

STRATEGIC DIRECTIONS OF THE ENERGY COOPERATION

Overview of Eurogas answers to the Energy package: focus on security

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THE EUROPEAN UNION OF THE NATURAL GAS INDUSTRY

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1) EUROGAS IS A FORUM AND AN AMBASSADOR OF THE EUROPEAN NATURAL GAS INDUSTRY

Eurogas is a non profit association located in Brussels

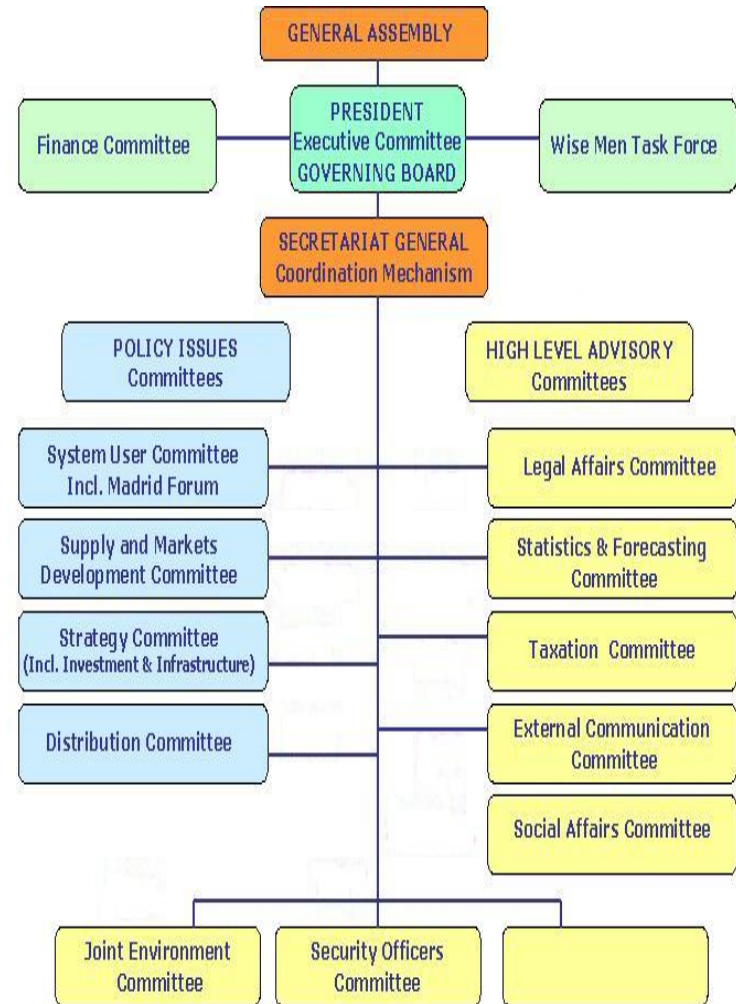
Members:

- 27 companies
- 13 National and International Federations and Associations involved in the supply, trading and distribution of natural gas, and related activities such as storage and LNG

Objectives:

Eurogas is promoting:

- the interests of its membership
- development of the natural gas industry in Europe
- cooperation within the gas industry
- smooth functioning of the European internal gas market
- Dialogue with producing countries



