Of the Commission Implementing Decision on the 2019 Annual Action Programme for cooperation with third countries to be financed from the general budget of the European Union

### Action Document for a liquid, flexible and transparent global Liquefied Natural Gas (LNG) market

1 **KEY IDENTIFICATION DATA**

<table>
<thead>
<tr>
<th>Title of the Action</th>
<th>Towards a liquid, flexible and transparent global Liquefied Natural Gas (LNG) market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country/region/global</td>
<td>Global</td>
</tr>
<tr>
<td>Sector of intervention</td>
<td>Sustainable Energy</td>
</tr>
</tbody>
</table>
| Indicative budget | Total: EUR 4 000 000  
EC contribution: EUR 4 000 000 (100 %)  
Other contributions: NA |
| Duration and target start date of implementation | 36 months - January 2020 |
| Method of implementation | Direct management - Procurement |
| DAC code(s) | NA |
| Markers (from CRIS DAC form) |  |
| General policy objective | Not targeted | Significant objective | Main objective |
| Participation development/good governance | ✓ | ☐ | ☐ |
| Aid to environment | ✓ | ☐ | ☐ |
| Gender equality (including Women In Development) | ✓ | ☐ | ☐ |
| Trade Development | ☐ | ☐ | ✓ |
| RIO Convention markers |  |
| Biological diversity | ✓ | ☐ | ☐ |
| Combat desertification | ✓ | ☐ | ☐ |
| Climate change mitigation | ☐ | ✓ | ☐ |
| Climate change adaptation | ✓ | ☐ | ☐ |
| Global Public Goods and Challenges (GPGC) thematic flagsips | NA |
2 RATIONALE AND CONTEXT

2.1 Action summary

The European Union’s energy policies aim to ensure that European citizens can access secure, affordable and sustainable energy supply. The EU imports 70% of the gas consumed. Many EU countries are heavily reliant on a single gas supplier. This dependence leaves them vulnerable to supply disruptions. Thus accessing more diversified natural gas resources is a priority for the EU. The arrival of Liquefied Natural Gas (LNG) as an alternative gas source has already resulted in lower prices and contributes to increasing competition between gas and coal on the European market.

As identified in the EU’s Strategy for LNG and Gas Storage1, and in line with the objective of increasing the share of EU gas demand covered by competitively-priced LNG imports, the EU has a strong interest in promoting a transparent, flexible and liquid global LNG market which can quickly and efficiently reflect the actual value of LNG, based on gas market fundamentals and ensuing price signals.

Building on the first phase2 of the EU-Japan cooperation on global LNG markets, the overall objective of the action is to contribute to the EU Energy Union objectives, in particular on secure, diverse and competitive gas supplies by supporting the establishment of a liquid, flexible and transparent global LNG market.

The action will further implement the international dimension of the EU Strategy for LNG and Gas Storage, by deepening engagement with LNG importing and exporting countries.

The action will contribute to the establishment of a more flexible and transparent LNG market by creating greater awareness, understanding and consensus among major producer and consumer countries as well as among emerging producers and consumers. It will also promote EU’s approach and experience and help the EU play a leadership role in the shaping of the LNG market. This will be done through technical working groups, workshops and a high-level political event to be organised in Europe. Moreover, the project will work closely with emerging producer and consumer countries to share EU approach and best practices for effective participation in a flexible global LNG market.

2.2 Background/Context/Rationale for PI funding

The EU imports more than half of all the energy it consumes. Its imports dependence is particularly high for crude oil and gas. The total import bill is more than €1 billion per day. Imports represent some 70% of the gas consumed in the EU. In 2017, 37% of gas imports by volume came from Russia, 37% from Norway and 14% from North Africa (Algeria and Libya).3 In 2017 as a whole, LNG imports covered 14% of total extra-EU gas imports4.

Globally, the imports of LNG rose in 2017 by 9% and the demand is expected to grow 4-7% annually. China will still lead in terms of this growth in demand. Demand from South Asia, in particular India, and Southeast Asia is also growing fast. There is a growing number of LNG importing countries globally, currently standing at 40.

International LNG markets are set for major change, with substantial new liquefaction capacity expected to come on-stream by 2020 from North America, Australia, Qatar and, in future, several African countries. Swing producers, equally able to reach the Atlantic and the Pacific LNG markets, react to price developments in both markets and have helped LNG prices across the world to converge. In the EU, the last decade has seen the development of multiple liquid gas hubs and underlying

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2 This cooperation was supported by Partnership Instrument Policy Support action – “Promoting a flexible, liquid and transparent global LNG market”
interconnected sub-regional gas markets. The LNG market is gradually moving towards higher liquidity and flexibility, as – next to long term contracts – spot transactions and shorter-term contracts have become increasingly common.

