

EUROGAS RESPONSE TO PUBLIC CONSULTATION ON EXTERNAL ENERGY POLICY

Executive Summary

Eurogas acknowledges the importance of the issues that are raised under the general heading of the 'External Dimension' of energy policy. Our members have long experience of external energy supply arrangements in the interest of ensuring reliable and affordable energy to their customers.

Eurogas will prepare a detailed paper in which we will share perspectives on external aspects of European energy policy, drawn from our members' wide experience. In the meantime, we are pleased to offer short comments and responses to the questions raised by this public consultation. The key messages from these responses are:

- Improved external energy relations can help to further improve energy security;
- Supporting the EU's economic competitiveness by means of supporting access to reliable and cost-competitive global energy supplies should be a central mission of public policy;
- EU energy policies should be internally coherent and reassuring towards external suppliers on the important role of natural gas in the future EU energy mix;
- While it is companies' responsibility to conduct commercial relations with suppliers, it is helpful when they are supported by political dialogues;
- Consultation and involvement of the European gas industry, with its long experience of external supply arrangements and the engagement of its companies in global markets, is essential in delivering a successful EU external energy policy.

QUESTIONS

Integrating energy markets and regulatory networks with our neighbours

The EU energy system is already integrated in a wider set of pan-European networks and thus largely interdependent with the energy system of our neighbouring countries. This interdependency presents great opportunities while at the same time poses risks due to very energy intensive economies and fast-growing demand in the neighbouring countries.

Question 1: Should the EU promote further energy market integration and regulatory convergence (notably as regards energy market regulation, environmental and safety standards) with its neighbours? Is there a need for a differentiated approach between the Eastern and Southern neighbours or between countries?

- The EU has chosen its own model for market integration, which needs to be fully respected by any actor who wishes to be active in the internal EU market. Although the EU approach can be used as a model for the neighbouring countries, such as the members of the Energy Community, the implementation process would need to be adapted to their needs. Their national environments and specificities need to be well understood and cooperation between the two systems has to be promoted. Nevertheless, in view of the mutual interdependence of the EU system with its neighbours, environmental and safety standards need to be promoted in the neighbouring countries.

- In view of the future EU gas needs, the setting of the EU energy market should be attractive for present and new suppliers. The EU should aim to communicate and explain its regulatory decisions and their impact, in the framework of regular fora open to neighbouring countries (such as, for example, Russia). Engaging in constructive dialogues with its neighbours would increase the level of mutual understanding and will thus contribute to a better and more stable business climate.
- Stable, transparent and reliable legal frameworks for investment protection in the energy sector are in general perceived by industry to be more important for promoting a good business climate than regulatory convergence. International agreements—the WTO, the Energy Charter Treaty and the Energy Community for example—already in principle provide for such protection. However, as in the European Union itself, there have been cases where these protections are not always respected. Eurogas would prefer to see political energies devoted more to the implementation and delivery of existing commitments rather than to embarking on new initiatives. As far as the Energy Community is concerned, we would like to see more coherence with overall EU policy goals and more transparent engagement of the gas industry.
- For Eurogas, the promotion of market integration, regulatory convergence, market regulation as well as environmental and safety standards should not differentiate in general between regions and countries. Nevertheless special national or regional differences have to be taken into account.

Question 2: Should the EU take concrete actions to foster greater investment in renewable energy sources in its neighbouring countries? What actions?

- Encouraging and facilitating the actions of neighbouring countries in favour of policies that ameliorate climate change should certainly be considered as advisable, as pursuing a common climate-related framework is mutually beneficial. Promotion of energy saving should be a first priority and can be a win-win action for both suppliers and consumers.
- Promotion of investment in renewable energy sources may indeed be desirable, but we would draw the attention of the EU authorities to the fact which indicates that neighbouring countries' carbon-reduction may be more quickly and cost-effectively achieved by promoting natural gas and high efficiency uses in substitution for domestic coal and other solid fuel resources.

Strengthening partnerships with energy suppliers and transit countries
Energy partnerships with our most important suppliers, both traditional and potential future ones have been identified as a priority in the EU's external energy policy. Relations with Russia, the EU's biggest energy supplier will remain vital in the future, as will the long standing and stable partnership with Norway. The importance of OPEC countries including those in Africa and the Gulf and the natural gas exporting countries to the EU energy security is growing. The EU aims to be in a position to rely on significant additional energy supply sources and routes by 2020. For this, the Caspian and Central Asian regions and countries like Iraq are of strategic importance, particularly for future gas supplies. Furthermore, in the longer term, electricity imports to the EU might increase and thus call for the establishment of a new type of partnerships.

Question 3: What measures should the EU take to reinforce and focus its partnerships with key suppliers (of hydrocarbons and other energy sources) and transit countries? What should be the focus of such enhanced partnerships? (What countries? What topics?)

