

European Gas Policy Issues with a focus on the Northern Dimension and Baltic Sea Region

St. Petersburg
Baltic Gas – Basrec
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Eurogas – explanations

Overview of the region

Latest developments in EU Policy and Eurogas positions

- security of supply
- energy market
- sustainable development and technological considerations

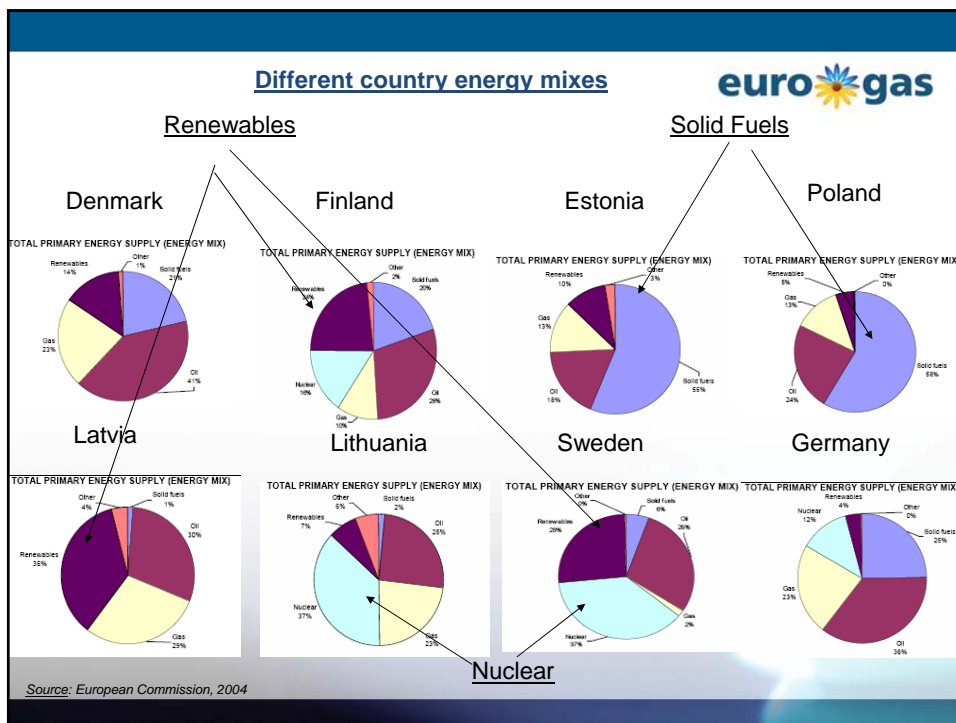
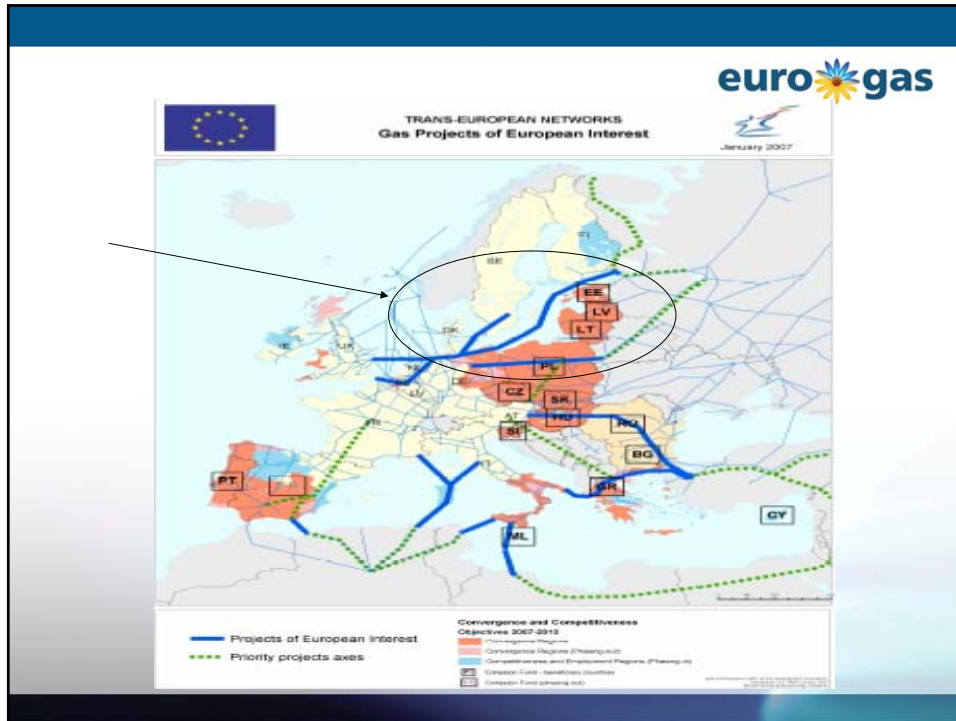
Implications for the Northern Dimension and Baltic Sea Region

