



**OME VIEWS ON  
THE KEY ISSUES REGARDING  
THE ROLE OF LNG IN MEETING THE EU'S  
ENERGY & CLIMATE OBJECTIVES PROGRAMME**

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In February 2016, the European Commission presented its Liquefied Natural Gas (LNG) and gas storage strategy. OME Member Companies, who welcome the Commission's strategy paper, would like to underline five key issues on the role of LNG in meeting the EU's energy and climate objectives:

- The growing role of LNG as a tool for flexibility and diversification;
- The optimal use of and access to LNG infrastructure;
- Bright prospects for LNG as an alternative fuel;
- The importance of the full implementation of the Third Energy Package and appropriate Network Codes' development;
- Promoting cooperation with the neighbours in the Mediterranean region and leaving the control over commercial negotiations to market players.

## **1. The growing role of LNG as a tool for flexibility and diversification**

LNG and pipeline gas will continue to contribute to the security of European gas market on a complementary basis and they should compete on a level playing field. The combination of declining indigenous production and decarbonisation policies in the power sector will increase the EU gas import needs in the future. Market dynamics will determine the most efficient gas supply mix. LNG is expected to play an increasingly important role in filling this gap and help improve supply security by providing supply flexibility and diversification through multiple supply options.

LNG increases the flexibility of the EU energy system through higher market liquidity and a wider range of opportunities for portfolio optimization, alongside other necessary tools such as storage and pipeline gas. It contributes to ensure the appropriate availability of gas for peak demand and consumption. LNG also presents risks in terms of higher exposure to global competition and, in times of stress, securing additional LNG volumes may take a relatively long time.

The global scenarios for LNG remain encouraging, as the expected availability of volumes offers growing opportunities for the EU LNG market. The market fundamentals and policies supporting a credible role for gas will be crucial in determining to what extent the EU will be able to benefit from these opportunities. The role of natural gas – including in the form of LNG – in meeting the EU's energy security objectives in a way that is consistent with decarbonisation goals will be key in the future.

## **2. Optimal use of and access to LNG infrastructure**

In the coming decade, the European gas market is expected to make a gradual recovery, primarily driven by the implementation of decarbonisation policies. This transition should be complemented by a strong EU ETS with stable, robust and long-term price signals.

Beyond the overall price signals delivered via the EU ETS, the most significant barrier regarding LNG - or any other form of gas - is the inefficient flow of gas between European markets due to a lack of proper development of internal interconnections. Additional import infrastructure on its own will not be needed in all cases to guarantee more security of supply for Europe.

A thorough cost/benefit analysis needs to be performed for new projects, ensuring that the contribution of existing facilities is fully taken into account. In certain cases, additional infrastructure investments may be required to ensure an effective and properly functioning internal energy market.

LNG developments in the EU should be assessed in a systemic way, taking into account relevant existing and planned energy infrastructure (storage, transport and interconnections), supply options and availability, and market/energy security needs at national and regional levels, in order to take stock of possible synergies and complementarities.

Regional assessments and approaches may be useful to identify synergies and pursue cost efficiency, although any approach should also ensure the full recognition of the economic value of existing and new LNG infrastructure and duly take into account national circumstances. The regional outset, the market environment, and the synergies with other infrastructure systems should be taken into account when assessing LNG security of supply perspectives.

In general, the optimization of existing infrastructures (also of existing LNG terminals) should be promoted. This would help reduce the risk of stranded assets. If obstacles to this are found due to the lack of cooperation from TSOs and national regulatory agencies, they should be addressed by the European Commission. Furthermore, optimization of existing infrastructure, in particular through reverse flow pipeline projects, would also improve diversification and security of supply. In particular, projects able to increase the South-to-North gas flows would allow supply coming from the Mediterranean area to reach a larger number of European countries.

Transparency and fair rules for access to LNG terminals in Europe are important to promote a competitive and resilient European gas market. OME members urge the EC to support regulatory regimes in EU Member States that encourage terminals to allow for the offering of separate storage services to allow greater utilization of terminals.

Permit procedures should not last too long in order to ease optimal use and access to LNG. The environmental costs of alternative solutions to LNG should also be taken into account when assessing the potential Floating Storage and Re-Gasification Units, which could offer small and flexible solutions to systems otherwise isolated that typically resort to more polluting fossil fuels.

Gas quality and odorization in some countries may represent a potential barrier to the optimal use/access to LNG facilities, as they could reduce the potential portfolio of eligible supplies for a given infrastructure. For this reason, the issue of gas quality should be addressed downstream. The development of a European standard for gas quality should not create technical and commercial barriers at national and regional levels for gas – including LNG – to enter Europe. A broad gas quality specification is in favour of the security of gas supply, flexibility and the liquidity on the European gas markets.

