers, the wealthiest would be the hardest hit, because they are by far the biggest,

fastest-growing source of emissions. The poorest, meanwhile, would gain the most from the dividend, because \$2,000 means a lot more to a low-income household than it does to a high-income household. In the end, most people would come out ahead.

But given that food- and energy-price shocks tend to hit low-income cohorts the hardest, why make the dividend universal? The reason is that a policy of this scale needs both broad-based and lasting support, and people are far more likely to support a programme or policy if there is at least something in it for them.

Moreover, a Citizen's Fund is not just a way to drive down emissions and provide an economic safety net for the clean-energy transition. It would also foster innovation and creativity, by providing a floor of support for the entrepreneurs and risk-takers we will need to transform our energy and food systems.

A Citizen's Fund could also be expanded to include other global commons, including mining and other extractive industries, plastics, the ocean's resources, and even knowledge, data, and networks. All involve shared commons – owned by all – that are exploited by businesses that should be required to pay for the negative externalities they create.

Of course, a universal basic dividend is not a panacea. It must be part of larger plan to build societies that are more resilient to shocks, including through greater efforts to redistribute wealth by means of progressive taxation and empowerment of workers. To that end, Earth4All, an initiative I co-lead, is developing a suite of novel proposals that we see as the most promising pathways to build cohesive societies that are better able to make long-term decisions for the benefit of the majority.

Our most important finding is perhaps the most obvious, but it is also easy to overlook. Whether we do the bare minimum to address the grand challenges or everything we can to build resilient societies, disruption and shocks are part of our future. Embracing disruption is thus the only option and a

Citizen's Fund becomes an obvious shock absorber. – Project Syndicate

- Owen Gaffney is an analyst at the Stockholm Resilience Centre and the Potsdam Institute for Climate Impact Research.

Gazprom gas cut casts spell on grain deal



Russia dealt a new blow to European countries over their support for Ukraine yesterday, saying it would further cut gas supplies through its single biggest gas link to Germany. The move came as the first ships to export grain from Ukraine's Black Sea ports under a deal agreed last week could set sail within days, bringing a measure of hope to countries reliant on such food supplies even though the situation is still clouded by mistrust and potential danger. Both developments showed how the conflict – now in its sixth month and with no resolution in sight – is having an economic impact way beyond

the battlefields of Ukraine.

On the frontlines, the Ukrainian military reported widespread Russian artillery barrages in the east overnight and said Moscow's troops were preparing for a new assault on Bakhmut, a city in the industrial Donbas region. Russian President Vladimir Putin warned the West earlier this month that sanctions imposed on his country for its invasion of Ukraine risked triggering huge energy price rises for consumers around the world. Yesterday, Russian energy giant Gazprom, saying it was acting under the instructions of an industry watchdog, said flows through the Nord Stream 1 pipeline would fall to 33mn cubic metres per day from yesterday.

That is half of the current flows, which are already only 40% of normal capacity. Prior to the war Europe imported about 40% of its gas and 30% of its oil from Russia. The Kremlin says the gas disruption is the result of maintenance issues and Western sanctions, while the European Union has accused Russia of resorting to energy blackmail. Germany said it saw no technical reason for the latest reduction. Politicians in Europe have repeatedly said Russia could cut off gas this winter, a step that would thrust Germany into recession and lead to soaring prices for consumers already faced with painfully high energy costs. The Kremlin has said Moscow is not interested in a complete stoppage of gas supplies to Europe. Rising energy prices and a global wheat shortage are among the most far-reaching effects of Russia's invasion of Ukraine. They threaten millions in poorer countries, especially in Africa and the Middle East, with hunger. Ukraine said on Monday it hoped a UN-brokered deal to try to ease the food shortages by resuming grain exports from Black Sea ports would start to be implemented this week. Officials from Russia, Turkey, Ukraine and the United Nations agreed on Friday there would be no attacks on merchant ships moving through the Black Sea to Turkey's Bosphorus Strait and on to markets. Moscow brushed aside concerns the deal could be

derailed by a Russian missile strike on Ukraine's port of Odesa on Saturday, saying it targeted only military infrastructure.

