

The Natural Gas Dispute is a Call for Europe to Diversify its Energy Resources

Gazprom, Russia's gas export monopoly, halted all natural gas flows to Ukraine on 7 January this year - repeating its actions of 1 January 2006 - effectively cutting natural gas supplies to 18 European countries during the coldest time of the year. Media commentators have variably described the dispute as a display of Russian energy imperialism or as Ukraine's attempt to hold the EU ransom in order to strengthen its ties to the EU, and secure its inclusion in the European Union.

But in our opinion **these developments represent a wake-up call for Europe to diversify its energy sources** and seek alternative forms of natural gas delivery.

The disruption of the delivery of natural gas during this dispute is a strong reminder of Europe's need to diversify its energy supply sources. While this seems logical, the reality is less encouraging.

While Russia is currently dependent on European markets, it has also been rapidly diversifying its market base by building pipelines to Far Eastern markets such as China. Conversely, **Europe continues to become increasingly dependent on Russia** as it moves away from coal to natural gas for power production. Germany for example imports more than 40% of its natural gas from Russia.

In addition, the Ukraine/Russia situation further highlights the need for continued liquefied natural gas (LNG) investment. LNG's reduced volume and therefore its ability to be transported through shipping represents a means of alleviating the EU's dependence on Russia's natural gas supply. LNG has been championed for its flexibility, allowing global flows of natural gas to reach supply-constrained areas. We therefore see **long-term investment opportunities in the LNG segments**, spanning from production, storage and transportation to distribution.

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