

GME NEWSLETTER – Issue no. 174 now online

Rome, 13 October 2023 – Issue no. 174 of the newsletter of *Gestore dei Mercati Energetici* (GME) is now downloadable from www.mercatoelettrico.org. This issue opens with an article by Agata Gugliotta from *Ricerche Industriali Energetiche* (RIE) about the role of Liquefied Natural Gas (LNG) in the management of the gas crisis in Europe. *In 2022, the international LNG trade grew by 4.5%, in line with its trend in the previous year, when it was favourably influenced by the post-pandemic economic recovery – writes Gugliotta. In the most turbulent year in the history of gas, the dynamics in the gas market, both on the demand side and on the supply side, were driven above all by the Russia–Ukraine war and its repercussions on gas supplies to Europe. The progressive decrease of European gas imports from Russia and the impossibility of replacing them within short timescales generated severe market tensions, which compelled European buyers, among other measures, to switch to LNG quickly and at a very expensive cost, in order to ensure the continuity of supplies and replenish gas stocks, heavily depleted in the previous year. In Gugliotta’s opinion, this switch gave rise to a new configuration in the geography of flows, which, first from Asia and then from Latin America, were diverted towards Europe, attracted by much higher prices. In the meantime, a new wave of investments, in particular for the construction of LNG reception terminals, and a higher perception of the risk of energy insecurity contributed to the increase of LNG imports in Europe. Some of these dynamics have carried on in 2023: the prolongation of the Russia–Ukraine war, the consequent need for making up for the sharp reduction in imports from Moscow, and the initial recovery of Asian consumption, which has continued to sustain the international LNG trade. The data available so far for 2023 has confirmed the trends recorded in 2022. Some demand and supply dynamics have reappeared, although at a different pace. On the demand side, based on preliminary data from the Gas Exporting Countries Forum (GECF), the global LNG market in the first 8 months of 2023 has recorded a new increase in amounts traded: +3% compared with the same period in 2022, equal to a traded volume of about 370 billion cubic metres (bcm). This increase has been sustained not only by European but also by Asian countries, which have again taken the lead after their decline in 2022. Looking to European countries (including the UK and Turkey), preliminary data indicates that imports have increased by 5% (nearly 6 bcm) with an overall volume of about 115 bcm. About 75% of this amount has reached the*



EU-27; therefore, its share in overall gas imports rose from 33% in the period from January to August 2022 to 42% in the same period in 2023 – stresses Gugliotta. Nonetheless, the analysis of monthly consumption reveals that volumes have been growing throughout the first six months of 2023, as compared to 2022, especially as a result of the entry into operation of new floating storage and regasification units (3 in Germany and 1 in Italy, adding to those in the Netherlands and Finland that have been in service since the end of 2022) and the need to replenish stocks at the end of the winter period. Thus, because of the Russia-Ukraine war, LNG acquired a primary role in the energy industry in 2022, a role that it has maintained in the current year. Indeed, LNG has moved from the role of mere market balancer after pipeline gas supplies to the role of central resource that is absolutely necessary for European energy security, summarises Gugliotta. This tendency will continue in the coming years when most of the gas will be supplied from tankers. Indeed, the extension of gas pipelines, albeit feasible, is not only opposed by policy-makers and public opinion, but it also clashes with energy transition policies. New supplies are likely to come from Qatar – according to preliminary statements from its Energy Minister, Saad al-Kaabi, who is ready to introduce additional LNG into the market from the end of the current year – and the USA. Africa, too, might play a growing role: Mozambique, but also Mauritania, Senegal, Congo Republic, Nigeria, and Tanzania (whose development plans are expected to regain momentum after their standstill in the past few years). However, increased dependence on LNG will expose markets to a higher volatility in terms of volumes and prices, which will be compounded by the competitive dynamics between various areas (namely between Asia and Europe) in an international market that, in the short term, will have a supply shortage. This is demonstrated by the recent increase in spot prices, even at European hubs, which has been caused by industrial action at Chevron’s Gorgon and Wheatstone liquefaction facilities in far-off Australia. Hence, this increase in uncertainties and risks is not to be underestimated and must be managed in order to achieve energy security, which has become a decisive factor in the gas trade, concludes Gugliotta.

This issue of the newsletter comes with the usual technical commentaries about European and national power exchanges and environmental markets, a section focused on the analysis of the Italian gas market, and a section with insights into the trends of the main



European commodity markets. As has become customary, it also reports the summary data for the electricity market for September 2023.

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Press Release