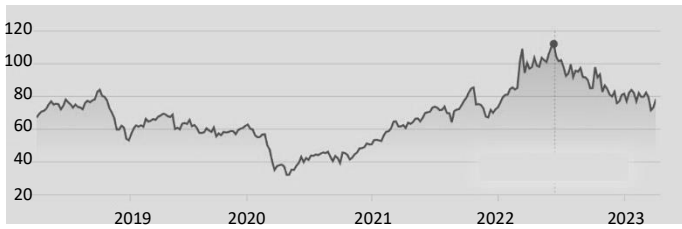


ENERGY PRICE CONVULSIONS

Redirection of the flow of oil

The oil price reached a peak in June 2022, at which point it has been gradually declining.



The impulse for the escalation to 120 dollars per barrel of oil was produced by the convulsions in its circulation derived from the sanctions and blockades undertaken as a war measure against Russian imperialism mainly by the European, American, and Japanese imperialisms; based on the maintenance of supply below demand by OPEC+ (see "The International Proletarian" n°9, p. 13). But these same measures should and did produce a redirection of oil and gas flows that would force the price to fall over time (see "The International Proletarian" n°10, p. 7 and 8).

Russian oil and gas have been replaced in Europe by gas and oil from other parts of the world, with a substantial increase in oil from Latin America and LNG from the USA and Qatar, as well as gas from Algeria, Azerbaijan, and Egypt. Not to mention the Russian oil that India buys at a discount and then resells to EU countries.

On the other hand, the increase in Russian gas exports to China (also at a discount) means that China has less need to consume LNG, thus relieving the pressure on demand for it and, along with it, its price.

To ensure that it is never put into operation, a part of Nord Stream 2 was dynamited, in a sabotage not claimed by anyone but which even within the US is considered to have been carried out by themselves. This has made it clear for the umpteenth time to the entire capitalist world that the US will carry out any false flag attacks it deems necessary against targets regardless of whether they are enemies or "friends".

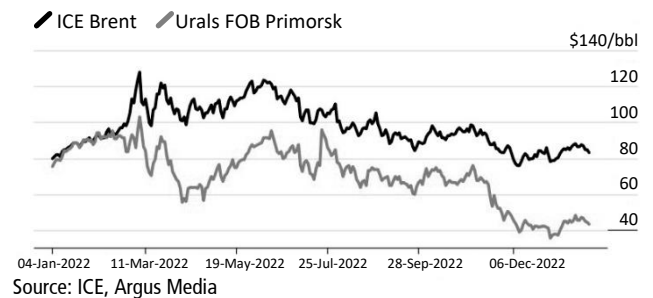
The cap imposed by Western and Japanese imperialism at the beginning of December 2022 on Russian oil to limit its revenues implies the dependence of those who impose it. It is a cap designed precisely to allow (and not to prevent) Russia to continue selling its oil but generalizing the discount it had already been giving.

As shown by the reaction of Saudi Arabia (leading OPEC+) in announcing the cut in oil production to contain the fall in prices, this is a fight that transcends Russia and is directed against all the oil producers who perceive it as such and respond to the enemy's fire with further coordinated cuts in production.

The cap is implemented through the prohibition to insure tankers carrying crude oil purchased above the fixed price. The first consequence was that ships carrying Kazakh oil (it has difficulties in being covered by Western insurers for fear of being mistaken for Russian oil) were blocked in the Bosphorus Strait while Russian ships (certified by their own insurers) were allowed to pass. The next consequence has been the emergence of a fleet capable of transporting 45 million barrels of oil and fuels that has been grouped around two front companies (Gatik and Fractal) that are responsible for collecting oil from Russian ports or carrying out ship-to-ship transfers of Russian oil: "Russia exported about 3.2 million barrels per day of crude from its ports in the two months following the imposition of the cap and the

ban on European imports on December 5, which is a minimal change from the previous two months. The two companies are part of the new supply chain network that allows that to happen." (Bloomberg, 18-03-2023).

The graph below shows how effectively Russian (Urals) oil is selling at a wide discount in relation to Brent:



The rise in the gas price in Europe

The TTF gas price in Europe soared to a peak in August 2022, at which point it burst (or rather was made to burst).



