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European gas markets ahead of Winter 2022-23: EU supply and demand status in context

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The European-Russian gas relationship post-24/02

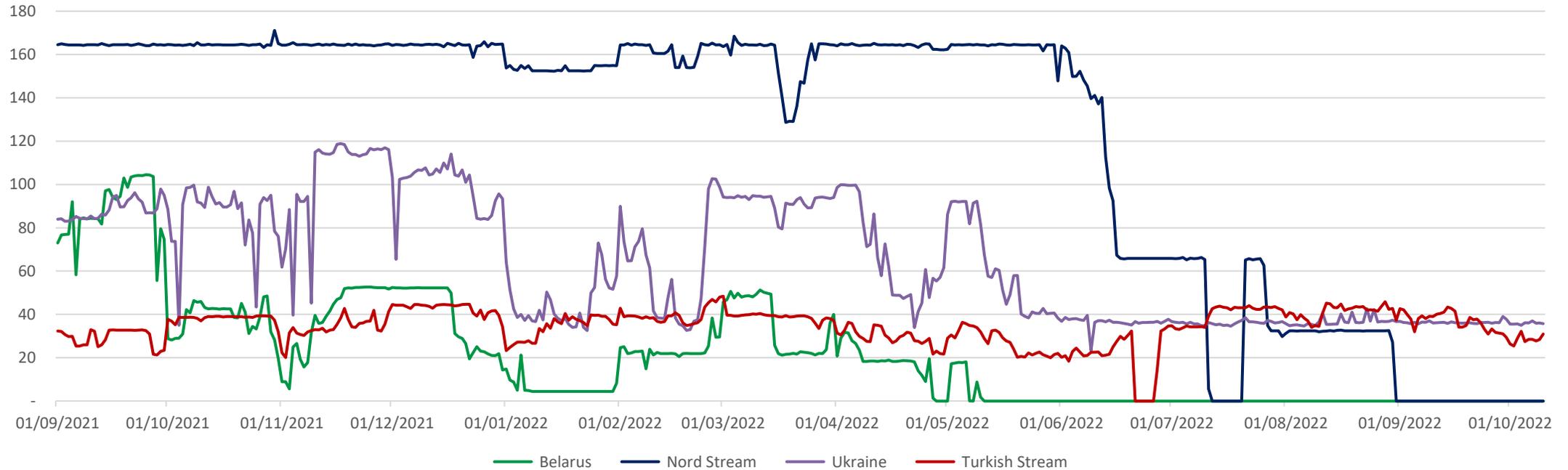
- The biggest EU-Russia political crisis since the end of the ‘cold war’
- While the Russian gas sector has been less affected by Western sanctions, technical maintenance and future production potential have been hit
- ‘Weaponization of Russian gas’ became the predominant narrative in Europe, which has made a political decision to eliminate its dependence on Russian gas (Versailles Declaration, REPowerEU)
- Further escalation in Ukraine would lead to further deterioration of political/security – and therefore gas – relationship

The EU policy went from reducing dependence on Russian gas to cutting by 2/3 in 2022 and phasing out by 2027, but the EU is not in control of this process



Significant decrease in Russian pipeline gas flows to Europe

Russian Pipeline Gas Supplies to Europe by Route (mmcm/d)

