

LNG and gas storage strategy as a contribution to energy security in the EU

Discussion paper for the Informal Meeting of the EU Energy Ministers

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Energy security – one of the key Energy Union dimensions

Maintaining a stable and abundant energy supply is a key element in the future economic prospects of the EU and its Member States. In recent years a lot of attention has been devoted to the overall strengthening of EU energy security, particularly in the gas sector. The security of gas supply regulation was adopted by the Council and the European Parliament and the European Energy Security Strategy was adopted by the Commission. Energy security, solidarity and trust have been identified as one of the five dimensions of the Energy Union, along with other dimensions also contributing to energy security such as the completion of the internal energy market, more efficient energy consumption and increasing the domestic production of low-carbon energy sources. The European Council also stressed the importance of energy security. It called for the acceleration of infrastructure projects and for reinforcement of the legislative framework for the security of supply of electricity and gas. The leaders have also stressed that robust grids, energy efficiency, use of indigenous resources and safe and sustainable low carbon technologies, as well as increased transparency, can contribute towards the strengthening of energy security. The Commission addressed some of those elements in the energy security package which was adopted this February and which focused mostly on gas issues. However, many challenges remain to be tackled, especially in the electricity sector. The Commission will concentrate its efforts on the electricity sector in the proposals that will be presented later this year. We are therefore convinced that the Council should discuss the major challenges we are currently facing when strengthening energy security and how to ensure energy security in the medium and long term in the most cost efficient way.

EU LNG and storage strategy and its contribution to energy security

While many Member States have mature and liquid gas markets, some Member States are still heavily dependent on a single supplier and therefore remain vulnerable to supply interruptions. The Commission has in its European Energy Security Strategy identified short, medium and long-term measures for improving this situation. The Commission also thinks it is important to make use of the full potential of liquefied natural gas (LNG), including as an alternative in crisis situations when insufficient gas is coming into Europe through the existing pipeline system. The principle of access of most vulnerable countries to at least three different sources of gas, including LNG, has been the basis for regional cooperation already in the CESEC grouping where work is focusing on the most cost effective options for diversification.

Diversification of gas supply and its storage will therefore remain an important energy security consideration, especially in Central and Eastern Europe. The decreasing EU domestic gas production will result in at least stable or slightly increased gas imports into the EU and therefore diversification is becoming an EU -wide issue. IEA, in its medium term gas market report for 2015, states that Europe has two main options in order to meet its increased import needs in the short to medium term: getting more Russian gas or turning to LNG. The potential for additional volumes from North Africa and the Caspian region will mainly play a role after 2020, and therefore Russian gas and LNG will make up the bulk of additional imports.



The prospects of abundant global LNG supplies represent an opportunity for the EU with regard to competitiveness and possibilities to increase energy security. According to the IEA estimates, the inter-regional gas trade will expand by 40% between 2014 and 2020, surpassing 780 billion cubic metres (bcm) by 2020. Liquefied natural gas should account for 65% of the increase and the bulk of new LNG supplies should hit the market in 2016 and 2017.

The EU's LNG and storage strategy was adopted by the Commission in February with these considerations in mind; it identified measures to exploit the potential of liquefied natural gas (LNG) and gas storage. The aim of the strategy is to make the EU gas system more diverse and flexible in the future and contribute to the key Energy Union objective of a secure, resilient and competitive gas market. The Commission has identified three main elements crucial for effective use of LNG:

- necessary infrastructure that will allow all Member States to benefit from access to liquid gas hubs and thus international LNG markets; in this respect, the importance of the swift implementation of the relevant Projects of Common Interest (PCI) cannot be underestimated
- complete the internal gas market, which will send the right price signals for the right investments and attract gas where it is needed
- intensifying dialogues with current and future suppliers and other major LNG consumers

Exploiting the potential of LNG: promoting liquid and transparent global LNG markets

Abundant supplies are expected to be available from a large range of current and potential LNG suppliers such as Qatar, Algeria, Nigeria, Australia, USA, Canada, Egypt, Iran and African countries. Despite some concerns that low fossil fuel prices may negatively influence the competitiveness of gas versus other, dirtier fossil fuels as well as delay some investments in LNG production, the overall picture is positive. Falling service costs and increased rig productivity should have the potential to offset lower drilling, in particular in the US. IEA estimates that Australia's gas production growth will accelerate in the future and is on track to increase by 230% by 2020 and that country should become the largest LNG exporter in the world. The overall supply outlook in the US also remains solid, and production will increase by 114 bcm by 2020. This should have a significant impact on the global gas market and can influence the EU's plans to diversify gas supply.

This will have an impact on the global gas market, both for suppliers and buyers. However, the EU needs to be ready to make use of the opportunities created by these new market developments. Bringing more LNG to the European market will be closely linked to the successful elimination of export barriers: it is important that the new global LNG market becomes liquid, transparent and without limitations to free trade. The EU, being the second biggest LNG consumer, needs to cooperate closely with external partners from producing and consumer countries in bilateral and multilateral forums on how to shape the LNG market in the future.

We have invited Mr. A. Hochstein, Special Envoy and Coordinator for International Energy Affairs leading the Bureau of Energy Resources at the US State Department, as the representative of one of the major gas producing countries, to discuss the availability of LNG and its possible contributions to the gas market and energy security in the EU.

The discussion will be based on the EU strategy for liquefied natural gas and gas storage, focusing on the possible impact of US and other new LNG supplies and the relevance of the main elements the strategy proposes to follow in specific regions in order to make best use of LNG in contributing to diversification and enhanced security of supply and also on fair distribution of the costs of providing this benefit.



The importance of LNG was also stressed at the meeting of the directors -general who discussed the LNG strategy in March.

The Slovak Presidency of the Council of the European Union proposes to table the following questions for discussion at the Informal Meeting of the EU Energy Ministers:

- 1. What do you consider to be the most pressing current issue and the biggest future challenge from the perspective of energy security in the EU?**
- 2. Gas plays an important role in the energy mix of Member States and can contribute towards achieving our climate and energy targets. How can we most effectively seize the opportunities for diversification of routes and sources in order to minimize potential supply risks and what are your expectations for the future share of LNG in the EU gas market?**
- 3. What regulatory and infrastructure preconditions need to be met to fully utilize the potential of LNG and storage in a way that will help us to deliver the policy objectives of the Energy Union? Could High Level Groups help prioritize infrastructure and actions?**
- 4. What should be the role of bilateral dialogues and multilateral partnerships in bringing about a liquid and transparent global LNG market?**

Kindly note that contributions will be strictly limited to 3 minutes per delegation. We invite Ministers to focus on their top priorities; we welcome receiving in writing any additional comments they may have.