The current context offers a window of opportunity to firmly establish the building blocks for a global liquid and flexible LNG market, and to support the conditions that will allow producers and consumers to equally meet such market environment with confidence.

The European Union’s energy policies aim to ensure that European citizens can access secure, affordable and sustainable energy supplies. Many EU countries are heavily reliant on a single supplier, including some that rely entirely on Russia for their natural gas. This dependence leaves them vulnerable to supply disruptions, whether caused by political or commercial disputes, or infrastructure failure. The EU Energy Security Strategy (COM(2014)330), developed in May 2014, presents both short and long-term measures to shore up EU’s security of energy supply. Among its five key areas, one is related to diversifying supplier countries, routes and energy sources.

Accessing more diversified natural gas resources whilst maintaining significant import volumes from reliable suppliers, is a priority for the EU. The arrival of LNG as an alternative gas source in previously single supplier dependent EU member states has already brought lower prices and contributes to increasing gas to coal competition on the European market. LNG will remain and further grow as a major potential source of diversification in the years to come, including in the transport sector. As identified in the EU’s strategy for LNG and gas storage (COM(2016) 49 final), the EU has a strong interest in a transparent, free and liquid global LNG market which can quickly and efficiently react to market changes.

This action is in line with the EU’s energy policies as reflected in the 2015 Energy Union Strategy, a key political priority of the Juncker Commission and the Partnership Instrument (PI) is best placed to support such action.

This action is aligned with the PI Regulation, namely with its Objective 1: To enhance EU bilateral, regional, inter-regional and multilateral cooperation and partnership strategies through 1) reinforcement of policy dialogues and 2) Development/adoption/implementation of collective approaches and responses to challenges of global and/or mutual concern, in particular in the areas of climate change, energy and the protection of the environment.

In addition, the project contributes to the PI Multiannual Indicative Programme (MIP) 2018-20 priority “Environment, climate and energy” and mainstreams the following cross-cutting issues: Multilateralism (building alliances) contributing to a global order based on international law, Resilience and Innovation.

### 2.3 Lesson learnt

To promote transparent and liquid global LNG markets, the EU has signed a Memorandum of Cooperation with Japan in 2017. The MoC was implemented through the PI-funded PSF action Promoting a flexible, liquid and transparent global LNG market in cooperation with Japan.

Throughout 2018, the PSF action organised various workshops, open to participants from all LNG producers and consumers. The workshops dealt with flexibility provisions in LNG sale and purchase contracts, well-functioning gas hubs in consumer markets, LNG price transparency and reporting, financial trade in LNG-based products, among other topics. The proposed action will use the experience accumulated in 2018 and widen the reach and scope of that initiative.

The PSF action demonstrated that good quality outcomes can be achieved with the format of workshops with ± 70-80 participants of senior technical level. The workshops indeed led to a sound

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6 Ten Member States (Bulgaria, the Czech Republic, Estonia, Latvia, Austria, Poland, Romania, Slovenia, Slovakia and Finland) imported more than 75 % of total national imports of natural gas from Russia.
shared understanding of all the building blocks for a liquid, flexible and transparent market, which could be presented in a coherent framework.

The EU-Japan workshops series also confirmed the added value of looking deeper and at a more technical level at some issues of crucial importance for the global LNG market. The workings of an expert group was facilitated by the project, leading to the development of a model clause on LNG cargo diversion and profit sharing.

Based on these successful experiences, the present action will continue to organise both yearly workshops at senior technical level as well as small-scale specialised working groups on important topical issues.

While, overall, the workshops saw good participation by nearly all important consuming and producing countries, on some occasions stakeholders' participation to workshops was hampered due to agenda conflict with international fora on gas and LNG that take place regularly across the world. Therefore the present action will be designed to complement those international events and the activities planning will take into account the global calendar on gas and LNG.

Finally, following the workshops, the need is now felt for a heightened political visibility for this type of activity led by the EU. Based on this, the proposed action will organise a high-level political event which will be held in the EU. It will be crucial that such political outreach on the type of LNG market developments that are judged desirable by the EU, will duly present the related messages in the frame of the EU’s integrated climate and energy policies, in particular its long-term goals for a de-carbonised energy system.

