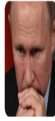


Putin Backs Down? No, Not Really

Forbes

Putin Reportedly Backs Down In Standoff Over Ruble Payments For Gas

8 hours ago



Bloomberg.com

Russia Sanctions: Germany Says Putin Backs Off Demand for Ruble Gas Payments

1 day ago



Via Clever Tactics, Putin Gets His Way on Rubles for Energy Demand

Description

Understanding Putin's Clever Tactic

Russian president Vladimir Putin demanded rubles for energy. His concern was that new EU sanctions that would freeze euro-denominated accounts of Russian energy suppliers.

One of Putin's fear stems from the fact that payments for gas shipped in April get paid later in the month or in May, depending on the contract. A second fear is European sanctions on Gazprombank.

The EU said no to his demand. Yet, the gas will still flow. This prompted misguided reports that "Putin backed down."

What's Really Happening?

- German Chancellor Olaf Scholz agreed to Vladimir Putin's clever way around the problem of rubles payments.
- The EU will pay in euros and via a separate account at Gazprom, the euros are immediately converted to rubles.

Putin Says Russia to Keep Supplying Gas Amid Shift to Rubles

Please consider [Putin Says Russia to Keep Supplying Gas Amid Shift to Rubles](#)

When Putin first announced the ruble-payment demand last week, European officials rejected it, saying the move would violate contract terms. But the Kremlin Thursday published a presidential decree outlining the mechanism to allow foreign buyers to convert their dollars and euros into the Russian currency through a state-controlled bank.

The Kremlin decree mandates that deliveries starting from April 1 be paid for in rubles. Foreign buyers need to open special ruble and foreign currency accounts at Gazprombank to handle payment, which can be done remotely. Buyers transfer foreign currency to pay for

the gas into their accounts, Gazprombank converts the funds to rubles on the Moscow Exchange and transfers rubles into the buyer's ruble account for payment on to Gazprom. The payment is considered complete when the rubles reach Gazprom's account.

Putin said the goal of the new mechanism was to prevent western governments from attempting to seize the payments in foreign currency or the accounts through which they went.

"If gas is supplied and paid for under the traditional scheme, new dollar and euro payments can be frozen," he said.

"I think ultimately Russia wanted to send a message that as long as its gas is being paid for in time and in full (irrespective of which currency is used), the gas will continue to flow," said Katja Yafimava, Senior Research Fellow at the Oxford Institute for Energy Studies. "If Europe were to lose supplies of Russian gas it would be not because of Russia cutting them off but because of Europe not paying for them."

Another motivation may have been to protect Gazprombank, one of the few major Russian banks that's so far avoided the most severe western sanctions, from future restrictions, she said.

Avoiding Sanctions

This workaround highlights the silliness of the debate that one needs dollars to buy oil or gas despite dollars being the pricing unit.

In this case, Russia demands rubles and get them via immediate conversion from euros or in some cases US dollars, depending on the contract.

Given that currencies are fungible (sanctions aside), it does not matter what the pricing or payment unit is.

This entire process is about avoiding sanctions and getting paid.

The EU could default one time given the payment lag, but then would be cutoff from oil and gas.

So despite reports to the contrary, this workaround that Scholz agreed to effectively satisfies Putin's requirements: Russia gets paid and Gazprom is protected from sanctions.

Ruble Impact is Minimal

The impact on the ruble is limited because Russian corporations are already required to sell 80% of their foreign-exchange earnings for rubles under the capital controls imposed by Western nations after Russia invaded Ukraine.

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This new maneuver means energy suppliers will have to sell 100% of euros and dollars to the Russian central bank for rubles.

European sanctions have so many holes they are mostly useless in practice. Thus, talk of reducing the EU's dependence on Russia is all hype and no reality.

Understanding What Happened

- The Russia Central Bank gets euros. Exactly as before. The entire thing is essentially a mirage. It really makes no fundamental difference if the euro for ruble switch happens by Germany, somewhere in the middle, or at the back end by the Russia central bank.
- Whether by the EU, some middleman, or later on the back end by Russia, the Russia central bank gets euros. Gazprombank gets rubles from the Russian central bank in exchange for euros.
- Aside from sanctions, currencies are fungible. This is always the case and a point most simply fail to understand in all this oil priced in something other than dollars nonsense. Hopefully now people can see it.
- One slight difference is the Russia central bank gets 100% of the euros instead of 80% of them. This benefits Putin but he could always demanded that. It now happens immediately instead of perhaps later.
- However, Putin extracted a mechanism and thus an implied promise from Scholz to not sanction Gazprombank. And he gets bragging rights that Scholz agreed to a maneuver that gets rubles to Gazprombank.
- The threat is if the EU sanctions Gazprombank, then Putin shuts down the gas. Yet, this was really the case all along. So actually, other than getting an agreement from Scholz, there is no difference. But with Gazprombank now on the cannot sanction list, Putin can likely play some games there with euros even though they are technically central bank euros.
- Putin can trade those euros to China for sanctioned US parts through Gazprombank.
- Bottom line is there is no real change technically. But Putin gets to brag he honors his contracts and he has a commitment from Scholz for the EU to do the same.
- It also makes it harder for Biden to pressure the EU to sanction Gazprombank or Gazprom.
- This is a victory for Putin.

Sanctions Don't Work

Here's a twelve-word synopsis of the above post [Misguided Souls Still Do Not Understand This Simple Truth: Sanctions Don't Work](#)

The last three of those twelve words emphasize the key point.

Meanwhile, [Biden Doing Everything Possible to Drive Up the Price of Oil, Some of It's Illegal](#)

Finally, [US Sanction Policy Drives China Into Russia's Loving Arms](#).

The Ruble Regains 100% of Its Loss After Russia Invaded Ukraine, Why?

For more discussion of energy for rubles and the currency itself, please see [The Ruble Regains 100% of Its Loss After Russia Invaded Ukraine, Why?](#)

Addendum

Eurointelligence podcast [Swapping Rubles](#) agrees with my assessment. Their paywall title is “*Paying in Rubles After All.*”

This post originated at [MishTalk.Com](#).

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