Source: Bloomberg

The rise in the price of gas had a major component of purely speculative nature: "The volume of contracts being made on the TTF is already far out from Europe's real gas consumption (...) nine out of every ten euros exchanged on that market in the form of contracts are purely financial. In 2021 alone, the benchmark was used in the negotiation of 4,500 bcm (...) almost ten times the real consumption of the European Union (...)" (Expansión, 19-09-2022).

This situation ended up leading to protests from large energy companies that are affected by the volatility without being able to take advantage of it because they are linked to longer-term contracts: "Companies such as Enel, for their part, are demanding that at least limits be established, in the form of a price range, to the volatility of the TTF." (Expansión, 19-09-2022).

This is how the representative of this company lamented: "What is not sustainable is that gas is at 300 euros per megawatt hour. What is happening in the wholesale markets has nothing to do with the real costs of supplies (...) It was enough to start talking about it and the price dropped from 300 euros to 200 euros (...) the electricity we produce today is the one we sold in the future market two years ago, with the prices of then." (Expansión, 06-09-2022).

This was combined with the existence of a potential competitor of the TTF, the Spanish Mibgas: "The spread (prices differential) that Mibgas maintained with reference to the TTF during the months of July and August was 57.58 euros lower, with the average price of the TTF in these two months being 203.09 euros per megawatt hour, compared to 145.51 euros in the Spanish market (30% less)." (Expansión, 12-09-2022).

Finally, companies such as Volkswagen began to consider

shifting production out of Germany because of rising energy prices, while the complaint in the European industrial sector became widespread: "A survey conducted in July by the German Chamber of Industry and Commerce (DIHK) revealed that 16% of the 3,500 companies surveyed were reducing production or interrupting their activities." (Financial Times, 25-09-2022). "Industrial producers such as ArcelorMittal and FerroGlobe; of construction materials such as Pamesa and Ceranor; food (San Miguel Arcángel), paper mills (Saica) and motor (Stellantis, VW), (...), have decided to reschedule production planned this year with partial stoppages (...)" "Two out of three cogeneration plants in Spain are stopped because the sector is in losses due to the rise in gas prices" (...). (Expansión, 04-09-2022).

State intervention in Europe

In capitalism, the State is at the service of the Capitalists. So, the State intervened to protect the collective interest of the bourgeoisie. On June 15th, 2022, Spain and Portugal were allowed to limit the price of gas to 40 euros per MWh for six months, to 48.8 euros per MWh for six more months and this has been extended until December 31st, 2023. In December 2022, the EU set a 180 euros cap on the price of gas, after the price had been falling just by announcing it and with inventories becoming increasingly crowded.

Among other measures, Germany reduced VAT on gas from 19% to 7%, Italy cut it from 22% to 5%. Portugal allocated 3 billion to contain the bill for its companies and Germany assumed the December gas bill as "emergency aid to assume the cost of the December gas bill for households and small businesses. (...) The emergency measure, whose estimated cost is around 9 billion euros, will be financed within the framework of the "shield" of 200 billion euros in aid to combat inflation." (Expansión, 20-11-2022).

The EU has already prepared a draft to generalize the aid that Germany has been giving to companies: "The rule regulates a partial intervention in the markets when prices are "significantly" above the average of the last five years, foresees that this "strong increase" will be maintained "for at least six months" and will have a "broad" impact on the economy. At this point, governments will be allowed to help SMEs by subsidizing up to 80% of the prices." (El País, 08-03-2023).

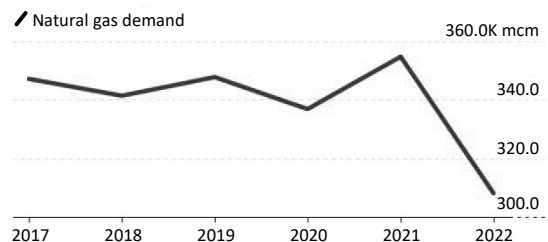
"The European Commission points out that member states have also caused gas price rises by competing among themselves with suppliers" (El País, 17-10-2022) which has led to a project of joint purchasing of at least 15% of gas. The most critical energy companies have also been nationalized: Uniper and the German subsidiaries of Gazprom and Rosneft, in Germany, and EDF in France.

