

Italy Sweats Over Alternatives to Russian Gas as Winter Closes In

By [The Moscow Times](#)

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MILAN — Italy will struggle to stay warm this winter if Russia's conflict with Ukraine disrupts gas supplies and Libya veers toward collapse, putting at risk an already shaky economic recovery following years of recession and sluggish growth.

Caught between dwindling gas imports from North Africa and a rising dependency on Russia, Italy's contingency plans for a complete breakdown in Ukrainian transit flows consist of raiding stockpiles, arranging costly emergency shipments, as well as forcing heavy industry to cut its output.

Import-reliant Italy uses gas to fuel almost half its power plants, triggering fears the conflict between Russia and Ukraine as well as tit-for-tat sanctions between the West and Moscow could disrupt deliveries by Gazprom to Europe.

"It's a problem. In the short term, Italy has no alternative to Russian gas," said Leonardo

Maugeri, ex-strategy head at Italian major Eni and now at Harvard Kennedy School.

Italy's winter gas prices are trading 2.6 euros (\$3.4) per megawatt hour above rival benchmarks in northwest Europe, underscoring the view that its energy supplies are most vulnerable to Russian gas cuts and cold snaps.

In 2006 and 2009, price disputes between Russia and Ukraine, which pumps half of Moscow's gas supply for Europe, triggered widespread disruptions and prompted Italy to rush through emergency measures that included tapping strategic gas reserves.

Although things are different this year due to a mild spring and summer and low demand in crisis-hit Europe, just a month of freezing weather with key gas supplies down could see supply shortfalls in Italy, and former Eni CEO Paolo Scaroni has warned a halt to Russian gas flows would raise prices and could cause supply problems.

North Africa also poses threats. Although oil and gas output in Libya has risen recently, Italian importers worry that its exports might collapse as violence escalates.

Risks this year are particularly high after price cuts led Italy to boost Russian imports to 49 percent of supply in the first half, up from 41 percent in 2013 and 32 percent in 2012. At the same time, the glut of Russian gas has led Italian buyers to snub alternative supply deals, reducing its options.

Edison has suspended its contract with Algeria's state-run gas monopoly Sonatrach, Enel has sold some of its liquefied natural gas, or LNG, tanker cargoes from Nigeria to Britain's BG Group, while Eni has halved imports from Algeria and could incur extra charges if it requested more gas.

Should gas be rationed, energy-intensive steel and chemicals industry would be first to feel the pain as household supplies are prioritized.

Algeria Is Key

With Russian and Libyan imports at risk, Algeria has become key in safeguarding supplies.

"If the agreement between Sonatrach and Eni enables Algerian gas to come back to Italy then even a prolonged disruption from Russia shouldn't have much effect, but without Algerian supply it could make things tight," Wood Mackenzie energy analyst Massimo Di-Odoardo said.

Algeria used to be Italy's biggest gas supplier, but booming internal demand, flagging production, and attractive Asian LNG markets led to a 40 percent drop in flows to Italy last year.

Yet analysts say Italy could increase Algerian imports relatively easily, albeit at a higher price.

"Volumes with Algeria can probably be raised but I doubt it could be done without having to pay a price," Harvard Kennedy School's Maugeri said.

Other counter measures to avoid a supply crisis include gas tanker imports, using up gas

stocks, as well as shifting towards burning more oil and coal.

Italian storage sites are expected to reach record fullness by October based on current refill rates, already surpassing the 10 billion cubic meter mark following a mild 2013/2014 winter, Reuters data shows.

Italy's 16 bcm of storage capacity is Europe's biggest along with that in Germany and France.

Based on Russian gas imports last January, a full cut off in gas transiting Ukraine would leave Italy facing a shortfall of 100 million cubic meters per day of which Russia could re-route 35 mcm through the Nord Stream and Opal pipes to Germany.

Analysts say Italy could also shift towards using more oil and coal-fired power stations in order to plug gas shortfalls.

Idle terminals to import LNG tankers may also help, but overseas LNG imports take time to be shipped to Europe and they will be costly as Italy would have to compete with other buyers in Europe as well as Asia, where prices tend to be much higher.

"We need to make preparations for contingencies ahead of time. We have three LNG terminals that are hardly being used but delay would make picking up shipments very difficult," said Paolo Ghislandi of gas trader and supplier association AIGET.

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