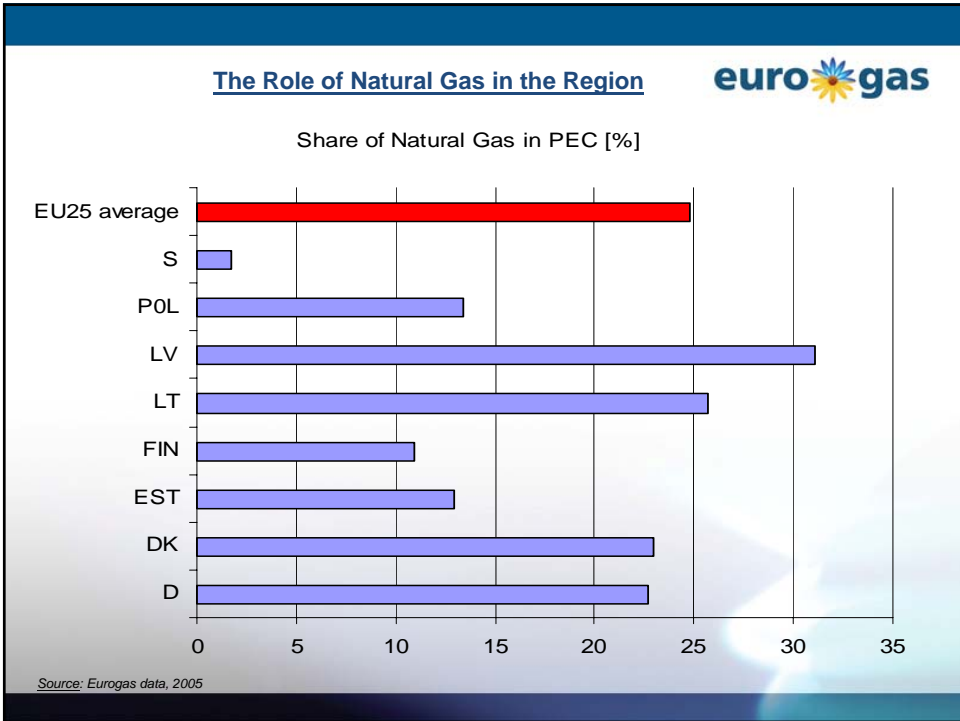
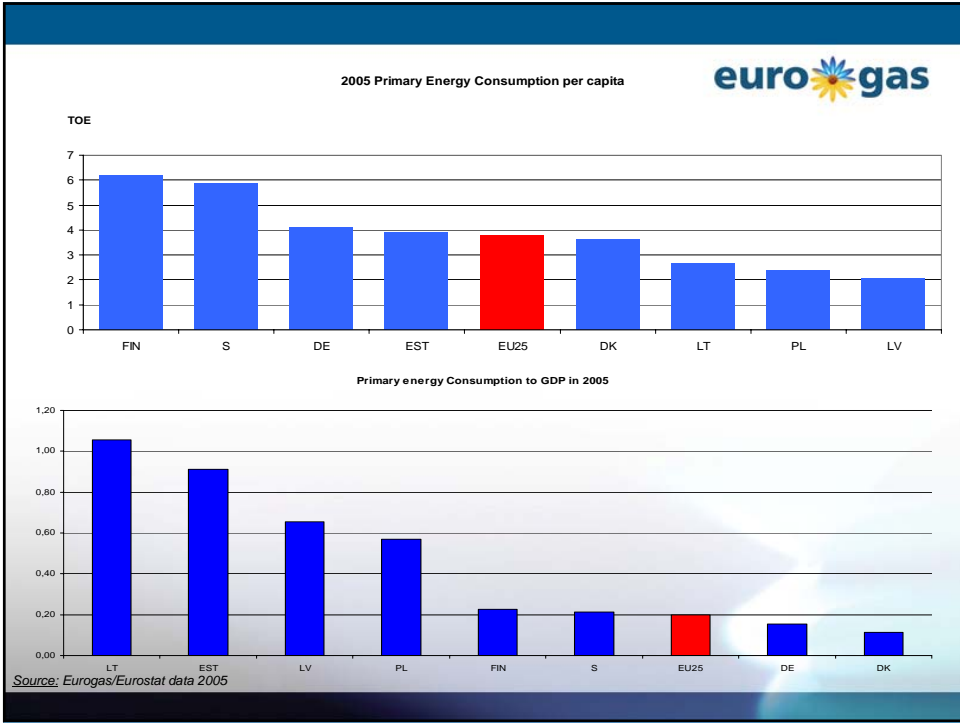


