

# A DIVIDE AND RULE GAME: WILL RUSSIAN GAS SUPPLIES TO EUROPE BE CUT?

BY ANNE-SOPHIE CORBEAU | AUGUST 2022

Since Russia's invasion of Ukraine in February 2022, two key questions have been whether natural gas supplies to Europe will be cut and, if so, the timing and extent of that disruption. This scenario could unfold in two ways: the European Union reduces imports of Russian gas or even places an embargo on Russian gas supplies, or Russia partially or completely cuts gas supplies to Europe. Both parties have taken steps in either direction, but Russia has taken the lead since April by fully cutting pipeline gas supplies to some countries and decreasing pipeline gas supplies to Europe broadly well below contractual levels, raising alarm bells in European capitals that Russia is cutting gas supplies faster than anticipated.

On March 8, the European Commission (EC) published an outline of its REPowerEU plan to cut Russian gas imports by two-thirds (approximately 100 billion cubic meters [bcm]) by the end of 2022 and phase out its dependence on Russian fossil fuels well before 2030.<sup>1</sup> Russia's response has been to test the unity of EU countries through a series of legal and technical challenges that resulted in lower gas supplies to Europe. In late March, Russia demanded that gas supplies be paid for in rubles, and between April 27 and June 1, it cut a total of six buyers because of their refusal to comply with this demand. In June, Russia progressively lowered pipeline gas supplies through the Nord Stream 1 pipeline, putting pressure on countries such as Germany while shifting the blame onto the West. Although Nord Stream 1 pipeline supplies resumed at reduced levels after the pipeline's annual maintenance on July 21, President Putin warned that Russian gas supplies could be reduced again.<sup>2</sup> As of July 27, flows through Nord Stream 1 have effectively dropped once more.<sup>3</sup>

These various moves can be seen as an attempt by Putin to put pressure on and divide European importers. While European leaders presumed that the Russian government badly needed gas revenues and therefore that Russian gas would continue to flow until no longer needed, Putin has demonstrated a willingness to sacrifice much of Russia's gas exports to

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divide and rule. As the crisis around Russian gas escalates, this commentary provides an overview and analysis of how it reached its present state and draws scenarios for how it might unfold going forward.

## **Decree of the President of the Russian Federation No. 172**

On March 31, 2022, Vladimir Putin issued Decree of the President of the Russian Federation No. 172 on the special procedure to allow foreign buyers to meet their commitments to Russian natural gas suppliers. This decree, which only targets pipeline gas supplies (as of the time of writing, Russian liquefied natural gas [LNG] continues to flow to Europe and Japan) requires gas buyers from “unfriendly” countries (i.e., those that imposed sanctions on Russia) to pay for their supplies in rubles.<sup>4</sup> On April 27, Gazprom halted gas supplies to Poland<sup>5</sup> and Bulgaria<sup>6</sup> because of their refusal to issue their payments in rubles. It then cut supplies to Finland on May 21,<sup>7</sup> the Netherlands on May 31,<sup>8</sup> and Denmark and Shell Energy in Germany on June 1<sup>9</sup> for the same reason.

Discussions around the legality of gas supplies payments to Russia had been ongoing for about a month before the first cuts took place. President Putin first raised the possibility of demanding payment in rubles on March 23 but left the timing and scope open.<sup>10</sup> This announcement was met with clear refusal by European countries.<sup>11</sup> Gas supplies are usually paid for in euros or US dollars, as stipulated in long-term contracts, and contract terms cannot be changed without the agreement of both seller and buyer. Changing the currency is therefore equivalent to a breach of contract. On March 30, President Putin signaled he might have changed his mind about immediate payments in rubles.<sup>12</sup> But any move in that direction was quickly reversed on March 31 when he issued the decree demanding that all “unfriendly” countries pay for gas supplied after April 1, 2022, in rubles.<sup>13</sup>

