

Consultation on an EU strategy for liquefied natural gas and gas storage

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1. INTRODUCTION

Comments

2. There seems to be quite substantial uncertainty over: i. the future level of the EU's demand for gas; ii. future EU gas import needs; iii. the exact role of gas in the EU's transition to a low carbon future (as well as the exact path & final effects of this transition). Any longer term strategy on gas should take into account these uncertainties and so provide for as much flexibility as possible in any created framework/proposed tools
3. Big differences seem to persist between EU member states when it comes to: i. role of gas in their energy mix; ii. their import dependency level; iii. the dependency on Russian gas; iv. their vulnerability to any kind of disruptions in gas supplies. No aggregated (EU level) indicator shows that well and it seems that no aggregated instrument/answer can address this issue
4. LNG use within the EU seems to depend on: i. overall gas demand; ii. the possible new uses of gas/LNG; iii. its price competitiveness; iv. the availability and prices of alternative (e.g. Russian) gas in different parts of the EU (e.g. in north-western Europe it will depend to some extent on the future of the Nord Stream 2 project); v. the availability and prices of alternative fuels; vi. infrastructural integration and the removal of other barriers to the free flow of gas etc. LNG (but also storage) seems then to be an important part of a wider picture and calls for the inclusion of LNG (and its storage) strategy into a wider / more complete strategy e.g. gas strategy.

2. LNG in the EU today

Comments:

Point 2.2: Dependence on one supplier does not equate to vulnerability. Romania ceased natural gas imports in April 2015 and the country's regulator expects that they will account to 3% of overall gas consumption in 2015 and that Romania will cease gas imports in 2016¹. The Czech Republic is probably the best CEE country when it comes to its integration with the internal EU gas market. It has the ability to buy gas from both the East and West directions and since 2014 its supplies from/via Germany rose as well as its transit role in the West-East gas flow. Slovenia already in 2012 had quite well diversified sources/routes of gas imports (42% of gas imports supplied from Russia, 35% from Austria, 16% from Algeria, and 7% from Italy²) and is well integrated with the EU gas market (Italy – which allows for imports from Italian LNG Trieste terminal – and Austria – the connection to CEGH). Probably more vulnerable than all 3 of the above mentioned countries is not listed here – Poland, which also is not as vulnerable to a possible Russian gas supplies shortage as it used to be several years ago.

¹ <http://www.icis.com/resources/news/2015/09/21/9925337/romania-likely-to-end-natural-gas-imports-by-2016-anre/#>

² https://ec.europa.eu/energy/sites/ener/files/documents/2014_countryreports_slovenia.pdf

Point 2.4. I am not sure what the relation is of the North-South Interconnections discussed in this part in Central and South Eastern Europe to North – South Gas Corridor project in CEE (see e.g. MoU and the Action Plan for North-South Energy Connections in Central –Eastern Europe signed by ten Member States³, or PCI projects labelled as NSI East Gas including gas pipelines inside Poland or interconnections with Poland⁴). Nor do I know what the geographical definition of Central Europe is in this / other EC documents or why Poland is not included in the group of Central European countries (as is included into Baltic Sea Region). I understand that this might be the case of a country which somehow belongs to two different regions/EU initiatives, which brings me to the question of how to work effectively in such cases, what is the relation between different regions defined by the EU and initiatives linked to those regions (or going beyond them) etc.

Point 2.5.

- Also from Poland's (Central European ☺) perspective, developments in the gas markets of the Energy Community countries – especially Ukraine – remain very important as a substantial part of its Russian gas supply transits Ukrainian territory and as Poland was one of the first EU member states to open the possibility of so called 'reverse gas flow' supplies to Ukraine, and considers increasing the capacity of its interconnections with Ukraine and has discussed different options of supplying the Ukrainian gas market inter alia via the Swinoujscie LNG terminal.
- I am not sure if in the framework of EU's strategic papers Energy Community should be regarded only in the context of its role for Central and South Eastern Europe. I hope there is some EU-wide interest related to Energy Community and its developing gas market and its future integration with the EU's one: it should be clearly and concretely described and referred to also in more specific documents, such as LNG and storage strategy (e.g. when it comes to storage facilities/potential of the Energy Community, Ukraine may in the future be of specific importance to the whole EU).

