EDITORIAL

GAS SUPPLY: WILL EUROPE SOON BE LESS VULNERABLE?

Since the cessation of most Russian gas supplies, reducing Europe's energy vulnerability, and thus improving its economic security, has been a key issue for European decision-makers. However, recent pressure from the United States on Europe to increase its purchases of US hydrocarbons could raise fears of a new significant dependence on US liquefied natural gas (LNG).

In general, gas supplies to European countries remain a key issue, not only in terms of exposure to geopolitical risk but also in terms of economic stability. Despite significant progress in decarbonisation, natural gas still accounts for a quarter of the total European energy mix and around 18% of the electricity mix. Above all, its price is the key factor in setting wholesale electricity prices in Europe: according to the 'merit order' principle, priority is given to energy sources with the lowest marginal cost for electricity supply, while the price per kilowatt-hour (kWh) is set at the highest marginal cost. Given the structure of the European electricity mix, gas-fired power stations are generally the last to be called upon, and therefore determine the European price per kWh on the wholesale market.

SHARP RISE IN US LNG IMPORTS

Europe's dependence on Russian gas has fallen sharply since 2022. It has fallen from around 50% of total gas imports until 2021 to 13% in the first half of 2025. Only the flows transported by the Turkstream gas pipeline, which supplies certain Eastern European countries, and LNG flows remain.

Since 2022, European demand for gas has fallen for three main reasons: 1/ the sharp rise in gas prices in 2022-23, 2/ the shutdown of certain energy-intensive industrial production, replaced by imported products, and 3/ the increase in the share of renewable energies in the European energy mix. At the same time, European demand that was no longer met by Russian gas has been largely satisfied by US LNG imports. These have quadrupled since the end of 2021 and now account for more than a quarter of European gas imports.

Since this summer, US pressure to increase hydrocarbon purchases has intensified. An agreement provides for a record, and unrealistic, number of European purchases of US energy: it would result in a tripling of US fossil fuel imports (oil, gas and coal), which would reach 70% of imports (compared to around 20% currently). US pressure has intensified in recent weeks, prompting the European Commission to propose bringing forward the end of Russian LNG imports by one year (to the beginning rather than the end of 2027). In this context, and given the ongoing increase in US gas liquefaction capacity, it is questionable whether we will see one dependency being replaced by another.

POSSIBLE TENSIONS ON THE EUROPEAN GAS MARKET IN THE SHORT TERM

In 2025, European demand for US LNG is strong and is expected to remain so due to the need to replenish European gas stocks and the halt, since the beginning of the year, of Russian gas imports via Ukraine. European gas stocks are currently at a satisfactory level (around 82%) compared to the (revised downwards) target of 80% by 1 November. Seasonal factors (sharp drop in temperatures during the winter period) and geopolitical factors (disruption of gas flows in the eastern Mediterranean) could push European gas prices up – but to a moderate extent – and support US exports.

LIMITED RISK OF EXCESSIVE DEPENDENCE IN THE MEDIUM TERM

Looking ahead to 2030, our projections put the risk of increased dependence on US suppliers into perspective. European gas demand is following a structurally downward trend. So far, this decline is in line with the objectives of the RePower programme (approximately -10% per year by 2030). Taking a more conservative scenario (the European 'Fit for 55' programme, which assumes a reduction in European demand of around 3% per year), we estimate that European dependence on US gas could remain significant but is unlikely to increase significantly between now and 2030, despite the planned halt to Russian imports from 2027 onwards.

EUROPEAN GAS IMPORTS BY SOURCE (% OF TOTAL GAS IMPORTS)

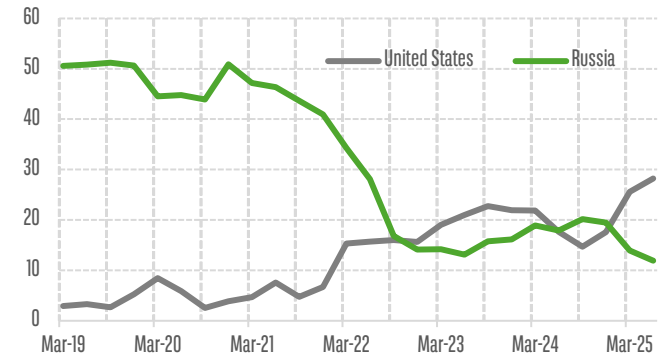

CHART 1 SOURCE: BRUEGEL DATASETS, BNP PARIBAS

The natural decline in output from European fields (EU, UK and Norway) should be offset by increased imports from Azerbaijan from 2027 onwards. We also assume that current LNG import volumes (excluding Russia and the US) will remain stable. Under this scenario, European imports from the United States would peak in 2027, accounting for 74% of LNG imports and 35% of total gas imports. These proportions would fall to 70% and 31% respectively in 2030, in line with the reduction in import volumes. Dependence on US LNG imports is therefore not expected to increase significantly, unless European nations sever ties with their traditional suppliers (notably North Africa, Norway and the United Kingdom).

Furthermore, the geopolitical risk associated with dependence on gas transported via pipelines is not the same as that associated with the LNG market. Indeed, LNG suppliers are relatively easy to replace, albeit with a certain delay and additional cost. The global outlook for the LNG market is favourable to increased market fluidity. Massive quantities of LNG are expected to come onto the market by 2030, mainly from Qatar and, to a lesser extent, Canada and sub-Saharan Africa. This will enable Europe to diversify its portfolio of suppliers.

Overall, while the outlook for the European gas market remains relatively tense in the short term, making price increases and increased dependence on US suppliers likely, in the medium term it is likely that the risk of excessive dependence will diminish and that abundant supply will weigh on prices.

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