Russia's Black Sea fleet has blocked grain exports from Ukraine since Moscow's February 24 invasion. Moscow denies responsibility for the food crisis, blaming Western sanctions for slowing its food and fertiliser exports and Ukraine for mining the approaches to its ports. Under Friday's deal, pilots will guide ships along safe channels. A Ukrainian government official said he hoped the first grain shipment from Ukraine could be made from Chornomorsk this week, with shipments from other ports within two weeks. "We believe that over the next 24 hours, we will be ready to work to resume exports from our ports," deputy infrastructure minister Yuriy Vaskov told a news conference. A United Nations spokesperson, speaking in New York, said the first ships may move within a few days.

A Joint Coordination Center will liaise with the shipping industry and publish detailed procedures for ships in the near future, he said. Russian Foreign Minister Sergei Lavrov, speaking during a tour of African countries, said there were no barriers to the export of grain and nothing in the deal prevented Moscow from attacking military infrastructure in Ukraine. The Kremlin also said the United Nations must ensure curbs on Russian fertiliser and other exports were lifted for the grain deal to work. Before the invasion and subsequent sanctions, Russia and Ukraine accounted for nearly a third of global wheat exports.

A 'price cap' on Russian oil: What would that mean?



Since the US and its allies decided to stop buying Russia's oil, there has been little sign that the measure is inflicting the kind of pain that might force President Vladimir Putin to rethink his war in Ukraine. Plenty of other countries are still buying Russian crude, and a surge in prices has softened the blow from the sanctions by bringing Moscow enough revenue to stave off economic collapse.

So Putin's adversaries are weighing a new idea: Make Russia sell its oil so cheaply that it can no longer afford to wage war at all.

What is being proposed?

The US, the UK and Canada have announced bans on Russian oil, while the European Union (EU) plans to ban seaborne Russian crude by December and fuels by early next year. In a further step, US Treasury Secretary Janet Yellen is backing a proposal to allow nations that abstained from sanctions to keep buying

the oil, but slash Moscow's profits on those sales.

How might it work?

Group of Seven (G7) nations were said to be discussing a mechanism that would only allow the transportation of Russian crude and petroleum products sold below an agreed price threshold, to be enforced by imposing restrictions on insurance and shipping.

About 95 per cent of the world's oil tanker fleet is covered by the International Group of Protection & Indemnity Clubs in London and some firms based in continental Europe. Western governments could try to impose a price cap by telling buyers they can keep using that insurance, as long as they agree not to pay more than a certain price for the oil on board.

What could be the impact?

Putin says Western nations are suffering more than Russia from the economic penalties they imposed over his invasion of Ukraine. Surging prices of Russian commodity exports have brought excess revenue that has helped his government to weather the sanctions.

Capping prices at a level that is closer to the cost of production would deal a blow to Moscow's finances, while still ensuring that energy flows to where it is needed. As Russia is one of the world's biggest oil suppliers, a price cap could also relieve inflationary pressure that's causing economic hardship across the world.

What are the obstacles?

Some European officials have been wary of the idea as it would likely require the EU to reopen the legal text of its latest sanctions package, which took weeks to approve and had to

overcome significant hurdles since sanctions require unanimity among the bloc's 27 nations.

If the allies do agree on a price cap but it fails to hold, it would hand a symbolic victory to Putin. There are plenty of ways that it might fail: There's no guarantee that Russia would agree to ship oil at capped prices, particularly if the cap is close to production cost.

It already showed it is willing to withhold supply of natural gas to some EU countries that refused to meet its payment demands. The Kremlin may believe that holding its oil off the market for a while would do more damage to the economies of Europe and North America than to its own.

Would big buyers of Russian oil fall into line?

A price cap may be incredibly profitable for Chinese and Indian businesses, and good for combating inflation. But there are wider considerations for Beijing and New Delhi, such as their long-term relationship with Moscow. They may accept to take inferior Russian insurance rather than be told what to pay for a key commodity, even if it's at an attractively low price.

How about capping Russian gas prices too?

