

What a potential restart of Russian gas flows could look like

Growing optimism for a peace deal between Russia and Ukraine has sparked discussions about the potential resumption of Russian gas flows to Europe. While it is not our base case, a partial restart of flows could drastically change the outlook for the European gas market



What will it take to get Russian gas flowing to Europe once again?

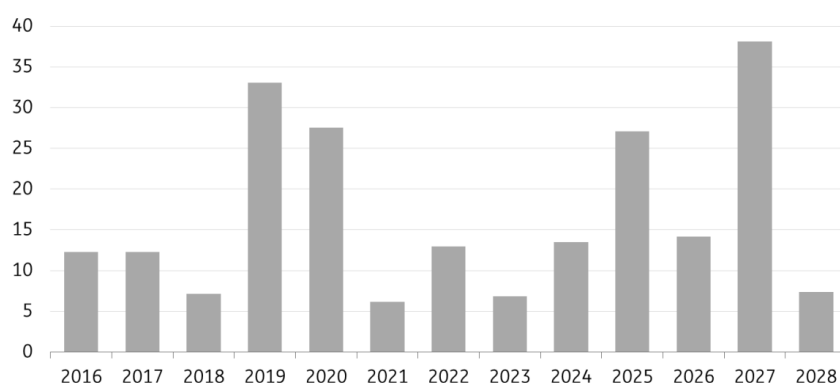
While there is plenty of noise around a potential restart of Russian pipeline gas to Europe as part of a possible peace deal between Russia and Ukraine, there are still several hurdles that will need to be overcome for this to become a reality.

Firstly, recent weeks have shown the difficulty in getting parties at the table to even discuss the potential for a temporary ceasefire, never mind a peace deal. Demands of both Russia and Ukraine seem far apart, so there will likely be no quick move to a full unconditional US-brokered ceasefire. This was evident with Russia agreeing to only halt attacks on Ukrainian energy infrastructure for 30 days. We would likely need to see a permanent peace deal before the return of Russian pipeline flows is even entertained.

Another obstacle is opposition within Europe to a resumption of Russian pipeline flows. Over the last three years, Russia has raised concerns over whether it is a reliable energy supplier, concerns which will not disappear anytime soon. Europe has ambitions to end its dependency on Russian fossil fuels by 2027. It would be difficult to see leaders wanting to reverse this decision and increase its dependency significantly once again, leaving the region vulnerable. The opposing view would be that an increase in Russian pipeline flows would help to lower energy prices, potentially aiding a recovery in energy-intensive industries within Europe.

Furthermore, while President Trump is pushing hard to end the war in Ukraine, he may also be reluctant to push too hard for a restart in Russian flows to Europe. The US has a significant amount of LNG capacity set to start up between now and the end of the decade. Export capacity is set to grow by 65%. A large part of this capacity is being built on the back of expectations that Europe will be there as a buyer. A resumption of Russian flows would leave US LNG exporters looking for alternative destinations, at the same time that there is a significant increase in Qatari LNG export capacity.

A significant increase in US LNG export capacity may make Trump less keen to see a restart in Russian pipeline flows (bcm)



Source: EIA, ING Research

What do the scenarios look like for a return of Russian gas?

We have come up with three scenarios for the potential return of Russian gas:

- The first scenario involves **Russian LNG sanction relief**, where there is no increase in Russian pipeline flows, but the US decides to ease sanctions on three currently sanctioned Russian LNG plants.
- The second scenario is that **Russian pipeline flows return to 2024 levels**, with transit flows through Ukraine resuming and reaching 2024 levels. The US also lifts LNG sanctions.
- And the third and final scenario is **Europe goes (almost) all in**, which will lead to a partial recovery of Russian pipeline gas to Europe, although it will still fall short of pre-2022 levels. In addition, the US also agrees to lift sanctions on sanctioned Russian LNG projects.

These scenarios are also ordered from what we believe to be most to least likely, while the impact on European gas prices will be from least to most impactful.

