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BRIEF

European Gas Politics

ZEROFOX INTELLIGENCE

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Classification: TLP White

Criticality: High

Intelligence Requirements: Geopolitical & Physical

July 20, 2022



Scope Note

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Executive Summary

Europe is currently waiting to see if natural gas exports via the Nord Stream 1 pipeline from Russia to Germany resume on July 21, 2022, and at what levels. The pipeline shuts down for 10 days every year for annual maintenance but Europe fears the shutdown will last longer due to Russia's war in Ukraine. Russia is retaliating against European support for Ukraine by cutting back on contracted volumes of natural gas that Russia supplies to Europe. Russian President Vladimir Putin made it clear he aims to limit Europe's ability to store gas supplies ahead of the winter, thus driving up prices that will cause economic hardship and political discontent to weaken Europe's resolve to back Ukraine.

Ahead of the pipeline closure, Russia has been escalating its retaliatory response against NATO and European Union (EU) members. Russia's primary weapon is cutting off energy supplies, but they are also continuing with confrontational military exercises in tandem with low-scale cyber actions likely carried out by pro-Russian threat actors against other EU and NATO members. Despite the outcome of the pipeline issue, Russia is highly likely to continue using energy supplies as the key retaliatory measure against European support for Ukraine. This could lead to energy rationing and higher prices that make conducting business in Europe difficult. It may also lead to social unrest in addition to wider political and economic issues that weaken Europe.

Details

Russian President Vladimir Putin made his reasoning for limiting gas supplies to Europe clear in a speech at the June 17, 2022, St Petersburg International Economic Forum where he said "We see social and economic problems worsening in Europe, and in the U.S. as well, food, electricity and fuel prices rising, with quality of life in Europe falling and companies losing their market edge." Putin said this would lead to a change in European leadership that is presumably less hostile to Russia, "a change of elites in the short term. As you can see, traditional parties lose all the time. New entities are coming to the surface, but they have little chance for survival if they are not much different from the existing ones."¹ Russia is using the geopolitical insecurity caused by

¹ [hXXp://en.kremlin\[.\]ru/events/president/news/68669](https://en.kremlin.ru/events/president/news/68669)



its war to create energy insecurity that will cause geopolitical shifts that favor Russian and hurt the West.

Russia aims to trigger the sort of wide-scale political and economic collapse that is impacting poorer parts of the world, including its own economy which along with Sri Lanka are the only two countries to default on foreign debt in 2022. The energy and food crisis worsened by Russia's war left Sri Lanka rationing food and energy. Worsening inflation coinciding with a weak local currency and a strong U.S. dollar left Sri Lanka unable to repay its debt. The crisis ultimately saw the president and prime minister flee the country to escape violent protests. Countless other countries are in a similar economic crisis and likely to default.

Europe's historic wealth makes this scenario unlikely, but the economic harm could lead to leadership changes and the gradual erosion of support for Ukraine. The United Kingdom is currently undergoing a leadership change, partly over cost of living issues worsened by the war in Ukraine. Italian Prime Minister Mario Draghi resigned in mid-July over a lack of support for a bill related to the energy crisis. New elections in Italy would likely see political parties that are historically friendly with Russia and anti-EU, gain power. Hungary, which has seen more than a week of protests over high energy prices, is reportedly close to agreeing to a deal with Russia for natural gas supplies. Hungarian President Victor Orban has been critical of EU sanctions against Russia and Russia likely views protecting its political ally as a key tool to turn other EU nations against supporting Ukraine.²

Since Russia's war in Ukraine began on February 24, 2022, 10 European countries have had their gas supplies reduced. In late April, Poland and Bulgaria became the first EU countries to be cut off from Russian gas. Gazprom, Russia's state-controlled energy giant, halted gas flows over their refusal to pay in the Russian currency, rubles. On May 20, Gazprom told Finland it would suspend all gas flows over the same payment issues. The decision coincided with a push from Finland to join NATO. Days later, Denmark suffered a similar fate when Danish energy multinational Ørsted refused to pay in rubles. At that time, Denmark voted to increase military cooperation with its fellow EU states. Almost at the same time, Gazprom fully stopped supplies to Dutch trader GasTerra.

