

The European gas market: Russian gas and its replacement

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What were our worries in Nov-22?

Tailwinds in 2022 that are unlikely to persist

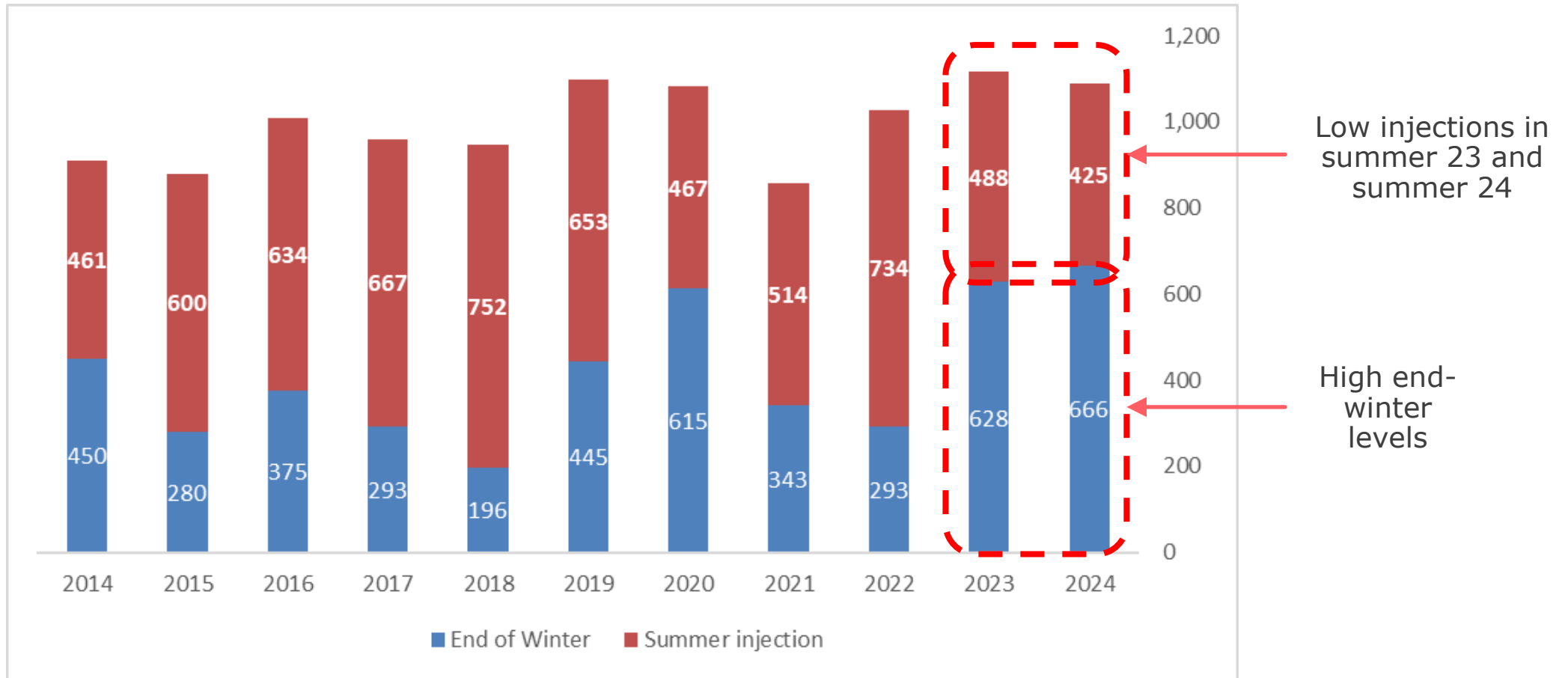
- Filling EU storages over the summer of 2022 benefitted from **factors that might not be repeated in 2023:**
 - 30 bcm of **Russian gas supplied to the EU via pipeline**
 - **Lower LNG imports by China** due to economic slowdown and Covid-induced lockdowns
- **Current mild temperatures are delaying the withdrawal from gas storages**, which means more gas available for the rest of the winter or even the next winter

Specific challenges to be faced

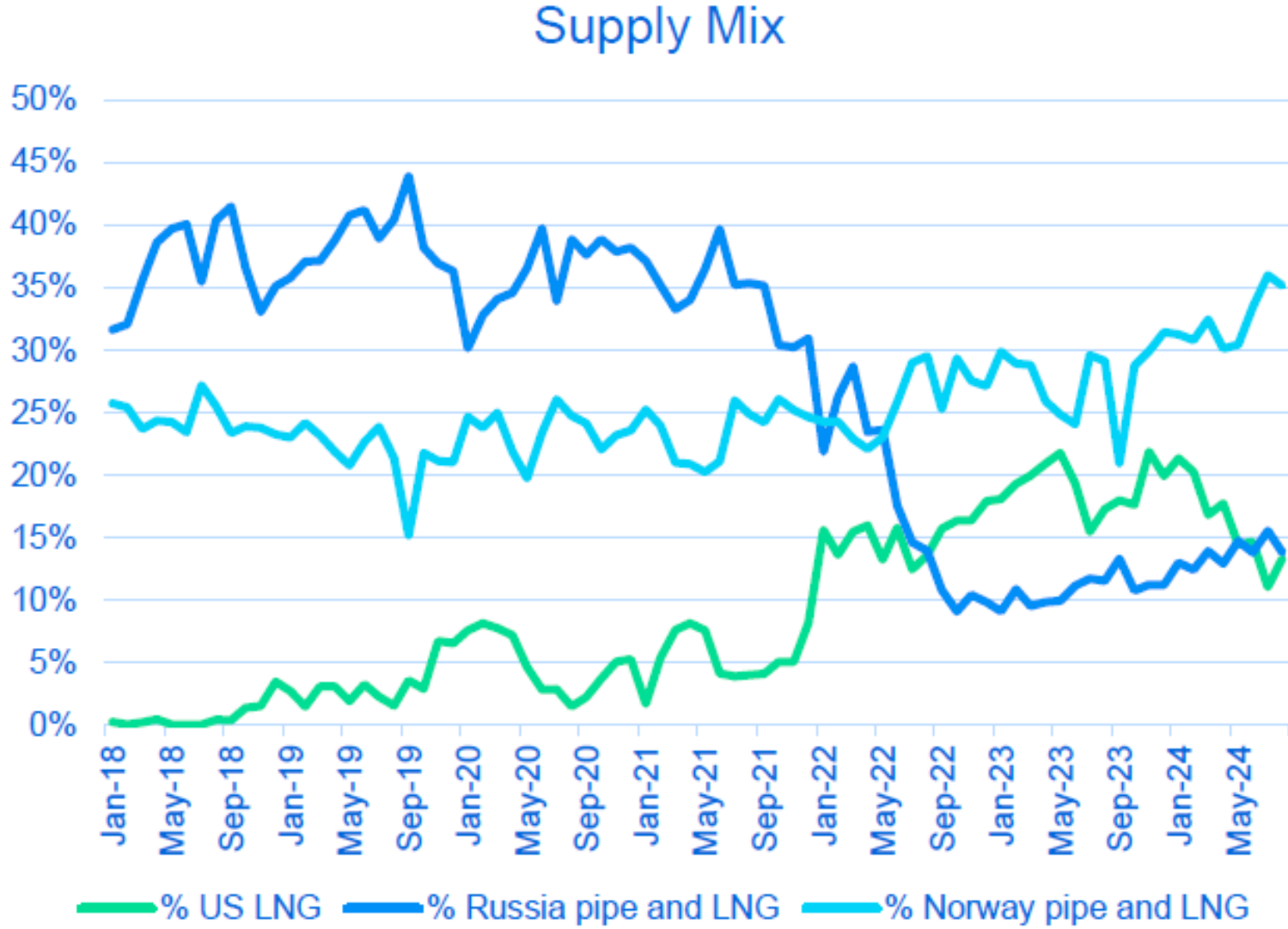
- **Global LNG supply is expected to increase** by only 20 bcm in 2023, **much less than the** likely additional **reduction in Russian pipeline deliveries**
- **China's LNG imports could rebound next year** to close to their 2021 levels. This would capture over 85% of the expected increase in global LNG supply
- If Russian pipeline gas supplies to the EU cease completely and Chinese LNG imports recover to 2021 levels, **Europe could face a supply-demand gap of 30 bcm during the key summer period for refilling gas storage in 2023**
 - This gap could represent almost half the gas required to fill storage sites to 95% capacity by the start of the 2023-24 heating season

What has happened in 2023 and 2024?

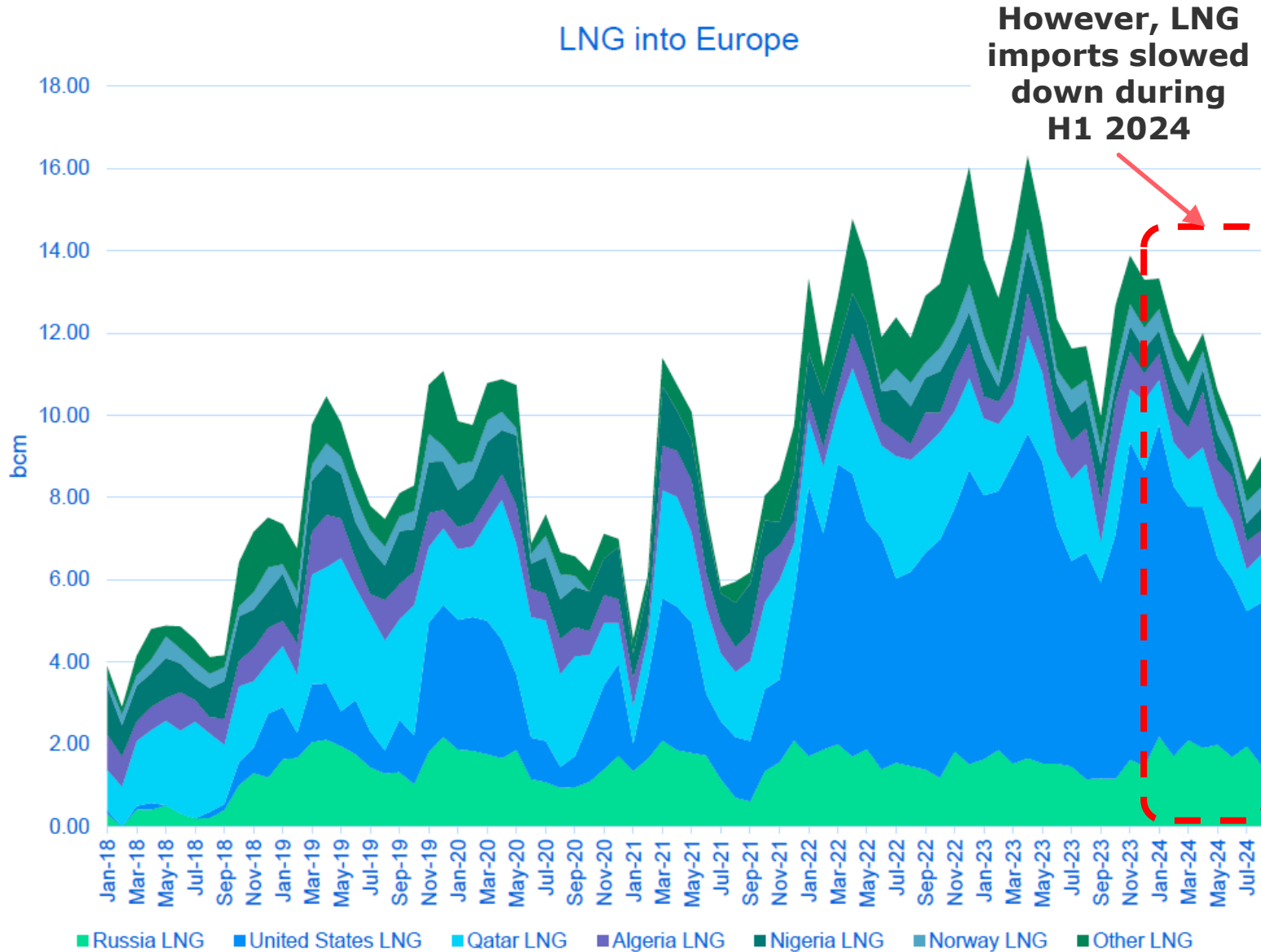
Europe was fortunate to benefit from record warm winters and high end-winter storage levels, and saw low injections over summers



