

What Energy Policy for the EU? EESC/ETUC Conference

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1) Introduction

2006 a memorable year :

- Winter events and the debate on security of supply
 - Relations with producers
 - Diversification
 - Solidarity and Storage
- Green paper on energy
- External developments and relations with producers

2007 : the year of critical choices

- The energy policy for Europe
- The EU-Russia, and other partnership with producing countries
- Security of Supply and Gas Coordination Group

Impact of the global commercial and geo-political environment on the Natural Gas business

- The new energy and Natural Gas environment has and will have a long lasting impact on public authorities and industry
- Facts :
 - Growing dependency of (W) Europe on external supply sources (80% in 2030)
 - Diversity of suppliers, is limited (Russia, Algeria, Norway, Qatar, Libya, Iran, Egypt, etc...)
 - Oligopolistic trends of producers
 - Security of Supply vs Security of Demand
 - Role of Geo-politics (Belarus, etc.)

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Trends at Industry level

- Need for competitive and financially strong European companies in a challenging world
- (W) European companies to expand both upstream and downstream
- Need for a supportive and stable regulatory environment (Who will invest ?)
- Need for strong and diversified portfolios :
 - Long term contracts will remain a backbone
 - Developments of hubs, spot etc...
 - Growing role of LNG
 - Importance of assets
 - Security of Supply tools (Both physical and contractual)
 - Storage and LNG terminals
- Industry to adapt : major restructuring (e.g. mergers and acquisitions...)

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The Public policy debate

- Growing concerns on Security of Supply and diversity
- Focus on “EU monitoring”, “solidarity”, “Strategic Storage” (Role of gas coordination group – Directive 2004/67/EC)
- Growing interest/involvement/interference of public authorities in energy issues (both “internal market” and “external policy” – need for consistency)
- Growing oligopolistic nature of production and dialogue with producers
- Who does what ? EU speaking with one voice but tensions between approaches
 - National-Bilateral
 - Regional
 - Multilateral
 - Industry
 - Commission
 - Member States
- Market should provide first response
- The need for Public Private Partnership

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The Commission “Energy Package” of 10-Jan-2007

- Content
 - Strong Focus on **Sustainable Development and Environmental/Climatic issues**, e.g.
 - Reduction of Emissions by 20% in 2020 (or 30% if international agreement)
 - Energy Efficiency
 - Moving towards “Low Carbon” Energy

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Process/Timing

- The Energy Package was officially presented by the Commission on 10 January 2007
- Addressed to other EU Institutions and Member States
 - COREPER Working Groups Review
 - EU Energy Council (15 February 2007)
 - EU Council of Head of States (8-9 March 2007)
- No fixed deadlines for formal legislative proposals but guidance expected from March Council
- A lot will depend on (key) Member States reactions
- Consequences on advocacy

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Identification of Key Issues

- Completion of Internal Market with open competition and “effective regulation” (by January 2009)
- Unbundling options
- Investments
 - Incentives
 - Who is in charge? Major infrastructures
- European wide regulatory function: options
- Transparency
- Solidarity and security of supply
- LTC
 - Upstream
 - Downstream
- Rights of consumers and energy as a public service
- Others – Need for Impact Assessment

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Eurogas Messages/Questions

- Eurogas generally welcomes the conclusions of the EU Energy Council of 15.02.07
- Eurogas views developed in detail
 - « Looking Forward » Position Paper
 - Letter to DG COMP
- Background Position: The Balance achieved in 2003 Directive should not be modified, e.g. sensitive issues such as unbundling
- Clear support to Internal Market completion
 - More EU regulatory consistency/harmonization
 - TSO legal and operational autonomy
 - Non discriminatory TPA
 - Others
- Support to entrepreneurial freedom and choice of portfolios

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Eurogas Messages/Questions

- Any future legislation (if at all) should preserve ability of energy companies to:
 - Invest in all segments of gas chain
 - Determine their portfolios
- Energy suppliers need tools and international negotiation strength and credibility
- If new legislation proposed it must be based on effective
 - Impact assessment
 - Cost benefit

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2) Major trends in the world gas market and the impact on security of supply

