



# PORTLAND MARKET REPORT

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IN VIEW

## THE TRIUMPH OF REALPOLITIK OVER WISHFUL IDEOLOGIES.

At the end of last year, we predicted a speedy resolution to the issues surrounding the Gazprom (i.e. Russian) owned Nord Stream 2 gas pipeline. As gas prices spiralled out of control, we figured that no European Government would sit on their hands and do nothing to increase gas flows into Europe – even if it meant rewarding Russian gas producers and thus, by definition, Russia itself.

Well, so far, it would seem that we were wrong with our prediction. Nord Stream gas continues to terminate in the Baltic States (this is the Nord Stream 1 part of the line) but goes no further, because the Nord Stream 2 pipe (which continues into Central Europe), despite being ready for operation, has still not been activated. One imagines that, privately, plenty of European leaders would love to give Nord Stream 2 the green light. The resultant increased supply of gas might bring prices down and end the billions of pounds of energy bill subsidisation that is now taking place across the continent. It would also give breathing space to ragged energy departments who are stuck in a crisis whereby energy growth is booming whilst supply is faltering – be that fossil fuel based or renewable.

## ‘SEEING GREATER VALUE IN A CATASTROPHIC EUROPEAN ENERGY CRISIS’

There are, however, two rather large objects standing in the way of a quick green light for Nord Stream 2. One is the USA who, whilst facing a certain element of domestic turmoil in their own energy markets, are far more energy self-sufficient (when it comes to gas) than Europe. This gives them a certain sang-froid in their dealings with the Nord Stream issue and their opposition to the pipeline is absolute. They believe its opening will give Russia even more (soft and hard) power over Europe and, of course, there is a healthy dose of self-interest thrown into the mix too! Even green-leaning Democrats are well

aware of the economic value of US liquified natural gas exports to Europe, which would be displaced by any new pipeline bringing extra Russian gas into the continent’s heartlands.

The second object standing in the way of Nord Stream 2 is as implacable as the first, but considerably more surprising. It would now seem that Russia is beginning to pull back from the new pipeline, perhaps seeing greater value in a catastrophic European energy crisis, than in the commercial benefit that the line presents. Remember that current gas prices are now so high that Russia is earning more income through existing pipelines than was forecast as a result of the extra volume to be transited via Nord Stream 2. Furthermore, such is Russia’s enviable geographic position, that it has gas options to the East (China) and South (India), which means it can effectively starve (European) markets of gas as it sees fit. With China and India’s boundless gas demand, compared to a Europe of awkward questions, tiresome politics and an obsession with the environment, the options East and South would seem considerably more attractive to Putin’s Russia than moving gas westward via Nord Stream 2.

This makes the current Ukrainian crisis the most serious it has ever been. Conventional wisdom has always been that, for as long as Russia wanted Nord Stream 2 operational, any incursion into the Ukraine would not be forthcoming. But, if it has now been decided in Moscow that Nord Stream 2 isn’t quite as important as it once was, then the outlook looks disconcertingly different. Energy crises have a habit of moving at breakneck speed, but Putin has responded in kind, sensing no better opportunity to take control of the Ukrainian situation whilst Europe prioritises domestic cost of living issues. Arch Machiavellianism for sure, but the Russian leader did cut his teeth in the KGB...

History is made up of missed opportunities and there are many when it comes to European energy policy. One example was when the proposed Trans-Caspian ‘Nabucco’ line was confined to history in 2014 – perhaps the first step in sealing Ukraine’s long-term fate. The proposed pipeline was to source gas from Azerbaijan, Turkmenistan and Iraq (travelling

into Europe via Turkey) and was specifically designed to avoid over-reliance on Russian gas. For a hundred reasons that seemed important at the time (amongst them strong environmental opposition), the line was killed, and Europe continues to rely on Russia for over 50% of its gas supply. Put quite simply, we are at the mercy of energy and state policy as set by the Kremlin, because we have no other viable energy supplies to rely on. Politicians of different persuasions differ on many things, but they almost certainly would all agree that relying so completely on a foreign power for energy supply is not a good thing. Yet, that is the current situation.

## ‘ENERGY CRISES HAVE A HABIT OF MOVING AT BREAKNECK SPEED’

Which begs the question whether it has been wise to treat gas in the same way as oil and coal when it comes to the decarbonisation agenda? The former has considerably better CO2 credentials and yet has been blocked and opposed in the same way as oil and coal projects. The result has been limited gas supply, rising prices, the slowing of CO2 emission reduction and worst of all, the current state of complete energy insecurity. Those Ukrainians now facing a rather uncertain future, may choose to disagree with the current European viewpoint that ‘climate change threatens lives and livelihoods’. The painful reality is that a lack of cheap and constant energy does exactly the same thing and, had we taken care of our short-term energy needs, – on an equal basis to the long-term – the current Ukrainian crisis could, perhaps, have been avoided.

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