

# Europe's Dependence on Russian Gas and Online Gambling

## Featuring:

*Elchin Mammadov, ESG Researcher, MSCI*

*SK Kim, ESG Researcher, MSCI*

Mike Disabato:

What's up everyone and welcome to the weekly addition of ESG Now, where we cover how the environment, our society, and corporate governance effects and are affected by our economy. I'm your host, Mike Disabato, and this week we have two stories for you. The first, we discuss how dependent the west is on Russian natural gas, and the second is about the proliferation of online gambling in the US. Thanks as always for joining us, stay tuned.

Mike Disabato:

The beginnings of the conflict between Russia and Ukraine lie relatively far back in time. And the sounds that the current conflict are making have echoes of a long and complicated past involving Russia and Western Europe. As tensions continue to rise and threats of invasion by Russia loom, what further complicates it for the west is the EU's reliance on Russian natural gas. How reliant, you wonder? I say this without hyperbole, astounding reliant.

Elchin Mammadov:

Russia accounts for between 38 and 41% of gas that Europe consumes, so it's a big chunk. But, even within that range, within the EU, some countries are much more reliant on Russian natural gas, and that's the likes of Finland, but mostly countries in Southeastern Europe like Bulgaria and Slovakia. So, they imported between 70 to 95% of all the gas that they use from Russia.

Mike Disabato:

That was Elchin Mammadov, my colleague, who covers the natural gas industry for us. You might remember listening to him a couple weeks ago when we had him on the pod to discuss the implications of the EU labeling that natural gas is a sustainable transition fuel in its green Bible, the EU Taxonomy. Well, now we're looking at where that natural gas is going to come from that Europe will use as a sustainable transition fuel. And it's coming from Russian companies and Russian natural gas fields.

Elchin Mammadov:

But even the likes of Germany and Poland and Italy, they import between 40 and 50% of Russian gas goes towards their domestic consumption. And those countries don't really produce much gas on their own. The biggest producers are the likes of Netherlands, where the domestic production is actually dwindling because of the earthquakes in Groningen field, among other reasons. And the only other supplier to Europe that is friendly and nearby is Norway, which is a big supplier, but there, we don't see a huge increase in production in the coming years. If things continue as they are Europe's reliance on gas from Russia will probably be around 40% or so, and could actually increase over time.

Mike Disabato:

So, hypothetically, Russia stops sending gas to Europe. What do utilities do then?

Elchin Mammadov:

The biggest thing that the utilities can do is import more LNG, liquified natural gas, from places like US and Qatar. Then they will be competing with the likes of China and Japan and Korea and even Brazil, who are also importers of LNG. So if Putin tomorrow shuts the pipes, unfortunately, the best thing you can do is shut immediately all the gas fired power plants in Europe, burn much more coal and consume less gas. Some of the industries will have to shut down, not to use any gas, and you might have to ration it to households. There might not be enough gas to go around. So, it's pretty dire situation if that happens.

Mike Disabato:

Basically in total, the 27 countries that make up the EU produced only 9% of the natural gas they use. And it's not easy to scale that number up quickly because most of the major gas fields in Europe are running at capacity. Now, the reason this is an important story for the ESG realm is twofold. First, according to our data, a lot of European utilities have significant carbon reduction targets that rely, sometimes and partly, on natural gas as a transition fuel. And secondly, it is what happens to a power utility that doesn't have natural gas to burn, to make its energy. Where does it go then? Well, it gets dirty. It goes to coal and listen to what Elchin said when I told him that the situation seems like one of those cruel environmental ironies, in that Russian gas is helping the EU go green.

Elchin Mammadov:

It is. So, basically Russian gas is helping Germany pivot away from coal. There's a lot of coal that is planned to shut down in Germany, and Russia is the biggest supplier to the country. Yes, Germany is thinking about building liquified, natural gas import terminals, but the capacity there is not huge. So yeah, Russian gas is trying to clean up the power mix for Germany, but also many countries in Eastern Europe and Central Europe.