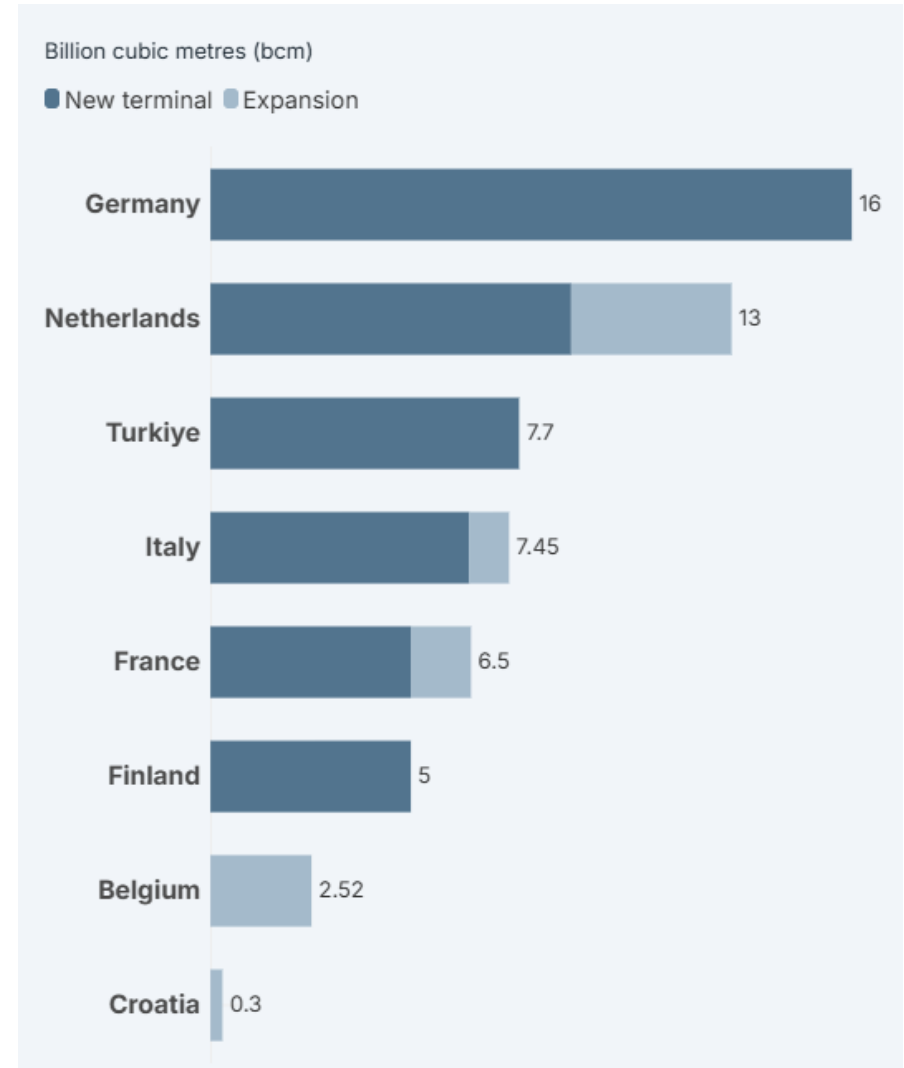
Obvious dramatic change in the origin of the gas imported by Europe



LNG imports have been crucial to replace Russian gas

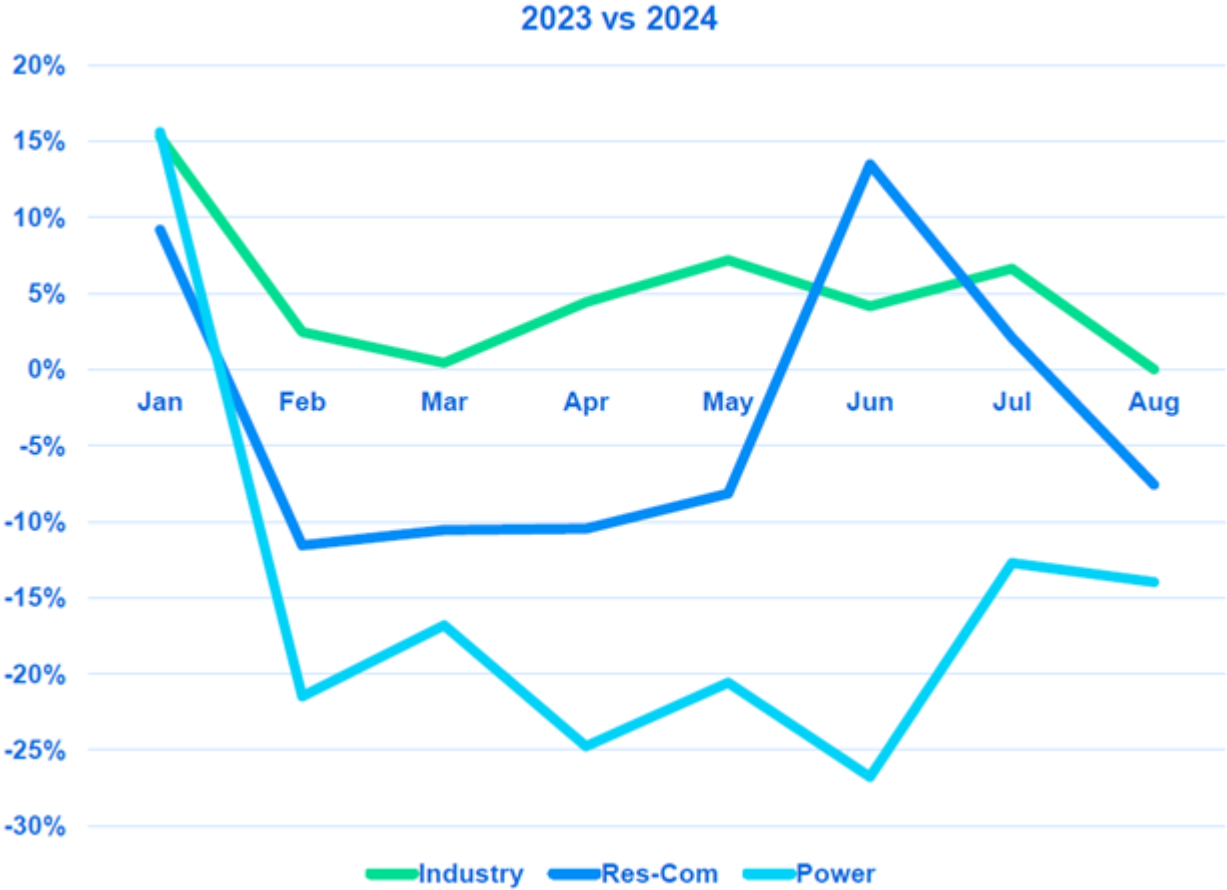


New LNG capacity added since Feb-22

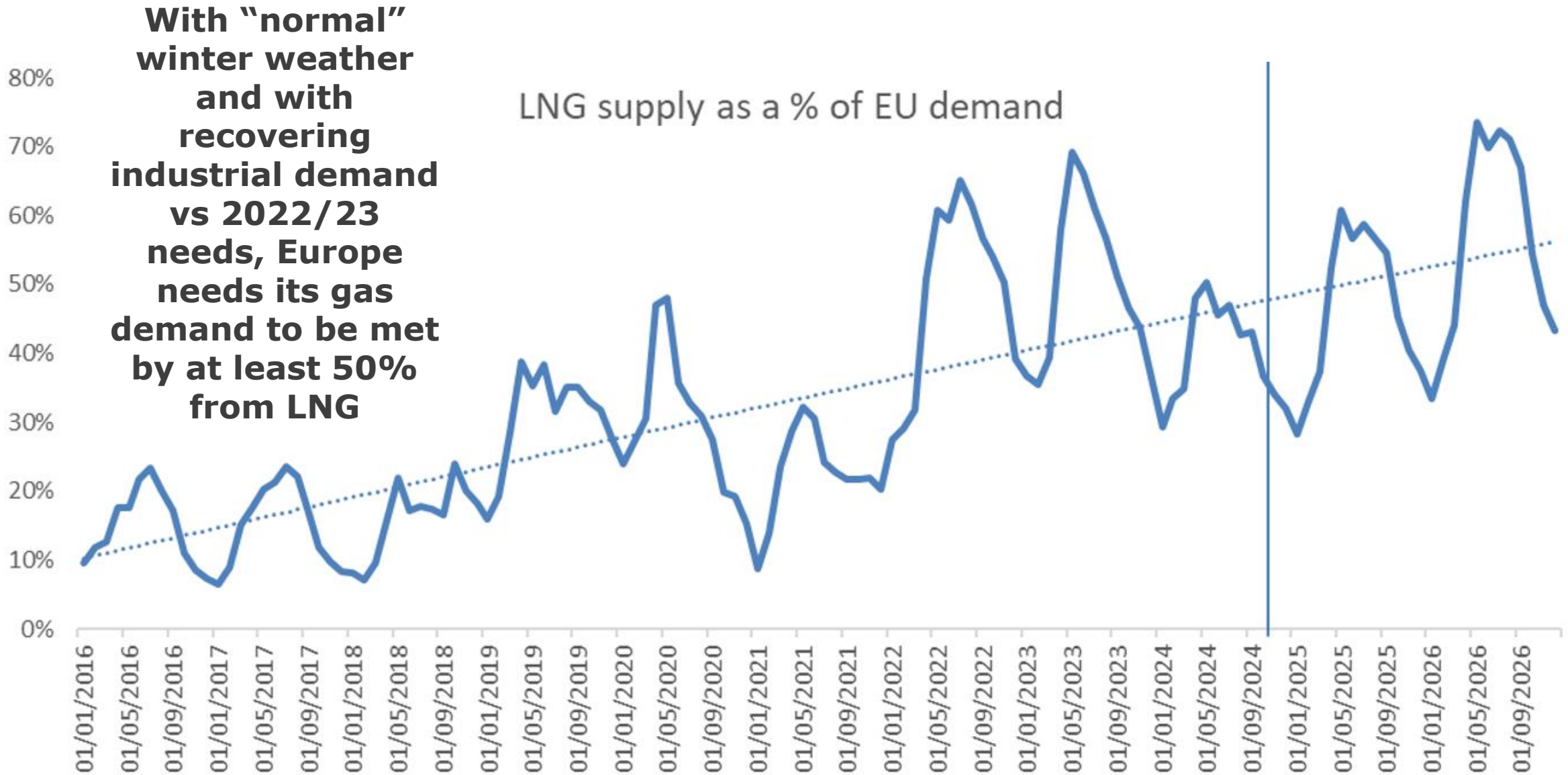


A reduction of gas demand in Europe until H1 2024 also helped

- 2024 gas demand in Europe forecast to be just 1% higher than 2023
- Even with this growth, Europe will be 16% below the 2016-21 average

