

**THE EXTERNAL ENERGY POLICY OF THE EUROPEAN UNION:
AN INDUSTRY AND MARKET PERSPECTIVE FROM EUROGAS**

1. The European Council, at its meeting of 4th February 2011, stressed the need for a better coordination, consistency and coherence of EU and Member States' activities in the EU's energy external relations with key producer, transit, and consumer countries, calling on the EU to take initiatives in line with the Treaties in the relevant international fora, in order to continue the development of mutually beneficial energy partnerships and facilitate the development of strategic corridors. The Commission is currently preparing a Communication on security of supply and international cooperation in the energy field.
2. Eurogas member companies and associations wish to share at this early stage of the debate their views on the EU external energy policy dimension. These views are drawn from the industry's wealth of experience in the field. Our members face many 'live' issues relating to external policy which are important to their customers and which inform their industrial and commercial strategies in a competitive environment. In this note, Eurogas offers an industry perspective as a contribution to the debate on the external energy policy. The note supplements our 7th March response to the public consultation held by the Commission.
3. Eurogas offers comment on four aspects of EU external energy policy:
 - **Existing Areas of External Energy Activity.** The EU can and should build on existing priority areas of engagement in external energy policies, in order to enhance consistency and coordination amongst the industry and Member States' actions. These areas include, firstly, the question of large energy infrastructures, and, second, strategic dialogues and partnerships in international fora, notably the EU-Russia Dialogue (alongside dialogue with other key energy partners), the Energy Charter, the Energy Community process, and relations with other international bodies concerned with energy and climate.
 - **Coherence of Message toward External Suppliers.** European Union energy policies favour access to reliable and cost-competitive global energy supplies, including natural gas. This is fundamental to supporting EU competitiveness and security. Supporting this, policy should be internally coherent and reassuring towards external suppliers on the key role of natural gas in the future EU energy mix, in the light of EU policy objectives set by the 20:20:20 Package and the long-term commitment for decarbonisation to 2050.
 - **IGAs.** Inter-Governmental Agreements (IGAs) can facilitate the development of commercial agreements and industrial initiatives as they provide sound political support by governments involved. The Commission should grant the maximum degree of support to this approach, but given its role and nature should not itself engage in commercial agreements.
 - **Purchasing.** Gas purchasing should continue to follow established commercial practices, respecting the requirements of EU competition law.

I. THE IMPORTANCE OF EXTERNAL ENERGY POLICY FOR GAS COMPANIES

1. **Europe's natural gas companies have a long track record of engagement with external suppliers of energy.** Gas that is imported from these suppliers constitutes a vital part of the supply that we provide to our customers. The 35 corporate members of Eurogas are involved either in the global trade in gas or in the import of a material portion of their supply. For many of our members, such imports provide the majority of their supply. The sound commercial relations that have been developed with external suppliers are a cornerstone on which the industry rests.
2. The external dimension of European Union energy policy is consequently of vital interest to Eurogas and to our members' more than 100 million customers in the EU countries, Switzerland and Turkey. Moreover, the dynamic of the internal market in recent years has driven company strategies in a pan-European or cross-border direction. Accordingly, many companies' external supply relationships have today a European, as well as a national or regional, orientation. Gas purchase frequently requires cross-border trade within the EU, often involving companies of more than one Member State, which also strengthens the European dimension.
3. Commercial transactions between companies for the most part provide the foundation for good business relationships with the external suppliers of our gas. Some of the main commercial transactions that underpin Europe's gas supply developed in times when external political relations were more difficult than today. International trade in gas, as represented by these deals, contributed positively to peaceful and prosperous relations with Europe's neighbours. There is every reason to expect that this positive contribution of international trade in gas can continue in the future.
4. Member States whose companies have been involved in such projects have often provided political support alongside these gas industry activities, in the form of political dialogue and assistance.
5. As a consequence of the above, **European gas companies are willing and able to offer knowledge and expertise to policy-makers in the development of a more consistent European dimension to external energy policy.** Company personnel, with decades of professional relationships with external suppliers built through their companies' long-standing trade relations, can provide a valuable information and knowledge resource for policy-makers.