None of these three scenarios are our base case. In our base case, we do not see a resumption

of Russian pipeline flows to Europe, as achieving a peace deal remains challenging, and EU members are reluctant to increase their reliance on Russian energy. Therefore, the only pipeline flows from Russia will remain those via the Turkstream pipeline, amounting to around 15bcm per year. In addition, we see Russian LNG flows to Europe continuing for at least the remainder of this year. However, pressure should grow to ban Russian LNG through 2026 as the global market becomes better supplied with the ramping up of capacity, predominantly from the US and Qatar.

Essentially, the European gas market remains tight through 2025 under our base case and therefore prices are likely to remain elevated through the year, averaging around EUR45/MWh.

Potential scenarios for a return of Russian gas

Scenario	Description	Probability	Additional volumes	Price impact
Russian LNG sanction relief	The US lifts sanctions on Russian LNG projects which sees Arctic 2 LNG come into commercial operation	Medium	9 bcm of LNG	Minimal
Russian pipeline flows return to 2024 levels	Russian pipeline flows via Ukraine resume at similar levels to 2024, while the US lifts LNG sanctions	Low	15 bcm of pipeline gas & 9bcm of LNG	TTF trades lower- EUR30-40/MWh range
Europe goes (almost) all in	Russian pipeline flows resume through Ukraine at 2021-24 contracted levels, while the Yamal-Europe pipeline also restarts. Nord Stream 1 & 2 remain offline due to damage. The US lifts LNG sanctions	Very low	Potentially up to 73 bcm pipeline gas (40bcm via Ukraine and 33bcm via Yamal-Europe) & 9bcm of LNG	Significant- prices potentially trade down to US LNG SRMC which works out to a little over EUR18/MWh for TTF

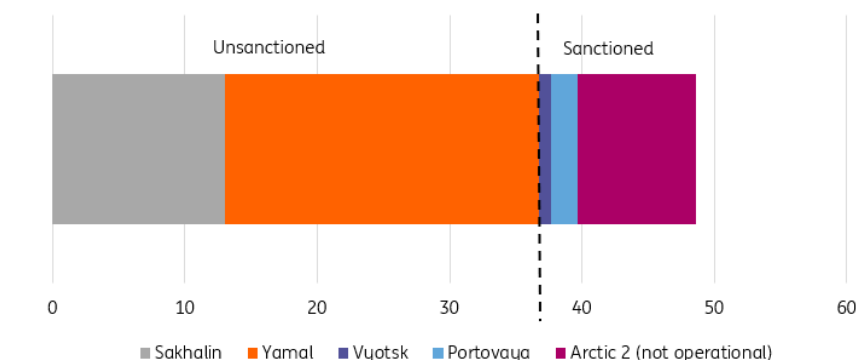
Source: ING Research

Scenario 1: Russian LNG sanction relief

Recent events suggest that the US is more willing to try reach a deal with Russia in an attempt to bring an end to the war. However, Europe appears more sceptical about any peace deal. Therefore, there is the potential that we see a scenario where Europe is unwilling to increase its reliance on Russian pipeline gas with a target of still trying to wean itself off Russian fossil fuels by 2027. Again, under this scenario, gas flows through the Turkstream pipeline remain the only Russian pipeline flows to Europe while Europe continues to buy Russian LNG. In fact, under this scenario, there is the potential that European imports of Russian LNG pick up, with the US relaxing sanctions against the Arctic 2 LNG project.

The Arctic 2 LNG project has not been operational yet with sanctions proving an obstacle to its start-up. A lifting of these sanctions could increase supply in the region of 9bcm. This move would leave the global LNG market relatively better supplied this year, but it's not enough to ease supply concerns and will do little to significantly move the needle when it comes to TTF prices. Therefore, European prices will still need to remain elevated in order to ensure adequate LNG supply is brought in ahead of the 2025/26 winter.

Russian LNG export capacity (bcm)



Source: IGU, ING Research

Scenario 2: Russian pipeline flows return to 2024 levels

Another scenario is that we see a return to Russian 2024 pipeline flows, and that is the resumption of the roughly 15bcm of Russian supply that transited Ukraine in 2024. This would help the European market out and ease some of the supply concerns ahead of the 2025/26 winter, making the task of hitting the EU's storage target of 90% by 1 November more achievable. However, the big uncertainty with regards to a restart of these flows is timing. In order to help the EU balance it would need to happen in 2025. Obviously a 2026 restart does little to help with tightness concerns ahead of the 2025/26 winter.