The three largest economies of the EU - Germany, France, and Italy - saw their supplies reduced after their three leaders made a joint visit to Kyiv in mid-June. For Germany, it recorded a 40 percent decline in the flows of Nord Stream 1. Gazprom said the July repairs to the pipeline were the reason behind the reduction, but Germany rejects this explanation. In Italy, energy multinational Eni, which did open a

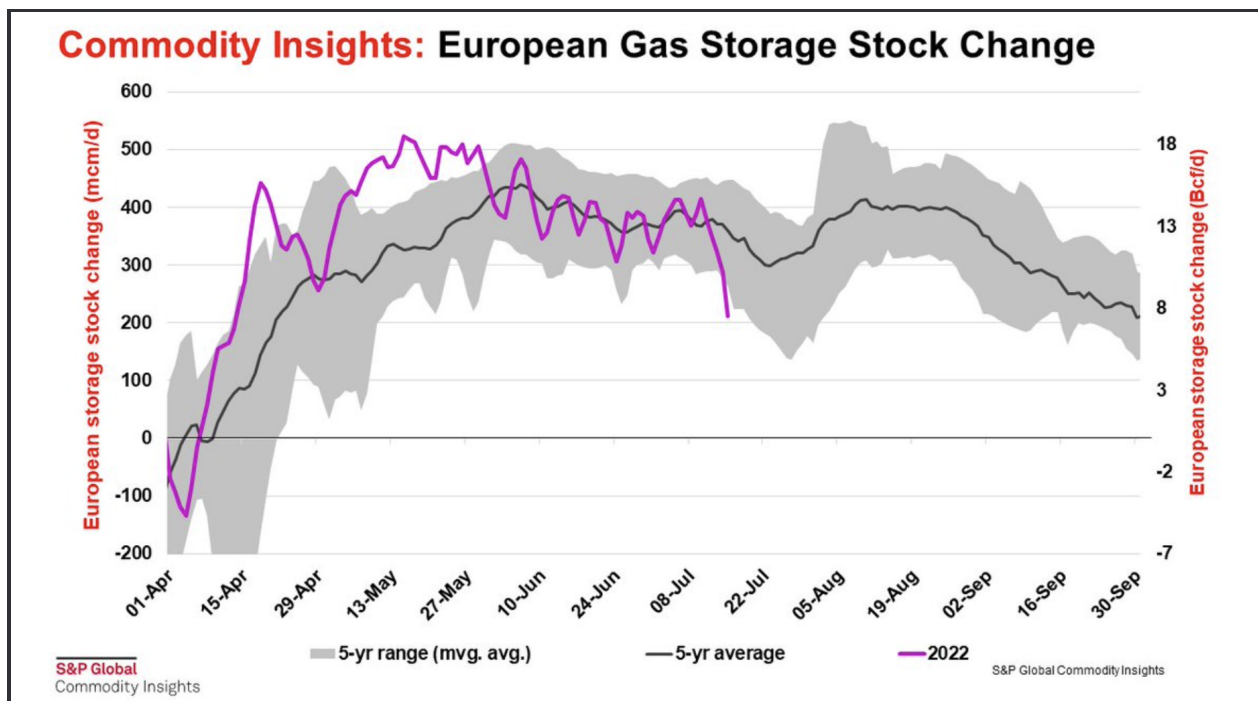
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[hXXps://www.reuters\[.\]com/business/energy/hungary-talks-with-russia-redirect-all-gas-ships-turkstream-foreign-minister-2022-07-18/](https://www.reuters.com/business/energy/hungary-talks-with-russia-redirect-all-gas-ships-turkstream-foreign-minister-2022-07-18/)



ruble-denominated bank account, said Russian gas supplies dropped by 15 percent. Russia has not explained the reason for the reduction. Since then, Austrian energy group OMV experienced a decline of 50 percent in Russian gas in June. Slovak gas utility SPP also recorded a gradual drop in supplies and said volumes could reach half of what was stipulated in the contracts. The Czech Republic observed an overall fall in gas transit as well.³