2.4 Coherence and complementarity

The action proposed is coherent with EU's energy policies as reflected in the 2015 Energy Union Strategy⁷, a key political priority of the Juncker Commission. More specifically, the action will deliver on the “EU strategy for liquefied natural gas and gas storage”, where better access to LNG is expected to increase security of supply, reduce dependence on Russian gas and allow European consumers to take advantage of the global ‘gas glut’ and the availability of competitively priced LNG, with strong considerations for sustainability of the gas value chain.

The action will also contribute to the implementation of the Joint Communication “Connecting Europe and Asia – Building blocks for an EU Strategy”⁸ and the objective of promoting market integration whilst improving energy security.

The action will promote EU's approach and experience and provide a leadership role in the shaping of the LNG market. The activities and their recommendation will feed into the existing bilateral energy dialogue that the EU maintains with strategic partners such as USA, Japan, China, India, South Korea, Australia, Algeria and others, as well as in the framework of the Eastern Neighbourhood.

The action will also benefit from existing dialogues and platforms such as the EU-China Energy Cooperation Platform or the EU-India Energy and Climate Partnership, as well as regional energy connectivity platforms that may be established in the context of the Europe-Asia Connectivity Strategy and the Eastern Partnership. Actions could become mutually reinforcing in presenting the EU external action on energy and as such could lead to strengthening of EU energy diplomacy.

In 2017, 13 Member States imported 14% of total extra-EU gas imports through LNG, 12% more than the year before. Spain is EU's largest LNG importer with 31% of total EU LNG imports in 2017, followed by France (20%), Italy (15%) and the UK (12%). The EU's overall LNG import capacity is significant – enough to meet around 43% of total current gas demand (2015). However, in south-east of Europe, central-eastern Europe and the Baltic, many countries do not have access to LNG. Based on the list of EU ‘projects of common interest’ the LNG strategy includes a list of key infrastructure projects which are essential for ensuring that all Member States of the EU can benefit from LNG.

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Poland's Minister of Energy and Spain's Regulator have participated in the EU-Japan organised events. Relevant expertise is available in EU Member States through independent scholars, consultancies, the industry and academia and public research and training institutes. In particular the Florence School of Regulation was very involved in the development of workshops. This new action intends to increase the participation of the European public sector as the private sector is already widely involved.

2.5 EU added value

The mid to longer term possibilities for increased and competitively priced LNG supplies to the EU will depend on the global LNG market sustainably finding the right balance between increased flexibilities as requested by major consumers (EU, Japan, Korea,…), and the concerns of revenue certainty of investors in liquefaction projects. Through continued work with its international partners, the EU can help facilitating the market conditions that will enhance confidence among LNG consumers and producers that such balance will be achieved. There is no international organisation that can do this on the EU's behalf.

The EU’s messages and sharing of practices in support of transparent and liquid global LNG markets will benefit from the experience gained with developing, implementing and compliance-checking of gas market legislation in the EU, the transposition of the EU’s gas market legislation in the EU member states as well as with market organisation and regulatory frameworks enacted in the EU member states. The EU and its Member States have extensive experience with regional approaches to gas market integration which can be highly relevant for other parts of the world and which the present action will actively disseminate.

2.6 Cross-cutting issues

Sustainability aspects as part of the EU’s decarbonisation efforts are gaining ever more importance. By promoting the good functioning of the global LNG market, this action will support positive impacts on sustainability and environmental quality.

Flexible trade of competitively priced LNG can enhance new uses of LNG and open new potential markets, including: small-scale LNG for local industry and islands, contributing to sustainable growth and jobs for both women and men; gas replacing oil and coal in power production, resulting in lower harmful emissions; use of gas in households, improving air quality.

The present action will give due attention to decreasing the climate impact along the LNG value chain, in particular through raising awareness of the issues of venting, flaring and methane leakage and promoting the dissemination of effective approaches to deal with them. The long-term economic viability and profitability of gas infrastructure will also be addressed from a perspective of ever more ambitious climate change mitigation policies, thereby taking into account potential developments in synthetic gas and liquefied bio-methane. The action will also mainstream innovation in the LNG sectors, when it comes to LNG use in transport (maritime, inland navigation, heavy duty vehicles) and innovative approaches to reduce costs and environmental impacts of LNG production, transport and use.

