

Question 1: Do you agree with the assessment for the above regions in terms of infrastructure development challenges and needs to allow potential access for all Member States, in particular the most vulnerable ones, to LNG supplies either directly or through neighbouring countries? Do you have any analysis or view on what an optimal level/share of LNG in a region or Member State would be from a diversification / security of supply perspective? Please answer by Member state / region

Fertilizers Europe has long advocated the Member State/ region emphasise of EC consultations and welcomes the regular emphasis now given by the EC and other institutions to regional analysis, regional problem solutions and regional co-operation underpinning the solutions.

With regard to fundamental EU wide principles which should guide analysis and support the following should be fully taken account of:

Diversification of Supply Sources is required: The Energy Union in significant part is a diversification of supply action. In particular, Russia is the obvious concern. Thus the EC's Stress Tests made in year 2014 must be fully incorporated into LNG and storage strategies and subsequently new investments, not only LNG and storage but also pipeline investments should be supported.

Critical EU regions: the Stress Tests and prolonged investment discussions confirm that South Eastern Europe and the Baltics are the regions requiring most immediate attention. However, as the security of supply debate as shown up, interconnections and reverse flow infrastructure should be prioritized before mega high risk infrastructural projects.

The North –South corridor (Baltic-Adriatic) corridor and the Euro Med gas platform are also worthy of support. Again first consideration should be given to vital enabling infrastructure and associated interconnections rather than mega jumps into mega projects which may disappoint investors and over-burden consumers. The economic business reality is that the consumer ultimately pays. Thus our concern.

The private investor is a key player and important determinant: Ultimately however as the Nabucco I has shown, it is the private investor which will typically be asked to make the greatest capital investments. As such the investment will and should be based on market viability and expected rates of return; and not only security of supply and or diversification of supply issues.

Under-utilised LNG assets on the Iberian coast and NW Europe: the significant levels of under-utilisation again suggest that inter-connections are a vital unfinished part of the European Energy Union. This is fully recognized in the EC consultation paper where in year 2013 the LNG utilization rate in the EU reached only 24%. Recent years have recorded simple rates.

The Re-set of relations with Russia: most public and private analysts recognize that Russia will remain a top supplier of gas to the EU. The issues are the level of dependency and the nature of the supply.

With regard to dependency the ideal no of suppliers to a national market should be 3 to 4 sources of supply. Where this is not economically or physically practical there must be at least one alternative major supplier and the N-1 infrastructure rule should be enforced.

With regard to the re-set with Russia, Fertilizers Europe fully supports the statement of the recent Foreign Affairs Council:



EU Re-set Relations with Russia

“When the conditions are proper, the EU will proceed accordingly in reframing the energy relationship with Russia, based on a level playing field in terms of market opening, fair competition, environmental protection and safety for the mutual benefit of both sides.”

– Foreign Affairs Council Conclusions, July 2015.

Trade & Economic Committee



Question 2: Do you have any analysis (cost/benefit) that helps identify the most cost-efficient options for demand reduction or infrastructure development and use, either through better interconnections to existing LNG terminals and/or new LNG infrastructure for the most vulnerable Member States? What, in your view, are reasons, circumstances to (dis)favour new LNG investments in new locations as opposed to pipeline investments to connect existing LNG terminals to those new markets?

Both the private sector, the contracting industry, gas industry and private banks and the public sector, e.g. the European Investment Bank and the Commission are fully educated in the tools and techniques of modern investment appraisals. The critical decision is the extent to which political – societal – and other non-economic benefits are given positive credits.

The obvious advantage of LNG infrastructure is the ability to switch to a variety of sources while pipelines are certainly more fixed.

The LNG against pipeline question is an excellent example where the answers must come from the concerned Member States and investors in a particular region.

Question 3: Do you think, in addition to the already existing TEN-E Regulation, any further EU action is needed in this regard? Do you think the use of LNG gas and existing LNG infrastructure could be improved e.g. by better storage possibilities, better network cooperation of TSOs or other measures? Please give examples

Again this is best answered at the sub regional level. However, it has been known for some considerable time that connections between Spain-France; Med to South East Europe; North –South etc should be improved.

We would encourage the EC, ACER, CEER and

ENTSOG to accelerate their efforts in this area and in the achievement of the Single Gas Market by year 2017 latest. Already the year 2014 deadline has been missed.

Question 4: What in your view explains the low use rates in some regions? Given uncertainties over future gas demand, how would you assess the risk of stranded assets and lock-in effects (and the risk of diverting investments from low carbon technologies such as renewables and delaying a true change in energy systems) and weigh those against risks to gas security and resilience? What options exist in your view to reduce and/or address the risk of stranded assets?

