

ENERGY

The U.S. was right — Europe has become a ‘hostage’ to Russia over energy, analysts warn

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KEY POINTS

Russia rode to Europe’s rescue and offered to increase gas supplies to the region amid soaring prices on Wednesday.

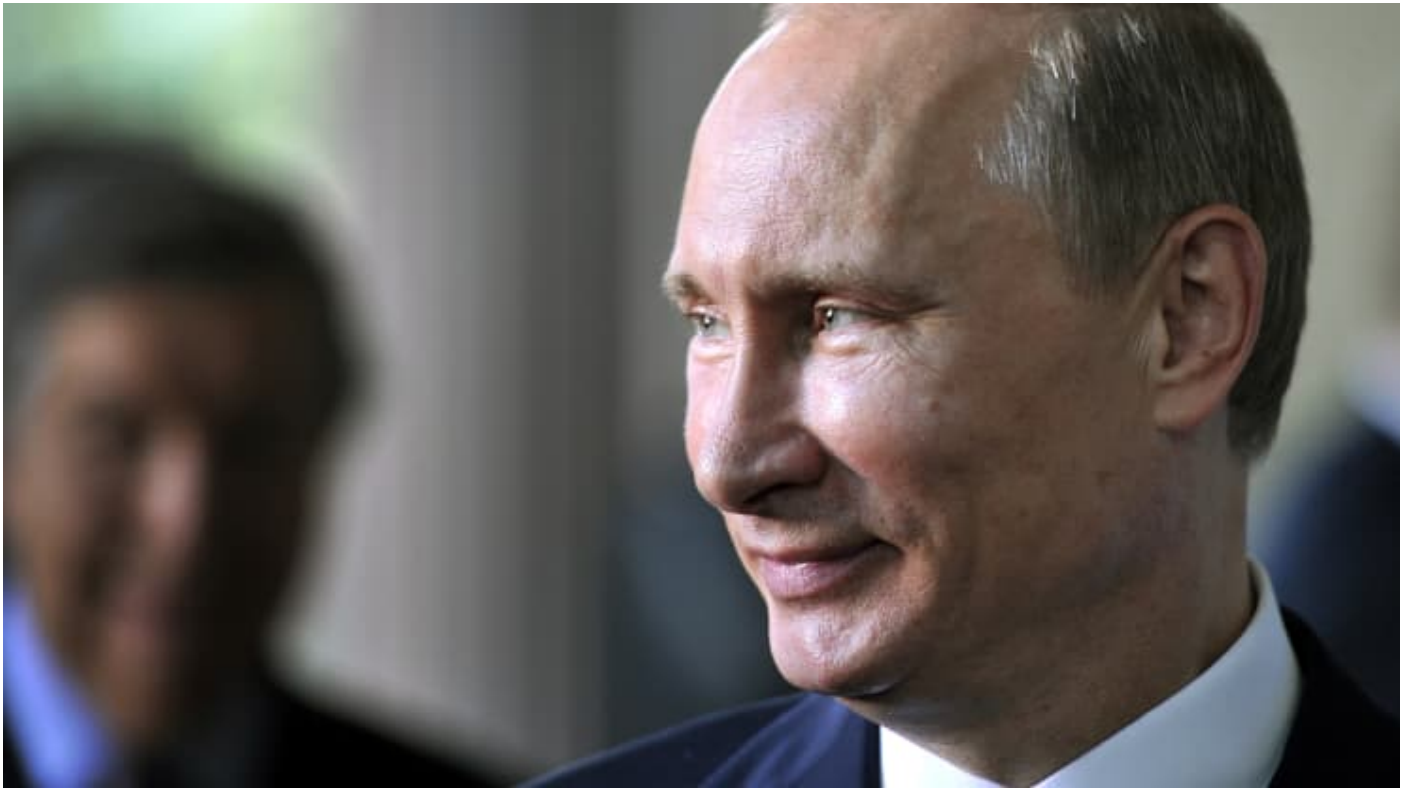
Experts said the move showed Europe is now largely at Russia’s mercy when it comes to energy.

The U.S. has been warning for years that Europe is vulnerable to Russia being able to switch gas supplies on or off.

Natural gas contracts hit new highs in Europe this week — and regional





Russian Prime Minister Vladimir Putin back in 2011.

FABRICE COFFRINI | AFP | Getty Images

LONDON - After Russia rode to Europe's rescue and offered to increase gas supplies to the region amid soaring prices, experts said one thing had become abundantly clear: Europe is now largely at Russia's mercy when it comes to energy, just as the U.S. had warned.



Why natural gas prices are soaring

[Natural gas contracts hit new highs in Europe this week](#) — and regional benchmark prices are up almost 500% so far this year — with heightened demand and a squeeze in supply putting pressure on the energy sector as the weather turns colder.

Prices seesawed on Wednesday, hitting new highs before retreating after Russian President Vladimir Putin stepped in, offering an increase in Russia's gas supplies to Europe.

Market analysts said the move showed that Europe was increasingly vulnerable to Russia, which is waiting for Germany to certify the controversial Nord Stream 2 gas pipeline project which will bring more Russian gas to Europe via the Baltic Sea.

