

**EUROGAS VIEWS ON THE GREEN PAPER
“A EUROPEAN STRATEGY FOR SUSTAINABLE,
COMPETITIVE AND SECURE ENERGY”**

1. Eurogas welcomes the Commission's Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy". The Green Paper is a timely contribution to the 2006 debate on a range of energy issues, as it deals with among other aspects, the challenges facing all energy sectors, the international aspects of energy policy, and the critical interface between environmental and energy strategies. In the more than ten years since the last Green Paper on energy policy and the Green Paper on energy security of supply in 2000, significant progress has been made, with regard notably to the internal energy market, security of supply measures and relations with producers. Now, however, new challenges arise and there is need to take stock of developments and for further debate on the way forward taking into account also impact assessments of any new proposals. The Green Paper provides a basis for stakeholders to debate the relevant issues.
2. In relation to the debates taking place this year on the challenges to the European gas market, Eurogas is developing a paper giving its perspective on long-term market development to be ready in the coming weeks. That paper deals with market issues in the context of wider global considerations and focuses on security of supply and the important challenge of attracting diversified gas supplies to the European market. This short paper concentrates on a response to specific ideas raised in the Green Paper.
3. Eurogas agrees that developing a European energy policy is a long-term challenge. It is widely recognized that it is a process. The three objectives of sustainability, competitiveness, and security of supply remain paramount and a coherent policy framework supported by consistent measures is required. The Green Paper identifies the key issues to be discussed in this respect. As a general point, Eurogas hopes that the outcome of the deliberations of the High Level Group on Competitiveness will be able to contribute also to this goal, and be taken account of in the follow-up to the Green Paper.

Completing the internal European electricity and gas markets

4. Eurogas agrees on the fundamental importance of achieving the internal energy market, while safeguarding security of supply. The European gas market should be organized in such a way as to provide European customers with the gas and services they need at competitive prices from their choice of supplier. Achieving this needs continuous commitment from politicians, industry and regulators. The basic legislation is in place and rigorous and timely implementation of the Directives on the internal energy market and security of supply is required (for gas 2003/55/EC and 2004/67/EC). The Regulation on Access to Gas Networks (EC/1775/2005) must also be observed. In addition, Voluntary Agreements such as the Guidelines of Good Practice for Storage Operators must be followed. These are important complementary instruments to the Directives.
5. Therefore progress on implementation must continue to be monitored. It is useful that this year the annual Progress Report will be viewed in the context of the wider debate, and this and other checking and monitoring activities including those ongoing in the Madrid Forum will provide a surer basis of deciding if further legislation may be needed and, if so, for carrying out prior impact assessments of any proposals. Eurogas looks forward to participating in the debate and to contributing to the planned Strategic EU Energy Review.

