

The EU LNG Strategy: good news from Europe



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Abstract

The contribution aims to describe how the European Union, under pressure from a high external energy supply dependency rate and several supply disruptions in a recent past, is introducing a consolidated 'energy union' including a LNG supply strategy. This strategy will lock in all national markets, enhance market competition and mutual solidarity and is also boosting a very serious infrastructure effort, and as a result effectively linking all existing national grids and creating the world's largest interconnected gas market. The happy paradox and conclusion is one of a continent that faces a dwindling domestic production of energy that through smart cooperation manages to increase its overall energy security outlook.

Keywords: European Union, Internal Market, energy, LNG, gas, energy union, LNG Strategy.

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Increasing concerns about single-source gas dependence from Gazprom and Russia, and about several real-time supply disruptions in central European member states, have led the European Union to step up its efforts on energy security. A particular emphasis has been put on natural gas transiting through pipelines and, increasingly, on Liquefied Natural Gas (LNG) supplies being shipped into Europe.

Until quite recently, gas markets in the EU were highly segmented in national markets with often poor transit possibilities, let alone two-way flow transit capacities. Segmentation and national preferences often implied poor market mechanisms, national champion companies and an infrastructure inspired by local priorities; but never by broader European perspectives including considerations with regard to external energy security.

All of the above contributed to worsening external dependence, on a continent that sees a rapid decline in domestic energy resources (The EU is the biggest importer of natural gas in the world as it imports 66% of its natural gas needs and 90% of its crude oil. Overall energy imports come at a cost of more than one billion €/per day – figures: European Commission)

The combined effects of external geopolitical pressure – more often than not coming from the east- and several supply disruptions - in January 2006, March 2008, January 2009 - of pipeline gas transiting through Ukraine - that particularly hit central European member States - rather quickly led to a growing and shared political perception of the situation, triggering a common analysis and leading to plans for a solution.

This solution may to some extent have been inspired by Europe's experience in pooling coal and steel into one single organization in 1951 that eventually gave rise to the current European Union. The underlying thought on the Energy Union, here, is to consolidate one Europe-wide network or grid, in combination with a European energy market. Thus considered, the Energy Union is a new dimension to the already existing and quite successful single market. Embedded in this Energy Union is a proposed strategy to use LNG as its centerpiece, given the growing importance of natural gas as a



transitional energy source and a demand growth for it at almost 2% per year. LNG in particular will see an important growth in its international market share.

The EU LNG strategy has been unveiled by the European Commission on February 16th, 2016, as key part of a broader energy security approach.

The essence of that strategy –extending to EU member states, but also to several neighboring countries- comes down to the completion of the internal gas market, to the introduction of the solidarity principle, to the de-segmenting of national markets and connecting Central-European markets with Western-European markets, organizing two way flows in the pipeline grid, decoupling the ownership of energy production and transport of energy, introducing more market mechanisms and competition, having new gas supply contracts notified to the European Commission, organizing the Europe-wide grid on a regional basis (i.e. substructures of several member states in one group), and the mapping of available and missing infrastructure. Specifically with regard to infrastructure, it is interesting to note how the strategy implicitly embraces ‘mobility’ in terms of LNG (catching up with pipelines) and LNG terminals (floating LNG structures as a near future perspective and as an alternative for high cost, fixed structures).

With the first orientations of the LNG strategy and the broader approach on external energy security already being introduced since the first disruptions in 2006, tangible results are starting to surface: now Europe has a solid inventory of its relevant infrastructure (pipelines, interconnectors, LNG terminals), covering the gaps (lack of LNG import facilities in southern Europe, overcapacities in northwestern Europe) and leveraging the opportunities.

Bi-directional gas flows are set to become the standard and no longer the exception and overall European LNG import capacities are gearing up to receive much more diverse sources of LNG supplies. All of this is happening against the current backdrop of a low price environment (sharp decline in global gas prices, particularly in Asia), a global gas glut, an increasing trend of decoupling between oil and gas prices, the perspective of a regional or global spot market for gas and above all: U.S. LNG exports. Price cuts have already been conceded by at least one main supplier, with Europe rapidly becoming an increasingly appealing market for LNG and other gas



suppliers. More resilience and the prospect of more and better competition and competitiveness contribute to this better outlook. And it is now quite safe to say that dependence on a single supplier is no longer an issue for most of Europe: Europe now has options. And those options increase our energy security, but also the competitiveness of a vast set of businesses on the continent.

Gazprom is a hybrid player on international markets: it operates as a commercial company, but there are very strong indications of solid ties to 'the powers that be' in Moscow and its international agenda often coincides remarkably well with Russian geopolitical aspirations. The classic role Gazprom played on European markets is, however, coming under pressure, as a result of the broader EU domestic (a.o. 3rd energy package) and energy security policies. Gazprom's traditional role as a quasi- monopoly or a very dominant player on European markets used to stress price maximization above all. There are now strong indications of it being forced into a new structural policy aiming at maintaining market share in Europe. This inevitably de-emphasizes price as the paramount objective (And there is an intriguing parallel to make with the current Saudi crude oil policy on global markets, and within OPEC in particular).

The coming on line of US and Australian LNG in the short to medium term, of course also influences the 'spiel' to be played on European and global markets. Here, it should also certainly be noted that by 2035 LNG will even surpass pipeline gas imports as the prime source of internationally traded gas, according to BP's 2016 Energy Outlook. From that perspective, the growing number of LNG export projects in the US and in Australia (but also Iran) interacts very well –and timely- with the EU plans.

Price competition to maintain market share is a likely strategy, which Gazprom/Russia will have to develop on the European market, in the near future. Or in other words, it will be forced to embrace a fully commercial approach to remain a central player. Gazprom is, of course, very welcome to do so, as it has never been the intention to exclude any player abiding by European rules and market mechanisms.

Despite a common consensus that is more attuned to what is wrong with Europe, then to what is right, there is decidedly good news coming from Europe. That good news is brought through a combination of internal consolidation and cooperation,



policy investment, but also external factors have contributed. It leaves us with the paradox of a Europe with an increasing external energy dependence, which at the same time finds itself in an increasing political comfort zone on the issue of energy supply security. It is a clear illustration that European cooperation based on a proper understanding of shared interests pays off. And the timing of it is near perfect, as various LNG export projects worldwide prepare to connect the main regional gas markets of this planet.