Regardless of the Nord Stream 1 repair issue, Russia will likely continue reducing its supplies to Europe for the rest of 2022. These constant reductions in supplies harm Europe's goal of having 80-90 percent gas storage by November 1, 2022. Europe believes they can maintain normal prices with no need to ration energy during the cold winter months if they can achieve that level of storage. Ahead of the pipeline repairs, on July 11, 2022, Europe was at about 60 percent storage across the EU. Since the pipeline began maintenance, European gas storage injections have plummeted and much of the region has been undergoing a heatwave, likely depleting gas supplies further.



Source:

[hXXps://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/062722-eu-council-adopts-new-minimum-gas-storage-rules-in-final-step-of-approval](https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/062722-eu-council-adopts-new-minimum-gas-storage-rules-in-final-step-of-approval)

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[hXXps://www.euronews.com/my-europe/2022/07/07/which-eu-countries-have-been-totally-or-partially-cut-off-from-russian-gas](https://www.euronews.com/my-europe/2022/07/07/which-eu-countries-have-been-totally-or-partially-cut-off-from-russian-gas)



In the past when the pipeline was shut down, Russia temporarily increased gas supplies via other smaller pipelines. Russia could have redirected its gas via alternate routes such as Yamal or the Ukrainian transit pipeline, and it has not. On July 19, Gazprom told customers in Europe it cannot guarantee gas supplies because of "extraordinary" circumstances and was retroactively declaring force majeure on supplies from June 14, 2022 - the date that supply cuts to Germany began. Force majeure defines extreme circumstances that release a party from their legal obligations.⁴ The declaration means that Gazprom should not be held responsible if it fails to meet contract terms meaning a prolonged reduced flow rate is probable going forward. European Budget Commissioner Johannes Hahn said he did expect gas flows to resume through Nord Stream 1, but at reduced levels and would know by July 25 if the lack of gas is deliberate.⁵ Europe should expect more spontaneous gas reductions going forward.

Economic and Political Implications

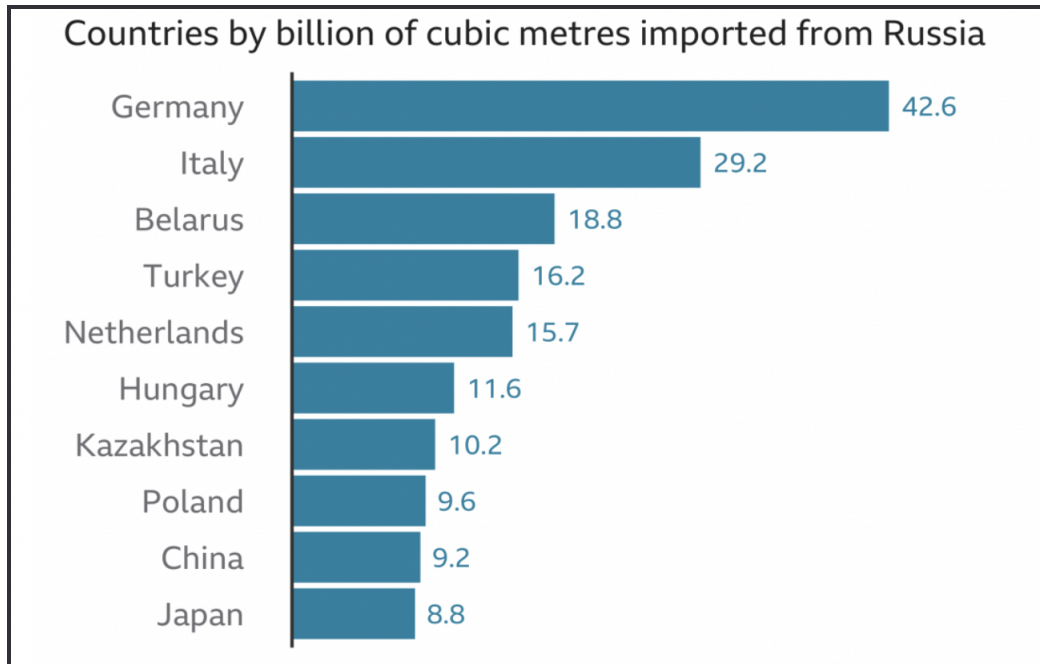
Germany is Europe's most vulnerable country to high energy prices. Germany is the EU's biggest and wealthiest country based on its manufacturing and export sector. Unlike most modernized economies, Germany's wealth is generated by energy-intensive industries, such as auto manufacturing, whose import costs have soared. They are dependent on direct Russian natural gas supplies and currently import more Russian gas than any country on earth. Not only does Germany consume the most Russian energy, it is also the most important transit country for fossil fuels. The largest pipeline goes from Russia through Germany before it supplies other nations. Therefore energy rationing is likely to be felt in Germany first and implicated in other European nations after.

