

***UNECE Working Party on Gas  
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***Role of Liquefied Natural Gas to Enhance  
Energy Security in the UNECE Region***

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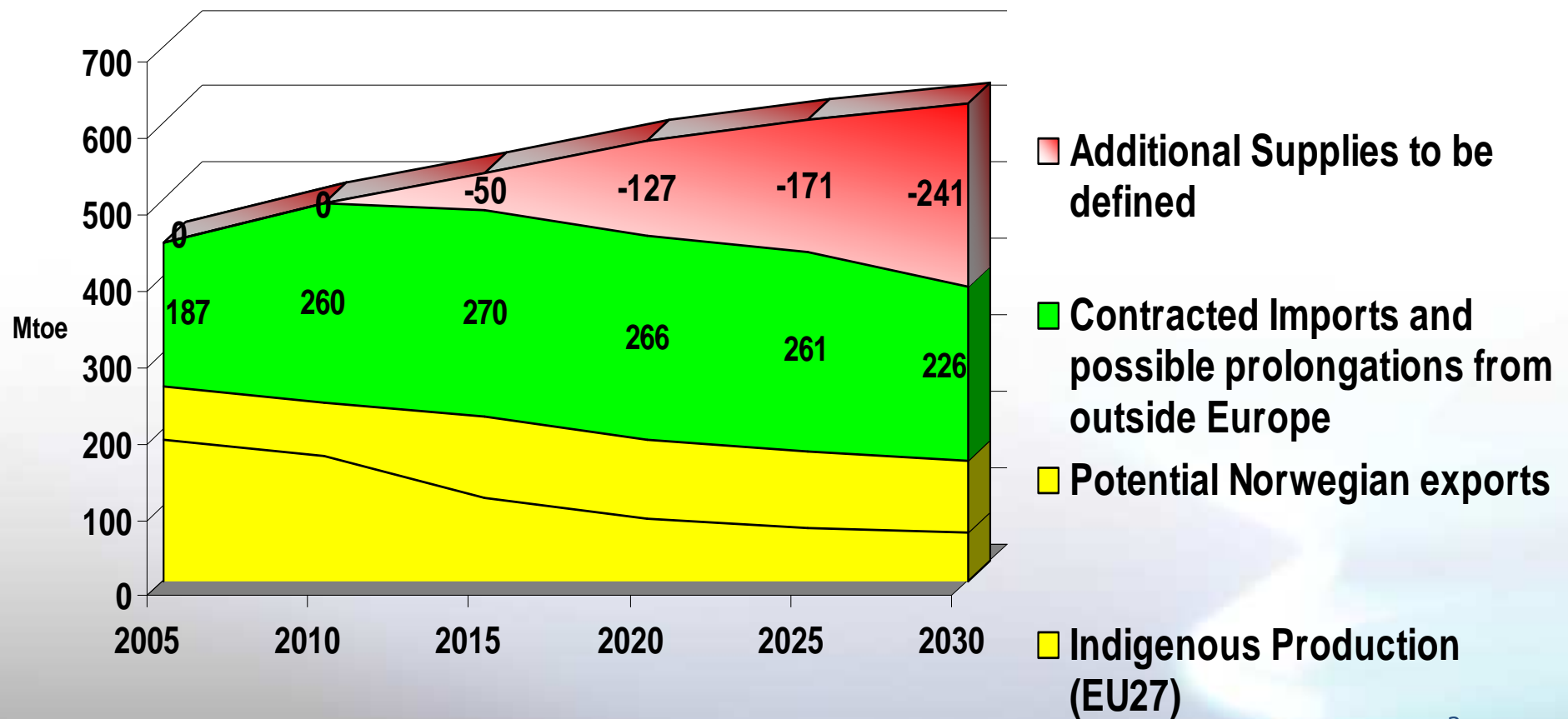


THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY

## Prerequisites for enhancing security of supply

- an attractive market for suppliers - competing globally
- adequate investment to meet requirements of new supplies, upstream and downstream, and support a liquid market
- multi-lateral dialogues between producing and consuming countries – promoting mutual interests

## Challenge facing the EU-supply gap widening from 2010



Europe will require new sources of gas and also changing approaches to ensure flexibility in gas supply.

It seems that policy makers, planners, politicians, pundits place a lot of faith in LNG, but is this optimism well placed?

Eurogas forecasts foresee LNG share in EU 27 more than doubling between 2005 and 2020 (10% → 22%)

In line with other forecasts, which see huge jumps worldwide.

	2020		2040	
	Pipeline	LNG	Pipeline	LNG
<b>United States</b>	56.5%	43.5%	28.1%	71.9%
<b>Europe</b>	76.6%	23.4%	66.0%	34.0%
<b>China</b>	23.3%	76.7%	29.0%	71.0%
<b>Japan</b>	14.6%	85.4%	15.1%	84.9%
<b>India</b>	54.5%	45.5%	45.1%	54.9%

*Data compiled from RWGIM Base Case (2/16/2006)*

The EU is commissioning a study on LNG, with results expected in May 2008.

LNG presents advantages from the point of view of diversifying supplies, but there are questions to be asked about some of the prevailing optimism.

- In recent years the competitive position of LNG has improved because of continuous cost reductions and technical progress – will this trend continue? Currently increasing costs in the LNG train, particularly at the liquefaction stage.
- LNG routes are not without risks on some crucial sea passages.
- Regional energy needs and price differences can become main drivers for short-term cargoes destination. Suppliers will focus on the most lucrative markets.
- Planning and permitting issues for receiving terminals are complex and are currently causing delays to most projects.

- Lack for skilled workforce
- Risk of incident (because of increasing tanker numbers)
- Will there be a lack of liquefaction capacity?

## Contract and price structure for LNG?

- Long-term contracts v. short-term.  
Different interests of LNG suppliers and purchasers?
- Long-term contracts between LNG producers and buyers have produced efficient LNG chains creating a durable link providing security to both the producing country and the receiving market.
- On the other hand LNG suppliers can benefit from arbitrage.
- And, emphasis on long-term contracts should not be at the expense of squeezing access rights which in turn jeopardize major contributions LNG makes in terms of supply flexibility and liquidity.
- Specific price mechanisms may emerge.



Yes, Eurogas thinks that LNG will play an increasingly important role in the market and welcomes this because of its contribution to supply diversification and market liquidity.

No, our forecasts are not as bullish as some. A lot will depend on how currently perceived restraining factors develop.

In any case, the regulatory framework including the planning and permitting systems, and the price environment should

- ensure that LNG producers consider Europe as an attractive market
- allow European buyers to compete effectively for LNG suppliers on a global market
- contribute to a liquid European market