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## Liquefied natural gas, the energy solution for Europe that puts the world on edge



Sources: The jump

*Almost 70% of the gas consumed in the EU comes through pipelines, and the rest comes from liquefied natural gas. Faced with the danger of turning off the tap from Moscow, Europe has been trying for months to increase the volume of liquefied natural gas it buys from abroad.*

In these days of unease about inflation, a thread of concern unites the richest man in Spain with the textile workers of Pakistan and Bangladesh. If the electricity stops working, everyone will lose money. There are, of course, small differences. The richest man in

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Spain is the main shareholder of Inditex, one of the giants of the textile sector. At 86 years old, the Galician businessman Amancio Ortega has a net worth of about 60,000 million dollars. Part of his fortune is due to the quarter of a million women in South Asia who work for his company. However, despite what certain leftists might think, many of them do not hate him. As a certain aphorism said, there is only one thing worse than being exploited by capital: not being exploited. And these are risky days when they can lose their jobs.

Both Bangladesh and Pakistan are trying to acquire liquefied natural gas. Their dollar reserves are falling as energy prices rise. Many of its citizens are already beginning to take to the streets to protest. Inditex, if production is paralyzed, will lose a lot of money. Don Amancio may even fall a few places on the Forbes list. Inditex has already [accelerated](#) production in order to anticipate "supply problems in the next six months". Unintentionally, both depend on a global auction for supplies of liquefied natural gas.

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The Russian invasion of Ukraine has laid bare the importance of energy in our lives. The most sophisticated machines, the economies with more added value, agriculture or livestock depend on inputs linked to energy: without it, everything stops working. With a view to deterring Moscow, the EU and the United States have put in place a series of sanctions including decreasing purchases of Russian oil and gas. The commitment to reduce dependence on Moscow before the end of the year has strained the European chancelleries, with Germany at the head: its industry, without cheap energy, will lose competitiveness; and it will do so just at the moment when its main buyer, China, begins to have economic problems.

Germany is the metaphor for a fragile system that has had to change in months what it had not done for years: according to an annual report by British Petroleum, in 2021 the EU consumed 341,000 million cubic meters of gas. Almost half came from Russia. Gas can come through two routes: by pipeline, an infrastructure that needs years of construction; or

by boat, in the form of liquefied natural gas. Almost 70% of the gas consumed in the EU comes through pipelines, and the rest comes from liquefied natural gas. Faced with the danger of turning off the tap from Moscow, Europe has been trying for months to increase the volume of liquefied natural gas it buys from abroad.

### **How does liquefied natural gas work?**

Liquefied natural gas, as the name suggests, is gas transformed into a liquid state. For the process to be successful, three actors are needed: selling countries, transport and purchasing countries. The selling countries, to make their gas reach the ship, must turn it into liquid thanks to plants specialized in completing this process. The ships will transport it to the buying country, which will have plants that convert the liquid into gas, again, before introducing it into its energy system.

All parts of the chain are essential: if a country does not have the plant that converts gas into liquid, it will not be able to sell its gas. If the purchasing country does not have an installation that does the opposite process, it will not be able to buy it. And Germany, today, does not have any plants of the second type. Ships have become the main protagonists of the chain: there are only 700 worldwide that can do this task and 10% are owned by Nakilat, a Qatari company. Qatar, together with the United States, will have a preponderant role in the resolution of the energy crisis in Europe. Only three countries (Australia, Qatar and the United States) account for 60% of the world's sales of liquefied natural gas, each with a market share of 20%.

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In 2017, this issue was not yet part of the front page of the media. It was then that Dr. Agnia Grigas, a Lithuanian-American political scientist, published *The New Geopolitics of Natural Gas*, an analysis of the relationships between buyers and sellers, with a special emphasis on Russia and its neighbors. In his book, Grigas pointed out that Europe should use its collective strength to get better prices, that the United States would have a growing role as an exporter of natural gas, and that Russia would use its muscle in the sector to try to influence its neighbors.

Today, the second and third points are a contrasting reality, and European politicians continue to seek to turn the former into a reality. She herself, as an advisor to the Lithuanian government on energy issues in 2008, sought to gain some energy independence from Russia with a floating regasification plant in Klaipeda. This infrastructure served for the Lithuanian president, in April, to announce via Twitter that his country would no longer consume Russian gas. Following the announcement, the United States has gained prominence in Lithuania. Its other big supplier is Norway.

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Some analysts have compared the current situation to the oil crisis of 1973. Then, a geopolitical shock mutated into inflation following the rise in oil prices, and Western central banks reacted by raising interest rates. The episode also forever changed oil prices, which went from being low, stable and predictable to becoming increasingly volatile and high. Grigas, currently at the Atlantic Council *think tank*, points out the differences between the oil market and what we have had until recently with gas: "There has long been a world oil market, in which tankers can supply stably around the world, despite some crises such as that of 1973. Meanwhile, gas markets have been regional. Gas prices were tied to oil prices, but they were also determined by long-term contracts. In much of the European markets, these long-term contracts were concluded between European importing states and state-owned enterprises such as Russia's Gazprom."

