

The Nord Stream Dream Is America's Nightmare

Ross: Welcome to Renegade Inc. All this geopolitical hot air was always going to be about gas. And predicting that, meant that before all the horse trading and brinkmanship began, we caught up with two independent energy experts, Irina Slav and Ben Aris. They cut through the noise and explained, contextually, the fundamental problems Europe and the UK now face to quite literally keep the lights on.

Ross: Irina Slav, welcome to Renegade Inc. Great to have you on the programme.

Irina Slav: Thank you for having me.

Ross: Irina, our audience here all the time that we have an energy crisis - Europe's energy crisis. And then they see their bills coming in in the UK every month and prices have gone through the roof. There's no debating that. Can you put those two things together by first describing what Europe's energy crisis is? And the second thing, what that means to the average punter on the street?

Irina Slav: It all started last autumn when people started preparing for the winter, when demand for energy hits a big because of all the heating demand. And it turns out that Europe doesn't have enough natural gas in storage. But that was just part of the problem, a big part of the problem, but not the whole problem. The other part of the problem was that wind power generation wasn't as abundant as in previous years. This is something that was admitted openly by the biggest turbine makers in the world, also investors. Simply put, these were the two parts of the problem - too little gas in storage and not enough wind to power the turbines that a lot of European countries, the UK and Germany, especially have.

Ross: So prices going up is simply because of the scarcity?

Irina Slav: I'd say so, yes, for the most part. There's also speculation as we went into winter and prices started rising because of the insufficient supply of gas. Speculators naturally did what speculators always do. They buy and expect the price to go up and then they sell.

Ross: There's a little old pipeline that is coming into Europe, into Germany, in fact from Russia, and it's called Nord Stream 2. Nord Stream 2 has been quite a contentious project, hasn't it? Can you just explain what Nord Stream 2 is, what it's carrying, who it's supplying and why there's so much contention around it?

Irina Slav: Well, I think one thing that a lot of the commentators and decision-makers seem to forget is that it's Nord Stream 2. There is already one Nord Stream pipeline, which has a capacity of 55 billion cubic metres annually, and it is already supplying about, I think, a third of Russian gas to Europe. So what Gazprom is doing is doubling the capacity of this pipeline in view of securing energy supplies, mostly for Germany. Germany will be the biggest beneficiary because it's closing its nuclear reactors and it will be closing its coal plants soon. It's a consortium. Let's not forget that Gazprom is not working alone. It has partnered with some really big European companies for Nord Stream 2. And they're all looking to capture this additional demands.

Ross: Why do we hear so little about Nord Stream 1?

Irina Slav: Because it's been in operation for years. You can't stop it. It's been there for years. It's not so interesting. The interesting part is Nord Stream 2 because it's new and because the United States has only recently become a force to be reckoned with in natural gas exports.

Ross: So this is LNG gas, isn't it, liquefied natural gas?

Irina Slav: Yes.

Ross: The Americans are producing it now quite well. What they want to do - correct me, if I'm wrong - they want to put this gas on ships, tankers, then bring it across to the European market and sell it to the Europeans. Is that correct?

Irina Slav: Right, right. Well, that's exactly what they've been doing now in the crunch.

Ross: So this really is a business call, isn't it, insofar as the Americans don't want the Europeans to have cheap gas from Russia, they want to be able to flog their gas to the Europeans? Is it that simple?

Irina Slav: To me, it is, yes. Most things in life are simple, to be honest. When it comes to commodities, it's about money, really. It's about markets. And the shale boom that we saw in the US in the past decade or so, unlocked a lot of natural gas and natural gas demand in the United States has been relatively flat and forecasts are that it will remain relatively flat in the coming years. So all this gas that's coming out of the ground in shale formations has to be sold somewhere. And Europe is a very good market. It's a market that makes sense because because it uses a lot of natural gas and it will use even more.

