

Gas Supply

GECF Secretary General Yury Sentyurin: Reduce geopolitical tensions, work together to ensure a safe, competitive and environmentally friendly supply of natural gas.

The political atmosphere between Russia and the European Union has been tensed recently. The Baltic Sea gas pipeline Nord Stream 2, which is currently under construction, is subject of political debate. The current situation leads to uncertainties regarding the future gas supply of Europe and especially Germany. This raises the questions: Is gas a secure and stable source of energy for the future? Why? If Nordstream 2 is not completed, how could this be compensated? Would sanctions against Russia have an impact on gas prices in the EU? These are all pertinent questions, the answers to which are also important for upcoming decisions on investments by the housing and real estate industry in new and existing buildings. Wohnungswirtschaft heute editor Kristof Warda in conversation with Yury Sentyurin, Secretary General of the GECF (Gas Exporting Countries Forum).



GECF Secretary General Yury Sentyurin says that natural gas should be at the heart of countries' economic recovery plans, especially in the aftermath of the COVID-19 pandemic, but that international cooperation is needed. Photo: GECF

Mr. Yury Senyurin. In view of recent political developments: Is gas a secure and stable future energy source? Why?

Secretary General Yury Sentyurin: It is likely that the recent political developments could put some hurdles on the execution of pipeline projects like Nord Stream 2, which is a competitive and reliable route for natural gas. However, we don't think that the difficulties of one project means that gas is not secure and should not be considered as a viable option for Germany, or for Europe in general.

The gas industry has managed to substantially improve the security of supply, offering multitude possibilities to deal with disruptions and continuity of gas procurement. The major gas suppliers now have diversified LNG/pipelines portfolio which gives them the ability to deal with potential delays, leveraging on different routes. We think that a delay of one project can be easily managed by a major supplier through delivering gas using another route, such as LNG.

Nevertheless, the key aspect for Europe is to consider the appropriate supply source, taking into account competitiveness as well as the environmental footprint of the procured gas, since environment is a major concern for the continent. The GECF, as a gathering of major gas suppliers, is in a good position to deliver secure, competitive, and environmentally friendly supply of natural gas.

We strongly believe that natural gas should be at the heart of countries' economic recovery plans, especially in post-COVID era. To conclude, I would call for cooperation at international level to ease the geopolitical tensions and work together for the energy security. This spirit of cooperation was aired at the recently held G20 Energy Ministerial Meeting (27-28 Sept.), which, while recognising the work of the GECF in its final Communiqué, called for "open, flexible, transparent, competitive, stable and reliable energy markets, as well as stable, predictable, necessary, fair, and non-discriminatory, regulatory frameworks in promoting market stability and investments."

Given that the political situation heats up, the construction of Nordstream 2 will not be finished and Germany tries to do with less – or even without - Russian gas. How could that be compensated?

Secretary General Yury Sentyurin: Germany is projected to remain the largest gas market in Europe through to 2050, peaking at around 100 billion cubic metres (bcm) in the latter half of the 2020s and then decline gradually to about 70 bcm by 2050 due to the aggressive build-up of renewables and energy intensity improvements. Nevertheless, given the decline in overall energy use in the country, natural gas position is expected to strengthen and this fuel will provide up to 27% of the energy mix in 2050.

The most substantial growth potential in gas demand will originate from government plans to phasing out coal and nuclear, which will shutter some 50 gigawatts of German dispatch-able generation capacity by 2038. While renewables will dominate new capacity additions, gas generation is set to play a role too. Compensating for the capacities taken off the grid, natural gas will ensure the back up for renewables over the outlook period. Thus, we expect, that gas demand in the power sector will start to decrease only after 2030.

At the same time, other sectoral prospects vary significantly. If gas demand in industry entails minor reductions, as this fuel is already the most low-carbon option where high-heating temperature is required, residential and commercial sector will see the highest drop. It will occur amid strong enhancement in the efficiency of gas-fired boilers, widespread electrification, including the expansion of electric heat pumps, and the development of decentralised renewable heating systems.

