

AP News

## EXPLAINER: What would paying for natural gas in rubles mean?



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March 29, 2022

BERLIN (AP) — Europe's already [high gas prices](#) have gyrated since Russian President Vladimir Putin announced plans to have importers pay for Russian natural gas in rubles instead of dollars and euros.

Here's a look at some of the implications of such a move:

WHAT IS PUTIN PROPOSING?

[Europe imports large amounts of Russian natural gas](#) to heat homes, generate electricity and fuel industry, and those imports have continued despite the [war in Ukraine](#).

Around 60% of imports are paid in euros, and the rest in dollars. Putin wants to change that by requiring foreign gas importers to purchase rubles and use them to pay state-owned supplier Gazprom.

Putin told the Russian central bank last Wednesday to [come up with a workable system](#).

#### WHAT EFFECTS COULD THAT PLAN HAVE?

Importers would have to find a bank that would exchange euros and dollars for rubles. That could be cumbersome because some Russian banks have been either blocked or cut off from the SWIFT messaging system that facilitates international payments.

Still, there are some banks that haven't been cut off, and for now, sanctions imposed by the U.S. Treasury barring bank transactions contain exceptions for energy payments. That's a concession to [European allies that are much more reliant on Russian oil and gas](#) and fear a total cutoff could throw their economy into recession.

Russia getting paid for gas in their currency would at best help marginally in getting around financial sanctions, propping up the ruble's value or [protecting the Russian economy](#), said Eswar Prasad, professor of trade policy at Cornell University and a former official at the International Monetary Fund.

"Either Putin is getting terrible economic advice or he is going further off the rails in his hatred for the West," Prasad said. "It would be cheaper for foreign importers to pay for Russia's exports in a currency that is collapsing in value, but it is difficult to acquire rubles and make payments in a manner that avoids the sanctions."

He warned that the move "could further roil global energy markets by exacerbating current supply disruptions and adding to uncertainty about future supplies, which could all add up to more price spikes."

#### HOW IS PUTIN'S DEMAND BEING RECEIVED IN EUROPE?

European governments and energy companies are rejecting the idea, saying gas import contracts specify the currency and that one side can't change it overnight. They say they intend to keep paying in euros and dollars.

More broadly, the Group of Seven major economies including Japan, the U.S. and Canada as well as Germany, France, Italy and Britain have [agreed to reject Moscow's demand](#). The European Union's energy commissioner also agreed, a G-7 statement said.

German Vice Chancellor Robert Habeck told reporters Monday that "all G-7 ministers agreed completely" that such a step would be "a one-sided and clear breach of the existing contracts."

## WHAT'S PUTIN'S MOTIVE?

In theory, requiring ruble payments could support demand for the currency and its exchange rate. But not by much, Prasad says. As it stands, euros and dollars are already being used to purchase rubles when Gazprom exchanges its foreign earnings.

The Center for Eastern Studies in Warsaw has suggested that by moving the flow of foreign currency from Gazprom to the largely state-controlled banking system, the Kremlin will gain added control over foreign currency that has become scarcer since Western countries froze much of Russia's reserves abroad.

However, that would leave Gazprom without hard currency to make foreign debt payments or purchase supplies abroad. As it stands, the gas supplier already has to sell 80% of its foreign currency to Russia's central bank.

The ruble dispute has raised concerns it could lead to an interruption in natural gas supply. That could open Russia to charges of not adhering to long-term energy contracts, which it has done so far.

Europe's pipeline system is highly connected, so any attempt to restrict flows to some countries would affect the others, according to analysts at Rystad Energy. Beyond that, energy sales are a key source of revenue for Russia.

Asked by reporters if Russia could cut [gas supplies to European customers](#) if they reject the demand to pay in rubles, Kremlin spokesman Dmitry Peskov said in a conference call Monday that "we clearly aren't going to supply gas for free."

"In our situation, it's hardly possible and feasible to engage in charity for Europe," Peskov said.

## HOW REAL IS THAT THREAT?

The ruble proposal led Germany's utilities association, the BDEW, to call on the government to declare an "early warning" of a severe energy shortage.

That's the first of three stages of energy emergency in EU and German law, the highest being a shortage so severe that the government must shut off gas to industry to protect households.

The German government does not see the need for such a declaration, a spokeswoman said Monday.

It's possible Putin is bluffing. This month, Russia threatened to use rubles to pay foreign investors who hold government bonds dominated in dollars. It went through with a dollar payment after ratings agencies said [paying in rubles would put Russia in default](#).

When it comes to gas payments, “Putin may demand rubles, but the contracts are clear,” said Carl Weinberg, chief economist and managing director at High Frequency Economics in White Plains, New York. “His only option to force change is to refuse to deliver products, and that cannot happen: He can’t keep oil and gas from coming out of the ground without capping wells, and storage capacity will get filled very fast if shipments stop cold.”

“So let’s call it a bluff,” Weinberg said. “Russia cannot stop shipping product any more than Germany and the EU can stop buying it.”

#### WHY IS ENERGY AN IMPORTANT FACTOR IN THE WAR?

The European economy remains heavily dependent on Russia for 40% of its gas imports and 25% of its oil.

While the U.S. and the United Kingdom have said they will [stop buying Russian oil](#), European leaders have shied away from a total boycott of Russian oil and gas. Instead, they have focused on reducing their imports over the next several years through conservation, [other sources](#) and switching to wind and solar as fast as they can.

Estimates vary of the impact of a total gas shutoff in Europe, but they generally involve a substantial loss of economic output.