The details of what Russia was requiring in practice emerged through subsequent analysis of the decree. European companies would have to open two bank accounts at Gazprombank, one in the currency of their contracts and one in rubles. Buyers would then have to make payments in the former currency (usually euros or dollars) to their special currency accounts. Subsequently, Gazprombank would sell that foreign currency on the domestic exchange market and transfer rubles to the buyer’s ruble bank account. EU companies would have fulfilled their contractual obligations only when the payment was completed in rubles and the money was transferred into the seller’s ruble bank account. In doing so, however, European companies would relinquish control of their payment obligations, the rate of currency of their payments, and the timing of the process to an agent (Gazprombank). Additionally, by putting euros or dollars in Gazprombank rather than in a Western bank, as was usually the case, they would make the funds accessible to Russia and impossible to freeze given that Gazprombank is not under sanctions.<sup>14</sup>

## **The Thorny Question of Long-Term Contracts**

Contracts have been at the center of the battle between Russia and the EC. By invoking a two-thirds decrease of Russian gas imports in REPowerEU, the EC implicitly put Russian gas imports below the annual quantities in Russian pipeline gas contracts, estimated to be around 140 billion cubic meters per year (bcm/y). The only way for European buyers to exit from their



contracts legally would be if the EU imposed blanket sanctions, assuming that the contracts are all governed by EU or Swiss law, which specialists believe to be the case.<sup>15</sup> A reduction of only two-thirds, therefore, would either breach long-term contracts or the sanctions (unless they are phased and/or exempt some countries, as is envisaged for oil). Additionally, there are contracts between European buyers and their downstream users in Europe that would not be affected by the sanctions but still need to be fulfilled.

Whether the Russian decree has an impact on contracts also depends on what the law governing these contracts says about a mandatory law in another country (i.e., Russia) as well as the specific contractual terms. But given that Putin is not bluffing about supply cuts, buyers may not have time to argue over the legal framework and find gas supply alternatives. Meanwhile, the decree creates opportunities for buyers to seek preferential treatment from Russia, which would benefit Putin's effort to divide European countries. Article 8, for instance, allows a buyer to transfer its obligation to make the payment to a third party, though one wonders which party could or would serve as an intermediary. Article 9 provides for a possible ad hoc arrangement with buyers, who can get a special deal.<sup>16</sup>

Between early April and the end of May, various buyers and countries tried to ascertain how to deal with the decree.<sup>17</sup> From the perspective of European buyers, the crux of the matter was whether any part of the payment process (e.g., opening a bank account in rubles or having Gazprombank convert foreign currencies into rubles, which could involve interaction on some level with the Russian Central Bank) could be seen as a breach of sanctions.

The EC's own announcements did not help matters. On April 21, the EC suggested that it may be possible for European entities to pay for Russian gas according to the new decree without violating EU law.<sup>18</sup> But this was nullified a week later when EC President Ursula von der Leyen and Energy Commissioner Kadri Simson announced that making payments in rubles would be a breach of EU sanctions and therefore a high risk for companies due to potential interaction with the Russian Central Bank.<sup>19</sup> While the payment schedule for different European buyers is unclear, many companies were understood to be facing a payment deadline of May 20, unlike PGNiG and Bulgargaz, whose payment deadline was in April.<sup>20</sup> By May 12, a total of 20 buyers were said to have opened accounts with Gazprombank, with four having already made payments in rubles. Italy's prime minister, Mario Draghi, supported payment in rubles for his country, while the German company VNG announced it would do the same.<sup>21</sup> The EC did not provide updated guidelines until May 13. It stated only that companies could pay for Russian gas in the currency agreed in their existing contracts and declare the transaction officially completed when that currency is paid.<sup>22</sup>

Meanwhile, Gazprom tried to reassure its clients based on a new order from the Kremlin on May 4 clarifying how payment in rubles should occur. According to the order, foreign currencies could be exchanged to rubles via accounts with Russia's National Clearing Center, excluding any involvement of the Russian Central Bank.<sup>23</sup> The Russian Central Bank's governor, Elvira Nabiullina, stated that the currency conversion process would be limited to two working days so that the transaction could not be seen as a loan. Interestingly, she also stated that if foreign gas buyers paid into their foreign currency accounts in good faith, gas would not be turned off even in the event that Gazprombank failed to convert those funds into rubles.