Evolution of gas reserves in Europe

In any case, the moderate cold and the high price have caused gas demand to fall in Europe. In October, before the onset of winter, the situation was as follows: "Inventories are already at 92.4% of their capacity and verging on 100% in countries such as France, Belgium or Poland (...). Lack of gas connections (...) while Spain and Portugal account for more than 40% of Europe's regasification capacity, they barely account for 6.3% of total consumption". (Expansión, 20-11-2022).

Another example of the anarchy inherent in the production of commodities: "in spite of the Russian supply cut, almost the entire European gas market is saturated, which has led to the refusal of new methane tankers to enter. Around the Spanish coasts there are some thirty ships waiting to unload gas, and dozens more near other European countries, but in Spain there is

barely room for six of them (...) gas prices in the Netherlands, the largest distribution hub for Europe, have plummeted by more than 60% since September, with an even greater fall in Spain, close to 80%." (Expansión, 20-11-2022).

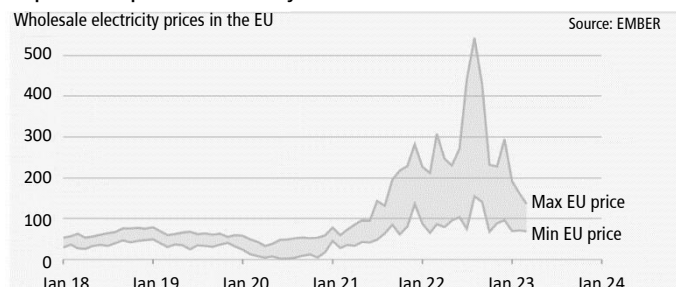


Source: BloombergNEF

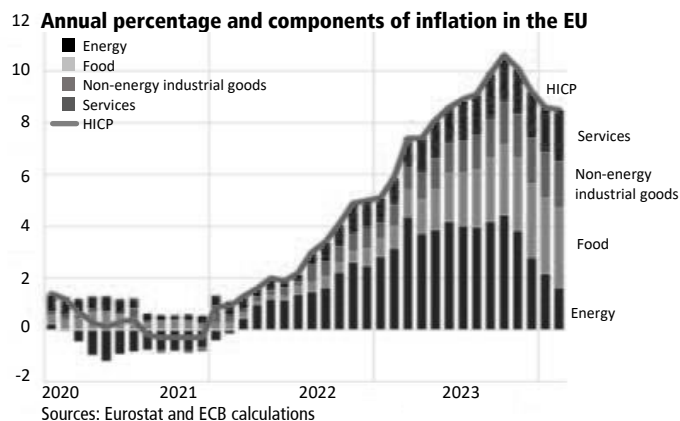
Note: Includes France, Belgium, Italy, the Netherlands, Great Britain, Austria, Germany, Switzerland, Luxembourg and Ireland.

Effects on inflation

All of the above has allowed the European bourgeoisie to tame peak energy prices, although they remain relatively high compared to previous history.



This is how the decline in the price of energy has been reflected in the evolution of inflation (as we have seen in the previous article for the US), together with the effect of supply chain deflation and the relative revaluation of the euro against the dollar.



Within the madness of price oscillations, electricity has punctually reached zero euros at the beginning of the year 2023.

OPEC+ cuts

After the cut announced in October 2022 and which sparked US protests, OPEC+ has announced a new cut in April 2023 with the intention of pushing up the price of oil: "The initial impact of the cuts, starting next month, will add up to about 1.1 million barrels per day. From July, due to the extension of the current Russian supply reduction, there will be about 1.6 million barrels per day less crude oil on the market than previously expected. Russia initially cut production in March in retaliation for Western sanctions triggered by its invasion of Ukraine." (Bloomberg, 02-04-2023).

This act, led by Saudi Arabia, is both a support for Russian imperialism and an attack on US imperialism, being part of the turn made by Saudi Arabia in signing the restoration of relations

with Iran under the auspices of China (see p. 27 of this review). It is also an act by the oil-producing countries, addicted to ground-rent, which they have been parasitizing for decades, to impose their conditions now that oil still has a fundamental impact and relevance.