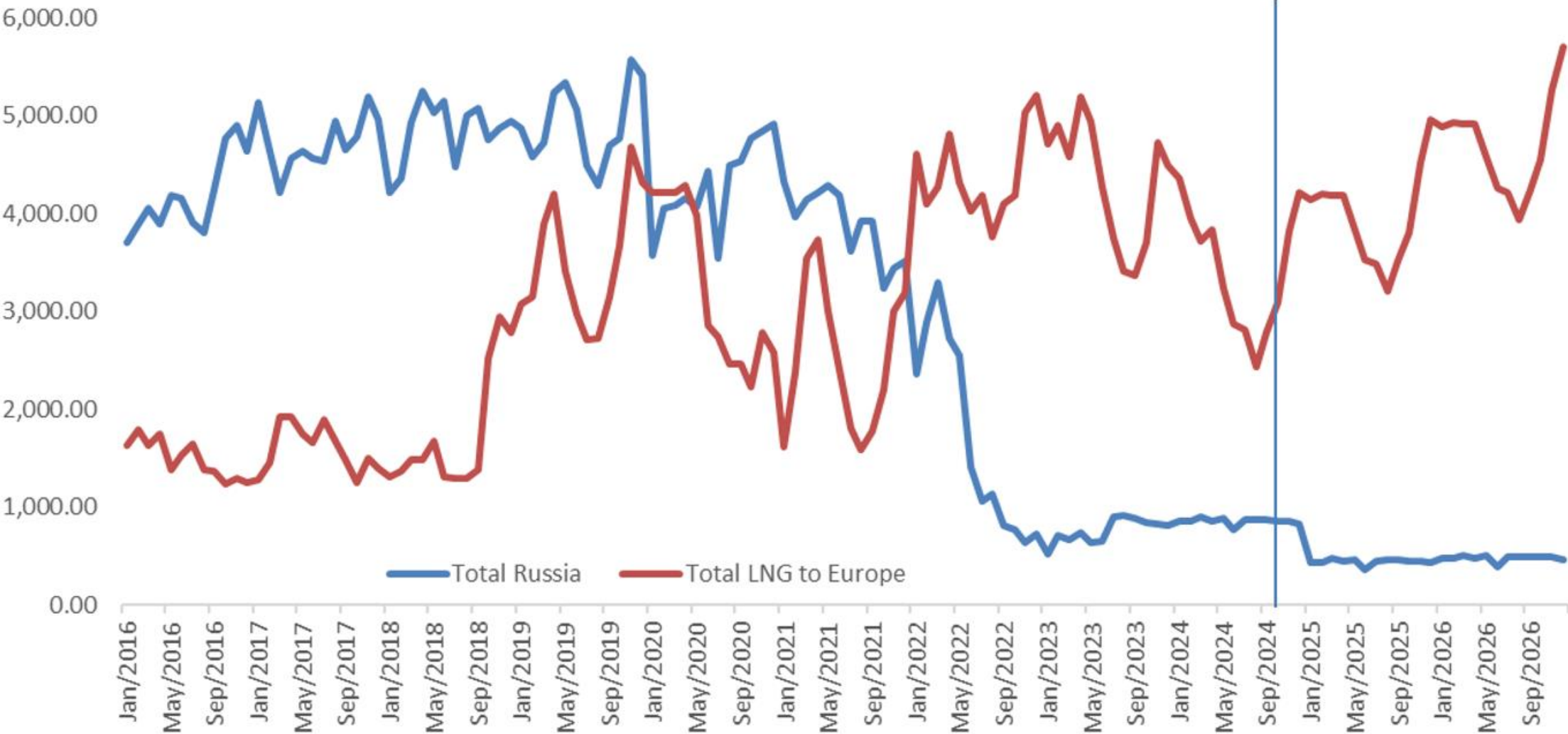


LNG imports will increase in relevance for Europe going forward



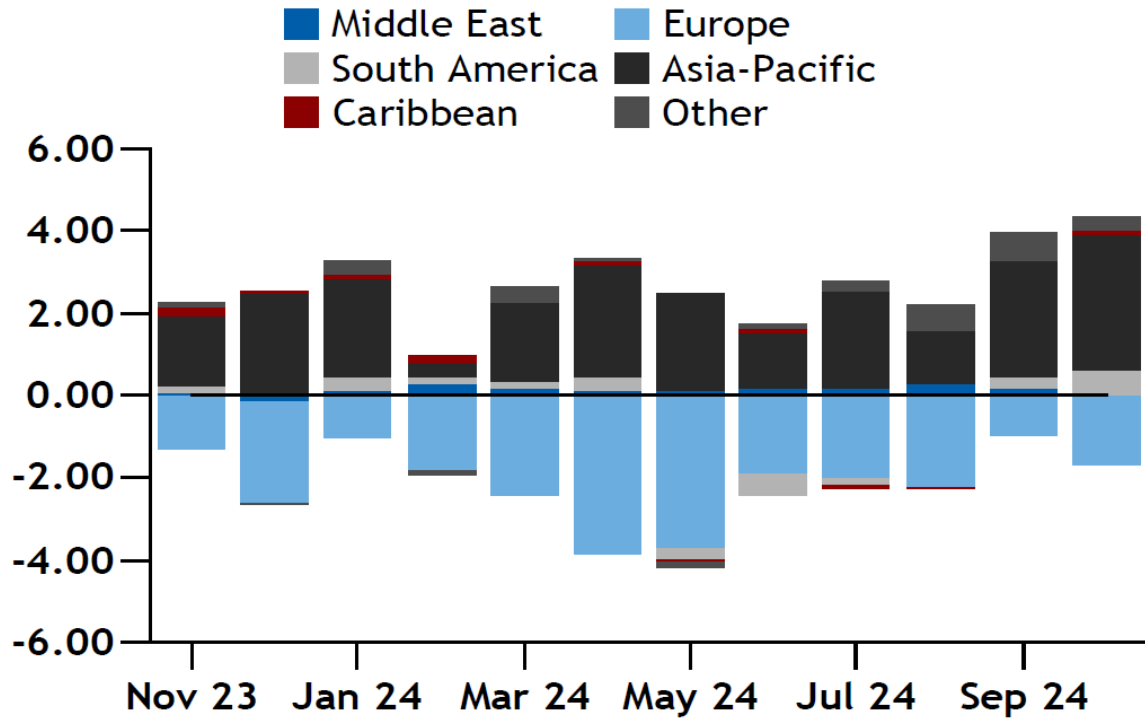
LNG is the key to replacing Russian gas in Europe

Russian and LNG volumes in Europe's supply mix - GWh/d



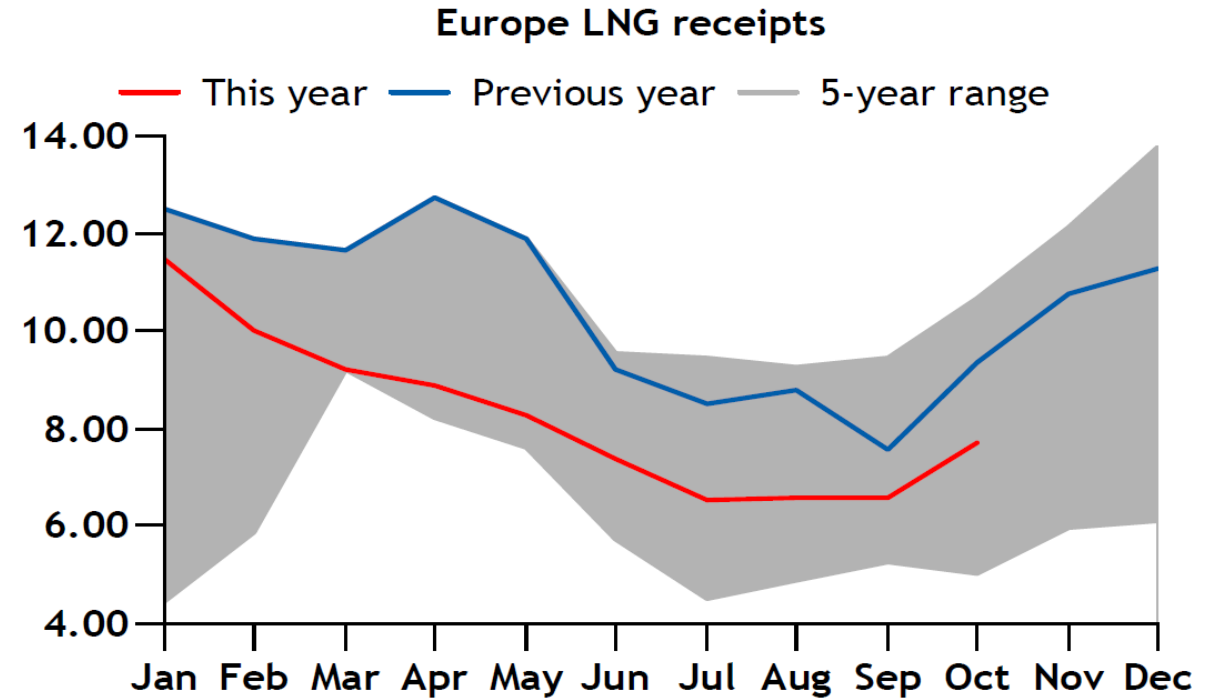
LNG imports to Europe have been lower in recent months...

LNG imports by region, yoy change



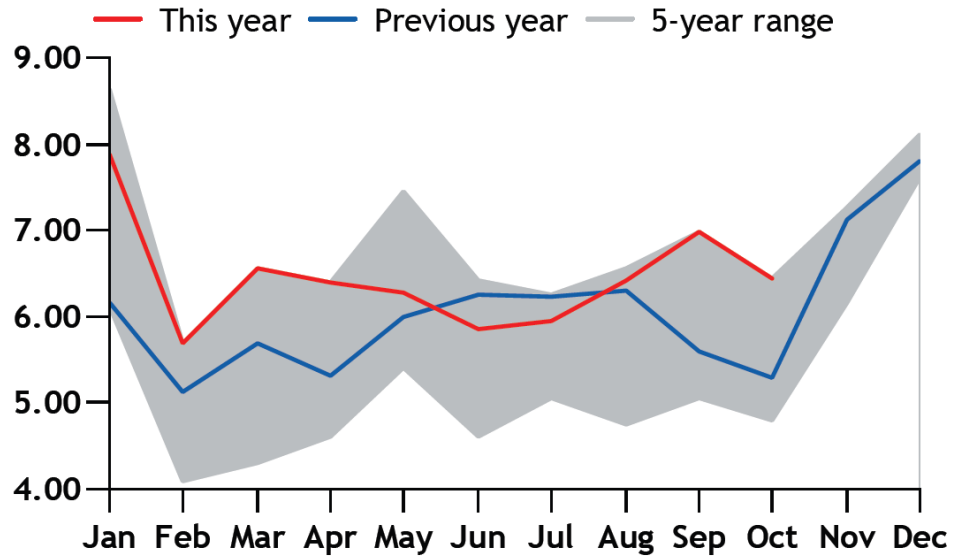
Europe LNG seasonality chart

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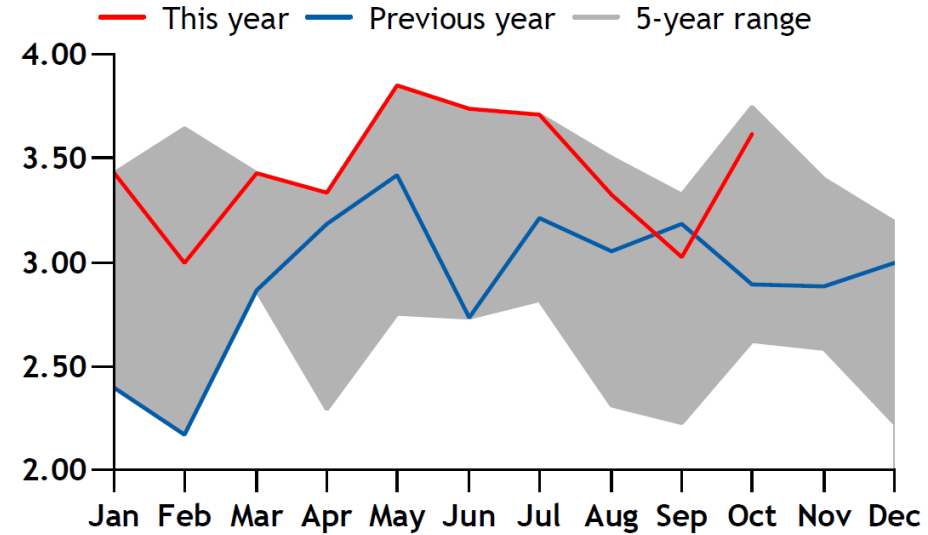