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[hXXps://www.reuters\[.\]com/business/energy/russias-gazprom-declares-force-majeure-gas-supplies-europe-2022-07-18/](https://www.reuters.com/business/energy/russias-gazprom-declares-force-majeure-gas-supplies-europe-2022-07-18/)

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[hXXps://www.sn\[.\]at/wirtschaft/oesterreich/hahn-glaubt-eher-nicht-an-wiederbetrieb-von-nord-stream-1-124471039](https://www.sn[.]at/wirtschaft/oesterreich/hahn-glaubt-eher-nicht-an-wiederbetrieb-von-nord-stream-1-124471039)



Source:

[hXXps://www.openaccessgovernment\[.\]org/turn-it-off-eu-energy-rationing-and-russia-prices/139839/](https://www.openaccessgovernment.org/turn-it-off-eu-energy-rationing-and-russia-prices/139839/)

The economic impacts of high gas prices are already hitting Germany. At the beginning of July, Germany's 30-year trade surplus turned into a deficit, driven by the rise in gas prices. In late June 2022, Germany moved into the second of its three-stage emergency gas plan. Under the second stage, utility companies can pass on price increases to customers aiming to reduce demand. Expect more price increases if the supply crunch causes energy suppliers that buy power on the wholesale market to run up losses that lead them to fail as a result. Germany's largest energy distributor Uniper has already declared bankruptcy because of the discrepancy between the high natural gas prices it was paying and the amount it was permitted to charge its customers. Germany recently passed a law to bail out industries hit by the energy crisis and the first company to take advantage was Uniper.⁶ Across Europe, vital industries like energy companies, financial services, transportation, and agriculture could all go under from the price increases.

If the situation worsens, under phase three of the plan, Germany could start rationing gas. The Bundesnetzagentur (Federal Network Agency) then determines who receives the limited supplies in coordination with the grid operators. According to German emergency laws, specific consumer groups enjoy special protection under the law which largely prioritizes households over industries. These protected consumers include households, welfare institutions like hospitals, and gas-fired power stations which also provide households with heat.

⁶ [hXXps://www.ft\[.\]com/content/3458db6f-66f2-48ee-b344-0d1930204b07](https://www.ft[.]com/content/3458db6f-66f2-48ee-b344-0d1930204b07)



Other European countries have their own emergency protection laws, but they prioritize critical infrastructure and individual households ahead of non-discretionary industries which include most manufacturing and financial services. Even prioritized parties like households will still have to manage massive price increases, with some EU countries predicting household utility bills 1,000 percent more expensive than a year earlier. French President Emmanuel Macron says the government is switching off public lights at night to save energy and urging households to do the same.⁷ French supermarkets have agreed on an "energy saving" plan to limit electricity usage. The plan includes reducing lighting inside its stores by 30 percent, lowering temperatures inside stores, and reducing power usage when stores are closed.⁸ German officials are strongly urging businesses and consumers to use less energy and ordering lower heat and air-conditioning settings in public buildings. Russia is hoping the political impacts from disgruntled households do as much political damage as a broken economy.