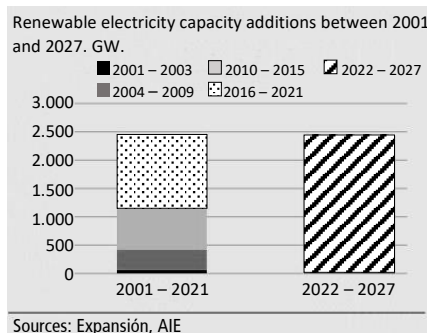
The countdown for oil continues

The general decision to displace fossil fuels continues to be implemented progressively, with all the ups and downs produced by the anarchy of market production.

The price shocks that this process has generated and will generate are pushing large companies to build up their own energy self-supply capacity by means of solar panels and even their own electricity generation plants.

Another example is the decision to ban combustion engines in the EU by 2035, which has been endangered by German opposition unless an exemption was included for synthetic fuels, to protect high-end German automakers who have been developing synthetic fuels for years and are lagging behind with electric vehicles. In the end, the European Commission has reached an agreement to *"clearly include an exception for cars that use a certain type of fuel, the so-called synthetic or e-fuels, which are climate neutral."* (El País, 26-03-2023).

Nevertheless, investments are ongoing and the energy capacity expected to be put into operation between 2022 and 2027 is equivalent to the entire capacity deployed between 2001 and 2021:



As has been the case in recent years, Chinese imperialism is taking the lead over all other imperialisms in this field as well: *"In the last 15 years, the country has become the world's photovoltaic empire. China's share in all phases of solar panel manufacturing exceeds 80%, according to a 2022 report by the International Energy Agency."*

The Asian giant is also the first exporter and the first consumer of panels. In 2022, the country installed 87.4 gigawatts (GW) of new solar capacity, 59% more than in 2021. The number is double the new capacity installed in 2022 in the European Union (in per capita terms the EU would be ahead) and accounts for around a third of what was installed worldwide." (El País, 11-02-2023).

US fracking profits fade away

If US oil companies had celebrated last year's profits and distributed dividends happily (with little or no reinvestment), now comes the time to admit that, with supply prices high and the price of oil having fallen, the future is darker.

"(...) oil and natural gas prices have fallen below pre-invasion levels. However, costs such as equipment and labor continue to rise, leading the largest operators to prepare for a smaller haul in 2023. "We have seen inflation of between 30% and 50%, depending on the cost category involved, and that is what we are looking at in 2023." (Expansión, 27-02-2023).

In this situation, against the will of its executors, the cut

announced by OPEC+ has given a little oxygen to US fracking.

On the other hand, the president who allegedly carries de banner of environmentalism, who had promised that under his mandate no more drilling would take place, has authorized drilling in the NorthSlope area, in Alaska: *"The so-called Willow project, led by the company ConocoPhillips, will allow the extraction of 180,000 barrels per day, although it will take several years for the crude oil to start flowing."* (La Vanguardia, 15-03-2023).

Fusion energy

In this context of gradual displacement of fossil fuels, it seems that the bourgeoisie is considering stopping sabotaging the progress of fusion energy. China (EAST), Europe (JET) and the USA (NIF) are trying to develop this technology. Obviously, with the prospect of being the first ones to get into the new business: *"(...) in recent years private companies have also mobilized large amounts of investment in pursuit of the promise of being able to produce fusion energy as early as the 2030s. In the twelve months to the end of June, fusion companies raised \$2.83 billion in investments, according to the Fusion Industry Association, bringing the total private sector investment to date in this technology to almost \$4.9 billion."* (Expansión, 08-01-2023).

Capitalism opposes the introduction of this energy because of the devaluation of the fixed capital in operation for the other energy sources and because of the fall in the cost of energy itself. But dialectically, competition pushes forward the bourgeoisie that *"cannot exist without constantly revolutionizing the instruments of production."* (Manifesto of the Communist Party, 1848).

In any case, as long as capitalism and the anarchy of mercantile production survive, any transition will entail convulsions, crises and spasms, such as the current transition from fossil fuels to renewable energies.

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