European governments were also discussing an Italian proposal to cap prices of Russian natural gas imports as a way to curb inflation in the bloc.

Italian Energy Minister Roberto Cingolani said the idea is gaining traction as countries increasingly see it as the "only

solution” to soaring costs. Gas prices in Europe have climbed almost 80 per cent this year. However, Germany and other nations have expressed skepticism.

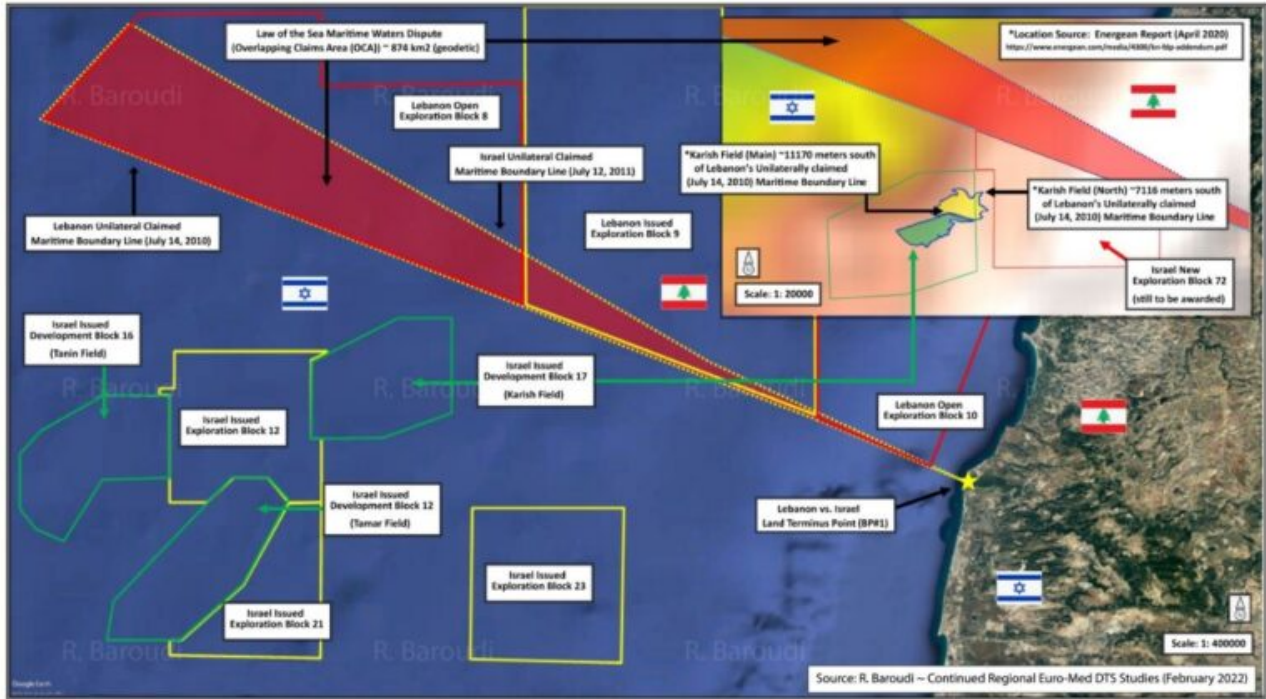
بارودي يؤكد صوابية طلب لبنان الخاص بالمباحثات والمفاوضات على الحدود البحرية



بارودي يؤكد صوابية طلب لبنان الخاص بالمباحثات والمفاوضات على الحدود البحرية ويؤكد صوابية طلبه مستعينا بقضايا مماثلة حصلت في السابق وتم البت بها من قبل محكمة العدل الدولية

ثروة "كاريش" بين 22 و 25 مليار دولار

Lebanon vs. Israel: Karish Field Exploratory Drilling vs. Contested Waters



كثُرَت في الفترة الأخيرة الخيارات المتاحة في نظر بعض المسؤولين

في لبنان، لتأمين مصادر يتم عبرها تسديد أموال المودعين... فما أن طرح إنشاء الصندوق السيادي، حتى ارتأى البعض اللجوء إلى رهن جزء من احتياطي الذهب... لكن ما لم يكن في الحسبان أن يقترح أحدهم استخدام أموال ثروة لبنان النفطية لتسديد الودائع ولتغطية كلفة الدين العام! علماً أن مفاوضات ترسيم الحدود البحرية بين لبنان وإسرائيل عالقة منذ أيار 2021، ولا تزال الضبابية تلف هذا الملف محلياً ودولياً.