Question 1.

The key infrastructure challenge in the most vulnerable regions is how to stimulate infrastructure development under the current EU gas market circumstances (low demand, difficulties of gas companies) and the persisting political/systemic/other circumstances in each of the CEE/SEE regions/countries (which resulted e.g. that despite the fact of its high vulnerability, Bulgaria is still not interconnected with its neighbours). I see you do not list here the interconnections/gas infrastructure/storage needed which is planned – but only planned LNG terminals. It would be great to have a complex table with a list of all the important infrastructure planned with all the details included – that would help with the identification of duplications or synergies plus defining what 'no-regret' options are. I also think that while analysing the need for an LNG supply in specific countries / regions one should not focus only on the diversification/SoS angle but also on competitiveness issues etc.

Question 2.

I think the key issue is to find out what the primary reason is why certain states/companies push for construction of specific LNG terminals/storage facilities of pipelines. Only then is it feasible to decide if this goal might be realised also by other means. In general terms LNG terminals offer what is much

³ <https://ec.europa.eu/energy/en/topics/infrastructure/north-south-east>

⁴ http://ec.europa.eu/energy/infrastructure/transparency_platform/map-viewer/

needed in certain states – flexibility and benefit to the whole economy / state (see Klaipeda LNG) while it might be problematic for specific actors (see e.g. Achema's claims). In that sense they are not a simple substitution of a pipeline's development.

The other thing is to check if and to what extent member states are willing and able to rely on neighbouring countries for the security of their internal gas supply and if/what are the obstacles disabling the effective use of already existing assets (e.g. the case of the LNG terminal in Trieste and the existing TAG pipeline connection to Baumgarten whose existence doesn't seem to enable Austria to import LNG via Italy), and potentially to explore tools which could increase this willingness (or at least prevent it from deteriorating – as e.g. Nord Stream 2 could theoretically bear a negative impact on some CEE countries' willingness to depend too much on Germany regarding their SoS strategies)

And then there is the question as to if and what security of supply measures / strategy can be applied on an EU level, what role there is for EU institutions there and how can it be complementary to the national security of gas supply strategies, taking into account subsidiarity rules.

Question 3.

Yes I think both better TSO cooperation and better storage possibilities could help here. I guess bigger transparency in the situation on EU member states gas markets would also help – a brilliant job is being done by GIE & ENTSG but it would be great if we could also collect and publish on a regular basis data on yearly/monthly gas demand & balances (output, imports / exports / sources) in common on EU level units (and also measured in the same temperatures etc.), possibly rules for storage, transit, information on existing and realised infrastructure etc.

Question 4.

The explanation is the current situation on global and European gas markets – the LNG price in Europe and the rest of the world plus LNG price competitiveness vs pipeline/storage gas or other fuels. One obstacle is also the imperfect integration of the EU gas market and transport tariffs etc.: increasing integration would certainly enable a wider reach on LNG from one terminal, but then it also has limits: I cannot really see LNG coming via Spain to the Baltic States.

Stranded – assets lock-in effects: I guess what LNG infrastructure provides for is not only resilience (SoS tool) but also flexibility (to import/use gas if it becomes cheaper – and in an ever more liquid and volatile EU and global gas market it may happen in a fairly unpredictable way – or if some new uses of gas appear, etc.) and sometimes wider-scale economic benefits (the mere existence of an LNG terminal can make a country's gas market more competitive and lower the price of gas from alternative sources – see the example of the Klaipeda LNG terminal). All that should be taken into account when considering new LNG projects. That is why sometimes investment in an LNG terminal might be seen as a public good, or strategic long-term good –neither of these has to ensure immediate profits to investors. It is then again about a very careful analysis of all the possible costs and benefits of specific projects /including the goals set by their promoters on the national, regional and EU levels.