6. Eurogas fully supports the emphasis given in the Green Paper to the importance of a framework to stimulate new investment. The business climate and a stable regulatory framework should promote the significant investments needed to improve interconnections and facilitate supply options within Europe. These include gas exploration and production, pipelines, plants, and LNG terminals. Consideration has also to be given to facilitating investment outside Europe. The Eurogas vision paper gives its perspectives on this issue, as well as other measures to achieve a level playing field including, effective unbundling, non-discriminatory access, transparency requirements and capacity allocation and congestion management procedures to maximise use of existing capacity. Eurogas engages in working level discussions on such issues with ERGEG and other stakeholders.
7. From the perspective of suppliers and network users, Eurogas has considered the new concrete proposals referred to in the Green Paper: the development of a European grid including through a European grid code; a European regulator; and a European Centre for Energy Networks. The starting point for suppliers and network users is that they should enjoy a "seamless" experience when they move gas through different grids. How that is achieved is largely a matter for TSO organization and improved co-ordination is clearly necessary, in order to support satisfactory and non-discriminatory access. In the view of Eurogas, correct and timely implementation of the Access Regulation N° 1775/2005 will already stimulate improvements, and potentially it could become a sort of European Grid Code, particularly as it can be expected that the Guidelines will be further developed.
8. With regard to the question of the European Regulator, Eurogas supports in principle a move to stimulate more effective market integration, that will facilitate convergence and coherence of market rules and regulations. The ERGEG structure already establishes a potential framework to achieve the necessary co-ordination of national approaches. Therefore Eurogas considers that ERGEG should provide a more effective co-ordinating role at European level. Also Member States have to be involved and more willing to agree harmonized rules. For those reasons, Eurogas is supporting the Gas Regional Markets initiative which it considers has the potential to be a catalyst to promote a European wide robust and liquid market and to bridge regulatory gaps. This development and the potentially stronger role of ERGEG should be encouraged. Eurogas does not underestimate the challenge in achieving improved co-ordination but ERGEG should be given opportunity to show results before consideration is given to a new super-powerful entity or another level of bureaucracy. To deliver results, national regulatory authorities have to enjoy full and equal independence and also need to have sufficient powers and resources to carry out their duties effectively and in a timely manner.
9. Eurogas views the initiative on gas regional markets therefore as an important intermediate step to a fully integrated internal European gas market and was disappointed not to see reference to this important initiative in the Green Paper. The regional initiatives should promote the development of specific solutions to obstacles to a liquid market, including pragmatic approaches on cross-border issues. These solutions should contribute to the success of the internal gas market. The regional initiative should be a dynamic process, involving all important market participants. Suppliers and network users should have an equal role in the initiative with the system operators. Also Member States have to be more involved alongside regulators and European Commission representatives.
10. Eurogas requires more explanation about what is intended by a European Centre for Energy Networks and its intended role, and what its relationship would be with other groups, the Madrid Forum and the corporate governance that for now rests with ERGEG. Before setting up a new EU agency, its added value for essential policy measures should be justified.

Diversification of the Energy Mix

11. Eurogas supports a diversified energy mix, and considers that measures should be taken to encourage a move away from the more polluting fossil fuels to gas, as well as to renewables and biofuels. Nuclear power, and eventually carbon capture have also a role to play but a switch to gas still represents a cost-effective way to reduce carbon dioxide emissions. It is the cleanest fossil fuel and gas fired power stations operate at high efficiency and are less capital intensive and have shorter construction periods than other plant. The benefits of switching to gas should be fully acknowledged in the EU Energy Review. Incentives to improved gas technologies will at the same time contribute to the objective of energy efficiency, part of the strategy to reduce imports.
12. Eurogas would be very concerned if the Strategic Energy Review should discuss targets for different energy forms. The market should determine their shares in primary and secondary use. All options have to be kept open and a European policy framework should facilitate this objective.

Security of Supply and Solidarity

13. The Eurogas vision paper emphasizes the objectives of security of supply and discusses its different aspects, one of the most important of which is the necessary investment. Another is diversification of gas supply routes and sources. DG TREN has already established an Energy Supply Observatory and Eurogas does not know what more is intended by this Green Paper proposal. In any case provided it is not unduly bureaucratic or seeking confidential commercial data, an effective unit within DG TREN with responsibility for monitoring the supply and demand outlook, gas supply diversification, and investment levels could deliver added value to the work already done.
14. The EU has put in place a set of instruments for co-ordinating and regulating crises, should they occur. The EU Directive Safeguarding Security of Supply (2004/67/EC) lays down rules for dealing with emergencies. The Gas Co-ordination Group has an important role to play in ensuring security of supply co-ordination and encouraging convergence of approach. Its role will be strengthened in the context of the Directive Safeguarding Security of Gas Supply that has just come into force. Eurogas supports gaining experience in the implementation of this Directive in accordance with the provision of Article 10 before deciding if amendments are justified.
15. Eurogas does not see there is need for a new legislative proposal on gas storage. Eurogas considers that more storage is needed for the gas market as a whole and therefore as with pipelines and LNG terminals, it should be a priority to ensure that the business and regulatory climates incentivise investment in new storage. It is not clear if the Green Paper favours so-called strategic storage, on which there is no agreement in any case on its definition. If so Eurogas would emphasize the need to be very cautious and to proceed with an in-depth evaluation in view of the physical constraints (geology and pipelines) and the significant costs that could be implied and other implications including the potential undermining of commercial investment in new storage and supplies. Decisions concerning the extension and operation of storage capacities should still be made by companies from a commercial point of view. Only in this way will the appropriate investments urgently needed in some Member States remain economically attractive.
16. The Green Paper asks specifically about solidarity. This is a very complex issue, especially in view of its combination with the concept of subsidiarity. It should not, however, imply that Member States can neglect their own security of supply considerations in the knowledge that if problems occur solutions will be found at the European level. All Member States should seek to converge on security of supply standards as set out in the Directive. Equally a Member State should retain the right to