الخبير الدولي في مجال الطاقة رودي بارودي يعلق، في حديث إلى موقع القوات اللبنانية الإلكتروني، على الفائدة المالية من حقول النفط التي يؤمل أن تشكل الثروة النفطية للبنان، ليؤكد أنه "في حال حصول لبنان على جزء من حقل كاريش، فإن حصته لا تكفي لتغطية الدين العام اللبناني حتى وفق أسعار النفط والغاز المعتمدة حالياً"، ويقول "ربما قد تغطي حصّة لبنان من حقل كاريش أو غيره، جزءاً ضئيلاً فقط من الدين العام".

ويعتبر أنه "من غير المؤكد ما إذا كان لبنان سيتمكّن من الحصول على الخط 23، من دون معالجة مجموعة من الأخطاء الجسيمة التي ارتكبت عند البدء بوضع الخطوط من 1 إلى 23 قبل نحو 12 عاماً".

ويكشف بارودي عن أن حقل "كاريش" المكتشف العام 2013 يحتوي على 2.5 ترليون قدم مربع من الغاز، وهذا الحقل تم اكتشافه من قبل الشركة الإسرائيلية "ديليك" العام 2013 والتي باعتها بدورها إلى "إينيرجيان".

ويقول، إذا تم احتساب الكمية على أساس أسعار الغاز والنفط الحالية، فإن المردود المتوقع من حقل "كاريش" يتراوح ما بين 22 و25 مليار دولار أميركي. لكن لا يمكن تقدير مردود حقل "قانا" لأنه قد يكون ممتداً إلى إسرائيل، كما أن حقل "كاريش" متداخل بين لبنان وإسرائيل.

ويُلفت إلى أن إسرائيل أنجزت التحضيرات اللازمة لبدء الإنتاج النفطي وذلك بعد أعوام عدة من الدراسات وعمليات الاستكشاف، فقد عاودت شركة "إينيرجيان" المطورة لحقل "كاريش" الحفر في الحقل ذاته بحثاً عن المزيد من الغاز والنفط، ويوضح أن "إسرائيل تقوم حالياً بالحفر في محاذاة الخط اللبناني التفاوضي 29" لتنتقل "بعد ذلك إلى شمال "كاريش".