The \$11 billion pipeline has now been completed much to the annoyance of the U.S. which has long-opposed the project, warning for years during its construction that it compromises Europe's energy security and that Russia could seek to use energy supplies as leverage over the region.

The Obama and Trump administrations galvanized bipartisan opinion against the pipeline and President Joe Biden too announced sanctions against companies involved in the project, [but these were waived in May in what was seen as an attempt by the U.S. to rebuild ties with Germany](#).

'Energy blackmail'

"Europe has now left itself hostage to Russia over energy supplies," said Timothy Ash, emerging markets senior sovereign strategist at Bluebay Asset Management, in a research note Wednesday, calling the situation "unbelievable."



VIDEO 08:23

Why natural gas prices are soaring

"[It's] crystal clear that Russia has Europe (the EU and U.K.) in an energy headlock, and Europe (and the U.K.) are too weak to call it out and do anything about it," he said, calling it a form of "energy blackmail."

"Europe is cowering as it fears [that] as it heads into winter Russia will further turn the screws (of energy pipelines off) and allow it to freeze until it gets its way and NS2 is certified."

Putin used a televised government meeting on Wednesday to offer an increase in supplies to Europe. He also chided the region [for canceling many of its long-term gas contracts in exchange for spot deals](#), saying the Kremlin was ready to negotiate new long-term contracts for gas sales.

Many experts believe that Russia has withheld gas supplies to Europe on purpose, in a bid to speed up Germany's certification of the Nord Stream 2 pipeline. Russia has refuted this, however, with Putin's spokesman Dmitry Peskov denying on Wednesday that Russia has had any role in Europe's energy crisis.

Nonetheless, Russia's Deputy Prime Minister Alexander Novak noted on Wednesday that the expected German certification of the controversial pipeline could help cool prices.





Seeking a speedy certification for Nord Stream 2, Ash believed, had been “Moscow’s game plan all along” adding that “markets are really naive if they think Moscow will do anything to ease the European gas crisis anytime before NS2 is certified.”

Germany’s energy regulator shows no sign of certifying the pipeline just yet, saying on Tuesday that the pipeline must show it would not break competition rules by limiting which suppliers used it, according to Reuters, and fines could be dealt out if it started pumping Russian gas to Germany without securing necessary approvals.

Mike Fulwood, senior research fellow at the Oxford Institute for Energy Studies, agreed that any decision to supply more gas to Europe by Russia was “political” and tied to the certification of the pipeline.

“Basically, [the situation for Russia is] if you approve Nord Stream 2, we’ll get some gas to send down Nord Stream 2 to show we were true to our word,” he told CNBC Thursday.



VIDEO 03:53

Undersupply of natural gas, oil all ‘man-made,’ due to policy

Bilal Hafeez, CEO and head of research at Macro Hive, told CNBC’s “Street Signs” on Thursday that he also believed Russia was using the situation to its advantage.

“I do think Russia has used this energy crisis to take advantage of the situation here and to try to force an acceleration in the use of the pipeline and in some ways there’s some evidence to suggest they might have held back supply through pipelines through Ukraine, in order for Germany and the EU to accelerate the use of the Nord Stream 2 pipeline.”

EU wary

Soaring prices have placed the issue at the top of the EU agenda with leaders calling for more energy independence — given nearly 90% of the bloc’s supplies are imported, with Russia one of the primary sources of imports along with Norway, [according to European Commission data](#).

The pipeline has critics in Europe, with Ukraine hurt and angry at the pipeline deal with Russia, as it means its own pipelines are bypassed and it will lose valuable gas transit fees as a result. Poland too, feeling vulnerable from a more assertive neighbor Russia, says the pipeline only serves to strengthen Russia.

In July, [they issued a joint statement](#) in which they slammed the pipeline, saying “the



illegal annexation of Ukrainian territory, created security, credibility and political crisis in Europe.”

Europe’s gas supply has long been a thorny subject. It has often soured relations between the U.S. and EU, with the former chastising Germany (the EU’s largest importer of Russian gas, even before the NS2 pipeline) for signing up to the gas project with Russia.

Experts see the battle over Europe’s gas supply as something of a proxy war between the U.S. and Russia, with both vying to gain market share in the region with their supply of natural gas (Russia) and liquefied natural gas (the U.S.)



VIDEO 05:02

How winter could worsen the global energy crisis

Experts agree that Europe needs to diversify its sources of energy away from Russia.

“The more Europe diversifies its supply the less risk there is,” Fulwood said, adding that there were attempts to source an increasing amount of LNG from the U.S. “We’ve seen in the last few years a big increase in liquefied natural gas imports in Europe, notably from the U.S. market,” he noted.



Commenting on the wider gas market and supply constraints affecting other gas producers around the world, Fulwood described the situation that gas markets were experiencing as “a perfect storm of demand recovery from Covid and a tight supply situation.”

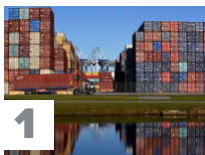
“There’s been a temporary lack of supply and some of those logistics will start to ease but it won’t be ’til next year so for the next few months we’re really at the mercy of the weather,” he said.

Squawk on the Street

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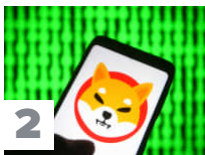
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