

## IN-DEPTH ANALYSIS

# Could US oil and gas exports be a game changer for EU energy security?

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### ABSTRACT

The quest for oil markets abroad can be seen as an attempt by US companies to find higher prices and profits and avoid bankruptcy, since the current low price of oil, resulting from OPEC's strategy of oversupplying the market, is making shale-oil production in the US less and less profitable.

The impact of potential US oil exports on the European Union's energy security is expected to be limited in the short term. The oil market is oversupplied, prices are depressed and are only expected to increase slightly if OPEC and other producers agree to stabilise production, and Europe can find alternative suppliers easily. These now include Iran, which has the world's fourth-largest reserves of oil, since sanctions were lifted in January following the nuclear deal.

US restrictions on natural gas exports are still in force. Should it be removed, as part of a TTIP deal or under changes to domestic law, the US has the potential to become a net gas exporter. However, as the US can get higher prices on Asian markets and as both the US and the EU have limited LNG infrastructures, the EU is an unlikely destination for large LNG imports from the US in the short run. Europe can obtain gas from a plethora of suppliers, now including Iran, which has the world's second-largest reserves of gas.

The long-term outlook is more promising, as US LNG export capacities are expected to rise significantly in the coming decade and EU Member States may decide to diversify supplier countries and routes, under the European Energy Security Strategy, rather than allowing short-term commercial interests to prevail.

## Table of contents

1	Introduction	3
2	The US lifts its ban on crude oil exports	3
3	Potential for US oil exports to the EU	4
4	Potential for US exports of natural gas	7
5	Outlook for EU imports of US gas	10
6	Policy options and strategic recommendations	13

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## 1 Introduction

Thanks to its shale technology, the US became the world's largest producer of oil, with 11.6 million barrels per day, and of natural gas, with 728.3 billion cubic metres, in 2014<sup>1</sup>. This does not necessarily give the country an export vocation, since its consumption exceeds production<sup>2</sup>. Nevertheless, despite the US being a net importer, initiatives have been launched in the Congress to permit energy exports, which were subject to export bans from 1973 for crude oil<sup>3</sup> and export restrictions from 1938 for natural gas<sup>4</sup>. The oil export ban was removed in December 2015 while gas export restrictions may be dropped (for the EU) if the Transatlantic Trade and Investments Partnership (TTIP) agreement is signed. Industry lobbies are behind these moves, in pursuit of their economic interests, which are not served by exporting an energy surplus but by seeking higher prices (and profits) than they can obtain on the US domestic market. This briefing explores the economic conditions in which US energy companies are trading, in competition with other world energy exporters. An assessment of the EU outlook completes the analysis.

## 2 The US lifts its ban on crude oil exports

Interest groups lobbied for and against the export ban.

Imports of crude oil to the EU from the US have only been possible since the US Congress lifted the 40-year-old ban on exports<sup>5</sup> in a deal on tax and spending legislation signed into law on 18 December 2015<sup>6</sup>. The removal of the ban came as a surprise as the US Administration had opposed a similar bill aimed at overturning the ban in October 2015. It is part of a package that includes tax incentives to boost wind and solar energy development and a USD 500 million payment to the UN Green Climate Fund.

Nonetheless, there are three cases in which the US president can still impose export licensing requirements or other restrictions on the export of crude oil for up to one year: (i) if a national emergency is declared; (ii) in the context of sanctions or trade restrictions imposed by the US for national security reasons; (iii) if the export of crude oil causes oil supply shortages or oil prices to rise significantly above the world market level, with an adverse

<sup>1</sup> See [BP Statistical Review of World Energy, June 2015](#).

<sup>2</sup> In 2014 oil consumption was equal to 19 035 tbd and natural gas consumption was 759.4 bcm.

<sup>3</sup> With the "Emergency Petroleum Allocation Act" of 1973. See [Navigating the U.S. Oil Export Debate](#), Columbia SIPA, January 2015.

<sup>4</sup> See the [Natural Gas Act of 1938](#).

<sup>5</sup> A clause in the law's chapter on 'Oil exports, safety valve, and maritime security' states that 'no official of the Federal Government shall impose or enforce any restriction on the export of oil'. See [H.R.2029 - Consolidated Appropriations Act](#), 2016, 114th Congress (2015-2016).

<sup>6</sup> The above-mentioned act is a miscellaneous budget law covering agriculture, justice, trade, foreign policy, energy and military spending. In particular, the energy chapter reflects a political trade-off between increased environmental energy subsidies and the removal of the oil export ban.

impact on employment in the US.

