Opinion of the European Economic and Social Committee on the communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on an EU strategy for liquefied natural gas and gas storage

(COM(2016) 49 final)

(2016/C 487/12)

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Section responsible	Section for Transport, Energy, Infrastructure and Information Society
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Outcome of vote (for/against/abstentions)	109/0/8

1. **Conclusions and recommendations**

1.1. The EESC believes that the EU strategy for liquefied natural gas (LNG) and gas storage set out in Communication COM(2016) 49 final is an essential element of the Energy Union project which is aimed at ensuring the security and diversification of energy supplies.

1.2. In the next few years global gas liquefaction potential will increase, which is likely to put downward pressure on prices; the Committee therefore sees this as an opportunity for increasing the security and resilience of the EU's gas system.

1.3. The Committee believes that the European gas market should be made more flexible by increasing the share of LNG.

1.4. The EESC considers that increasing the proportion of LNG in the EU gas market, ensuring that there are adequate gas reserves in storage facilities and promoting the genuine diversification of energy supplies are factors that will ensure the energy security of European Union's Member States.

1.5. The Commission communication rightly draws attention to the apparent adequacy of the EU's regasification capacity, 'apparent' since it is not distributed optimally at regional level.

1.6. The Committee agrees that to achieve full and sustainable diversification of gas supplies to the EU, a diversified approach to the construction of new LNG terminals is required.

1.6.1. Priority should be given to investments aimed at balanced supply routes. Prudent EU measures supporting the construction of new LNG terminals and cross-border transmission links should take account of regions which are currently isolated and dependent on a single supplier.

1.6.2. Effective and timely investments in projects of common interest are important for the expansion of the LNG market in the EU. Transparent mechanisms should be established in order to ensure a fair distribution of investment and operating costs between the Member States and economic operators.

1.6.3. The Committee believes that the EU must ensure that the development of fast-track LNG terminal and Floating Storage Regasification Unit (vessels) (FSRU) projects is a technologically neutral choice, based on the most effective investment.

1.7. The EESC supports the Commission's intention of verifying the compliance with EU law of Inter-governmental Agreements (IGAs) for LNG purchases from non-EU countries.

1.8. The Committee points out that the Commission communication does not show how the strategy to boost the share of LNG and increase gas storage is consistent with the major network investments currently planned by the EU's neighbours, such as Nordstream 2.

1.9. The EESC recognises and stresses the value of natural gas, including the important role of LNG, to the EU's transition to a low-carbon energy system and efforts to reduce GHG emissions as well as toxic emissions of gas and dust (PM_{10}, $PM_{2,5}$), which pose a risk to the health and lives of people in the Member States.

1.9.1. The strategy outlined in the communication should emphasise more strongly the important role of natural gas as a bridging technology in the transition from coal to low-carbon energy. As a cleaner energy source, gas has a particularly important role to play in efforts to sharply cut low-stack emissions, especially from households and transport.

1.9.2. The EESC recommends that, during the transition from coal to a low-carbon economy, there should be a greater share of natural gas in Member States' energy mix, especially in those countries where coal plays a dominant role.

1.10. The Committee supports the idea set out in the communication that using LNG in the heavy goods transport sector, as well as in maritime transport, may significantly reduce environmental damage.

1.10.1. At the same time, the Committee points out that, in the section of the communication dealing with LNG, not enough attention is paid to the intensive development of the European system of obtaining and using LNG as a fuel in transport, both road and maritime.

1.11. The EESC recognises that gas storage plays a particularly important role in Europe's security architecture and in maintaining a stable supply of natural gas. The EU's existing storage capacity is considerable (COM(2016) 49 final), but its distribution is insufficient.

1.12. The EESC highlights the fact that, in order to ensure balance and achieve energy security, operators must adopt sets of principles, namely the idea that the minimum level of stored gas must cover 100 % of the national market's gas requirements for the winter period; however, the best alternative would be to balance stored gas at regional level.

