

Little Chance of Europe Breaking Russia's Gas Dominance

By [The Moscow Times](#)

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LONDON — The European Union aims to diversify away from Russian natural gas supplies, yet research indicates that the EU's biggest provider a decade from now could easily still be Russia.

Billions are to be spent on piping gas from Azerbaijan, while new finds in Africa and eastern Mediterranean also promise new supply for the EU, which currently buys mostly from Russia and Norway.

Europe also gets liquefied natural gas (LNG), mostly from Qatar, and the U.S. shale boom could free up LNG exports from there in coming years, too.

But growth in Europe's demand for gas will eat up much of the new potential supply, and the Russians show little willingness to fade away as they gear up to defend their position through massive projects such as the \$35 billion South Stream pipeline to Italy.

"Russia will continue to remain Europe's primary energy supplier, including natural gas supplies, for many years and possibly decades," a U.S. congressional research paper on Europe's energy security said in March.

Reuters' own research indicates that in 2023 Russia will likely remain the dominant supplier, as it boosts exports while EU and Norwegian output declines.

Share Of Supply

Of the EU's current annual demand for 485 billion cubic meters (bcm) of gas, Russia supplies some 150 bcm.

Demand could rise to 585 bcm by 2023 with the Russians supplying as much as 175 bcm, according to calculations based on data from governments and energy companies, as well as input from research firms and consultancies.

This means that the amount of gas from Russia is not only set to rise, but Russia's share of Europe's gas market will remain stable about 30 percent.

"Gazprom won't face problems in increasing gas supplies as its reserve base is big," said Valery Nesterov, an analyst with state-owned Sberbank CIB.

Some states, such as Slovakia, the Czech Republic or Bulgaria, rely even more heavily on Russian gas and have suffered several winter heating disruptions since 2006 due to disputes between Russian gas monopoly Gazprom and transit country Ukraine.

"A major test for Europe could be how ... to alleviate at least some of that dependence [in] states that are more dependent on Russian energy and are concerned by the political leverage Russia could exert," the U.S. congressional paper said.

"Some of Europe's larger natural gas companies have huge financial interests in maintaining Russian supplies and do not see a problem in depending so much on one country," the paper noted.

Price Pressure

Yet there is dissatisfaction with Russian supply from European utilities over pricing as they are being squeezed between low electricity revenues and firm gas prices linked to the oil market.

They have urged Gazprom to switch to spot indexation for pricing gas, something the company has balked at doing, instead offering some companies rebates.

"We see a majority of gas based on oil indexes, and the question is if that's the right way to go. It is important to have a well-functioning spot market," International Energy Agency (IEA) Executive Director Maria van der Hoeven said this week.

"The growth of the spot market and the development of LNG infrastructure in Europe could help reduce dependence on Russian pipelines," the U.S. congressional paper said.

Yet even if Gazprom continues to resist calls to stop linking gas with oil, analysts say its supplies to Europe should drop no lower than about 130 bcm by 2023, meaning that they would still account for a quarter of the market, ahead of Norway.

Risks to EU hopes for reducing Russian supply include political hurdles and daunting development costs.

Azerbaijan plans to supply 16 bcm of gas towards the end of the decade, with 6 bcm going to Turkey and 10 bcm eyed for Italy, at costs to develop the new pipeline estimated at \$2-5 billion.

Media research shows that other new supplies, such as LNG from North America or the eastern Mediterranean, would unlikely exceed 15 bcm a year by 2023 and that would be contingent upon Cyprus building an LNG terminal estimated to cost \$10 billion.

What's more, high extraction costs mean the new supply is unlikely to lower gas prices in Europe, where there are already worries about competing against U.S. manufacturers benefiting from cheap domestic shale gas.

Some analysts say only a voluntary shift by Russia towards Asia, something Moscow initiated in oil a decade ago, could significantly loosen its grip on Europe's gas imports.

"The Asia-Pacific region is developing rapidly, and Russia can play a prominent role," Russian President Vladimir Putin said this week.

Yet Russia has so far struggled to gain a foothold in Asia's gas market as it is a small player in LNG, which dominates Asian demand. Pipeline negotiations with China started 15 years ago have yet to produce an agreement.

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