I am not sure if investing in gas in general can delay a 'true change' in energy systems or what exactly you mean here by such a 'true change'. While planning to co-finance from public / EU money, clear criteria for energy-sector investments must be set which take into account all 3 EU energy policy

priorities (competitiveness, security of supply and sustainability) as well as each member state's specific needs, especially those agreed as being the most urgent / important. I am not sure if discriminating against or favouring one fuel against another is the most sustainable way of both defining such clear criteria or achieving an effective energy system in the future.

Question 5.

No.

3. Potential entry barriers for LNG

Question 6.

As mentioned above, I have heard of the Austrian problems with importing gas from the Italian LNG terminal and via the TAG pipeline.

Question 7.

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Question 8.

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4. International LNG markets

Comments:

Point 4.4. I am not sure how the EU is going to work towards an improved global governance system for energy – what effective tools does it have at its disposal or what new tools does it envisage to use? My question is related inter alia to the fact that energy consumption in the EU is decreasing and so is the EU's global role as energy consumer; increasing competition from other energy consumption centres; lesser scope for effective cooperation on global governance issues with the US (due to their increased domestic production and smaller interest in imports); the more fragile and unstable situation in some key fossil fuels production regions/countries.

To increase its external energy policy effectiveness the EU should indeed make more coherent use of all the policy tools at its disposal: together with energy and foreign policy, it should also use trade, development and perhaps sometimes also security policy tools.

Question 9.

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Question 10.

I am not sure why you perceive the voluntary demand aggregation mechanism as a tool which could potentially be used only in times of stress. I guess it might be helpful then (maybe in times of stress gas market actors happen to be more willing to voluntarily aggregate demand) but it is worth checking whether or not it can also be a useful tool in times of peace. I guess finding an effective voluntary demand aggregation mechanism could perhaps enable the achievement of lower import

prices and increase the rate of use of LNG terminals especially in the regions where small gas markets are prevalent (Central and Eastern Europe, the Baltic States, the Balkans). If well designed it could also become an instrument providing for greater cooperation and coordination between a certain group of market actors, allowing for the number of competitive LNG projects in one area/region to be limited (as you wrote in this paper, the BEMIP initiative identifies the need for one regional LNG terminal & also CESEC aims to identify the minimum infrastructure needs), and ultimately creating conditions for better gas market (trade/infrastructure) development in some areas.

5. LNG technology issues including LNG use in transport

Question 11.

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6. LNG sustainability issues

Question 12.

I think that while working on any EU energy strategy it is worth checking how it relates to the 3 general goals of EU energy policy (and also the Energy Union, I suppose): competitiveness, the security of supply, and sustainability. So if there is to be an EU LNG strategy, or if you decide to go forward with a larger EU gas strategy, I guess relating to all 3 of these aspects may be sensible.

7. Storage

Question 13.

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Question 14.

We haven't had a chance to actually check that recently. It probably depends mostly on the length of disruption/cold spell) and the way and exact moment of switching from market into non-market mechanisms. I guess also different rules in different states make cooperation in a crisis situation more difficult.

Question 15.

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Storage Infrastructure

Comment:

- it is worth checking if and how existing storage facilities helped in developing gas trade / hubs in some countries/regions (Austria/Germany) and thus if it also might be the case for new storage facilities;
- one important thing might be to think about defining which storage facilities may have high significance for the EU/regional gas market functioning and to try to define a minimum set of common rules for their use. I think e.g. ways to use such storage by third country companies

might be discussed – especially if the EU still aims to reduce its import dependence and the CEE/SEE region's dependence on Russian gas;

- while thinking about storage it may be important to think carefully about the EU's strategy and goals related to the Ukrainian gas market (and its huge gas storage facilities on the EU's Eastern border)

Question 16

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Question 17

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Question 18

See comments to question 4.

Regulatory framework and potential barriers to storage

Question 19

The national character of the security of gas supply policy, insufficient levels of trust, cooperation and info-sharing, the lack of infrastructure of barriers to its use, sometimes the way we define regions.

Question 20

I think the EU may play an important role in trust building among EU member states, provide a platform for information sharing and greater coordination and transparency, enable the speeding up of planned infrastructure etc.

Question 21

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Question 22

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Question 23

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