

Comments from Malta as input to the Commission's public consultation on an EU strategy for Liquefied Natural Gas and gas storage

Gas is identified to become an important tool in the European Union strategy to meet its obligations towards a low carbon future. Currently due to several factors including (i) a slowly recovering economic outlook, (ii) the successful penetration of renewables, (iii) the increasing energy efficient measures, and (iv) as well as high infrastructural costs associated with the development of the gas network, the demand for gas within the union is decreasing. However with de-carbonized future in mind it is to be noted that the major use of gas in the Union for the generation of electricity is increasing.

Malta is currently completely isolated from the European Gas Network and due to this situation, has embarked on the generation of electricity process from liquid fuels to natural gas firing through an LNG solution. This solution shall provide for LNG storage capacity and shall also help Malta meet its environmental targets. This effort goes hand in hand with Malta's longer term policy goal to become connected with the EU natural gas network.

Being an archipelago in the middle of the Mediterranean sea, the Maltese nation does not see itself as isolated in the LNG arena. In a similar case, the western European Union member states have already invested in LNG import infrastructure. However, this may not be the case for eastern European countries or other regions that do not have access to direct LNG import terminals and these regions would then depend on the European gas grid capacity and capability to access such a resource. Therefore, the elimination of infrastructure bottlenecks and the enabling of reverse flow capabilities of the Trans European gas network is considered as a vital condition to enable access to LNG fuels by affected regions and therefore lead to an efficient gas market.

As has been stated in the consultation document, LNG can be supplied from a variety of sources thus eliminating issues associated with a single supplier thus contributing to the improvement of security of supply and provide liquidity into the European gas market. LNG terminals also act as storage facilities and thus should be able to provide for meeting the demand if the situation arises.

As the predominant gas flows within the European grid are North-South (gas being sourced from LNG import terminals and Norway) and in East-West direction for Russian sourced gas, there might be technical difficulties should the Mediterranean region be a gas import source. The decreasing demand in Asia may result in the availability of LNG from south western Asia sources and therefore the Mediterranean would be the obvious LNG import hub from these sources. It would be important that the gas network would have the capacity not to hinder such a scenario also within the light of the recent gas discoveries in the eastern Mediterranean basin which may become another gas hub. It is thus recommended that the gas network be examined so that any restrictions can be identified.

As regards the supply, gas discoveries in North America, Australia mean that gas can be sourced from geopolitically stable regions improving security of supply. However, for a fully functioning market, an analysis as to the existing technical, regulatory financial and economic barriers should be undertaken in order to take any measures necessary to remove these barriers. Such barriers would also include the streamlining of the permits required for the construction of the required infrastructures. PCI projects already avail themselves of such a streamlined process. This procedure should thus be extended to also cover other concerned LNG related projects.

Eliminating technical issues is only one side of the coin. Alignment of the related gas regulations, licencing and permitting procedures within the EU is also necessary in order to enable consolidation

of the single energy market. In this regard, it would be recommended that each Member State would study the viability of LNG installations with the intention of introducing provisions i to ensure that each Member State has access to LNG at any point in time. In order to achieve such a goal, better cooperation at both TSO and regulator levels is required. The Euro-Med Gas Platform will have to lay the framework for mediation in situations that may lead to restrictions of the market due to regulatory issues.

The natural gas sector is characterised by large capital investments required to improve infrastructure. The CEF programme is one step in the right direction in this regard as this gives a level of comfort to promoters who may not gain access to financial instruments in order to decrease the level of risk associated with such projects. This issue is of particular importance as due to the current weak short to medium term demand projections and increasing supply capacities, the risk of stranded costs may be considered unacceptable in commercial terms. Availability of more LNG than what the current market can provide, would mean the construction of more import or export terminals and associated pipelines to transport the gas from the import terminal into the market. Due to its capital intensive characteristics, such infrastructure would be constructed only if the market demands these in the long term.

One of the initiatives to be taken to increase uptake of LNG across the EU is to promote the development of a small scale LNG to replace high carbon fuels in isolated areas or forms of transport such as the shipping industry. The use of natural gas in the transport sector is currently on the increase especially as regards to the establishment of the Emission Controlled Areas. Although the use of gas for shipping is still in the early stages, the technology is established and the barriers associated with shipping are seen as more related to lack of facilities and adoption of related standards.

Gas storage provides flexibility of supply especially during demand peaks, in cases of supply restrictions and in scenarios of gas supply disruptions. Due to a variety of issues including a reduced gas winter/ summer price spread, the gas storage market is becoming increasingly uneconomic. . Moreover, it may not be possible that all EU countries would provide adequate gas storage capacity in their own territory, Malta being a particular case in this point due to its limited size. Therefore, as in the similar liquid fuel case, it may be considered that obligatory national storage/ security stocks may be provided in facilities sited in other European countries. In terms of solidarity such stocks may also be released to other countries or regions which may face immediate solutions during crisis periods. However, this solution again highlights the issues related to the interconnectivity and possible restrictions of the present gas network which would have to be eliminated in order to achieve an efficient working energy gas market in line with European Union strategy.

In many vulnerable Member States without supply diversification and gas hubs, long-term contracts remain an important element for security of supply. In the case where isolated/peripheral Member States that are planning to invest heavily in LNG infrastructure and gas connections to the European gas network for importation of gas to meet their energy needs (including power generation), long-term contracts are necessary to secure their energy security of supply and cannot be considered as hindrance to market liquidity and transparency of the global LNG market.