The cuts to Poland and Bulgaria on April 27, 2022, had taken markets by surprise. On the day of their announcement, Dutch TTF (Title Transfer Facility) gas prices, which had been decreasing since April 1, jumped by 16 percent. By the end of May, companies were fully aware of the potential risks of not complying with Russia's requirements. While an unknown number of buyers decided to comply, four buyers chose not to, and their gas supplies were immediately cut. These last cuts could be seen as a deliberate choice to face the risk head-on. As of mid-June, six buyers (PGNiG in Poland, Bulgargaz in Bulgaria, Gasum in Finland, GasTerra in the Netherlands, Ørsted in Denmark, and Shell Energy in Germany) have been cut, representing a total of around 22 bcm/y or roughly one-sixth of contracted Russian pipeline gas volumes to Europe. Additionally, the three Baltic countries have taken steps to become completely independent from Russian gas by the end of 2022. Overall, most European buyers (and countries) decided to accept Putin's terms rather than face a gas supplies cut.

## The Decision to Target Poland and Bulgaria First

The decision to cut supplies to Poland and Bulgaria first is particularly interesting because both countries have gas contracts with Russia that expire at the end of 2022 and have been vocal about diversifying. Coincidentally, their payments were both due in April. This cut has only brought forward the end of these contracts—the 10 bcm/y contract with PGNiG (with an 8.7 bcm/y take-or-pay obligation)<sup>24</sup> and the 2.9 bcm/y contract with Bulgargaz.<sup>25</sup> If these companies were to sue Gazprom for breach of contract and win the case, the financial compensation they would receive would be lower than if Gazprom had interrupted a contract lasting another 10 years since PGNiG's and Bulgargaz's contracts were nearly due to expire.

Poland has had a particularly complicated relationship with Russia in terms of natural gas over the past few decades.<sup>26</sup> As a result, it is one of the most prepared European countries when it comes to diversifying away from Russian gas. Poland has significant domestic gas production (4 bcm in 2021 or roughly one-fifth of its gas demand), a 5 bcm LNG terminal (Świnoujście) that has been in operation since late 2015 and is currently being expanded to 8.5 bcm, and a gas interconnection with Lithuania (GIPL) that opened in early May 2022, with PGNiG receiving its first cargo from Lithuania's Klaipeda terminal on May 6. The country is also building a 10 bcm Baltic pipeline from Norway that will be in operation starting in late 2022 and for which PGNiG is planning to use its own Norwegian production (3 bcm in 2022) as well as secure additional contracts,<sup>27</sup> is planning to add additional LNG capacity in Gdansk,<sup>28</sup> and can receive gas at the Mallnow entry point with Germany. (Ironically, these gas molecules are almost certainly Russian.) Moreover, the disruption of Russian supply came at the end of April, when Poland's residential demand is low. Poland's gas storage has also been exceptionally full (99 percent as of July 28, up from 73 percent on April 21). Since October 2021, Russian natural gas supplies to Poland have been exceptionally low. In fact, the Yamal pipeline has been functioning mostly in reverse mode since late December 2021, bringing gas from Germany to Poland—to the great chagrin of Russia.<sup>29</sup> Since Russia announced the cut, some gas has been flowing intermittently from Russia at Kondratki on the border with Belarus (from May 3 to May 10), presumably for European consumers further down the pipeline, while Poland has received gas from Germany. These flows stopped after Russia imposed sanctions on EuRoPol Gaz S.A., which owns the Polish section of the Yamal gas pipeline, on May 11.<sup>30</sup> The Yamal pipeline (33 bcm/y) is therefore no longer operating.



Bulgaria's situation is more complex because of its higher dependency on Russian gas (approximately 77 percent<sup>31</sup>). But gas represents only 13 percent of the country's primary energy mix. Bulgaria was importing Russian gas through the TurkStream pipeline landing in Turkey, which in January 2020 replaced the previous Trans-Balkan pipeline that transited through Ukraine and served Southeast Europe and Turkey. Bulgaria does not have direct access to the global LNG market but rather indirect access through Greece. In anticipation of the end of its contract with Gazprom, Bulgaria signed a deal with Azerbaijan for 1 bcm/y. This supply will be available once the 3 bcm Gas Interconnector Greece-Bulgaria starts commercial operations, now expected in August 2022, after the pipeline was officially inaugurated in July 2022.<sup>32</sup> Bulgaria is currently seeking either alternative supplies from Azerbaijan or more LNG, in addition to two LNG shipments it already received for June and July.<sup>33</sup> Its unique storage facility is only 45 percent full as of July 28, making it less prepared than Poland.