...while Asia, particularly China & South Asia, have increased LNG imports

China LNG receipts

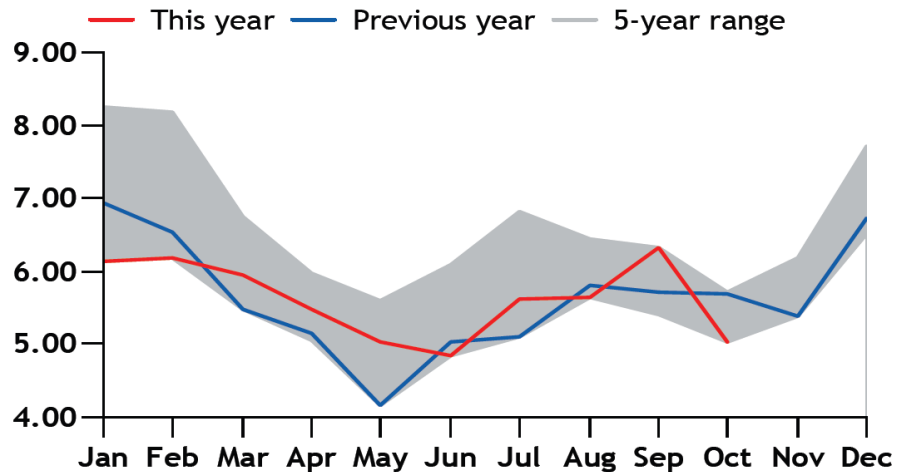


South Asia LNG receipts



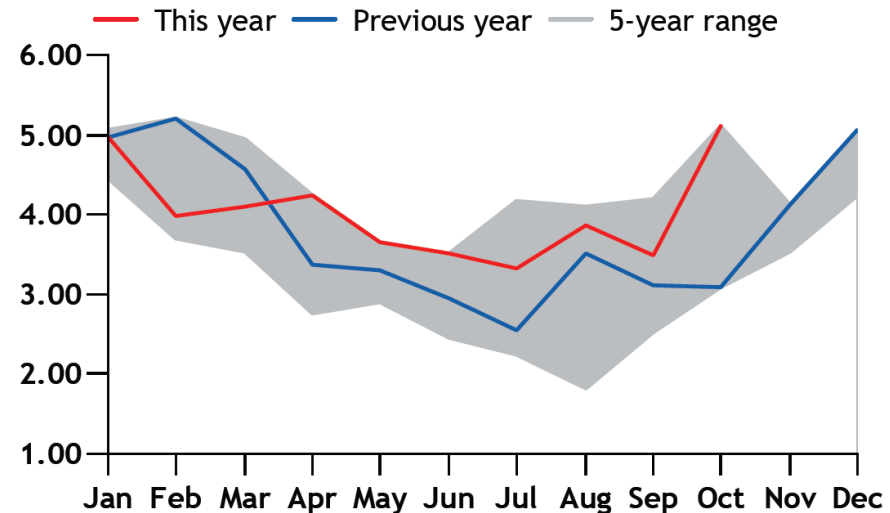
Japan seasonality chart

Japan LNG receipts

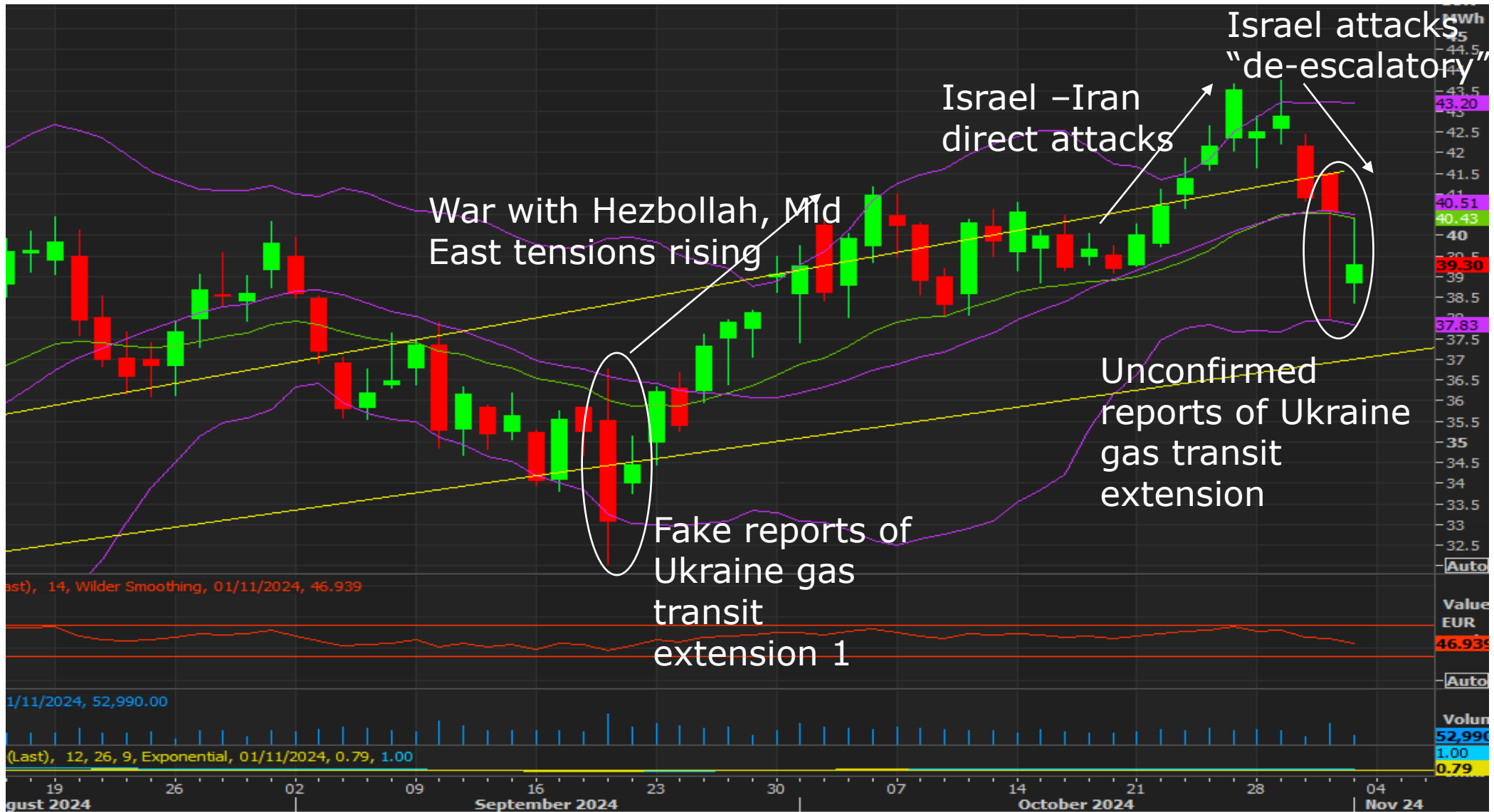


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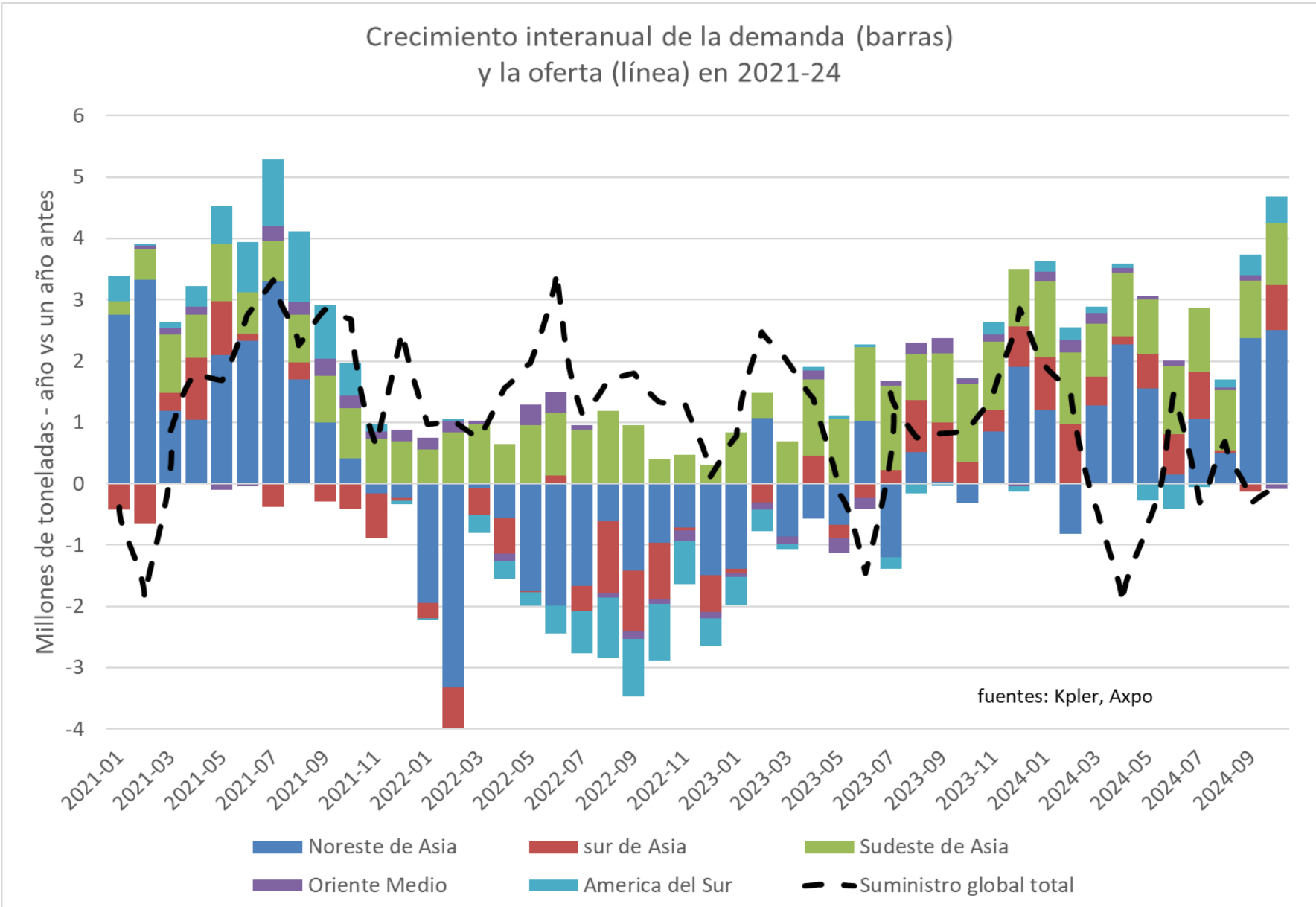
South Korea LNG receipts



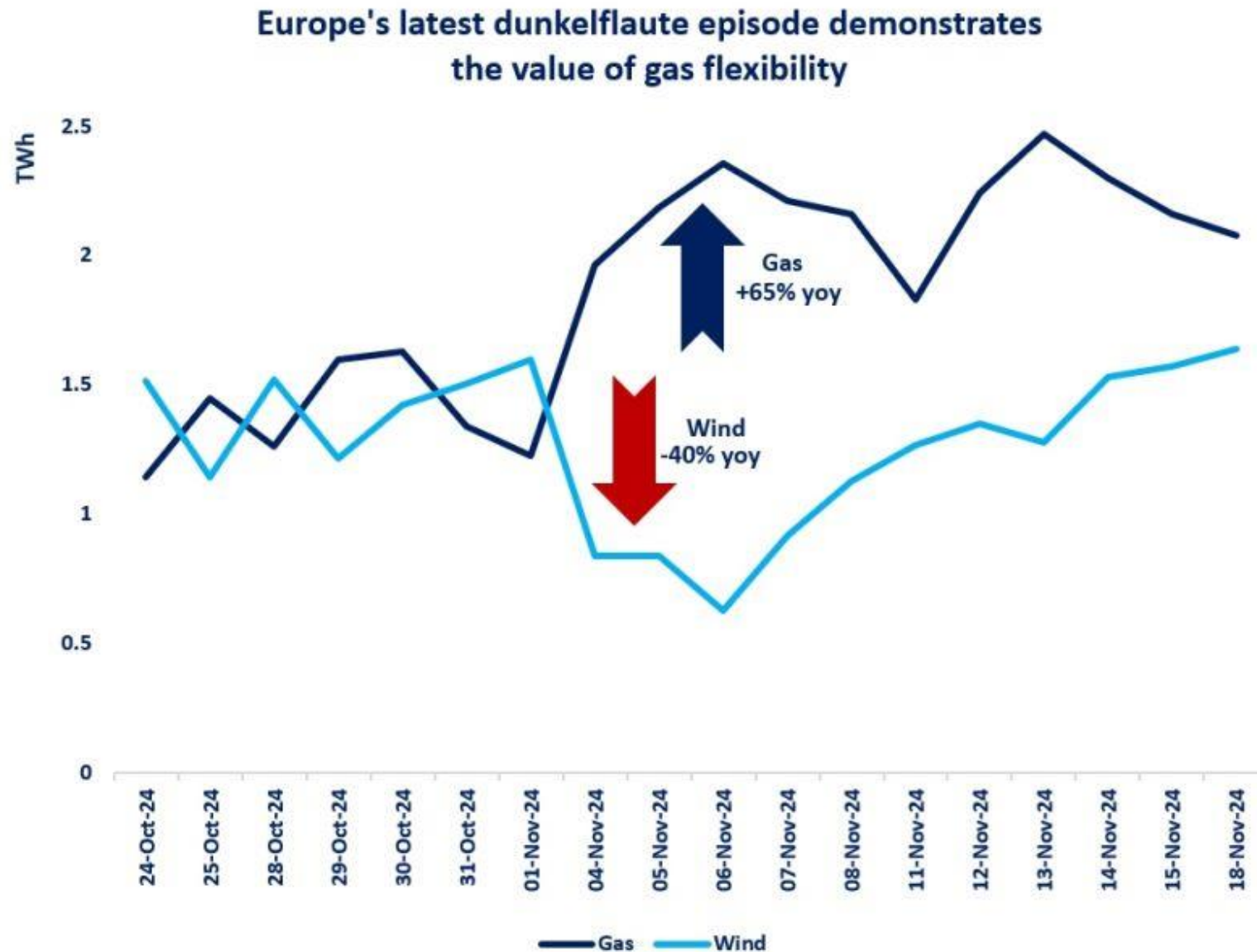
Geopolitical events have introduced volatility in recent months