The very significant almost 25% decline in EU gas demand certainly explains the low use rates in some regions.

The imperative is that the EU institutions and the private sector maintain a profound understanding of the EU gas supply / demand balance and how the new energy mix by 2020-2030 will impact gas demand.

Natural gas is the cleanest hydrocarbon and as such undoubtedly will feature in the future EU energy mix.

Question 5: The Energy Union commits the EU to meeting ambitious targets on greenhouse gas emissions, renewable energy and energy efficiency, and also to reducing its dependency on imported fossil fuels and hence exposure to price spikes. Moderating energy demand and fuel-switching to low carbon sources such as renewables, particularly in the heating and cooling sector, can be highly cost-effective solutions to such challenges, and ones that Member States will wish to consider carefully alongside decisions on LNG infrastructure. In this context, do you have any evidence on the most cost-efficient balance between these different options in different areas, including over the long term (i.e. up to 2050)?

The energy mix under the Lisbon Treaty clearly remains the responsibility of each Member State. Thus each Member State will make the evaluation of how decisions on LNG infrastructure should sit alongside decisions on other energy sources.

Natural gas however remains in abundant supply; there is an obvious immediate LNG boom arriving over the next 5 years; and natural gas is a preferred hydrocarbon source in many world economies due to its carbon cleaner status.

Natural gas is also the base source for fertilizers and thereby Europe's security of food supply.

Question 6: What in your view are the most critical regulatory barriers by Member State to the optimal use of and access to LNG, and what policy options do you see to overcome those barriers? Have you encountered or are you aware of any problems in accessing existing LNG terminal infrastructure, either because of regulatory provisions or as a result of company behaviour? Please describe in detail.

This is best answered by local regional and national players.

However we do have a concern over security of supply surcharges arising in Lithuania and Italy. Such surcharges harm the competitiveness of gas supply to industrial consumers.

Question 7: What do you think are the most critical commercial, including territorial restrictions and financial barriers at national and regional level to the optimal use and access to LNG?

It is important that regulators – and even competition authorities – pay particular attention to third party access rights, constraints on physical shipments and their landings. While investors merit investor protection this should be balanced by the need for pro-competitive pro supply conditions to the EU market.

Question 8: More specifically, do you consider that ongoing EU policy initiatives and/or existing legislation can adequately tackle the outstanding issues, or there is more the EU should do?

Fertilizers Europe supports the underlying motives of the Energy Union, ie diversification of supply sources, completion of the Single Energy Market and the promotion of energy relations with third country suppliers of energy on a market economy basis. Moreover, Fertilizers Europe has constantly supported the EU/EC's utilization of the its Single Market, competition and trade powers.

Implementation and enforcement is now the key contribution that the EU institutions can make.

Question 9: How do you see worldwide LNG markets evolving over the next decade and what effects do you expect this to have on EU gas markets? Do you expect a shift away from oil-indexed LNG contracts, and if so under what conditions?

It is recognized by international public economic institutions and private analysts that there will be a boom in world LNG supply over the coming 5 years. Europe as a major consumer dependent on imports can fully benefit from this prospect of diverse supply and increased competition. Vital however will be the arrival of "market" gas to gas priced gas and here the USA LNG export gas

referenced off the NYMEX NOLA market will be very important. Liberalisation of gas markets in Asia can also assist better price formations – and here the establishment of gas hubs in Singapore or even Japan would be a very major contribution to gas to gas competition free of oil indexation.

Question 10: What problems if any do you see with the functioning of the international LNG market, particularly at times of stress? Are there specific actions the EU should take, in dialogue with our international partners, including in trade negotiations, to improve its functioning and/or to make the EU market more attractive as a destination for LNG? Could voluntary demand aggregation be helpful in some way?

At times of stress, for example, the Fukushima nuclear accident, it is evident that there will be price hikes often at uncompetitive and unattractive levels for EU industrial consumer's competition in world markets. This can best be mitigated by full access to a multiple number of sources – and here the new gas fields found in Tanzania, Mozambique and Egypt can play a favorable role.

Fertilizers Europe recognizing the USA LNG contribution to EU security of supply, market gas pricing and competitiveness especially at peak pricing periods has advocated the inclusion of free and fair USA gas supply under the TTIP negotiations. Equally the inclusion of an energy chapter in the EU-UKRAINE DCFTA has long been supported by Fertilizers Europe. In particular we support the removal of artificial state fixed pricing; the removal of dual pricing and free and fair transit.

Voluntary demand aggregation can certainly assist in crisis security of supply situations and at times of high demand. However as an industry traditionally reliant upon uninterruptable base load supply it is imperative that this mechanism is truly voluntary.