## The Decision Not to Comply

By the end of May, the threat of a supply cut was clear to all European companies. It appears that a few countries and companies, with the exception of Finland in the short term, decided that they could afford to be cut because alternative supply sources were available, although at a price potentially higher than Russian gas supplies. Gasum,<sup>34</sup> GasTerra,<sup>35</sup> and Ørsted<sup>36</sup> stated clearly that they had no intention of making the payments in rubles, while Shell made no such public statement. Unlike Poland and Bulgaria, only GasTerra's contract was ending in October 2022; Ørsted's contract was due to expire in 2030 and Gasum's and Shell's in 2031.

With consumption levels of around 2 bcm, Finland is a small user of natural gas but has been almost entirely dependent on Russian pipeline and LNG. Finland's electricity imports from Russia were cut in mid-May in response to its decision to join NATO—a decision that also increases the likelihood that it will see its gas supplies cut, regardless of its decision regarding ruble payments.<sup>37</sup> Gasum had anticipated cuts and planned to supply gas to its Finnish customers through the Balticconnector gas pipeline linking Finland to Estonia, while recognizing that there would be constraints due to the transmission infrastructure.<sup>38</sup> In practice, the Balticconnector has been delivering close to the equivalent of 0.8 bcm/y from Estonia since May 22 (for the period May 22–July 21), but it is important to note that the three Baltic countries have decided to wean themselves off Russian gas so that they will all depend on LNG. Finland therefore needs to build additional LNG infrastructure. A floating storage and regasification unit (FSRU) providing 0.3 bcm is expected to start in Hamina in October 2022,<sup>39</sup> while another 5 bcm FSRU located in Inkoo is expected to start somewhat later during the winter.<sup>40</sup> Finland has no underground storage facility. There are also plans to increase biogas production in the medium term.

The Netherlands, by contrast, is far from dependent on Russia, with its connections to Norwegian and UK gas pipelines and to an LNG import terminal currently working above nameplate capacity at 14 bcm/y. Dutch gas production was declining in 2021 and continued to do so in the first quarter of 2022 despite higher projected output for the Dutch Groningen field. Nevertheless, it still represented an estimated half of Dutch consumption in 2021.<sup>41</sup> The Netherlands plans to double its LNG import capacity in the future. As the contract with GasTerra ended in October, only around 2 bcm of supply will be missing from the 4 bcm/y



contract. While GasTerra anticipated the loss, it recognized it was impossible to predict how it would affect the global supply/demand situation.<sup>42</sup>

Denmark is likewise a very small market (2.8 bcm in 2021). Biomethane already represents 20 percent of the country's gas consumption and natural gas production another 40 percent.<sup>43</sup> Ørsted usually imports through Germany, where its contracted Russian gas supplies are delivered, and expects to source alternative supplies from the EU market. The Danish Energy Agency said the country was well prepared for a Russian cut because of its domestic sources (which are expected to increase significantly in 2023), the potential for energy savings, and the start of the Baltic pipeline linking Norway to Poland and supplying Denmark.<sup>44</sup>

There is no information on why Shell Energy decided not to comply while Germany remains very dependent on Russian gas. This may be because the company, as an international gas and LNG player, has access to alternative (LNG) supplies.

## To Cut or Not to Cut, That Is the Question

By early June, European buyers who had agreed to pay in rubles could have hoped that Russian gas would continue to flow based on their contractual commitments. However, this was already compromised by two issues: the Yamal pipeline's cease of operations on May 11 (mentioned previously), which removed about 33 bcm/y of supply capacity, and lower gas transit through Ukraine.