- Facts and Figures -

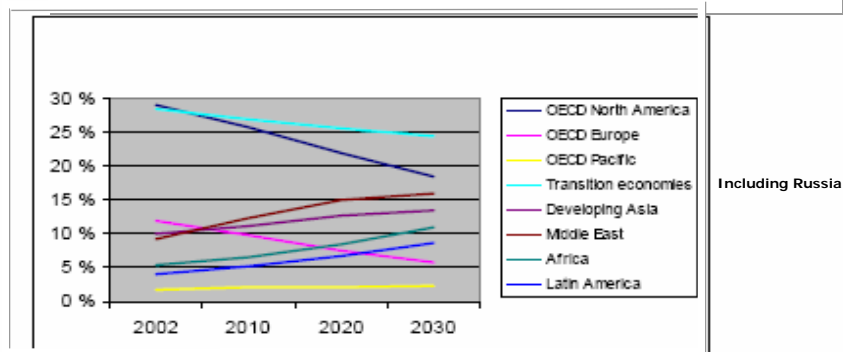
Major trends in world gas market

- World energy demand is increasing
-> + 50% by 2030 (IEA)
- Expected higher growth rates for gas than oil and coal, gas becoming the second most important fuel from 2020
- POWER GENERATION = the main driver of gas demand
 - With uncertainties about prospects for gas prices and the use of renewables and nuclear energy, energy efficiency

Natural Gas resources are abundant...

- R/P ratio 60-65 years, based on proven gas reserves
-> compared to a R/P ratio 40 years for oil
- R/P ratio 100 years if estimated undiscovered gas reserves were to be proven
- Highest production growth expected in the Middle East

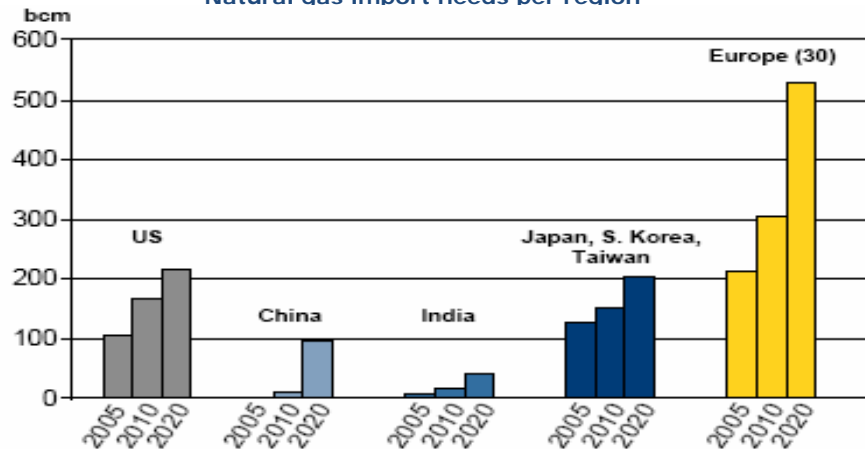
... But they are concentrated in few regions, mainly in Russia and the Middle East
Regional Share of gas production



Source: IEA, World Energy Outlook 2004

The expected growth of import needs will boost international trade - Competition for gas will grow

Natural gas import needs per region



Source: Wood Mackenzie, industry

Development of resources will require huge investments

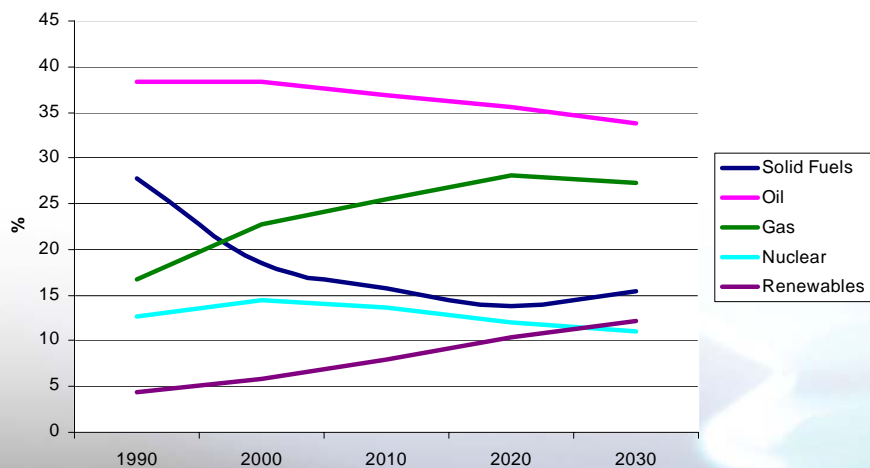
- Investments needed along the whole gas chain worldwide to ensure supplies:
-> USD 3.1 trillion until 2030 / 60% upstream (IEA 2005 WEO forecast)
- Major challenge: financing investments on non-OECD countries, where half of investments needs are situated.