take its own decisions on supply issues. In large part solidarity will be provided by a properly working internal market in gas. It is not clear what is meant by the crisis solidarity mechanism proposed in the Green Paper but if "solidarity" agreements are agreed for example between Member States, they should be embedded in and implemented through commercial agreements. Uncommercial mechanisms risk to be inefficient, and very costly.

17. Planning procedures in several Member States have resulted in delays to the development of new infrastructure to support security of supply. It is important that planning requirements are respected, but Eurogas would encourage the EU and Member States to work toward streamlining these where possible.

Sustainable Development

18. As mentioned above, natural gas has an important potential role to contribute towards the challenge of climate change and this should be fully acknowledged in policy aims. Natural gas use can also contribute to the reduction of noxious pollutants in the atmosphere. It is a fuel of choice for energy efficient applications, and in addition gas supply companies attach high priority to encouraging awareness of customers on the importance of energy efficiency. Natural gas has as yet untapped potential in use as a vehicle fuel.
19. Eurogas has supported the proposal for an Action Plan on Energy Efficiency and will continue to contribute in a concrete manner to promote this objective. If the EU does decide to propose and promote an international agreement on energy efficiency, then Eurogas would consider how it could contribute by promoting energy-efficiency in non-EU countries.

Innovation and Technology

20. Eurogas, along with the European Gas Research Group supports, the drive towards improved innovation and technology along the gas chain and the proposal for a strategic energy technology plan. It is important to involve all stakeholders in the objective to develop commonly agreed research agendas and deployment strategies. The gas sector is driving several innovative projects, including CO₂ emissions reduction, public safety, energy efficiency, reduction of traffic congestion and pipeline security, and involved in other ongoing research on hydrogen and NGVs Eurogas would wish to see the gas sector fully involved in plans to strengthen the European effort on energy research.

External Policy

21. The Eurogas vision paper treats in some detail on the importance of a robust external policy framework to support industry's business and commercial strategies. Eurogas supports the need for effective dialogues with producer and transit countries, aimed at facilitating trading relationships along the gas chain, and also at promoting the needed investment upstream of Europe. For such dialogues, existing institutions and discussions should be used, before new mechanisms are proposed. Furthermore, the basic boundaries between the responsibilities and role of the political and business worlds must be observed.
22. The proposal for a pan-European energy Community Treaty based on the Energy Community Treaty should be considered further, as the latter has been developed, is adopted by several countries, and arousing interest in others. It can help promote market disciplines in neighbouring countries. Eurogas, however, would wish to be assured of EU Governance in the interpretation and application of any such Treaty.

23. Eurogas questions the justification for a new targeted instrument to deal with emergency external supply wants. The Gas Co-ordination Committee already has a monitoring role to provide early warning, and industry experts also meet together in EU and IEA fora. Furthermore as mentioned above the Gas Co-ordination Committee has a role in the event of a crisis.

Conclusions

24. The Green Paper is a good basis for discussion, although it is unclear what the Commission's precise aim is on some of the proposals. The market should provide competitive and secure energy supplies within a sustainable framework and security of supply should be supported by EU external policy. The immediate priorities for the EU should be completion of the internal market, creating an environment that supports commercial investment and establishing a regulatory framework that provides the right incentives (e.g. transparency of information, streamlining planning procedures) and further promoting energy dialogue with third countries.
- Eurogas believes that rigorous and timely implementation of the current legislation is a precondition for a secure, sustainable and competitive EU energy policy.
 - The market should determine the energy mix and their shares in primary and secondary use. All options have to be kept open.
 - Before setting up new EU agencies, the added value of such a body should be clarified in order to avoid unnecessary bureaucracy.
 - Eurogas supports the need for effective dialogues with producer and transit countries, aimed at facilitating trading relationships along the gas chain, and also at promoting the needed investment upstream of Europe.
