

## II. Energy Crisis

# President Putin on Energy Crisis in Europe: The Empire Has No Clothes

*Oct. 8—A meeting on “The Development of the Energy Industry” was held October 5 and 6, conducted by Russian President Vladimir Putin from Novo-Ogaryovo, the Russian presidential residence in Moscow, joined by videoconference with Russian federal and state government officials, and energy industry executives. The meeting occurred in the midst of the worsening energy crises in Europe and Asia, of wild prices, supply shortages, shutdowns in vital production and government functions, including in food and transportation, and impossible bills for consumers.*

*After a review of long-term Russian energy plans, noting on day one that it is “linked with global climate policy,” the second day of deliberation focused on “the current situation in the energy market and prospects for its development.” The straight talk on this by Putin and others, amounts to an economics lesson on what is going on, and what to do about it. This stands in stark contrast to the standard media and Wall Street lies and cover-up, defending the role of spot markets, deregulation, the green takedown of electricity, etc.*

*Not surprisingly, within hours of the conclusion of Putin’s two-day meeting, BBC World News ran a fierce attack on Russia and Putin, as the force behind Western energy woes; and a wild plunge took place in the natural gas spot price in Europe, dropping from a record \$1,937 per 1000 cubic meters, down to \$973. More proof that the system itself is dysfunctional, which is what Putin had said.*

*Below are excerpts from Putin’s opening presenta-*



kremlin.ru/Vladimir Solntsev

*Vladimir Putin conducts a meeting on “The Development of the Oil Industry” from his presidential residence at Novo-Ogaryovo, Moscow Region, Oct. 6, 2021.*

*tion, and subsequent remarks on day two; and excerpts from two interchanges—one with Alexander Novak, Deputy Prime Minister; and the second with Boris Kovalchuk, CEO of Inter RAO PJSC, the electricity export/import firm.*

*Subheads were added. The full transcript includes remarks by other participants and is [available](#) on the Kremlin site, posted October 6.*

### ‘Erroneous Energy Policy in Europe’

**President Vladimir Putin:** Now, the world economy is recovering well after the past year’s crisis. The demand for energy is growing and, hence, prices are soaring. As you know, the global energy market does not tolerate hectic moves and vagaries. Investment plans in this area are long-term. Therefore, any abrupt and rash actions may lead—and, judging by the current market situation, are already leading—to serious imbalances like those we are seeing in the European

market that has been affected this year by several unfavorable factors all at once.

First, the rapid post-crisis recovery of the economy has “heated up” the energy demand. Second, gas reserves in many European countries’ underground storage facilities dwindled as a result of the harsh winter in early 2021. I am referring precisely to their underground gas storage facilities, the underground storage facilities of our European partners. Third, the production of wind energy declined noticeably later in the summer because of hot and windless weather.

It should also be taken into consideration that the energy balance has changed dramatically in Europe over the past ten years. Many countries in the region have given up their coal-burning and nuclear power plants in favor of wind power generation that is heavily dependent on weather conditions.

And, finally, fourth, the practices of our European partners [are to blame]. These practices have re-affirmed that, properly speaking, they have made mistakes. We were talking with the former European Commission; all of its activities were aimed at curtailing the so-called long-term contracts and at transitioning to gas exchange trading.

It turned out—and today this is absolutely obvious—that this policy is erroneous, erroneous for the reason that it fails to take into account the gas market specifics dependent on a large number of uncertainty factors. Consumers, including, for example, fertilizer producers, are losing all price benchmarks. All of this is leading to failures and, as I said, imbalances.

As a result, the gas price has broken all historical records. Today it is approaching \$2,000 per thousand cubic meters of gas, which is over ten times last year’s average price....

### **Russia a Reliable Energy Supplier**

I would like to underscore that Russia has always been a reliable supplier of [natural] gas to its consumers all over the world, both in Asia and Europe. Russia always fulfils all its obligations in full—all its obligations, I would like to stress this.

Right before this meeting, I looked at a reference paper from Gazprom. Our exports outside of the former Soviet republics, primarily to Europe, of course, were at a record high in 2018, dwarfing deliveries to Asia that did not have any serious impact on these figures.



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*Former German Chancellor Angela Merkel’s coalition announced on May 30, 2011 that Germany’s 17 nuclear power stations would be shut down by 2022. Shown: The Grafenrheinfeld Nuclear Power Plant, taken off line June 28, 2015.*

So, in 2018, we hit a record high of 201.7 billion cubic meters. In 2019, our partners asked for less, so deliveries were slightly lower at 199.4 billion cubic meters. Marked by the pandemic, 2020 saw a decline in European manufacturing, dragging gas exports down to 179.35 billion cubic meters. The economy has been recovering in 2021. In the first nine months, deliveries increased 18.8 billion cubic meters or by 15% year-on-year. If this momentum carries on, our fuel exports to Europe, including natural gas, can very well set a new record.

By the way, Gazprom’s long-term gas export contracts set forth minimum and maximum supply levels, and Gazprom has never refused requests for more supplies from its consumers, as long as they filed the relevant applications. There was not a single instance when Gazprom turned down an application.

The Federal Republic of Germany is Russia’s biggest European consumer. In the first nine months of 2021, it increased its natural gas imports from Russian by 10.12 billion cubic meters to 131.8% compared to the same period last year. Even in 2020, when the overall deliveries to Europe declined year-on-year, we still increased exports to Germany by 4.7 billion cubic meters, which gives us 112.9%.

