Perhaps, Russia has much more to lose than Europe

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The cohesion and unity of the European Union is being tested.

The request to pay Russian gas in rubbles was on the table in the Council of Energy Ministers, assembled in Brussels on May, 2. Following the usual euchology concerning the stand of the member-states against Russia, the Council as a matter of fact failed, in two accounts:

a/ to produce tangible guidelines in relation to the mode of gas payments to Gazprom and

b/ to address the thorny issue for the application of plafond in the price of electricity providing financial subsidies relieving the badly battered consumers across EU.

The rather vague and inconclusive outcome, of the Council, does mirror the differentiation of some member-states and reluctance of others, owing partly to conflicting interests among them and to domestic pressures exerted to governments by the social stakeholders. This is particularly true for Germany, a recipient of 18% of the Russian gas exports to EU. Trade Unions and the business community, have dispensed a joint statement opposing any EU decision to prohibit Russian gas imports to Germany, considered as the main recipe for recession and unemployment surge.

Russia, by the unilateral and abrupt change of the valid gas supply contracts to its largest and certainly best customer, namely EU, yet by excluding from the supply chain, two member-states: Poland and Bulgaria, where in the latter, a significant part of the population harbours pro-Russian feelings, is irreparably damaging its commercial solvency and image at large.

Such behaviour manifests unreliability of the Russian side, which has repeatedly advocated consistency in the security of supply towards its customers, as Kremlin spokesperson Dmitry Peskov insists that Russia persisted a reliable energy supplier, thinly denying that Russia was engaged in blackmail.

Russia’s attitude essentially brings back to the public debate the question of who has more to lose from this economic war: Europe or Russia?

As POLITICO recently wrote [1] Quote**:** *For a man fixated on Russian grandeur, President Vladimir Putin is doing his best to sabotage the only economic sector that gives Moscow any claim to superpower status and that helps bankroll his war in Ukraine: oil and gas.* Unquote.

As a consequence of the sanctions, due to the Russian invasion in Ukraine and additionally EU's decision to rehabilitate from Moscow is the gradual decrease of Russian natural gas exports up to ~ 150- 200 bcm per year to Europe, with a deadline of 2030. These are not simply replenished with exports mainly to China being the fastest growing natural gas market with an annual growth rate of 22%. However, the pace, was slightly bent during the Covit-19 pandemic, and recently in the lockdown in Shanghai, that led China’s CNOOC set to resell at least 5 LNG spare cargoes for summery delivery on the spot market.

The Russian revenue losses are not made up, not even qualitatively, since the Western markets are stable and safe and are paying, in a hard convertible currency, at prices well above those of the Asian markets. The privileged commercial position that Russia enjoyed in the EU cannot straightforwardly be substituted in Asia, where other significant competitive players are active, with rather weighty gas reserves. Examples include Turkmenistan with 7,5 Tcm, (4% of the world's reserves), Uzbekistan with 1,8 Tcm and for the time being the "punished" with sanctions Iran, owing the staggering 33,5 Tcm (15% of the world's reserves). Iran ranks 2nd after Russia, in terms of the size of its world gas reserves.

Other potential markets for Russia, yet bounded with complicated geopolitical interrelations due to geography and prehistory, are India and Pakistan. So far, any plan by Russia for the future gas supply of India requires building new networks of gas pipelines that encompasses both a time span up to decade, and capital financing that is not apparently feasible in today’s sanctioned Russia.

India for some time ago is considering to build a 1400 km Offshore Natural Gas Trans-Arabian pipeline from the Iranian port of Char Bahar to India's Gujarat circumventing Pakistan. The projected cost stands to 5 billion USD. The Middle

[1] **1** AMERICA HERNANDEZ AND DAVID M. HERSZENHORN, Putin’s war imperils Russia’s energy cash cow, POLITICO, April 27, 2022

East to India Deepwater Pipeline (MEIDP), does resemble the technical challenges facing the conceived *East Med* pipeline in Eastern Mediterranean. Prerequisite for the implementation of the project is the rehabilitation of the Islamic republic of Iran, into the international community following lifting of the sanctions and eventually inking a nuclear agreement with the P5+1 (United States, United Kingdom, France, China, and Russia, plus Germany).

Since December 2019, based on a contract between China National Petroleum Corporation and Gazprom, the 3,000 km-long gasline with 55 billion USD budget has been launched. The name of the long gas pipeline is ***Power of Siberia.*** Is planned to carry at its peak in 2025, 38 bcm per year, for a duration of 30 years. The Russian natural gas route from Siberia, goes down along the Amur River alongside the Russia-China border ending up to North-East China. Payments for the gas purchase will be made in national currencies, though at prices significantly lower than those of the EU.