Interest groups lobbied for and against the export ban.

The removal of the oil ban had lobbies for and against it. Those in favour said it should help revive the US drilling boom and provide an alternative to Russian oil supplies, reflecting the US position as a global energy superpower. They hope it will help create jobs, spur economic growth, yield new revenues, and provide prosperity and enhanced energy security for the US and its allies. Opponents on the other hand fear that it will cause harm to the environment and lead to job losses in the oil-refining industries.

The new focus on exporting is not seen as being inconsistent with the US National Security Strategy. The US considers that its vulnerability to global supply disruptions has declined and it had been looking to boost its allies' energy security even before lifting the oil export ban<sup>7</sup>

In any event, lifting the export ban is unlikely to lead to a boom in US oil exports in the short run because the oil market is currently saturated as a result of the over-production policy of the Organization of the Petroleum Exporting Countries (OPEC).

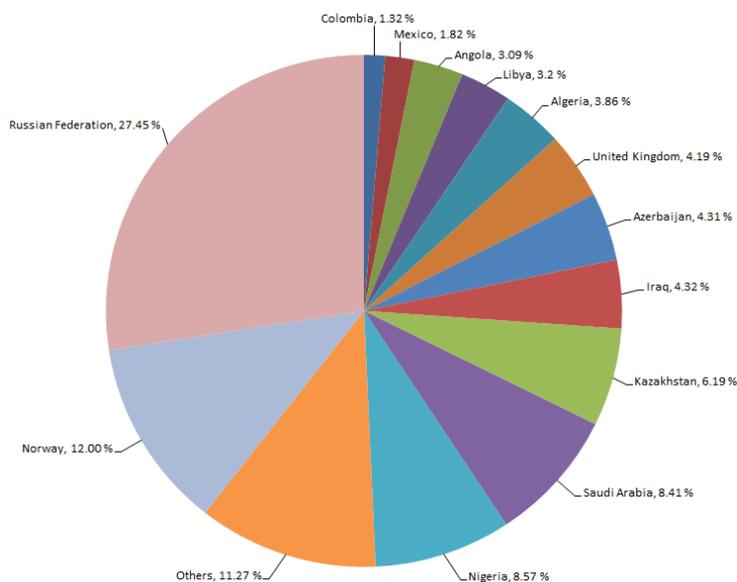
### 3 Potential for US oil exports to the EU

US oil exports to Europe face competition from Russia, the Middle East and the Caspian Sea. In 2014, Europe's oil imports originated chiefly from the Russian Federation (27.45 %), followed by Norway (12 %), Nigeria (8.57 %), Saudi Arabia (8.41 %) and Kazakhstan (6.19 %).

<sup>7</sup> See [National Security Strategy](#), February 2015: 'American oil production has increased dramatically, impacting global markets. Imports have decreased substantially, reducing the funds we send overseas. Consumption has declined, reducing our vulnerability to global supply disruption and price shocks.'

**Fig. 1:**

Main sources of EU oil imports



Source, European Commission, DG Energy<sup>8</sup>.

The oil glut, depressed prices and infrastructure bottlenecks leave the US little scope to sell oil to the EU.

After the oil ban was lifted, the EU imported two cargoes from Texas to Trieste (Italy) and Marseille (France). However, the interest of European companies in buying US oil depends on the price and on Europe's diversification needs. Oil is at present abundant on the world market and imports can easily be diversified. The oil market is globalised and oil is easier to store and transport than gas, which requires a more versatile infrastructure. Since the sanctions against Iran were lifted on 16 January 2016, up to a million barrels of Iranian oil per day are expected on the world market. Another problem concerns US infrastructure, which is designed for importing rather than exporting crude oil. Considerable investment would be needed to adapt it for export purposes. Last but not least, the long-term potential for the US to export crude oil to Europe will depend mainly on the price of oil. The removal of the sanctions against Iranian oil exports is expected to lead to a further drop in the price of oil of up to USD 10 per barrel.