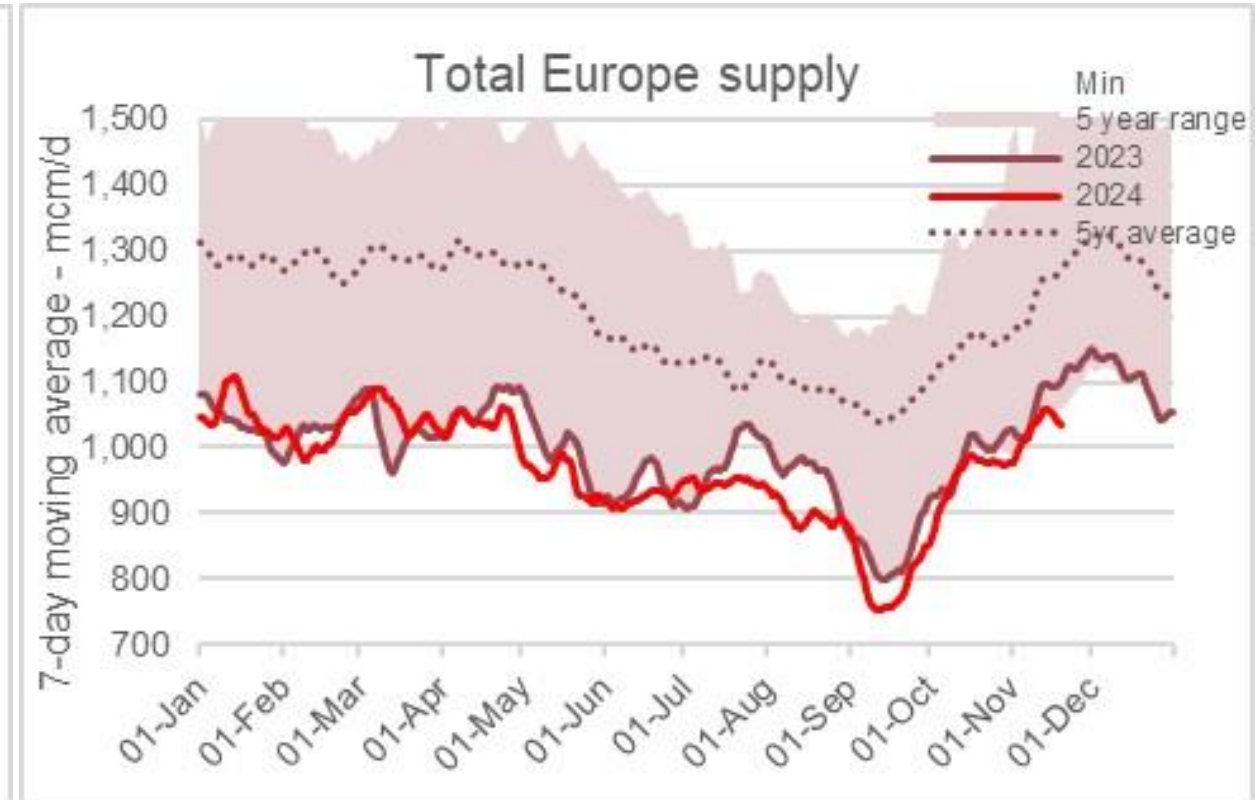
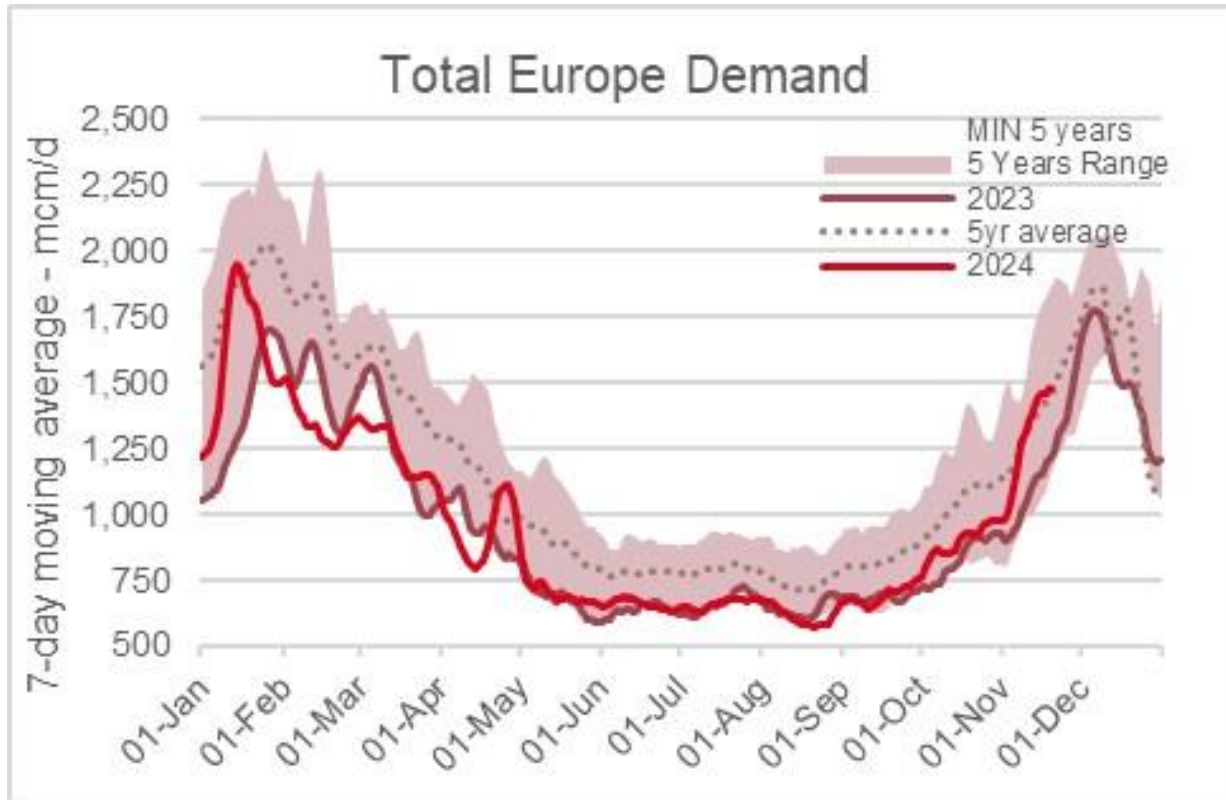
Global gas demand is increasing, while LNG exports not yet



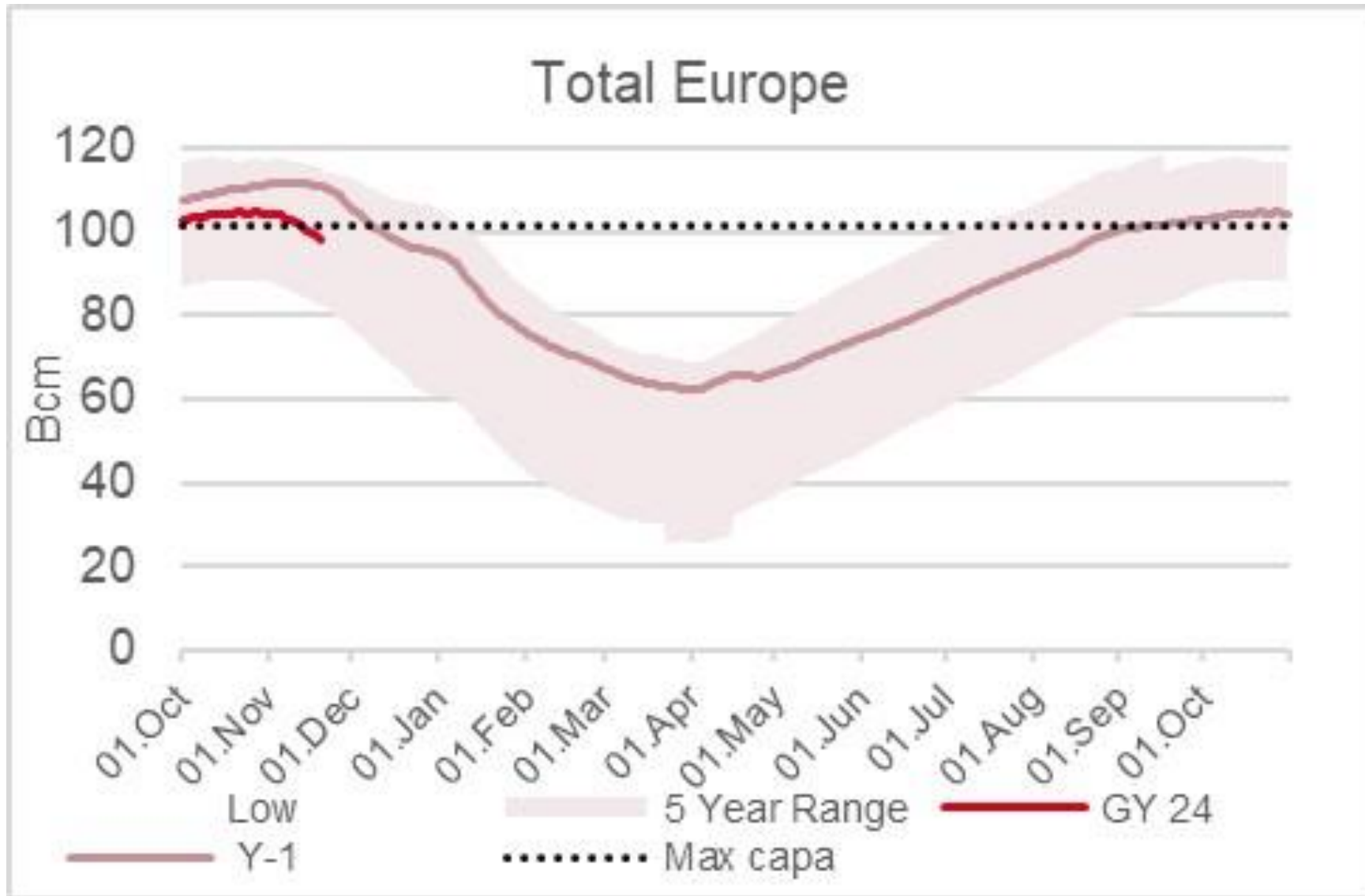
Recent weeks have shown that global LNG supply is still tight



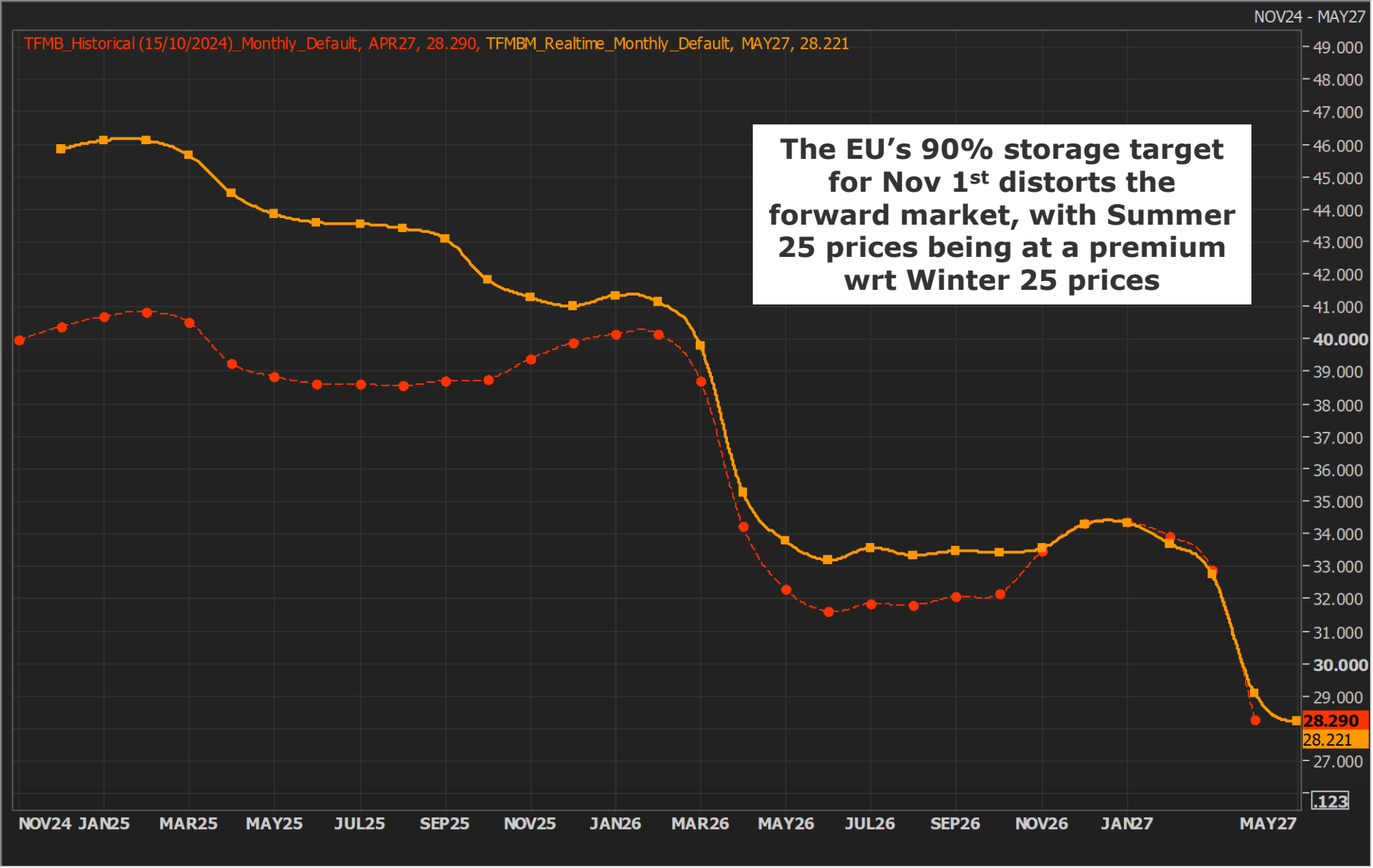
European demand in recent weeks has increased, but supply has not



