

EU Methane Regulation Penalties

Why proportionate, phased penalty regimes pose no energy security risks

June 2026

1. Executive summary

The European Commission drafted a recommendation that would suspend penalties under Article 33(5)(m), (n) and (o) of the EU Methane Regulation (EUMR) for importer obligations due in 2027, 2028, and 2029.¹ The stated justification is that legal uncertainty around penalty regimes, exacerbated by the Strait of Hormuz crisis, risks trade diversion of LNG cargoes away from the EU and is hampering the conclusion of new long-term supply contracts.

Unfortunately, both pillars of that justification fail upon examining the evidence. Numerous long-term supply contracts have been concluded since 2024, commodity analysts are still predicting a glut in global LNG supply in the latter half of this decade,² and EUMR penalties are not driving spot cargo diversion. The decisive variable is the JKM-TTF price spread and shipping costs, against which regulatory compliance costs are negligible. The Commission's framing is confusing a genuine price difference dynamic, one that had already narrowed significantly by late May 2026, with a regulatory factor that plays no material role in traders' routing decisions.

Therefore, the Commission should seek policy certainty and clarity: and accelerate the development of harmonized, national penalty regimes that are both proportionate and dissuasive, instead of materially postponing the onset of penalties. A three-year grace period would severely undermine progress towards implementation of the EUMR import standard and does nothing to address concerns about inconsistent and unpredictable setting of penalty fees by Member States.

Core Recommendations

- The European Commission and Member States should reject the drafted three-year penalty suspension and instead limit it to a maximum of one year.
- Member States should work to urgently bring all penalty regimes into compliance with the EUMR by end-2026 to resolve claims of legal uncertainty, introducing phased penalty scales with steadily increasing minimum fees between 2027 and 2030.
- The European Commission should publish guidance on penalty calibration, and force majeure conditions by 30 July 2026, recommending phased penalty regimes to mitigate energy security concerns.
- The European Commission should initiate infringement proceedings against non-compliant Member States by 1 January 2027.

2. Two key energy security risks and why penalties address neither

The Commission frames its draft recommendation to suspend penalties around energy security concerns, and this concept covers two distinct risks requiring separate analysis: (i) the ability to secure sufficient supply volumes through long-term contracts; and (ii) the risk of spot cargo diversion away from the EU in a tight market. The EUMR penalty regime is not a material factor in either. The findings of the IOGP-commissioned study Wood Mackenzie study were based on [a flawed methodology](#) that does not reflect the actual obligations of the Methane Regulation.³

A. Long-term contract risk: Not a problem the penalties are causing

The Commission's draft implies that legal uncertainty around methane penalties is preventing new long-term supply contracts from being concluded. The contracting record since 2024 does not support this claim. Significant long-term agreements have been concluded with major suppliers despite the EUMR being in force or in prospect:

- Venture Global, one of US's key LNG exporters, signed a 20-year SPA with ENI for 2.0 million tons per annum (MTPA) from CP2 LNG (July 2025),⁴ a 0.75 MTPA extension with SEFE Energy GmbH, a major German state-owned importer (July 2025),⁵ and 20-year agreements with Naturgy of Spain (1.0 MTPA) and Atlantic-SEE LNG Trade of Greece (0.5 MTPA) in Q4 2025.⁶
- All of these deals were signed while the EUMR was in force and importer MRV obligations were known. No contracting party cited methane penalty risk as a barrier to conclusion.

The actual barriers to long-term contracting are commercial, with uncertainties on both buyer and seller sides. For European buyers commercial risks include the shifting Henry Hub price levels, take-or-pay rules requiring them to potentially purchase unneeded gas amidst declining EU gas demand, and expectations of global LNG oversupply from 2028 onwards that may shift price structures in their favour in the future.⁷

Against these factors that could involve billions of dollars of commercial exposure, the risk of an EUMR penalty that does not yet exist in most Member States is not a material consideration. Marcel Steinbach, Senior Vice-President at SEFE Energy GmbH, stated publicly at the Americas LNG Conference in November 2025 that the company would 'not reject a cargo for methane emissions.'⁸

