European Commission

Objective:

Influence of LNG on the European gas market

Removing LNG barriers on EU Gas market

CEER Workshop

Athens, 12th September 2016

EU strategy for LNG and storage: important tools for diversification and flexibility

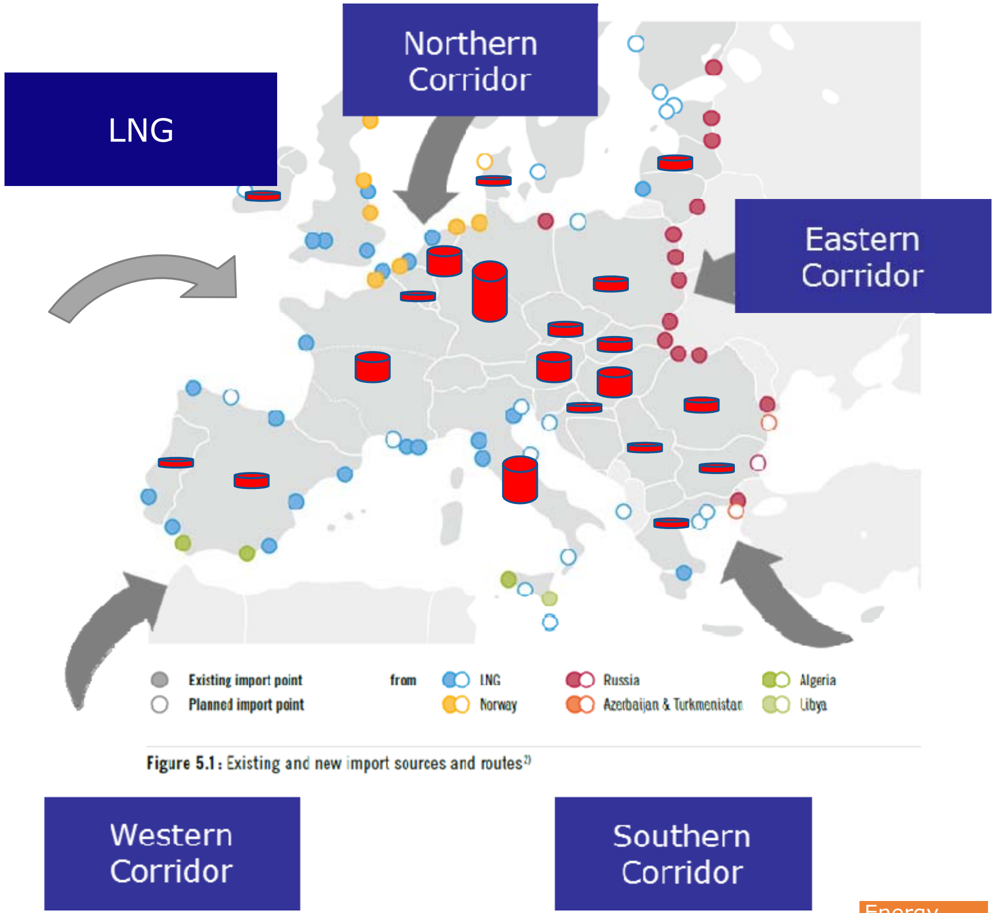


Figure 5.1: Existing and new import sources and routes[3]

Objective is to ensure access to liquid regional gas hubs:

- To make sure all Member States have access to LNG as an additional gas source and to sufficient storage capacity either directly or through other countries
- To make the EU attractive for LNG