This scenario also sees the US lift sanctions on Arctic 2 LNG, allowing for 9bcm per year of additional supply.

A restart of flows through Ukraine will weigh on European hub prices with TTF likely trading down into a EUR30-40/MWh range.

Scenario 3: Europe goes (almost) all in

This is the most bearish scenario and also the most unlikely. A peace deal between Russia and Ukraine sees a partial resumption of pipeline gas to Europe, despite some opposition within Europe. We have assumed that there are only two additional viable routes for Russian pipeline gas into Europe.

Russian flows via Ukraine resume and these volumes could be as much as 40bcm, which is in line with volumes under Gazprom's 2021-24 contract with Ukraine. Admittedly though these volumes were significantly less following the war.

The other route which will see a return of flows in this scenario is the Yamal-Europe pipeline. These flows came to a complete stop in 2022. The pipeline has a capacity of 33bcm and we assume it will be fully utilised. Given the pipeline has not been operational for some time, it may take time for a restart with the potential for maintenance work.

The above amounts to an additional 73bcm of annual supply coming into Europe, which is equivalent to around 22% of EU consumption in 2024. This would also take total Russian pipeline flows to around 88bcm per year, when taking into consideration the 15bcm of flows that the EU already receives via the Turkstream pipeline.

This also potentially leaves Russia as the largest supplier of gas (including LNG flows) to the EU once again. A factor which will likely raise a few eyebrows.

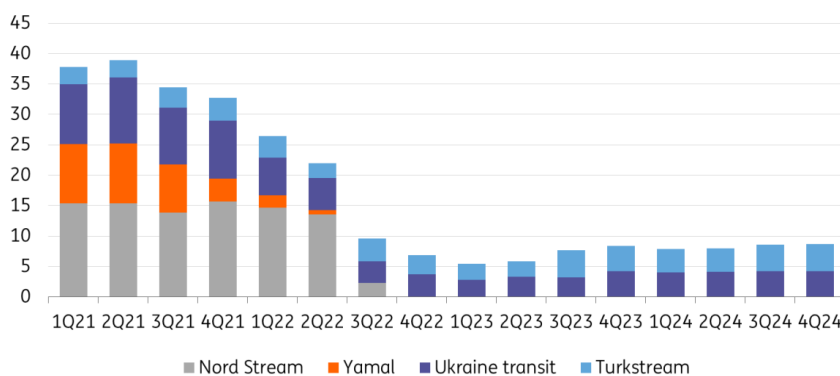
In this scenario, we assume there is no restart of pipeline flows via Nord Stream 1 and 2. Nord Stream 1, which has a capacity of 55bcm, was severely damaged in the 2022 sabotage attack, so this is unlikely to make a return anytime soon. Furthermore, Nord Stream 2, which has a similar capacity, was partially damaged in the sabotage attack. There are suggestions that one of its lines could potentially be used, allowing for as much as 27.5bcm of supply. But it is important to remember that the pipeline has never been in commercial operation and is also yet to be certified by the German government.

On top of the additional 73bcm of pipeline gas supply coming into Europe, the US also decides to lift sanctions on LNG projects, which finally sees the start-up of 9bcm of export capacity from Arctic 2.

The uncertainties around this scenario are what pipeline routes will be used and also the timing. A restart that only takes place in 2026 would obviously be of little help to the European market for the 2025/26 winter.

A realisation of this scenario drastically changes the outlook for the European natural gas market. European gas hub prices will trade at a wider discount to JKM, in order to ensure we see cargoes being diverted to Asia. Prices move significantly lower, possibly to levels where we may even start to see LNG cargo cancellations, with the global LNG surplus brought forward. These levels should be equivalent to the short run marginal cost for US LNG into Europe, which is currently around US\$5.80/MMBtu (or a little over EUR18/MWh).

Quarterly Russian pipeline gas flows to Europe (bcm)



Source: Bruegel, ING Research

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