

Prices Explode in the Gas Battle

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The gas price explosion hits Europe at the critical moment of economic recovery after the disastrous effects of the 2020 lockdowns. The explanation, claiming it is due to the growth in demand and decline in supply, hides a much more complex scenario, where financial, political and strategic factors play a primary role.

The United States accused Russia of using gas as a geopolitical weapon, reducing supplies to force European governments to enter into long-term contracts with Gazprom, as Germany did with the North Stream pipeline. Washington pressed on the European Union to free from its “energy dependence” on Russia making itself a “hostage” to Moscow.

Basically, as a result of this pressure long-term contracts with Gazprom for Russian gas import have dropped in the EU, while purchasing on the spot (or cash) markets have increased, where gas lots are purchased and paid for in cash throughout the day. The difference is substantial: while you buy gas with a long-term contract at a low price, which is kept constant over the years, in the spot markets you buy gas at volatile prices, generally much higher, and determined by financial speculations in the Commodities Exchanges.

Huge quantities of mineral and agricultural raw materials are purchased with future contracts, which provide for delivery on a set date and at the price agreed upon at the time of signing. The strategy of powerful financial groups, that speculate on these contracts, is to raise the prices of raw materials (including water) to resell futures at a higher price.

To get an idea of the speculative transaction volume of the Commodities Exchanges, just think that only the US Chicago Mercantile Exchange, with offices in Chicago and New York, carries out 3 billion contracts a year for one million-billion-dollar amount (over ten times the value of world GDP, or the real value produced in a year in the world). In 2020, while the world economy was largely paralyzed, the number of futures and similar contracts reached a record level of 46 billion, 35% more than in 2019, causing a rise in commodity prices.

At the same time, the U.S. is pressing the EU to replace Russian gas with U.S. gas. In 2018,

in a joint statement between President Trump and European Commission President Juncker, the EU pledged to “import more liquefied natural gas (LNG) from the United States to diversify its energy supply.” The gas that arrives in the EU is extracted in the U.S. from oil shale using a fracturing technique that causes serious environmental damage; it is then liquefied by cooling it to -161°C and transported by gas tankers to about 30 terminals in Europe, where it is regasified. US gas, despite enjoying state benefits, remains much more expensive than Russian gas and, in order to enter the market, needs the general price of gas to remain at high levels.

Add to all this the “gas pipeline war”, a war that Italy paid dearly when in 2014 the Obama Administration, in agreement with the European Commission, blocked South Stream, the gas pipeline at an advanced stage of construction which would have brought low-cost Russian gas directly to Italy via the Black Sea under the agreement between Italian Eni and Gazprom.

Russia has circumvented the obstacle with the TurkStream which across the Black Sea carries Russian gas to the European edge of Turkey, continuing to supply Serbia and Croatia in the Balkans. On September 29 in Budapest, Gazprom and the MVM Energy Company signed two long-term contracts for the supply of low-cost Russian gas to Hungary for 15 years. A defeat for Washington, weighed down by the fact that Hungary and Croatia are part of NATO.

Washington will certainly respond not only economically, but politically and strategically. We will pay the bill, with the increase of gas bills, and the cost of living in general.

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