1.13. The Committee supports and views as important the Commission's plans to remove barriers to trade between effective regional gas hubs and individual national markets.

1.14. In connection with the question of completing missing infrastructure, which was highlighted in the communication, the EESC considers that use should be made of the opportunity afforded by the European Fund for Strategic Investments (EFSI) with a view to providing additional financing for critical energy and teleinformatics infrastructure projects.

2. **Background**

2.1. In March 2015, the Council of the EU adopted its conclusions on the Energy Union. The most important part of this document stipulates that, 'The EU is committed to building an Energy Union with a forward-looking climate policy on the basis of the Commission's framework strategy, whose five dimensions are closely interrelated and mutually reinforcing:

— energy security, solidarity and trust,

— a fully integrated European energy market,

— energy efficiency contributing to moderation of demand,

— decarbonising the economy,

— and research, innovation and competitiveness.'

2.2. The EESC notes that, in paragraph 2, point (a) of this document, the Council called for **work to be stepped up on electricity and gas infrastructure projects**, including interconnections — particularly to peripheral regions — in order to ensure energy security and a well-functioning internal energy market.

2.3. This EESC opinion looks at the **EU strategy for liquefied natural gas (LNG) and gas storage**, as set out in communication COM(2016) 49 final. The strategy is an important part of the plans for an Energy Union (COM(2015) 80), in terms of its contribution to the security of the energy supply, the competitiveness of energy markets and the climate and environment objectives pursued within and outside the framework of the Energy Union.

2.4. Natural gas is an important fuel in the EU energy mix, accounting for 25 % of total energy consumption. It is important to highlight that extraction of this raw material in the Member States meets 34 % of energy production needs in industry, services and for private purposes.

2.5. **Natural gas extraction in the EU is declining relatively quickly.** In 2004, 229,5 billion m^3 of natural gas were extracted, but this fell to 132,3 billion m^3 in 2014. What is more, existing reserves will only last for 11,3 years. This explains why the European Union is the world's largest importer of natural gas. In 2014, natural gas consumption in the EU amounted to 386,9 billion m^3. This was the lowest level for 10 years, 11,6 % lower than the previous year, yet average annual gas consumption in the EU between 2004 and 2013 was 447 billion m^3.

2.6. **Global recoverable deposits of natural gas are enormous** (187 000 billion m^3), with an R/P ratio of 54 years. When unconventional gas resources are factored in, the ratio rises to 290 years.

2.7. By 2020, **world gas liquefaction capacity will increase** significantly (+ 50 %), especially in the USA and Australia (over 100 million tonnes/year), which is bound to push prices downwards. This is an opportunity for EU Member States to boost the security and resilience of the EU's gas system so that it can cope with any disruptions to supply.

2.8. In the first decade of the 21st century, **gas was imported into the EU mainly via a system of gas pipelines, and gas in liquid form (LNG) accounted for only fifth of imports**, despite the fact that LNG has only 1/600th of the volume, making it more economical from the point of view of transport and storage.

3. General comments

3.1. The EESC acknowledges the **important role of gas in the EU's low-carbon energy transition**, and in efforts to cut emissions. **Ensuring that Member States have balanced and unfettered access to diversified and politically stable gas producer markets** is becoming a key short and medium-term priority, contributing to the EU's climate and energy policy and to the creation of a stable Energy Union. Policy on the proportion of gas in the energy mix should take account of the long-term objective set in the Paris Agreement (COP 21), i.e. to keep the increase in global average temperature below 1,5 °C.

3.2. The Committee notes that the Commission Communication COM(2016) 49 final is a continuation of the agreement on the EU climate and energy policy framework, adopted by the Council of the European Union on 23-24 October 2014. The agreement sets the following targets to be achieved by 2030:

— a 40 % reduction in CO_2 emissions,

— a share of at least 27 % of renewable energy in the EU energy mix,

— an increase in energy efficiency of at least 27 %.