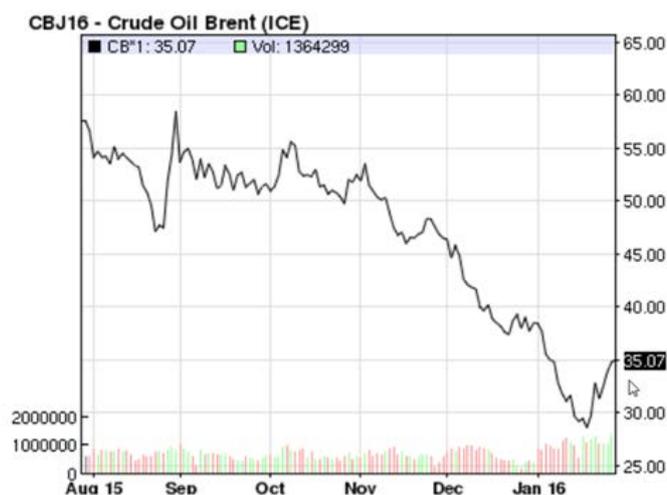
In fact, the current energy outlook is for oversupply, causing a downward spiral of the price of oil (it fell to USD 28 per barrel on 18 January).

<sup>8</sup> See [EU crude oil Imports and supply cost](#), 2014, EU Commission, DG Energy.

**Fig. 2:**

Six-month trend in oil prices

End of day Commodity Futures Price Quotes for Crude Oil Brent



Source: Nasdaq<sup>9</sup> 2016

Already a huge supplier of its large domestic market, the US is now seeking alternative and more profitable markets, but this is likely to further depress prices. Traditional exporters (OPEC and Russia) are struggling to maintain their market shares and are boosting output to try and stave off competition from new ones, such as the US and Iran.

Half of US shale oil producers face bankruptcy because of the oil glut caused by OPEC's policy of oversupplying the US market.

Despite the relative resilience<sup>10</sup> of US shale oil and gas companies, the impact of falling oil prices is now being felt. US hydraulic-fracturing, or fracking, companies can adapt to global prices within a price range of between USD 45 and USD 65 per barrel. However, below USD 45, production falls sharply and above USD 60 it surges. US companies were able to survive in the first half of 2015 when prices ranged from USD 50 to USD 60 a barrel. After that, however, the price fell to below USD 50 per barrel in July 2015, below USD 40 in December 2015 and below USD 30 in January this year. At this level, half of the shale-oil companies in the US face possible bankruptcy. This is in line with the alleged strategy of OPEC, and of Saudi Arabia in particular, aimed at retaining its share of the US oil market<sup>11,12</sup>. The oil export ban was probably lifted in the US as part of a strategy to ensure that US shale-oil production could continue.

Many think, however, that OPEC's oil strategy would have to have a very long lifespan to prevent US companies from producing. They may go bankrupt now, but new ones can easily restart production when prices rise. Oil fracking technology does not require very large-scale investments and

<sup>9</sup> Brent is widely accepted as a reliable indicator of global oil prices, including EU ones, while WTI is more US-oriented. See [Nasdaq](#) (29 January 2016).

<sup>10</sup> See [After OPEC, American shale firms are now the oil market's swing producers](#), The Economist, 16 May 2015.

<sup>11</sup> See [Fracking Firms That Drove Oil Boom Struggle to Survive](#), The Wall Street Journal, 23 September 2015.

<sup>12</sup> See [Half of US shale drillers may go bankrupt: Oppenheimer's Gheit](#), CNBC, 11 January 2016.

shale formations are abundant in the US.

When not driven by low US oil prices, imports to the EU, such as the two oil cargoes in 2016 mentioned above, may take place for the purposes of diversification or speculation (i.e. oil can be stored in EU territory until higher prices can be obtained for reselling it).

## 4 Potential for US exports of natural gas

US natural gas exports are still restricted but this does not apply to countries that have free trade agreements with the US.

While oil exports have been liberalised, exports of US gas are still restricted. A US law of 1938 prohibits the export of natural gas if it poses a threat to national interests<sup>13</sup>. At the same time, however, the law stipulates that national interests are not at stake in the case of exports to countries that have free trade agreements (FTAs) with the US, such as the North American Free Trade Agreement (NAFTA) countries, South Korea, Japan, Colombia and Peru. The EU does not have a free trade agreement with the US, making it legally difficult to import US gas products. However, negotiations on the Transatlantic Trade and Investment Partnership (TTIP) are progressing, and the EU Foreign Affairs Council expressed strong expectations for the conclusion of a separate chapter on energy and raw materials at its meeting of 21 November 2014<sup>14</sup>. While discussions on such a chapter do not seem to be advancing (there is no decision even to include one so far), a leaked old draft may provide some indications<sup>15</sup>. In any case, with or without an energy chapter, the TTIP itself, if concluded and applied, can facilitate US LNG exports.