21 EU and 3 non-EU countries

27 Companies

12 National & 1 International Federations/Associations

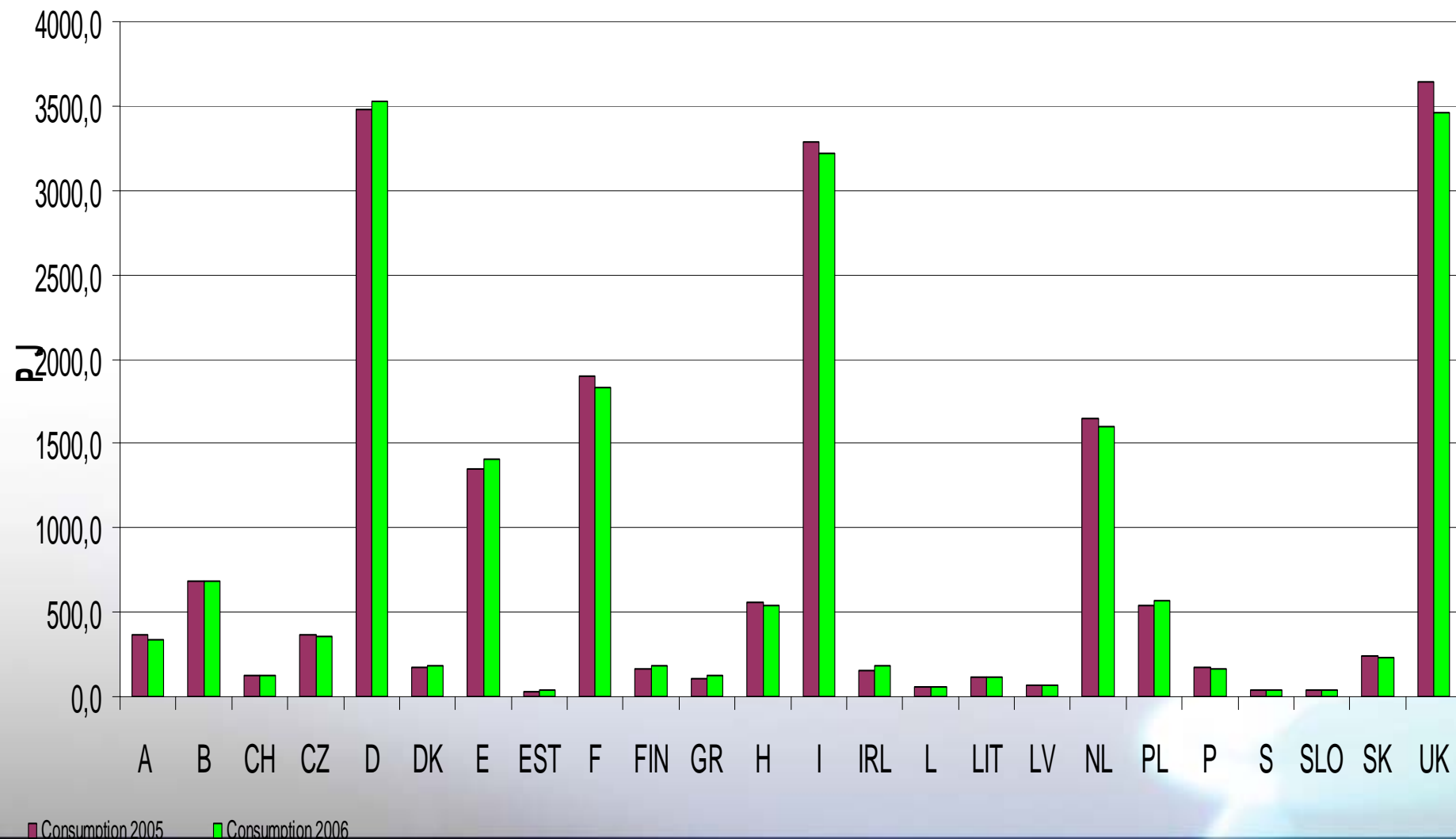
eurogas



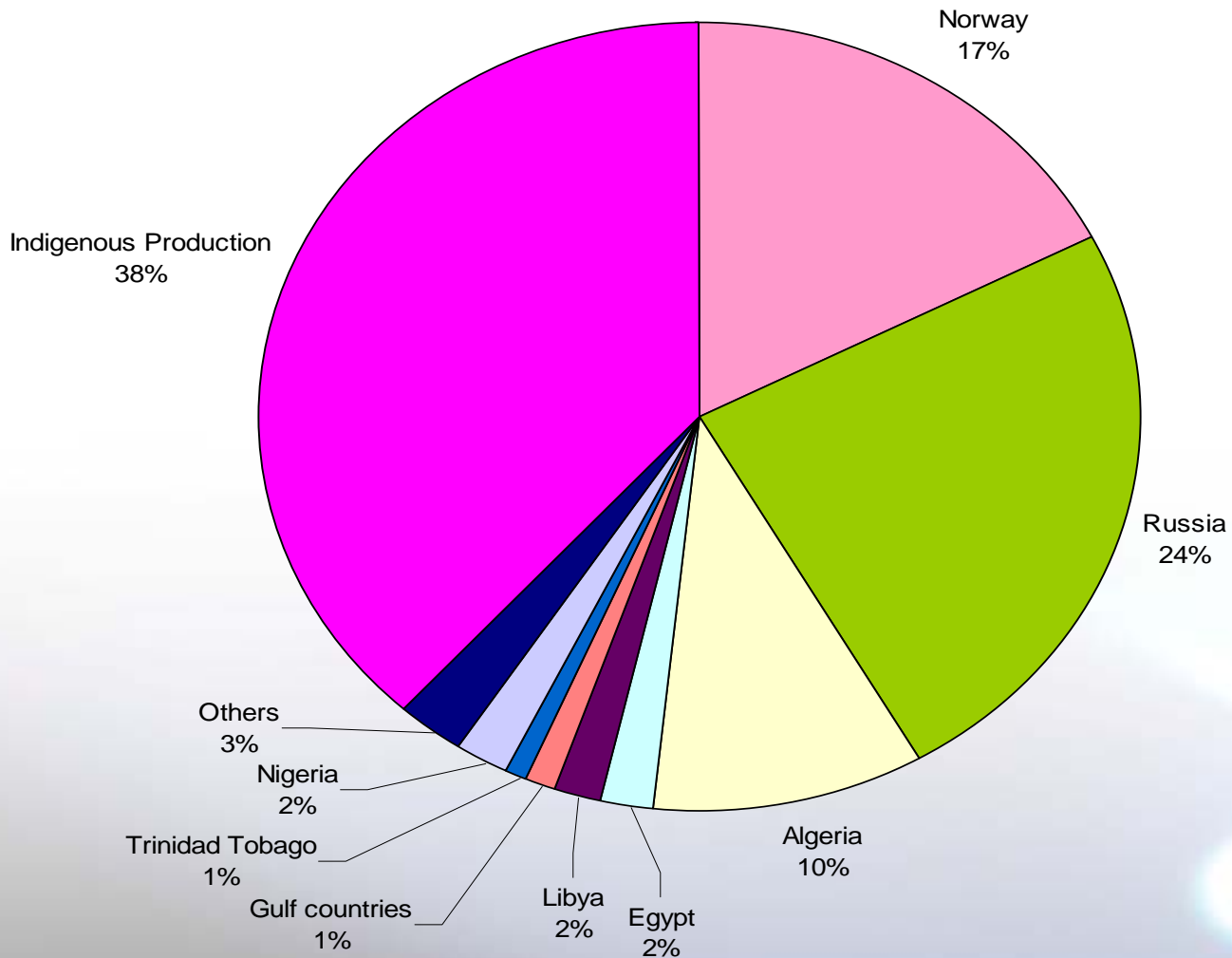
2) EU25 natural gas sector developments in 2006

- **Total natural gas consumption in EU25 has decreased by 1,2% in 2006 in comparison to 2005**
 - End-year was mild
 - Generally higher gas prices in 2006 coupled with a low cost of carbon reduced the competitiveness of natural gas in power generation
 - Higher energy efficiency
- **At the end of 2006, the total number of gas customers connected to the EU 25 natural gas grid rose by 1,6% in comparison to 2005, to reach 105,124 million customers**
- **The generally milder weather conditions at the end of the year have also resulted in important quantities of natural gas being injected in the storages across Europe. In 2006, 309 PJ (7,9 Bcm) of natural gas were injected, which represents 224 PJ (5,7 Bcm) more than the quantity injected in 2005.**
- **Indigenous production in the EU25 has decreased by 4,9% to 7555 PJ (194 Bcm) over the period.**

