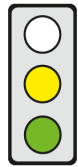


KEY ISSUES

Objective of the Communication: The use of liquefied natural gas (LNG) and gas storage will be made easier in order to complete the internal gas market and increase security of supply.

Affected parties: Particularly companies in the natural gas sector, natural gas consumers.



Pro: (1) The cross-border use of gas storage and LNG terminals increases security of supply for Member States that do not have their own LNG terminals and gas storage facilities.

(2) Strategic gas reserves and storage obligations must not – as the Commission rightly stipulates – have a negative effect on security of supply in other Member States.

Contra: Although the duty to develop a network of LNG refuelling stations enables cross-border transport by LNG-powered lorries and shipping, it risks being a white elephant project.

CONTENT

Title

Communication COM(2016) 49 of 16 February 2016 on an **EU strategy for liquefied natural gas and gas storage**

Brief Summary

► Context and objectives

- The EU covers most of its gas consumption by way of natural gas which is imported via pipelines from a small number of third countries. Due to the existing pipeline network, some Member States in the Baltic region and south-eastern Europe can only import natural gas from Russia.
- The Commission wants to diversify gas imports to a greater extent and increase the flexibility of gas supplies. For this, gas storage facilities will be used more effectively and the import of liquefied natural gas (LNG) made more attractive.
- This strategy aims to
 - ensure that cross-border gas infrastructures are built and regulatory barriers removed so that the internal gas market can be completed, and gas suppliers in all EU Member States have access to gas storage facilities and LNG markets,
 - improve cooperation with third countries in order to remove barriers to global trade in LNG and
 - improve conditions for LNG use in the transport sector.

► Construction of infrastructure for liquefied natural gas

- Currently, 195 million cubic metres of LNG can be imported into the EU per year via existing LNG terminals. That corresponds to 40-50% of the annual EU gas requirement. [SWD(2016) 23, p. 12]
- LNG terminals are not equally spread across the EU. They are located in particular on the Iberian peninsula, in the Netherlands and in the UK but are lacking in eastern Europe. This means that
 - firstly, the degree of utilisation of existing LNG terminals is small and
 - secondly, some Member States have no access to LNG.
- Gas storage capacity has greatly increased in the EU in the last ten years. Gas storage capacity in the Member States varies substantially, however, due to the diverse geological conditions.
- The construction of natural gas infrastructure which is important for the completion of the internal gas market is supported by the EU within the framework of "Projects of Common Interest – PCI" [TEN-E Regulation (EU) No. 347/2013, see [cepPolicyBrief](#)]. These include LNG terminals and gas storage facilities as well as the gas transmission pipelines connecting them to the gas markets of other EU countries.
- There are currently six PCIs in central and south-eastern Europe and in the Baltic region. The Commission calls on the respective Member States and project promoters to avoid delaying the final decisions on the construction of these PCIs.

► Regulating liquefied natural gas: Free access to LNG terminals, gas transmission pipelines and "gas hubs"

- As state-regulated energy infrastructure, most LNG terminals have to allow access to all LNG importers ("third-party access" obligation). Some Member States have exempted LNG terminals from this obligation, however, allowing these terminals to grant individual LNG suppliers exclusive access over several years.

- In order to make LNGs in the EU more attractive, all LNG suppliers will have access to LNG terminals as a matter of principle. The Commission calls on national authorities to examine the existing exemptions and where possible allow them to expire.
 - Gas markets in the EU vary significantly from one Member State to another. Whereas in north-western Europe, gas is largely bought and sold by way of highly competitive, cross-border gas trading points ("gas hubs"), the eastern Member States are dominated by uncompetitive long-term contracts. Traders there have no access to the gas hubs in north-western Europe.
 - According to the Commission, trade in LNG would be more attractive if LNG could be sold via gas hubs in as many Member States as possible. National regulatory authorities will eliminate the existing "regulatory, economic and legal barriers" currently preventing Member States in central and south-eastern Europe from gaining access to the gas hubs in north-western Europe (p. 8).
- **Regulating gas storage facilities**
- The tariffs for accessing gas storage facilities vary across the EU and, in some cases, make storage unattractive. The Commission wants tariffs to be set in a uniform way and wants them to reflect the real cost of gas storage.
 - Some Member States have adopted national rules in order to increase security of the gas supply and the profitability of gas storage. These include (p. 11)
 - "strategic reserves" where a certain volume of gas is stored all year round and not made available to the market, and
 - "storage obligations" requiring that there is always a certain level of gas stored at specific times during the winter.
 - The Commission stipulates that strategic reserves and storage obligations must
 - not be permitted to jeopardise security of supply in other Member States,
 - not be permitted to distort competition on national gas markets,
 - be justified by regional risk assessments.
 - The Member States of a region will cooperate more closely in order to optimise the regional use of gas storage.
- **International LNG markets**
- The export capacities of LNG are currently being significantly expanded in Australia and the USA so LNG prices are likely to fall in the EU in the coming years.
 - The EU will work together with third countries and in international fora with the aim of ensuring that a "liquid" and global LNG market is created and that Member States are not constrained when it comes to LNG trading – e.g. due to territorial restrictions.
 - Intergovernmental agreements on LNG will be examined as to their compatibility with EU law [COM(2016) 53, see [cepPolicyBrief](#)].
- **Use of LNG as fuel**
- LNG can be used in lorries and shipping as an alternative to fossil fuels. This may allow greenhouse gas emissions to be reduced in the transport sector.
 - The "AF Directive" on the deployment of an alternative fuels infrastructure (2014/94/EU; see [cepPolicyBrief](#)) requires Member States to construct public LNG refuelling stations
 - by 2025 for heavy commercial vehicles, at least every 400 km along the core network of the Trans-European transport network ["TEN-T Core Network", Art. 6 (3) in conjunction with Art. 38 et seq. TEN-T Regulation (EU) No. 1315/2013; see [cepPolicyBrief](#)] and
 - by 2025 for shipping in all sea ports and by the end of 2030 also in all inland ports of the TEN-T Core Network.
 - The Member States will fully implement the AF Directive and ensure that these LNG refuelling stations are set up on time.
 - The Commission wants to establish a "harmonised regulatory and standardisation framework" that encourages the use of LNG in shipping.