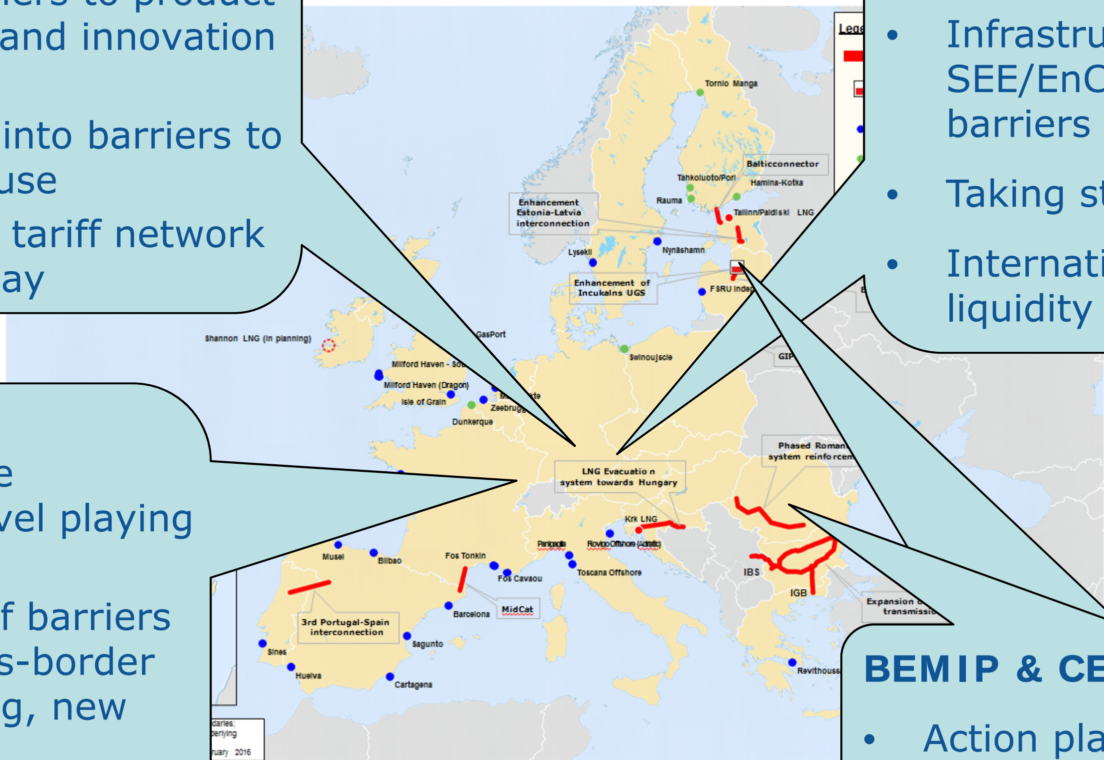
Implementation of the strategy is underway

Storage:

- Study on barriers to product development and innovation (CEER)
- NRAs looking into barriers to cross-border use
- Discussion on tariff network codes underway

Follow-up study, LNG elements:

- Infrastructure options for SEE/EnC/TK + regulatory barriers
- Taking stock on gas quality
- International dialogue: liquidity and transparency



LNG:

- NRAs continue monitoring level playing field
- Assessment of barriers to entry, cross-border access, trading, new services and technologies, etc (CEER)

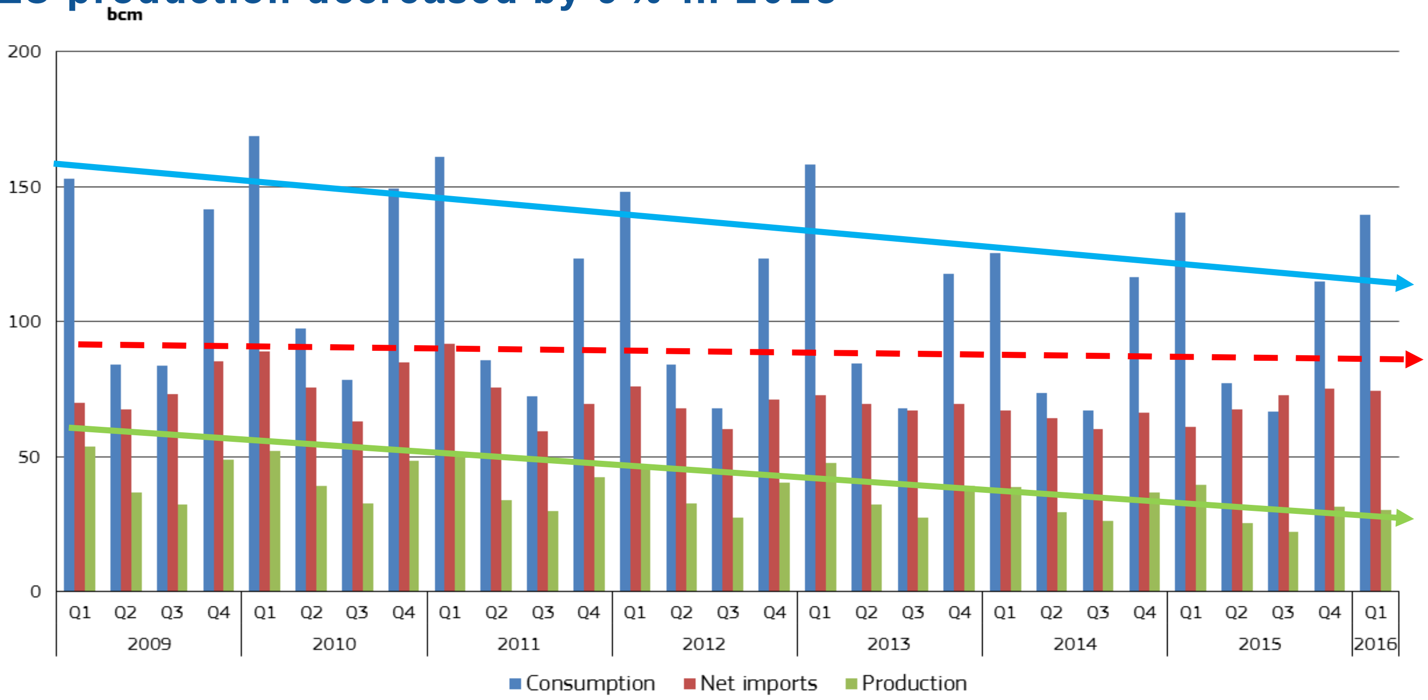
BEMIP & CESEC:

- Action plans of measures and regulatory solutions

European Commission

Securing gas supply remains important post-Paris COP21

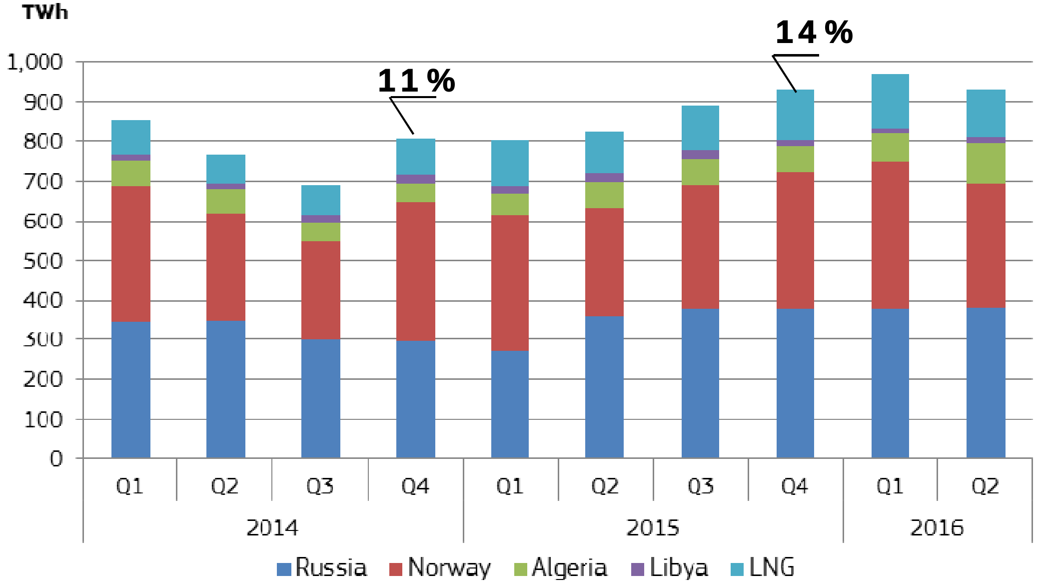
- Main trends continue in 2015:
  - **Gas consumption increased by 4% compared to 2014 (due to colder weather) but decreased by 7% compared to 2013**
  - **EU production decreased by 9% in 2015**



