

## Andreas Silcher and Chrysa Kitsou in LNG Industry: Diversifying Europe's Gas Supply

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By Andreas Silcher | January 16, 2019

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Europe is a net gas importer, importing approximately 70% of its natural gas via a network of pipelines, or as LNG, which is then subsequently placed into the gas supply network to be distributed nationally and beyond.

EU policymakers' commitment to cutting the EU's carbon footprint and investing in renewable energy incentivises the use of gas. To ensure gas growth, policymakers are focusing on diversification, competitiveness, flexibility, sustainability and security of supply. As the production in the North Sea is in decline due to fields being depleted, access to more suppliers is needed to, inter alia, decrease dependency on Russia, which is currently the dominant importer due to its competitive prices, immediate supply, affluent reserves, and comprehensive network of pipelines. In particular, the Baltic countries and the southeastern part of Europe remain dependent on Russia, leaving those countries susceptible to market disruptions. In an effort to change the equation, the focus from the North has begun to shift to the South and the Mediterranean.

### EU production

Gas production within the EU has now dropped to 28 billion m<sup>3</sup> (representing a 12% year-on-year decrease). The EU's two top producers, the Netherlands and the UK, had to decrease production due to reserves' depletion. In Denmark, gas output decreased predominantly as a result of the parliament bill to reduce and ultimately put the Groningen field – Europe's largest field – on halt on a 'as quickly as possible' basis by 2030 due to seismic activity. In addition, gas production declined in Germany, Ireland and Romania, whilst it remained unchanged in Poland. Italy was the only Central European country where gas production increased. There are plans for new fields, such as the Culzean gas field in the UK North Sea, which will start delivering gas in 2019 and, according to predictions, will produce 60 000 – 90 000 boe/d in 2020. However, this is not sufficient to satisfy the increasing demand.

### EU imports

Net imports have increased by 3% compared to the year before based on Eurostat data. This was attributed to the decline in the domestic conventional production and necessary storage injections. Russia is the leading supplier in the EU, and it does so through three main routes: Ukraine, including the Brotherhood pipeline and Balkan route; Belarus (the Yamal pipeline); and Nord Stream. Looking at LNG Imports, Qatar (43%) was the main LNG supplier of the EU in 2Q18, followed by Nigeria (17%), Algeria (16%), Trinidad & Tobago (9%), Norway (9%) and the US (1.3%). Looking at the latter, only four cargoes arrived in the EU from the US in 2018 to date as compared to 20 LNG cargoes unloaded in 2017. On 25 July 2018, the President of the European Commission, Jean-Claude Juncker, and US President Donald Trump agreed to facilitate and strengthen energy relations by increasing the LNG trade from US to Europe by lifting regulatory barriers and investing in building up infrastructure. However, there are more challenges in US LNG to be overcome, such as: dynamics in other markets, such as Asia, where LNG can potentially be

sold at a more profitable rate leading to shipments to such areas being prioritised; and Russia's ability to respond to European demand faster via the network of pipelines at more competitive prices. ...

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