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Despite Progress, 2022 EU Gas Savings Remain Unable to Reach the REPowerEU 100 bcm Target to Pivot Away from Russian Supply

Stratas Advisors

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As a follow-up of the communication published in March 2022, on 18 May 2022 the European Commission (EC) released its REPowerEU plan outlining key actions to reach energy independence from Russia. With Moscow providing about 40% of the EU's gas needs in 2021, the plan's ultimate goal is to end gas imports from Russia before 2030 (potentially by 2027), with 2022 alone seeing a cut of two-thirds in Russian gas consumption – or about 100 bcm.

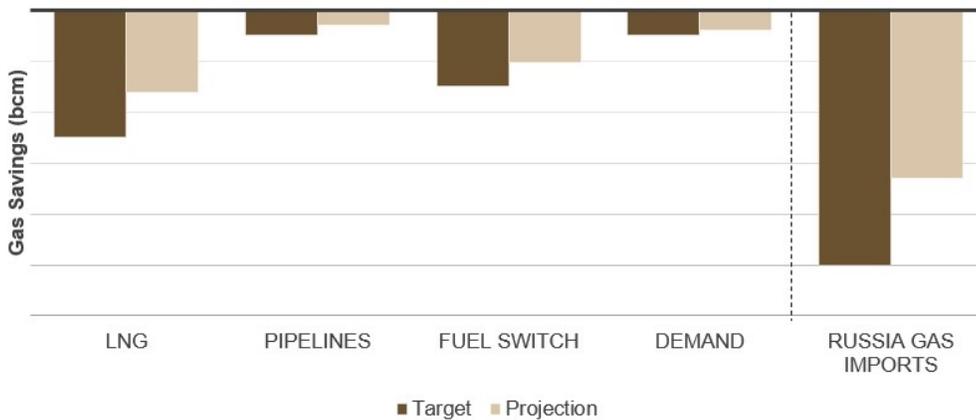
Short-to-medium term measures of the plan include the diversification of gas supply through pipeline interconnections and increased LNG imports to both reduce EU dependence on Moscow and to intensify efforts to cut off key revenue streams for Russia, complementing the existing coal and oil sanctions. In the longer term, the plan seeks to deliver the objectives of the EU Green Deal by enhancing certain efficiency and renewable energy target proposals contained in the Fit for 55 package. In particular, the EC proposes a higher 45% target for the renewable share in the EU's energy mix by 2030 –up from the 40% target proposed in 2021. In terms of energy savings, the EC elevates the binding additional efficiency target under the recast Energy Efficiency Directive to 13% by 2030 with respect to 2020 levels. Building upon the EU's hydrogen and biogas initiatives, REPowerEU also emphasizes the long-term need to ramp up production and imports of renewable hydrogen to a combined 14 MMT by 2030, and to reach a biomethane production target of 35 bcm by the end of the decade.

The targets and measures envisaged under the updated REPowerEU plan are incredibly ambitious. As such, multiple challenges remain, particularly in terms of what is both technically and economically feasible in the near term. Stratas Advisors has analyzed current progress and projections to 2030 to assess the feasibility of some of the main measures under the plan, providing an outlook on LNG imports and infrastructure, diversified pipeline interconnections, and energy demand.

Key takeaways:

- Besides significantly tightening the global LNG market, the reference-case scenario shows that existing LNG export and import infrastructure will not be able to fully deliver the REPowerEU target in 2022. However, LNG imports into the EU27 are on track to see an annual increase of 37% in 2022 because of the higher utilization rates at existing LNG import terminals and the relative growth of the global export capacity.
- Lagging pipeline infrastructure to import and distribute gas into and within the EU will remain insufficient to significantly diversify trade flows in the short term, with limited room for ramp-up in the longer term due to falling production in key supplying countries.
- The combined effect of a fuel switch to fossil-fired and nuclear units will have a stronger impact in reducing gas demand than the projected growth in solar and wind, whose deployment will slow down due to persisting supply chain challenges. The contribution of nuclear and coal will be even more relevant in 2023 in anticipation of a major cutoff of Russian gas supply; however, as renewables are ramped up, wind and solar will result in a majority of gas savings from fuel switching.
- By late 2022, the EU will likely need to draw down natural gas storage and trigger a mandatory 15% gas demand reduction target. However, even 15% savings for the remainder of 2022 would not cover the entirety of the gas shortfall, and the drawdown would in turn challenge REPowerEU's plans to increase storage levels to 90% by year-end.

REPowerEU 2022 Targets vs Current Full-Year Projection



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