Imposing gas rations would hit the German economy badly and a recession would be inevitable. The impact on the German economy could be 193 billion euros in the second half of this year, data from the VBW industry association of the state of Bavaria shows.⁹ Under the country's emergency plan, industries would be first in line for supply cuts. The move could devastate the economy and lead to job losses. Around 5.6 million jobs would be affected by the consequences of a complete gas cutoff which would see unemployment jump over 20 percent. A union leader from BASF — the world's largest chemical maker — said that all 40,000 employees in the key production site in the western city Ludwigshafen would have to be put on shorter working hours or be laid off. If these layoffs coincide with unaffordable home heating bills, widespread social unrest is likely.

The consequences would not only be reduced work hours and job losses, but also the degradation of supply chains across Europe.¹⁰ If Germany loses all its Russian energy imports, then the effect will be felt on the whole of northwestern Europe who receives their supplies from the same pipeline that supplies Germany. Whether Germany will continue to allow limited supplies of natural gas to pass through to other countries even if its own supplies and industries are suffering remains to be seen. Historically they have not done so. In June, when supplies were first reduced, onward shipments to France were halted by Germany. There are other potential down-the-line impacts as

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[hXXps://www.rfi\[.\]fr/en/france/20220718-french-supermarkets-agree-on-energy-saving-plan-to-face-electricity-shortage](https://www.rfi.fr/en/france/20220718-french-supermarkets-agree-on-energy-saving-plan-to-face-electricity-shortage)

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[hXXps://www.vbw-bayern\[.\]de/vbw/PresseCenter/Pressemitteilung-vbw-Studie-zur-Erdgasabh%C3%A4ngigkeit-der-deutschen-Industrie.jsp](https://www.vbw-bayern.de/vbw/PresseCenter/Pressemitteilung-vbw-Studie-zur-Erdgasabh%C3%A4ngigkeit-der-deutschen-Industrie.jsp)

¹⁰ [hXXps://www.bmwk.de/Redaktion/EN/Downloads/F/faq-notfallplan-gas-en.pdf](https://www.bmwk.de/Redaktion/EN/Downloads/F/faq-notfallplan-gas-en.pdf)



well. Eastern European citizens often work temporarily in German slaughterhouses or at German factories. They will send fewer remittances to eastern Europe if German business is suspended.¹¹ Belgium and the Netherlands have Europe's largest ports and German producers are some of the biggest users of those ports. The International Monetary Fund predicts economic contractions of more than 5 percent over the next year in the Czech Republic, Hungary, Slovakia, and Italy if Russia stopped supplying Europe with natural gas.¹²

Lastly, European nations are working on solidarity mechanisms, but they solve few of the problems for industries. The solidarity mechanisms mean that EU nations with ample supplies will ration energy for non-critical infrastructure so the excess energy can be sent to other EU nations to help them maintain supplies for homes and hospitals. Russia is likely hoping the knock-on effect will worsen social unrest in Germany's neighbors and weaken the wider EU's resolve to oppose Russia. Russia could choose to launch disinformation campaigns to influence public opinion against solidarity mechanisms. For example, they could target poorer EU nations with influence campaigns against "bailing out" the wealthier EU economies who refused to share the burden when those countries went through a debt crisis in the early 2000s.

