



Proposal to set up a regional sub-sectoral network on LNG markets within the Eastern Partnership Energy Panel

Overview

In the last couple of years, we have observed an increasing importance of LNG in the global gas market. According to the International Energy Agency, the supply of LNG will reach 500 bcm in 2023, with Australia and, especially, the US already exporting LNG including to the EU. Overall, within the next five years LNG trade will expand by 30%, underpinning a shift to a more competitive, global natural gas market¹. According to conservative analyses by the Oxford Institute for Energy Studies (OIES), in 2020 the volume of LNG available for European buyers will be between 113 to 169 bcm² (depending on the level of demand in Asia). Europe may benefit from those developments as LNG could help diversify the EU's energy mix (and thus increase security of supply), contribute to greenhouse gas emission reductions in the short- to mid-term, in particular by replacing coal in power generation and oil in the transport sector, as well as positively impact energy bills by increasing competition.

Opportunities linked to an increasing role of LNG are well recognized on the political level and are well reflected in the EU strategy for liquefied natural gas and gas storage of 2016³. For instance, European Commissioner for Climate Action and Energy, Mr Arias Cañete signed a Memorandum of Cooperation with Japan in July 2017, to promote and establish a liquid, flexible and transparent global LNG market. A well-functioning global LNG market could bring competitively priced LNG to the EU's liquid gas hubs. During his trip to Washington in July 2018, President of the European Commission, Jean-Claude Juncker, acknowledged the possible role of US LNG saying that *"The growing exports of U.S. liquefied natural gas, if priced competitively, could play an increasing and strategic role in EU gas supply."* Other LNG exporters are also planning to expand their capacities. Many Member States intend to take advantage of this positive trend by increasing the existing capacities (Poland, Greece), planning new ones (Germany, Croatia), or by linking themselves to LNG delivery markets (Hungary, Baltic States, Slovakia). The same opportunities should also be made available to the Eastern Partner countries.

¹ IEA, Gas market report 2018

² OIES, The forthcoming LNG supply wave, 2017

³ <https://ec.europa.eu/energy/en/topics/oil-gas-and-coal/liquefied-natural-gas-lng> and Commission Communication [COM\(2016\) 49 final](#) of 16/02/2016

Aim of the network

Most Eastern Partner countries have long been dependent on one source of gas imports. Due to historical and geopolitical circumstances, Eastern Partners have been separated from the global market and do not yet benefit from its increased competitiveness. The same is true with respect to the ongoing LNG revolution and Eastern Partners lack access to this technology. The continuous support and international cooperation are essential foundations for the future LNG market development in the region.

In coherence with the Eastern Partnership Energy Panel working methods, Poland therefore proposes to establish a regional sub-sectoral network on LNG to assess the economic and political opportunities stemming from an increasing LNG role in the global market – *inter alia* as an opportunity of diversification of natural gas sources and import directions, a competition to traditional suppliers, and as a new potential sector of economy. Moreover, LNG supply flexibility may contribute to greater energy security. The LNG network could also add to ongoing discussions on increasing connectivity between and among EU Member States and Eastern Partners, as well as constitute a forum for sharing best EU practices and knowledge pertaining the LNG market.

Interested EU Member States and Eastern Partner countries will discuss specific aspects of LNG market functioning, assess benefits and costs, as well as indicate potential obstacles (infrastructural, regulatory) to join the market. EU Member States, experts and LNG practitioners (traders, suppliers, LNG facility operators) will share their experiences and discuss the technical aspects of the market. Finally, the potential of each of the Eastern Partner countries to access LNG markets will be assessed.

Work programme

Based on this concept note and a discussion at the Eastern Partnership Energy Panel meeting on 27 November 2018, participants are asked to agree to setting up such a sub-sectoral network on LNG. Poland suggests organizing a kick-off meeting in Warsaw in Q1/2019, in the framework of the 10th Eastern Partnership anniversary, followed by a series of workshops on different aspects of LNG markets (first workshop to be held back-to-back with the kick-off conference). Representatives of ministries, companies and Transmission System Operators (TSOs), regulatory offices, as well as selected experts from respective Eastern Partners, EU Member States and LNG supplier countries will be invited to participate.

We intend to organize 4 workshops, with the following proposed preliminary subjects:

1. First workshop – LNG market functioning / Q1/2019 in Warsaw
Aim: to focus on technical and commercial side of LNG (capacity booking, spot contracts, LNG derivatives market etc.)
Speakers: gas companies and representatives of gas exchanges and broker offices
2. Second workshop – regulatory side of LNG markets / tentatively May 2019
Aim: to focus on regulatory regimes within EU that helped to create LNG markets
Speakers: national regulatory authorities and legislators from MSs, representatives of Energy Community and Energy Charter

3. Third workshop – infrastructure / tentatively September 2019

Aim: to focus on infrastructural gaps and obstacles that prevent Eastern Partners from accessing LNG markets. Special attention will be given to cross-border trade between Eastern Partner countries and problems in functioning of interconnection points on the borders of Eastern Partner countries.

Speakers: Energy Community, European Commission, companies (including TSOs)

4. Fourth workshop – LNG facilities / tentatively late November or December 2019

Aim: to focus on funding, managing and daily functioning of LNG facilities; services at LNG terminals

Speakers: LNG facility operators; apart from the workshop, a possible field visit on one of the LNG sites

The terms of reference for the network, as well as exact topic and scope of each workshop will be subject to discussion and agreement by the participating Member States and Eastern Partners during the kick-off meeting in Warsaw in Q1/2019.

The locations for the workshops could alternate between Member States and Eastern Partner countries. Poland and Ukraine will co-chair the kick-off meeting as well as the workshops. Co-chairs will systematically report on the progress to the Energy Panel.

LNG strategy for the Eastern Partner countries

In parallel to the workshops, Poland proposes to contract external expert(s) to prepare a study document capturing the outcomes of discussions within the network and assessing the potential of each Eastern Partner to access LNG markets. Based on interviews with ministries, companies and energy regulators from respective Eastern Partner countries the study – “LNG strategy for the Eastern Partner countries” – could point out the existing legislative, regulatory and infrastructure gaps and suggest solutions to overcome them.

The exact scope of the assessment, as well as working methods of the external expert(s) shall be discussed and agreed by EU Member States and Eastern Partners during the kick-off meeting in Q1/2019. Depending on the timing of its finalization, the document could be presented and endorsed during the next Eastern Partnership Summit.

Steering questions for discussion addressed to Eastern Partners and EU Member States:

- *Does your country agree to set up a regional sub-sectoral network on LNG markets?*
- *If yes, what would be the expectations of your country as regards the outcome of the works?*
- *Would your country be available to contribute to the works be it by sharing expertise and experience or via in-kind contribution for the workshops?*
- *Is there any additional aspect on the content or the working arrangements your country would like to complement into this concept note?*