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'Internal Energy Market: Security of Supply'  
DG Energy - ENER.A.3  
'International Relations & Enlargement'  
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Onze ref. GT-MT-RB-L110  
Betreft / ref. Response to the consultation of an EU strategy for LNG and gas storage

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Rotterdam September 30<sup>th</sup>, 2015

Dear Madam / Sir,

We are pleased to respond to the consultation given the important role LNG can play in Europe's energy supply. It's appropriate for the European Commission to work on this issue.

We would like to underline the successful development of the LNG market in Europe in the past decades which has resulted in over 200 BCM of LNG import capacity together with the development of small scale services.

GATE terminal is an LNG terminal in the port of Rotterdam. It is connected to the European gas network and competes with other LNG terminals in the wider region. The clients of GATE are European energy companies, they use GATE as an entry point to optimize their portfolio and supply their customers in the European market.

In addition to the traditional services offered by GATE, we are developing small scale solutions to facilitate the connection of more isolated regions in Europe to the LNG market, and thus improving the security of supply in those regions.

GATE is of the opinion that the European Commission should focus on the following topics defining an LNG strategy:

- New LNG infrastructure should be primarily market driven, thereby reducing the risk of stranded assets. Further EU support or specific support by Member States might deteriorate the competitive position of existing LNG terminals or undermine the business case of market driven projects. Support could however be considered for isolated or emerging markets to ensure a proper level of Security of Supply. Enhancing

cooperation between TSOs and improved interconnection are key to the effective use by market participants of LNG terminals.

- Terminals in Europe are increasingly competing against each other. Given this competition negotiated third party access should be the basis of the regulatory framework in order to let the market function optimally and ensure flexibility for the development of services offered by LNG terminals.
- Gate supports the enhancing of relations between the EU, supplying countries and suppliers.
- The regulatory framework regarding the quality standards of LNG should enable market participants to bring LNG to the European market with a wide variety of quality to allow a multitude of supply sources, keep the European LNG market competitive and to avoid additional costs in the LNG chain.
- LNG used as fuel in transport and shipping should be further encouraged to reduce all kind of emissions. Relevant environmental legislation should enforce a reduction of harmful emissions from the transport sector.

We kindly ask you to inform us about the next steps in the process to define the strategy.

Yours faithfully,



Rolf Brouwer

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**Gate terminal B.V.**

By: Rolf Brouwer

Title: Managing director

Date: 30 September 2015

Place: Maasvlakte Rotterdam, The Netherlands

**Encl. (1) response to the consultation document LNG & gas storage strategy**

## **Consultation on an EU strategy for liquefied natural gas and gas storage-Response GATE Terminal**

### **LNG**

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.

GATE agrees that the access to the global LNG market is of vital importance for Europe. Member States can have access to LNG terminals either directly or indirectly. For example the customers in GATE terminal in Rotterdam are European energy companies, a.o. from Austria and Denmark.

Europe's infrastructure is becoming increasingly well-interconnected and over the lifespan of LNG terminals this will only increase (e.g. reverse flow). This gives the best guarantee for a robust system that can mitigate supply disruptions. In an interconnected system gas can be delivered from a multitude of suppliers and sources and flow freely between Member States. Swift implementation of PCIs can address some of the bottlenecks which still exist and hamper the free flow of gas in certain parts of the internal market, as demonstrated by the European Stress Test of autumn 2014.

There is no optimum level/share of LNG for a region or Member State, or for Europe. It is all a matter of market dynamics. When LNG prices are competitive with European spot gas prices, more LNG will come to Europe and result in increased utilisation of LNG import terminals. This trend is clearly visible since the beginning of 2015, with lower LNG prices resulting in increased utilization of the European import terminals.

The LNG delivery pattern may change in the long term, with declining domestic gas production but stable demand, e.g. in Northwestern Europe, resulting in more base-load supply through LNG. A key challenge in this respect is that LNG operators are enabled to develop innovative solutions to the market in order to accommodate additional LNG flows.

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?

Efforts such as Energy Efficiency measures might reduce gas demand partially, but forecasts for 2030 predict a stable gas demand at least until 2030. In emergencies, demand reduction may in certain circumstances be a solution for a limited period of time, but it's questionable if it can provide a structural solution.

The primary driver for LNG investments should be the market. Before any non-market based projects are considered, the maximization of the utilization of existing LNG facilities and enhancing cooperation between TSOs should be first considered. Furthermore, better interconnections

especially with the well functioning NW European gas market serve multiple goals, e.g. it increases gas-to-gas competition and more liquid hubs.

For more isolated markets, small scale solutions whereby smaller cargoes loaded from bigger import terminals elsewhere in Europe supply the market could be considered instead of constructing new pipelines, especially in the case when this is more cost efficient.

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

The Northwest-European gas market is functioning very well. In this market, some activities are regulated while others are exempted. In Northwest-Europe, the utilization risk is with the investors and not socialized towards end-consumers. This demonstrates that market participants are willing to invest in LNG-terminals and storages if the regulatory framework is adequate.