Ross: Surely, if I'm a gas producer and I'm shipping gas across the Atlantic to Europe, that gas is going to be a lot more expensive than if it's coming through a pipeline from Russia. Again, am I being too simplistic?

Irina Slav: Well, no. You're stating facts. You're being logical, I'd say.

Ross: So why, if I'm a European, if I'm a European government, am I going to buy more expensive gas that's come across - environmentally is a problem but it's come across the Atlantic. Come to Europe. Why am I going to buy that if it's more expensive and I'm not going to buy that and it's come from Russia?

Irina Slav: Because you don't want to be dependent on one single supplier of gas?

Ross: Ah, OK.

Irina Slav: This is the argument in favour of not just American LNG, but Australia and Qatari, what have you. Diversification has been a big theme for the European Union, or rather, it used to be a big theme before they went on a renewable rush. And now it's coming

back on the agenda, these diversification of gas supplies because there isn't enough gas and people want electricity.

Ross: The mind boggles when you mention Australian LNG. Imagine. So I'm just talking about bringing it across the Atlantic. Now we're bringing it from Australia. What's the cost of that going to be? It'll be a trillion pounds a tonne by the time it gets to Europe?

Irina Slav: Well, it probably won't be cheap. But just today, now that you mentioned Australia, just today, I read an article in the Financial Times about Santos Energy, the Australian gas producer, saying that it will hardly be able to fill a gap, any gap, left in European gas supplies if Russia turns the tap off.

Ross: But the reason they cite, is because all that gas is already earmarked for the contracts in Asia.

Irina Slav: Exactly, yeah.

Ross: How much of the recent rhetoric and media war, information world, that's gone on in Ukraine, is to drum up support for America putting more sanctions on Russia when it comes to energy. Can we make a link between those two things?

Irina Slav: Well, we can, unfortunately, yes. I mean, probably not everyone would agree, but I think it has a lot to do with gas. The US has been against Nord Stream 2 from the very beginning. They have been looking for ways to sanction it, to stop it. Obviously, this pipeline is a big problem for the United States.

Ross: How does all this pan out? How does it play out? Because from where I'm stood, Biden hasn't got a hope in hell of really stopping this, nor of the Americans. I know that they want to sell their LNG over to Europe. That's a curious move. But there we have it. How does it play out? What goes on from here?

Irina Slav: That's a really tough question to answer because it could play out in a number of ways. But just as an example, the United States has become, now this year, the biggest LNG exporter in the world because of the European energy crisis. And because prices are high enough for American producers to start shipping gas to Europe. And now I'm hearing that European utilities are beginning to reconsider their unwillingness to sign long-term supply contracts with U.S. producers. So the producers might cost them long-term contracts, which might undermine Nord Stream 2 but it won't be a make or break situation because there are not enough LNG import terminals in Europe. American LNG cannot fully replace Russian gas.

Ross: Having had this conversation with you, I didn't realise it was this simple. If I sat down with a class of eight year olds and explained and put a map on the board and explained all this, these eight year olds would get it. It's quite hubristic, isn't it from the Americans to say actually, what we can do is impinge on this energy market in Europe. We can get this gas away because it's good business for us and we can then also in some way bloody the nose of

Russia. When you put the business case down, it's bizarre. When you put the geopolitical case down, it's odd. And really, you could explain to a toddler that this isn't going to work.

Irina Slav: Well, I don't know what to say, but yes, things tend to be simple on a very basic level. And then it's all complications and a lot of noise. As you pointed out, there is way too much noise around all this. It's all about the reliability of the renewable energy, or rather the lack of, and the very simple fact that people need energy and they will want to get it regardless where it comes from. Once you start freezing at home, you wouldn't care about emissions.

Ross: I thought this was a lot more complicated than it actually is. I'm quite alleviated. The big problem, of course, now, is we've got woeful political leaders across Europe who can't see the wood for the trees on this and will reliably make the wrong decision at every turn and sadly, the consumer gets landed with that bill.