Elchin Mammadov:

On the flip side, if the current uncertainty persists, perhaps it will push politicians to accelerate the shift towards renewable energy in the long term because that way you're not dependent on Russian and other gas exporting nations for your fuel, at least not to the same degree as they are now. So, in a way, it could accelerate that green transition.

Mike Disabato:

There is historical precedent for that, not green historical precedence, but historical precedence nonetheless. The disastrous foreign policy decisions that the US government pursued in the Middle East in the early 1970s, meant that the US government had to find out how to make their energy system more independent. So came the shale gas boom. Now that's in addition to new technology that allowed companies to get the gas easier, but still that change seems analogous to the new technology that could allow companies to scale up renewable energy production. So might this conflict prompt European nations like Germany to push for even more investment in energy independence as the troubled wars in Afghanistan and Iraq did for the US? And what could happen to investors in European gas utilities if Russia invades and NATO aggressively sanctions the Russian energy sector. These are questions only time can answer, but I'm going to propose them to you anyway.

Mike Disabato:

There were two winners of the National Football League Super Bowl last Sunday, the Los Angeles Rams and online gambling. Gambling is having a technological renaissance of sorts, due to online sports betting. Traditional casinos, like MGM Resorts, Wynn Resorts, and Penn National all have their own apps, as well as purely online companies like DraftKings and FanDuel. What's interesting about all this, is that professional sports have decided to embrace online gambling. And that's a marked turn from the past where gambling scandals and the possibility of fans losing confidence in the integrity of the game meant leagues would go out of their way to ensure their sports were not linked to gambling at all. But now announcers are talking about online gambling platforms as though they once did hot dogs and hamburgers. That uneasy marriage made me think about how investors are reacting to this growth in online gambling.

Mike Disabato:

You may not know this, but early ESG investing was hinged around value propositions. Unions would screen out companies from their pensions that didn't use union labor or religious organizations would screen out sin stocks of their endowments. Sin stocks, by the way, are shares and companies involved in activities that are considered unethical like tobacco, alcohol, porn, weapons, and of course gambling. I should note that sin stocks are just this evangelical almost term of art that's stuck in the market. We are not God fearing here at ESG Now. We just fear systemic risks.

Mike Disabato:

Anyway, I thought maybe online betting had changed the market idea of gambling as it has changed the sporting community idea of gambling. And we could call this segment, Has Technology Made and Act Safer or is it Still Suspect? Catchy title, I know. To answer that question, I called up my colleague SK Kim, who covers the casinos and gambling industry, and she said, as it pertains to the key ESG risks that these companies face, gambling is still very suspect

SK Kim:

I'm really hesitant to say there are leading online gambling companies because... Especially during the times when pandemic hit, right? And everybody was just had nothing to do, but mobile phones in their hands. The high penetration rate of mobile phones that exacerbating circumstances where gambling problems could become more of a social problems. So, even if the companies do have, say leading practices, meaning up to date technology where are the companies can actually detect the pattern of problem gamblers, and they apply money spending limits or cooling off limits, et cetera, but that doesn't really mean that those companies could be called leading versus others. Because casinos, or gambling in general, the majority of the revenue actually comes from a small portion of customers where they spend a lot of money. It's not like mass gamblers, like myself or you, who are just putting like \$10 and you have sufficient control over yourself, but that there are really like less than 1% of the customers that are very problematic.

Mike Disabato:

So, even though there was a record setting number of bets placed on these apps over the weekend, the majority of these companies' revenue still comes from a small, extremely dedicated user base. A dedicated user base in the same way a smoker is a dedicated user of tobacco. The companies have tried to put a bandaid on this by ensuring their apps send out alerts to users that show the hours they have been online and the money they have won or lost in all their bets, but like with traditional casinos, this situation might mean online betting companies are going to face regulatory and reputational risks tied to addictive gambling. Yet there's one competitive benefit, and I guess increased risk that online gambling has, in that it's addictive customers can use the product from the seclusion of their homes. It's basically easier for these individuals to hide.

