

Pregled ruskega trga 16/05/2022

Energy sector developments

Russian energy sector

By the end of 2021, the share of the energy sector in the Russian GDP had amounted to 25.5 % and its share in the Russian federal budget had amounted to 36 %. Investment in the energy sector had amounted to 4.4 trillion rubles. Oil production increased by 2 % and reached 486 million tons (or 9.6 million b/d). Gas production increased by 10 % and reached 761 million cm/ year.

Gas export had increased by 3 %, amounting to 250 billion cubic meters (to EU 150 bcm) in 2021. The largest increase had been provided by its main consumers: Germany (+ 10.5 %), Turkey (+ 63 %), Italy (+20.3 %). The share of Russian energy supplies to the EU countries in 2021 was: oil 30 %; gas 40 %; coal 30 %. Russia confirmed itself as the leading exporter of fossil fuels to Europe in 2021, covering a share of 36 % of total energy imports.

US and EU sanctions

Starting from February 2022, the EU, the US, and the UK have adopted incremental sanctions against Russia in response to the special military operation in Ukraine. Belarus has also been subject to sanctions for the support it has provided to Russia.

These sanctions are added to the sanctions imposed on Russia since 2014 and cover financial, energy, transport sectors, dual-use goods, visa policy etc. The sanctions on Russia imposed in 2022 can provoke a reduction of energy supply from Russia to Europe that would lead to the increase of inflation, already expected in the euro area around 5-7 %. Due to the sanctions, major trading houses intend to stop all deals with Rosneft, Gazpromneft, and Transneft. According to the International Energy Agency (IEA), the supply of Russian oil on the world market in the second half of 2022 may decrease by 3 million barrels per day.

The EU and US sanctions in the energy sector include:

- ban on imports of coal from Russia (for EU starting from 31/08/2022);
- ban on exports to Russia of goods and technologies related to the exploration and production of oil and gas;
- ban on exports to Russia of goods and technologies in the oil refining sector;
- ban on new investments in the Russian energy sector, including power generation from renewables;
- US sanctions against the company responsible for Nord Stream 2 (after Germany had already suspended the Nord Stream 2 certification process);
- US embargo on imports from Russia of oil, petroleum products, LNG and coal (waiver for contracts signed before March 8, 2022)
- EU restrictions on some Russian companies, including Rosneft, Transneft, and Gazpromneft. The restrictions do not affect the imports of Russian energy supplies into the EU and energy projects outside Russia, if the sanctioned parties have minority stakes;

- EU ban on any transactions with Russian companies, which have at least 50% state ownership. This ban does not concern operations related to the purchase, import or transport of fossil fuels, in particular coal, oil, and natural gas, as well as other minerals and metals.

Rouble payment for gas – Presidential Decree No. 172 dated 31.03.2022

- On March 31, 2022, the Russian President signed a decree No. 172 introducing a new procedure for paying for Russian gas supplies as of April 2022, that stipulates the currencies in which the contracts are priced by converted into rubles through Gazprombank for "unfriendly" countries.

- Gazprombank, which is the authorised bank for the purposes of the Presidential decree, will open, based on an application by a foreign buyer, special K-type ruble accounts and special K-type currency accounts for natural gas transactions.

- A foreign buyer, on whose application the account has been opened, or a person to whom the obligation to pay for gas has been delegated, may transfer funds in the Russian currency specified in a contract on natural gas supplies to the special K-type currency account.

- The special K-type ruble account may be credited with money received as a result of the sale of foreign currency received on a special K-type currency account.

- Bloomberg: a total of 20 European companies have opened accounts, with another 14 clients asking for the paperwork needed to set them up. The number of customers who have paid in rubles remains at four, the same as in April 2022. Payments from other buyers are due later in May 2022.

- As of April 26, 2022 Gazprom Export did not receive payment for the gas supplied in April 2022 from two companies: Bulgargaz (Bulgaria) and PGNiG (Poland) in rubles, as required by the Presidential decree No. 172 dated 31.03.2022. Therefore, Gazprom Export informed Bulgargaz and PGNiG about the suspension of gas supply from April 27, 2022 until they make the payment consistent with the new rules endorsed by the Presidential decree.