Irina Slav: Yeah, it's very likely that they will continue to make the wrong decisions. And, to recall, we talked about American LNG and I mentioned long-term contracts. But Europe has a problem with American LNG because of the way it is sourced. The European Union believes that fracking, hydraulic fracturing, is a very dirty, polluting, way of producing natural gas, which will add to the bill for American LNG for Europe. They really are in a very confusing situation, and they build themselves there.

Ross: If you were to advise a prime minister, say the UK Prime Minister, you advise him or her on what to do next. What would you say from an expert standpoint? What would you say from an energy security policy standpoint? What would you advise?

Irina Slav: Well, I would probably recommend that they slow down on the wind and solar, wind, mostly in the UK. Just take a bit of time to think whether this new renewable energy capacity can indeed replace fossil fuels. And then I would advise that they think about back up regardless of where it comes from. Maybe try to be a little more pragmatic than ideological.

Ross: Beautifully simple, very pragmatic, using lots of logic. You must never go into politics.

Irina Slav: I have no desire to do that..

Ross: Irina Slav, thank you very much for your time.

Irina Slav: Thank you for having me.

Ross: Ben Aris, welcome to Renegade. Really great to have you on the programme.

Ben Aris: Pleasure to be here.

Ross: Ben, it strikes me that when we talk about Europe's energy crisis, actually a lot of the waffle that we hear from pundits and commentators can be cut through quite quickly. Can you give us your view on what's happening when people talk about Europe's energy crisis?

Ben Aris: Yeah, there's plenty of energy and the politics is interfering with it. But the gas crisis in particular that we're going through that sent prices spiking. And here in Berlin, you know, our personal power bill has something like doubled as a result of all of this. But there's two things going on. There's the economics of it, the market stuff. And then there's the politics. And actually, most of the increases recently has been caused by what we described in a piece recently as a V-shaped market that in the winter Christmas 2019 that there was an extremely mild winter and then, at the same time, Russia and Ukraine were negotiating a new gas transit deal - a key deal which everyone thought was going to not happen. And so the gas producers, both on the EU side and the Russian side, filled their tanks to capacity in order, you know, if there was going to be an interruption in transit. As it happened, that deal was done at the last minute. And so the Russian gas is flowing through Ukraine and will do until 2024. But then the winter Christmas 2020 was extremely cold. And so you went from having a gas glut where nobody bothered to refill the tanks and sold the gas off over the course of the year, to coming into the summer of 2021, where the tanks were suddenly depleted because of the extra demand of this cold winter. And so the market was, you know, there's not enough gas in the tanks. Everyone realised around August and suddenly the prices spiked spikes from like 200 bucks per thousand cubic to over a thousand and reached a peak of 2000 with 10 times the normal. But at the same time, in addition to this, there's Russia has this new pipeline Nord Stream 2, which they're trying to hook up because Europe actually what they did is they stopped signing long term contracts and switched to the Spot Market. And that's why the prices can go shooting up because you weren't buying long-term where you signed off on two hundred and fifty bucks per thousand cubic, suddenly you had to go to a Spot Market. There wasn't enough gas and so the prices went through the roof. And then Russia, in order to persuade Europe to sign off on these long-term contracts, because it has this new pipeline, it has new fields in the Arctic. It needs to sell right gas and those Arctic fields are dedicated to Europe. You can't send that gas anywhere else. The pipes don't exist to send it to China. And so what Russia's done is said, that right, you've got some long-term contracts. We're going to scrupulously stick to the terms of those contracts, but you're asking for more gas. We're not obliged to sell you anything else. And so they just sort of worked to rule and that's put pressure on Europe. Europe is refusing to sign these contracts. And the last thing I'll say on that is that Russia sends about 200 billion cubic metres to Europe every year and this year there was a shortfall of about 15. It's not very much. And the new pipeline, Nord Stream 2, has a capacity of 50. So if it got turned on, this gas crisis would finish tomorrow and it could literally be turned on tomorrow. It's full of gas. But in Europe, they don't want to do that because Gazprom says we're going to turn it on if you sign these long-term contracts. So there's a kind of a standoff and it's the consumers that pay for this politics. Europe needs the gas, but it's unwilling to sign these deals.