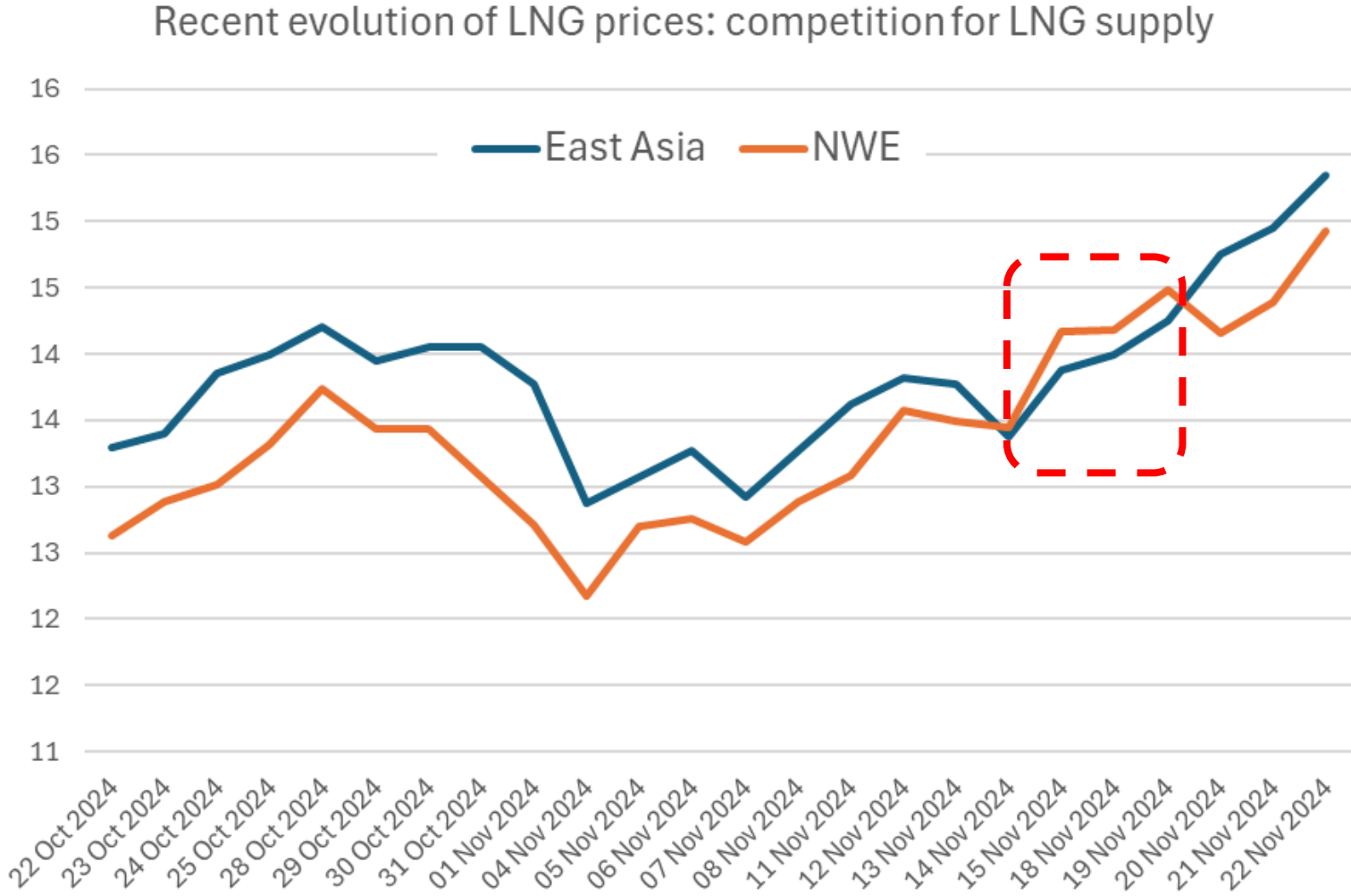
European stocks have seen a recent significant draw compared to 2023



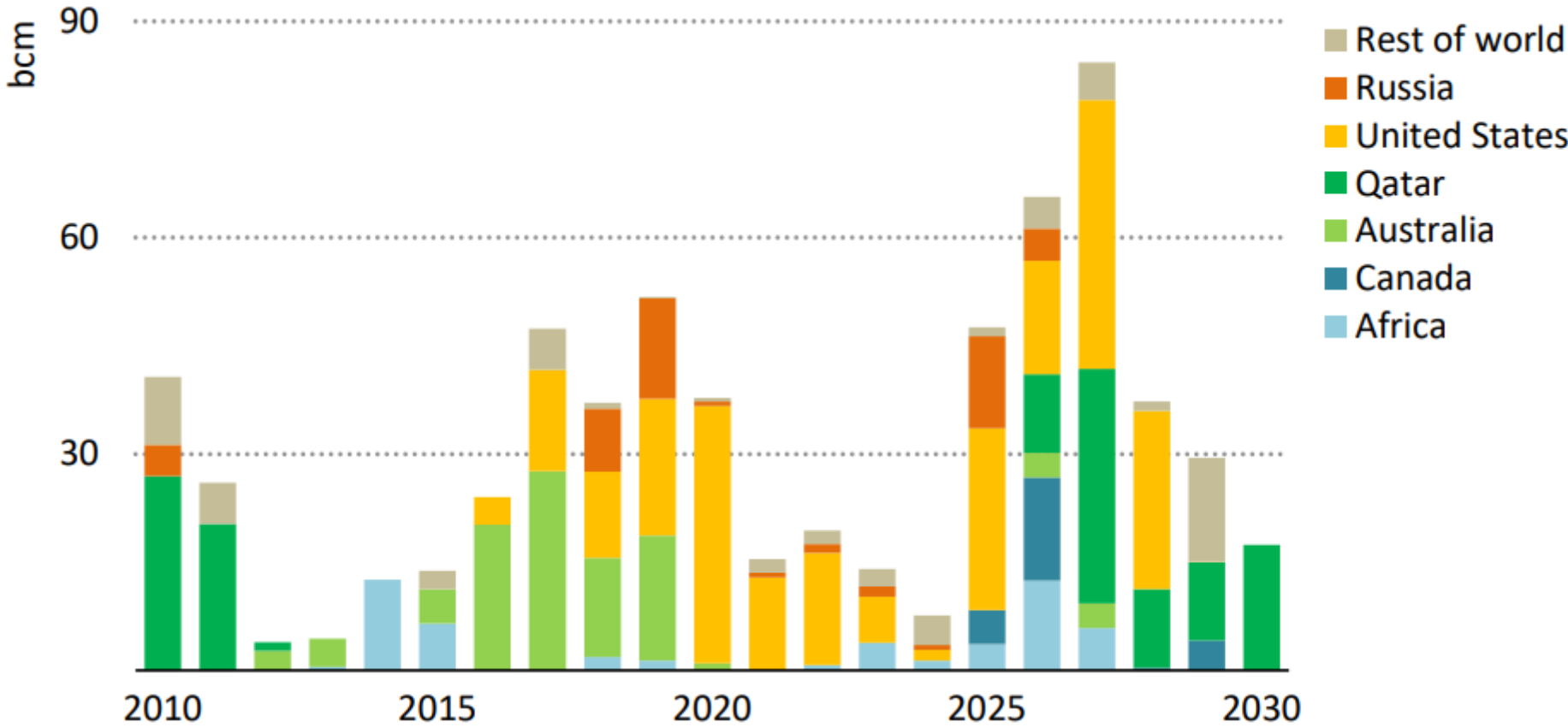
TTF fwd curve heavily backwarddated, showing tension for coming months



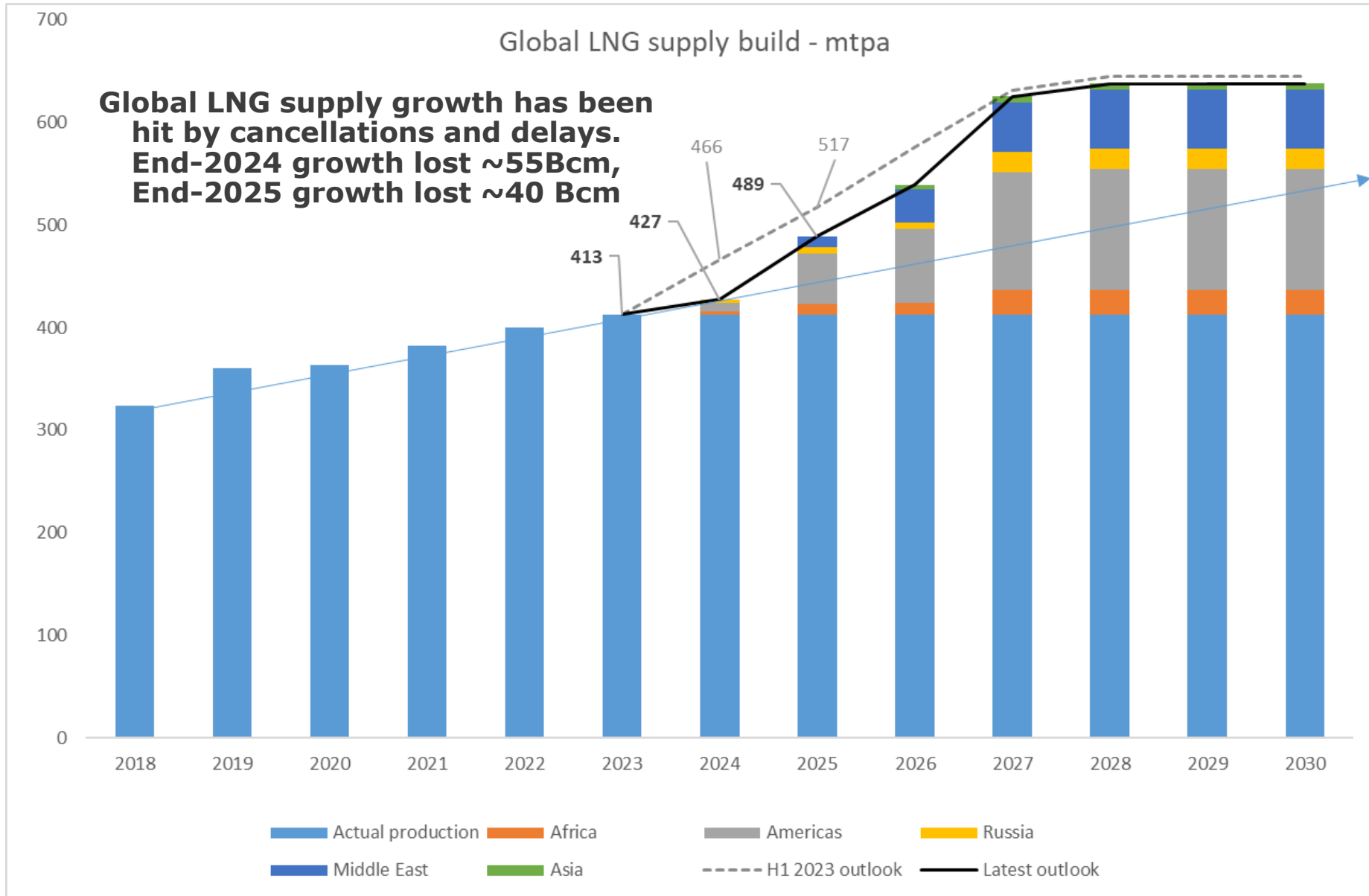
LNG prices show there is global competition for LNG supply



When is the new wave of LNG coming?



When is the new wave of LNG coming?



In parallel, US increasing sanctions on Russian gas and LNG

LNG carriers sanctioned by the US

Carrier	Owner
Pioneer	Zara Shipholding
Asya Energy	Lule One Services
Nova Energy	Veridian Shipping
Mulan	Zinnia International
Everest Energy	Lathyrus Shipping
La Perouse	Enson Shipping
North Air	LNG Alpha Shipping
North Mountain	LNG Beta Shipping
North Sky	LNG Gamma Shipping
North Way	LNG Delta Shipping

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US sanctions Gazprombank

The outgoing administration of US president Joe Biden is stepping up pressure on Russia's energy sector by sanctioning Gazprombank, a crucial entity in Europe's continued payments for Russian gas.

