

Easier Said than Done: A Supply-side critique of the EU's Plan to Eliminate Dependence on Russian Gas

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Overview

The second Russian-Ukrainian War will drastically alter the global and the European balance of power across several sectors of Great Power competition. The amount of economic pressure being exercised on Russia since February 24 amounts to nothing short of an all-out economic declaration of War from Western Powers the likes of which we have not observed since the onset of the Cold War. It is not an exaggeration to note that the US and its western allies are attempting to uproot over thirty years of Russian economic integration with the global economy. At the core of that integration is Russia's role as the largest energy exporter in the world particularly in crude oil, products and natural gas that cumulatively make up to 45% of Russian federal state revenues in 2021.

The political commitment of the EU to eliminate its dependency on Russian gas exports by 2027, as expressed in its RepowerEU Strategy, is a monumental task that requires the maximization of alternative import sources and routes. The EU's RepowerEU strategy includes several demand and supply side policy priorities including the massive improvement in biomethane and hydrogen production that are from the present vantage point extremely overoptimistic and are highly unlikely to make a difference in the efforts to diversify away from Gazprom by accelerating gas demand substitution.

The plan also completely disregards the impact of Gazprom's Long-Term Contracts with several EU companies that include strict take-or-pay clauses and "lock" a significant portion of gas supplies until at least 2030. Moreover the "strategy" aspires to secure tens of billions of bcm of natural gas -primarily in LNG form- through -inter alia- the establishment of an oligopsony "a buyers carter" in the hope of securing better prices but does not detail the cost, the timetable and the potential volumes the EU could secure from alternative sources of supply with the exception of US LNG to 2030.

This paper assesses the applicability of the RePowerEU plan by examining the "survivability" of Russian-EU gas trade until the end of this decade. It will do so by analyzing in detail the availability of alternative supplies to the EU, the advantages and disadvantages of the Commission's oligopsony idea and the impact the potential demise of Russian gas exports to the EU may have on Russia's geopolitical influence and economic security.

Methods

Comparative analysis of primary and secondary sources regarding existing natural gas demand and supply projections in the EU, Russian Energy Strategy, Gazprom's Long-Term Contracts (LTCs), and availability of alternative supplies from US and Qatari LNG sources as well as Azeri, Algerian, and East Med (Israel, Cyprus, Egypt) gas suppliers (risk assessment, costs, timetables)

Results

The RePower EU goal to eliminate Russian gas exports by 2027 and to curtail them by 65% over one year are entirely unrealistic. The very low level of EU gas storage in April 2022 is more likely to lead to an *increase* in Russian gas imports in 2022. Moreover for any European diversification strategy to work within the timetable foreseen by the European Commission, the Commission needs to offer a financial way out from the take-or-pay clauses that have locked-in specific purchasing obligations in favor of Gazprom which expire after 2030. Prior to 2025/26 there simply aren't adequate alternative supplies in global LNG markets to precipitate such a drastic replacement of Russian gas exports to EU markets. The same is true for additional substantial increases of pipeline gas from the Caspian Sea and the Eastern Med with the possible exception of limited Algerian and Norwegian pipeline gas. Moreover for the substantial reduction of Russian gas exports additional infrastructure is needed on an EU basis including the overcoming of pipeline bottlenecks and the construction of new LNG and FSRU regasification stations. These infrastructure gaps are also unlikely to be resolved prior to 2025/2026.

Conclusions

By 2030 a systematic EU diversification process away from Russian gas can succeed to substantially reduce EU reliance on Gazprom supplies, although Turkey, Serbia and Hungary may continue to buy significant quantities of Russian gas even then. But such a restructuring of the EU energy balance of power will not happen overnight and will not come in cheap. Instead of a slogan the elimination of EU dependency on Russian gas should be seen as a long-term process. Such a process is likely to accelerate after 2025/2026 when significant additions to the global LNG liquefaction capacity will be completed in Qatar and the USA, new supplies will flow from the Caspian Sea and the Eastern Mediterranean to the EU and new EU receiving infrastructure would have been completed.

There is also the possibility that the drivers of the diversification process will dissipate and may even be reversed if the unity that EU states have exhibited in their solidarity to Ukraine erodes after the end of hostilities, unless of course the conflict turns into a war of attrition that could drag on for several years. By 2030 though Russia is also at least equally likely to have rid itself of its dependency on EU markets by expanding and accelerating its pivot towards China and in general towards Asian markets. Therefore the long-term negative financial and geostrategic impact to Russia of a gradual loss of its EU gas exports will be substantial but as devastating as many may think.

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