B. Spot cargo diversion risk: Driven entirely by price, not methane rules

The risk that LNG cargoes will be diverted from Europe to Asia is real but is driven entirely by inter-basin price arbitrage, not EUMR compliance anxiety. Following the Hormuz closure on 27 February 2026, JKM peaked at \$25.393/MMBtu on 3 March 2026 against a TTF of approximately \$15-16/MMBtu, a spread of nearly \$10/MMBtu.⁹ S&P Global CAS data recorded at least seven Atlantic Basin cargo diversions from Europe to Asia in the two weeks following the closure.¹⁰ By late May 2026, the JKM-TTF spread had narrowed to approximately \$2 - 2.5/MMBtu, at which diversion decisions are finely balanced on shipping economics alone and contract flexibility. While LNG imports decreased by 7% in April 2026 according to Kpler, this decline was attributed to other factors including planned maintenance and unplanned outages in import terminals in Spain, Greece, Italy and Germany.¹¹

Two structural factors mean that EUMR penalties are not a meaningful variable in cargo routing decisions:

- **Transportation cost for Asian LNG deliveries exceeds estimated EUMR compliance costs by a factor of 50:** Diverting an Atlantic Basin cargo from Northwest Europe to Northeast Asia adds significant time depending on whether it uses the Panama Canal or travels around the Cape of Good Hope. S&P Global confirmed that

while the shipping rates to Asia through the Panama Canal appeared ‘more competitive,’ the very limited spot availability makes passage difficult for cargoes. All initial diversions were observed heading to the Cape of Good Hope, where the extremely high spread was able to compensate for the much higher shipping rate, which can exceed \$3-4/MMBtu.¹² This freight cost threshold far exceeds any realistic EUMR penalty risk. CATF and Rystad Energy modeled average compliance costs for the performance standard, including penalties, at \$0.07/MMBtu. Administrative fees will likely be lower.

- **Penalty timing:** The hard MRV equivalence obligation for importers does not take effect until 1 January 2027, with the first reports due in May 2028. Most Member States have not enacted penalty rules at all, and therefore an importer making a spot cargo routing decision in 2026 faces little immediate EUMR penalty exposure.¹³ The Commission’s proposal to suspend penalties applicable to 2027-2029 obligations therefore addresses a risk that does not yet exist in operational terms.

3. Problems with the Commission’s proposed three-year suspension

While it is true that some temporary adjustment to penalty enforcement may be warranted given the severity of the Hormuz supply disruption, the three-year suspension outlined in the draft recommendation is disproportionate in scope, duration and design.¹⁴

- **Duration:** IEA forecasts, and the Commission’s own recommendation, indicate that supply shortages are likely to continue throughout 2027.¹⁵ The Commission’s proposal, however, suspends enforcement through obligations due in 2029, two years beyond its own cited forecast basis, without additional justification.
- **Fraud carve-out:** The sole exception, ‘large-scale fraudulent breaches,’ is undefined in the draft recommendation. Without a regulatory threshold this risks being unenforceable and provides no deterrent against systematic under-reporting.
- **Credibility cost:** Suspending enforcement in response to industry lobbying, documented as predating the Hormuz crisis, signals to global LNG suppliers that EUMR importer provisions can be neutralised under commercial pressure, fundamentally undermining the regulation’s leverage as a mechanism for improving global upstream methane standards.
- **Member State compliance gap:** A suspension recommendation compounds the existing enforcement gap by removing the urgency for Member States to legislate. As of June 2026, only Denmark has a fully compliant penalty regime, with regimes adopted in Hungary, Croatia, and Slovakia that do not fully meet EUMR compliance.¹⁶

4. Recommendations: A proportionate alternative

The Commission should replace the three-year suspension with a targeted package that preserves the regulatory architecture of the EUMR while providing temporary proportionate relief, and accelerating Member States’ adoption of harmonised penalty regimes. It is critical not to delay progress towards emissions reductions required by both EU law and its international commitments. The EU committed under the Global Methane Pledge to reduce methane emissions by at least 30% by 2030, and the EUMR is central to driving down both the EU’s emissions and emissions abroad.

- **Shorten the grace period to one year:** A temporary enforcement adjustment should cover only obligations due in 2027, the period for which supply shortage forecasts provide a credible basis. The Commission

should commit to a review by 1 January 2027, with any extension requiring evidence that supply conditions demonstrably require it. Obligations due in 2028 and 2029 should remain subject to full enforcement.