LNG has been catching up in 2015

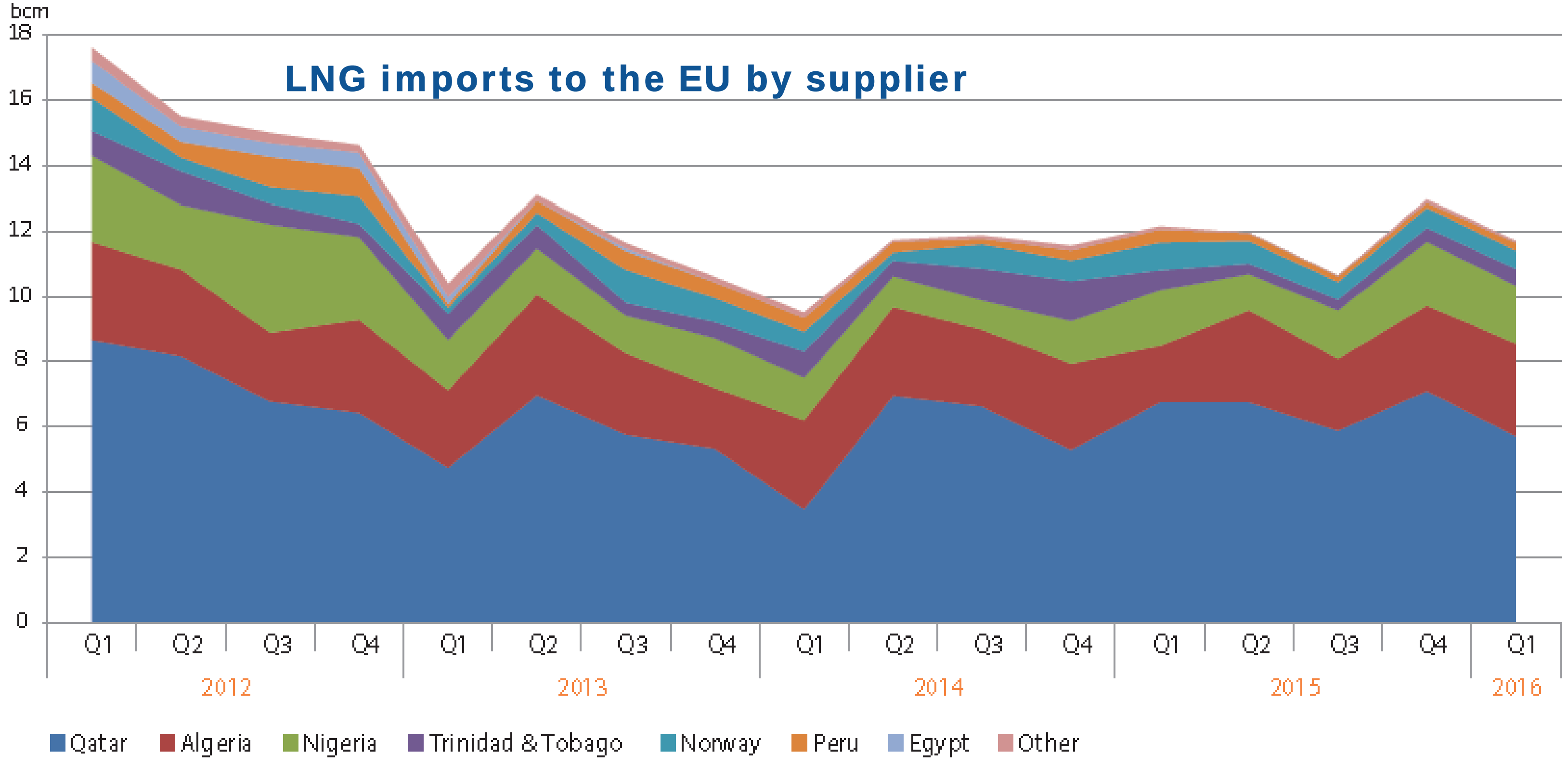
- Net EU gas imports increased by 11%; LNG imports were 6% up, its share in gas imports reached 13%
- LNG import infrastructure utilization increased to 18%, in first half of 2016 it stands at 21%

EU imports of natural gas by source, 2014-2016



Energy

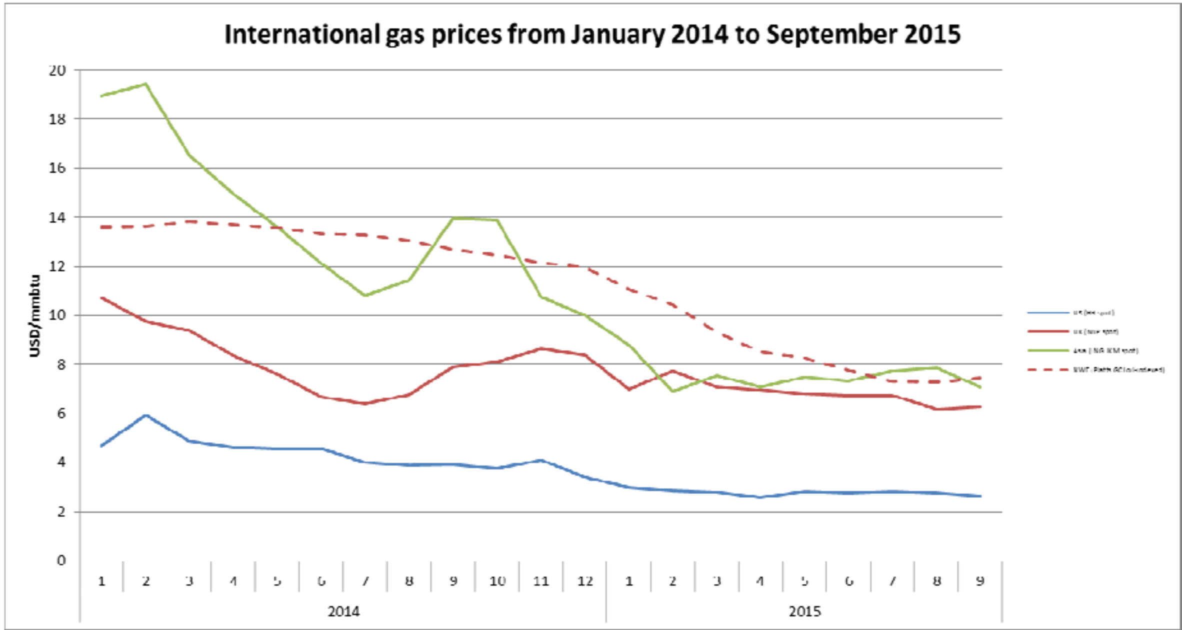
Qatar remains the main LNG supplier



Source: Bloomberg/Poten & Partners
Imports to Lithuania and Poland are not included

