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*“Europe’s energy markets don’t work”, “Europe’s gas market is still a patchwork”, “EU seeks new supply routes in wake of Russia-Ukraine gas row”, “LNG set for extended European role despite limitations”, “Gazprom warns EU to let it grow”.*

These recent media headlines highlight the current dichotomy – the fact that European gas market liberalisation as a result of the EU Gas Directives is not fully implemented or working and that whilst this activity has been going on for the last 12 years or so we may have taken our “eye off the ball” in terms of the important issue of future gas supplies. It is common to talk about the “European Gas Market”, as I have just done, but this is in fact a misnomer as it does not exist as a cohesive market but is still a series of national (and in rare cases regional) gas markets that are linked. In this short article, I do not propose to comment on these market liberalisation issues but to offer a personal view on what is the other hot topic of the moment – where is Europe going to get its future gas.

Europe has been an importer of gas for many years with the bulk of this being by pipeline from Russia, Norway and Algeria, although production from both the North Sea and Algeria has arguably peaked. The EU imports of gas from Russia currently stand at around 25% of total. Strong competition, primarily from Norway, North Africa and liquefied natural gas (LNG), coupled with all EU players pursuing policies of diversity of both supply source and delivery method will probably limit major step-change growth in Russian gas imports to Europe up to the medium term.

The key issue is, however, not what happens now but the future. There is no doubt that existing gas production in Europe is declining, although there may be dispute concerning the true rate. The requirement for increasing imports of gas to all European countries is now a given. This increased reliance on imports is forcing a change of mindset in many countries, and particularly in the UK which has been fortunate to not only have had its own substantial gas reserves but to have been a gas exporter in the recent past.

In the short to medium term, there is a new “dash for gas” occurring although this is now for supply source and is largely for LNG. We see new proposals for and construction of import and regasification terminals in almost every European country that has a coastline – as LNG travels in ships - and costly developments in gas liquefaction plants in the Middle East, North Africa and southern Africa to meet the growing gas need. This is typified by the UK situation where we have one operational LNG import terminal at the Isle of Grain, two terminals in final construction in Wales, and at least a further five in various stages of consideration on both the East and West coasts. When fully operational in its second phase, the South Hook terminal near Milford Haven will be the largest LNG import terminal in the world. Overkill? Possibly for the UK but not as an entry point for continental Europe in the future.

There are, however, two key issues with LNG that the wider public perhaps needs to understand. Firstly, that all this terminal infrastructure building gives the capacity to import but does not provide the LNG to fill the terminals. Secondly, the LNG commodity operates in a global market, or at least for Europe in an Atlantic market. LNG gas is not pipeline gas – it is no longer a point-to-point market relationship as with pipelines but increasingly a many-to-many market. Europe has to compete on price for its LNG against the USA, and as regards Middle East sources with the Asian buyers as well.

Russia's Gazprom is a major company that is slowly and sometimes painfully changing to become a truly global player to supply Europe, North America and China with gas in future years by both pipeline and LNG routes. It is interesting that if Gazprom were to be listed on a Stock Exchange it would dwarf all of the existing Oil & Gas majors but size and influence is not everything. Brussels has recently stated that "(Gazprom comments) give grounds to our concerns on the growing foreign dependency of European energy supply". Would there be such a furor, one may ask oneself, if ExxonMobil or BP were in this position? It is clear, however, that Gazprom will not be allowed to reach the dominant position in the Western European countries that it holds in most of Central and Eastern Europe.

There is also no doubt that Russia, with the largest gas reserves in the World, will be the major European provider for the longer term despite the somewhat hysterical press reports and 'knee jerk' political reactions of recent months in various European countries. Current concerns in European nations about security of supply and dominant market positions will not change the inevitability of this situation.

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*The issues discussed in this article will be amongst the topics focused on at the **2<sup>nd</sup> Annual European Energy Policy Conference**, which is being produced by Epsilon Events and going to be held at The Management Centre Europe, Brussels on 16<sup>th</sup> & 17<sup>th</sup> October 2006. The Conference is part of Epsilon's five year commitment to the development of cross-sector debate on the issues surrounding energy in Europe and beyond.*