Change is coming to Europe’s gas market

These days, economic agendas are often shrouded in political statements – criticism peppered with a subtle sales pitch for one’s own product. Therefore it was not surprising that the Nord Stream 2 Pipeline was described by U.S. Secretary of State Rex Tillerson during his last visit in Warsaw as “not a helpful piece of infrastructure”. What was however “helpful” was that Tillerson delivered the reasoning for his statement right away: “Our opposition is driven by our mutual strategic interests” – which obviously refers to the export of LNG via Polish ports to Europe.

Let’s consider for a second what “helpful” means in the context of Europe’s gas market. Already today, companies in most EU states are in a comfortable situation where they can buy their gas from different suppliers. Over 20 LNG terminals could already cover almost half of the imports the EU needs (regasification infrastructure study) and new connections could reverse-flow a third of Europe’s gas from West to East – which ensures that even Ukraine can now cover its import needs from the West. All of this is “helped” by additional pieces of infrastructure that were built in the last few years.

In any case it is “helpful” to look at a satellite perspective of how gas flows in Europe to see that with all the new infrastructure, the gas now moves along many routes in many directions, back-and-forth between countries, as needed by the consumers and as foreseen by those who designed the EU internal market, the European Commission.

Physical gas flows 2016

(Source: gov.uk)
And the Commission can be rightfully proud of this achievement. A year ago, EU Vice President Šefčovič summarized the situation as follows: “22 out of 28 countries are actually better off; having better infrastructure and interconnectors with reverse flows is giving us much more confidence; the European market is much more liquid than it ever was before; we are open to LNG and to Caspian gas [...]” (Transcript of European Parliament).

New infrastructure is not only “helpful” in giving importers more options where to get their gas, it also elevates countries in Europe to new roles. Poland, which already has an LNG terminal and the ability to import gas from Germany via reverse-flow, will be a supply hub for its Eastern neighbours. The basis for this new hub will be the Baltic Pipe, which is meant to flow Norwegian gas to Poland via Denmark. A week ago the Polish governmental official for strategic energy infrastructure Mr Naimski underlined: “We will be able to supply up to 5 billion cubic meters to that region [LT, CZ, UKR, SK] and for some countries it’s their annual use” (Bloomberg, February 8).

With the help of EU funds, many other gas projects in Europe are making progress. A new pipeline between Estonia and Finland just started construction and will be finished in two years. A few days ago Hungary and Romania announced plans to build an interconnector that would supply Hungary with gas from the Black Sea (Reuters, February 9). “This is the first opportunity in the past few decades that Hungary can buy large volumes of gas from a non-Russian source,” Hungarian foreign ministers Péter Szijjártó said, hailing the cooperation pact as “historic progress towards Hungary’s energy security”.

So how can Nord Stream 2 be “helpful”? The European gas production is continuing its long decline, much quicker than initially anticipated (Reuters, February 1). Nord Stream 2 will be able to partially compensate this shortfall, together with LNG from different suppliers around the world. Just like natural gas has to compete with other fuels in the energy mix, gas suppliers and infrastructure are in competition. That is a relatively new phenomenon and not every competitor is happy about that, especially if they are the more expensive option that claims to “end dependence”. Nord Stream 2 will add to the competition and keep prices low. The gas from the world’s largest gas reserves is not in demand competition with other regions and is independent of the fluctuations of the global LNG market, where the cargoes will not follow political sentiments, but are guided by the signal for the highest prices (Bloomberg, January 26). With few exceptions, these price signals will come from Asia, where demand is expected to climb two-fold in the next 20 years (Reuters, January 23). If fewer and fewer of LNG cargoes make it to Europe and importers look for options, Nord Stream 2 will be “helpful” for the EU consumers, by some estimates saving households and industries between 8 and 24 billion euros per year (study by EWI).

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