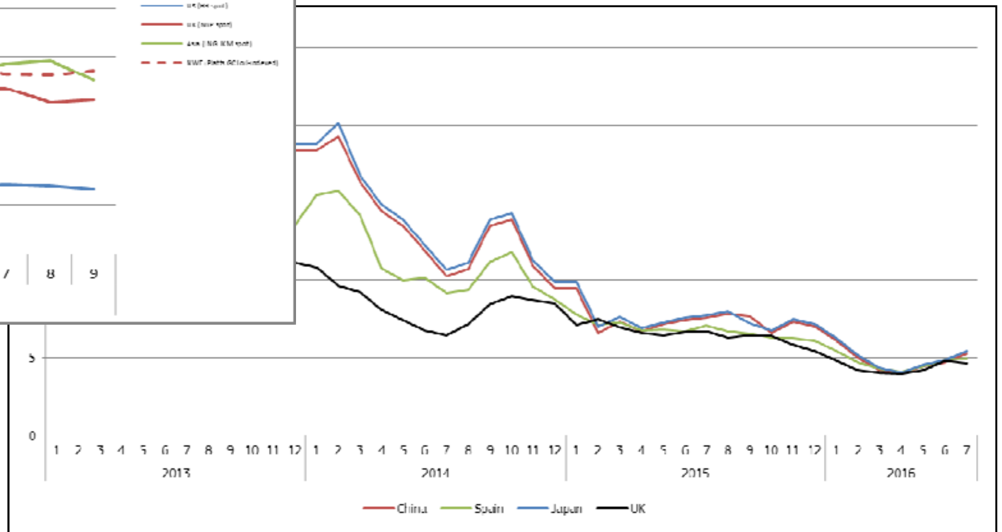
Global gas prices continue to align

Spot LNG prices decreased significantly in 2014 and early 2015 in both Asia and Europe:



- weak demand in Asia
- increasing global supplies
- fall of oil prices

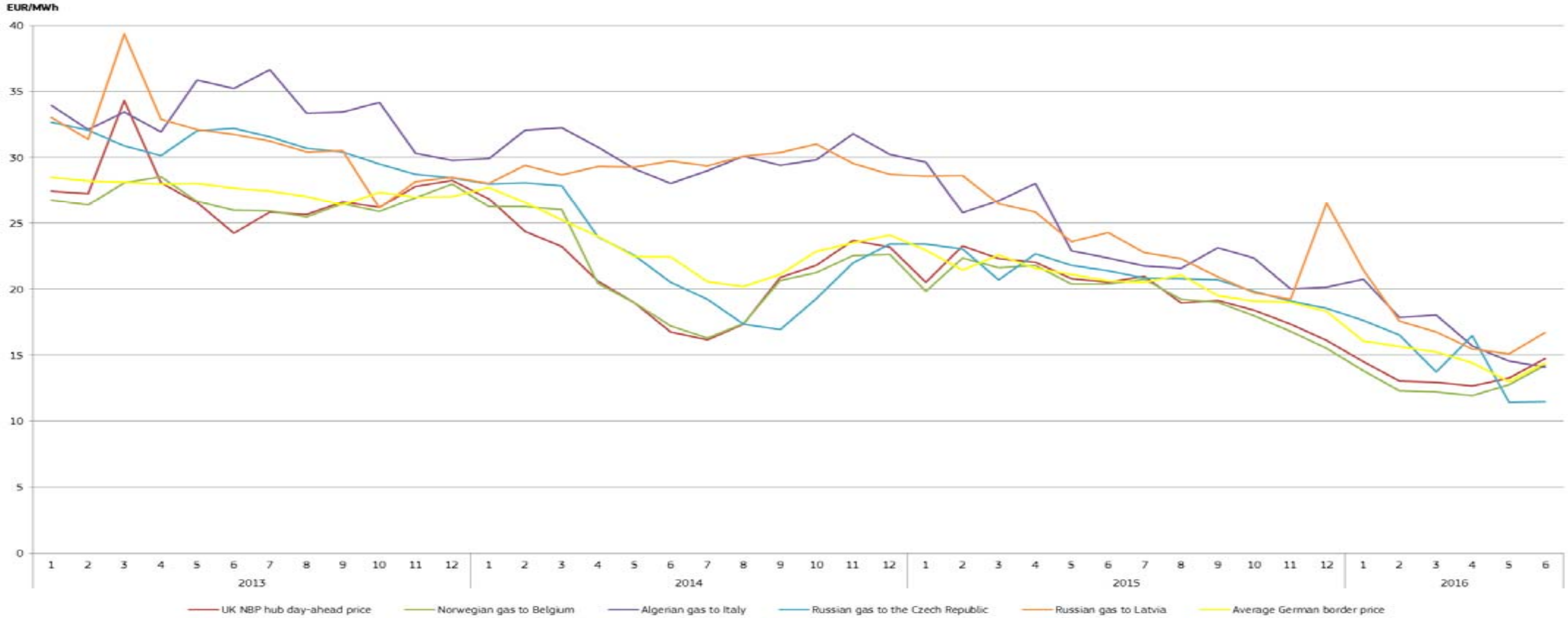
Spot LNG prices in the EU and Asia



European Commission

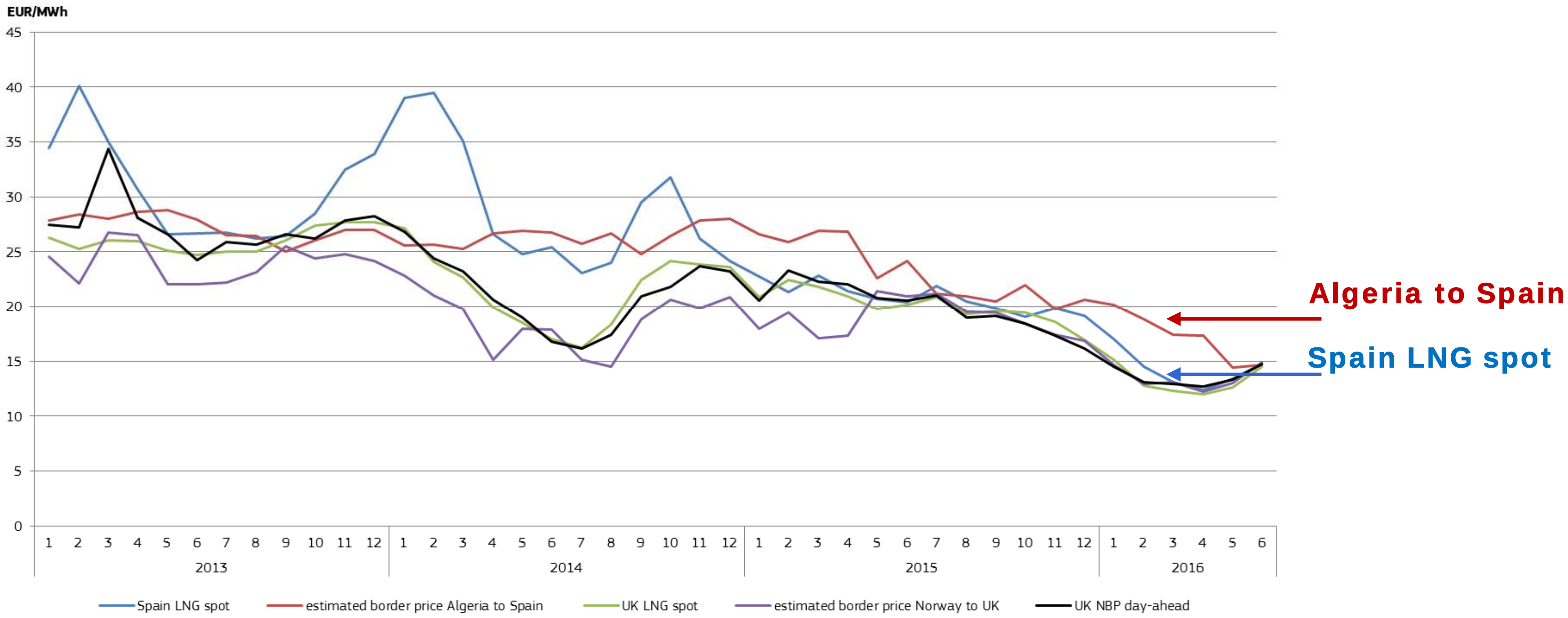
Estimated border prices show declining trend

- *Convergence may reverse when increasing oil prices will be reflected in oil–indexed contracts*
- *Apart from RF to LT and Algeria to IT, other contracts seem to more or less follow NBP*

