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Germany Secures Gas Supply Via Floating LNG Units

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FRANKFURT/BERLIN, Aug 16 (Reuters) – Germany secured a commitment on Tuesday from major gas importers to keep two floating liquefied natural gas (LNG) terminals fully supplied from this winter in a bid to cut reliance on Russian fuel, as Moscow warned that sky-high gas prices may jump again.

Europe and Russia have been locked in a standoff over energy supplies since Moscow invaded Ukraine and the West responded with sanctions. Russia, which previously met about 40% of Europe’s gas needs, has cut flows citing equipment issues, while Berlin says Moscow wants to “blackmail” Europe.

Germany, Europe’s powerhouse economy that was more reliant than most on Russia, has been racing to find alternative sources of gas before winter in case Russia cuts supplies further or halts them. Berlin has already warned of possible gas rationing.

Under Tuesday’s memorandum of understanding (MoU) with Uniper, RWE and EnBW’s VNG, two Floating Storage and Regasification Units (FSRUs) in Brunsbuettel and Wilhelmshaven will be fully supplied from their expected operational start this winter until March 2024.

The floating units are a stopgap measure until Germany can build two permanent LNG terminals – the first terminals to be built in the country – to receive gas shipped in from around the world, instead of relying on Russian fuel supplied by pipeline.

The crisis sent Europe's benchmark gas price to an all-time high of nearly 335 euros (\$341) per megawatt hour (MWh) in spring. They have since eased, trading around 226 euros on Tuesday, but remain far higher than a year ago when they were about 46 euros.

Gazprom, the Kremlin-controlled company with a monopoly on Russian gas exports by pipeline, said prices could spike a further 60% from current levels, imposing more pain on European consumers. It said they could exceed \$4,000 per 1,000 cubic metres this winter, up from \$2,500 now.

'NEW CHALLENGES'

Uniper, which faced a financial crunch as it struggled to meet supply commitments amid rocketing gas prices, was bailed out by the German government in July with a 15 billion euro deal. Berlin has also taken a 50% stake in the planned fixed LNG terminal at Brunsbuettel, co-owned by RWE and Gasunie.

Before the crisis, Germany received much of its gas from Russia via the Nord Stream 1 (NS1) pipeline, majority-owned by Gazprom. The pipeline had supplied 55 billion cubic metres (bcm) a year to Germany and others, but now runs at 20% capacity.

Moscow blames reduced flows on delayed repairs because of sanctions or faulty equipment. Berlin says these are pretexts to hit back at Europe in response to Western sanctions.

"The erratic actions of the Russian president, the pretexts (on NS1) ... I expect that we will again and again have to deal with new challenges," Habeck said.

Using the two FSRUs, Germany will be able to receive up to 12.5 bcm of LNG a year, equivalent to about 13% of the country's gas consumption in 2021, according to numbers from research firm Enerdata.

As well as reducing supplies via Nord Stream, Russian supplies pumped via Ukraine have also been reduced. Gazprom said its gas exports fell by more than a third to 78.5 bcm between Jan. 1 and Aug. 15 and production was down by 13.2% to 274.8 bcm compared to a year ago.

Global demand for LNG was already surging as the world economy has recovered the COVID-19 pandemic. The Ukraine crisis has driven LNG demand higher still.

But Habeck said German gas importers had been successful so far in procuring LNG cargoes from the global market, which he put at 500 bcm a year, although talks between German importers and Qatar – a major LNG producer – have faltered.

Habeck said talks with Qatar were continuing but he also said importers were looking broadly for the best deals.

"And if Qatar does not make the cheapest offer, companies are well advised, in the interests of consumers, not to take the most expensive offer," he said.

(\$1 = 0.9830 euros)

(Reporting by Christoph Steitz and Rachel More; Additional reporting by Nina Chestney; Editing by Madeline Chambers and Edmund Blair)

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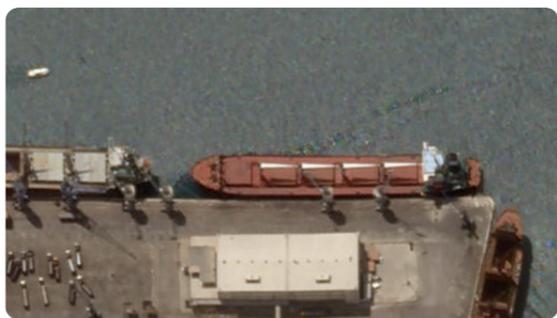


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