Lack of infrastructure limits the scope for exports and low gas prices mean there is little incentive to invest in LNG export terminals.

Even without having FTAs in force, derogations to the export restrictions are possible under a convoluted, lengthy and expensive authorising process<sup>16</sup>. The US Department of Energy can authorise exports of domestic gas to foreign countries, while the Federal Energy Regulatory Commission regulates the construction of facilities for imports and exports, including liquefied natural gas (LNG) export facilities. So far, the only LNG export facility which has been authorised and is currently operational is the Kenai LNG Plant, located in Nikiski (Alaska). Its entire output has been exported to Asian countries (mainly Japan, with which the US has an FTA, and Taiwan,

<sup>13</sup> A similar provision applies to coal. The Energy Policy and Conservation Act of 1975 requires a licence aimed at verifying several conditions, the first being the national interest. So far, coal exports have never been blocked.

<sup>14</sup> The TTIP should facilitate energy cooperation between the US and the EU by targeting harmonised standards and rules. General TTIP provisions on trade in goods and services and on investments will apply as such to energy goods, services and investments. However, specific rules have to be included to provide proper coverage of investments in energy and trade in raw materials and energy products. Relevant provisions should improve transparency in granting licenses for the export of energy goods and market access to investments. Similarly, export restrictions on raw materials and energy goods have to be removed. Furthermore, trade in renewable energy goods will also be promoted with appropriate technical standards and rules. An increase in advanced European green technologies would promote the fight against climate change in the US.

<sup>15</sup> See [To Include or Not to Include an Energy Chapter in TTIP?](#) Kluwer Arbitration Blog 30 December 2015.

<sup>16</sup> See [An Assessment of U.S. Natural Gas Exports](#), Brookings, July 2015.

for small quantities). The first LNG export terminal on the East coast, Sabine Pass (Louisiana), with a self-declared capacity of 25.5 million tonnes per year (equivalent to around 31 bcm) once the entire facility will be completed, was expected to start operating at the beginning of 2016<sup>17</sup>. However, its first cargo has been delayed, probably because present market conditions do not favour new LNG exports<sup>18</sup>.

The US Senate and the House of Representatives have some LNG-related bills pending, intended to liberalise gas exports<sup>19</sup>. Besides the legal obstacle, a lack of infrastructure further limits the scope for US companies to export natural gas. The development of LNG exports has so far not been a priority as LNG has largely been used for domestic industrial production. Additionally, large LNG facilities require enormous investment. Most LNG export projects would need a global oil price of USD 60 per barrel to be profitable and of at least USD 50 per barrel to cover costs. Even at USD 50 per barrel, viability is uncertain for many companies.

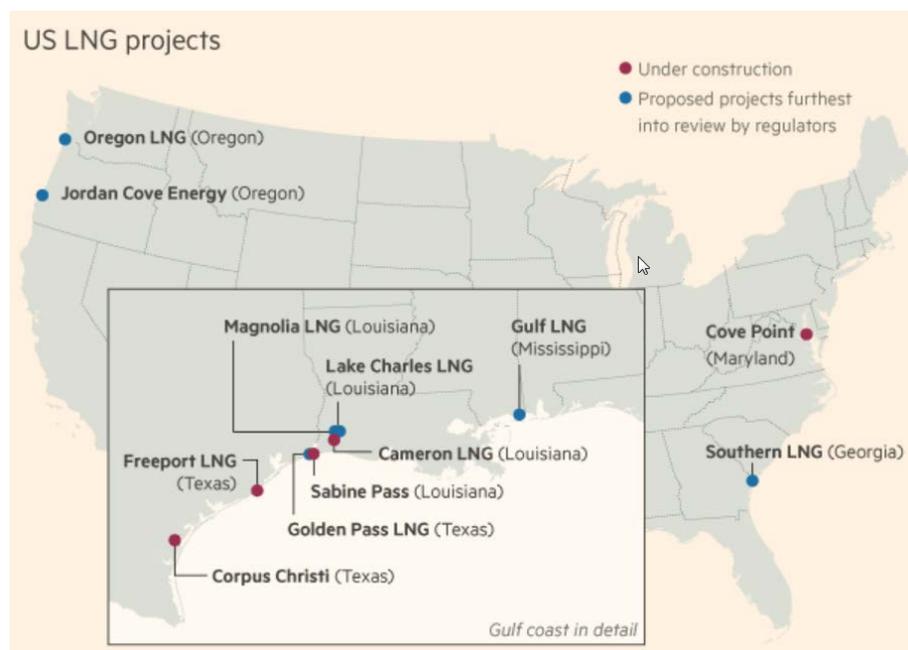
However, the following map highlights a geographical advantage for potential LNG exports to the EU: existing or planned LNG terminals are located on the East Coast, thereby apparently reducing transport costs to the EU. Nevertheless, the recent upgrade of the Panama Canal makes it available to giant LNG tankers, reducing transport costs to Asia. LNG exports will probably be attracted there by the higher (although progressively converging) Asian prices (see table 1).