The current episode, with a growing role for liquefied natural gas, introduces a different trend: "Prices were more stable, but they were also based on long-term relationships and political agreements, rather than market forces, such as the current spot markets for liquefied natural gas." Grigas concludes that the current situation will create "more volatility in the short term", but believes that in the long term this can create more stability.

**Winners: \$40 billion in one quarter**

This short-term volatility has generated huge gains. Exxon Mobile, which lost \$20 billion in 2020 to the pandemic, has resurfaced and earned nearly \$18 billion in the last quarter alone. Companies considered to be of the "old economy", in the face of the inflationary crisis, have regained a prominence that seemed lost thanks to a market power that never really disappeared.

Chevron earned \$11.6 billion; Shell, \$11.4 billion. Its stock market shares, sunk during the lockdowns, have become one of the most desired objects for investors. In the last year alone, Exxon's shares soared by 86%: if you had invested €10,000 a year ago, today you would have almost €19,000. Chevron's increased by 70%; shell's, 56%. The three companies have a long history, but they are not the only ones that have increased their profits since the war in Ukraine. Newer ones, linked to the liquefied natural gas sector, have a promising future thanks to Europe's growing dependence on US gas: according to [Forbes magazine](#) in April, 65% of US liquefied natural gas sales ended up in the European market.

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Chenière Energy is a Houston company that sold its first cargo in 2016. Fracking and increased production, along with investment in the right technology, enabled the United States to become an exporter of liquefied natural gas. Chenière's shares, despite the fact that the company lost 2 billion dollars in 2021 and has barely made a profit in the last five years, have doubled in the last year. Excelerate, specialized in floating regasification plants, went on the market a few months ago and became the second most successful company of the year when it came to placing its shares. Grigas points to a problem.

Despite Europe's renewed enthusiasm for liquefied natural gas, the issue to be resolved is logistics: "We can expect bottlenecks this winter, when the cold starts in Europe and heaters are used more, not only because of the lack of transport capacity, but also because of the lack of liquefied natural gas import terminals."

### **The boats looking at Qatar... and South Korea**

Half of the world's gas reserves are spread across three countries, but the first two have strained relations with the West. Russia (23%) is the first, Iran (17%) is the second. The third in discord, Qatar, has become the key player beyond the United States. His government usually allows Western companies into the local oil and gas sectors, but in 2021 it also signed export contracts with the state-owned companies of South Korea and Pakistan or with China's Guangdong Energy. Qatar, thanks to the company Nakilat, controls 10% of the ships that transport liquefied natural gas around the world. Without them, transport would simply not be possible. Without Qatar, the EU will have a very difficult time disengaging from Moscow.

GIIGNL is a non-profit organization that counts among its members and associates Gazprom, Total, Iberdrola, Engie or Shell. All of them are the main companies in the liquefied natural gas sector. Each year, GIIGNL publishes the number of ships and export contracts that have been signed. In 2021, 68 new vessels entered circulation, and most of them were built in South Korea. South Korea is, in turn, one of the largest consumers of liquefied natural gas. Without that energy, Daewoo, Hyundai or Samsung probably wouldn't be able to build the ships with which to transport liquefied natural gas.

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Competition between Europe and Asian countries will be fierce, and the short term could eat into the needs of the long term: what to do if Europe needs gas this winter if, at the same time, it needs more ships in the future to be able to have more liquefied natural gas? Qatar has the key to gas, but without South Korean ships it will hardly be able to satisfy all its customers. With gas prices increasing tenfold from the usual level, it is worth asking what is necessary for Europe to one day return to the prices it had two years ago: "A return to 'normal' prices is possible when Europe secures sufficient volumes of alternative supplies of liquefied natural gas. However, it is likely that an extra cost will remain until geopolitics stabilizes and Russia returns to the international community," says Grigas.

**All against all**

In 2020, hiring a ship carrying 160,000 cubic meters of liquefied natural gas cost about \$59,000 a day. Today the cost is \$120,000 a day. As *Bloomberg* journalist Javier Blas [explained](#) in mid-August, the current situation in Europe could be resolved temporarily by paying much more and at the cost of leaving out countries that cannot afford those tariffs. Pakistan or Bangladesh have other tougher decisions to make: both countries pay for their food imports and their debt maturities with dollars; dollars they must get by selling clothes. For this they need an electricity that, with an expensive gas, will be at crazy high prices. The floods in Pakistan have just complicated the situation.

That is why they sew, more than ever, faster, in textile factories. They have to meet deadlines. They do it for them, for them to eat, for their children and their education. Because if they didn't, they would be even hungrier. On their shoulders lie many things: the debt of their countries; the profits of Western companies, the dividends of the shareholders of those companies; Western citizens, fed up with low wages and bad news, whose consolation is to feel that, as customers, they rule for a little while. In his increasingly clumsy hands, his tired eyesight and his battered knees rest a piece of the world economy.

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Source: <https://www.elsaltodiario.com/gas-natural/gas-natural-licuado-solucion-energetica-para-europa-que-pone-mundo-limite>

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