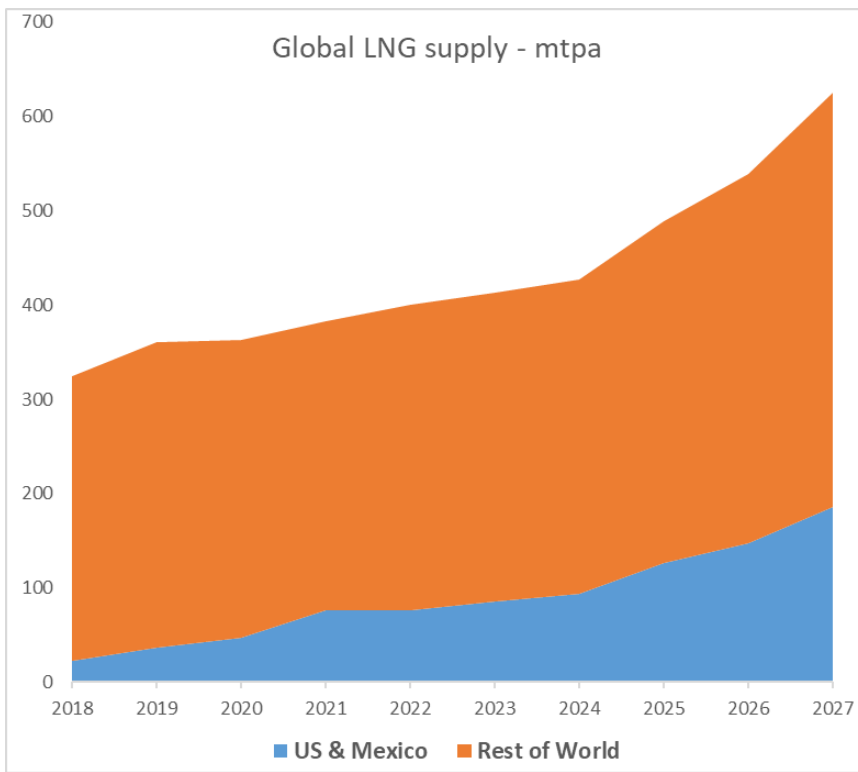
The US Treasury Department on Thursday imposed sanctions on Gazprombank, which until now had been the largest remaining bank in Russia exempted from sanctions Washington imposed following the invasion of Ukraine in 2022. The US exempted Gazprombank at the EU's request, to enable payments for Russian pipeline gas. Gazprombank was also intentionally left out of EU measures that [excluded most Russian banks from the global financial messaging system Swift](#) in order to facilitate continued purchases of energy and other commodities.

The Treasury's sanctions guidance, updated on Thursday, indicates that it will keep in place a sanctions waiver for foreign buyers of Russian oil, gas and other energy commodities, which is valid through 30 April 2025.

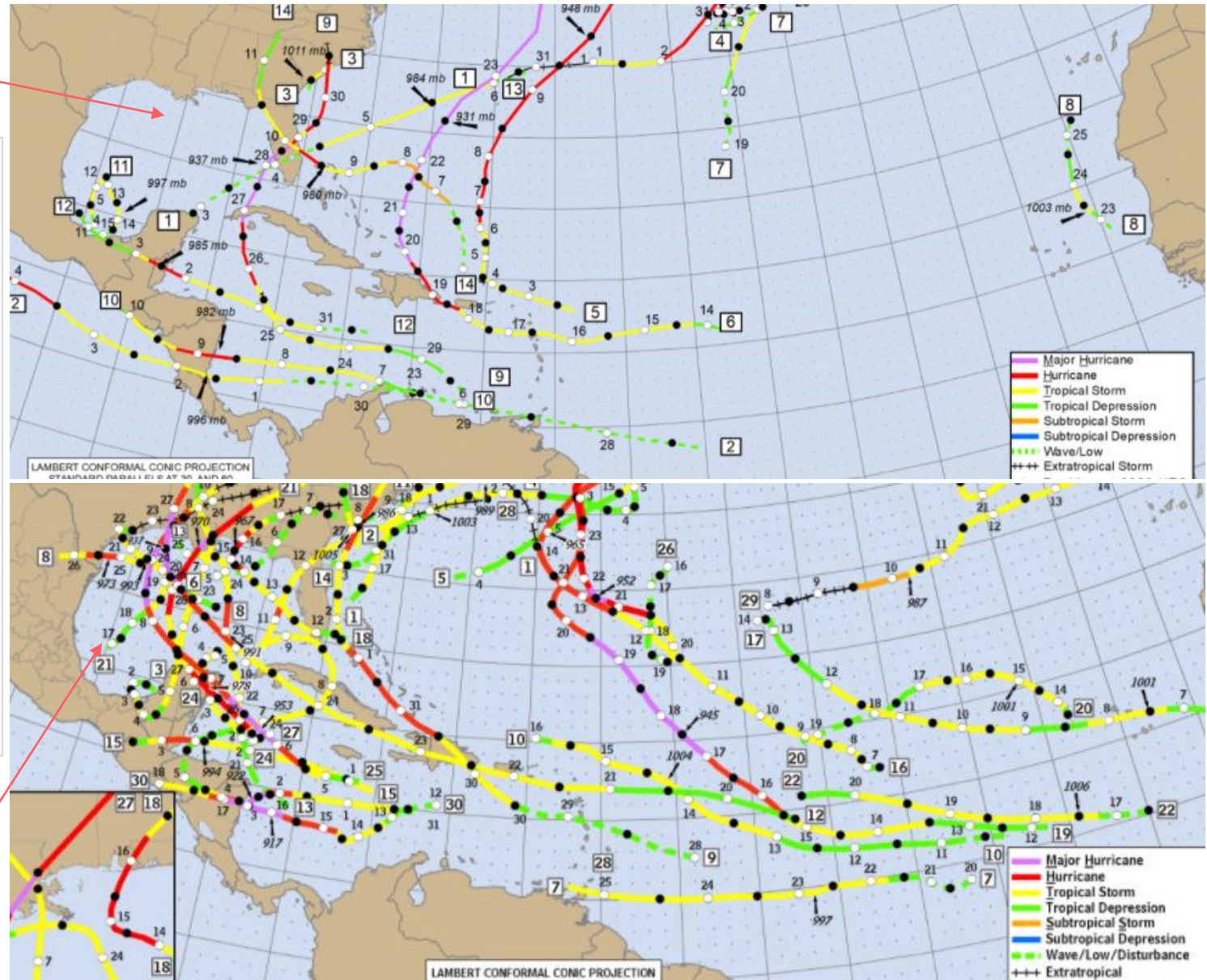
Most of the Supply growth will come from US Gulf over next years...

Weather events might be a problem

2022



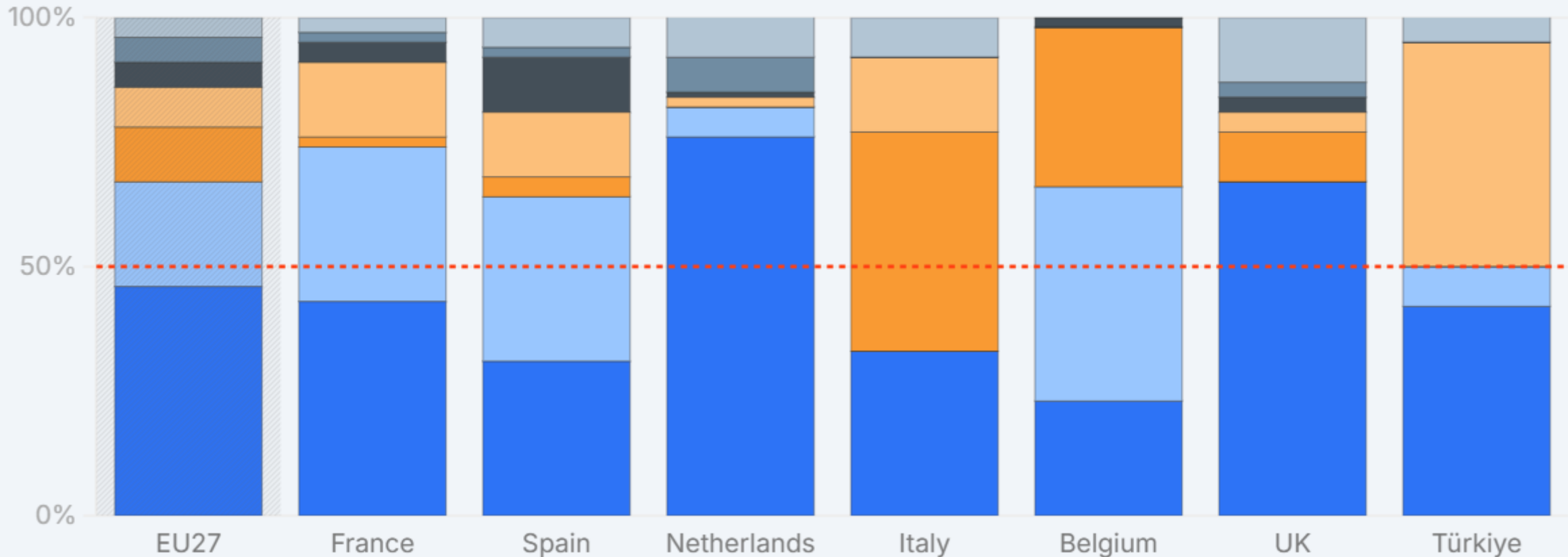
2020



...although Russian is still a significant fraction of European LNG imports

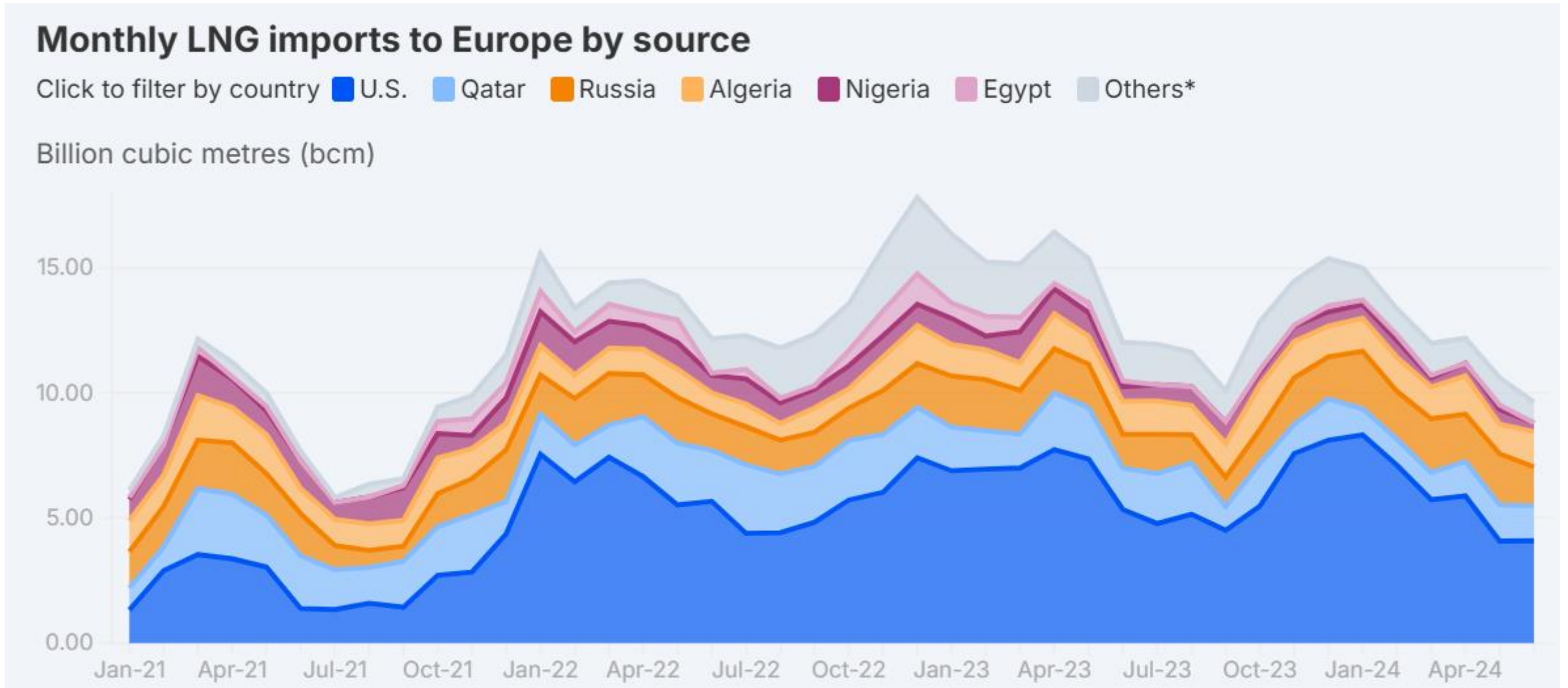
European countries' LNG imports mix in H1 2024