<sup>17</sup> The destination of Cheniere LNG is not clear since export licences granted by the US government will not directly target European markets, but rather authorise the placing of gas on the open market. Cheniere will probably export mainly to the UK, which has a 20-year contract. Other possible destinations in the EU are Spain and Italy. See [Cheniere Energy's shipment turns US into gas exporter](#), Financial Times, 10 January 2016.

<sup>18</sup> See [Cheniere delays first Sabine Pass LNG export](#), Fuel Fix 14 January 2016.

<sup>19</sup> Draft legislation passed the US House of Representatives in 2015 (H.R. 8) and a similar bill in the Senate (S. 2012) would expedite the release of export permits for non-FTA countries, by setting a new statutory time limit. See [Expediting US LNG Export Applications: LNG Allies Puts the Case For](#), Natural Gas Europe, 3 February 2016.

**Fig 3:**  
US Export facilities  
completed and under  
construction



Source: [Financial Times, 10 January 2016.](#)

The link between global oil prices and the LNG spot market has been confirmed by recent analyses. They show, however, that piped gas prices ('hub price') are largely independent of oil prices. This explains why the price of Russian piped natural gas can be lower than the price for LNG<sup>20</sup>. Only 42 % of the gas sold to the European market was indexed to oil in 2013<sup>21</sup>.

In recent years, energy diversification has become a cornerstone of US energy security policy and the Obama Administration is committed to improving it by safely developing the domestic production of oil, gas, nuclear and renewable energy and green technologies for coal<sup>22</sup>. Increased domestic production and declining import trends for hydrocarbons have made the US less dependent on foreign energy sources, thus increasing national energy security and reducing OPEC's export potential on the world's biggest domestic market. The US energy mix is currently well balanced (36 % oil, 28 % gas, 18 % coal, 9.5 % renewable sources, 8.5 % nuclear in 2014).

There has been a decline in the use of coal in recent years, mainly replaced with natural gas, due to new production methods in the so-called shale gas revolution. The US both imports and exports natural gas, but so far imports have exceeded exports. This situation is expected to be reversed by 2020 with the projected achievement of self-sufficiency in gas, turning the country into a potential net gas exporter.

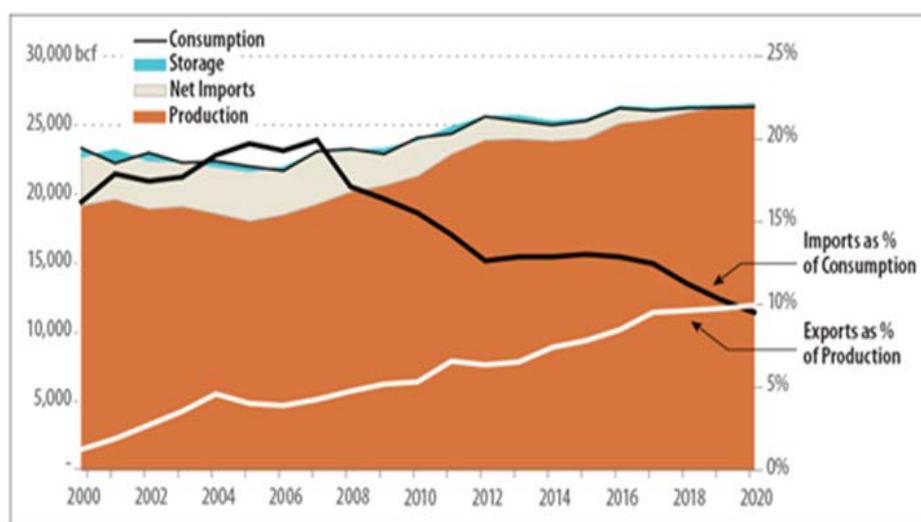
The increase in shale-gas production could turn the US from net gas importer to net gas exporter by 2020.

