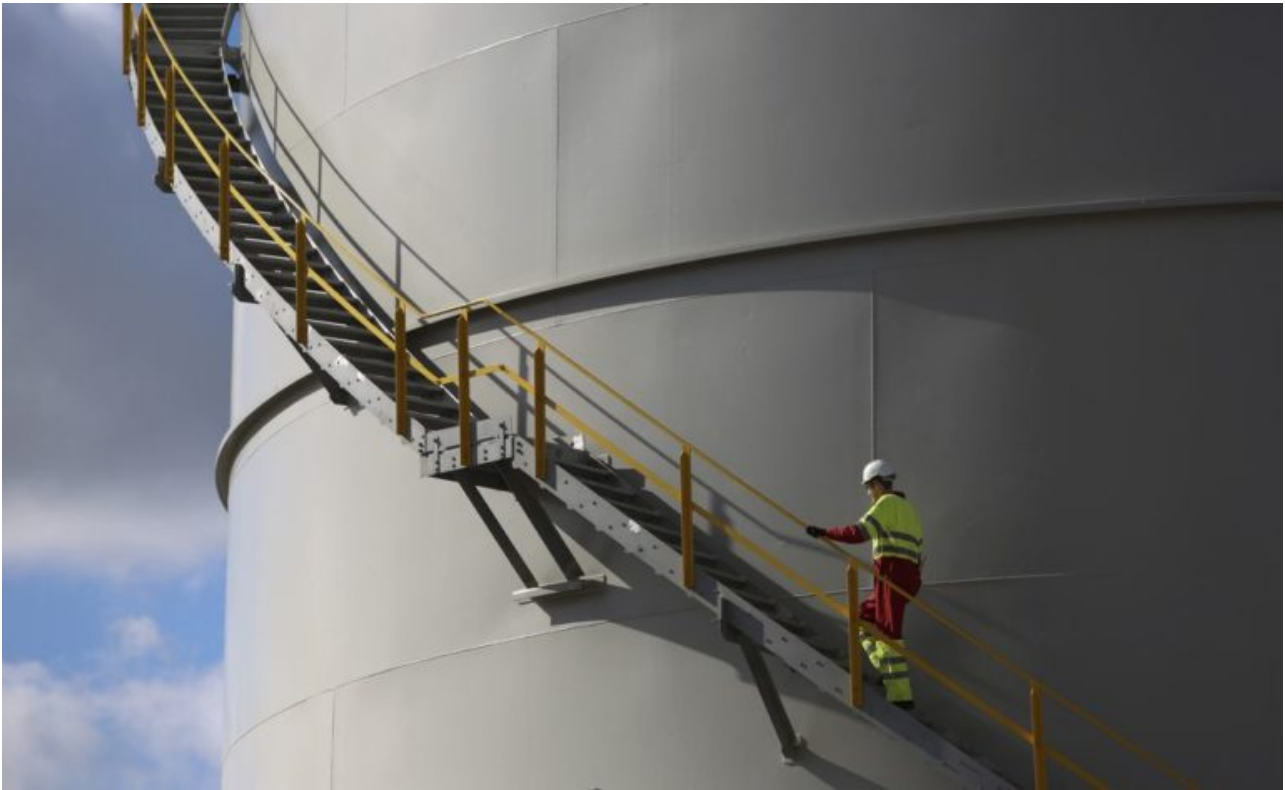


EU Starts Natural Gas Price War Trump and Putin Will Love



The stage has been set for a European natural gas price war that will help boost demand and enable both Russia and the U.S. to increase sales to the region.

The battle won't brutalize earnings too much because gas supply is just so profitable in Europe, where prices are more than double the prevailing level in the U.S. And those costs probably won't drop too far because higher carbon allowances and other climate measures are finally making the fuel's traditional competitor, coal, less attractive.

After last week successfully diluting planned European Union gas-market legislation to include loopholes for a controversial pipeline from Russia, Germany this week promised to build at least two terminals that open its market to seaborne imports, including from the U.S. The direct competition between the world's biggest gas producers should help stymie prices to some extent, even as Europe needs to

boost imports to meet ambitious climate goals.