About Eurogas

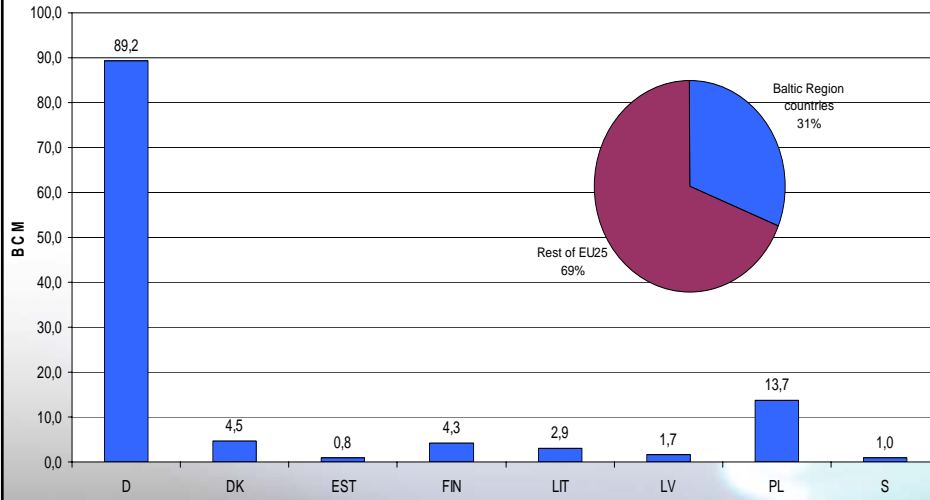
Key objectives

- To promote the interests of its membership (companies, national federations and associations), involved in the supply, trading and distribution of natural gas.
- To promote the smooth functioning of the internal natural gas market.
- To help improve knowledge of natural gas and its use in Europe, notably its role in contributing to a sustainable energy policy.
- To take a stance on issues of common interest and of course to provide a forum for the exchange of information and views.