Ross: Of course, it's the consumers that pay. They always do. It's interesting that we don't talk about Nord Stream 1, the pipeline, isn't it?

Ben Aris: Yeah, I mean, that's been on line. It got exemptions. Because look, the bottom line is that Germany and Europe, 30 percent of their gas comes from Russia. And when these deals were first signed in the 70s, it was like 80/90 percent of the gas came from Russia. So

there's been significant diversification, but that 30 percent is still significant in so much, as you know, if you stopped buying Russian gas, you can't get it elsewhere. The LNG business has started, but there is simply not enough ships in order to replace that. And most of that gas is headed to Asia, which is totally dependent on LNG because Japan has no energy at all other than LNG. So Nord Stream 1 went to Germany. It needs that gas. It goes under the Baltic Sea. It doesn't go through the war zone in Ukraine. It doesn't have to go through Poland, where it becomes more expensive because of transit fees. And the idea was to add the other line, the Nord Stream 2, Same deal - cheap, easy, reliable, safe, secure gas. But that also meant that Russia can cut Ukraine off. And so again, you get a whole bunch of politics involved because Ukraine badly needs the \$2 billion a year it makes from the transit business.

Ross: With Nord Stream 2, how much of the noise that we're hearing over Ukraine is indirectly related to the Americans not wanting that pipeline to flow? Because if we look at President Joe Biden and what he says in one of his more lucid moments, he said if Russia invades, that means tanks or troops crossing the border of Ukraine again, they'd no longer be a Nord Stream 2. And then when asked for more detail on that, of course, he couldn't give it. But he said, that's it. It's not going to happen. How much of the shouting in Ukraine is about Nord Stream 2?

Ben Aris: A lot. Nord Stream 2 is actually one of the most divisive issues, particularly between the States and Europe. The view on it is very different. I mean, one of the other factors you have to include in this extremely complicated story is the fact that the US used to be a net importer of gas, but then they discovered shale and there's been the shale revolution, and now it's a net exporter of gas because they have significant shale deposits. And it's making a lot of money because now the States is the biggest importer of LNG to Europe and LNG, because it's natural liquefied gas, it's compressed and has to go on these supertankers. It's actually more expensive than piped gas. Piped gas is the cheapest you can get. And so you've got someone like Germany who's looking at, well, let's have this pipeline, which is a secure source of limitless amounts of gas. The amount of gas that Russia have in the Arctic is enormous

Ross: And environmentally cheaper because there isn't a surcharge on it?

Ben Aris: No. And the US gases fracked gas. So there's a huge amount of environmental cost there as well. And so the Germans are like actually we would rather have pipeline gas because it's cheaper and it's safer and it's cleaner. And, you know, with the new Green Deal they're trying to do, we need some gas because we can't power the whole country just on solar and wind, because where would you get the power from at night so you need some gas. The opinion on sanctions in Europe is much softer because Europe has significant economic interests in Russia, and the States has almost none. So the States are being much harder than Europe is, and Europe is trying to find some sort of compromise middle path between the two. There's two camps on what's going on in Ukraine. The first camp is that Putin thinks that Ukraine is not a real country. He said as much to Bush. When Bush visited Moscow, he wrote this big essay more or less saying the same thing, and that that camp thinks this is all about invasion and either annexing Ukraine or at least returning it to Russia's sphere of influence. The other camp, which I belong to, is this is all about NATO, that Putin's been complaining about NATO expansion, and his fear is that eventually - and it's clearly not

going to happen soon - Ukraine will join NATO and there'll be intermediate range missiles on the Ukrainian- Russian border where it can hit 80 percent of the population and most of the large cities with missile flight times under five minutes, which you can't defend against. So he's putting his heels in now, and he wants a security deal now. And he said that repeatedly. And I don't believe it's anything else than what it says on the can and what he keeps saying. I should make this point too that Putin offered a security deal in 2008. It was the first thing he did when that term started and it was rejected out of hand. And the Russians had a very detailed plan and Putin has been talking about this since 2003, the NATO expansion. So what they've done this time is they've built up such a credible threat of violence that they forced the issue onto the negotiating table. Biden made it quite clear he wanted the Russian problem to go away. Now it's his major headache. So Putin's already scored a victory.