The two countries are further discussing two new gas pipelines, the 2,594 km-long at 80 bcm discharge ***Power of Siberia 2***, with a direction avoiding China's Xinjiang autonomous province, The second gas pipeline is the ***Sakhalin–Khabarovsk–Vladivostok***. Development of the gas rich fields in the Russian island of Sakhalin opposite Japan, is operated by the Sakhalin 2 LNG joint venture (JV) with shareholding structure comprising of Gazprom, (50%, operator), Shell (27.5%), Mitsui (12.5%) and Mitsubishi (10%).

Shell, by participating in the sanctions against Russia, is also withdrawing from its 50% stake in Salym as well as in Gydan, though mainly from the Sakhalin-2 JV. Shell's book value of these Russian JVs was the substantial 3.1bn USD (end of 2021). The company has entered into negotiations to sale its 27.5% stake in the Sakhalin-2 JV, to the Chinese companies CNOOC, CNPC and Sinopec. In case that Chinese will acquire Shel's concern, then will secure strong leverage to the Russian deposits and consequently in the Sakhalin–Khabarovsk–Vladivostok gas pipeline. In compliance to sanctions against Russia, ExxonMobil, is considering too to exit entirely from Russia by 24 June. The company holds about 4bn USD of Russian assets at the end of 2021. ExxonMobil essentially, is departing from the Russian concession Sakhalin-1, where at present, has declared *force majeure* in shipments of Sokol-type crude oil, which exports 270.00 barrels a day to Korea, Japan, Thailand, Australia and the USA.

The "wise elders " who run China, arrange in proper time to secure alternative (but Russia) sources of gas supply, absorbing almost all of Turkmenistan's annual production through a system of three parallel gas pipelines having a 42 inches diameter. Specifically, lines A: 15 bcm, B: 15 bcm and C: 25 b cm. The 1,833 km long system is called the ***Central Asia-China Gas Pipeline***, initiated in 2008 and opened in December 2009 at a cost of 11 billion USD that covered by borrowing, from the China Development Bank and the Bank of China. The system containing the three lines A, B and C does supply China for 30 years, initially with 30 bcm of natural gas per year and today with 43 bcm.

In addition, the China National Petroleum Corporation (CNPC) is active within the frame of a production sharing agreement for oil & gas production on the eastern bank of Turkmenistan's Amu-Darya River. According to the contract undertakes the Management and investments for the development of the deposits. The gas pipeline is crossing Turkmenistan (carrier: *Turkmen Gazi*), central Uzbekistan (carrier: *Uzbek Nefte Gaz*), southern Kazakhstan (carrier: *Kaz Munay Gaz*) terminating to the Xinjiang autonomous region of China that is inhabited by the Turkish-speaking ethnic group *Uyghurs*, often perpetrated against China by allegedly being clandestinely fomented by Turkey.

Addressing the eventual geopolitical threats posed over the *Central Asia-China Gas Pipeline* 3-lines system crossing over the Uyghur regions, Chinese authorities have designed and are subsequently constructing as of this year, the new D-line budgeted to 6.7 billion USD with financing provided by the China Development Bank and having Operators: the CNPC and the China National Petroleum Corporation. The 966 km-long gas pipeline, would supply additional 30 bcm, bypassing both Kazakhstan, and the Chinese autonomous region of Xinjiang. Line-D is not parallel to lines A, B, C while is fed by the Turkmen gas field *Galkynish*, the second largest in the world, after *South Pars* in Iran or *North Dome* in Qatar (is the very same deposit that share the two countries and jointly exploit). Upon completion of line-D, the *Central Asia–China Gas Pipeline* gas system will supply China with 85 bcm of natural gas, 2.23 times more than the Russian Power of Siberia system today.

China consumed 276 bcm of natural gas in 2018. Out of these, 124 bcm (45%) were imports, including LNG cargoes, from Australia that is China's largest natural gas supplier, transferring 13 bcm of LNG in 2021, which accounted for 39.3% of the country's total LNG imports in 2020.

About 50 bcm out of 276 bcm were transported from central Asia through the Central Asia-China gas pipeline. Although as French used to say, '*comparaison* *n'est pas raison'*, the above concrete data shows the eventual potential and opportunity for the Russian gas imports to China.

At best will amount to 35-40% of the quantities sold to EU, yet at far better prices.

Finally, it appears that the landmark date of February 24, 2022, has signalled the beginning of the end in the era of dominance of the Russian natural gas over EU.

Apparently, it was Russia's fat cows season.