

## After Germany Moves Toward Gas Rationing, Putin Appears to Offer a Workaround

The economy minister had said Germany must be “prepared for an escalation on the part of Russia.”



By Melissa Eddy

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BERLIN — Germany made the latest move in the brinkmanship with President Vladimir V. Putin of Russia over his demand that Moscow be paid in rubles for critical energy supplies, announcing on Wednesday that it was prepared to ration natural gas if Russia cut its supplies.

Hours later, the Kremlin appeared to defuse the standoff by detailing a plan that would allow Berlin or other European customers to keep paying in euros. The plan was relayed by Mr. Putin in a telephone call with Chancellor Olaf Scholz, according to statements released late Wednesday by the German government and by the Russian state news agency, Tass.

In the call, Mr. Putin said that a new Russian law requiring gas deliveries to be settled in rubles would go into effect April 1. But “payments would continue to be made exclusively in euros and transferred as usual to Gazprom Bank, which is not affected by the sanctions,” according to a statement from Mr. Scholz’s office summarizing the call. “The bank would then convert the money into rubles.”

Western sanctions are aimed at crippling the Russian economy by cutting off the country’s central bank, threatening the country’s currency, the ruble.

But the Moscow-based Gazprom Bank, which handles energy contracts, was not placed under sanctions, a concession to Europe’s heavy dependence on Russian coal, oil and natural gas. More than 40 percent of all gas imported by Europe is from Russia. Europe’s energy payments to Russia, which have been rising because of escalating prices, could average \$850 million per day in the first half of 2022, according to Bruegel, an economics institute in Brussels.

By going through the Gazprom Bank, Russia is able to convert the Western currencies to rubles.

Earlier Wednesday, the German government activated the first step of a national gas emergency plan that could lead to the rationing of natural gas. The action — the first step, or “early warning stage” — involves setting up a crisis team of representatives from the federal and state governments, regulators and private industry, said Robert Habeck, the economy minister and vice chancellor.

The move illustrates the risk facing European countries that rely on Russian oil and gas as the war in Ukraine drags on. On Monday, energy ministers from the Group of 7 nations rejected a demand by Russia that the country be paid for its supplies in rubles. Several European energy companies have said payment in rubles would require a renegotiation of long-term contracts.



Germany has essentially frozen the Nord Stream 2 gas pipeline from Russia, which had been awaiting approval. Hannibal Hanschke/Reuters

“We will not accept any breach of the private contracts,” Mr. Habeck said.

Eswar Prasad, a professor of trade policy at Cornell University, said the demand to be paid in rubles made little sense economically: “Paying euros actually helps Putin rather than hurting him.” Euros, which are considered strong and stable, can be used by Russia to prop up the ruble when its own currency has been weakened.

The dispute over natural gas comes as prices of energy, food and other staples rise across the continent as the war rages, snarling supply chains that were already under strain from the pandemic. On Wednesday, both Germany — the largest economy in Europe — and Spain reported inflation levels in March that touched 40-year highs.

The German Council of Economic Experts, which advises the government in Berlin, warned in a report that its “outlook for the economy in Germany and the euro area has worsened sharply” because of the war in Ukraine.

The ongoing standoff of natural gas pricing is part of attempts from Mr. Putin to push back against a wide-ranging raft of economic sanctions aimed at punishing the Kremlin for invading neighboring Ukraine.

“We must increase precautionary measures to be prepared for an escalation on the part of Russia,” Mr. Habeck told reporters. “With the declaration of the early warning level, a crisis team has convened.”

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The team will meet daily to monitor the situation and establish measures that can be taken if supplies start running low, which Mr. Habeck stressed was not yet the case. Only if the situation were critical enough would the government intervene to begin rationing natural gas supplies. In that case, according to a planning document, households and critical public services, including hospitals and emergency services, would be prioritized over industry.

Roughly half of Germany’s homes rely on natural gas for their heating, and 55 percent of the country’s gas comes from Russia. It arrives via overland pipelines through Ukraine and Poland and through the original Nord Stream pipeline under the Baltic Sea. A sister pipeline that was awaiting German approval, Nord Stream 2, was effectively frozen by the government two days before Russian tanks rolled into Ukraine.

“Security of supply continues to be guaranteed,” Mr. Habeck said. “There are currently no supply bottlenecks. Nevertheless, we must increase precautionary measures to be prepared for an escalation on the part of Russia.”

Gazprom, Russia’s state-owned energy company, said on Wednesday that it had continued to supply gas to Europe via Ukraine in line with requests from European consumers and that flows remained high. Gas was also flowing west through a pipeline that crosses Poland from Russia for the first time since March 15, it said.

Poland has been lobbying its European Union partners to end their dependence on Russian energy as quickly as possible. The government in Warsaw has a pipeline linking the country to Norway that is expected to open by the end of the year, and capacities for liquefied natural gas would be increased. The country also announced it would stop importing Russian oil by the end of the year.

In Athens, the Greek energy ministry called an emergency meeting of all players in the country’s gas market to discuss alternative options for procuring natural gas in the event of an interruption in Russian gas supplies, the ministry said.

Mr. Habeck also urged German consumers and companies to begin making efforts to cut their energy use wherever possible. “Every kilowatt-hour counts,” he said.

Patricia Cohen, Ivan Nechepurenko and Niki Kitsantonis contributed reporting.