The European Commission is urging member states to reduce their gas use by 15 percent from August 1 2022 until 31 March 2023 as part of its voluntary Save Gas for a Safe Winter plan. As part of the proposal, member states have to submit national energy plans to the Commission by the end of September and provide an update every two months. Countries requesting solidarity gas supplies will be required to demonstrate the measures they have taken to reduce demand domestically. The proposed legislation would also grant the Commission power to declare a 'Union alert' and to impose a mandatory gas demand reduction on all member states if they fail to cut back enough voluntarily. This alert would be triggered when "there is a substantial risk of severe gas shortage or an exceptionally high gas demand".¹³

Cyber Implications

Russia often uses criminal cyber groups not officially affiliated with the Russian government to advance its foreign policy goals with plausible deniability so as not to provoke a response. This can be achieved directly via state-linked groups or indirectly via cybercriminals acting on behalf of the state. Since the war in Ukraine began, Russian-leaning groups' scope of targets has expanded to include numerous countries

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[hXXps://www.abc.net\[.\]au/news/2022-07-11/gas-pipeline-russia-shut-down-germany-maintenance-europe-concern/101226656](https://www.abc.net.au/news/2022-07-11/gas-pipeline-russia-shut-down-germany-maintenance-europe-concern/101226656)

¹² [hXXps://www.ft\[.\]com/content/bd0336e7-1346-4491-a9d5-cc3f9fd0014f](https://www.ft[.]com/content/bd0336e7-1346-4491-a9d5-cc3f9fd0014f)

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[hXXps://www.euronews\[.\]com/my-europe/2022/07/20/eu-must-cut-gas-use-by-15-this-winter-over-russian-disruption-fears-commission-says](https://www.euronews[.]com/my-europe/2022/07/20/eu-must-cut-gas-use-by-15-this-winter-over-russian-disruption-fears-commission-says)



that oppose Russia or support Ukraine, including NATO members. Attacks typically target the websites of government agencies, critical infrastructure, financial institutions, and transport hubs. The goal of these attacks is to take victims' websites offline and disrupt the economies of targeted countries.

This could see official gas shortages coincide with Russian-leaning cyber groups targeting energy infrastructure like energy websites or systems that help disperse gas. Alternative suppliers could also be targeted to worsen the political and economic pain from continued high gas prices. Russia is likely doing something similar with food prices which have also been worsened by its war in Ukraine which is blocking trade in Ukrainian food commodities like sunflower oil, corn, and wheat. Russian-backed cyber attacks on the food supply chains have included the targeting of agricultural machinery companies, seed production, and planting. Russia likely believes that, by increasing food prices globally, they can weaken the resolve of Western leaders backing Ukraine.

Sourcing Alternatives

The key to alleviating the worst of the energy crisis is to diversify energy supply chains. This has seen the bloc reopen closed-down coal plants, increase renewable energy supplies, and purchase natural gas from other suppliers, some of which are geopolitical adversaries. Producers in these countries also open themselves up to cyber threats from pro-Russian threat actors. Russia may view alternative suppliers or foreign energy companies as key targets to help weaken the EU's resolve. In addition, the following developments may have implications for sourcing alternatives as well:

- On July 18, 2022, the EU signed a new gas deal with Azerbaijan. The deal will see Azerbaijan supply the EU with 20 million cubic meters of natural gas annually by 2027. Azerbaijan started exporting natural gas to Europe via the Trans Adriatic Pipeline at the end of 2020. At the time, Azerbaijan said it planned to send 10 billion cubic meters of gas to Europe every year, mostly to Italy, but also to Greece and Bulgaria.¹⁴ Given that Russia supplied 155 million cubic meters of gas to Europe in 2021, Azerbaijan's supplies will barely make a dent.
- The United States has pledged to increase liquified natural gas (LNG) exports to the EU by 15 billion cubic meters (bcm) over 2022, but this will meet only 4 percent of the bloc's gas needs. Similarly, the Middle East and Gulf LNG producers have also been secured. However, most are operating at peak capacity, and their ability to offset Russian supplies is limited. Africa has the most significant potential to alleviate the gas shortage, but the EU also faces obstacles there as well.
- Eni, an energy company partially owned by the Italian government, has concluded an agreement with Algeria's state-owned energy company Sonatrach

