

Nord Stream 2 AG

Russian supply curbs exacerbate squeeze on European gas market

'Opportunistic' moves have poured fuel on rally that has pushed prices to 13-year high, analysts say



A Nord Stream 2 construction site near Leningrad. Some in the industry say Gazprom's moves may in part be aimed at pressuring EU governments to approve the controversial pipeline © FT montage; Bloomberg

David Sheppard in London, **Nastassia Astrasheuskaya** in Moscow and **Guy Chazan** in Berlin JUNE 24 2021

Russia has exacerbated a shortage of European natural gas supplies that has driven prices to a 13-year high by quietly limiting top-up sales to customers, according to executives and analysts.

Pipeline exports of natural gas from Russia's state-backed monopoly Gazprom to continental Europe have dropped roughly one-fifth in 2021 on pre-pandemic levels despite a sharp rebound in demand and low stockpiles of the important fuel. The imbalance has helped send prices in Europe to the highest levels since 2008, increasing energy costs for homes and businesses.

The rise in prices comes during a period of volatile relations between Russia and the West. On Wednesday, Russia said its forces fired [warning shots](#) at a British destroyer off the coast of Crimea, claims the UK denied. At the same time, Germany and France sought this week to cool tensions with Russia, proposing a [new EU plan](#) for closer engagement with Moscow.

Energy industry executives and analysts said that while Gazprom was meeting its long-term contractual obligations, its reluctance to boost supplies to Europe through more immediate measures such as spot market sales was putting pressure on the market.

“Gazprom is just trying to maximise its profits at a time when spot prices are high, gas storage is empty and LNG demand in Asia is strong,” said one executive at a German energy company. “They’re just being opportunistic.”

Gazprom said in a statement that it “supplies gas precisely in line with consumers’ requests”.

European natural gas prices have hit the highest level since 2008

Netherlands TTF gas forwards (€/MWh)



Source: Bloomberg
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“It is based on those very requests as well as the possibilities for portfolio capacity optimisation that the company books transportation capacity in particular directions,” it added.

Several industry participants said Gazprom’s moves appeared designed to support prices and may be aimed at pressuring EU governments to approve the controversial [Nord Stream 2 pipeline](#) to Europe.

“Gazprom is effectively saying to the EU: ‘give us the green light for Nord Stream 2 and we will send you all the gas you need’,” said Tom Marzec-Manser, lead European gas analyst at ICIS.

“Don’t, and we won’t. We’re not going to send the extra gas via Ukraine and you’ve seen what that means for wholesale prices in a tight global [liquefied natural gas] market,” he added.

Nord Stream declined to comment.

The Nord Stream 2 pipeline, which is [almost complete](#), has been beset by financial and legal sanctions from the US and opposition from eastern European countries, which have argued that it will increase Russia’s leverage over the continent’s energy supplies.

The pipeline, which runs through the Baltic Sea to Germany, also [bypasses Ukraine](#), which is heavily reliant on gas transit fees from Russia to support its economy. Russia has backed a proxy war in Ukraine’s eastern territory since 2014 when Moscow annexed Crimea.

Germany has been a long-term backer of the Nord Stream 2 project. It is set to approve the pipeline’s start this year after the Biden administration [waived additional sanctions](#) against the pipeline’s operator, a tacit admission that Washington was unable to prevent its completion. But German elections in September could boost the Green party, which has [opposed the pipeline](#).



Ronald Smith, a senior oil and gas analyst at BCS in Moscow, said: “Gazprom, shall we say, appears in no hurry to volunteer to deliver additional non-contracted [gas supplies] via Ukraine.”

Murray Douglas at consultancy Wood Mackenzie said he was surprised Russia did not start increasing exports via Ukraine earlier this year but argued Gazprom’s position may be more nuanced.

“In the years before Covid, Gazprom was building its market share in Europe and providing what was needed, but it may be that sending significant volumes via Ukraine today is more complicated,” he said.

Gazprom’s stance is not the [only reason](#) for rising prices, but it has compounded the rally, analysts said. A cold winter has drained natural gas in storage in Europe to the lowest levels in nine years, while demand from utilities to burn natural gas instead of coal has been boosted by soaring costs of EU carbon allowances to [more than €50 a tonne](#).

Globally, gas supplies are tight as more cargoes of LNG sail to Asia rather than Europe. But Russia is seen as the one country with enough spare production capacity to dampen the rally.

Analysts said limiting sales in the spot market was a quiet deviation from Gazprom's past practice of largely providing as much gas as customers wanted. Russia's strategy may be evolving to become more like Opec's, the oil producer cartel that Moscow has co-operated with since 2016 to manage oil supplies and support prices.

Elena Burmistrova, director-general of exports at Gazprom, denied last month there had been a change in strategy but acknowledged there had been requests for additional volumes. She said in May the company would be "able to supply additional demand" with "the launch of the Nord Stream 2 gas pipeline".

Marzec-Manser at ICIS argued that Gazprom was "leveraging the global supply situation to try and get the result they really want".

"They could have already solved this problem but they're choosing not to. It is hard to argue the additional cost of shipping through Ukraine is too high when prices are so high. It's making people in the industry realise there's something more strategic in play."

Additional reporting by Henry Foy in Moscow and Nathalie Thomas in Edinburgh

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