On May 10, Ukraine's gas transmission system operator declared force majeure at Sokhranivka, a gas metering station located in Eastern Ukraine, because Russian forces interfered with its ability to safely operate the system.<sup>45</sup> While contracted supplies could have gone through another entry point (i.e., Sudzha), Gazprom did not use this option. Instead, Putin shifted the blame onto Ukraine by arguing that the force majeure was declared for political reasons.<sup>46</sup> Consequently, gas flows dropped from around 90 million cubic meters per day (mcm/d) (around 33 bcm/y) in March 2022 to around 35 mcm/d (around 13 bcm/y) in late May 2022.

By early June, Russia had about 85 bcm/y of available pipeline capacity for the EU,<sup>47</sup> based on Nord Stream 1 (55 bcm/y), TurkStream (16.5 bcm/y), and the remaining transit through Ukraine. Nord Stream 1 in particular had been reliably operating at capacity for years (outside maintenance periods), spared from the kind of volatility that routes through Ukraine and Belarus have experienced over the past year. Meanwhile, Russia's estimated remaining pipeline gas contractual commitments to European companies were at around 120 bcm/y.

However, since early June, flows through Nord Stream 1 declined from around 167 mcm/d on May 30 to around 67 mcm/d in mid-June and zero on July 11. According to Gazprom, the company had to reduce daily deliveries from 167 mcm/d to 100 mcm/d on June 14 due to "the failure by Germany's Siemens to return gas compressor unit (GCU) in due time after their repair, the expiration of time between overhauls set out for GCUs and the malfunctions detected in engines."<sup>48</sup> This left only three GCUs working before an additional one was shut down on June 15 due to the expiration of time between overhauls, leaving flows at 67 mcm/d. It appeared that the GCU held by Siemens was stuck in Canada due to sanctions, creating an opportunity for Russia to shift the blame onto the West. After the German minister Robert



Habeck called for the return of the sanctioned turbine in early July, Canada consulted with the EC, Ukraine, and other players and decided to grant a permit for it to be delivered.<sup>49</sup> As of July 21, gas flows through Nord Stream 1 have returned to 67 mcm/d. But President Putin has warned that turbines could be out again in late July due to maintenance, which effectively happened on July 27.<sup>50</sup> There has been much speculation about whether technical reasons were sufficient to explain Gazprom's decision to reduce the flows and some good will could have prevented the reduction, or whether this episode was aimed at establishing a sanctions-proof regime for the maintenance of Nord Stream 1's turbines.<sup>51</sup> But the timing of the interruption has not escaped anybody's attention.

All these actions follow a three-pronged strategy: pressure European buyers, divide and rule by using gas as a weapon, and harm unfriendly countries' economies.

First, Russia's actions over the past months have systematically kept pressure on European gas markets, preventing prices from decreasing. TTF gas spot prices have averaged €100/megawatt hour (MWh) over the first half of 2022, five times more than over the first half of 2021. While there might have been genuine reasons behind the reduction of Nord Stream 1 flows, this action put renewed pressure on Europe. By early June, European storage levels had improved, reaching the five-year average and seemingly on track to reach 80 percent filling rates by November. The reduction of Nord Stream 1 flows combined with the reduction of contracted flows to six buyers, the unavailability of the Yamal pipeline, and reduced transit flows through Ukraine pushed prices to €160-170/MWh during the first weeks of July while the filling of storage slowed considerably.

Second, long-term contracts, which have been the backbone of Europe's pipeline gas supplies, can no longer be used to predict the evolution of minimum levels of Russian gas supplies to Europe. Over the past three months, Gazprom has either cut or reduced contracted deliveries. However, Gazprom is still using the contractual framework when dealing with European counterparts, including for the ruble payments. Since June 14, it has also retroactively declared force majeure on Nord Stream 1 supplies—using sanctions put in place by Western countries to justify lower supplies—to avoid being held responsible for lower deliveries to European buyers through that pipeline. However, it did so one month after the disruption took place, an unusually long gap to declare force majeure. Additionally, the declaration can still be challenged by buyers.<sup>52</sup> This caution around the legal contractual framework might be due to Russia's lingering hopes of becoming a supplier to other countries and its need to position itself as a reliable supplier. However, it is worth noting that an LNG contract with India's GAIL was a collateral victim of sanctions.<sup>53</sup> Meanwhile, these long-term contracts are still important for some European buyers because they provide a source of cheaper gas compared to the spot market, as some countries do not currently pay high spot market prices: the average German import price (with a significant share of Russian gas) averaged €54/MWh between January 2022 and May 2022,<sup>54</sup> far below TTF prices.<sup>55</sup>