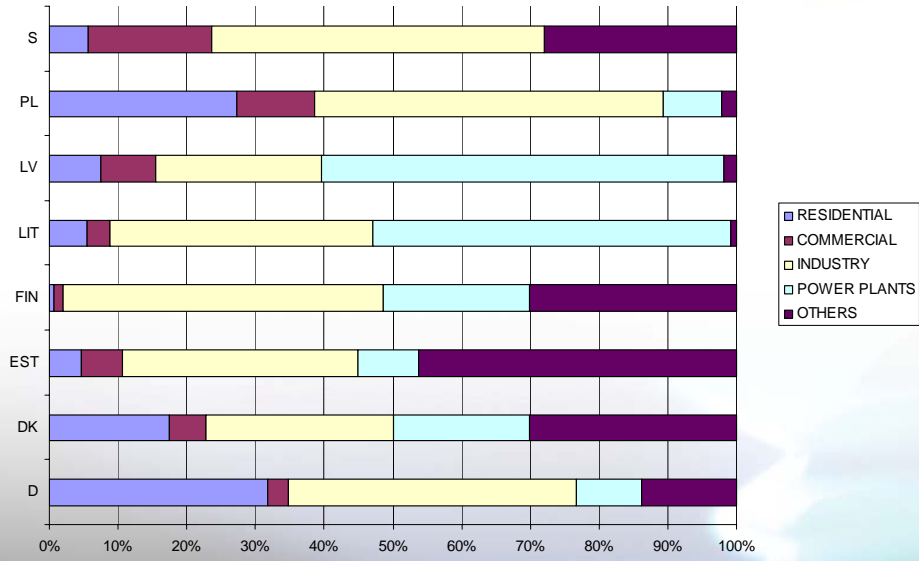


Natural gas Consumption in 2005



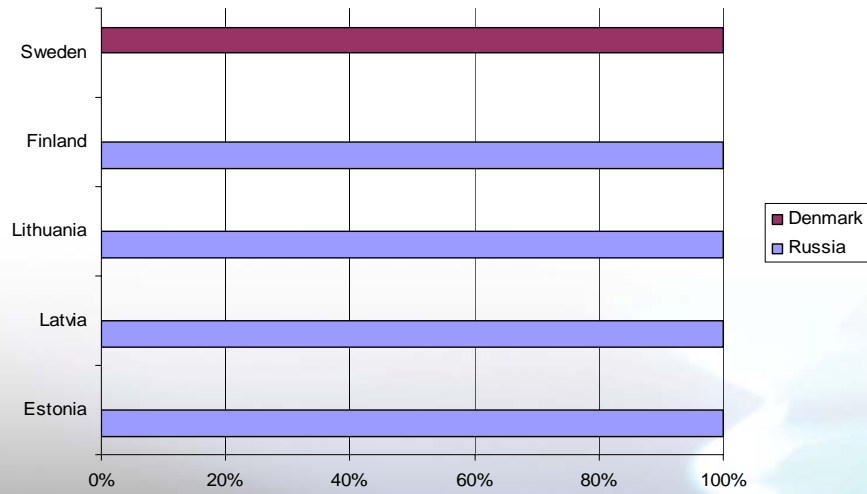
Source: Eurogas data, 2005

Natural gas deliveries by sector



Source: Eurogas data, 2005

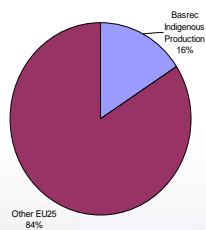
Strong dependence on one single source for gas supplies



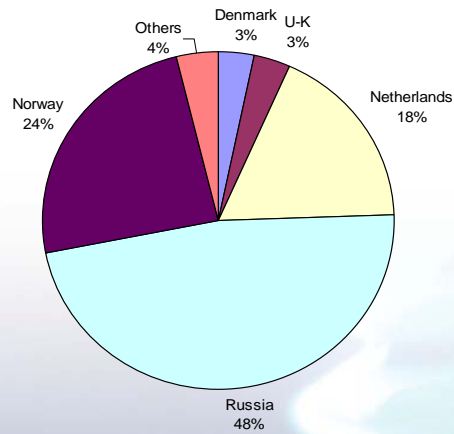
Source: Eurogas data 2005

Sources of Supply in Region

Basrec part in EU25 indigenous production



Basrec Imports



Source: Eurogas data, 2005

Very diverse region

- The share of natural gas in PEC in Latvia and Lithuania is above the EU average of 24.8%. In others below.
- In the region, natural gas is mainly used for the industrial sector. In most of the countries (except Germany and Poland), the use of natural gas in the residential and commercial sector is not developed. The use of natural gas in the power sector in Latvia and Lithuania is very important.
- Germany, Denmark, Poland have indigenous gas supplies, while others not only have no indigenous supplies but are wholly dependent on imports from one single supplier.
- Consequences of this are that some countries are still outside the EU internal market.