EU Natural gas consumption in 2005 and 2006



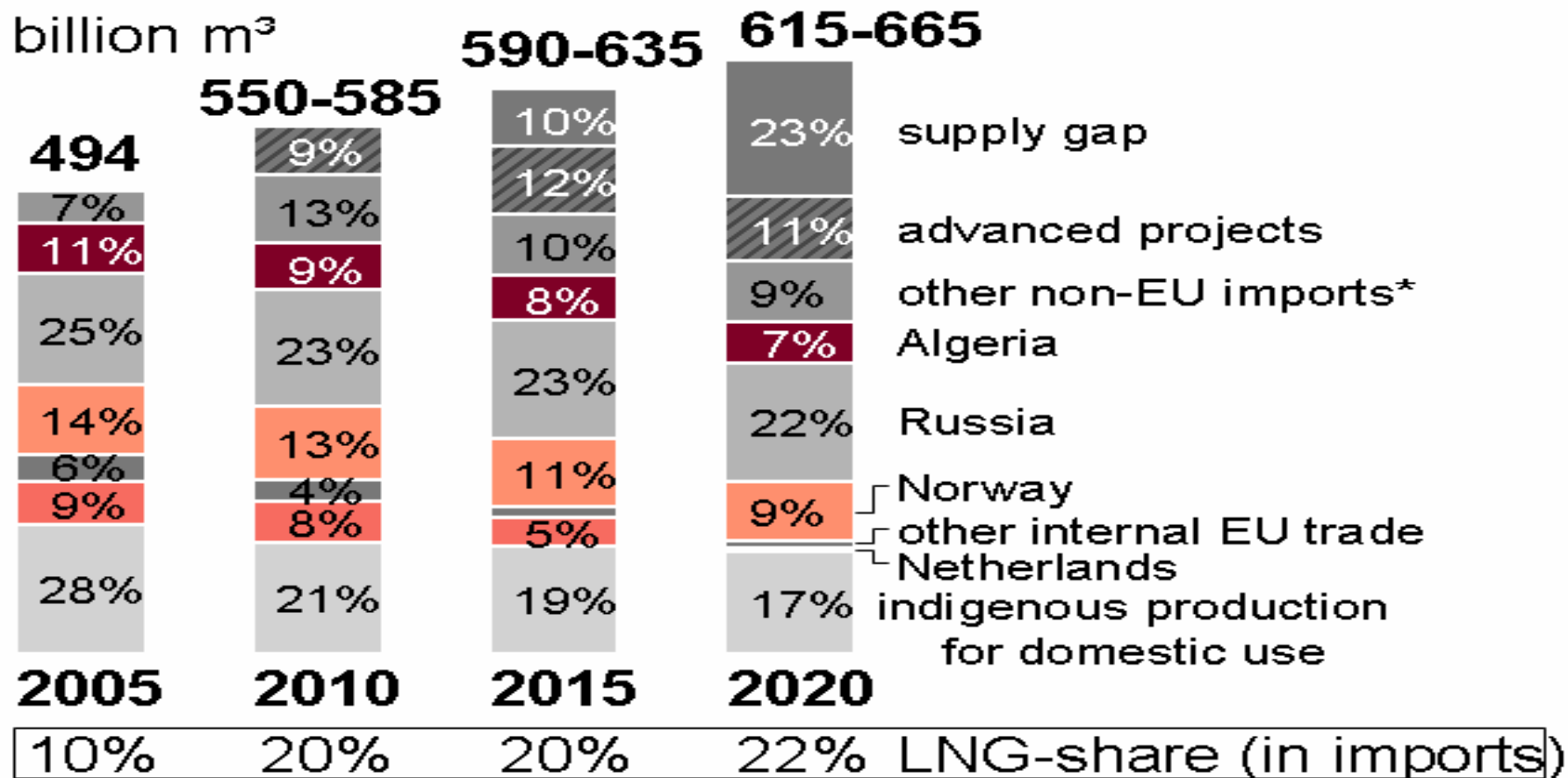
2006 EU25 Supplies



Gas demand trends and the decline of domestic production mean :