<sup>20</sup> See [The Impact of Lower Gas and Oil Prices on Global Gas and LNG Markets](#), The Oxford Institute for energy Studies, July 2015.

<sup>21</sup> See [Wholesale Gas Price Survey - 2015 Edition](#), International Gas Union, May 2015.

<sup>22</sup> See [Blueprint for a Secure Energy Future](#), The White House, 2011.

**Fig. 4:**  
US: consumption, import and export of natural gas.



Source: [EIA, Natural Gas data bases](#)

US industry lobbies want to keep the restrictions on gas exports.

However, the development of LNG export facilities in the US should not be taken for granted as this strategy faces domestic opposition. An industrial lobby representing steel and aluminium manufacturers (industries that are some of the most intensive consumers of energy) is in favour of keeping increased gas production solely for domestic use, in the hope of promoting something of an industrial renaissance. Concerns have also been raised over the possible increase in domestic gas prices should the US engage in a gas export strategy. The above-mentioned removal of the oil export ban can however be seen as a prelude to the removal of the gas export restrictions as well, lobbied for by representatives of the energy industry.

## 5 Outlook for EU imports of US gas

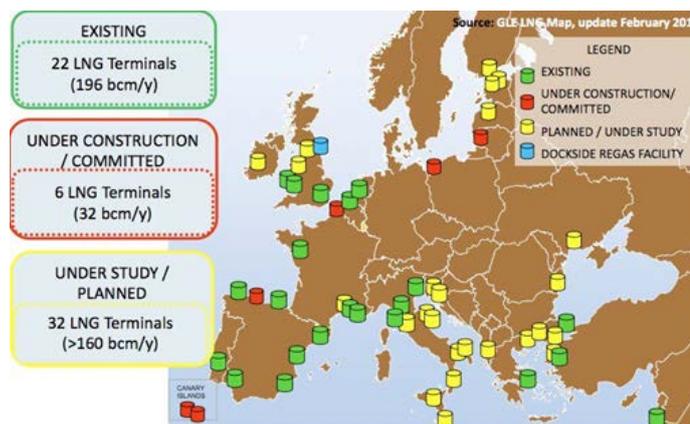
US gas supplies are unlikely to make an impact on EU energy security in the short term because of a lack of import infrastructure in the EU.

In general terms, the development of new energy sources benefits the EU, which is the biggest energy importer in the world. More than half (53.2 %) of the EU-28's gross domestic energy consumption in 2013 was supplied from imported sources. However, the situation within the EU is diverse. In 2013 five Member States were dependent on a single external supplier, Russia, for their entire gas imports. In the case of Finland and Estonia, the proportion of gas in the energy mix is quite low. Lithuania recently diversified its gas imports, opening an LNG terminal, and soon secured a lower price for Russian gas (see below). Latvia and Bulgaria import 100 % of their gas from Russia.

However, in the short term, the US cannot serve as a significant alternative gas supplier for the EU, mainly because of the lack of LNG import terminals in Europe. Spain is a notable exception but its limited gas connections with France make its large gas reservoirs more useful for trading purposes than for meeting EU energy security needs.

Existing and planned investments in LNG import infrastructures are shown in the following map:

**Fig. 5:**  
US: LNG infrastructure, 2015



Source: [LNG map 2015](#), *Gas Infrastructure Europe 2015*

The EU can diversify its gas imports from piped gas to LNG in the medium term.

The longer-term prospects for US exports of LNG to the EU are better but the price must be profitable for both sides.

Higher prices make Asia more attractive for US exports of LNG.

New and existing LNG terminals in Europe provide the option of diversifying gas imports, sourcing them not only from the US but also from new and potential exporters, such as Australia, Iran, Qatar, Tanzania, Angola and Mozambique. However, if prices are depressed, LNG facilities and reservoirs will be used more for making speculative gains (by storing gas until prices rise) than for contributing to energy security.

The construction of new LNG terminals in the EU enhances the long-term prospects for US exports of natural gas to the EU. Nonetheless, two commercial conditions must be met if the US LNG trade with the EU is to flourish: the prices paid by European buyers for US gas must be competitive with Russian gas prices, which are currently lower; and the prices US companies get for selling gas in the EU must be attractive enough and comparable with Asian prices, which are currently higher.

