

Europe risks rationing if Putin cuts off Russian gas supply



The prospect of Europe getting cut off from Russian gas supplies is starting to get real.

The clock is ticking in a standoff over the Kremlin's demand that its customers in Europe pay in rubles for the fuel, which the region depends on for a fifth of its power generation.

The European Union has said the decree violates sanctions and hands more power to Russia. It suggested an alternative that avoids rubles on Friday, but it's up to Moscow to decide if that's acceptable. Payments come due in May, and that's when the moment of truth arrives.

By refusing President Vladimir Putin's payment terms and testing his threat to turn off the taps, European buyers "would be running a very real risk of their supplies being cut," said Katja Yafimava, a senior research fellow at the Oxford Institute for Energy Studies.

The game of geopolitical chicken could lead to Europe rationing energy for the first time since the oil crisis in the 1970s. As the biggest consumer of Russian gas in Europe, Germany is most exposed, but the fallout would ripple across the continent and beyond. Here's what could happen:

Market meltdown

Europe's natural gas market would show the impact immediately. Trading is already on edge, with prices five times higher than the same time last year. That could get worse.

In the event of a supply disruption, forward contracts could more than triple, especially if Europe enters next winter with depleted storage, according to Kaushal Ramesh, senior analyst, gas and LNG at Rystad Energy.

Such a surge would put governments and central banks under pressure as they seek to control soaring inflation. The risk is that the mounting cost-of-living crisis intensifies and spills over into wider unrest and a deeper crisis.

Power shift

With less fuel for gas-fired generators, the risks of rolling blackouts would increase. While countries would try to shift to other sources, the options are limited.

France would halt large gas-fired power plants to conserve the fuel for other needs, Italy would maximize production from coal or fuel oil, and Germany has discussed burning more local lignite – the dirtiest form of coal. The workarounds are likely to make the region even more polluting.

On the upside, warmer weather would reduce gas consumption for heating, delaying the worst impacts at least until the fall.

By ramping up other energy sources, including an accelerated expansion of renewable power, the EU aims to cut its gas dependency on Russia by two thirds this year.

German rationing

Germany has triggered an emergency plan, with a task force meeting daily to monitor consumption and inventories. Its energy regulator is surveying companies about their usage to help determine how to distribute supplies.

Consumers would be protected as long as possible, and that

means industry would bear the brunt of a rationing plan. That's a big risk for Europe's largest economy. The country depends on Russia for 40% of its gas supplies, and the fuel is critical for processes in the chemicals and metals industries.

At Europe's biggest chemical factory, BASF SE churns out compounds used in manufacturing autos, medicines and fertilizers and all fueled by pipelines filled with Russian gas. The company warns that a sudden halt would send shock waves through many industries and cause irreversible damage to German competitiveness.

The concerns are echoed by the likes of steelmaker Thyssenkrupp AG, automaker Volkswagen AG and utility RWE AG.

"Stopping the pipeline-bound gas supply at this time would have dramatic consequences," RWE Chief Executive Officer Markus Krebber said in an advanced copy of a speech for the company's shareholder meeting next week. Many manufacturers "would no longer be able to operate their plants."

Chancellor Olaf Scholz has said a halt to gas flows from Russia would trigger a serious economic crisis in Europe, leading to the loss of millions of jobs.

The sudden halt in Russian gas deliveries could cost Germany's economy 220 billion euros, or about 6.5% of annual gross domestic product, according to a joint forecast of the country's leading economic institutes. The Bundesbank estimates that output could shrink nearly 2% this year in the event of an embargo on Russian coal, oil and gas.

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But the Berlin-based DIW think tank says a combination of energy savings and optimizing alternative supplies could put Germany in position to offset Russian gas as soon as this winter.

The government has expanded its authority over the energy sector with new rules on gas storage. It's also planning to grant itself powers to put critical energy infrastructure under temporary state control.

Global squeeze

Emerging nations would get squeezed by Europe's thirst for energy, especially liquefied natural gas, as they would struggle to compete on price. The region is already pulling most of the spare LNG supply from the U.S. and other nearby exporters, keeping spot rates for the super-chilled fuel well above normal for this time of year.

Pakistan is suffering from blackouts, due in part to European nations outbidding the cash-strapped country for LNG cargoes. Argentina is also dependent on LNG from the spot market and has been forced to fork over hundreds of millions of dollars to secure deliveries for the southern hemisphere's upcoming winter.

Double bluff

As in any game of chicken, there's the chance for one side or both to pull away from the brink. While Europe needs the gas, the continent remains the only potential market in the near term for production from Russian fields.

Turning off the tap now may permanently close the door on Russian energy imports to its neighbor, choking off a key source of revenue in the process. Germany, which has been criticized for cautious support of Ukraine, would face renewed pressure to stand up to Putin more forcefully.