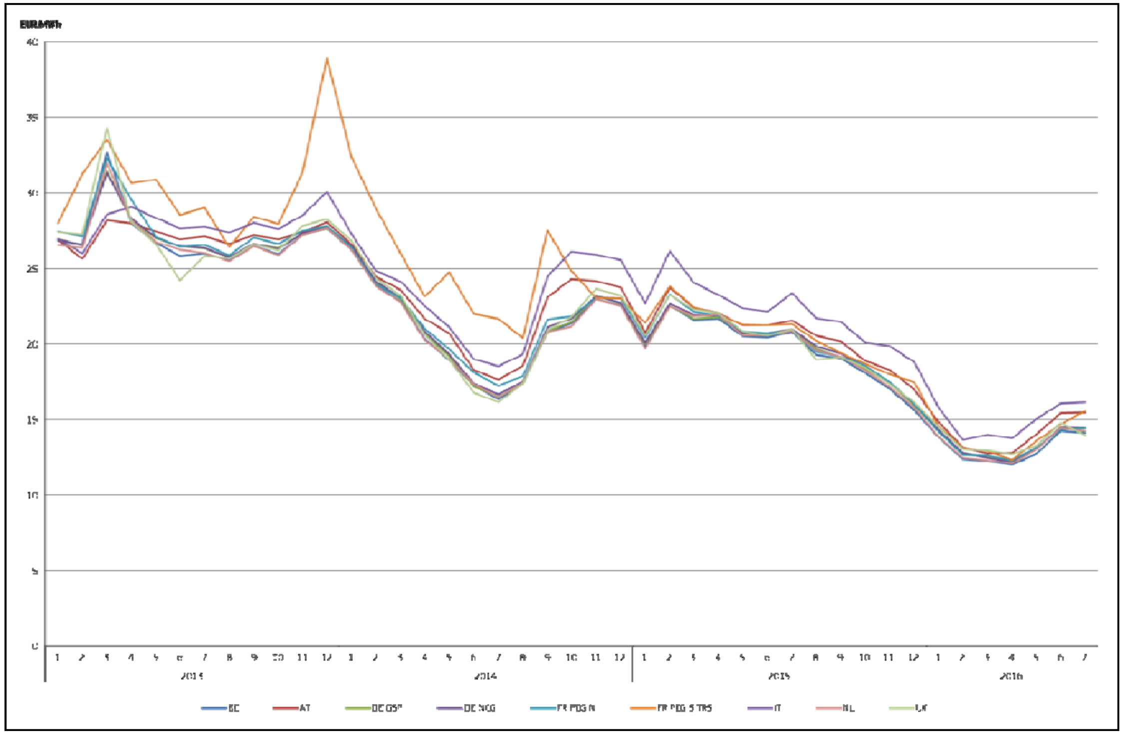


The fall in LNG prices helped to narrow the gap between LNG and pipeline prices in Europe

- *In UK, both LNG and Norwegian gas follow NBP price*
- *In Spain, in early 2016 LNG prices became markedly cheaper*



EU gas wholesale prices show a decreasing trend



- **From February 2015, European hub prices showed a decreasing trend:**
  - low oil prices
  - steady LNG supply
  - higher-than-average temperatures during the 2015/2016 winter
  - robust pipeline imports from Russia, Norway and Algeria
  - relatively high storage levels at the end of the withdrawal season

- **For most of the hubs, the average price registered in March 2016 was the lowest since late 2009**

But: CEE prices are 15-20% above NWE

The flexibility and liquidity of the global gas market is improving

Liquidity

- Australia and US adding considerable volumes to the supply side

Price signals

- Out of first 22 US cargos, only 2 went to EU, most to South-America
- Forward prices spread between European hubs and Far East -> reloads

