

**CASPIAN DEVELOPMENT CORPORATION (CDC)
EUROGAS PRELIMINARY REMARKS**

A. Background

Future trends in European gas demand are currently subject to different analyses and projections, also according to the many possible evolutionary scenarios for the economic downturn. Robust confidence among institutions and the industry exists though that demand will continue to grow in the long run, while domestic EU production will substantially decrease, and that **additional imports** into Europe will be needed. Europe could potentially obtain these additional volumes from increased imports from existing suppliers, diversifying supply routes and increasing LNG imports. Notwithstanding these necessary developments, the EU will have to expand its supplier base, including by calling upon **new sources** and routes. This need will trigger a number of infrastructure developments and projects, including reinforcement of existing pipeline routes, development of additional corridors, and additional LNG developments. Among those, the Caspian region holds more than 12 trillion cubic meters of proven gas reserves; a significant share of those reserves is located in countries on the **Eastern Caspian** shore. Establishing commercial links between the EU and those countries represents a **key development** in order to contribute to **EU security of gas supply**. This endeavor will face significant complexities, including fierce **global competition** for natural gas reserves. With a view to identifying mechanisms to promote import of Caspian gas to the EU, the establishment of a "*Caspian Development Corporation*" (CDC) has been proposed by the European Commission in its Second Strategic Energy Review. The European Council, the Energy Council, and the European Parliament have also generally endorsed this idea. In order to detail the CDC's scope of activities and functioning, a study has been promoted by the Commission alongside financial institutions (World Bank, EIB). The Terms of Reference (ToR) of the study outline the goal of providing producers in the Caspian region with the necessary visibility on prospective aggregated gas demand from the EU, in order to trigger a **firm commitment** on their side to supply natural gas to the EU in sufficient quantities and for the long term.

B. Eurogas preliminary remarks

Eurogas recognizes the relevance of this subject and the strategic importance of developments in the **Caspian region** for the European gas industry. For this reason, the study being carried out on the idea of a CDC, from the outset, has to follow an open, transparent and participative process so as to benefit from stakeholders' views and expertise; during the entire project a strong focus should be set on a close dialogue and coordination with producer countries with a view to the acceptability of any proposal. Furthermore, Eurogas calls on the Commission to submit the **study** to **public consultation** (through a release in draft format) prior to its finalization.

As far as the content of the study is concerned, Eurogas has developed some **preliminary remarks**, based on the content of the ToR as well as exchanges with Commission officials. In general, these remarks are aimed at providing ideas for the way forward which should, in Eurogas' view, **take a market-based approach**, and be geared towards supporting sound functioning of market forces in all circumstances.

- i. The CDC study should be based on **comprehensive and fact-based analysis**; it should accurately factor in the most recent data and evidence on the region. Only a sound, fact-based analysis (as opposed to any analysis based on unproven working assumptions) will give the study's conclusions the necessary credibility to design new ideas and establish innovative models, whilst avoiding any distortions to ongoing market developments, and safeguarding the necessary proportionality of measures. The analysis should identify the reasons for any delays or obstacles including any relevant issues arising as a consequence of EU legislation. The analysis should also highlight how any proposals would potentially address and overcome obstacles.

- ii. The idea of a CDC should be clearly delineated and focus on those developments where new ideas can aid the development and the implementation of new supply projects, in the framework of fully functioning market operations. In accordance with the ToR, the focus shall be on developments favoring links between the **Eastern Caspian** gas reserves and the EU, by providing all parties with sufficient visibility and risk mitigation tools. Those developments, whose magnitude in terms of investments and volumes might require coordinated approaches, are to be clearly assessed and identified. Whichever tools are identified to pursue the objectives of the CDC, the **non exclusive** (i.e. without prejudice to other initiatives), **case-specific and temporary** character of the CDC must be a necessary requirement. All proposals will have to fit into a **market-based approach** that shall not create any risk to challenge or otherwise put into question ongoing private sector developments (including agreements made in long-term supply contracts between importers and producers) in the Region and elsewhere.
- iii. The aim to stimulate the opening of East-Caspian supplies to the EU by overcoming potential difficulties in production investments and export infrastructure developments in and from Eastern Caspian countries can be achieved through **several means**. The ToR recall that a number of measures can be implemented to provide producers in the Region with enhanced visibility and guarantees, on the prospective needs and off-take potential of EU markets. These include the development of large scale infrastructures, guarantees for E&P developments, and risk mitigating mechanisms. Among those, prior to any analysis having been carried out yet, the ToR focuses explicitly on aggregated purchasing mechanisms, and it singles out a specific approach¹, based on block purchasing. Such a “coordinated purchasing” approach should however not be endorsed before examining the other available and potentially less intrusive options. Any proposed measure should be thoroughly evaluated with a close view on the inherent risk of not being compatible with an undistorted market functioning and of potential shortcomings arising from for example legal impacts, governance models, and effects on net-back-based purchasing along the route.

Eurogas calls for the study to carry out a **fact-based assessment of different options**, and on the basis thereof prioritize those options which are most compliant with a market-based approach. As a further remark, Eurogas calls for clarity in defining the specific tools proposed, avoiding any confusion between a simple coordination of endeavors, and public driven or centralized purchasing models. Moreover, it has to be recalled that whatever the final scope of activities of the CDC is, the companies involved should have the full capacity and responsibility for the development of the commercial processes – including supply contracts - they engage in.

- iv. The development of innovative approaches and mechanisms under the CDC should be aimed at achieving additional and diversified import sources, and establishing fully functioning and market-based commercial operations. The actual means identified to pursue these objectives will then need further reflections on access to the CDC. Whichever the model designed, the **actual formation of the structure carrying out CDC activities** must be a **direct responsibility and decision of interested companies**. Whilst recognizing that in the early stages of the CDC project no commitment will be possible, as no project scope is defined yet, an overall requirement has to be set in advance, based on the principle of non discriminatory access, that only **market players committing to actual participation** in the prospective CDC operations, **and to bearing the related risks** will be a part of this instrument. Participation in CDC should be open to all interested gas undertakings. Finally Eurogas stresses that the instruments proposed in the framework of CDC should comply with **competition law** and that any eventual CDC proposal requires endorsement by the Council.

¹ The “CDC” approach is in fact defined as “a gas purchasing company combined with an obligation to sell to others at pass through or other prices”.