XIII - The European Natural Gas Market after the Wars in Ukraine and the Middle East

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The wars in Ukraine and the Middle East have fundamentally changed Europe's natural gas market.

Europe has successfully reduced its dependence on Russian pipeline gas. But in doing so, it has become increasingly dependent on global LNG markets, particularly supplies from the United States.

Europe has improved its physical security of gas supply, but it has not secured affordable energy.

This is the central challenge facing European energy policy.

The Middle East war has exposed the vulnerabilities of Europe's new supply structure.

Disruptions to LNG exports through the Strait of Hormuz have intensified competition for available cargoes, particularly between Europe and Asia.

European gas prices are now over €100/MWh, while storage was only 75% full, considerably below historical levels.

Europe enters winter 2026–27 with reduced flexibility and continued exposure to geopolitical developments.

It enters winter with no margin for error, and will emerge from it facing the difficult task of replenishment.

And even if the Middle East conflict subsides, replenishing depleted storage next summer could maintain upward pressure on prices well into 2027.

Europe's greatest vulnerability is increasingly economic rather than simply physical.

High energy prices are undermining industrial competitiveness, contributing to inflation and putting pressure on household incomes. High energy and fuel prices are widely cited as a major catalyst for the recent riots across Europe.

They are also exposing weaknesses in Europe's energy transition.

The EU needs investments approaching €1.5 trillion by 2040 in electricity grids, interconnections and storage to accommodate increasing renewable generation.

Given weak economic growth, industrial pressures, competing fiscal priorities and infrastructure bottlenecks, completing these investments on schedule will be challenging.

Meanwhile, natural gas remains essential for heating, industry and electricity generation, particularly when renewable output is insufficient.

During the summer of 2026, adverse weather conditions contributed to a 9% increase in gas-fired electricity generation.

These realities are beginning to influence European energy policy.

The European Commission's latest proposals concerning methane emissions are particularly revealing.

In October, the Commission proposed postponing certain methane reporting requirements by one year.

The objective is to ease implementation pressures while preserving the regulation's environmental objectives and Europe's security of supply.

The requirements have not been abolished, but the proposed postponement reflects growing recognition that regulatory obligations must be compatible with market realities.

An even more striking development concerns European refineries.

On 28 October, the Commission launched a high-level dialogue with the refining industry to strengthen domestic fuel production, energy security and industrial competitiveness.

This follows years of refinery closures and declining European refining capacity.

The Commission is now examining ways to increase production of diesel and jet fuel, including possible targeted technical flexibility.

This represents a significant change in policy emphasis.

Europe is recognising that reducing fossil-fuel consumption does not eliminate the need to maintain reliable fossil-fuel supply chains throughout the transition.

These developments point towards a broader reassessment.

The challenge is not whether Europe should decarbonise. It should.

The question is whether the transition can succeed without giving equal importance to energy security, affordability and competitiveness.

High energy costs are weakening European industry and placing an increasing burden on consumers.

They also risk undermining the social acceptance and economic foundations of the energy transition itself.

For natural gas, the implications are substantial.

Europe will continue to need diversified supplies, flexible LNG contracts, adequate storage and reliable infrastructure for longer than previously anticipated.

It must also avoid replacing excessive dependence on one supplier with excessive dependence on another.

The Eastern Mediterranean can contribute additional supplies and valuable optionality through existing Egyptian infrastructure, although its contribution will remain modest relative to Europe's overall requirements.

My conclusion is that European energy policy is entering a period of pragmatic adjustment.

The wars have demonstrated that energy security cannot be taken for granted and that affordability cannot remain a secondary consideration.

Europe's challenge is to reconcile decarbonisation with economic reality.

An energy transition that undermines industrial competitiveness and loses public support will ultimately become more difficult — and take much longer — to complete.

What comes out of all of this, is that: Energy policy must adapt to reality, rather than attempting to impose a predetermined timeline upon reality.

And based on this, a last point. Europe set up its energy policies just over 10 years ago. Since then, there have been fundamental changes. Over the last two years Europe has been forced from time to time to modify these policies on a piecemeal basis, reacting the developments and pressure. It is about time to carry out a comprehensive review and set a new direction that reflects evolving realities.

Energy security and decarbonisation must advance together. A lower-emissions system that cannot withstand disruption is not fully sustainable.

A transition that countries can afford, industries can support and societies can sustain will achieve more than ambitious timelines that prove impossible to deliver.