Third, this strategy is also about tit for tat. The European Union has put in place an import ban on Russian coal that will be fully effective from August 2022 through a fifth package of sanctions<sup>56</sup> and a ban on seaborne crude oil and refined products that will be fully effective within six and eight months, respectively, through a sixth package of sanctions.<sup>57</sup> Interestingly,



as the EU plans to stop importing Russian coal as well as Russian oil and refined products, it has presumed that Russian fossil fuels would continue to flow until Europe does not need them anymore. Nobody is asking why Russia should be ready to continue supplying gas. This assumption fails to acknowledge Russia's leverage due to Europe's lack of sufficient gas alternatives until at least 2025, its ability to cut gas supplies partially or totally in retaliation, and President Putin's readiness to sacrifice gas revenues and facilities and to use gas as a geopolitical weapon while blaming the West or Ukraine for the lower pipeline gas deliveries to the EU. It could be argued that, assuming gas prices stay at current levels (over €200/MWh at the time of writing—about four times 2021's levels), Russia cutting flows by two-thirds (e.g., by keeping Nord Stream 1 flows at reduced levels and preserving the same level of flows through Ukraine and TurkStream) would yield it the same or even higher revenue it raised in 2021.

While questions have been raised as to whether the EU should also fully ban Russian gas supplies, this move has been resisted so far because there is no immediate solution to the problem of how to replace all Russian gas imports (155 bcm in 2021, including pipeline gas and LNG). It is now painfully obvious that Russia has taken the lead in terms of volume reduction, preempting further EU moves. In Northwest Europe, Norwegian gas imports have reached their maximum while LNG imports have increased by 58 percent year-over-year between January and June 2022. LNG import capacity is used at or above nameplate capacity. Flows of Azeri gas are at their maximum, while North African gas deliveries are underperforming. With other energy sources used at their maximum, the next stage for Europe is to reduce gas demand ahead of potential further supply disruptions from Russia, as proposed in the Save Gas for a Safe Winter strategy presented by the European Commission on July 20.<sup>58</sup> Such demand reductions would likely have a massive economic effect—one that economists are still debating. Most recent estimates suggest that the halt of Russian gas supplies could reduce the EU's GDP by 1.5 percent if the next winter is cold and the region fails to take preventive measures.<sup>59</sup> One earlier study published in April put the cost of a sudden loss of Russian gas supplies for Germany at around 12 percent of its GDP (some €429 billion).<sup>60</sup>

## Potential Ways Forward

Looking ahead, it is in Russia's interest to continue to put pressure on Europe through (rumors of) disruptions and technical issues to exacerbate volatility and increase prices, but this can also be achieved by putting pressure on buyers through the legal terms in their contracts. When the EU's oil embargo is fully in place, gas will remain Putin's main weapon against Europe (short of any military action). The first challenge to European buyers individually and collectively was the ruble payment episode; the second was the closure of various pipelines to Europe (Yamal) as well as the reduction of flows through Nord Stream 1. In both cases, most countries have complied with Russian terms, whether by accepting to pay in rubles or by bringing the sanctioned turbine back.

The evolution of the gas crisis in Europe depends on several parameters:

- **President Putin's next political moves.** Putin has the ability to divide Europe by playing on contractual terms for gas or technical disruptions and potentially cutting gas supplies to countries he deems the most unfriendly. Given different levels of



dependency on Russian gas among European countries and different lengths of time at which they can reduce that dependency, Europe has difficulty responding to Russian threats unanimously. This provides a way for Putin to cherry-pick and cut countries or companies refusing to comply with his rules. It is also possible that Putin will pressure individual European countries to cut their supply of weapons to Ukraine in exchange for the continued supply of Russian gas.

