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EU Industrial Gas Demand Not Expected to Recover

Europe's industrial demand for natural gas is not expected to recover to pre-2022 levels, despite the current low-price environment likely to stimulate a slight increase in consumption, European market players told Energy Intelligence at a recent industry event. European natural gas prices are generally not expected to see any sharp increases through the summer, but the expiry of the Russia-Ukraine gas transit deal could test the region if the winter is cold.

Natural gas demand is recovering in the petrochemical and fertilizer industries, as well as refineries, due to the low gas prices taking effect at the start of the year, Marco Saalfrank, head of merchant trading at Swiss trader Axpo, said on the sidelines of the E-World energy trade fair held in Essen, Germany, last month. "We really see an improvement in demand, when corrected by the effect of the mild winter," he said. Analysts at HSBC Global Research said in a recent research note that EU industrial demand rebounded year on year in January, but retreated in February and was 23% under the 2017-21 average.

This week, the European Council agreed to extend voluntary gas demand cuts by member states until Mar. 31, 2025, with a target to reduce consumption by at least 15% compared to their average gas consumption in the period from Apr. 1, 2017, to Mar. 31, 2022. "Although security of supply in the EU has improved, continued demand reduction is still needed to secure sufficient gas storage for next winter," the council said.

However, industrial demand in Europe is not expected to go back to levels before the Russian invasion of Ukraine in February 2022, "and the trend is clearly down in the mid- to long-term," Saalfrank said. Industrial end-users took a hit from the high prices in 2022 and 2023, and since the strategies of large industrial players are not in short cycles and coupled with the EU's energy transition and sustainability goals, demand is unlikely to recover, the Chief Executive of Met Germany, a subsidiary of Switzerland-based trader MET Group, Joerg Selbach-Roentgen, told Energy Intelligence. "Demand as we knew it is gone," he added.

The European gas market is currently relaxed as it exits winter with spot gas prices recently touching their lowest levels since May 2021. "There are still risks … but in the market currently, the [demand] weakness is stronger than the risks," said Gregor Pett, chief analyst at German utility Uniper. "With the current high storage levels, I don't expect prices [to significantly increase] in the summer. Next winter is another story," Saalfrank said.

In the previous two winters "we never came into a difficult situation" and there remains the uncertainty regarding Russian gas being supplied via Ukraine after 2024, he said. "It will be interesting to see how Europe is capable to close the gap for the missing Russian gas, especially in the case of a very cold winter."

More LNG Supplies Needed

Signing new long-term LNG contracts is "definitely possible" in Europe, but "most of the players are watching the situation closely because it's been so dynamic," Pett said. Saalfrank also expects new long-term deals to be clinched, "but with certain flexibility regarding the destination". Long-term LNG contracts haven't materialized for various reasons: "It's still exotic to the [downstream] market. The immediate sense of urgency is gone. A bit of complacency as well," Selbach-Roentgen said.

Currently planned regasification capacity additions in Europe are expected to be enough to cover future gas demand. However, more LNG import capacity and more LNG supplies are needed to mitigate the supply risks next winter, according to Pett. This new import capacity needs to come on line to mitigate the risks of a potential short-term demand surge, outages at existing LNG terminals and a halted Russian gas transit via Ukraine.

"I think it would be good that we don't rely on weather or weak industrial demand to fill storage," Pett said. "We need LNG going forward. … We should really be active on LNG to risk-manage our situation."

Staff Reports