Overall, international and EU best practices will be promoted, favouring the respect of the rule of law and EU values globally. This will include best practices related to inclusion of women’s and environmental organizations and Civil Society Organizations in related policy dialogue. Cross cutting issues will be mainstreamed throughout the implementation of the action by aiming at gender mainstreaming (e.g. by ensuring gender balanced speaker panels, round tables and working groups, including at high level representation). Measures will be taken to reduce the environmental impact of the action's activities⁹. Efforts will be made towards more accessible project resources, e.g. accessible event venues, accessible project website, etc.

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3 ACTION DESCRIPTION

3.1 Objectives

The overall objective of the action is to contribute to the EU Energy Union objectives, in particular on secure, diverse and competitive gas supplies by supporting the establishment of a liquid, flexible and transparent global LNG market. The action will further implement the international dimension of the EU Strategy for LNG and Gas Storage, published in 2016.

The specific objective is to deepen engagement with LNG consumer countries as well as emerging LNG producer and consumer countries, to promote a liquid, flexible and transparent global LNG market.

The planned results of the action will be:

1. EU approach and best practices to gas and LNG markets are promoted and recognised as best practices
2. Dialogue on LNG markets contributes to the development of market-based gas systems in third countries and to enhanced flexible LNG trade
3. Knowledge on liquid, flexible and transparent LNG market development is raised among emerging producer and consumer countries
4. Regional approaches to the development of the LNG market in Asia will be promoted, in line with the EU’s strategy on Asia connectivity.

These results will be achieved by implementing the following indicative activities:

- One high-level ministerial LNG event under EU leadership
- Two international workshops
- At least 10 Specialised working groups meetings
- At least five progress reports on specific issues related to the global LNG market functioning and five final detailed studies on these.
- At least nine Knowledge exchange workshops at regional or bilateral level on LNG
  - Gas/LNG trading,
  - Development of gas/LNG hubs and price discovery trading,
  - Investment in LNG sector including financing,
  - Environmental and sustainable operations of LNG (extraction, liquefaction, transport), etc.
- Specific technical assistance in targeted countries in Asia and Africa (needs basis).

The action will capitalize and sustain the cooperation with Japanese partners such as the Ministry of Economy, Trade and Investment (METI) on the global LNG market. With this action, the EU will lead the implementation of international LNG workshops focused on the key drivers to promote the liquidity, flexibility and transparency of the global LNG market as well as a high level ministerial meeting in Brussels to set the political agenda.

Through the support to Specialised Working Groups (SWGs), including participation of European experts and businesses, EU approaches and best practices will be promoted and influence the shaping of the global LNG market.

Last, for a truly flexible global LNG market to function well, reforms to achieve liquid domestic gas consuming markets are essential to provide flexibility at the receiving end of the LNG value chain. Through technical workshops, it is expected that participants will increase their confidence in the good functioning of a liquid global LNG market and its contribution to security of supply strategies. It is estimated that the planned results will be achieved partly during the implementation period of this action. They will contribute to shape the global LNG market and to develop adequate regulatory framework of various LNG consumer and producer countries, thus contributing to a sustainable impact.
For emerging countries, sufficient and timely upstream investment will also be crucial for the liquidity of the global LNG market. In some countries, the regulatory and investment regime could be enhanced through this action to facilitate such upstream investment, which in turns could accelerate the drop in LNG prices across the world.

3.2 Stakeholders

The EU has signed a Memorandum of Cooperation with Japan in 2017 to promote and establish a liquid, flexible and transparent global LNG market. Together, Japan and the EU account for nearly 50% of overall global LNG consumption. Both want to promote the liquidity, transparency and flexibility of the global LNG market, as the best condition for durable competitive LNG supplies and for improving the resilience of the international market and its capacity to respond to unexpected events. Throughout 2018, various workshops have been organised in cooperation with Japan and the present action will continue to foster this bilateral dialogue with Japan.

However, the proposed project is a global action open to any country having an interest in the global LNG market. It will focus on major LNG consuming countries in Asia such as Japan, India, South Korea or China as well as major producers such as USA, Australia or Algeria. The action also aims at further involving emerging LNG importing countries such as Pakistan, Bangladesh, Thailand, Morocco, South Africa, etc. and emerging LNG exporting countries such as Mauritania, Mozambique, Senegal, Tanzania, etc. The action also aims at involving the Eastern Neighbourhood, such as Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.

