

Christof Rühl

Senior Research Scholar - Center on Global Energy Policy
Columbia University



How can Europe Navigate Weaning Itself Off Russian Energy?

On natural gas, Europe would need to go back to the Americans and secure this promise of thirty billion cubic meters of additional deliveries, which would require redirecting supplies destined for Asia to Europe. But if Russia stopped exporting gas from Western Siberia, it would also lose all that revenue as it has no other option than the pipeline going to Europe, so Moscow is unlikely to do that. If it did, because of the US confiscation of Russia's Central Bank foreign currency dollar reserves, they would not have the financial depths to sustain that for very long.

As for oil, that could create global tensions because if Europe rejected Russian oil it would have to go to the Middle East for new alternative supplies, and this redirection of crude from the Middle East to Europe could cause friction between Moscow and Riyadh. For energy sanctions to work, we need to look at two key variables. Firstly, we would want the price of the sanctioned fuel to go down, as less of it is bought, and so that Russia suffers. Secondly, you do not want the global price of oil to go up and what would help this would be more production from the US, the Middle East and from anywhere possible.

Tightening the noose on Russian banks must be done in lockstep with decisions on importing less Russian energy. Otherwise, it will not work. The other issue is sovereign default. Russia has payments coming due and the more its banks are sanctioned and unable to transfer hard currency to make these payments, the closer the country is to a default.

We are already seeing ripple effects on the market from China's Covid crisis and subsequent economic slowdown. Beijing's commitment to its robust lockdown policy will continue until the Communist Party Congress towards the end of the year, no matter the cost to the economy. The effect is already becoming very visible on oil demand with refinery runs down by 6%. Russian production has dropped by about the same magnitude, so we should expect the oil price to dance around these levels for the next few weeks. ■

**Paraphrased Comments*

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