- Potential energy suppliers and partners would be reassured and more receptive to the EU's intent to co-operate more fully in gas issues if the EU were to more explicitly stress the importance and contribution of gas for CO₂ reduction, in its energy policy/strategy papers. Sending contradictory messages on the future EU needs for natural gas to external suppliers would weaken rather than strengthen partner relations.
- It is primarily companies' responsibility to conduct commercial relations with suppliers, but at some points it could be helpful if these were supported by EU and national dialogues with producing and transit countries. The EU should continue with its efforts to provide strong and reliable, legal and institutional framework through mutual beneficial relations with producing and transit countries outside the EU and promoting stable multilateral safeguards as the WTO regime and the Energy Charter process.
- The EU benefits from maintaining good relations with all gas suppliers (both pipeline and LNG-sourced gas) and transit countries. Good political dialogue and mutual understanding can only be beneficial for the business climate. With respect to the growing sourcing of European LNG from the Middle East, the existing EU-GCC Energy experts group could be used to support good relations. Transparent dialogue, in close consultation with all parties including the European gas industry, can facilitate successful results such as the Early Warning Mechanism (EWM).
- Furthermore, it could be useful to establish a list of neighbouring countries and topics highlighting avenues for partnership. This could be done either through the reinvigoration of existing programmes such as INOGATE, the EU-Russia energy dialogue or through the creation of new viable programmes.

Question 4: How can the EU best support complex infrastructure projects outside the EU that can contribute to enhancing the EU security of supply and diversifying its supply sources and routes? For instance, should the EU seek to coordinate or be party to intergovernmental agreements which concern projects of European interest?

- Complex and large scale infrastructure projects that have diversified Europe's energy and gas supply have been effectively put together by private industry and by public-private partnerships in Europe for the past 40 years. This has been to the benefit of Europe's energy consumers, environment, and economic competitiveness. Eurogas welcomes the Commission's recognition of the complexity of building infrastructure projects outside EU and the constructive dialogue with the European Institutions on this topic. Eurogas will elaborate further on this topic in the framework of a separate paper.
- Eurogas considers that the transit issues should be addressed as a key priority. The EU should continue to act as a facilitator by providing appropriate diplomatic and political support for facilitating the creation of the necessary transport capacity.
- Eurogas strongly believes that the strength of an infrastructure project, assessed on market basis, should be recognised as a key criterion to identify those projects that

can be of “European interest”. Other criteria which could be taken into account are, for example, further diversification of sources and routes and further market integration (for instance through enhancement of interconnections). Any market distortion should be avoided, as keeping a level-playing field for infrastructure investors and users is key for the good long-term functioning of the integrated EU gas market.

- Eurogas is examining what is the EU engagement which is advisable for different kinds of intergovernmental agreements. It does not seem prudent to present any view while its analysis is open.

Promoting the EU role in setting the global agenda for safe, competitive and low carbon energy

Building a resource efficient and low carbon energy future while tackling security of supply and safety concerns are increasingly global challenges. At the same time, low-carbon energy technology has become a strategic industrial sector worldwide and a fantastic opportunity for growth and employment. It is in the EU's interest to play a key role in the global energy agenda-setting, to shape new market standards, to lead international efforts in technology research and innovation, and to enter tomorrow's most promising markets. This requires a long term policy perspective and concerns both the new global partnerships and the bilateral cooperation instruments.

Question 5: What focus should the EU give to its energy cooperation with major consuming countries? In what topics and countries could the EU action bring most added- value?

- The EU should seek to maintain dialogue with major energy-consuming countries, notably in the context of the international climate-change discussions. As a leader in effective carbon reduction since 1990, the EU can bring significant added-value by sharing its experiences of efficient carbon-reducing strategies. This shall in particular be geared to ensuring a level playing field in the competitiveness of industrial economies (and therefore amongst energy systems and choices of energy mix).
- The value-added of an EU engagement depends on the country concerned. Therefore, clear working programmes per country, and more consultation with the EU industry that is present (or intends to be present) in these countries, are crucial for the maximization of the value added of these dialogues. Reciprocity, transparency, investment protection and facilitation of operational activities are some of the topics that should be promoted. The dialogues may also provide a framework for increased cooperation on technological development, data exchange and promotion of energy efficiency.

Question 6: Should the EU take action to increase its collective weight in global energy discussions and in international organisations and initiatives dealing with energy? How?

- Eurogas supports an increased weight for the EU in global energy discussions, notably where these discussions can impact on international agreements on climate change. In the current global context for energy, when considering binding decisions, such as CO₂ targets, Eurogas shares the wider industry perspective that the EU should take into account the international context and the risk of hampering European competitiveness.