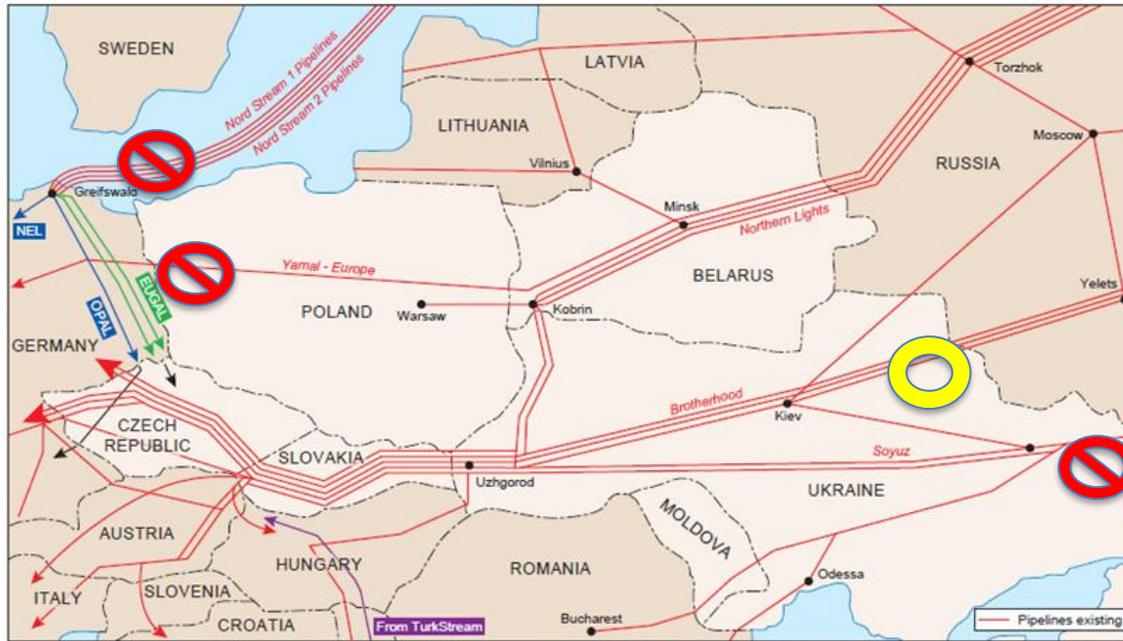


Source: data from ENTSOG Transparency Platform and graph by Sharples/OIES

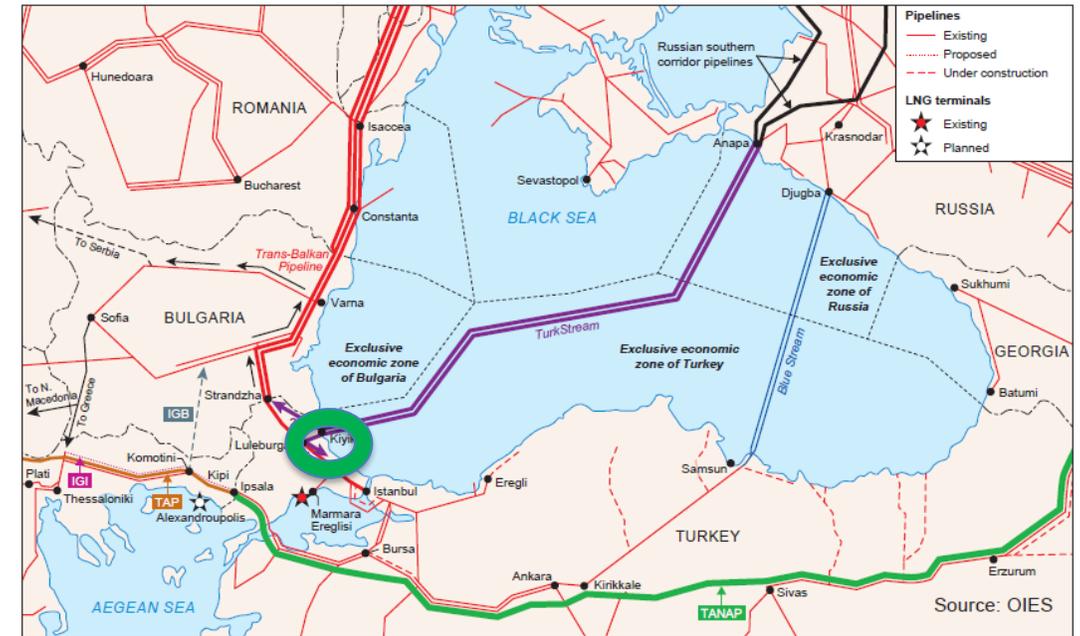
Daily flows of Russian pipeline gas to Europe in October 2022 were ~1/5 of daily flows a year ago. Gazprom's pipeline gas flows to Europe decreased sooner and on a larger scale than the EC had wished or prepared for