- Natural gas consumption in EU member states should increase from 494 Bcm in 2005 to 640 Bcm in 2030, representing thus almost 30% increase over the period
- **A significant increase in import dependency**
 - share of imports in Europe's gas supplies will rise from 54% in 2004 to 84% in 2030
(European Commission estimates)
- **A growing supply gap**
 - a major challenge in terms of sourcing and infrastructure building

Development of natural gas supplies in EU27



provisional data for 2005

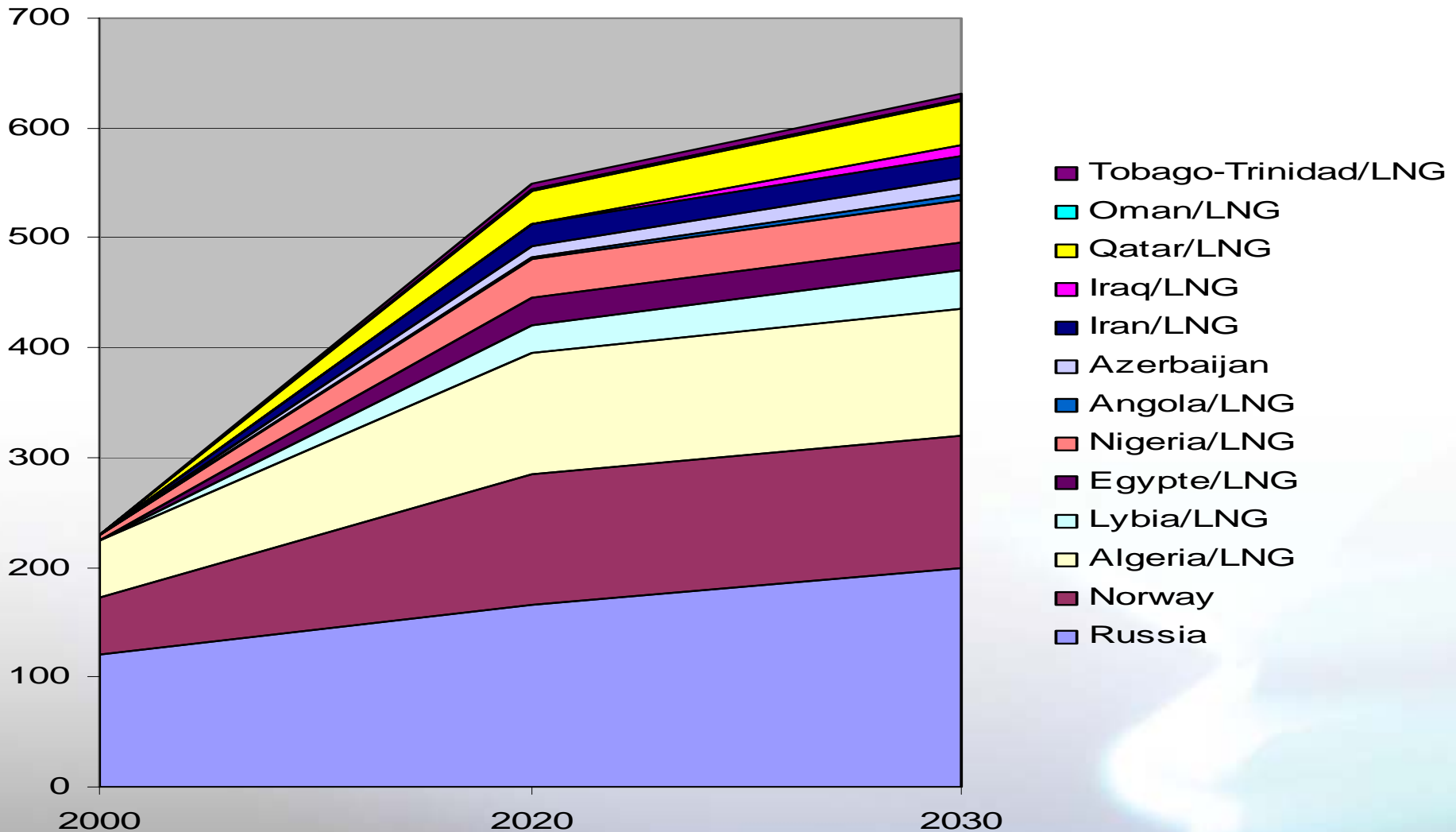
* of which: Nigeria 3%, Qatar 3%

Basis for imports: Contracted volumes and prospective contract prolongations

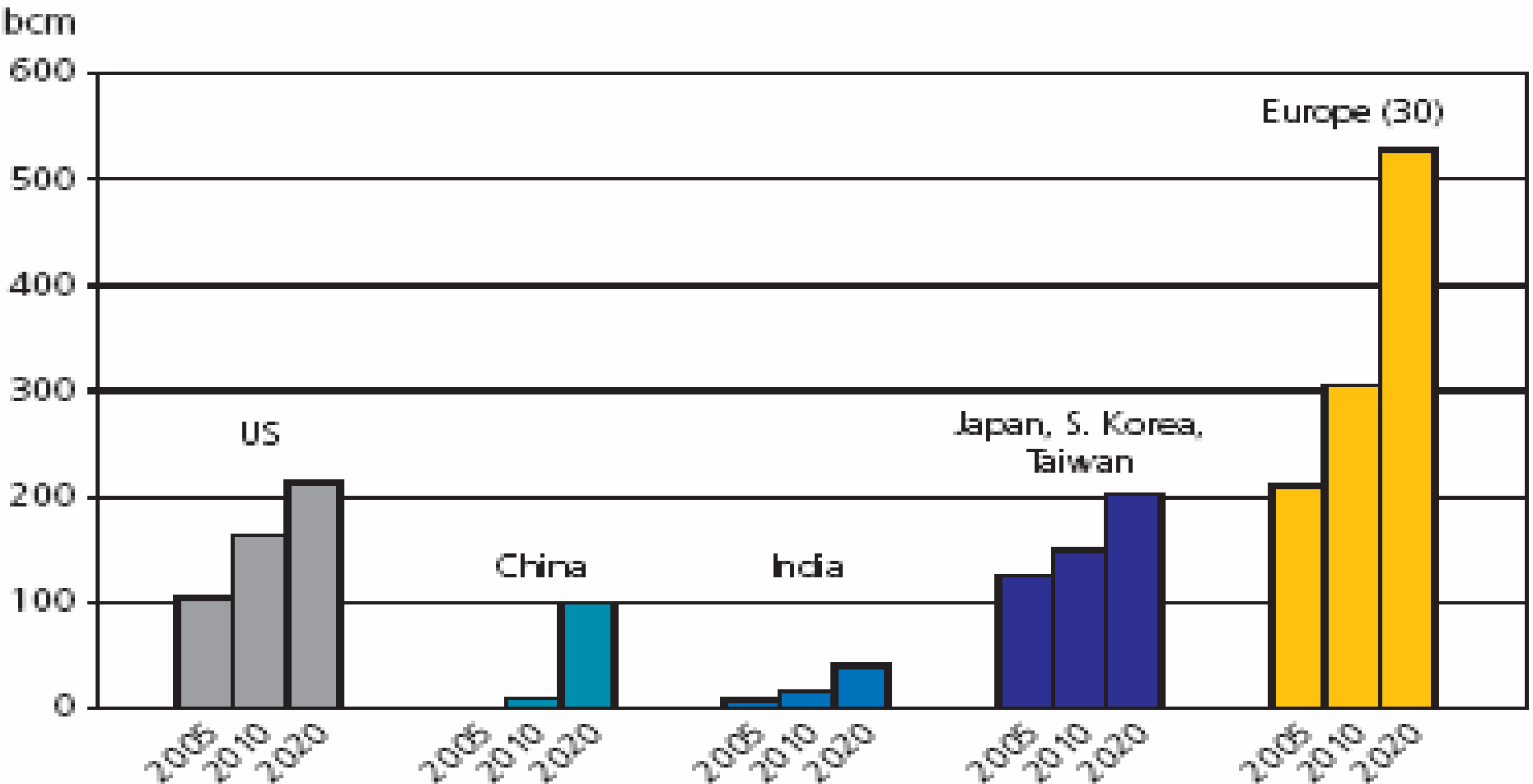
Russia without volumes via Nord Stream which are included in advanced projects

