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## EU's Gas / Hydrogen Package and Methane Regulation Coming Into Force

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### **Introduction**

In late May 2024, the European Union effectively finalised two legal instruments that have significant impacts on the LNG market - not only in the block but also in different regions around the world. Although the contents were agreed politically in late 2023 and the European Parliament approved the texts in April 2024, the final adoption by the Council of the European Union - even without substantial discussions at the Council this time - marks the official conclusion of the policy making processes of the last couple of years.

### **1. Gas and Hydrogen Directive**

The Council of the European Union - ministers - adopted a package of regulation and directive establishing common internal market rules for renewable and natural gases and hydrogen and reforming the existing EU gas legislation.

*Article 31: Third-party access to natural gas distribution and transmission and LNG terminals* (3) stipulates that “This Directive shall not prevent the conclusion of long-term contracts for renewable gas and low-carbon gas in so far as they comply with Union competition rules and contribute to decarbonisation. No long-term contracts for the supply of unabated fossil gas shall be concluded with a duration beyond 31 December 2049.”

This is because such long-term contracts "should not constitute a barrier to the entry of renewable gas and low-carbon gas". There are fundamental questions arising from the ban of the long-term contracts extending beyond 2049.

1. What are definitions of "low-carbon gas" and "unabated gas" that the commission, member states and regulators use? A 70% threshold - of the GHG emission intensity stipulated in the delegated act of February 2023 would apply to the low-carbon gas. It would be also possible for the authorities to use the definition of “low-carbon gas” to define “unabated gas” - meaning gas that does not fall into the category of “low-carbon gas” will be treated as "unabated gas". There is also possibility that the requirements used to judge compliance to the methane regulation which are dealt with in the latter part of this paper are applied to the definition of the “unabated gas” at least for the methane mitigation elements of gas for which long-term contracts are concluded.
2. Then the next question is: what would be the enforcement rules - whether the 2049 rule would be applied retroactively. In other words, until the restriction

enters into force in a couple of years, may companies conclude contracts that would extend beyond 2050?

3. If the answer to the question is yes, no impacts are expected on existing deals extending into the 2050s as they had been concluded well before the directive's entry into force.

Such contracts extending into the 2050s but with destination flexibility to divert away from Europe would be possible. The gas covered by such contracts can evolve into the low-carbon gas by 2049. Member states will have two years to adapt national legislation to the provisions of the directive. Until then, companies can conclude such long-term contracts.

The regulation - including languages ensuring that Member States should be able to limit deliveries from the Russian Federation and Belarus - will become directly applicable six months after its publication.

The draft directive and regulation were introduced by the European Commission in December 2021. A final agreement on the drafts was reached in late 2023.

## **2. Methane Emission Regulation**

The EU Council also adopted a regulation on tracking and reducing methane emissions. The regulation is the world's first to regulate methane emissions from imports.

Importers will have to report, from 2025 onwards, on annual methane emissions data, including from countries and companies exporting to the EU. Information will have to include whether and how they are measuring, reporting and reducing methane emissions. The requirement poses challenges to companies involved in import deals as it would be difficult to ensure the same standards of methane emissions information in different gas exporting countries as the ones in force in the EU.

From January 2027, the Regulation further requires that new import contracts can be only concluded if the same monitoring, reporting and verification obligations are applied by exporters as for EU producers. EU importers will also have to demonstrate from 2030 that the methane intensity of the production of oil, gas and coal imported into EU market is below certain maximum values, to be set by the Commission at a later stage in secondary legislation.

Failure to meet the requirements will not lead to an import ban. Penalties will be put in place and enforced by the Member States for infringements of the regulation.

The European Commission presented the proposal for a regulation on methane emissions reduction in the energy sector in December 2021 following the EU methane strategy in 2020.

Reactions from those companies and countries that export fossil energy sources to the EU countries, as well as other energy consuming regions should be closely watched.

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