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SEE ENERGY BRIEF:

Monthly Analysis

Is the Future of Natural Gas in the EU at Stake?



Introduction

Recently, the European Commission published an updated methodology to assess which gas infrastructure projects will be eligible to receive EU funding, triggering warnings by environmental groups and a senior member of the European Parliament. More specifically, the European Commission published on June 15 a document outlining the methodology to assess gas projects applying for EU funding (1). Energy infrastructure projects that make it onto the priority list – known as projects of common interest (PCI) – are able to gain access to EU money and faster permitting.

Whether an energy project makes it onto the list is determined by the regulation on Trans-European energy networks (TEN-E), which is currently being revised in order to align the EU's infrastructure funding with the bloc's climate goals. However, the new methodology for selecting gas projects applies to the existing list only, and not the new one that will be adopted under the revised TEN-E regulation, on which an agreement is not expected until the fourth quarter of this year. 74 gas projects have applied to be on the list and the current methodology could see many of them accepted, according to lawmakers and NGOs, who have flagged concerns about a lack of barriers to prevent natural gas projects from seeking favoured status. (2)

In July 2020, lawmakers in the European Parliament asked for projects on the PCI list to be aligned with Europe's climate targets (3). But further investment into gas may end up locking Europe into fossil fuels for many years to come, they warn. "I am very concerned about this methodology", said Pascal Canfin, a French MEP, who chairs the European Parliament's environment committee. "It is not in line with the European Parliament resolution" that called for aligning the 5th PCI list with commitments on climate change made under the Paris Agreement, he added¹.

Opposition and Compromise Deal Over Fossil Gas Funding

Eleven countries, including Germany, Denmark and the Netherlands, were set to reject a plan to prolong EU support for cross-border natural gas projects, and instead push for rules to exclude fossil fuels, according to a document seen by Reuters and cited in a recent Euractiv article (4). The eleven countries opposed to this – Austria, Belgium, Denmark, Germany, Estonia, Ireland, Luxembourg, Latvia, the Netherlands, Spain and Sweden – reiterated their position from a month ago, when they signed a declaration to keep fossil fuels out of the revision of the TEN-E regulation. (5)

Portugal's proposal, which until now held the rotating presidency of EU countries, stated that projects in the island countries of Malta and Cyprus with PCI status should retain it until they are fully connected to the

¹ <https://twitter.com/pcanfin/status/1405531777435795462?s=20>

European gas network. That could help ensure the completion of Greece, Cyprus and Israel's East Med pipeline to supply Europe with gas from the eastern Mediterranean. The proposal also said that, until 2030, investments to retrofit gas pipelines for carrying hydrogen should be allowed to carry natural gas blended with hydrogen.

On June 11, EU energy ministers agreed a "general approach" to the funding of European energy projects, ending support for new fossil gas and oil projects, but allowing a transitional period till end-2029 for gas infrastructure conversion to hydrogen. Ministers will next take the agreement on the revision of the Trans-European Networks for Energy (TEN-E) Regulation to the European Parliament for negotiations on the text, as cited in a recent article of S&P Global Platts. [\(6\)](#)

Earlier, there had been calls for all fossil gas projects to be excluded from eligibility for funding under the TEN-E process, which defines the projects to be allowed to be subsidized under the Projects of Common Interest (PCI) scheme. The European Council, in its position, decided to end support for new natural gas and oil projects and to introduce mandatory sustainability criteria for all projects. However, during a transitional period until December 31, 2029, dedicated hydrogen assets converted from natural gas can be used to transport or store a pre-defined blend of hydrogen with natural gas or biomethane.

Four member states, i.e. Germany, Austria, Spain and Luxembourg, objected to the agreement on the blending issue. The four countries were among the aforementioned eleven that had called for an outright ban on fossil gas from the TEN-E process. The transitional period was included in the compromise deal after the European Commission had proposed funding could be made available for infrastructure projects for the supply and trade of hydrogen, which would also include assets converted from gas.

The Council said that the transitional period should not mean an extension of the lifetime of gas assets. "Selected projects shall demonstrate how, by the end of this transitional period, these assets will cease to be natural gas assets and become dedicated hydrogen assets", it said. "The assessment of candidate projects will also ensure that the assets are designed in view of creating dedicated hydrogen assets by the end of the transitional period and do not lead to the prolongation of the lifetime of natural gas", the article of S&P Global Platts adds.

The purpose of this, it said, was to gradually decarbonize the sector and increase the share of renewable gases in the pipelines. The agreement also made exceptions for Cyprus and Malta, which are still not interconnected to the trans-European gas network. The Council also decided to include certain types of electrolyzers that contribute to sustainability in the scope of the regulation. Those electrolyzers shall account for at least 100 MW capacity in a project. The production of hydrogen, particularly of renewable sources,

from these electrolyzers, shall comply with a life-cycle greenhouse gas emission saving requirement of 70% relative to a fossil fuel comparator of 94 g CO₂e/MJ.

