

## Russia threatens to shut off natural gas supplies to Europe

RUSSIA threatened to cut natural gas supplies to Europe via the Nord Stream 1 pipeline as part of its response to sanctions imposed over the invasion of Ukraine, a move that could heighten the turmoil in energy markets and drive consumer prices even higher.

Russia has the right to take actions that "mirror" the penalties imposed on the Russian economy, Deputy Prime Minister Alexander Novak — who's also in charge of energy affairs — said in a televised speech late on Monday. He said no decision to shut off Nord Stream 1 has yet been taken, and the pipeline is currently operating "at its full capacity."

The comments come after a day of wild swings on European gas markets, with prices at one point surging by almost 80% amid fear of disruption to supplies from Russia.

Europe's reliance on Russian energy has been a key factor in efforts by the continent's leaders to agree

on how to respond to the invasion of Ukraine. Last month, Berlin shelved the \$11-billion Nord Stream 2 pipeline project, and European Union (EU) officials say they're working on a plan that could cut the bloc's import needs from Russia by almost 80% this year.

But many EU politicians remain wary of immediate action, one reason why Germany has pushed back against proposals for a ban on oil imports. German Chancellor Olaf Scholz said on Monday that Russian oil and gas are of "essential importance" to the European economy. Roughly 40% of EU gas imports and one quarter of its oil come from Russia.

Mr. Novak said that Russia has other options for selling its oil if the US and EU ban Russian imports, and he warned that any such move could have "catastrophic consequences for the world market" with prices surging to \$300 a barrel or more. — **Bloomberg**

# Crude oil shock hitting plastics in first sign of demand destruction

STRATOSPHERIC oil prices are flowing through into the plastics industry with producers reducing activity as profit margins collapse, a first sign of the demand destruction that may spread to other sectors.

Several Asian operators of plants that make the petrochemicals used as the building blocks for everything from children's toys to car interiors have cut processing rates to as low as 80%, said five traders at these companies. The facilities, known as crackers, typically run at or near full capacity.

The soaring price of crude and question marks over the supply of oil-derived naphtha — a popular feedstock in Asia — from Russia are challenging the economics of producing plastics in crackers in South Korea, Taiwan and Malaysia, said the traders who asked not to be named as the information

isn't public. The problems are an early indication of the difficulties Russia's invasion of Ukraine may create for industries that rely on raw materials.

As much as 15% of Asia's naphtha imports come from Russia and the Black Sea and Baltic regions, according to industry consultant FGE. Many petrochemical plants have paused purchases from Russia, and are hesitant to buy crude from anywhere at such high levels, given that their finished products won't be ready for around six weeks or so.

Expensive freight rates are adding to the problem and causing companies to cut activity now rather than risk massive losses.

"The situation is very foggy for crackers in Asia," said Armaan Ashraf, a senior analyst at FGE. It's a "big risk" to buy naphtha when



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crude is at \$130 a barrel, he said, adding that profit margins are going to stay poor for at least a month.

Profit margins from products including ethylene and propylene — which are used to make plastics — were already weak and have shrunk further since Russia's invasion of Ukraine.

The premium for prompt naphtha deliveries to Asia over contracts

another month out is more than \$30 a barrel, compared with less than \$10 in early January. The so-called backwardation is another indicator of anxiety over the extremely tight supply situation.

Taiwan's Formosa Petrochemical Corp. is running crackers at its Mailiao plant at 80% to 85%, three of the traders said. Lotte Chemical Titan Holding Bhd. has cut run rates at its facility in Malaysia to below 90% and plans to reduce them further if market conditions deteriorate, while Hanwha Total Petrochemical Co., Lotte Chemical Corp. and LG Chem Ltd. in South Korea have lowered processing by 10% to 20%, the traders said.

A Lotte Titan spokesperson didn't answer several phone calls seeking comment, while the other companies didn't immediately respond to e-mails. — **Bloomberg**



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