Nord Stream 2 pipeline project started many years ago with commercial and political support from the EU authorities and businesses. It is pertinent to mention that five European companies from various countries - ENGIE, OMV, Shell, Uniper, and Wintershall Dea - committed to finance the project, providing US\$4.75 billion. As such, Nord Stream 2 has always been considered as a commercial and not a political project by all involved parties.

Worth highlighting also is that most of the EU member states have always been interested in the completion of Nord Stream 2, while a few, together with the U.S., have opposed the project for their own reasons. As an example, the U.S. seems to be leveraging this situation to promote its LNG exports to the European market, putting sanctions pressure and thereby using methods of unfair competition.

We believe that despite ample recent attempts of some interested parties to escalate political tensions with a view to stalling the project, Nord Stream 2 pipeline will eventually see the light of day. This project is mutually beneficial, since it will enhance the security of gas supply and diversify the routes of gas supply to the continent. The EU should rely on its own economic interests and priorities and oppose pressure from third parties. There remains only the last step – the construction of a relatively minor offshore section of the pipeline in the Exclusive Economic Zone in Denmark. Taking into account all political developments, that does not seem to be an easy step. However, the economic rationale must prevail over political tensions.

Would sanctions on Russia affect the gas price in the European Union?

Secretary General Yuri Sentyurin: First of all, the GECF Member Countries have a single consolidated position on sanctions and economic restrictions. As outlined in the Malabo Declaration adopted at the 5th GECF Summit of Heads of State and Government on 28 November 2019 in Equatorial Guinea, the parties expressed “deep concerns and disagreement as regards to unilateral economic restrictions undertaken without approval of the UN Security Council and extraterritorial application of national laws and regulations against GECF Member Countries that negatively affect the development and trade of natural gas”. It is always worth remembering that unilateral economic sanctions may influence not only gas exporting countries, but also affect the security of gas supply, which is not in the interest of gas importing countries, including the EU member states.



Group picture of GECF members at the 2019 annual meeting in Equatorial Guinea. Here, all member states rejected the „unilateral economic restrictions undertaken without approval of the UN Security Council and extraterritorial application of national laws and regulations against GECF Member Countries“, said Secretary General Yuri Sentyurin Photo:GECF

Moreover, on 22 September 2020, the Russian President Vladimir Putin delivered an address to the 75th session of the UN General Assembly, in which he said that “freeing the world trade from barriers, bans, restrictions and illegitimate sanctions would be of great help in revitalising global growth and reducing unemployment”. Indeed, the current global economic downturn must unite all countries, not to disunite them. Meanwhile, I would like to highlight again that Nord Stream 2 is a commercial and not a political project, which aims at decreasing gas transportation cost, raising flexibility of gas supply, and diversifying gas supply routes. The cost of gas transportation to north-western Europe will drop compared to other pipelines because the route of Nord Stream 2 is the shortest one between the region and Bovanenkovo gas field in the Russian Yamal peninsula - a key gas production centre in Russia.

Russian pipeline gas is delivered to Europe mainly under long-term contracts, each of which may have its own specific price terms, with oil-indexed, hub-indexed, and hybrid price formulas being the most popular ones.

Therefore, in the short-term perspective, the Russian gas, delivered through Nord Stream 2, would have had decreasing effect on European gas prices to the Henry Hub price level and also would have been enough to supply about 26 mn European households. Low prices would have resulted in lower wholesale prices and would also mean higher gas consumption, and this is in line with the European Green Deal policy that promotes coal-to-gas switching in power and industry sectors.

In the long run, European gas market prices will be naturally determined by the market forces defining overall long-term natural gas supply and demand curves but some constraints imposed on the current gas supply infrastructure might deprive the European Union from benefitting from the gas source diversification policy and the readily available infrastructure. At the same time, the pipeline gas from Russia has the lowest marginal costs as compared to LNG imports and can be seen as adding a greater price flexibility to the European gas market and natural gas end-users.

Cost advantages could make Russian pipeline gas the most competitive and secure alternative for Germany, and the launch of Nord Stream 2 might support the decline from other suppliers as gas from the Netherlands is expected to run out in the medium-term and gas from Norway is anticipated to last only until 2035 - 2040.

Mr. Sentyurin, thank you for the Interview

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