### **3. Bright prospects for LNG as an alternative fuel**

The principal benefits from LNG use in transport are environmental and cost benefit factors. As its polluting emissions are extremely low, LNG can help reduce the well-to-wheel environmental impacts of long distance transport sector (heavy duty trucks and maritime shipping), both from greenhouse gases emissions and air pollutants. Due to these characteristics and increasingly restrictive pollution politics LNG as a transport fuel is emerging as a prominent new fuel for

marine (deep sea, coastal vessels, and inland waterways) and road applications (primarily heavy duty road transport). When properly equipped the traditional regasification terminals can also supply LNG to vessels and trucks. Natural gas is the cleanest alternative for fuel oil and marine oil, and the only alternative to diesel oil in heavy transport. Natural gas is also likely to become an option in the rail, mining, and industrial sectors.

From a technical point of view, the technology for natural gas engines is already consolidated and it continues to be developed. Now being the third generation, more performing, and with the same or less maintenance costs than diesel, more and more powerful natural gas engines will make vehicle fit for long distance transport.

Synergies between LNG infrastructures and the long distance transport sector can concretely help to achieve EU environmental and climate targets. LNG's development as a successful transport fuel require a collaborative effort in a number of areas, including:

- technical standards,
- infrastructure,
- the right regulatory framework, and
- investments by vehicle manufacturers.

In particular, in order to achieve the right regulatory framework for the development of LNG, the EU should set up:

- an adequate, stable and supportive fiscal regime,
- a consistent technical and safety regulatory framework and measures,
- a simplification of permit procedures,
- the adaptation and implementation of sectorial technical and operating rules, and
- no unbundling, in line with other fuels regulatory frameworks.

Policies to improve air quality make a stronger case to move to natural gas. There is room to consider the Mediterranean Sea an Emission Control Area and to develop this initiative within the UfM Gas Platform.

#### **4. The importance of the full implementation of the Third Energy Package and appropriate Network Codes' development**

Development of grid infrastructure and regulatory reforms has, and will continue to support the access to alternative supplies and increased intra-EU gas flows. A fully integrated and interconnected Internal Gas Market is needed for gas flows to be able to reach all Member States, including those most vulnerable. Well-connected and integrated market will support the optimal use of LNG whilst further access to LNG will increasingly be influenced by global market dynamics.

OME members recall the importance of the full implementation of the 3rd Energy Package and appropriate European Network Codes' development aimed at creating and sustaining functioning, interconnected and competitive markets in which gas can move freely in response to price signals. Lack of their full implementation may constitute a barrier to the optimal use of LNG infrastructure in some cases.

A regulatory framework that supports competition and access to LNG terminals for various suppliers is key in achieving an integration of the terminal assets into the wider gas infrastructure and optimize its use. The regulatory framework should ease the use of flexibility tools, nevertheless leaving the possibility to take into account specific operational characteristics of each infrastructure.

Currently, there is a very complex scheme of guarantees which varies for each plant operator. The administrative process would be easier with the establishment of a homogenous model throughout Europe.

Due to rigid timeframes, re-gasification codes may sometimes restrict the offer of services the market may need as it evolves towards more flexible, short-term features. An up-to-date regulatory framework has proven essential for the effective use of flexibility that LNG can provide. Different connections and balancing rules across adjacent markets may sometimes undermine the possibility of exploiting the full flexibility that could be offered by LNG facilities. In general, balancing rules should recognize the value of flexibility, including the one offered by LNG.

Actions should be focused on both increasing interconnectivity between grids and ensuring the development of market rules that optimise the efficient use of infrastructure (as well as of existing LNG terminals) and that enhance cross-border trade. Network operators should be required to continue offering unbundled capacity to shippers.

## **5. Promoting cooperation with the neighbours in the Mediterranean region and leaving the control over commercial negotiations to market players**

The Mediterranean region has been and will remain a crucial source of natural gas for Europe, contributing to the diversification and security of the European supply portfolio. The role of LNG in the Mediterranean should be seen as a connecting element of the gas market.

The EU should continue promoting regional dialogue and cooperation in the Mediterranean region and set a favourable political context to strengthen partnerships. The UfM gas platform is a positive step in this direction. However, market players should have full control over commercial negotiations, which should remain their exclusive competence.

Concerning the LNG contracts, OME members believe that indexation and other commercially sensitive aspects related to contractual features belong to and should remain a choice made between contractual parties, and as such should remain a competitive driver subject to relevant market developments. Indexation should by no means be subject to policy intervention but should be up to the contracting parties.



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