

Flash note  
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## Is Russia gas supply to Europe at risk as Ruble deadline nears?

### The problem

Kremlin, has just remembered that foreign companies and governments will need to buy Rubles and pay for gas in Rubles. Of course, European countries were quick to reject such an imposition from Moscow.

Asked on G7's refusal to pay for gas in Rubles, Moscow said that "companies should take into account that conditions have changed due to 'economic war' against Russia, and that Russia will not export gas for free".

### Gas Supply at Risk?

There is question of whether this demand from Moscow is raising the probability of gas supply disruptions as Western nations have so far rejected Moscow's demand for a currency switch. It should be noted that this decision by Moscow could be the linchpin of Putin's strategy to defend the Russian currency. At the end of the day, President Vladimir Putin order (last week) to charge "unfriendly" countries in Rubles for Russian gas, has helped to boost the Ruble currency after it fell to all-time lows. If this is Putin's way of avoiding the collapse of his currency, then I think we should take this threat seriously.

Kremlin spokesperson Dmitry Peskov told reporters today that "Russia is entitled to defend itself against sanctions". "Foreign companies would need to buy Rubles and use them to make payments for gas". "No one will supply gas for free, it is simply impossible, and you can pay for it only in Rubles".

Separately, Valentina Matviyenko, the speaker of the upper house of parliament, said "Russia was ready if Europe refused to buy Russian energy supplies". "If that happened, it could redirect supplies to Asian markets among others".

The move has drawn strong criticism from European countries, which pay for Russian gas mostly in euros and said that Russia is not entitled to redraw contracts. Russia responds that it "has so far met its contractual obligations for gas supplies to Europe".

## **Deadline to stop paying in Euros (and start paying in Rubles).**

Putin set the deadline to stop paying gas in Euros on March 31. From that day, Moscow said today that "all modalities are being developed so that this new system is simple, understandable and feasible for European and international buyers."

Current situation has stoked fears in Germany about major disruptions to gas supplies should European utilities fail to pay in Rubles. Markus Krebber, CEO of Germany's largest utility RWE (and a customer of Gazprom) said that "a complete stop of Russian gas imports could only be tolerated for a very brief period".

Gas storage levels on the continent stand at just 26% currently, highlighting the challenge to replace Russia as an energy provider.

Russian gas deliveries to Europe through three key pipeline routes were broadly steady overall on Tuesday morning, little changed from Monday evening.

How much time would Europe need to achieve energy autonomy? "Germany would need three years to organize alternative gas supplies to become independent from Russia", the chief executive of utility EONGn.DE said on Monday.

### **Our assessment and strategy**

Of course, we don't know what will end up happening. The very threat of stopping supplying gas to Europe, if companies and countries do not pay in rubles, is as implausible as the threat to invade Ukraine was also implausible a month ago.

Our way of thinking inclines us to believe that this threat will not be carried out. However, when it comes to such unconventional political actors, and because of the dramatic economic consequences of a gas supply cut to Europe, together with yet pricy valuations, it seems to me that what common sense suggests is to keep a defensive strategy in Europe. Of course, today the market does not think the same. But that's an uncomfortable position I'm willing to take for the time being.

Best