

Russia Has Upper Hand on Energy Sanctions

The West has promised a tough sanctions package against Moscow if it invades Ukraine. But when it comes to energy, Russia holds most of the cards.

By [Peter Rutland](#)

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A third of Europe's gas comes from Russia. **Stefan Sauer / dpa / picture-alliance / TASS**

The U.S. administration is talking up its ability to impose “[swift and severe](#)” sanctions on Russia that will deter it from military action against Ukraine. The problem is that economic sanctions are a two way street — and Russia has positioned itself to have the upper hand in an economic war.

Europe is on the brink of an energy crisis, in part [engineered](#) by Russia, and it would be a serious casualty in an economic war. In contrast the U.S. would benefit by expanding its gas exports to Europe.

Europe imports one third of its natural gas from Russia — with Germany getting [half](#) its imports from Moscow. Gas accounts for 30% of Germany's total energy consumption. Russia is anxious to start up the \$11 billion Nord Stream 2 pipeline, which brings gas directly to Germany across the Baltic Sea. The Trump administration, keen to export liquefied natural gas (LNG) to Europe, sanctioned the companies building Nord Stream 2 in 2019, delaying its construction. Biden pledged to [waive](#) those sanctions in May 2021, and in July Germany and the U.S. [agreed](#) to pay Kyiv \$1 billion to compensate for lost transit fees, assuming Russia will cut back on gas deliveries via Ukraine.

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The pipeline was completed in September 2021 but is still [awaiting](#) regulatory approval from the German authorities. Germany's ruling coalition is [split](#) on the issue: the Social Democrats want the pipeline, the Greens do not.

Despite conceding on Nord Stream 2, the Biden administration is nevertheless interested in expanding LNG sales to Europe. Amos Hochstein, the State Department's senior advisor for energy security, worked for the Tellurian LNG company from 2017–20.

In addition to the tussle over Nord Stream 2, Russia is also pushing back against the European Union's policy of switching from [long-term contracts](#) to the spot market for natural gas sales. Gazprom prefers ten-year contracts — with prices determined by average global oil prices — to cover the costs of developing new fields. Qatar, the leading exporter of LNG to Asia, also relies on long-term contracts.

The EU's ideological commitment to deregulation is behind its push towards spot prices. They are also favored by the powerful financial lobby, who can profit from speculation in futures markets, but are shut out by direct contracts between suppliers and customers.

Over the past year, Russia has cut back on gas sales through [the spot market](#), while meeting its long-term contractual obligations to European customers. It also put less gas into storage facilities in Europe. This caused a squeeze in gas markets, with wholesale gas prices closing the year [up 350%](#). Households across Europe are now facing monthly bills that are 30–50% higher, and some industrial gas users are cutting back on production of fertilizer, aluminum, steel and other energy-intensive products. Some small energy traders have gone bankrupt, and others are looking for government bailouts. One measure of German electricity [prices](#) has hit 300 euros per megawatt hour — up from an average under €50 over the last decade.

Related article: [Russia Denies Withholding Gas Supplies to Europe](#)

According to a [report](#) published by the Brussels-based Bruegel Institute released, Russia currently supplies 18 terawatt hours (TWh) of gas per week to Europe — against capacity of 54 TWh. Norway provides another 18 TWh and LNG adds 35 TWh. As of the end of January, Europe's gas storage facilities were 38% full, down from an average of over 50% in previous years.

The continent barely has enough import capacity to make up the shortfall if Russia were to

cease all gas deliveries. Most of the LNG regasification capacity is in Spain and the U.K., and there are not enough pipelines to ship that gas to other countries. Germany itself has no LNG terminals. In any case, there is little spare global LNG production and tanker capacity with much already locked into other long-term contracts.

The global LNG market of 5,000 TWh cannot sustain a sudden 1,000 TWh boost in demand from Europe. There would also be a crippling price war with Asian customers.

Europe would have to cut demand, and bring back some coal and nuclear power plants. Germany just closed three of its six nuclear plants, and intends to shutter the remaining three by the end of this year. These steps would be anathema to the Greens in the coalition — and would undermine the pledges at November's COP26 summit in Glasgow to move away from coal.

If the weather turns cold, European gas reserves will be exhausted by March, and prices will skyrocket. Assuming the stand-off continues, there would be the challenge of replenishing gas storage for next winter. As the Bruegel report concludes: "reaching the scale required to entirely replace Russian volumes would be at best very expensive, and at worst physically impossible."

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