Question 11: What technological developments do you anticipate over the medium term in the field of LNG and how do you see the market for LNG in transport developing? Is there a need for additional EU action in this area to reduce barriers to uptake, for example on technology or standards, including for quality and safety?

LNG technology has been developed for over 50 years and as such it is a relatively mature industry. It is notable that shipping costs have fallen regularly over recent years and this certainly contributes to further trade in LNG.

Another notable development is re-shipping and efficiencies here should be promoted. Furthermore, smaller LNG terminals and ships can be beneficial but this must be balanced against the large LNG terminal with inter connection facilities.

It is imperative that “gas quality” standards are now quickly established as the EU is about to receive multiple sourced LNG. The prolonged work of EASEE gas must now come to a conclusion.

Question 12: Do you think there are any sustainability issues specific to LNG that should be explored as part of this strategy? What would be the environmental costs and benefits of alternative solutions to LNG? Please provide evidence in support your views.

LNG gas is natural gas and as such is the most carbon efficient hydrocarbon fuel and feedstock.

Question 13: What opportunities or challenges do the supply projections for different sources, in particular LNG and pipeline gas and low carbon indigenous sources, present for the use of gas storage / for gas storage operators?

The EU's demand reduction for gas (up to 25%) and the foreseen new energy design in Europe with renewables up to 30% of the energy mix by 2030 does present uncertainty for investors in storage and for storage relating to LNG.

Clearly the more long term certainty for investors the more likely there will be storage investments.

The winter – summer spread is also diminished and this too will undoubtedly impact investors.

Question 14: Are, in your view, current market and regulatory conditions adequate to ensure that storages can fully play their role in addressing supply disruptions or other unforeseen events (e.g. extreme cold spells)?

It should be noted that several Member States have increased and improved their strategic and commercial storage facilities since the first Russia –Ukraine supply crisis in year 2006, ie nearly 10 years forward mitigation has been set up in the form both of storage, eg Hungary and LNG import terminals, eg Poland and Lithuania.

It is inevitable and necessary that in times of disruption and unforeseen events that Member States and regulators will intervene in the marketplace.

Question 15: As an alternative to mandatory reserves, how could market based instruments ensure adequate minimum reserves?

The UK relies significantly upon allowing for a preventative market solution before applying a strategic reserve requirement. This choice of mandatory against market solutions however should remain a decision for Member States and their Member State neighbours.

Question 16: Do you have any analysis or view on what an optimal level/share of storage in a Member State or region would be? What kind of initiatives, if any, do you consider necessary in terms of infrastructure development in relation to storage?

The optimal situation is where the Member State and region have the fullest analytical and practical understanding of the optimal level/share of storage needed.

Question 17: Do you think, in addition to the existing TEN-E Regulation, any further EU action is needed in this regard?

The TEN-E Regulation is well developed and well understood by the key players.

Question 18: Given uncertainties over future gas demand, how would you assess the risk of stranded assets (and hence unnecessary costs), lock-in effects, the risk of diverting investments from low carbon technologies such as renewables, delaying a transition in energy systems and how would you and weigh those against risks to gas security and resilience? What options exist in your view to reduce the risk of stranded assets?

Again it is vital that the short term and long term supply / demand balance for natural gas is very well understood by the “market participants”. Furthermore, the investor must bear the risk – both rewards and the risk of a stranded asset. Industry consumers cannot bear the costs of uneconomic unsuccessful investments.

Timely and expert interventions by national regulators and ACER are important with regard to reducing the risk of stranded assets.

Question 19: What do you think are the most critical regulatory barriers to the optimal use of storage in a regional setting?

Full implementation of the 3rd Gas Directive and use of related competition law powers preventing hoarding etc. will be instrumental in the optimal use of storage.

Question 20: Do you think ongoing initiatives and existing legislation can tackle the remaining outstanding issues or is there more the EU could do? Do initiatives need to include additional issues further to the ones described here?

The EU acquis should be used at regional level to seek best solutions for the region.

Question 21: Do you consider EU-level rules necessary to define specific tariff regimes for storage only or should such assessment be made rather on a national level in view of available measures able to meet the objective of secure gas supply?

It is inevitable that Member States will seek best practice with regard to secure gas supply. The established national regime should be shared with neighbours, ACER and the EC for compatibility with the *acquis communautaire*.

Question 23: Have you ever encountered, or are you aware of, difficulties related to feeding LNG gas from the storage site back into the gas network? If so please describe the nature of these difficulties (regulatory provisions, company behaviour, technical problems) in detail.

We here cannot give answers but would state that regulatory and even competition authorities should be alert to the need to have pro-competitive supply conditions at the future ever increasingly important LNG gas to storage to gas network relationship

END.