

A strategic gas alliance between the EU & the US

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On 25 March, US President Joe Biden and the President of the European Commission (EC) Ursula von der Leyen announced a 'Joint Statement between the European Commission and the United States on Europe's Energy Security'. It emphasised the two sides' mutual commitment to reducing Europe's dependence on Russian energy sources, and their solidarity and support for Ukraine. It also recognised that energy security and sustainability for the EU and Ukraine are crucial for peace, freedom and democracy in Europe. Regarding gas, which is still an essential component of the EU's energy system, and with the energy transition underway, the US and the EC decided in the joint statement to establish immediate cooperation on the urgent energy security objective of ensuring that European gas storage facilities are adequately filled before the next two winters. A joint Task Force on Energy Security, chaired by representatives of the White House and the EC, is to be set up immediately; its work will focus on reducing the EU's dependence on Russian gas.

The United States will seek to secure additional supplies of at least 15 bcm of LNG to the EU market in 2022, including through its cooperation with global partners. In turn, the Commission together with the member states, is to promote the conclusion of long-term gas purchase contracts by pooling EU demand for the additional volumes which will be needed later this year (between April and October). These contracts could support final investment decisions on new LNG infrastructure (export and import). The EU is also expected to work to ensure stable demand for additional volumes of LNG from the US: at least 50 bcm per year until 2030 or beyond. The price formula for supplies to the EU should reflect long-term market fundamentals (and not be based solely on the current exceptional situation on the gas market in Europe), and include consideration of American Henry Hub spot prices.

In addition, the EC reaffirmed its determination to upgrade EU energy security legislation, including the obligation to fill gas storage facilities, increase transparency around the use of key infrastructure (including LNG terminals) and ensure stronger cooperation between member states and with the EU's neighbours.

Both the United States and the Commission will ensure the involvement of key market participants, including from the private sector, in the Task Force's work to formulate recommendations to reduce gas demand through the rapid deployment and use of clean energy technologies in Europe and the United States. Energy-efficient solutions (such as smart thermostats and heat pumps), the acceleration of renewable energy projects (wind and solar) and cooperation in the field of green hydrogen could all be fundamental in that respect. Brussels and Washington also plan to negotiate and implement an emissions-

based Global Arrangement on Steel and Aluminium, which would contribute to the decarbonisation of industry and reduce energy demand.

Commentary

- The joint statement strengthens the strategic energy partnership between the EU and the US at a time of deepening energy crisis in Europe and a growing risk of problems associated with the supply of Russian energy resources. On a political level, the document marks the announcement of an EU-US gas alliance. The US administration supports the EU's efforts to reduce its dependence on gas from Russia, and is facilitating the consideration of possible sanctions on the supply of energy resources from this country. Washington's declarations about increasing LNG supplies to Europe could be expected to temporarily increase the EU's resilience to possible supply shocks, and potentially calm nerves on the EU market. This action in the gas sector will be complemented for by trans-Atlantic cooperation on reducing gas demand and by accelerating the achievement of long-term energy transition goals.
- The Union's dependence on gas supplies from Russia is a particularly difficult problem to solve. Unlike in the case of oil or coal, there is no fully global trade in natural gas, global markets are tight, and Europe remains strongly dependent on rigid pipeline connections with Russia, from where it imports 40% of the gas it needs (2021). The EU-US document is part of the EU's efforts to reduce this dependence, and implement the REPowerEU plan's goal of significantly reducing Russian imports as early as this year, and stopping them completely by 2027 (for more details, see *'The EU gas market and policy and the war in Ukraine'*). According to EC President von der Leyen, deliveries of LNG in 2022 from the US could enable the EU to stop importing Russian liquefied natural gas, but not all Russian pipeline gas supplies – which account for the majority of EU's imports. According to the declarations in the joint statement, in 2022 the US would strive to match the equivalent of 10% of last year's EU imports from Russia, which totalled 155 bcm. In the longer run, additional exports from the US could account for a third of that volume (50 bcm), which is exactly the amount of additional LNG supplies the European Commission planned for in the coming years in its REPowerEU document. Implementing these provisions would also mean that the US would become the most important gas exporter to the EU after Norway.
- The agreement is another manifestation of the emergence of an EU common gas policy, in which the European Commission is to play an important role. The partnership with the US is in line with the EC's proposal of 23 March, which was aimed at reinforcing collective action within the entire EU, including by negotiating similar partnerships with other gas suppliers. In this way, the EU would be able to use its joint purchasing power, reduce the risk of individual European companies and member states competing against each other, and increase its chances of contracting the quantities of gas it needs on global markets.
- The platform for voluntary EU common gas purchases, which the European Commission proposed and was supported by EU heads of state at the European Council on 24–25 March, would be a key instrument in such actions. However, its final shape and role is still uncertain, and will depend on the engagement of the member states (and also neighbouring countries, as the Energy Community countries – from the Western Balkans,

Ukraine, Moldova and Georgia – have been allowed to participate in joint purchases). Pooling a sufficiently large demand for gas under such a mechanism is particularly important for the EU to ensure the declared level of demand for US gas in future years, but also for negotiating favourable contracts for its supply. According to the EU-US statement, contract prices could in some way be linked to the Henry Hub prices, which have been several times lower than those on European exchanges for many months now. The new supply contracts could also serve as an important signal supporting investments in the new LNG terminals in the US and other gas-exporting countries. This would be particularly important given the current uncertainty about future demand in Europe, which is linked to the challenges of ensuring the security of supplies and the accelerated decarbonisation of European economies.

- Despite the joint statement provisions, however, securing short-term supplies of LNG to Europe remains a major challenge. The prospect of the Union's longer-term interest in importing significant volumes of American liquefied gas may result in new investments in infrastructure, but it will take at least several years to complete their construction. Meanwhile, both the existing LNG terminals in the US and those under construction already have the vast majority of their capacities contracted. Uncontracted volumes of US LNG have been flowing in record volumes to the EU for several months anyway. In 2021 the EU imported more than 22 bcm of US LNG, and in January 2022 alone the figure was 4.4 bcm, or about 37% of all US LNG exports. It is not clear whether the significantly higher y-o-y US exports in the first quarter of 2022 are to be counted as part of the declared additional 15 bcm of LNG for Europe. It is also unclear how (and from where) the US administration may seek to secure further additional volumes of LNG for the next two years. It is possible that some of the volumes promised to Europe could be obtained from other US LNG consumers, but it is uncertain which ones and under what conditions (including under what type of agreements) could be found in this way. This could also involve high import prices, as the EU would have to compete for LNG with customers in Asia. The limitations of the EU's infrastructure may also pose a challenge to increasing short-term LNG imports. In recent months, the capacity of the European import terminals has been almost fully utilised. There are also challenges to the smooth transmission of greater volumes of LNG within Europe (among others, there is still insufficient interconnection between the Iberian peninsula, where over one-third of European LNG import capacity is located, and France). One partial solution to these problems could involve 'swapping' supplies, for example in cooperation with Turkey, by using its LNG terminals.