- **Europe's next political moves.** For its part, the EC can respond speedily to legal challenges from Russia and provide clear legal guidance, whether the issue is a contract or a key piece of equipment stuck because of sanctions. Europe has the ability to decrease its dependence on Russian gas rapidly and survive next winter—an approach elaborated in the REPowerEU's Action Plan published on May 18 and the Save Gas for a Safe Winter Plan published on July 20. To achieve these plans, there needs to be collective action but also a much stronger realization that Europe needs to think in terms of an economy of war. The initial reaction to the Save Gas for a Safe Winter Plan shows that collective action has limitations as countries less exposed to Russian gas supplies, such as Spain, Portugal, Poland, and Cyprus, are reluctant to share the burden.<sup>61</sup> If European solidarity falters while Russian gas supplies are being curtailed, this could lead to a major political schism within the European Union.
- **Supply routes.** The evolution of the supply routes to Europe, including those that are still available—Nord Stream 1, TurkStream, and the routes through Ukraine (the latter of which could be increased)—provide another opportunity to divide and rule, as illustrated by Putin's suggestion that Nord Stream 2 could be used to replace Nord Stream 1.<sup>62</sup> So far, LNG flows to Europe have not been disrupted, but that could be the move to come.
- **Long-term gas contracts.** Companies' assessment of their ability to terminate their long-term contracts ahead of their expiration while responding to Russia's future legal or technical challenges can help enable Europe to decrease its Russian gas imports without causing the companies to breach their contracts.

But the crucial question is: who is in the driver's seat in terms of cutting gas supplies?

In the short term, it appears to be Russia, but in the medium to long term, it will be the EU for two reasons. First, this period of time allows Europe to develop avenues of demand reduction (renewables, energy efficiency, etc.) and alternative supply sources (LNG, biomethane, and other pipeline gas supplies). More LNG is expected to be available post-2025. Second, Russia may have given EU countries a weapon that can undermine its own long-term contracts by using changes in the contracts and invoking force majeure. Countries that feel they can cope with a disruption of their Russian gas supplies can refuse to comply with any further challenge that Russia could come up with in the future, go to arbitration, and denounce the challenge as a breach of contract. However, this is a double-edged sword that warrants caution and cannot be used as long as markets are tight. The timing of the independence has to be carefully considered at a country and an EU level.



That independence may be enhanced by sourcing new supplies, whether pipeline gas or LNG. So far, Europe's desire to replace Russian gas supplies has been counterbalanced by the difficulties of bringing new gas supplies to Europe in a timely manner—in particular due to the reluctance of European buyers to commit to long-term contracts (greater than 10–15 years). European companies are likely to have to reconsider this position in terms of the recent evolution of the great gas chessboard.

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## About the Author

**Anne-Sophie Corbeau** is a Global Research Scholar at the Center on Global Energy Policy at Columbia University's School of International and Public Affairs. Her research focuses on hydrogen and natural gas. Anne-Sophie has over 20 years of experience in the energy industry and is a recognized expert on natural gas. She is the author of many publications focusing on gas, LNG markets, Asia, China, India and Africa, including the book "LNG markets in transition: the great reconfiguration" (Oxford, 2016). She is also a member of the Gastech governing body.

Prior to joining the Center, Mrs. Corbeau was a senior Leader and head of gas analysis at BP, where she was responsible for advising the Leadership Team on gas market developments and long term pricing assumptions. As part of the Economic and Energy Insights team, she was leading the Energy Outlook's analysis on gas, industry, nuclear and hydrogen. She also served as a member of BP France's Comex (board). Before joining BP, she was a Research Fellow at KAPSARC (King Abdullah Petroleum Studies and Research Center) in Riyadh where she set up and expanded the natural gas program. She also worked for the International Energy Agency (IEA) where she was responsible for managing the research on global gas markets, and for IHS CERA.

She began her career as an engineer working on fuel cells and hydrogen at Peugeot and Debis Systemhaus. Anne-Sophie holds an MSc from the Ecole Centrale Paris and an MSc from the University of Stuttgart.



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