Remark: Malta and Cyprus are not supplied with natural gas

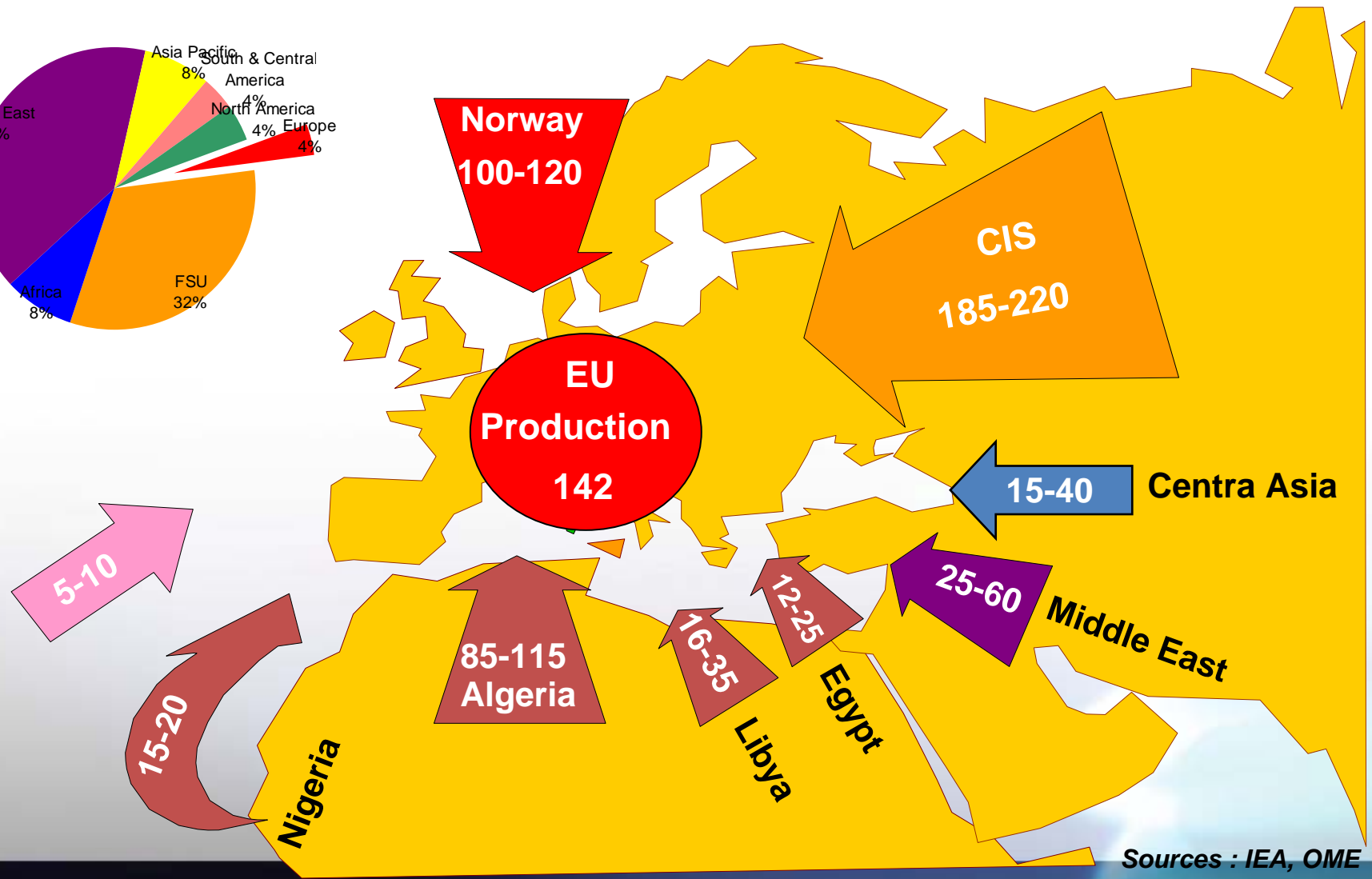
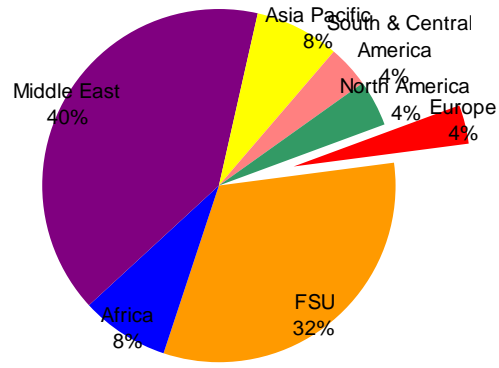
SOURCES OF NATURAL GAS SUPPLY TO EUROPE