I have to say that there have been all kinds of speculation on Ukraine’s gas transit system and deliveries through this country. I would like to reiterate that under the contract, we have to pump 40 billion cubic meters

of gas through Ukraine's gas transit system per year. In the first nine months of 2021, Gazprom increased its supplies, or should I say transit volumes through Ukraine, by more than 8%. We have every right to believe that we will exceed our contractual obligations in terms of gas transit through Ukraine....

In addition, I would like to inform those who actually care about preserving the environment, instead of just using this as a political weapon, that the new pipelines that were launched over the past years or are about to become operational can reduce CO<sub>2</sub> emissions 5.6 times thanks to their new equipment. Accordingly, supply volumes go up, while emissions go down. This has to do with the superior characteristics of these pipelines enabling them to pump gas at a higher pressure. Everyone must know this.

### Look Ahead Three Decades

I would like to emphasize that the current situation on the European energy market is another clear example of the fact that hasty, let alone politically influenced decisions are unacceptable in any sphere, but especially so when it comes to energy supply on which the sustainable operation of enterprises and the welfare and quality of life of millions depends... We must try to take a look beyond the horizon of not just one decade, but two or three decades.

According to international experts, including OPEC, the demand for oil will begin to decelerate from 2035, but overall oil consumption will be increasing until 2045, approximately by 0.7% annually.

The demand for natural gas will continue to grow faster, by over 1% annually, primarily because gas as a cleaner fuel will be replacing coal in the global energy balance.

International experts believe that the demand for coal will increase slightly over the next five years, especially in Southeast Asia; then, according to their forecasts, it will reach a plateau in 10–15 years before decreasing....

We must diversify our economy, actively investing



Gazprom

*The TurkStream natural gas pipeline connects Russia's largest natural gas reserves to Turkey's gas transportation network, providing reliable energy to Turkey, and South and Southeast Europe. The now completed offshore component consists of two parallel lines running 930 km through the Black Sea.*

in infrastructure and the creation of new enterprises. Special attention should be given to our coal-producing regions, where new jobs must be created outside the coal sector. I have already issued these instructions....

I also propose that today we discuss the development of new promising energy spheres, including small nuclear power stations, hydrogen energy and renewable energy sources, such as tidal energy, which could have enormous potential.

**Deputy Prime Minister Alexander Novak:** You have spoken in detail about the crisis that is unfolding in Europe and Asia. Prices have soared there by \$500 in one day. It is obvious that this is a result of not only fundamental factors related to the European politicians' choice of spot contracts over long-term ones and a faulty forecasting of the supply and demand balance in their countries, which is connected, in part, to an increase in consumption and a decline in gas production in Europe. For example, we are aware that since 2013 gas production has slumped by 10% in Norway and by 70% in the Netherlands, which used to be a major supplier in Europe. However, these factors would not have had such a major influence on the growth of prices without the current market speculation and general hysteria.

Actually, it all began last summer, when it was extremely hot in Latin America, there was a heatwave,

and the United States reoriented its LNG supplies towards Latin America. This created a shortage of LNG in both Europe and Asia. A rapid growth of energy consumption in Asia, primarily amid the shortage of power generation facilities, created a shortage of supply. Consequently, the shortage of gas in underground gas storage facilities in Europe with due regard for last winter, as you have mentioned, is approximately 25 billion cubic meters.

These are indeed serious factors. However, I would also say that market speculation, which is driving the prices up, is very strong as well. This most likely calls for an investigation into the activities of stock market speculators, because objectively the current price does not reflect the current situation....

There are two factors, which could cool off the current situation. First of all, it is an early completion of the certification and the issuance of a permit for pumping gas via the completed Nord Stream 2 pipeline. This would give a positive signal.

Second, if possible and practical, additional gas, even if in small amounts, should be traded on the electronic stock market in St. Petersburg, which would reduce the effect of market speculation.

**Putin:** [Yes] ... increasing gas supplies to the market and selling more on commodity exchanges in order to cool down speculative demand and overcome the trading frenzy in Europe. This can and should be done, though not on the European spot market, but, as you have said, on the St. Petersburg exchanges.

Overall, as I have said in my opening remarks, the proposal to switch to an exchange trading system for natural gas came from the European Commission experts under the previous mandate, mostly from British experts. Where are those British experts with their proposals now? We know where they are, but consumers in continental Europe have been left to suffer from these initiatives.

**Boris Kovalchuk, CEO of Inter RAO PJSC:** [On electricity price increases in Europe] During the first eight months of 2021, the prices surged by 100% on the same period in 2020, and by another 100% in September of this year. Right now, I have the data from futures trading for tomorrow, and again the price rise amounts to 100–150%. As of today, the overall electricity price growth in Europe is practically 1,000%. This compares with 4% in Russia. In Russia, the total electricity price is about 20 euros per 1 megawatt-hour.

Let me quote tomorrow's prices in Europe: Lithua-

nia, 256 euros; Latvia, 347 euros, Germany, 302.5 euros, France, 298.3 euros, and UK, 320 euros. As we can see, the foreign markets are almost ten times more expensive than the Russian market....

A few examples, In Italy, for one, it was decided to raise the consumer electricity prices by 29.8%, as of October 1, and the gas prices by 14.4%, a thing absolutely impossible in Russia. Spain approved a special emergency law on September 14 limiting the three-month tariff indexation by 4.4%. In the Russian Federation, the tariffs grow by 4–5% a year and moreover there is an ongoing effort to fight the rise. France has frozen price growth ahead of its [presidential] election, conscious of what this may lead to after Engie's 13% gas price hike....

I will not provide any other example, except this one. In Germany, government agencies produce video clips telling people how to spend winter without lighting or heating, how to put candles into flowerpots to warm up a room, and how to make windows draft-proof with duct tape and cling film. Just a few years ago now, this would have been impossible to imagine, as if the stone age was back.



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