

Europe faces ‘wake-up call’ as underutilised terminals signal peak LNG point

- LNG import terminal “building frenzy” ends
- Energy expert calls for Europe to “re-evaluate” current plans
- Europe’s hurriedly bought FSRUs could be sold for a fraction of the price

Europe faces a “wake-up call” on the future of LNG import projects after data released today showed demand for the fuel fell by 20% this year, experts said.

Following Russia’s shock invasion of Ukraine in 2022, which disrupted pipeline gas flows to Europe, the continent embarked on an LNG buying spree.

Led by Germany and the Netherlands, several built new LNG import terminals — which are now underused — a report by the Institute for Energy Economics and Financial Analysis (IEEFA) released today said.

The findings are a “wake-up call” for countries still constructing LNG import infrastructure, Ana-Maria Jaller-Makarewick, lead energy analyst, Europe at IEEFA, told Matters Today.

“The situation we are in now is totally different from one or two years ago. Then, decisions were made in a time of crisis,” she said.

“Now, we understand the situation has changed. This is like a wake-up call. The EU and countries need to re-evaluate whether (the planned LNG import infrastructure) is needed.”

When it comes to existing LNG import terminals, governments have to find ways to ensure they don’t become stranded assets that are a drain on taxpayers, she said.

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Mild weather combined with increased renewables and nuclear output in the first half of 2024 lowered European gas demand for heating and power generation, the IEEFA report said. Improvements in energy efficiency have also played a role.

As a result, European LNG imports fell by 20% year-on-year in the first half of 2024. The continent also used 5.4% less gas during the same period.

By June this year, EU gas storage was 77.4% full compared with 77.2% full last year and 58.2% full in 2023, according to Gas Infrastructure Europe. The fuller stores indicate that less gas is being used in European homes and businesses.

Europe’s costly LNG import facilities will be “underutilised” as gas use falls further, according to [2]

IEEFA's European LNG Tracker.

The surge in Europe's LNG demand, prompted by the Ukraine war in 2022, was a "blip" in the continent's longer-term energy trajectory, an expert told Gas Matters Today.

"In many ways 2022 and 2023 were a blip, a short-term diversion, before Europe returns back to its original decarbonisation course," he said.

"A lot of the drivers of Europe's LNG demand have now played out. Most of the Russian pipeline gas that needed to be replaced has been replaced and the industry that needed to bounce back after 2022, has bounced back."

LNG terminal "building frenzy" is over

Europe added 58.5 billion cubic metres (bcm) of new LNG regasification capacity, in the aftermath of Russia's invasion of Ukraine, the IEEFA report said. That included 47.7 bcm of new floating storage regasification units (FSRUs) and 10.8 bcm of expanded terminals.

Germany, Netherlands, Turkey, Italy, France and Finland were the countries that added the most regasification capacity.

But now that "building frenzy" is over, the expert said. For example, progress has stalled on projects including the Alexandroupolis FSRU in Greece and the Vasiliko terminal in Cyprus. Plans to expand Lithuania's Klaipėda terminal have been suspended, IEEFA reported.

European nations, which chartered FSRUs at expensive rates at the height of the energy crisis, may either hang on to them to in case LNG is suddenly needed again or look to subcontract them to countries in Latin America or south-east Asia, experts have said.

"It all depends on where the demand is," said Jaller-Makarewick of IEEFA.

The existing LNG import terminals could also be adapted for hydrogen imports, said Justin Dargin, CEO of Resolve36, a consultancy specialising in climate risk and decarbonisation.

"LNG import terminals have the potential to be adapted for hydrogen imports, with modifications enabling them to process hydrogen derivatives or, in the future, handle liquefied hydrogen as technology advances," he told Gas Matters Today.

In addition, the terminals could be repurposed into LNG export hubs where global carrier can dock, he said.

But the recent lack of success in doing this with Spain's re-activated El Musel LNG import terminal, which was mothballed in 2012, shows this option may not be so easy, said Jaller-Makarewick from IEEFA.

The stranded assets could also become a political problem for Europe's leaders said Dargin.

"The substantial investments in LNG import terminals, amounting to billions of dollars, could become a political issue in the future," he said. "Environmental groups have already criticised such investments, arguing that they lock countries into the hydrocarbon sector and delay the transition to renewable energy."

Could LNG make a comeback in Europe by 2030s?

Although Europe is stepping up its renewable and low-carbon fuels drive, it is possible that LNG could make a comeback by the early or mid-2030s, experts have told Gas Matters Today.

The continent's natural gas production declined by 18.6% in 2023 compared with 2022. This poses the possibility that demand for LNG could pick up again by the early to mid-2030s to fill in the gaps while Europe's renewable energy project overcome intermittency and grid capacity issues.

If Europe pursues an especially aggressive approach, it could replace nearly 80% of its fossil fuel-based power generation with renewable energy by the early 2030s, said Dargin, CEO of Resolve36. But a more conservative forecast would see renewables meet around 60% of the continent's energy demand by 2030.

"Consequently, if European gas production declines sharply, global LNG trade could help cover the shortfall," he said. "However, rather than a resurgence, this appears to be a structural decline in natural gas demand, which would also mitigate the impact of reduced domestic production." - HQ

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