Ukraine and TurkStream are the only functioning gas export corridors to Europe



Source: OIES

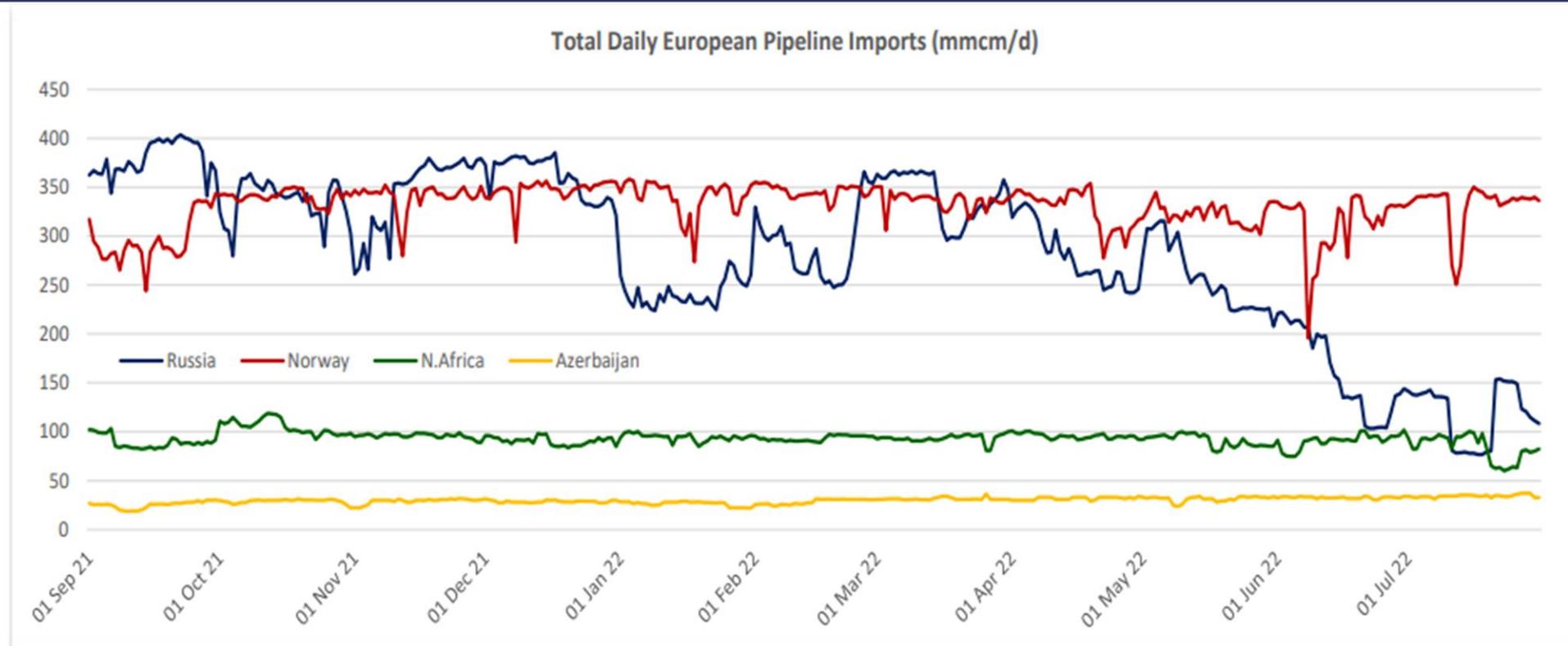


Source: OIES

Yamal-Europe corridor not transiting gas since May. Ukrainian corridor transits less than half of ship-or-pay contract volume. NS1 stopped flows in September (unresolved turbine maintenance) and was damaged in subsequent explosions together with one string of NS2. Blue Stream and TurkStream operate normally