Ross: Vladimir Putin's fear, though just being pragmatic about this, is well-founded, isn't it? That NATO expansion has gone on and on and on. They've kept going east. And really, for him, it's a legacy issue, isn't it, that he wants to absolutely nail this now for the future of Mother Russia?

Ben Aris: I mean, people are saying like, you know, NATO membership, Ukraine is not on the agenda. There are NATO missiles in Ukraine. What's he worried about? NATO is a defensive organisation and he's going, Cuba? Look at Cuba. You know, when the Soviet Union put missiles into Cuba, JFK freaked out and there was nearly a war. And they're saying explicitly that this is another Cuba. You're proposing, eventually, to allow Ukraine to join and then NATO missiles will come in and then they point to the missiles that have already gone into Romania and Poland, pointing at Russia. And the ones in Poland include offensive missiles, not just defensive missiles - tomahawks. And they're putting it all about and saying the same is going to happen in Ukraine. It's entirely predictable. And so we're going to nip this in the bud while we're we're strong enough, economically and militarily, and long before Ukraine actually formally starts the accession process.

Ross: How does it all pan out, starting with Nord Stream 2, looking then at the European energy crisis and then, finally geopolitically? Give us a very quick, if you can, rundown of those three areas and then, ultimately, what it means for all us people across the UK, Europe, who don't want war and do want cheaper energy prices?

Ben Aris: Well, the cheaper energy prices, I mean, that's a huge motivation for the Germans, because if they turn Nord Stream 2 on then energy prices for the consumer would drop immediately. And it actually ironically, although the States have been saying it undermines European energy security, it actually improves it. Because if you think what the proposal is, is to pump more Russian gas through the extremely old and leaky Ukrainian system, which is due to be decommissioned anyway, and instead switch it to a brand new pipeline. But Ukraine is at war with Russia, so sending your gas through a war zone, you know, how does that improve your security? It doesn't. In terms of the argument over the security deal, that's very difficult. But what's going on now is we started with this demand guarantee legally, no Ukraine in NATO, ever. And in the meantime, since Macron got involved about two weeks ago, the emphasis has switched to implementing the Minsk 2 peace accords that would bring fighting in the Donbas to an end. And that's significant as part of that would be to create an

autonomous region within Ukraine of Donbas, which is effectively now under Russian control. And that would give Russia de facto veto on NATO membership for Ukraine. And the Kremlin would accept that. And the thing with Minsk 2, is everybody wants it. It was a deal done by Merkel. She wants it. Macron wants it. Everybody wants it. They don't want it in Kiev because it's political suicide, because you effectively lose control of Donbas, although it stays in the country. But stepping back for a moment, the irony is if Minsk 2 went through, everybody wants it, it would end the war in the east. Ukraine would be at peace. Russia would have its guarantee of no NATO. It would be happy and it would stop interfering. And then Ukraine would boom, if you ask me. If it had peace and stability, it would boom. The Ukrainian's would come out really well, but they would have suffered this humiliation of losing control of one of their regions - in effect, not on paper. The jury would still be Ukrainian and under Ukrainian control. And that's a compromise I think everybody can live with. And we had Schulz and Macron when they were in Kiev. They're pushing exactly this on the Ukrainians. And Zelensky, the president, remains reluctant, but he's in a terrible situation. The Ukrainian economy is being battered by this, and he needs to end it at some point.

Ross: Really crystal clear analysis. Ben Aris, thank you so much for your time.

Ben Aris: My pleasure.