The Case of SE Europe

Natural gas, a fossil fuel, produces roughly half the carbon dioxide emissions of coal when burned in a power plant and countries, such as Poland, Germany and Greece, plan to use gas to wean themselves off the more polluting fuel. This approach appears to serve the needs of most SEE countries, which use coal and/or lignite as basic source for electricity generation and which will try to slash emissions by 2030. Substituting solid fuels with gas is undoubtedly a fast-track solution. But gas is not emissions-free and there are growing concerns that leaks of potent planet-warming methane from gas infrastructure could cancel out the benefits of switching to gas from coal. This is obviously not an immediate concern for SEE countries and such philosophical questions should occupy them at a later stage, once they manage to phase out solid fuel plants.

Seen in a broader context, the switch from coal to gas for power generation offers the single most important step to halve power generation's emissions and this constitutes a bold move towards GHG emission reduction. This is particularly important for SE Europe, where coal and lignite still have dominant role in power generation and gas appears as the only quick way to reduce substantially GHG emissions, if we assume that this is the desired (by the EU) goal.

If we are to take EC stated energy and climate policies and strategic directions with respect to 2030 targets at face value, there is a clear prejudice against any further investment in gas infrastructure in view of the prospect of its full abandonment over the next 10-15 years and its substitution with hydrogen and RES. Meanwhile, all countries in SE Europe have firm plans encouraging further gas use for power generation, industrial and commercial use and for domestic applications.

Almost all governments in SE Europe consider gas use as the fastest and most efficient way for decarbonization. Already we witness much increased gas use in the region. Hence, there appears to be a strong inconsistency in the region between pursued EU policy targets with regard to gas use – with EU arms such as EIB and EBRD already implementing negative investment decisions towards new gas infrastructure projects – and locally applied energy policies, which very much favor further gas use. Sooner or later, the EU will have to address this serious policy discrepancy and decide on strategy correction and associated medium- and long-term action plans. In other words, to what extent is Brussels willing to prohibit gas use and what fuels is ready to propose as alternatives? Is hydrogen a real alternative at this stage and how is it going to replace gas at competitive cost?

It is no coincidence that last May a group of eight EU countries from the Balkans and the Central and Eastern Europe joined forces to defend the “role of natural gas in a climate-neutral Europe”². In a joint paper, the group of eight calls for “combined electricity – gas solutions” in the transition to net-zero emissions by 2050. “A transition based solely on renewable energy sources does not consider the need for a diversified energy mix in the EU,” says the paper.

The paper – titled “The role of natural gas in a climate-neutral Europe” – is signed by Bulgaria, Czech Republic, Greece, Hungary, Lithuania, Poland, Romania, and Slovakia. It makes the case for natural gas in the transition away from coal power, which is a dominant form of electricity in many eastern EU member states. “When replacing solid fossil fuels, natural gas and other gaseous fuels such as bio-methane and decarbonised gases can reduce emissions significantly,” the paper argues.

The European Commission reckons that electricity will meet 53% of the bloc’s energy demand by 2050 as the bloc moves towards reducing emissions to net-zero. That leaves at least 40% for other energy carriers such as gaseous fuels that Brussels says will have to be fully decarbonised in order to reach the EU’s stated goal of becoming climate neutral by 2050. Natural gas has been a major driver of Europe’s rapid transition away from coal power and is also proving a valuable back-up for variable renewable electricity generation from wind and solar power.

Discussion

The countries of the SE European region look upon gas as their best hope - in addition to renewables - for a quick decarbonization and phasing out of the really polluting, in the context of climate change, solid fuels. Without the base load and quick response provided by natural gas in power generation, it is useless to talk about greater RES penetration in SE Europe’s electricity grids. We have now reached a situation where it is most urgent for the European Commission, governments and industry to sit around the table and work out a new strategy to include natural gas as part of the solution towards achieving the new emission goals of 2030, and not exclude it. A strategy, which will obviously include stringent emission standards and much stricter environmental and health safety conditions for natural gas power generation as well as provision for the introduction of hydrogen in gas grids in the near future.

On June 8, IENE organized an online workshop on “Gas Markets in Transition in SE Europe” and the main conclusion was that without natural gas EU’s highly ambitious 2030 and 2050 goals cannot be really achieved in SE Europe (7). The general consensus of the workshop was that natural gas is a transitional fuel and we

² Simon, F. (2020), “Eight EU states back ‘natural gas’ in net-zero transition”, *Euractiv*, <https://www.euractiv.com/section/energy-environment/news/exclusive-eight-eu-states-back-natural-gas-in-net-zero-transition/>

have to utilise it as such in order to reduce GHG emissions and finally succeed (if ever) a zero-carbon energy mix. While natural gas was not included in the list of green economic activities of the EU taxonomy³, the European Commission recently stated that the EU legislation will restore natural gas to its bridge-fuel status. However, natural gas, in its race to stay for as long as possible, will require a lot of emissions-cutting efforts from the perspective of producers. (8)

Apart from the existing EU Hydrogen Strategy⁴, it is time to develop a coherent complimentary hydrogen strategy for SE Europe, taking into account the significant role of natural gas in producing low carbon hydrogen. The infrastructure needed and the way we should address our decarbonisation targets are expected to lead to affordable energy prices and increased security of supply to the market.

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³ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

⁴ https://ec.europa.eu/energy/sites/ener/files/hydrogen_strategy.pdf

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