- **Accelerate Member State adoption of phased penalty regimes:** Member States should urgently bring all penalty regimes into compliance with the EUMR by end-2026 to resolve claims of legal uncertainty. Following the 1-year grace period, Member States should apply a graduated penalty scale for importer requirements from July 2027, whereby both the minimum fees and penalty structures can progressively increase between 2027 and 2030, up to the implementation of the EUMR performance standard. For example, penalties are set at a 25% coefficient in 2027, 50% in 2028, 75% in 2029, and 100% in 2030.
- **Recommend a phased approach to penalties in forthcoming penalty guidance:** The European Commission should publish detailed guidance on minimum penalty calibration, force majeure conditions, and a phased approach to scaled implementation by 30 July 2026.
- **Leverage guidance and infringement proceedings to steer penalty adoption:** The most effective response to enforcement uncertainty is the development and adoption of predictable penalty regimes. A three-year suspension sends a signal to Member States to delay this further, not accelerate it. As part of any suspension recommendation, the Commission should announce the initiation of infringement proceedings against Member States that have not enacted compliant penalty rules by 1 January 2027.

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- 1 Draft leaked by Contexte in May 2026, [see article here](#). Draft titled, “Commission Recommendation (EU) 2026/XXXX on the application of Article 33 of Regulation (EU) 2024/1787 in relation to obligations imposed on importers.”
 - 2 Bloomberg, ‘An LNG Glut is on its way.’ 2026. [Available here](#).
 - 3 The EUMR does not restrict imports, instead it ramps up over time, focusing first on transparency, measurement, reporting, and verification. Most importantly, the regulation does not require the strict molecule level-tracing assumed in the IOGP report, which underpins much of the predicted supply disruption. For more, see CATF’s blog, “Why claims that the EU Methane Regulation threatens energy supply miss the mark,” [Available here](#).
 - 4 Venture Global and Eni S.P.A., 20-year SPA for 2.0 MTPA from CP2 LNG, signed 16 July 2025. Eni press release; Venture Global SEC Form 8-K Q2 2025. [Available here](#).
 - 5 Venture Global and SEFE Energy GmbH, amendment adding 0.75 MTPA from CP2 LNG for 20 years, signed 9 July 2025. Venture Global SEC Form 8-K Q2 2025. [Available here](#).
 - 6 Venture Global and Naturgy (1.0 MTPA, 20 years) and Atlantic-SEE LNG Trade S.A. Greece (0.5 MTPA, 20 years), both signed Q4 2025. Venture Global SEC Form 8-K Q3 2025. [Available here](#).
 - 7 Ibid, see footnote 2.
 - 8 Marcel Steinbach, Vice-President at SEFE (Securing Energy for Europe GmbH, a German state-owned energy importer), made these comments at the Americas LNG industry conference in November 2025. [See Energy Intelligence, available here](#).
 - 9 S&P Global Platts, ‘Interbasin LNG competition results in seventh Atlantic cargo to Asia: CAS’, 11 March 2026: JKM reached \$25.393/MMBtu on 3 March 2026. By late May 2026, JKM stood at approximately \$18.75–18.81/MMBtu, with TTF at approximately \$16.5/MMBtu. [Available here](#).
 - 10 S&P Global identified seven Atlantic Basin cargo diversions from Europe to Asia between 28 February and 11 March 2026. [Available here](#).
 - 11 Bloomberg, ‘Europe’s LNG Imports Set for First Monthly Drop in Over a Year’, 24 April 2026. [Available here](#).
 - 12 Ibid, S&P Global Energy CERA, ‘the widening spread is incentivizing cargoes to divert from Europe to Asia, but it’s also accounting for the higher shipping rate.’ 11 March 2026. [Available here](#).
 - 13 According to the Commission draft Recommendation, recital 6: only a minority of Member States had notified penalty regimes as of May 2026.
 - 14 EUMR Article 33(2) already requires Member States to ensure that penalties ‘do not endanger the security of energy supply.’ This existing provision provides the legal basis for a targeted supply-security carve-out without a blanket three-year suspension. [Available here](#).
 - 15 IEA, Gas Market Report Q2-2026, April 2026, p.6: supply shortages in global gas and oil markets are forecast to continue at least throughout 2027. The Commission’s draft Recommendation (recital 20) cites this forecast as the basis for the grace period but extends the suspension to 2028 and 2029 obligations without additional analytical basis. [IEA report available here](#).
 - 16 Ecologic Institute has published a comparative review of existing penalty regimes, [available here](#). Denmark’s model, court-set penalties starting from a suggested €10,000 minimum per infringement category, rising to 20% of annual turnover, provides a strong reference point.