Russian and non-Russian pipeline gas supplies to Europe

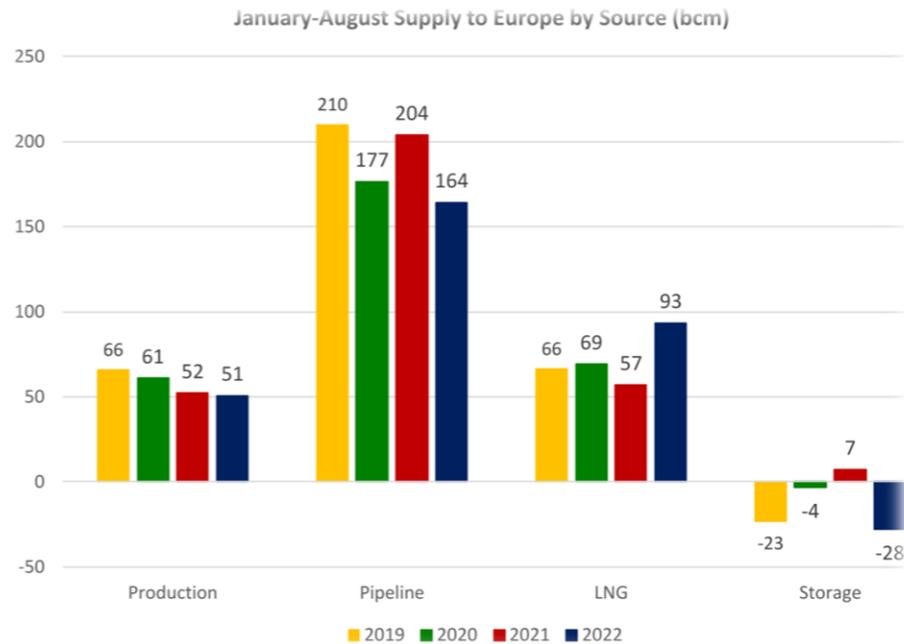


Source: data from ENTSOG Transparency Platform, graph by Sharples/OIES

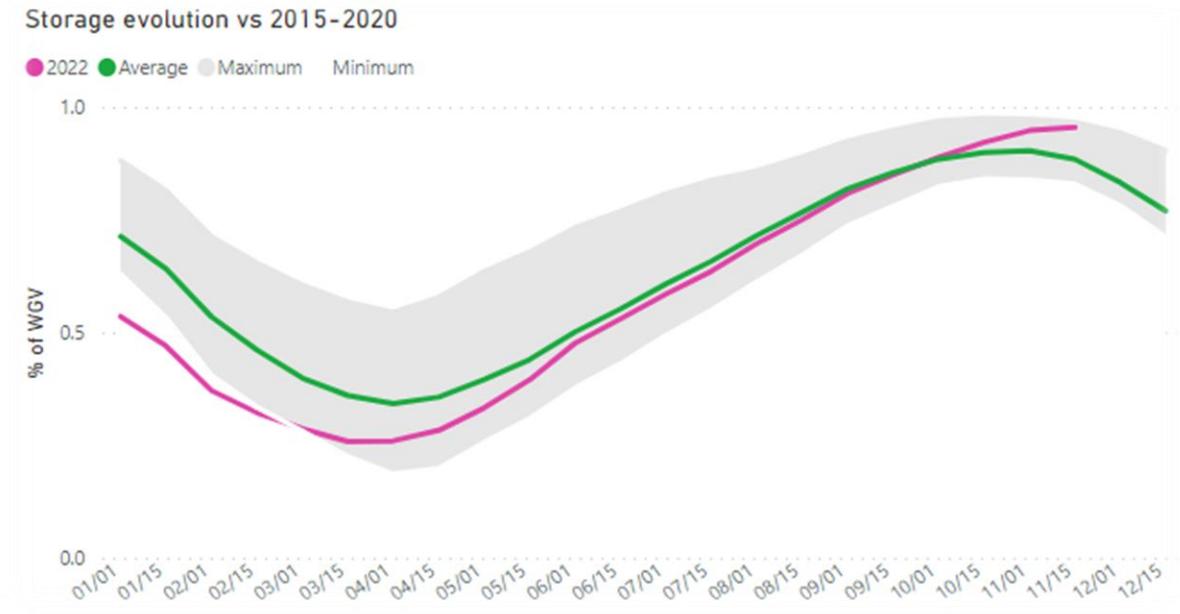
Supplies from all non-Russian pipeline gas suppliers have been stable but almost no additional short-term non-Russian pipeline supply



Accelerated imports of LNG and mandatory storage filling



Source: OIES based on ENTSOG Transparency Platform, Eurostat, GIE/AGSI, Kpler LNG Platform



Source: ENTSOG Transparency Platform

Europe has been able to increase sharply its imports of LNG from the global market (rendering it unaffordable for poorer Asian countries) and to re-fill its storages (at sharply increased prices)



Accelerated build up of new LNG import capacity



Source: EC, REPowerEU



Source: S&P

- PCIs and REPowerEU projects
- Member States have accelerated development of new LNG terminals
- What will be the regulatory framework for developing new LNG capacity and connecting infrastructure?

Estimated additional LNG import capacity: 50 bcma by end 2023 and another 50 bcma by late 2020s. Will all of this capacity be added? For how long it will be needed? At what price will supplies be available?

European gas prices: the impact of the crisis has been dramatic



Source: Argus



Source: ICIS

Many-fold increase in European gas prices compared to pre-crisis levels, reaching historically unprecedented levels. Volatility has increased sharply and has become a 'new normal'. European gas supply and demand are not expected to balance until 2026-2027 with prices remaining high and volatile



Russian gas exports to Europe in the 2020s: scenarios

- Russian gas supplies to Europe could stop before winter 2022/23 because of Russian or European political decisions, **“Winter(s) of Discontent”**
- Russian gas supplies to Europe will almost certainly stop completely by 2027 due to early termination of existing LTSCs, **“REPowerEU”**
- Russian gas supplies to Europe could continue at TOP levels until existing LTSCs expire in the early 2030s, **“TOP 2030+”** but current events suggest this is highly unlikely

Continuing Russian gas supplies to Europe at TOP levels until contracts expiry in the 2030s ‘TOP 2030+’ scenario is more beneficial for decarbonisation and affordability. But politics may make ‘Winter(s) of Discontent’ a frontrunner



Outlook for winters 2022/23 and 2023/24

- With nearly full storages and continued strong LNG imports, EU and UK seem **likely to pass through winter 2022/23 relatively unscathed** provided that winter is relatively mild and Russian gas flow via Ukraine (and TurkStream) continue at present levels
- **If winter is cold and if Ukrainian transit is cut off, there would likely be curtailments** in several countries – Germany, Czechia, Slovakia, Austria, and Hungary – with solidarity measures having a limited impact
- **Even if winter 2022/23 is mild and Ukraine transit continues, winter 2023/24 is likely to see (potentially more significant) curtailments** due to lower availability of Russian gas for refilling storages over summer 2023 and a potentially stronger pull-back of LNG into Asia



Thank you!

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