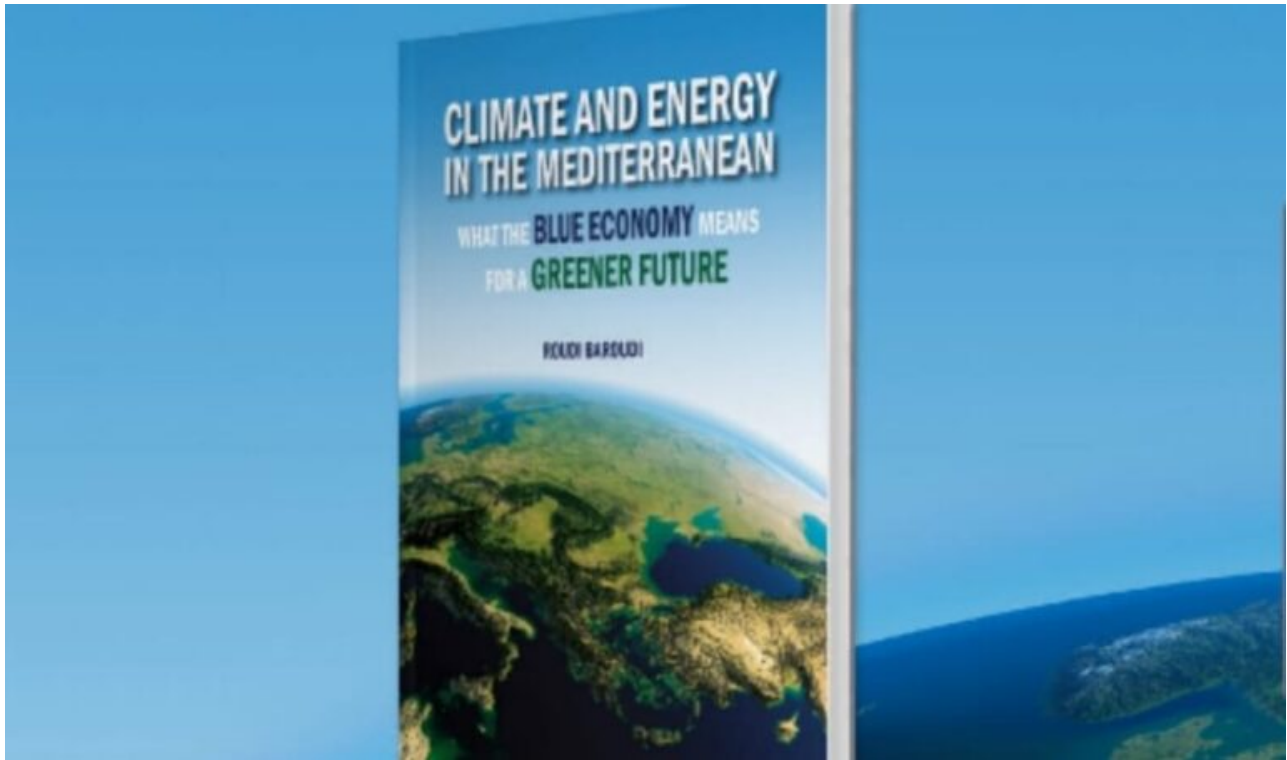
ويذكر في السياق بأن "لبنان أعلن في رسالته إلى الأمم

المتّحدة الأولى في 22 أيلول 2021 والثانية في 28 كانون الثاني 2022، أن حقل كاريش يقع في منطقة متنازع عليها... لكن على الرغم من ذلك، يتم التنقيب في المياه المتنازع عليها عموماً، ولا سيما في البلوك رقم "9" المّعطّل حالياً إلى أن تُحلّ قضية الترسيم بين لبنان وإسرائيل.

أما بالنسبة إلى الموقع الجغرافي لحقل "كاريش" المكوّن من جزءين: شمالي وجنوبي (الخريطة مرفقة)، يؤكد بارودي من خلال الدراسة التي أعدّها خلال السنوات الممتدة من العام 2011 إلى العام 2021، أن "حقل كاريش الشمالي يبعد عن الخط المقترح من قبل لبنان في 14 تموز 2010 (الخط 23) حوالي 7 كلم و116 متراً، كما أن حقل كاريش الجنوبي يبعد عن الخط نفسه، حوالي 11 كلم و170 متراً جنوباً، وذلك بحسب الخريطة المرفقة والتي تؤكد المواقع والبُعد عن الحقلين.

أما بالنسبة إلى البلوك الإسرائيلي الرقم "72" والمتداخل في الأراضي اللبنانية، فهو ملاصق بشكل مباشر للخط "23"، بحسب بارودي

رياح المتوسط تنتج طاقة تضاهي طاقة المفاعات النووية في العالم



Europe's oil embargo is not enough



By Sergei Guriev/ Paris

Vladimir Putin needs petrodollars, and he needs them now. Many expected Russia's president to issue a formal declaration of war on Ukraine, a move that would permit the full mobilisation of Russia's reserve forces. But while Putin may want to send more soldiers to Ukraine, he cannot afford to do so. Will the European Union's newly announced oil embargo force him to wind down the invasion?

Already, the Kremlin has toned down its propaganda. There is no more talk of taking Kyiv. Putin's only goal now, apparently, is to occupy the eastern Donbas region. But even there, Putin is not guaranteed victory, as that is where Ukraine has launched its so-called Joint Forces Operation, which includes its best-trained military units – increasingly armed with advanced Western military equipment.