European gas market-major trends

- Expected growth of gas market share in Europe primary energy demand
 - from 23% in 2000 to 27% in 2030
 - almost + 40% demand increase over 2005-2030
- Driven mainly by power generation
 - Uncertainties:
 - gas prices
 - Share of nuclear and renewable energy
 - Diversification of sources for security of supply reasons – confidence in gas supply reliability

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Share of natural gas in EU 25 total energy consumption

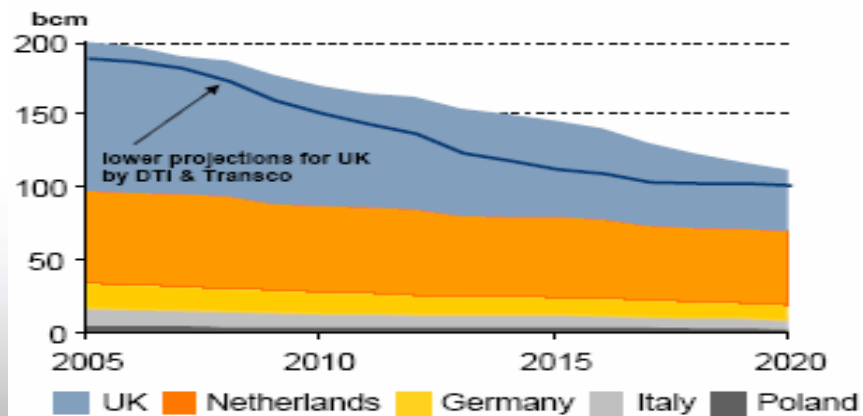


Source: European Commission (Green Paper Background document)

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The decline of European domestic production

Development of indigenous production



Source: industry estimate

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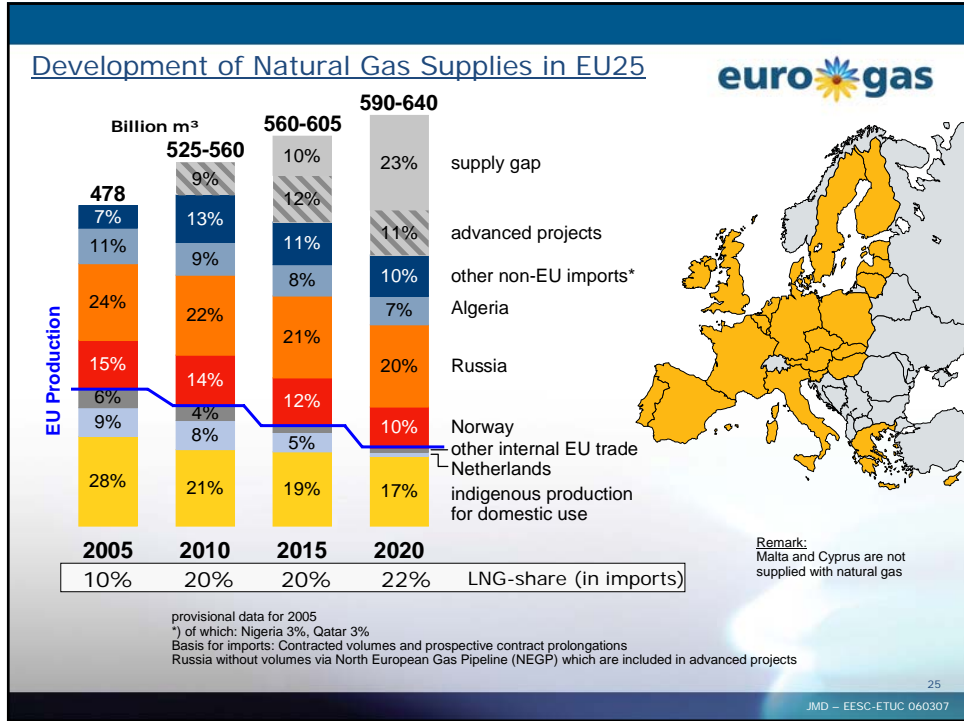
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Gas demand trends and the decline of domestic production mean :

