Liquefied natural gas (LNG) imports have made a clear and positive impact on Central and Eastern Europe, improving energy security, lowering prices and decreasing Russian geopolitical leverage. The EU and US are backing billions of dollars of further investment from the Baltic to the Aegean, and MENA suppliers are expected to capitalise on the resulting expansion in capacity. However, there are still bottlenecks in infrastructure development and the outlook for the European gas market is uncertain. The global LNG glut has coincided with price and supply competition from Russia and Azerbaijan. Ironically, LNG exporters may be victims of their own success.

Central and Eastern Europe has benefitted greatly from new LNG capacity and associated gas infrastructure over the past decade. Investments in pipelines have naturally gone hand in hand with interconnectors, and improvements to North-South connectivity is further helping to spread the benefits.

Lithuanian LNG going strong

The Klaipėda LNG terminal in Lithuania, which opened in 2014, has had a significant impact on the Baltic region’s gas market, providing a much-needed alternative to gas imported from Russian state-owned energy giant Gazprom, which the Kremlin has in the past wielded as a geopolitical tool in CEE.

The terminal, which currently has an annual capacity of 4bn cu metres, had a record year in 2019: approximately 20.24 TWh of gas was regasified and reloaded – more than double the volume seen in 2018.[1]It handed more than 60 ship-to-ship operations and saw utilisation rates of nearly 90% of nameplate capacity – high for any terminal anywhere in the world – according to Tadas Matulionis, LNG business director at Klaipedos Nafta, the terminal operator.

Initially, Klaipėda largely served Lithuania, Latvia, and Estonia. However, from January 1 this year it has been tapping into demand from Finland, a country heavily reliant on Russian gas, via the newly-opened Balticconnector pipeline.Bringing Finland into the Baltic gas network is expected to benefit traders by boosting the liquidity of the regional gas market and could also be a boon to Finnish consumers: according to Balticconnector officials Gazprom reduced its export prices to the Baltic states by 20% after Klaipėda opened.

Capacity expanding in Poland

By the end of next year, Lithuania’s gas network should also be connected to Poland via the Gas Interconnection Poland–Lithuania (GIPL). This pipeline will be bi-directional, linking the Klaipėda terminal to the Polish gas network, and Poland’s Świnoujście LNG terminal to the Baltic (and Finnish) one. The Świnoujście terminal, which was inaugurated in 2015, currently has a capacity of 5bn cu metres. Successive Polish governments have had a policy of not just reducing dependence on Russian imports and increasing competition in the gas market, but of eliminating imports from Gazprom altogether.

Qatargas is playing an important role in this strategy: the company has been exporting to Swinoujscie since 2016, and in 2017 signed a deal to increase LNG shipments to 2m tonnes per year to state-owned Polish energy company Polish Oil and Gas Company (PGNiG) via the terminal from 2018 to 2034. PGNiG has also been buying Qatari gas on the spot market.[2]

The Polish company is keen to re-export gas, and Poland is also looking to increase its export capacity to Ukraine to help reduce its neighbour’s reliance on Russian imports. The two countries and the US – a strong supporter of regional energy diversification – signed a deal in 2019 to enhance gas cooperation. Polish officials have said that it will be able to export as much as 6bn cu metres each year to Ukraine by 2021 – though Ukrainian counterparts claim that this is possible with existing pipelines, and point out that it is beyond Świnoujście’s current capacity.[3]

The EU has also been supportive of regional diversification and helped fund the Świnoujście terminal’s construction. In April 2019 the European Commission approved a €130m ($143m) investment from EU funds into expanding the site, taking its capacity to 7.5bn cu metres.

Balkan LNG investments

The EU has also designated the planned gas complex, including an LNG terminal, at Alexandroupolis in Greece as a “project of common interest” (PCI), potentially giving it access to union funding. The €380m ($419m) project has a planned capacity of 5.5bn cu metres, and would be the second LNG import point in south-east Europe. The Greek partner, Gastrade, has reported interest from LNG exporters including Qatar and Algeria.[4]Bulgarian state-owned gas company Bulgargaz has taken a 10% stake in the project company as part of the country’s moves to reduce dependence on Russian gas. Bulgaria’s capacity to import gas from Greece will be boosted by the complementary Interconnector Greece-Bulgaria (ICGB), a €240m ($265m) pipeline backed by €33m ($36m) of EU funding.

