

GAZPROM MIGHT LOSE YET UNCONQUERED EUROPEAN LNG MARKET

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Shortly after the successful launch of an LNG plant on the Sakhalin island, Gazprom announced changes in liquid methane export routes. Priority might be given to the US and Asia-Pacific markets rather than European countries.

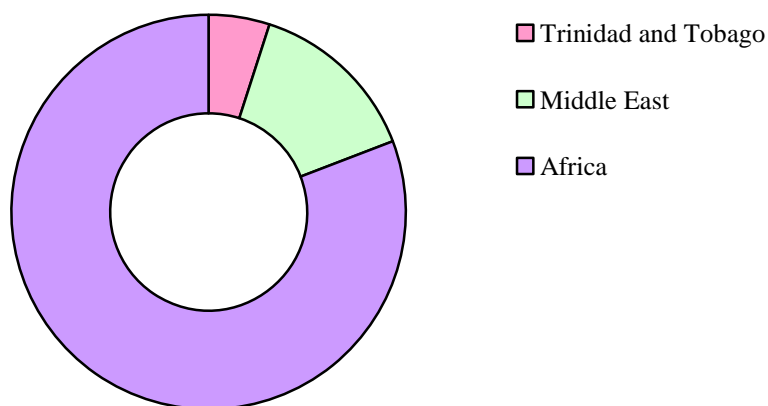
This move has been most probably caused by a March agreement between the European Union and Ukraine that lays down terms and conditions of cooperation between the two and completely ignores the interests of Russia as a supplier.

At the same time, the document will not have any implications on the market, nor will it affect the position of Gazprom in the European market (a 25% stake). The gossip about re-direction of LNG exports is too early.

For one thing, potential buyers of Russian LNG might remain just potential buyers. The US actively develops alternative energy technology and has a large supplier, Trinidad and Tobago (that pumps more than 70% of US' methane exports). World's largest LNG exporters, Malaysia and Indonesia that intend to step up LNG production, meet Japan's, China's, Taiwan's and South Korea's demand.

For another thing, Europe has possibilities to make LNG imports diverse.

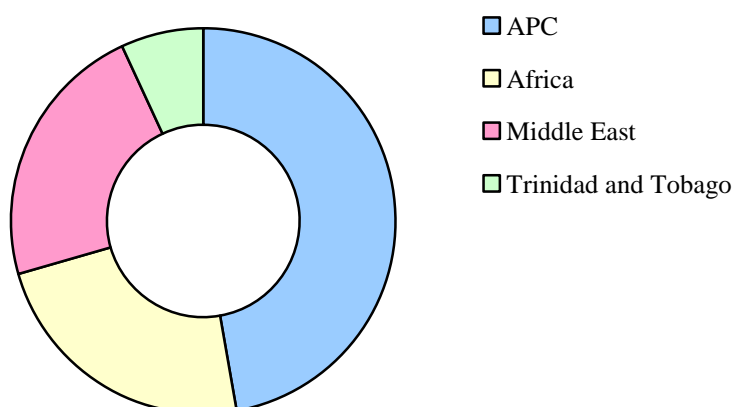
Figure 1. LNG supplies to Europe in 2007(by exporters)



Sources: British Petroleum, IFS estimates

Currently, African countries, mainly Algeria (38.5%) and Egypt (10.8%), account for more than 80% of LNG supplies. However, Europe might increase imports from the Middle East in the near future.

Figure 2. Global LNG liquefying capacities (by countries)



Sources: Petroleum Economist, Qatar Gas, IFS estimates

First, as we can see from Figure 2, Africa and Middle East have equal gas liquefying capacities (each exceeding 30%). Europe can use this extensive potential because importing LNG from Asia-Pacific area will be considerably more expensive over a long distance. Besides, Qatar has enough reserves (14.5% of the world's reserves) to supply gas for decades ahead.

Second, Norway's stake in the global LNG market does not exceed 0.5%, but it will grow when the Snohvit project is implemented. Moreover, due to close trade and economic relations between European states, Norway will be the most privileged supplier even if not an EU member.

Third, the only thing that prevents European companies from building liquefying plants in Iran is the US-imposed sanctions that can be lifted. Changes in the political and economical situation in Iran will release to the market more than 27 trillion cubic meters of natural gas, and Europe will use low-cost gas pumped over a shorter distance.

Europe does have possibilities to make its gas imports diverse. Gazprom, on the contrary, does not have resources to implement the plans because it does not have a plant in the western part of Russia and because it will have to compete with strong rivals in the Asia-Pacific region. Gazprom should now focus on finding efficient ways to compete with those!