Report

Gas crisis in Europe and the alternative Qatari role

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Abstract

The Russian-Ukrainian crisis is the third one in a decade and serves as a wake-up call to rethink its gas dependency on Russia. As gas consumption, in particular LNG, is projected to increase over the next 10 years, there is a real opportunity for gas producing states to replace Russia in Europe's energy mix. Qatar, the world's global leader in LNG, is in a particularly interesting position to move into Europe's energy market.

The current energy crisis in Europe following the ongoing crisis between Russia and Ukraine

Russia and Europe, who are more often at odds when it comes to politics, have entertained an energy relationship which began during the Cold War. Russia is the largest exporter of oil and gas to the European Union; in 2012, more than 25% of European gas imports came from Russia – which make up 60% of Russian gas exports. More than half of these exports are channelled through the five Ukraine pipelines (eight remaining pipelines are through Belarus to Poland and Lithuania or directly to Germany, Finland, Estonia and Latvia). Almost half of European gas imports go to Germany and Italy, while France, Hungary, the Czech Republic, Poland, Austria and Slovakia also import more than 5 billion cubic meters per year.

Until now, this link has weathered several storms, but Europe's energy dependency on Russia has made policy-makers uneasy on a regular basis. In 2000, the European Commission issued a Green Paper drawing attention to the high European dependency levels of gas imports;(1) in 2004, the European Council adopted a directive whose goals were "ensuring an adequate level for the security of gas supply, in particular in the event of a major supply disruption," and "contributing to the proper functioning of the internal gas market".(2) Russian-Ukrainian clashes in 2006 and 2009 led to the first disruptions in European gas supply, and re-launched the debate on European energy security. But since then, Europe's dependency on gas imports has not decreased – rather, it is expected to rise from 40% to 70% of current imports. (3)

The crisis in Ukraine has served as an important wake-up call for European decision makers - 49% of Russian gas exports go through Ukraine, who is currently experiencing a gas shortage themselves. Following the conflict over the Ukrainian Crimea region Russia has not only increased the price of its gas exports to Ukraine, it has also threatened to cease the delivery of gas altogether if debt payments remain unsettled. Perhaps more importantly, three other regions in eastern Ukraine are also likely to secede by mid-May. The four regions account for one-third of Ukraine's exports. These developments have stirred a crucial energy debate in Europe. As European Council President Herman Van Rompuy has declared right after the referendum on Crimea's secession from Russia: "Today we sent a clear signal that Europe is stepping up a gear to reduce energy dependency, especially with Russia: by reducing our energy demand, with more energy efficiency; by diversifying our supply routes to and within Europe, and expanding energy sources, in particular renewables; by energy security on our border and security of supply for our neighbours". (4) Several European decision-makers have come forward in support of such initiatives, and are looking into immediate options to reduce dependency on Russian gas imports.

At the forefront of such efforts are Italy and Germany as Russia's main importers, but also Poland; they include efficiency measures which could reduce energy consumption by 20%, and the reduction of red tape to increase the import of non-Russian liquefied natural gas (LNG). In total, these measures would cut imports from Russia by a quarter or around 45 billion cubic meters by 2020, worth $18 billion a year. (5)

It is clear that the Ukrainian crisis has had an immediate impact on not only European energy imports, but on gas imports in particular. Gas is considered one of the preferred fuels for electricity production in the European Union due to its comparatively low impact on the environment; the 2014 crisis has gone beyond previous political earthquakes and is therefore likely to lead to gas supply diversification – flanked by Libyan as well as Egyptian instability.

Qatar's presence in the realm of energy policies in Europe

Qatar currently does not play a huge role in European energy policies or supply. However, this is changing due to its crucial role in gas exports, in particular liquefied natural gas (LNG). The Gulf State is currently the biggest LNG exporter in the world – 85% of its gas exports are in liquefied form - the world's second natural gas exporter, and the fourth largest dry natural gas producer (after the United States, Russia, and Iran). Qatar also possesses one of the world's third largest gas reserves – nearly triple of the United States' reserves. (6)

These matters have become increasingly important to Europe. Although its energy mix has remained largely unchanged over the last two decades – in 2013, 35% of its energy mix came from petroleum, 24% from gas, 17% from solid fuels, 14% from nuclear heat and 10% from renewables (7) - overall energy dependency has become more pronounced. While this is true for all the imported energy sources, it is particularly true for gas, where energy dependency has increased from 43.5% in 1995 to 67% in 2011 (in comparison, petroleum dependency has only increased from 73.2% to 85.6%). Gas, and dependency on gas, is playing a more and more important role in European energy thinking. (8)

There are two reasons for this: politically, both nuclear energy and petroleum have raised concerns when it comes to political stability as well as safety; renewable energy still hasn't reached its full potential. It is for these reasons that natural gas is expected to overtake both crude oil and coal, and become the second largest energy source by 2035. (9) This is particularly due to the emergence of LNG as an important component of the global gas market. Since 2000, LNG share in the market has risen by 7% every year. In 2012, it made up 10% of aggregate gas supply - a trend that is likely to continue since the distances between gas-producing and gas-consuming regions increase. LNG's biggest advantage here is that in liquefied form, gas can be exported anywhere in the world by ship.