Last year Bulgaria bought its first shipment of gas outside its long-term contract with Gazprom, acquiring 1.5m MWh of regasified LNG from Greece’s DEPA via the existing Revithoussa LNG terminal near Athens. Algeria’s Sonatrach has been one of the leading LNG exporters to Greece, under a contract to supply between 0.55bn cu metres and 1bn cu metres to DEPA via Revithoussa. Qatargas is another exporter using the terminal, and has benefitted from a 68% increase in gas consumption in Greece between 2014 and 2017.

Questions over new projects

Given that Revithoussa’s 7bn-cu-metre capacity has consistently been underutilised, and that Greece can now import Azerbaijani gas from Turkey via the Trans-Anatolian Pipeline (TANAP), as well as from Gazprom via Bulgaria (and Ukraine and Romania), the commercial viability of the Alexandroupolis terminal has been questioned. As London-based Economic Consulting Associates (ECA) pointed out in a 2019 note, interconnectors to the Western Balkan markets that would benefit from diversification of supply are limited.[5]

Bulgaria has limited capacity to absorb additional gas – though it will certainly benefit from the price competition and supply security brought by both TANAP and additional capacity to import from Greece. ECA argues that ongoing liberalisation in the Greek gas market and improved infrastructure in the Western Balkans may create the conditions to support the Alexandroupolis complex. Recent history suggests that the latter will at best take some time.

Questions of viability, as well as geopolitics and financing, have also dogged the Krk LNG terminal in Croatia, on which construction finally started last year. Initial plans to establish a 15bn-cu-metre terminal have been progressively downsized to just 2.6bn cu metres, with Qatar again expected to be a key supplier.

Landlocked Hungary should be one of the main beneficiaries of supply via Krk, but has also been accused of lukewarm support for the project, for example foot-dragging on infrastructure connecting to Croatia. Some are still sceptical that it will ever be completed. However, the uncertain outlook for gas developments in the Romanian Black Sea – another potential option for non-Gazprom supply for

Hungary – may have focused minds in Budapest. Hungary is also hoping to import gas from Italy’s Adriatic LNG terminals via a planned interconnector with Slovenia – another EU PCI.

Demand and supply profile changing

The relative success of the Baltic LNG terminals is partly down to the active policies of governments to drive down the amount of gas they import from Russia, and partly due to demand dynamics. The decline in gas consumption in the Baltic states has been arrested, and new business is emerging from the domestic market and the transport sector (as fuel for ships and trucks), as prices have fallen.

In Poland, demand is on the rise, with natural gas consumption in 2015 growing from 15bn to 17bn cu metres in 2015-17 alone.[6]The country is developing gas-fired power capacity as it looks to reduce the share of coal in its energy mix, PGNiG is committed to investments in its gas network, and there has been excitable media coverage of the potential for so-called “small-scale LNG.”[7]In Hungary and Slovakia, demand for gas fell 30% in the wake of the global financial crisis but is now growing at a moderate pace, though it has yet to return to pre-crisis levels, according to Andras Deak, a Budapest-based energy analyst.

Gas is cited in the region as a “bridging fuel” that can provide baseline capacity while lowering carbon output, with a long-term view to generating more from renewable sources – for example, replacing oil shale in Estonia.

However, this strategy is already coming under pressure, with environmentalists and Green politicians lobbying against EU support for gas projects, including the Świnoujście expansion, the Krk terminal and the ICGB – albeit thus far unsuccessfully. In November 2019 the EU’s European Investment Bank announced that it would phase out investment in fossil fuel projects – putting gas in the same category as oil and coal.[8]

No less significant is the shifting picture in supply. The global LNG supply glut has been widely covered, and Europe in particular has an oversupply on the back of the US ramp up in production and rush from suppliers to defend market share as demand slows in emerging markets. Gazprom remains a strong presence: for countries which unlike Poland have not prioritised substitution of Russian gas (for example, Hungary), lower prices from the Russian company have made a tolerable modus vivendi

– why pay more to import LNG in the short term?

On January 8 Russia and Turkey launched TurkStream, the latest iteration of Moscow’s pipeline designs to bring gas to South-east Europe circumventing Ukraine. The pipeline linking Russia and Turkey under the Black Sea has a capacity of 31.5bn cu metres a year and is designed to link to further lines into Bulgaria, Serbia, and thence Central Europe. Hungary expects to receive gas via TurkStream next year.

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