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The Importance of LNG for Future European Gas Supplies

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Research Programme: sample publications

- **Gas Prices in the UK: Markets and Insecurity of Supply*,** Philip Wright
- **Future Natural Gas Demand in Europe – the importance of the power sector,** Anouk Honoré
- The Future of Russian Gas and Gazprom*, Jonathan Stern
- **Pricing and Demand for LNG in China:** Akira Miyamoto & Chikako Ishiguro
- A Global LNG Market: is it likely and if so, when?

  James T Jensen

***published by OUP, others free to download**

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Research Programme: work in progress

- **The German Path to Natural Gas Liberalisation – is it a special case?**, Heiko Lohmann
- **Liberalisation of the Turkish Gas Market: progress and problems,** Yesim Akcollu
- **The Potential Contribution of Natural Gas to Sustainable Development in South Eastern Europe,** Aleksandar Kovacevic
- **The New Security Environment for European Gas** Jonathan Stern
- **Gas and Power in Southern Europe - Iberian Peninsula and Italy,** Anouk Honore
- **US Natural Gas Prices: scenarios to 2015,** Michelle Foss

LNG Demand in Europe – consequences of price arbitrage, Anouk Honore

Expanding LNG in European gas supplies

- **From its historical role as a marginal source of supply for mostly southern European countries, LNG will become a major contributor of incremental gas supply in Europe over the next two decades.**
- **It will particularly important for: Spain, Italy and the UK.**
- **and will also expand in France and Belgium**
- **Within a decade LNG terminals are likely to be built in Germany, Netherlands and possibly Poland and Romania**

LNG is the flavour of the moment

European Regas

- 12 existing terminals
- 24+ terminals proposed or under construction
- Potential re-gas capacity 2015: 20 bcf/d
- Projected European LNG imports 2015: ~12 bcf/d

- Operational LNG regas
- Under Construction LNG regas
- Proposed LNG regas

What will be the impact of LNG on the European security of gas supply ?

LNG can contribute by promoting diversity of:

- supply sources
- supply routes

Countries heavily dependent on a single source or a single pipeline route believe that LNG will provide the security they are seeking

Almost all countries with a coastline are currently considering building a regasifcation terminal

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Commercial Advantages of LNG

Main advantage is FLEXIBILITY during:

- **periods of high demand**
- **shortages of piped gas for whatever reason**

BUT ALSO:

- **lack of liberalised access to gas networks, or refusal of pipeline owners to provide access on competitive terms**
- **escape from third party access via Article 22 exemptions**

So does LNG solve all our problems in Europe?

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Having a Regasification Terminal will not Guarantee Cheaper Gas or any Supplies

- Internationalisation of LNG markets is leading to a trend where cargos are sold to the highest bidder
- Modest volumes traded so far, leading to an increase in competition between European buyers, specifically between European and American buyers, and reduces the certainty that gas will be available, especially during periods of high demand in North America.
- The supply context for LNG will not be Europe but “the Atlantic Basin” - and for Middle East supplies - an increasingly globalised LNG market.

Given increasing competition, is LNG a good option for poorer European countries?

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To what extent will Atlantic Basin arbitrage set (or influence) gas prices in Europe, particularly in Spain, Belgium and the UK?

- **Cost reduction trends for LNG may have reversed due to: material cost increases; shortage of contractor capacity**
- **BUT we will probably see significant seasonal price volatilities due to scarcity of storage and transmission capacity**
- **In the Atlantic basin, there has been a modest impact of HH so far on LNG trade flows; will the relationship between spot prices and indexed prices change? Will LNG trade flows increasingly depend on supply/demand dynamics?**
- **Will LNG create a new gas pricing regime in Europe? Probably not, as LNG will and continue to be a price taker in most countries, with Spain an exception**

Will LNG Help Regulators to Create Gas-to-Gas Competition in Europe?

- European gas prices reflect oil prices, not gas supply/demand fundamentals;
- EU competition authorities are attempting to break the oil indexation stranglehold; LNG prices will better reflect supply/demand
- Importing companies have been able to prevent the development of serious competition due to their dominant positions
- Regulators have encouraged LNG supplies in order to create more competition

BUT: much will depend on growth of LNG as a % of European gas supplies (as opposed to capacity); LNG in 2005 still <10% of European demand

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Thank you

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