- A significant increase in import dependency
 - share of imports in Europe gas supplies will rise from 54% in 2004 to 84% in 2030 (European Commission estimates)
- A growing supply gap
 - > a major challenge in terms of sourcing and infrastructure building

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Russia, Algeria and Norway will continue to provide a huge share of European gas imports

- Supplier: RUSSIA / alm. 25% of EU gas supplies**
 - Huge export potential at economic reach of Europe, but could be affected by several factors
 - Issue of EU's dependence not to be ignored, but Eurogas is confident in stability of business relations. Impact of Russia-Ukraine crisis not to be over-estimated
- Supplier: NORWAY / 13% of EU gas supplies**
 - Current export capacity sustainable over long term
 - Recent government's announcement on export capacity expansion
- Supplier: ALGERIA / 10% of EU gas supplies**
 - Current export capacity sustainable over long term
 - Large undeveloped reserves

Other sources will continue to play an important role in diversifying and filling in the supply gap
 -> mainly North Africa, the Middle East, Central Asia

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4) Opportunities and risks for Europe's future gas supplies

- Facts and Figures -

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Opportunities and risks for Europe's future gas supplies

New infrastructures will be needed



- CHALLENGES :
 - Increasing demand and new supply sources
 - ⇒ growing importance of flows from east and south
 - ⇒ Infrastructure needs : need "mega" projects (e.g. Nabucco...) and LNG
 - New patterns of use (esp. electricity generation)
 - ⇒ increased need for swing capacity
 - Liberalisation => new investment climate
Risk of postponement of investment decisions due to unstable regulatory framework in process

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Opportunities and risks for Europe future gas supplies

Responses:



- > Diversity of supply sources and transit routes
- > Key role of long term contracts (supply + transit)
- > The business and regulatory framework must encourage large-scale investments with long lead time
- > Security of supply combined with flexibility instruments; including **commercial instruments** (e.g. long term contracts with interruptible clauses) and **physical instruments** (ex. storage etc)
- > Development of hubs, LNG business etc
- > The market must be efficient in evaluating and aggregating demand in a timely manner
- > Regarding the situation of seasonal storage :
 - Need to mobilise all sources of flexibility including demand side management and interruptible contracts
 - Need to enhance the flexibility in import contracts to the maximum extent possible
- > Role of strategic storage ?? => recognizing national/regional approaches

Opportunities and risks for Europe future gas supplies
OTHER ISSUES IN RELATION TO GAS IMPORTS



- Several gas producers tend to take positions along the whole gas chain while keeping closed their upstream positions
- Several European energy companies seek positions both upstream and downstream
- > Eurogas views :
 - > an issue that policy makers have to consider
 - > reciprocal willingness to open markets must continue to be encouraged at political level and reciprocity on a cooperation basis
- The issue of oil/gas price indexation :
- > Eurogas views : to leave negotiating parties freedom of choice of the price formula corresponding to their needs (as for other contractual elements)
- The financial and commercial stability and credit worthiness of European gas companies will remain a key for Europe's attractiveness
 - > importance of assets

5) Delivering security of supply in a competitive gas market

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New market conditions mean a more European approach is necessary

- Diversification must be a key objective
- A shared understanding on the supply/demand balance has to be developed at European level
 - > Work started by DG TREN (Energy Supply Observatory); Producing countries should be involved.
- MS remain responsible for setting their specific national security of supply standards : importance of meeting common principles of approach
 - > based on Directive 2004/67 on security of supply
 - > cooperation and exchange of information (gas coordination group, EU Strategic Energy review)
 - > monitoring and solidarity

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HOW EUROGAS CONTRIBUTES TO ENSURING RELIABLE SUPPLIES TO EUROPE ?

Eurogas is actively involved in EU policy making and Dialogues between authorities and industry, as illustrated by its:

1. Participation in the Gas coordination Group
2. Participation in the work of the Thematic Groups in the framework of the EU-Russia Energy Dialogue, other similar dialogues with producers/consumers & countries
3. Cooperation between Eurogas and the Russian Gas Society

6. Conclusions

- Security of supply must be an equally important objective as the creation of an open and competitive gas market.
- Consistency in objectives and policies
- EU approach must aim at :
 - Available supplies of gas for Europe at short and long term.
 - Reliable supplies at competitive prices
 - Effective market mechanisms
- Building confidence with our partners