The main stakeholders of the action will be Ministries and public bodies responsible for regulation of the LNG markets in producer and consumer countries.

Another group of stakeholders will include representatives from the industry (including traders, buyers, sellers, terminal and underground storage operators, shipping) as well as the LNG financial market stakeholders and experts from independent consultancy and academia, in particular from EU Member States.

Where appropriate and relevant, the action will seek synergies with the International Energy Agency (IEA) or with the G7/G20 agenda on LNG, in particular to enhance promotion of best practices of the emerging global LNG market and identify complementarities of actions.

3.3 Risk assessment and management

<table>
<thead>
<tr>
<th>Description of Risk</th>
<th>L/M/H</th>
<th>Mitigation/Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception amongst LNG producer countries that the EU and Japan are trying to unduly influence the market.</td>
<td>L</td>
<td>Continuing the practice from the previous PI-supported action, the workshops shall be organized in a way that is transparent to other LNG actors and stakeholders, in dialogue with major producers and in line with the relevant multi-lateral initiatives (IEA, G7).</td>
</tr>
<tr>
<td>Some major LNG producer countries might not be supportive of the development of a flexible market</td>
<td>M</td>
<td>By strengthening partnerships with a wider number of countries and promoting conditions for a more fluid, liquid and transparent LNG market, the project will minimize the influence of these countries opposing the EU approach.</td>
</tr>
</tbody>
</table>
The project raises expectation in ODA eligible countries but cannot support the setting up of the individual LNG markets, thus the interest of those countries diminishes. The action-related communication will make it very clear from the beginning that the action is aimed at influencing decision makers through sharing of best available information to develop the global LNG market and not a development cooperation project so as to avoid raising expectation. ODA eligible countries could be supported in identifying other resources to further support the reform process.

An overall assumption is that the global LNG market continues to develop and the price of LNG drops across the world, thus being favourable to a consumer market.

### 3.4 Communication and EU visibility

Communication and visibility of the EU is a legal obligation for all external Actions funded by the EU.

This Action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

Appropriate contractual obligations shall be included in, respectively, the procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action\(^\text{10}\), which came into force on 1 January 2018, shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Comprehensive and timely information will be regularly sent to key stakeholders (including media, think thank representatives) alerting on the outcomes of the actions and diffusing background information on key issues. Specific materials shall be created and media/social media campaigns launched on relevant policy areas/topics. From the Commission website, the project will have a dedicated page to act as a repository for relevant documentation and a registration for event participants.

### 4 IMPLEMENTATION ARRANGEMENTS

#### 4.1 Method of implementation

**Procurement (direct management)**

(a) The programme will be implemented via a service contract.

(b) Indicative timing: call(s) for tender expected to be launched 2\(^{nd}\) Quarter 2019.

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4.2 Indicative budget

<table>
<thead>
<tr>
<th>Method of Implementation</th>
<th>Amount in EUR million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement (direct management)</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
</tr>
</tbody>
</table>

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures\(^1\).  

4.3 Organisational set-up and responsibilities  

Relevant EU services will ensure close coordination with bilateral and regional energy dialogues with partner countries wherever relevant and will provide regular technical and political inputs.  

A Project Steering Committee (PSC) which will include relevant EU services will be set up to steer the project, to ensure complementarity with existing EU initiatives and to share information about the projects’ activities. The PSC will meet at least once a year.  

Delegations of the EU will be kept informed and will be involved, in particular if activities take place in third countries but also if countries government and authorities are attending the events organised under the action.  

EU Member States will be kept informed through the meetings of the Energy Working Party of the Council of the European Union.  

4.4 Performance monitoring  

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process and part of the implementing entity’s responsibilities. To this end, the implementing entity shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results. The progress and final reports shall provide quantified and qualitative data in relation to the logical framework indicators which will include relevant indicators from the list of core and corporate indicators.  

The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the Action. The final report, narrative and financial, will cover the entire period of the Action implementation.  

The Commission may undertake additional Action monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).  

4.5 Evaluation and audit  

For this Action, the Commission may carry out interim and/or final/ex-post evaluation(s) via independent consultants contracted by the Commission based on specific terms of reference.

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\(^1\) [www.sanctionsmap.eu](http://www.sanctionsmap.eu) Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.
Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments.

As the “N+1” rule applies for contracting under this decision, external evaluations and audits, as well as additional external monitoring referred to under section 4.4. above, will be funded from sources other than those allocated to this specific Action.