In fact, the US can easily redirect LNG exports to more profitable markets, should transport costs and compliance with long-term contracts make this necessary. They can contribute to a competitive spot market, whereas piped gas should be looked at more in terms of a bilateral monopoly-monopsony relationship, where prices are not determined by the market but rather by the degree of dependency of the importing and exporting countries.

For this reason extra supplies of American gas are likely to be sold where sales are most profitable. Until the recent fall in oil and gas prices, American gas was directed primarily to Asian markets, where prices are generally higher than in Europe. However, OPEC's above-mentioned policy of over-supplying the oil market is leading to a fall in gas prices, particularly on the Asian market, where the price of gas is usually indexed to the price of oil. In any case, for US gas to make a significant impact in Europe in the long run, comparable profitability between Europe and Asia is needed, based on comparable gas prices in the long term, transport costs, processing costs and the cost of infrastructure. Recent trends show that prices are converging, with Asian prices remaining higher than EU prices but progressively declining.

**Table 1:**

Comparison of estimated landed prices for North American, European and Asian LNG in July 2013 and December 2015 (in USD per million British Thermal Units)<sup>23</sup>

		July 2013	December 2015
<b>North America</b>	<i>Cove Point (USA)</i>	3.98	5.17
	<i>Lake Charles(USA)</i>	3.62	1.98
<b>Europe</b>	<i>Spain</i>	10.20	6.09
	<i>Belgium</i>	9.68	5.17
	<i>UK</i>	9.58	5.40
<b>Asia</b>	<i>Korea</i>	14.50	7.16
	<i>Japan</i>	14.50	7.16
	<i>China</i>	14.10	7.01
	<i>India</i>	13.40	7.16

Source: [Federal Energy Regulatory Commission](#)

With energy prices at current levels, importing LNG from the US is unlikely to be commercially viable for Europe in the short term, unless it is able to compete with other LNG and piped gas sources.

Strategic considerations may prompt the EU to disregard market conditions but piped gas from Russia is still cheaper than LNG.

However, strategic considerations, such as reducing the EU's dependence on Russian gas and the need to diversify suppliers, may sometimes explain energy investments outside market conditions, as in the case of the new LNG terminal built by Lithuania<sup>24</sup>.

Competition on the LNG market and new Russian pipelines may depress gas prices further.

In examining the prospects for importing US LNG into the EU the lower price of Russian piped gas, as well as the higher LNG prices on the Asian market, have to be factored in. While LNG import prices in Europe are close to Russian piped gas prices Russia's production and transportation costs are substantially lower and it could reduce its gas price further. Because of market changes, Gazprom was already forecasting a 40 % fall in the price of gas in Europe in 2015<sup>25</sup>. This is what happened in the above-mentioned Lithuanian case.

European demand for LNG could go up or down.

Secondly, forecasts of European demand for LNG are unclear. At least two scenarios have been developed: a high-demand scenario expects LNG demand to rise sharply (42 %) in the next 10 years, up to 113 bcm, as a consequence of declining coal use in the EU. Australia and the US would

<sup>23</sup> Prices for LNG imports are reported as 'landed', defined as received at the terminal, or 'tailgate', defined as after regasification at the terminal.

<sup>24</sup> However, Lithuania's shift to importing LNG subsequently proved more expensive than importing gas from Russia via pipeline. Russia's Gazprom offered Lithuania reduced prices after it started to import LNG from Norway. This forced Lithuania to ask renegotiation of the terms of the LNG contract with Norwegian Statoil. See [Lithuania looking to alter LNG supply deal with Statoil](#), LNG World News 27 November 2015.

<sup>25</sup> See [Gazprom Says It Can Compete With U.S. LNG In Europe](#), Forbes, 11 March 2015.

cover 90 % of the demand for LNG, while Russian gas consumption would not decline significantly<sup>26</sup>; a low-demand scenario, on the other hand, foresees a smaller increase in gas imports because of uncertainties and low economic growth.<sup>27</sup>

In addition, there are concerns about increasing Russian competition. New Russian projects announced in 2015 (Nord Stream 2 and Turkish Stream) may lead to further depressed gas prices, if completed.<sup>28</sup> Ongoing tensions between Russia and Turkey have increased the chances of Nord Stream 2, whose tender of USD 4 billion for the offshore part is about to be completed.<sup>29</sup> However, its opponents are looking for legal inconsistencies as a basis for halting the project and seven EU Member States have asked the EU Commission to stop it.<sup>30</sup>

In conclusion, the US cannot serve as an alternative gas supplier for Europe in the short term, mainly because of its lack of LNG export terminals and the low prices its LNG gas would fetch. The long-term outlook is more promising as US LNG export capacities are expected to rise significantly in the next decade. Nonetheless, the share of US LNG that could go towards meeting European demand is not significant enough to be a game changer for EU energy security.

