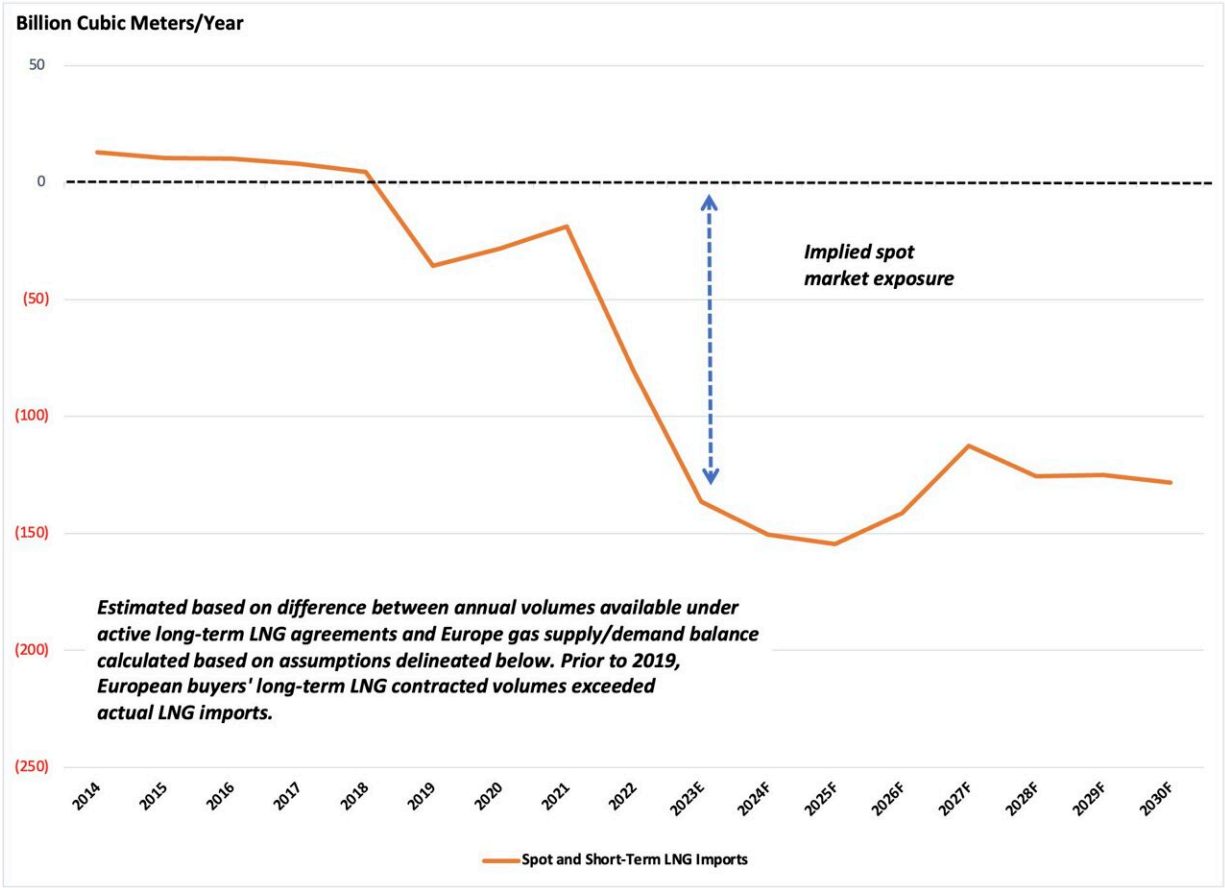


European energy at risk of overdependence on unreliable supply: Report

September 21 2023, by Avery Ruxer Franklin



Europe’s Looming LNG Import Grand Canyon Source Bloomberg; International Group of Liquefied Natural Gas Importers; Energy Institute Statistical Yearbook of World Energy; authors’ analysis. Key Assumptions for 2023-2030: 1) Norwegian pipeline gas exports decline by 2% annually due to falling gas production, 2) Russian pipeline exports to Europe bottom out at 5 bcm/year in 2024 and thereafter gradually recover to 45 bcm/year by 2030, 3) African,

Middle Eastern, and other Eurasian pipeline gas exports to Europe remain steady at 32, 25, and 9 bcm/year, respectively, 4) European gas demand declines 2% each year between 2023 and 2030, and 5) European gas production declines 4% annually between 2023 and 2030. Europe's long-term LNG contracts are based on actual data compiled by the authors as of Aug. 1, 2023. Credit: *Why Is Europe Not Replacing Russian Pipeline Gas With Long-term LNG Contracts?* (2023).