Russia, meanwhile, has lost much of its modern military equipment, and Western sanctions have left it unable to replenish its stocks. With few options, Russia is now unpacking Soviet-era tanks.

The only way Putin can make up for the lack of equipment is to send more soldiers. But drafting new conscripts is an unpopular idea, so Putin has resorted to paying people to fight for Russia – and no pittance, either. Recruits are now reportedly receiving \$3,000-\$5,000 per month. But, the recent decision to scrap the age limit for army recruits suggests that even the prospect of earning pay that is an order of magnitude higher than the average wage in the median Russian region is not attracting enough fighters.

Recently published budget data from Russia's finance ministry suggests that Putin can hardly afford to cover the war's mounting costs. The data confirm, first, that the war has been expensive, with military spending having increased by almost 130% last month, to 630bn roubles (\$10.2bn), or 6% of annual GDP on a prorated basis.

The data also show that Russia ran a fiscal deficit of more than 260bn roubles in April, or 2.5% of GDP when prorated to

annual figures. While global oil prices are very high, Russia has been selling its oil at a huge discount – accepting \$70 per barrel for Urals crude in recent weeks, 30% below the market price – while overall output is set to decline by 10% this year. Meanwhile, non-hydrocarbon revenues have plummeted, leaving oil and gas taxes accounting for more than 60% of fiscal revenues, compared to less than 40% a year ago.

Putin's dependence on petrodollars means that, by announcing an embargo on about 90% of Russian oil imports within the next 6-8 months, the European Union is hitting Russia where it hurts. Putin is now all but certain to face a major fiscal crisis within a year, making it difficult to sustain his war in Ukraine, let alone invade another country.

The problem is that the embargo will help Putin in the short term. The mere announcement of it has already caused oil prices to spike. That is why Europe should complement its oil embargo with additional, immediate measures. Two options stand out.

The first – which Ricardo Hausmann proposed immediately after the invasion, and which others have shown can be implemented quickly – is a high tariff on Russian oil imports. This approach makes perfect economic sense. Every euro spent on Russian oil helps Putin finance his violent campaign in Ukraine. This is a “blood externality,” and should be priced accordingly. Part of the amount paid by buyers of Russian hydrocarbons should be transferred to Ukraine as reparations or stored in special escrow accounts until reparations are formally awarded.

But at a time when European households are facing soaring energy costs, there is little political appetite for an oil tax. With this in mind, Italian Prime Minister Mario Draghi has proposed an alternative solution: a price cap. Under this proposal – which the European Council has instructed the Commission to assess – Western countries would pay a lower price for Russian oil and gas, and impose secondary sanctions on third parties that pay Russia more.

A price cap could be implemented immediately – say, at \$70 per

barrel – and lowered by about \$10 each month the war continues. Yes, Putin could refuse to sell oil at this price. But, given that he is already desperate enough to sell to China and India at steep discounts, and today's energy prices far exceed production costs, this seems unlikely.

Instead, Russia would probably continue supplying oil and gas to Western buyers at the capped price, while buyers like China and India, under threat of sanctions, would have no reason to pay more. This would provide consumers relief from high energy prices and cause Russia's revenues to decline sharply.

Some might argue that price caps distort incentives – in this case, the incentive to adopt renewables. But this argument applies only to a competitive market. In today's oil and gas market, prices far exceed marginal costs, and the global oil cartel Opec+ (which includes Russia) has only recently agreed to increase production in July and August. Russian gas supplier Gazprom was likely manipulating prices in Europe even before the war. Such monopolistic behaviour warrants a price cap.

Another frequent argument against a price cap is that it may spur a black market. This is a real risk. Already, European energy companies have begun combining Russian petroleum products with others – a “Latvian blend” – so that they can take advantage of lower prices, while claiming not to support Putin's war machine. But these firms are not currently violating any laws. If a price cap were implemented, they would be. Given public outrage at the war, the West's commitment to secondary sanctions, and the rise of citizen-led investigations relying on open-source intelligence, it would be very difficult, if not impossible, to get away with such rule-breaking.