Imports of US LNG are unlikely to be a game changer for EU energy security even in the longer term.

## 6 Policy options and strategic recommendations

The availability of US oil and gas is an important factor for the EU in the light of the recommendation in the European Energy Security Strategy that: 'The Union must reduce its external dependency on particular suppliers by **diversifying its energy sources, suppliers and routes.**'

This is however a long-term goal. In the short term, huge quantities of oil and gas are available on the market because of the glut largely created by OPEC. A major share of the hydrocarbon trade is currently being conducted for speculative reasons, in order to store oil and gas in reservoirs until prices surge.

Targeted import contracts should take account of the need for diversification and for infrastructure investments, together with commercial interests. Secure availability of supply, diversification needs and energy prices should drive the energy policies of Member States.

**Low energy prices do not favour** a satisfactory return on investments in

<sup>26</sup> See [Europe's LNG imports set to double by 2020, IEA says](#), Euractiv, June 2015.

<sup>27</sup> See [LNG Market: Trends and Outlook. Caspian Report](#), 2014.

<sup>28</sup> See [Changing pipelines, shifting strategies: Gas in south-eastern Europe, and the implications for Ukraine](#), European Parliament, DG EXPO, Policy Department.

<sup>29</sup> The tender for the construction of the offshore part of Nord Stream-2 was to be held at the end of January, selecting a company among France's Technip, Switzerland's Allseas, the Netherlands' Royal IHC and Italy's Saipem (which built the first two offshore lines of Nord Stream). The participants of the Nord Stream-2 project are Gazprom (50%), as well as Shell, Germany's E.ON and BASF/Wintershall, Austria's OMV and France's Engie (10% of shares each).

<sup>30</sup> See [Nord Stream 2's opponents look for legal ammunition](#), Politico, 31 December 2015.

**gas infrastructure.** However, the way towards future LNG imports needs to be paved now by constructing LNG import terminals. The LNG spot market may prove to be competitive with piped gas in the future and a wide range of traditional and new exporters (Australia, Qatar, and maybe in future the USA and Mozambique) is and will be available on the spot market.

The availability of oil imports from new and diversified sources is also expected to be beneficial, as it is likely to boost competition, leading to lower prices.

The role of the **USA** in the EU's energy security equation is not assessed in detail at this stage because the actual **export quantities** of oil and potential export quantities of LNG (if the US export burdensome authorising process on gas is eased) are **difficult to forecast**. They do not depend on a net surplus (since the US will continue to be a net oil and gas importer for some time) but on micro-economic policies. US companies are faced with low oil prices and are trying to avoid bankruptcy by seeking higher oil and gas prices on foreign markets.

US companies could however follow a different export strategy:

**concentrating exports on oil and dropping LNG.** Since the gas export restrictions are still in force and LNG transport has technical and economic disadvantages, it is possible that the US might shift its internal consumption (industry and road transport) to natural gas, liberating more oil for export.

If the US keeps the EU in mind as a target market, should it increase its gas exports, it could face **enhanced competition from Russia**, mirroring the OPEC strategy on oil, designed to maintain market share in the EU<sup>31</sup>. Such a strategy would be likely to further depress export prices and would probably hurt Russian interests in an already worrying economic context. Recent falls in Russian gas prices may be the result of a similar strategy (of which the Lithuanian case may be an example).

**Additional factors** that have an **impact on** actual and potential **US energy exports** are: the need for the EU to diversify domestic and imported energy sources; the need for the EU to maintain secure strategic reserves; energy transport costs and infrastructure availability; investment considerations; and, from the point of view of national governments, strategic considerations, such as limiting EU countries' dependency on a single oil and gas exporter (for example, the dependency of several EU Member States on Russia).

For EU importers, **secure and continuous access to energy sources, diversification and affordable prices** should drive future choices. US imports are not expected to be a game changer but they have the potential in the long run to contribute, together with other existing and potential energy sources, to strengthening the EU's energy security.

<sup>31</sup> See [Global gas market braced for price war](#), Financial Times, 3 February 2015.