SK Kim:

Although those companies need to have, so-called, know your cost consumer mechanisms... So they have to identify who the customer is, but even with that, it's not perfect and it's not going to be as easy as what the physical casino's operators could actually do to stop proper and gamble because you don't have to be there in person. So, that's the biggest difference.

Mike Disabato:

Okay, so last thing. What about money laundering? Casinos are great places to launder money. You just take in your illicit cash and exchange it for chips, play a couple games and then cash out and claim the money is gambling winnings. To prevent this from happening casinos must comply with, especially in the US, with the Bank Secrecy Act and governments elsewhere are trying to crack down on the practice. They're doing things like preventing people from spending too much money in their casinos, like China did in 2014, but the act of laundering still regularly happens. What about online gambling? Is it more or less challenging to prevent money laundering from happening via online betting?

SK KIm:

Probably more challenging because the avenue for transaction could be credit cards, it could be cryptocurrency. So, those new ways of currency, for example, if I could put it that way, it's going to be a kind risk that online gamblers are facing.

Mike Disabato:

The growth in online gambling seems to have the makings of a reputational and regulatory firestorm, and we can see that firestorm already building in a region that has had online gambling for a lot longer than the US. Europe has had online gambling for some time. And one of its regional hubs is starting to show what can happen when vast sums of money are moved around without proper regulation. Malta has emerged as the undisputed capital of online gambling in Europe after the Archipelago offered a slue of agreeable tax rules and obliging regulators. You can think of what Ireland did for the tech industry after it gave it a lot of tax breaks. Malta houses a lot of the online gambling industry's headquarters as well. That's another similarity it has to Ireland. But now, Malta is the target of an international money laundering crackdown after the Financial Action Task Force said it can't be confident that basic financial safeguards are in place. Which means, regulators might step in to ensure the island's gambling industry doesn't fail.

Mike Disabato:

In the US, as the industry continues to grow and the novelty wears off, the real risk to watch out for is if online sports betting will have its tobacco moment. When consumer lawsuits and investigations show that there are more people hooked on gambling than ever before, and it's causing serious harm. As tobacco had a problem with proliferation, so too it seems, the online gambling industry might be dealing with a similar problem. Irrespective of all that though, and going back to the question that we posed at the beginning of this story, it seems that the industry remains where it has always been, a pleasure one is willing to sin for.

Mike Disabato:

And that's it for the week. I want to thank Elchin and SK for joining me to discuss the news with an ESG twist. I want to thank you so much for listening. I really appreciate it. If you like what you heard, don't

forget to rate and review us. That always helps. And if you want to have a new episode in your podcast box every week, subscribe, and it'll be sent to you. Thanks as always and talk to you soon.

Speaker 4:

The MSCI ESG research podcast is provided by MSCI Inc subsidiary, MSCI ESG research, LLC, a registered investment advisor and the investment advisors act of 1940. And this recording in data mentioned here in has not been submitted to, nor received approval from the United States Securities and Exchange Commission or any other regulatory body. The analysis discussed should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The information contained in this recording is not for reproduction in whole, or in part, without prior written permission from MSCI ESG Research. None of the discussion or analysis put forth on this recording constitutes an offer to buy or sell or promotional recommendation of any security, financial instrument or product or trading strategy. Further, none of the information is intended to constitute investment advice or recommendation to make or refrain from making any kind of investment decision and may not be relied on as such. The information provided here is as is, and the user of the information assumes the entire risk of any use it may make or permit to be made of the information. Thank you.

## About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit [www.msci.com](http://www.msci.com).

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [www.msci.com](http://www.msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI ESG Research LLC collects and uses personal data concerning officers and directors, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.