Gibson LNG Market Insight – April 2022
Is LNG the solution to Europe's gas challenge?

GIBSON SHIPBROKERS

Introduction

Russia's invasion of Ukraine has put Europe's reliance on Russian gas into sharp focus. Most of this gas is supplied by cross continental pipelines; through countries including Ukraine. There is now political pressure to ween the continent off Russian energy. Proposed EU policy calls for a two thirds reduction in imports by the end of 2022 and complete independence from Russian fossil fuels by 2030. It is unlikely such reductions will be possible in the short term, especially for highly dependent countries. Whilst the EU has committed itself to an energy future dominated by renewables, gas has a role to play, and European geography means more seaborne LNG imports will be needed to fill the gap left by Russia. The EU and US have agreed an LNG supply deal to increase US exports to Europe. However, more is needed for is securing a longer-term and diversified energy independence.

Where do Europe's gas imports come from?

Russia is the largest exporter of natural gas to Europe accounting for 155Bcm in 2021 (45% of imports). Nord Stream 2 would have seen this volume increased. After Russia, Norway, Algeria, Qatar and increasingly the US are all suppliers of gas to Europe. Production issues in Algeria have also reduced North African flows to Europe and this has opened the door to increased trade flows from US producers to Europe. European gas production was approximately 190 Bcm in 2021, although this has been declining and imports are required to meet overall demand. In the case of Norway this is predominantly via pipelines. However, longer haul natural gas comes in the form of LNG. If Europe is to reduce its pipeline gas from Russia, it will need to boost imports across a range of suppliers to meet the required volumes.

EU-US LNG Supply Deal

The US has agreed to supply the EU with an additional 15 Bcm of gas in 2022 and up to an additional 50 Bcm annually until 2030. Although it is worth noting the US has already exported over 15 Mt of LNG to Europe YTD and additional cargo supply remains tight, so the additional quantities proposed under the deal are quite optimistic. More US LNG export capacity is expected to come online in the coming years. Reuters data shows that six important US LNG projects had utilisation rates of 83%. Cheniere's Sabine Pass' sixth train exported its first LNG cargo in December 2021 and Calcasieu pass is expected to reach full export capacity by Q2-Q3 2022. The completion of the Golden Pass terminal will bring US export capacity to over 100 million tonnes annually by 2024.

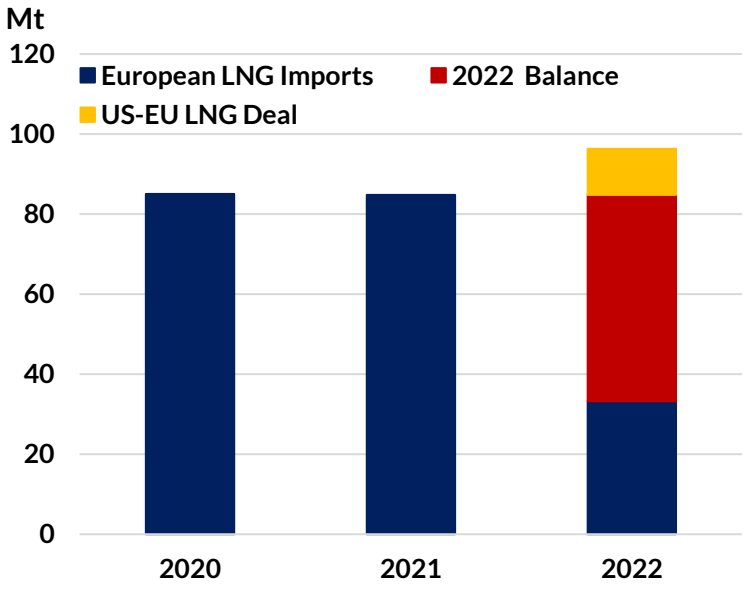
The Infrastructure Issue

The single biggest issue for Europe is a lack of LNG regasification infrastructure. This has resulted in a segmented and regionalised continental market with their own characteristics. Additional import facilities are needed in Northwest Europe (NWE), especially Germany which currently lacks any terminals. Three new terminals are planned at Brunsbüttel (8Bcm/year) Wilhelmshaven (10Bcm/year) and Stade (12Bcm/year). More is required, and this could provide an Opportunity for FSRUs and FRUs, these would add operational flexibility and provide a faster solution compared to a dedicated terminal which may take at least three years to build and become operational. It is understood Germany has chartered three FSRUs thus far. However, network infrastructure such gas storage and connections to power plants would also be required. Currently, Europe can import up to 145 million tonnes of LNG, as a result of terminal underutilization there is capacity to import an additional 65 million tonnes of LNG. Connecting the NWE and Iberian markets as well as the Mediterranean markets would add yet further opportunities to boost import flows to the North. All of these will take time to build, for the time being Europe's LNG import potential will remain constrained by import capacity. Boosting this will require both capital and political commitment to LNG over the medium to long term as Europe transitions to its 2050 net-zero and renewables goals.

Shifting flows

If Russia were to divert a large portion of its natural gas to China via pipeline or LNG carrier, then LNG volumes from sources such as Qatar and Australia could be rerouted to Europe which would boost the tonne-mile demand for LNG carriers and increase Europe's share of the overall LNG trade. However, only 30% of LNG volumes are spot cargos so how much could realistically be rerouted is debatable. Additionally, it will not be enough to immediately offset Russian gas, therefore demand reduction will be required in the short run until additional LNG supply can meet European demand over the medium to long term. Overall, it would appear the demand for LNG carriers is set to increase. At the same time LNG tanker fleet growth will also remain constrained by shipyard capacity and deliveries. These factors will provide support for LNG carrier rates moving forward.

EU-US LNG Deal Visualised *Source: Refinitiv*



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