U.S. Russia Qatar Algeria Nigeria Norway Rest

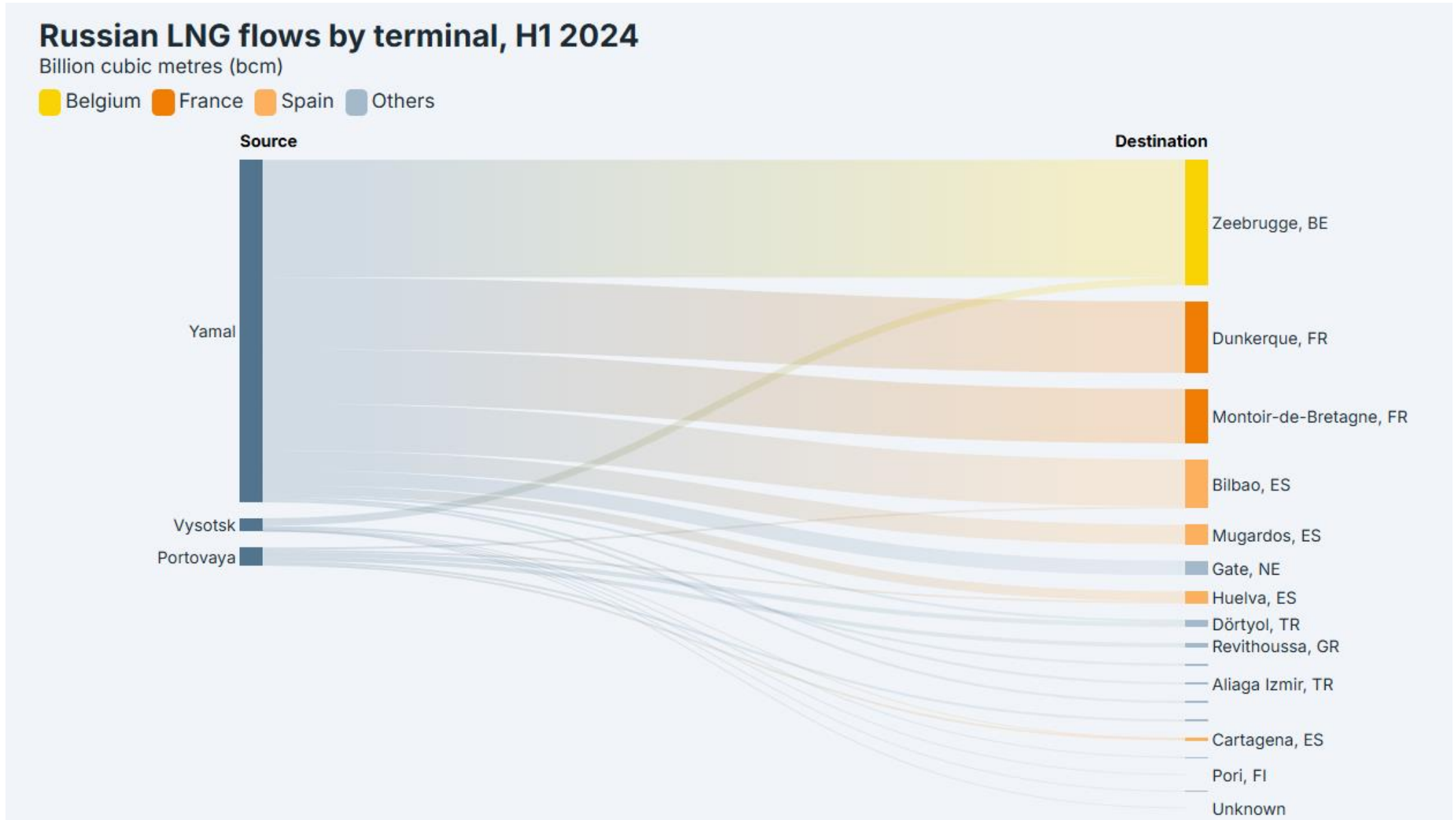


Russian LNG imports to Europe increased by 11%, to account for 16% of European imports, while US LNG imports decreased by 15%, implying 48% of European imports

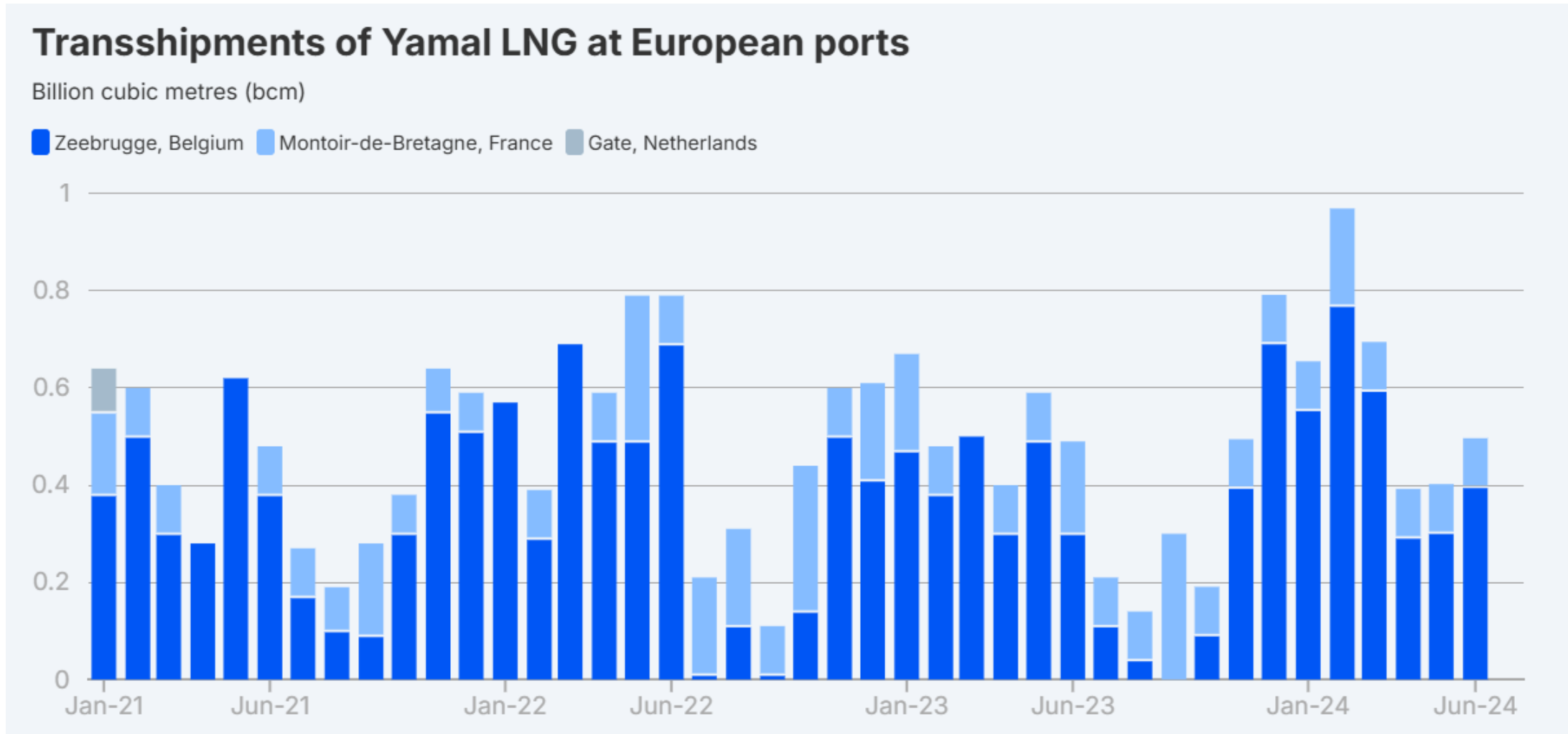
...and US LNG operates as marginal origin of supply



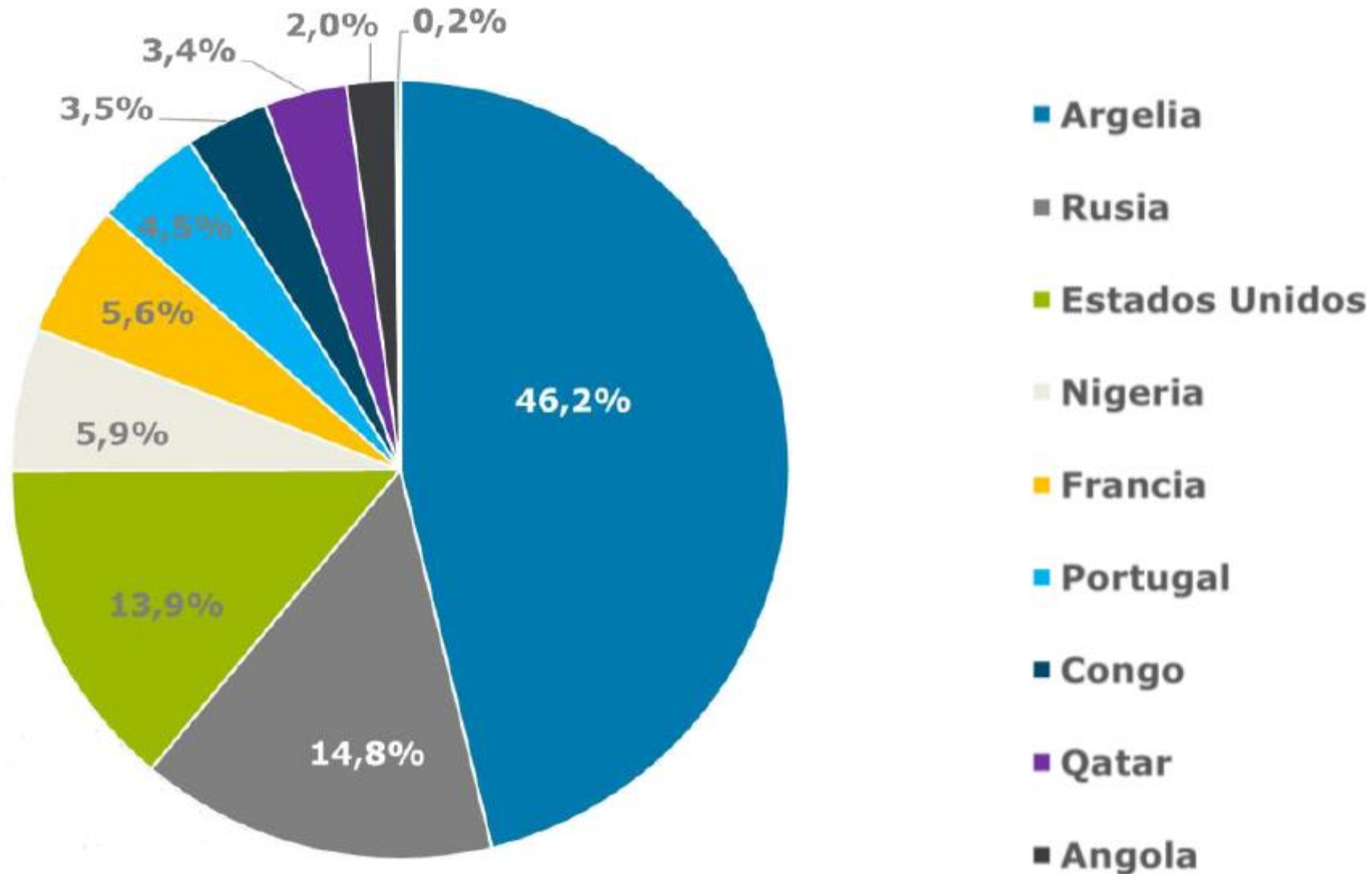
Most Russian LNG is delivered to a handful of terminals...



...and significant transshipment activity has happened until H1 2024



Russia has been the second origin of gas/LNG imported by Spain in Oct-22



The challenge of phasing out Russian gas/LNG in Europe

- Banning transshipment of Russian LNG volumes will not necessarily reduce the volumes of LNG imported to the EU. Initially, it should help to reduce the price of gas in Europe
- It is not clear how the EU will try to enforce the REPowerEU plan to phase out Russian gas by 2027.
- Eastern European countries have clearly expressed their interest in keeping Russian gas supply
- Austria's OMV decision to stop payments to Gazprom has not resulted in a significant change in gas flows from Russia to Europe
- Russian LNG imports to Spain and other EU countries are at their highest historical levels in 2024 and it will be extremely challenging to reduce them until the new wave of LNG production arrives
- Russian flows through Ukraine may stop in Jan-25 if Russia decides to use this threat with Europe again
- US sanctions (such as the ones recently imposed to Gazprombank) may speed up the phasing out (or not)
- Phasing out Russian gas and LNG will imply dependence of Europe on other gas and LNG exporters, mainly US, Qatar and Algeria
- The West's failure at phasing out Russian oil and gas sales has helped Russia's economy rebound. GDP grew by 3.6% in 2023 and is projected to rise another 3.2% in 2024. Russia's oil and gas sector remains surprisingly stable with export revenues 8% higher in the first 9 months of 2024 compared to the same period before their full-scale invasion in 2021.

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