EU Gas Market Fundamentals
Prospects for a Sustainable Diversification of EU Gas Supplies
Content

• EU natural gas demand and import needs outlook
• Alternative gas import sources
  • Russia and alternative suppliers
  • LNG
• Sustainable diversification of natural gas supplies into the EU: competitive diversification
EU Gas Demand outlook to 2025, selected scenarios
Major uncertainty, hinging on policy directions in the power sector
Additional Gas Import Needs Into the EU (Reference to 2015)

Due to declining domestic production, import needs rise in all scenarios but demand uncertainty hampers any drive to secure new long term supplies.

**Source:** CIEP ©

[Bar chart showing gas import needs from 2015 to 2025 under highest and lowest demand scenarios.]

Under highest demand scenario

Under lowest demand scenario

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Outlook for Gas Imports from New Pipeline Suppliers into the EU to 2025

- Capital intensive infrastructure is needed to reach the EU market
- No appetite to enter long-term contracts in the EU: who is going to invest?
- Geopolitical hurdles further complicate new projects
  - Turkey would be the transit country in nearly all cases
  - Altogether dim prospects for new supplies
- Azerbaijan faces less obstacles but it can offer limited volume
Outlook for Gas Supplies from current pipeline suppliers into the EU to 2025

- Norway: maintaining steady supply level, potential for additional gas limited (if any) over the period under review
- Algeria: additional gas from Algeria most unlikely
- Libya: current supplies risky, no additional supplies
- Russia: only Russia has potential for additional supplies
Outlook for Gas Imports from Russia into the EU to 2025

- Russian gas is very price competitive
- In 2025, contracted volumes will be around 150 Bcm, but the ‘floor’ is set by take-or-pay commitments (100-125 Bcm)
- Russia has at least 100 Bcm of spare supply capacity above its contracted volumes
- Transport as potential bottleneck
Flexible Volumes in the Global LNG Market

- Additional Australian and US LNG by 2020
- Flex LNG potential in 2020: 190 Bcm
- Amount of Flex LNG potentially available to the EU will depend on demand from other markets
- LNG market to remain glutted until 2023-2025
- FIDs needed in the next years to avoid a tight market in 2025
- Portfolio players can play a role in bridging the needs for flexibility and FID security
LNG Import Terminals in the EU

- EU continues to play the role of ‘sink market’ but its absorption capacity is not endless

- Additional flexible LNG will come to Europe and can be accommodated by considerable idle capacity in import terminals (45 Bcm used of 190 Bcm available)
The EU Gas Import Battlefield *

* Figure constructed to scale based on 2015 gas imports into the EU
Based on these EU Market Fundamentals what are then the Prospects for Security of Supply and Sustainable Diversification of EU Gas Supplies until 2025?
Types of Security of Supply

Definitions

OPERATIONAL
Capacity to accommodate daily variations in demand (extreme winters)

STRATEGIC
Strategy to limit risk and impact of interruptions (at source or infrastructure) in supplies at lowest costs and competitive prices

GEOPOLITICAL
Capacity to reduce probability or impact of major supply interruptions

LONG-TERM
Conditions ensuring adequacy, affordability and security of supply over the long term
Security of Supply for the EU

Traditional security solutions

**STRATEGIC**
- Supply diversification (based on long-term contracts)
- Contractual diversification
- Multiple import facilities
- UGS

**GEOPOLITICAL**
- Supply diversification
- Relationship management, and/or strategic stocks

**LONG TERM**
- Additional, diversified long-term contracts
- Contractual diversification
- Multiple import facilities
Security of Supply for the EU to 2025
Security outlook for current and, if needed, additional supplies

**STRATEGIC**
- COMPETITIVE DIVERSIFICATION: Overhang of LNG supply and Russian gas supply capacity, supported by alternative spare import facilities* offers optionality in the market;
  - Multiple import facilities
  - UGS

**GEOPOLITICAL**
- Supply diversification
- Relationship management
- and/or strategic stocks
- Complemented by COMPETITIVE DIVERSIFICATION

**LONG TERM**
- Additional, diversified long-term contracts
- COMPETITIVE DIVERSIFICATION

*Currently limited import pipelines from Russia

No appetite in EU market
EU Gas Security of Supply Range

In case of a disruption

Security of Supply Range

LNG

LNG contracted

LNG flexible

Russia flexible

Russia contracted

Norway, Algeria, etc contracted

Total EU Gas Imports

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Prospects for Sustainable Diversification of the EU’s Gas Supply

Conclusions

The EU is enjoying a prolonged buyers’ market

• Significant supply overhang of both pipeline gas and LNG, combined with market liquidity
• ‘Competitive diversification’ will offer price competition and supply security
• The market share of any supplier is irrelevant
• Minimising obstacles to competition will enhance competitive and security environment (this includes allowing additional import pipeline capacity investments from Russia)

But the “holiday” (for the EU and its consumers) does not last forever

• The EU is not in a position to dictate the nature of the market
• Timely review needed for signs of changing LNG supply/demand and business model outlook
• If Asian and/or LNG business models change to short term transactions, LNG supply to EU in a tight market will depend on EU gas prices
• If LNG supply gets tight while Asia resumes term contracts to secure new supplies, EU will be ill-prepared to do the same (weakness of the EU buyers)
Thank You!
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