European buyers' reluctance to sign long-term liquefied natural gas (LNG) contracts risks repeating energy challenges from Europe's previous overreliance on Russian natural gas as well as further burdening consumers who are already paying billions more for energy than necessary, according to a [new report from Rice University's Baker Institute for Public Policy](#).

The report, "Why Is Europe Not Replacing Russian Pipeline Gas with Long-term LNG Contracts?" calls attention to an LNG supply "Grand Canyon" due to Europe eschewing long-term gas contracts. Authors Gabriel Collins, the Baker Botts Fellow in Energy and Environmental Regulatory Affairs at the Baker Institute, and Fellow for Global Natural Gas and Energy Transitions Steven Miles argue that rejecting long-term gas contracts places Europe in a precarious position.

In the run-up to the 2022 Russian invasion of Ukraine, Europe allowed itself to become dependent upon Russia for up to 40% of Europe's [natural gas](#) supply. As the "gathering storm" brewed around Ukraine in the autumn of 2021, Gazprom cut back its deliveries of gas and left the 25% of European gas storage that it controlled empty for the winter. Following the February 2022 invasion, Russia continued to reduce, and eventually ended, most natural gas supplies to Europe.

Europe realized then that it was overdependent on an unreliable source

of supply for such a large segment of its [energy](#) needs, Collins and Miles argue.

"Europe survived the winter of 2022 and beyond by taking several extreme steps, but importantly 74% of all U.S. exported LNG cargos swung to Europe in the first few months following the invasion," Collins said.

But with history as prolog, Collins and Miles say that Europe is essentially making the same mistake again. As Miles explains, "Europe is once again relying on an uncommitted, insecure supply source—this time the spot market—for up to 60% of its LNG needs." Spot contracts typically last between a single cargo and a few months at most.

"Worse yet," Collins said, "these cargoes are sold at the highest market price, putting Europe in a bidding contest with Japan, Korea and other buyers worldwide for every cargo." European prices rose when Gazprom began reducing deliveries to Europe in 2021 then spiked when Russia invaded in 2022. U.S. prices for long-term contracts barely moved.

"It is perhaps understandable that Europe was caught by surprise the first time, but even with knowledge of the events of 2021–22, and with clear line of sight to the forward curves for 2023–25, Europe continues to over rely, and overpay by purchasing spot rather than signing longer-term deals at lower prices," Miles said.

Collins and Miles estimate that in just the first 16 months following the Russian invasion of Ukraine, European customers paid over \$100 billion more for energy due to Europe's practice of relying on 'spot' contracts to fill gas supply gaps as opposed to long-term contracts linked to U.S. gas prices.

The report sequentially discusses three possible rationales, lays out the

[adverse consequences](#) likely to arise and concludes with a set of policy recommendations with higher potential to deliver energy that is more secure and leads to a cleaner, more sustainable world.

In addition, a low supply of natural gas from secure sources needed to run Europe's industry and heat European homes opens the door for China and Russia to exercise energy leverage over an insecure and hungry Europe, according to the report.

As Miles and Collins recently reported in *Foreign Policy*, "China has recently acquired an outsized share of 10–20 year firm LNG contracts from the U.S. and Qatar," and Russia maintains a dominant position in natural gas and LNG. This echoes the situation Europe found itself in in late 2021 and 2022 as Gazprom reduced its supply of natural gas to Europe and Russia ultimately invaded Ukraine and cut most pipeline supplies to Europe in an effort to force European countries to capitulate and accept Russia's aggression.

And there are [economic costs](#) as well. "Natural gas prices are lower today, but without long-term contracts, price volatility will be a major risk for years," Collins said. "These inflated costs have disproportionate impacts on lower-income people and high energy costs have recessionary impacts, leading many to decide between 'heating or eating.'"

Higher and more volatile gas prices encourage some potential users to switch to a cheaper fuel, and coal typically fills the gap, the authors said. Pakistan and Bangladesh are two recent examples of countries that made investments in cleaner natural gas only to reverse course back to coal due to an inability to compete against Europe and Asia in bidding for LNG cargoes.

Approximately 80 years of historical coal plant data from the Global Energy Monitor illustrate the relationship between energy insecurity,

high global gas prices and consumers choosing to rely on coal.

"Ultimately [energy security](#) is [national security](#), and we urge policymakers to not repeat mistakes of the past by relying on political relationships and sources of energy that may be inherently insecure," Collins said.

More information: Report: [www.bakerinstitute.org/research ... g-term-
ing-contracts](http://www.bakerinstitute.org/research/energy-security-g-term-contracts)

Provided by Rice University

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