The EU's oil embargo will hurt Putin, but not soon enough. Europe must immediately impose a price cap on Russian oil and gas. – Project Syndicate

• *Sergei Guriev, a former chief economist of the European Bank for Reconstruction and Development, is Professor of Economics*

Gazprom cuts more customers in Europe, but rewards shareholders with dividend



Russian gas giant's exports have fallen 28% this year, and decline would have been higher were it not for European push to replenish gas storage

Gazprom has announced it has halted gas supplies for two more customers in Europe, effective from 1 June, after both declined to accept changes in payment terms imposed by the Russian company's foreign trading subsidiary.

Gazprom identified Denmark's Orsted Salg & Service and UK-based Shell Energy Europe as the affected customers.

The Russian company added that it supplied close to 2 billion cubic metres of gas to Orsted in 2021, equivalent to about two

thirds of Denmark's natural gas consumption.

Gazprom added that its contract with Shell Energy Europe called for the delivery of 1.2 Bcm of gas in 2022, mostly to consumers in Germany.

UPDATED: EU agrees to ban 90% of Russian oil imports by end of year

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According to Gazprom, both customers had failed to switch to a new payment system by 31 May, even after they were requested to do so by the Russian government.

At the end of March, Russian President Vladimir Putin ordered Gazprom to amend its contracts with European customers to divert their payments in euros or US dollars for delivered gas to Moscow-based Gazprombank.

These payments would then have to be fully converted into rubles and credited to Gazprom's local accounts in order for payments for gas deliveries to be considered completed.

Orsted chief executive Mads Nipper said: "We stand firm in our refusal to pay in rubles, and we've been preparing for this scenario, so we still expect to be able to supply gas to our customers.

"The situation underpins the need of the European Union becoming independent of Russian gas by accelerating the build-out of renewable energy."

Since there is no gas pipeline running directly from Russia to Denmark, Russia will not be able to cut off the gas supplies to Denmark directly, but the Russian move will necessitate increased gas purchases on the European gas market, Orsted said.

Halting supplies to Shell Energy Europe and Orsted follows similar moves by Gazprom in recent weeks to stop gas supplies

to Finland, Poland and Bulgaria.

Executive director of Ukraine's gas transmission authority Operator GTS Ukrainy, Sergey Makogon said on his social network page that he believed it is time for the EU to introduce restriction on the Nord Stream subsea pipeline that carried Gazprom's gas directly to Germany.

Officials in Ukraine and Poland, together with independent industry observers, have led a chorus of accusations against Russia for what they describe as the "weaponsising" of the Russian pipeline gas to exert geopolitical leverage in Europe.

Despite its contractual obligations to send close to 110 million cubic metres of gas via Ukraine to Europe in 2022, Gazprom has been scaling down shipments, with transit gas flows down to 41 MMcmd just this week.

Gas exports down, dividend up

Between January and May, Gazprom's gas exports to Europe and Turkey fell by almost 28% to 61 Bcm, the company said on Wednesday.

Gazprom's total gas production during this period also declined by 5% to just over 211 Bcm.

Ignoring the challenging market outlook, Gazprom announced record high dividends on its stock for 2021, amounting to 1.24 trillion rubles (\$20.7 billion).

The government is set to receive just over a half of that payment as it holds an over 50% shareholding in the company.

Managing partner at Moscow based energy consultancy RusEnergy, Mikhail Krutikhin, suggested that such high payout may be linked to additional expenses that Russian authorities incur in relation to the invasion of Ukraine.

According to Krutikhin, authorities may not see similar high

dividend payments from Gazprom for 2022 because its profitability may decline as a result of lower gas exports.

Meanwhile, spot market gas prices declined by almost 6% to about €89 (\$96) per megawatt in Wednesday trading on Wednesday, according to the London-based ICE Exchange.

The shift was attributed to reports of large customers of Gazprom in Europe accepting the new payment arrangement.

https://www.upstreamonline.com/production/gazprom-cuts-more-customers-in-europe-but-rewards-shareholders-with-dividend/2-1-1228805?utm_source=email_campaign&utm_medium=email&utm_campaign=2022-06-01&utm_term=upstream&utm_content=daily