II. EXISTING AREAS OF EU ACTIVITY IN EXTERNAL ENERGY POLICY

1. The European Union already engages in various activities, and with various institutions, which have a direct bearing on external energy policy. These existing areas of activity should not be overlooked as the external dimension is further developed. Eurogas stands ready to engage with the European Commission, with Council Representatives, and with interested Members of the European Parliament, as the external dimension of energy policy develops further. As the role of the External Action Service is defined with respect to energy, we would welcome the opportunity for dialogue between the service and the gas industry.
2. *Funding of External Infrastructure.* Eurogas acknowledges the support provided through public funds for gas infrastructure over many years by means of the structural funds in key regions, through the work of the EIB, the Trans European Energy Networks (TEN-E), and more recently, through money made available in the European Economic Recovery Plan (EERP). Some of this support has helped to create infrastructure that brings new gas supply to Europe. Eurogas stresses, however, that the bulk of investment in new gas infrastructure has come, and is in future likely to come, from private investment. The Commission has noted the scale of the challenge in the future financing of new pipeline infrastructure to supply gas to Europe.
3. Eurogas points out that, since the ratio of private money to public money that will be needed for external gas supply infrastructure is likely to remain high, then political attention should primarily focus on the incentives for investment, taking due account of risks associated with investment and alternatives that are available. Public support can continue to play a positive role, in appropriate regions, through the structural funds and the other mechanisms referred to above. As a complement, public support can also be effective by reducing uncertainties with regard to the regulatory framework and by making use of the tools available that reduce investment risks, such as exemptions. Predictability with regard to climate policies and targets would also improve the investment climate.
4. *Strategic dialogues and partnerships in international fora.* Eurogas supports activities that are aimed at improving *dialogue with producer countries and transit countries*. We look forward to the conclusion of post Partnership and Cooperation Agreement arrangements with Russia. The current structure of the Energy Dialogue with Russia already ensures a close involvement of the EU Member States and of the energy industry. We believe this approach will continue to be beneficial to any new bilateral partnership in which the EU wishes to engage.
5. The *Energy Charter Treaty* already today offers a multilateral Treaty framework which covers both investment protection and transit dispute resolution issues in the energy sector. Eurogas has closely followed the latest developments on the Energy Charter and notes with interest the prospect of a convention to revise the Treaty. We could support such a development, providing that its broad objectives of investment protection and free commercial transit are maintained.

6. Europe's neighbouring countries, including the members of the *Energy Community*, deserve full support in their efforts to develop gas markets where there is access on open and competitive terms. In parallel, EU policy support should focus also on security of supply and on the free flow of gas in and through neighbouring countries.
7. Eurogas supports the engagement of the EU, and the activities of the European Commission, in *relations with other international bodies* including work with the UN Framework Convention on Climate Change, the International Energy Agency, the Gulf Cooperation Council and other fora directly engaged in policy discussions at the international level, where these impact in a material way on the gas industry.

III. COMPETITIVENESS, SECURITY AND COHERENCE

1. Access to reliable and cost-competitive global energy supplies is a means of promoting **EU competitiveness**. Political dialogues can help commercial relations that work towards this goal. The Directives, Regulations and Guidelines that govern the industry, including the *acquis communautaire* with regard to competition law and policy, have an impact on EU company strategies and behaviour within the European market. They also bear on the interests and behaviour of external suppliers.
2. Political dialogue, both at Member State and at EU level, while improving the business climate, can also work to support **energy security**. Such dialogue may be helpful in promoting the diversity of EU gas supply as the market for natural gas grows in future, for example around new strategic corridors of supply. The involvement of Eurogas members in the process of dialogue will, we believe, increase the likelihood of positive outcomes.
3. Eurogas is supportive of a further development and extension in scope of the bilateral dialogue between the EU and supplier countries. Today, the main message that we would emphasize in communicating with external suppliers would be to maintain an **internally coherent and reassuring line on the important role of natural gas in the future EU energy mix**. Accordingly, a good example of such a mechanism is the Advisory Centre on supply and demand forecasting within the EU-Russia dialogue.

IV. THE EU AND INTERGOVERNMENTAL AGREEMENTS (IGAs)

1. As mentioned above, several gas supply arrangements made in the past, in a number of EU countries and in a context of profoundly different models of trade relations, involved IGAs to which the commercial terms—which would normally form part of a purely commercial Gas Sale and Purchase Agreement—were attached as an Annex.

2. The European Commission already has powers, legal and practical, to ensure that a European dimension, and current EU internal market rules, are applicable and will be applied to pre-existing IGAs that were not drafted with the EU *acquis* in mind. Recent experience in Poland demonstrates this.
3. European gas companies, including many Eurogas members, are currently involved in projects to bring gas by pipe from new supply regions to the EU. Complex political situations and/or a lack of adequate legal and juridical frameworks for the development infrastructure, especially when the territory of several transit countries is concerned, need to be taken into account. Companies can look to IGAs as part of a framework of investment protection.
4. Eurogas considers that European Union participation in an IGA can have a role to play in enhancing wider European interests, projecting an EU view on specific projects of European interest and providing them its support. The import of such an IGA should be mainly confined to the objective of facilitating relationships at a political level. The EU should not engage in commercial agreements, and this should not be the purpose of an EU IGA. The political dialogue has to be supportive of industry's business activities, but it is the responsibility of companies to engage in commercial and market-related activities.

V. GAS PURCHASING

1. Eurogas acknowledges that the question has recently been raised, in various contexts, as to whether innovative approaches to purchasing gas, including 'block purchasing', may help to promote one or more of the energy objectives of the EU, such as supply security or sustainable energy use. There have been—and may still be—occasions where economies of scale may offer benefits or efficiencies in the purchasing of gas that could lead to considering such an approach. Compatibility with competition law would of course be a prerequisite.
2. Eurogas considers that for most circumstances in the European gas markets, the operations of market players are of sufficient scale as to ensure that present and future customers will be supplied with gas from diverse sources in a manner that supports both competitiveness and security.
3. Eurogas refers to recent proposals in the direction of block purchasing, such as the proposed Caspian Development Corporation, and stresses the need to carefully address the compatibility of such an instrument with the EU competition law *acquis*, as it would appear that competition law aspects do not seem to have been fully resolved as yet.
4. In this, as in the other areas described in this note, Eurogas members and our customers have material interests bound up with the success of a European external energy policy. Our members have considerable expertise in the subject, as well as interests at stake; we are willing and able to be consulted; and we hope to continue to be closely involved in its development.