¹⁴

[hXXps://www.cnbc\[.\]com/2022/07/18/eu-gas-deal-with-azerbaijan-as-fears-grow-over-russia-supplies.html](https://www.cnbc.com/2022/07/18/eu-gas-deal-with-azerbaijan-as-fears-grow-over-russia-supplies.html)



to increase gas shipments to Italy through the TransMed pipeline by 9 bcm annually. Analysts have observed that this commitment will be difficult to meet, assessing that the pipeline has only 8 bcm of capacity and that growing domestic demand (expected to increase by 50 percent by 2028¹⁵) will strain Algeria's capacity further. Sonatrach's late June discovery of 100-300 bcm of additional gas reserves could help to offset the country's growing domestic needs, however.¹⁶

- Eni signed an agreement with Egypt's EGAS to ship LNG from a rehabilitated facility in Damietta last year, which may provide a faster solution than pipeline transport from Algeria. Analysts have noted that Egypt's reserves have dwindled, however, and the country has relied increasingly on gas transported from Israel to meet domestic demand. Italy has also secured deals with Angola and Congo.
- Nigeria holds the world's ninth largest gas reserves, and the state-owned Nigerian National Petroleum Corporation (NNPC) was recently directed to pursue a deal for a pipeline that would supply gas to Europe through Morocco. In the short term, however, Nigeria is currently exporting LNG at only 70 percent of its capacity. This is due to limited infrastructure, as well as current agreements with extraction partners that prevent third parties from providing gas for liquefaction at market rates.
- BP offshore gas infrastructure is operative or under construction in the waters of Senegal and neighbor Mauritania. The 3.4 bcm per year anticipated from current extraction and processing is expected to double when the remainder of the project is completed.
- Though militant activity has halted gas extraction on Mozambique's mainland, an offshore operation is expected to begin this year, providing 4.5 bcm annually.

Recommendations

In the short term, businesses with physical operations or sales in EU states should be prepared for sporadic cuts in Russian energy supplies that keep prices unaffordable. They should also be concerned about forced rationing which reduces business operations. The energy cuts could be carried out alongside low-level cyber attacks by criminal groups to allow Russia to maintain plausible deniability. The targets could be sectors most vulnerable to the energy cost-of-living issues, like supply chain, agriculture, telecommunications, or transportation. Government websites will also likely be targeted. There may also be influence operations aimed at distorting the narrative around issues like EU/NATO membership, enforcing sanctions, or overall support for Ukraine.

¹⁵

[hXXps://www.mei\[.\]edu/publications/given-capacity-constraints-algeria-no-quick-fix-europes-russian-gas-concerns](https://www.mei.edu/publications/given-capacity-constraints-algeria-no-quick-fix-europes-russian-gas-concerns)

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[hXXps://www.tsa-algerie\[.\]com/hydrocarbures-sonatrach-annonce-une-importante-decouverte/](https://www.tsa-algerie.com/hydrocarbures-sonatrach-annonce-une-importante-decouverte/)



Appendix: Traffic-Light Protocol for Information Dissemination

Red

WHEN SHOULD IT BE USED?

Sources may use TLP:

RED when information cannot be effectively acted upon by additional parties and could lead to impacts on a party's privacy, reputation, or operations if misused.

HOW MAY IT BE SHARED?

Recipients may not share TLP:

RED with any parties outside of the specific exchange, meeting, or conversation in which it is originally disclosed.

Amber

Sources may use TLP:

AMBER when information requires support to be effectively acted upon but carries risks to privacy, reputation, or operations if shared outside of the organizations involved.

Recipients may not share TLP:

AMBER information with members of their own organization and only as widely as necessary to act on that information.

Green

WHEN SHOULD IT BE USED?

Sources may use TLP:

GREEN when information is useful for the awareness of all participating organizations, as well as with peers within the broader community or sector.

HOW MAY IT BE SHARED?

Recipients may not share TLP:

GREEN information with peers & partner organizations within their sector or community but not via publicly accessible channels.

White

Sources may use TLP:

WHITE when information carries minimal or no risk of misuse in accordance with applicable rules and procedures for public release.

Recipients may not share TLP:

WHITE information may be distributed without restriction, subject to copyright controls.