- The 2006 Finnish Presidency launched an initiative to refocus attention on the challenges and potential of the Northern Dimension, with geographical priorities of the Baltic and the Barents Sea.
- Institutional Arrangements were established to facilitate co-operation cross-border, at regional, and sub-regional level. The link with the issue of the EU-Russia common spaces was emphasized.
- Energy was recognized as a major aspect of economic co-operation. At the same time environmental concerns, protection of the important ecosystems in the area were stressed.
- At the end of February, the European Parliament held a Conference on the Northern Dimension, and announced their intention of holding a forum every 2 years.

- Security of supply issues
 - external dimension
 - diversification of supplies
 - new pipeline projects
- Market potential
- Eventually internal market issues and regulatory concerns

On 10th January the EU Commission issued a comprehensive energy policy package for consideration. The « summary » paper is the Strategic Energy Review (SER).

In addition there are papers on the Internal Energy Market, but also on Trans-European Networks and a new Technology platform.

Security of Supply

Identified priorities are

- Measures are needed to assist Member States overwhelmingly dependent on one gas supplier to diversify.
- Speaking with “one EU voice”.
- Way have to be found to strengthen existing crisis solidarity mechanisms.
- Necessary investments have to be realized.
- A policy is to be assessed on strategic gas stocks.
- Enhancing the liberalized gas market.

Eurogas supports the overall direction reflected in this policy

- A European external energy policy should provide a framework for relations with third countries, enhancing security of supply strategy. Eurogas supports the dialogue process.
- Investment is essential, and will only be realized if the regulatory framework is stable, predictable and effective.
- New supply routes must be encouraged. In situations where the infrastructure is not in place to facilitate diversification, priority should be given to finding solutions.
- Eurogas is involved in the activities of the Gas Co-ordination Committee, set up at EU level to monitor and advise on security of supply issues.

On other policy drivers, Eurogas has a cautious stance

- European policy has to be focused on ensuring that security of supply is delivered within a fully functioning internal market. External policy, market and regulatory frameworks must be in place to keep Europe an attractive destination for the world's gas supplies.
- New storages are needed. Confidence in the stability of the regulatory framework is paramount for storage investment. Eurogas considers that decisions concerning the extension and operation of storage capacities are best made by companies from a commercial point of view and the only restrictions Eurogas can envisage on the contribution a storage unit makes to the market are physical limitations.

With respect to the other main elements of the Gas Market package

- Eurogas calls for proportionate solutions to achieve effective unbundling.
- Solutions also need to improve market integration and therefore Eurogas supports
 - progress to be achieved through ERGEG's regional market process
 - enhanced co-operation among TSOs, although the instruments to achieve this have to be carefully considered
 - improved regulatory co-operation, especially on cross-border issues
 - an effective customer switching process

Eurogas participates in the Madrid Regulatory Gas Forum, Regional Gas Markets Initiative, and has regular contacts with ERGEG and DG TREN officials.

In October 2006, Eurogas issued The European Gas Market – Eurogas Views on the Way Forward, a starting point for response to the January package.

In recent months, Eurogas has produced views on transparency issues, balancing, open season, GGPSSO implementation, customer focus best practice.

With respect to the sustainability questions

- Europe's energy policy must create the framework for a diversified mix of environmentally friendly fuels, within a competitive market. There should be a flexible approach to achieving CO₂ targets.
- There should be a market driven approach, with an effective and predictable ETS underpinning the long-term value of carbon acting as a key driver.
- Eurogas accepts that pragmatic assistance for certain RES would be necessary for an interim period, but the ultimate objective is to integrate renewables into a market system.
- Energy efficiency should also be achieved by market driven approaches.

Eurogas is confident that gas will then remain the fuel of choice for end-use in Europe and its market share will grow, including for electricity generation as a consequence of its well accepted advantages.

What are implications for the Northern Dimension and Baltic Sea Region – perspective from Eurogas

- The emphasis of the package can be welcomed by the region.
- There are opportunities to be followed up which should enhance the security of the regions, providing that political problems and other sensitivities can be resolved.
- With progress on essential infrastructure area, then all the countries within the Northern Dimension can play a fuller role in the internal market debate.

The European Gas Market
Eurogas Views On The Way Forward



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