Sanctions from the Russian side

Following the Presidential decree No. 252 dated May 3, 2022, which explicitly forbids the exports of products and raw materials to people and entities on the sanctions list, the Russian Government published the list of sanctioned entities on May 11, 2022 (Resolution by the Government of the RF No. 851 dated May 11, 2022). There are 31 companies under the sanctions, which are banned from conducting transactions and entering Russian ports. The list includes EuRoPol GAZ SA, the owner of the Polish part of the Yamal-Europe gas pipeline, Gazprom Germania, WINGAS, WIEH, WIEE,

Astora, and dozens of other companies based in countries that have imposed sanctions on Russia.

- The Russian sanctions against EuRoPol GAZ mean that Gazprom is barred from using this pipeline's capacity of 33 billion cubic meters. The long term gas contract between Gazprom and Poland via Yamal-Europa expired more than 1 year ago and has not been prolonged. Since then Gazprom has been using this pipe only on a daily booking auctions basis.
- German regulators took control of operations at Gazprom Germania after Gazprom abandoned it in April 2022 without explanation.
- The WINGAS/WIEH/WIEE trading group is the owner of a large package of contracts for the supply of Russian gas. WINGAS owns about 25 % of Germany's gas storage capacity.
- Astora is the largest gas storage operator in Europe.

Russian gas transit through Ukraine

Russian gas flows to Europe through Ukraine may be interrupted as Kyiv halted since May 11, 2022 the use of one ("Sokhranovka") out of two transit points responsible for about 30 % of Russian gas to Europe via Ukraine. On May 10, 2022, the gas transmission operator of Ukraine (OGTSU) notified Gazprom of the occurrence of force majeure circumstances that make it impossible to further transport gas through the "Sokhranovka" transit point and the "Novopskov" border compressor station, located on the territory of the Luhansk region. OGTSU proposed to temporarily transfer inaccessible capacities from "Sokhranovka" to "Sudzha" transit point, which is located on the territory controlled by Ukraine. Gazprom rejected the grounds for declaring force majeure on transit by Kyiv and stated that it was impossible to redirect volumes.

The throughput capacity of the Ukrainian gas transmission system on the border with Russia is 288 billion cubic meters. Within the current "pump or pay" contract, Russia annually supplies 40 billion cubic meters to Europe through Ukraine (109 million cubic meters per day). The current contract, signed at the end of 2019, expires in 2024.

International energy companies' positions in Russia

In Q1 2022, due to the Russian-Ukrainian crisis, some foreign energy companies, which decided to leave Russia, announced potential losses from the depreciation of investments in Russia in the amount of more than US\$ 40 billion, according to Wood Mackenzie.

In the current geopolitical situation, an asymmetry in the positions of the main companies was noted: some companies have immediately announced the intention to sell their stakes in Russian assets; others have decided not to withdraw from Russia, but only not to make new investments.

(tabela1 je v prilogi)

Russia's energy trade with India and China

- According to Reuters calculations, India has bought more than twice as much crude oil from Russia in March-April 2022, as it did in the whole 2021, as Indian refiners snapped up discounted oil that others have shunned.
- Refiners in India have placed orders for at least 40 million barrels of Russian oil since February 24, 2022, Reuters calculations based on information from crude tenders and traders show. That compares with total imports of Russian oil into India of 16 million barrels in the whole in 2021.
- Financial Times: China's independent refiners have been discreetly buying Russian oil steep discounts, as Western countries suspend their own purchases and explore potential embargoes because of Ukraine. Many Western companies are self-sanctioning or struggling to secure the insurance, shipping or financing needed to buy Russia's commodity exports, raising expectations that energy-hungry China will step in and buy the unsold barrels.
- Bloomberg: Chinese and Indian companies may consider buying or increasing stakes in Russian energy and commodities companies.
- At the same time, India and China are ramping up their use and production of coal, the dirtiest of the primary fossil fuels, but in many cases, also the cheapest. India is planning to reopen more than 100 coal mines, while China plans to produce a record 12.6 million tonnes per day of coal in 2022.

Sources:

AEB weekly webinar "Crisis Update: Sanctions and Countermeasures", held on May 13, 2022

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