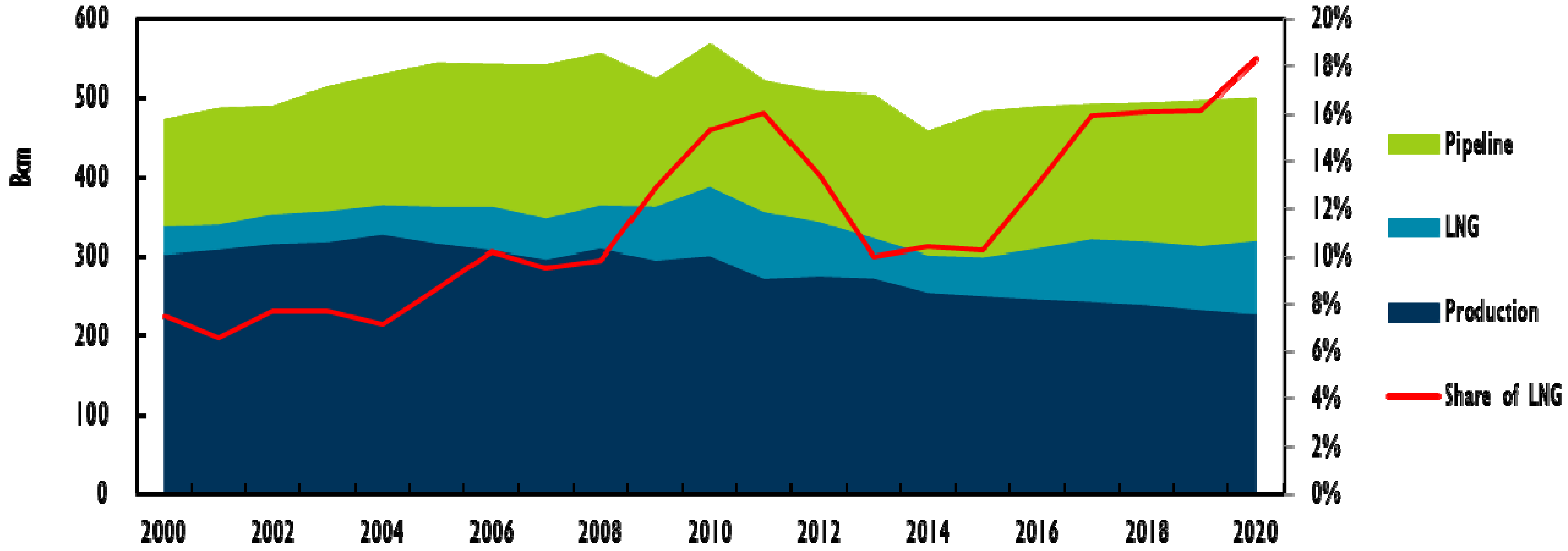
Flexibility

- Limited production flexibility but destination flexibility
- US business model and portfolio players
- Widening of the Panama canal opens up new opportunities

US is adding further flexibility and liquidity to the global LNG market

Will Europe remain the market of last resort?

Gas supplies in OECD Europe and share of LNG, 2000 - 2020

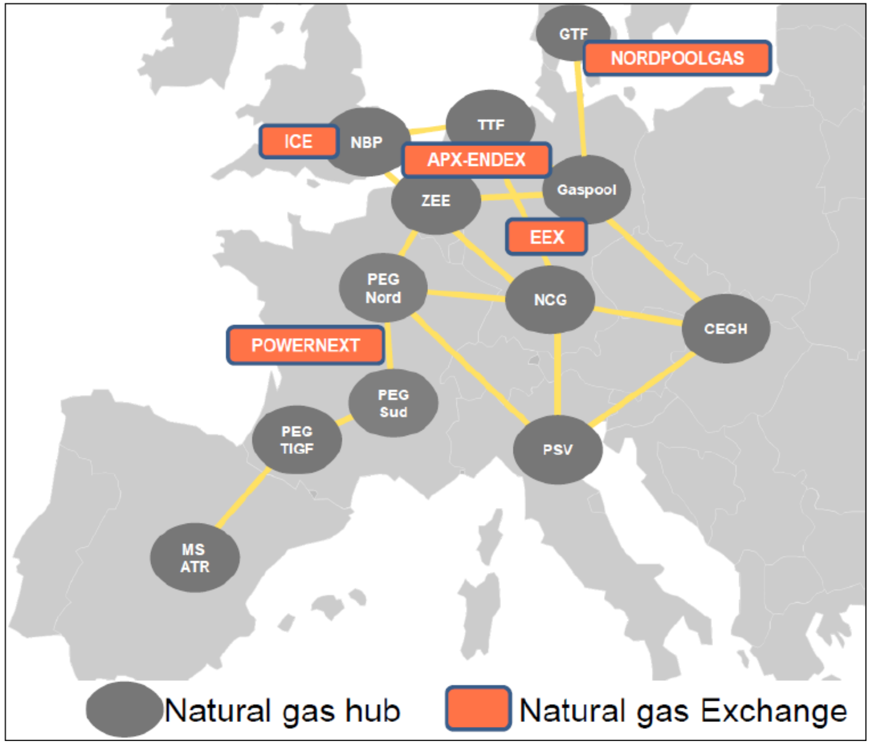


LNG share among total gas supply in OECD Europe has dropped from 16% in 2011 to 10% in 2014; in 2015 it moved back to 13%

(Source: IEA)

European
Commission

The EU's strategy for LNG and storage is the right way to go



- **Access to liquid regional gas hubs through the completion of the internal EU gas market**
- **Work with international partners to advocate free trade and to promote transparent and liquid LNG markets**

European
Commission

Objective:

Thank you for your attention!