Ref. Ares(2023)956231 - 09/02/2023

Minutes of Meeting

MEETING CONCLUSIONS

Title	**Meeting SHELL with Cabinet of Pres VDL and** [redacted]
Date	07/09/2022
Participants	Ext : [redacted] COM: K. VandenBerghe (Cab Pres) – S. Grassi (Cab Simson) [redacted] (SG)

Gas

Shell :

A RU gas cap would likely have the effect of full disruption of flows from RU. It would also affect outside the EU : Limited export capacity from TR, and re-export restrictions of RU gas to TR -> decoupling potential

Note : Gas or oil fields can be shut down without damaging the extraction architecture. It is rather the case for oil given the technical aspects of the Russian. The observed flaring is likely linked to LNG and absence of some spare part.

On the wholesale gas market price, issue is shortage and a price cap is likely to have perverse outcome : impact on financial markets, with possible counterparty failure and price signal failing on allocation of needs "flying a plane blindfolded". Challenges of flows EU-UK over winter

If there was a price cap on RU LNG, Shell see risk of sending it elsewhere, but also discounting in price bec of self sanctioning. It would add inefficiency and cost to the global market to rebalance.

Shell's preference is work at retail price level, supporting consumers

Oil

Price cap on RU crude oil : compared to gas, oil is more easy to divert. This is why price cap is easier to circumvent, and difficult to enforce even with secondary sanctions. It can be avoided by bundled trades or be transported by ghost ships. Given the RU volumes, the function of markets would be affected. It could be then with an intermediary buyer, and requires India and China. G7 pushing

There is already, because of sanctions, significant self-sanctioning and discounts; it has impact on price. For gas, RU has no alternative and would shut the supply rather than sell at discount

Questions:

? if only RU gas price cap and no other measure there may not be a big effect on the mkt as a whole, it depends on where marginal unit would go.

? Legally, RU gas supplies are already outside contractual terms and Force Majeure has been used

? effect of caps also depends on level and duration : if cap higher than current mkt, then volatility would be reduced, and it limits speculation gain (!). If cap lower than LNG price, LNG would move away from Europe. It would help with the liquidity issue in the futures market. A dynamic cap on LNG could be an idea

Shell support direct public support to consumers and to ensure exchanges continue to operate :

? benchmarks : TTF and LNG markets are linked , Asian LNG spot market is not a good reference, as not liquid enough. More can be done to grow a European LNG marker. But no pegging of TTF to Asian market (JKM). Shell would be supporting to develop a new European LNG index mid term

Analogy with oil/Brent, where benchmark creation has been attempted without much success, this is challenging and needs to be done with regulators and market participants

? decoupling of power and gas prices: PPA and hedges already done, this would intervene. Inframarginal price cap needs to consider difference between those locked in in prices and those who are not