For specific markets or projects related to the development of small scale LNG, financing levers may be initially considered to minimize risks for private investments. In principle, however, new LNG infrastructure should be market driven. Subsidies need to be carefully assessed to ensure they do not deteriorate the competitive position of existing LNG terminals or undermine the business case of market driven projects.

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?

Utilization of LNG terminals is mainly determined by the world LNG prices. In the past years, prices at the Northwestern European gas hubs like TTF were not inducing shippers to bring LNG to that part of Europe. By contrast, markets with higher gas prices or where long-term LNG contracts have been concluded saw more LNG activities. Since the beginning of this year LNG prices have come down substantially, especially on the Asian market, which resulted in some increase of the utilization rate of LNG terminals in Europe (see answer to question 9).

Furthermore, capacity contracts in LNG terminals can be part of an overall supply portfolio of shippers to enable optimal trading possibilities. Therefore, the value of capacity contracts might not be linked to constant full use of LNG terminals.

For terminals such as GATE, booked capacities mitigate investment risks. Nevertheless there may be a risk of stranded assets also due to the fact that LNG terminals have a long lifespan. Mitigation of the risk of stranded assets through regulatory arrangements by Member States should always be in line with the EU state aid regulation.

On potential lock-in effects, LNG terminals also meet other EU objectives such as diversification of sources and suppliers as well as the potential role LNG can play in reducing greenhouse gases in various markets and applications.

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)?

If a market based approach is followed, the involvement of Member States in taking an investment decision for building a new LNG terminal is limited. It's typically a business risk to be determined by market parties based on a full-scale business case. In such a business case the competitive position of gas vis-à-vis other energy sources on a longer period of time is evaluated, especially taking into account the EU's energy and climate goals. At the same time LNG can substantially contribute to meet EU energy and climate goals, not only in sectors where gas is currently used, but also in new sectors such as transport, leading to increased demand.

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.

Regulatory arrangements for open access LNG terminals should be based on negotiated third party access in order to let the market function optimally, also given the absence of dominant positions. Small scale activities should in general not be regulated allowing terminal operators to react quickly to market needs and adapting to price structures, ensuring a level playing with its relevant market, i.e. the bunkering market.

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?

LNG producers should be able to bring their gas to the European market. The stimulation of short-term markets can create uncertainties for long-term investments in upstream activities and infrastructure. Therefore a balance between long-term and short-term market arrangements is necessary.

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?

There is no need for additional regulation addressing the services delivered by LNG terminals, in line with our response to question 6 the market will function better based on an nTPA approach. Plans within the framework of the Energy Union to enhance relations with suppliers and supplying regions

should be further developed. The market benefits from a stable and predictable business environment.

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?

There is an expectation that LNG supply will grow very fast in the coming years, as a lot of LNG will be exported from the US and new production coming into operation in Australia. Combined with the fact that the LNG demand in Asia is expected to weaken, as nuclear power plants in Japan are coming back online and with weak economic forecasts in China, the expectation is that a lot of LNG will come to Europe and the price of LNG will further decrease.

It is difficult to assess whether a shift away from oil indexation is going to take place. However, LNG supply contracts may increasingly be linked to TTF.

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?

LNG connects Europe to the world gas market, giving access to a very diversified production portfolio. LNG terminals can furthermore play an active role during emergencies in the European gas market due to their high send-out capabilities on short notice. In case of an emergency situation the price of natural gas in Europe will rise. If this price is higher than the price on the world market for LNG, traders will acquire extra cargoes e.g. diverting cargoes within their portfolio to Europe. The market will therefore play a key-role by sending price signals, attracting additional volumes to Europe in case of a supply disruption.

Any non-market based measures, like voluntary demand aggregation, should only be considered in a crisis situation. If applied it should follow well-defined criteria and not interfere or be detrimental for market functioning (e.g. on prices), in line with the principles of the internal energy market. Moreover in a well-functioning market, gas prices will rise in areas with reduced supplies. This will trigger gas to flow (by pipeline or boat) from regions with lower prices to regions where prices are higher. To enable this, sufficient infrastructure needs to be in place.

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 as a transport fuel for ships and trucks can meet the stringent pollutant emissions limits set by the EU. The transport sector is highly international and thus, standardization and harmonization of technical and safety standards may be sensible. LNG operators have to be enabled to meet the demands of the transport and shipping sector in a timely manner.



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.

We believe that LNG could play a central role in reducing CO2 and other emissions, particularly in the transport sector, e.g. by heavy duty vehicles and ships. The alternatives for LNG are diesel oil, gasoil and heavy fuel oil. This is a rapidly evolving market for LNG, due to its better environmental performance vis-à-vis other options. However, the current oil price developments disincentives logistics and freight haulers to switch from diesel and gasoil to LNG. In addition, a lack of LNG refueling infrastructure for trucks and ships continues to be a bottleneck. Strict enforcement of the directive on the deployment of alternative fuels infrastructure can address this issue.

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?

No answer.

#### **Storage**

No input on behalf of GATE terminal.