3.3. The economic competitiveness of gas as a fuel in EU countries, as well as the question of whether gas will become a viable competitor to solid fuels, particularly coal, will be decided over the course of the next decade by the interplay between five different factors:

— climate and energy policy, particularly efforts to improve air quality,

— gas prices,

— implementation of the EU emissions trading scheme, and thus prices for CO_2 emission allowances,

— the strength of gas exports (LNG) from the USA and Australia, and

— the world market price of crude oil and coal.

3.4. The EESC supports and views as important the Commission's plans to **remove barriers to trade between effective regional gas hubs** and individual national markets. To this end, it is essential to complete the internal gas market, remove regulatory, commercial and legal barriers and ensure access to these markets.

3.4.1. Since the importation of liquefied shale gas from the USA can have a positive impact on the European gas market, the EESC urges the EU to engage in active negotiations, within the framework of the TTIP, to remove barriers to imports of this kind of gas from the USA.

3.5. It should be pointed out that the **Commission communication does not show how the strategy** to boost the share of LNG and increase gas storage **is consistent with** the planned Nordstream 2 investment (COM(2016) 49 final).

3.6. The strategy outlined in the communication should emphasise more strongly the important role of natural gas as a bridging technology in the transition from coal to low-carbon energy. As a fuel, gas is particularly suited to rapid and stable electricity and heat generation, and could therefore act as a back-up technology for renewable energy sources.

3.7. The EESC recommends that, during the transition from coal to a low-carbon economy, there should be a greater share of natural gas in Member States' energy mix, especially in those countries where coal plays a dominant role. This is of particular importance for the improvement of air quality, which will have a positive impact on the health of the citizens of those countries and their neighbours, while significantly reducing greenhouse and toxic gas emissions.

3.7.1. In some Member States, an average of two thirds of final energy is used to heat homes, and is produced in low-efficiency coal-fired plants. Investments in small-scale gas-fired cogeneration plants would enhance the resilience of the energy system and improve air quality. Such investments are carried out within a short time-frame (2 years); financial costs (CAPEX) are relatively low (although they are increased by operating costs) and partly offset the relatively high fuel costs. Another advantage of small-scale gas-fired cogeneration plants is the very short time needed for synchronisation with the energy distribution network, thus making them an excellent source of compensatory energy during periods of peak energy demand.

3.8. In connection with the question of **completing missing infrastructure**, which was highlighted in the communication, use should be made of the opportunity afforded by the European Fund for Strategic Investments (EFSI). Under this programme, complementary financing is to be provided for the following projects for critical energy and information infrastructure, among others:

— development of energy interconnections between countries,

— diversification of energy sources and transmission routes,

— development of European and regional contingency plans for an energy crisis,

— improving the energy efficiency of the economy.

4. **Specific comments on LNG**

4.1. The Committee believes that **the European gas market should be made more flexible** by increasing the share of LNG.

4.2. **Increasing the proportion of LNG in the EU gas market, ensuring that there are adequate gas reserves in storage facilities and promoting the genuine diversification of supply routes** are factors that will increase the energy security of European Union's Member States.

4.3. The Commission communication rightly draws attention to the **apparent adequacy of the EU's regasification capacity** — 'apparent' since this capacity is not distributed optimally. In the Iberian peninsula, France, the United Kingdom and the Netherlands, regasification capacity is used to a very limited extent, whereas the Member States in the Baltic Sea regions, in central and eastern Europe and in south-east Europe are heavily dependent on a single supplier.

4.4. The Committee agrees that **to achieve full and sustainable diversification of the gas supply** in the European market, there needs to be a diversified approach to the construction of new LNG terminals. Priority should be given to investments aimed at balanced supply routes.

4.5. Prudent **EU measures supporting the construction of new LNG terminals and cross-border transmission links** should, as a matter of priority, take account of regions which are currently isolated and dependent on a single supplier. Stimulating investment in such a way would ensure that a number of gas suppliers have equal access to these regions, on the basis of free and fair competition. In this context, it is particularly important to increase interconnections so as to facilitate trade in gas between the domestic markets of Member States, particularly in regions currently without adequate security of supply.