Policy Context

In its Communications on security of the energy supply [COM(2014) 330, see [cepPolicyBrief](#)] and the Energy Union [COM(2015) 80, see [cepPolicyBrief](#)], the Commission announced that it wanted to assess the potential of LNG as an alternative to conventional natural gas.

The Communication forms part of the energy security package which also includes a proposal for a Regulation to guarantee a secure gas supply [COM(2016) 52, see [cepPolicyBrief](#)], a proposal for a Decision on international agreements between Member States and third countries in the energy sector [COM(2016) 53, see [cepPolicyBrief](#)] and a Communication on the EU strategy on heating and cooling [COM(2016) 51].

Options for Influencing the Political Process

Directorates General: DG Energy (leading)

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

Allowing gas suppliers from all Member States to have access to LNG terminals and gas storage facilities, as well as the gas transmission pipelines leading to them, may increase security of supply. LNG terminals enable Member States to diversify their gas supplies and thereby reduce their dependency on individual gas exporters. Gas storage facilities enable European gas suppliers to build up reserves for possible interruptions in supply.

Impact on Efficiency and Individual Freedom of Choice

Before new LNG terminals or gas storage facilities are built, efforts should be made to ensure that the existing ones are being used to capacity.

Cross-border use of existing LNG terminals and gas storage facilities may increase the degree of utilisation and **improves the security of supply for Member States that do not have their own LNG terminals and gas storage facilities**. In order to facilitate cross-border use of LNG terminals and gas storage facilities, more gas interconnectors must be built, barriers to market access in the Member States removed and the requirements of the Third Internal Energy Market Package (see [cepCompass EU Climate and Energy Policy](#), p. 46 et seq.) fully implemented without delay. In particular, European gas suppliers must not be prevented from gaining access to LNG terminals and gas storage facilities.

Strategic gas reserves and storage obligations may increase the security of the gas supply of a Member State. Member States should also continue to have the ability to establish rules on strategic gas reserves and storage obligations for the avoidance of disruptions in supply. These rules **must not** however – **as the Commission rightly stipulates** – distort competition on domestic gas markets nor **have a negative effect on the security of supply in other Member States**.

LNG can only contribute to a diversified and more flexible gas supply if its importation does not give rise to new dependencies on large LNG exporters. The Commission should therefore, as planned, lobby for the establishment of a global LNG market with a large number of competitors and consistently prohibit anti-competitive contractual provisions – such as territorial restrictions – in the EU.

There is a coordination problem regarding the use of LNG as fuel for lorries and shipping ("chicken and egg problem"): On the one hand, the lack of LNG refuelling stations reduces the possibilities for deployment; on the other hand, it is not worth developing refuelling stations while too few vehicles are on the market. **Although the obligation to develop a network** – if somewhat widely meshed – **of LNG refuelling stations**, set out in the AF Directive 2014/94/EU, **enables cross-border transport with LNG-powered lorries and shipping**, **there is also a risk that it will be a white elephant project** if the newly constructed refuelling stations are insufficiently used.

Impact on Growth and Employment

Negligible.

Impact on Europe as a Business Location

A higher level of security of the gas supply and more competition among gas suppliers, which can lead to lower gas prices, make the EU a more attractive location for companies that are consumers of gas.

Legal Assessment

Legislative Competency

Unproblematic. The EU can take measures to ensure security of the energy supply (Art. 194 (1) (b) TFEU).

Subsidiarity

Unproblematic. Coordination of measures of the Member States can only take place at EU level (Art. 5 (3) TEU).

Conclusion

The cross-border use of LNG terminals and gas storage facilities increases security of supply for Member States that do not have their own LNG terminals and gas storage facilities. Strategic gas reserves and storage obligations must not – as the Commission rightly stipulates – have a negative effect on security of supply in other Member States. Although the duty to develop a network of LNG refuelling points allows cross-border transport by LNG-powered lorries and shipping, it risks being a white elephant project.