By 2020, LNG is expected to make up 13% of the global gas market. Although more generally North America remains the leading gas market, it is in Europe and Asia that the demand for LNG is more important as American gas prices remain continuously low. In 2012, LNG constituted 12% of Europe's gas mix, with the most important European markets being in Spain, the United Kingdom, France and Italy. In total, 30% of Qatar's

LNG exports go to Europe. LNG importance for Europe is also not to be affected by natural gas imports from the Middle East and Russia since the North Sea gas production continues to decline while Europe's demands continue to increase. Europe's gas consumption is expected to increase from 502 billion cubic metres in 2005, to 815 billion cubic metres in 2030.

Therefore, by 2020, LNG is expected to meet 14% of European gas. For Qatar, Europe is – along with Asia - an important client with huge potential for growth; already, the United Kingdom is its most important LNG customer, with Belgium, Spain and Italy trailing shortly behind. By 2011, Qatar's share of the European gas market had reached almost 10% (10) - and even before the Ukrainian crisis, prospects for further increase were ambitious. According to some calculations, Qatari LNG deliveries to Europe were expected to rise by 22% over the year of 2014 following deals with German and British companies. In addition to the 19.65 million contracted into the region in 2013, Qatar will add 6.64 million metric tons to Europe this year. This is the most significant development since 2009, when Qatar opened three important production plants. In total, European countries will receive 71.5 million tons of LNG in 2014. (11)

What role can Qatar play in replacement of Russia's gas exportation to Europe?

Europe is very likely to re-orientate its energy policy as a result of the Ukrainian crisis; US President Obama has reminded Europe that it cannot rely on the United States alone to cut its reliance on Russian gas. (12) In April 2014, the Emir of Qatar, Sheikh Tamim Bin Hamad Al Thani and US Secretary of State John Kerry discussed Qatar's potential role in this endeavour, which would add to already existing tensions between Qatar and Russia over Syria. But for Qatar, the time to strike is crucial: as the United States gears up to become a LNG competitor in the next five years, it still has virtually no possibility to export it to Europe; to be present now is a considerable advantage to be seized. Of course, Europe pays less than Asia at this point, but EU subsidies to facilitate the transfer from Russian to Qatari gas are not beyond imaginable.

Some logistical considerations are to be taken into account; Qatar's main shipping route to Europe goes through several choke points: the Strait of Hormuz, the Bab al-Mandab as well as the Suez Canal. All three are located in politically volatile regions, a vulnerability which makes European decision-makers nervous. On previous occasions, especially the Suez Canal, has been subject to closures due to political instability. One way to circumvent this would be the proposed Qatar-Turkey pipeline which could run from the Qatari gas field to Turkey and connects there with the Nabucco pipeline.

Nabucco, an idea supported both politically and financially by the European Union, sought to connect Middle Eastern markets from Turkey to Austria, but was cancelled in the summer of 2013 by the Azerbaijan-led consortium that owns the Shaz Deniz 2 gas field, the main supplier. Instead, Azerbaijan has chosen the shorter Trans Adriatic Pipeline which runs from Greece to Italy. This option had replaced the idea of a pipeline running from Qatar to Syria where it would go on to Europe via Syrian LNG ports – an idea that neither Qatar nor Syria liked; the latter presumably to protect Russian gas interests in Europe. (13) The Syrian civil war has put an end to this idea altogether, whereas the end of Nabucco does not imply the end of the basic idea to export gas from the Middle East while circumventing the sensitive sea choke points. In the meantime, Qatar is free to deliver gas via the known shipping routes; if it chooses to invest in a long-term gas relationship with Europe, the pipeline option will have to be reconsidered.

The Ukrainian crisis has, for a third time in a decade, reminded Europe of its gas dependency on Russia at a time when Europe's energy demands are increasing. While it is looking for alternatives, Qatar's gas, in particular LNG, is in a good position to replace Russian supplies. This might entail reconsidering projects such as a pipeline connecting it to Europe.

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Endnotes

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