4.6. Of key importance for **the expansion of the LNG market in the EU** is effective and timely **investments in projects of common interest (PCI)**. Clear mechanisms must be established in order to ensure a fair distribution of investment and operating costs between Member States with different levels of LNG infrastructure and gas storage capacity.

4.7. The EU must ensure that the development of fast-track LNG terminal and FSRU projects is a technologically neutral choice, based on the most effective investment, which should lead to the lowest possible regasification tariffs, reduced time to market for products, lower implementation risk and greater market certainty.

4.8. The EESC fully supports the European Commission's plans to verify whether intergovernmental agreements between Member States and non-EU countries on purchases of LNG comply with EU law.

4.9. The Committee supports the idea set out in the Commission's communication that using LNG in the heavy goods transport sector as an alternative to diesel and that replacing heavy fuel oil in maritime transport may significantly reduce environmental damage.

4.9.1. The Committee points out that, in the section of the communication dealing with LNG, not enough attention is paid to the European system of obtaining and using LNG as a fuel in transport, both road and maritime. In particular this concerns the innovative development of the supply system and the network of refuelling points for road transport and bunkering in maritime transport. These objectives are achieved, inter alia, through the 'Blue corridor' project involving EU countries from France to the Baltic.

4.10. In some EU Member States with limited access to gas networks, solid fossil fuels are heavily used to generate electricity and heat. Using LNG as an alternative fuel in local systems, where it might replace conventional fuels that cause significant gaseous and particulate pollution, may bring about a rapid improvement in air quality. Under those circumstances, and in accordance with long-term sustainable development goals, LNG cannot replace renewable energy sources.

4.11. The EESC shares the view expressed in the Commission communication that renewable energy sources and energy efficiency should provide cost-effective solutions and that, when taking decisions on LNG infrastructure, the options should be carefully weighed up in order to avoid the risk of technology lock-in or stranded assets. Investment in energy sources must not be considered in isolation from the economic development of the EU Member States.

5. **Specific comments on gas storage**

5.1. The EESC recognises that **gas storage plays a particularly important role in Europe's security architecture** and in maintaining a stable supply of natural gas to the EU economy. The EU's existing storage capacity is considerable, but its distribution is far from sufficient. Over 83 % of gas storage capacity is located in the west and south-west of Europe. Major obstacles to the cross-border use of storage capacity include tariff and regulatory barriers and an insufficient network of interconnectors in some European regions.

5.2. The EESC highlights the fact that, in order to ensure balance and achieve energy security, operators must adopt sets of principles, namely the idea that the **minimum level of stored gas must cover 100 %** of the national market's gas requirements for the winter period. However, the most economically rational alternative would be the balancing of stored gas on a regional scale. This optimal model can be achieved once interconnectors have been developed in north-east Europe (Finland, Sweden, the Baltic States, Poland), in the south-east (Bulgaria, Turkey, Serbia, Croatia) and in the south-west (Portugal, Spain, France). A second condition is the removal of all barriers to cross-border transmission, especially border tariffs.

5.3. The Committee welcomes the Commission's proposals to ensure a level playing field between competing flexibility instruments and to develop Europe-wide network codes that take account of the harmonisation of charges for gas transmission 'to and from storage', as long as the tariff structure reflects storage costs.

5.4. Measures to ensure unfettered, physical access to storage facilities and capacity in the transmission system, including in the cross-border context, should be considered essential. The EESC agrees with the European Commission on the need to make optimum use of existing storage capacity by completing work on network codes. From this perspective, effective cooperation between Member States and neighbouring countries on the optimal use of storage capacity on both sides is important.

Brussels, 22 September 2016.

The President
of the European Economic and Social Committee
Georges DASSIS