Conflict over Russian demand for payments in roubles

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Natural gas supplies from Russia to Western Europe could be cut off unless a deal is reached following Russian demands that payments for its exports be made in roubles rather than euros or dollars. This demand was flatly turned down by a meeting of G7 energy ministers earlier this week.

Germany and Austria have both taken the first steps towards instituting gas rationing because of the potential halt in supplies. However, in a call late on Wednesday between German Chancellor Olaf Scholz and Russian President Vladimir Putin, there was an indication of a possible pullback.

According to German sources, Putin said payments could still be made in euros as long as they were made to the Gazprombank, which has been excluded from sanctions imposed by the US and the European Union.

On Monday, Putin had declared that henceforth payments for oil and gas should not be made in euro and dollars but in the Russian currency in an attempt to boost its value.

Under the sanctions imposed by the imperialist powers, the rouble has fallen sharply in value. But the Russian central bank is not able to use its reserves, estimated to be around $630 billion, to prop up the currency.

Money is still flowing into Russian bank accounts as a result of the payments for oil and gas, which have been excluded from the sanctions regime, but the increased euro and dollar holdings are effectively frozen once they have been made.

The Putin directive was aimed at pressuring foreign companies to buy the Russian currency and thereby step into the breach, at least partially, left by the ban on the activities of the Russian central bank.

The demand for rouble payments was flatly rejected by the G7 group of major capitalist powers as soon as it was issued. The aim is to press ahead with the drive to crash the Russian economy, in order to promote a social, economic and potentially a political crisis for the Putin regime.

Germany's economics and finance minister Robert Habeck said the Putin demand had been unanimously rejected and the group was "prepared" for "all scenarios," including a possible halt to Russian energy supplies.

With the major powers having imposed sweeping sanctions on Russia, the world 12th largest economy, the G7 pronouncement reeked of hypocrisy as it invoked the sanctity of contracts as the basis for its decision.

Speaking after the meeting, which included representatives from the US, UK, France Canada, Italy, Germany and Japan, Habeck said: "All G7 ministers totally agreed that [requiring payment in roubles] would be a clear and unilateral violation of existing contracts."

He then went on to reveal the motivation for the decision saying Putin's move showed he "has his back to the wall" as sanctions were harming the Russian economy.

Russia hit back against the G7 decision with government officials declaring that it would not "supply gas for free."

Kremlin spokesman Dmitry Peskov said: "Payments will be accepted in roubles only. Companies need to understand the changed market situation, the absolutely new reality that has emerged amid the economic war waged on Russia."

The major European importers of natural gas have all invoked contract stipulations that payments be made in euros and dollars as the reason not to accede to the Russian demand.

The chief executive of Poland's state-controlled gas company PGNiG, Pawel Majewski has said there is "not much possibility" of switching payments to the Russian energy company Gazprom to roubles. "It is not the case that our counterparty can just freely change the means of making payments as it wishes," he said.

Even if companies did decide to try and comply with the Russian directive it is likely they would be hit with sanctions aimed at preventing the conversion of euros into roubles.

According to a French government official, President Macron told Putin in a call on Tuesday that it would not be possible for gas companies to make their payments in roubles. France was against such a move.

If Russia sticks to its demand, then gas supplies will start to be cut off. The Russian news agency Interfax has reported that officials from Gazprom, the government and the central bank will report to Putin today on how to organise payments in roubles.

The Russian government has implemented several measures to try to halt the fall of its currency, including ordering Russian brokerages not to allow foreign clients to sell securities, making it more difficult to sell the rouble. Exporters have also been told to sell 80 percent of their foreign currency revenues and buy roubles. But such measures can only make a marginal difference. Hence the move on gas payments.

The issue goes far beyond the conflict with Russia. The ability of the major imperialist powers to unilaterally null and void the foreign currency holdings of major countries overnight has cast a shadow over the entire global financial system. Its very foundations are being threatened.

This issue was the subject of a comment published yesterday by *Financial Times* columnist Martin Wolf entitled "A new world of currency disorder looms."

Wolf noted that after the Russian default of 1998, Putin had hoped that by building up foreign currency reserves he would be able to guarantee financial independence. The current action against Russia is significant not only for Russia because a "targeted demonetisation of the world's most globalised currencies has big implications."

The weaponization of currencies had major consequences for those who fear being targeted, he wrote. "Sanctions on Russia's central bank are a shock. Who, governments ask, is next? What does it mean for our sovereignty?"

Wolf warned that Western policymakers may find that by using these weapons they might damage themselves as the rest of the world tried to "find ways of transacting and storing value that circumvent the currencies and financial markets of the US and its allies."

He noted that China was already attempting to do this. But he ruled out the prospect of China developing a new international monetary system based on its currency. Its financial system was underdeveloped and relatively closed and was "very far from providing what sterling and the dollar provided in their heyday."

The future, Wolf concluded, was not a new global order but "more disorder" and "future historians may view today's sanctions as another step on that journey."