- A further way of enhancing the EU's role and impact on external energy relations could be to ensure coherence and cooperation between its services, mainly between the EEAS¹, DG ENER, DG CLIM, DG ELARG, DG MARKT and DG TRADE, in order to strengthen its position in international organizations. A constructive dialogue with Member States and clear negotiation mandates with accountability on the results are necessary at EU level. As an example, a coherent EU approach to the Energy Charter process needs to be promoted.
- In view of the possible impact that EU agreements with third countries could have on investments in the natural gas sector, Eurogas emphasizes the need for a transparent approach focused on facilitating entrepreneurial engagement between the EU and these countries. The European gas industry offers its know-how and experience in dealing with these countries and encourages the Commission to consult the industry when engaging in agreements concerning natural gas.

Question 7: What initiatives could help the EU promote nuclear safety, security and nonproliferation standards globally?

- No views on this topic

Better combining EU and Member States' efforts to promote European energy interests

In recent years, the need for Member States to join forces and for the European Union to act in a united manner and with a spirit of solidarity in external energy matters has been increasingly voiced. The European Council in September 2010 reached important conclusions on EU's external relations. It called for a more integrated approach, ensuring that all relevant EU and national instruments and policies are fully and coherently mobilised, and that coherence and complementarity between internal and external policies is enhanced, in support of the EU's strategic interests. For the time-being, Member States bilateral relations with EU energy partners do not fully take into account the EU strategic interests and security of supply objectives. In the coming years, attention should be devoted to increasing transparency between the Member States and the EU in the external energy relations and ensuring that EU energy policy objectives as well as the EU acquis are fully respected and promoted.

Question 8: How could the EU and its Member States gain together greater impact on international energy issues? What concrete actions should be taken to ensure synergies and coordination between Member States' initiatives and EU initiatives?

- Because of the interconnectivity of the European gas grid, almost all supply contracts, pipelines and LNG facilities contribute to increasing the competitiveness, diversity and thus security of supply throughout the whole of Europe. Therefore, in addition to stronger coordination between Member States and the European Commission in the first place, improved consultation with the industry would help in ensuring that the EU weighs in fully on key international energy issues.
- The development of an integrated and liquid gas market will contribute to reinforce trust in the EU as a regional consumer where suppliers can always be assured of

¹ European External Action Service

finding a market for the volume of their sales. Long-term contracts have up to now contributed to this aim and they should be safeguarded in this respect as an instrument reinforcing the EU's weight towards its energy partners.

- There is a need to develop a shared understanding on the supply challenges facing Europe and for a coherent response. Exchange of aggregated information on supply scenarios, accurate analysis of shared data, and transparency and accountability in the Commission's process for forecasting of future needs, would contribute to this objective. Such an activity is all the more important as it is otherwise difficult for a single external supplier, EU energy player or one member state to have a clear view either at national or at European level.
- The dialogues may also provide a framework for increased co-operation on technological development.

Question 9: Do you consider that the compliance with EU internal market rules and the EU energy security objectives of Member States' bilateral agreements with third countries can be an issue? Should the EU take action to ensure compliance? How?

- Any market is the sum of its bilateral deals among suppliers and buyers. EU companies negotiate bilateral deals with companies in third countries, and Member States may wish to make agreements with the host governments of those countries in support of or alongside such deals. Belonging to the European Union requires consideration of the impact these deals might have on other members of the Community, and such consideration must include the compatibility of their implementation with the *acquis communautaire* and with the internal market rules.
- Various tools have been introduced recently, in the framework of the third package and the Security of Supply regulation, providing information on these deals. If compliance with EU internal market rules is an issue, the Competition authorities have sufficient tools at their disposal.
- It is desirable for Member States to develop a more co-operative approach to energy foreign policy and for Europe to speak with one voice in a global energy market.

Question 10: How could the European industry and civil society best contribute to the EU external energy policy objectives?

- The European gas industry systematically ensures two of the most important external energy policy objectives by maintaining commercial agreements which result in:
 - 1) the delivery of a carbon-reducing fuel, and
 - 2) the diversification of Europe's supply routes and sources;
 The industry hopes to continue to do so, with appropriate EU policy support;
- Given the potentially large investment needs to deliver energy through entrepreneurial action to Europe's consumers, and the importance of a sound and robust legal framework for investment protection, the European gas industry should be regularly consulted by policy-makers with respect to how external energy policy objectives are delivered;

- Industry and civil society will be able to contribute most if there is close coordination around political visits where there is an overlap of industry and political interests;
- In the interest of achieving this, the European Commission could present a detailed yearly review on the status and evolution of all dialogues with third countries where energy matters are discussed;
- Establishing an orderly programme of dialogues is preferable to ad hoc engagement in response to short-term or politically inspired events. The Commission in synergy with Eurogas could helpfully therefore establish a list of priority dialogues.
- In the interest of transparency, the industry should be informed where EU officials in government negotiations refer to supply issues. As any outcome of such negotiations can affect commercial negotiations, they should focus on creating an adequate political framework with the producing or potential transit countries.

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