“If you factor in the need for Russia to utilize the pipeline and how it will compete with U.S. LNG and other pipeline exporters such as Norway, then it could set the stage for a price war in Europe in the not-so-distant future,” said Nick Campbell, a director at industry consultant Inspired Energy Plc in England.

Gas prices in Europe are still prevailing at high levels even after falling since September. The cost is usually even higher in Asia, although oversupply there has crimped the premium that region usually offers to draw in cargoes of the fuel in its liquid form.

Representatives of EU governments and the European Parliament on Tuesday approved a revision to gas-market legislation to spur competition. While it included loopholes for the Nord Stream 2 pipeline to bring the fuel directly from Russia, bypassing Ukraine’s transport network, it was designed to play suppliers against each other.

The plan will “remove some of the risk” contained in prices because of the prospect of interruptions of supplies via Ukraine, with which Russia is in a territorial dispute, Campbell said.

Russia and the U.S. are vying to supply Europe with cleaner-burning fuel as governments from Berlin to Madrid grapple with coal phaseouts. Vladimir Putin is seeking to buttress one of his nation’s biggest sources of foreign cash while Donald Trump wants to win the U.S. a bigger share of a consumption boom.

Nord Stream 2, a planned 1,200-kilometer (746-mile) undersea pipeline, has sparked controversy. Eastern European countries wary of Russia gained U.S. support in opposing the project, whose chief political champion in Europe has been German Chancellor Angela Merkel. The region’s biggest economy is

simultaneously seeking to phase out nuclear power, leaving a further gap for gas to fill.

The critics of Nord Stream 2 also picked up backing from the European Commission, the EU's executive arm, which said the bloc needs to become less dependent on Russian gas and which proposed the revised pipeline legislation in late 2017.

Ending Ambiguity

The measures are meant to end ambiguity over gas-import infrastructure by making them explicitly cover all pipelines to and from the EU. While the draft law builds on EU rules that prevent gas providers from controlling the transmission business and that require third-party access to pipelines, the French-German compromise being included in the final version of the new legislation creates loopholes for Nord Stream 2.

The French-German plan denies the regulatory authority in Denmark a decisive say over the project and puts that power primarily in the hands of German regulators, who could then seek and gain an exemption from the EU market-opening requirements as long as it didn't hurt competition or supply.

Dutch gas prices for next winter are 24 percent above forward levels of a year ago, despite losing a fifth of their value since September on mainly benign temperatures and below-capacity demand. That suggests there's room for a further move down.

There's a glut of LNG after multibillion-dollar investments in global production and Europe has already been receiving record amounts of super-chilled fuel. That should help damp prices and make it easier for Germany and the rest of Europe to source gas to meet environmental pledges.

Still, the drop might be limited by that rally in EU carbon allowance prices, which increases demand for gas. A trade deal

between China and the U.S. could further stoke interest in gas as China seeks to deal with coal pollution, Inspired's Campbell said.

Stiffer Competition

"With Nord Stream 2 and two LNG import terminals, Germany can easily exit from coal and nuclear power while pleasing both Trump and Putin," said Laurent Segalen, a partner at Megawatt-X in London, who advises on financing wind and solar projects. "Putin will have to price its gas to stay competitive below U.S. LNG."

Europe's gas suppliers should brace for stiffer competition between LNG and pipeline shippers, as domestic production wanes, BP Plc said Thursday in its 2019 outlook report.

"Europe's existing infrastructure means it has the capacity to increase substantially its imports of either LNG or pipeline gas," the oil company said. A more globally integrated gas market may "ease" concerns about Russia, it said.

Indeed, any pain for Russia might be fleeting, according to analysis published Thursday by Macquarie Group Ltd. analyst David Hewitt.

The biggest supplier's market share in Europe will drop to about 30 percent this year from 33 percent in 2018. That reflects extra LNG supplies being produced around the world, he said. But its share will rebound to 32 percent by 2021 as the LNG market tightens.

Europe will act as the global gas market's "balancing point" to some extent, Hewitt said.