The expected growth of import needs will boost international trade - Competition for gas will grow, but Europe will remain the most attractive market



But Europe is well situated between the three main producers
 Supply Capacities for Western Europe 2010 – 2020 (billion 3^3 /year)



3. EUROGAS AND THE ENERGY PACKAGE OF THE EC

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.

ENERGY PACKAGE PROPOSALS:

1. **COMPLETION OF THE INTERNAL GAS AND ELECTRICITY MARKETS**
European grid code, European Regulator and an Energy Networks Centre; interconnections; investment framework; more effective unbundling; boosting competitiveness through improved co-ordination
2. **THE INTERNAL ENERGY MARKET SHOULD GUARANTEE SECURITY OF SUPPLY AND SOLIDARITY**
Review of gas “stocks” legislation and improved transparency, energy supply observatory, improved network physical security (common standards?) – a formal European grouping of network operators
3. **A DEBATE ON THE ENERGY MIX**
Future role of natural gas in “low carbon economy”
4. **CLIMATE CHANGE**
Energy Efficiency, Renewables, ETS, etc.
5. **TECHNOLOGICAL INITIATIVES**
Carbon Capture and Storage
6. **A COMMON EXTERNAL ENERGY POLICY: “SINGLE VOICE”**
Priority infrastructure; Pan-European Energy Community Treaty, a new energy partnership with Russia; new emergency mechanism; deepening relations with major producers and consumers; an international agreement on energy efficiency

Overview of Eurogas position on the integration of the Internal Market

Eurogas calls for proportionate solutions to achieve effective unbundling

Solutions also need to improve market integration and therefore Eurogas supports:

- **effective regulation** in every Member State through the harmonization of the powers, better cooperation and independence of energy regulators;
 - acceleration of the **harmonization of technical standards** and development of common business practices necessary to improve **interoperability** and to permit cross border trade to work effectively;
 - increased **co-operation between TSO**;
 - increased **transparency**;
 - fast-track planning and approval procedures for **infrastructure** projects;
 - an effective **level playing field**
- = > **Letter to COREPER**: companies should be free to determine their strategies and portfolios

Overview of Eurogas position on Sustainability & Energy Efficiency

- 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 **Renewable** would be necessary for an interim period, but the ultimate objective is to integrate renewables into a market system.
- **Energy efficiency** has a key role in responding to the challenge of climate change. Energy efficiency should also be achieved by market driven approaches.

4) The Security of Supply issues



The **Commission's package** identifies the following priorities:

- Way to develop and share at European level a common understanding on the supply/demand balance and security (Strategic Energy Review and Energy Supply Observatory, Gas coordination Group)
- Ways have to be found to strengthen crisis solidarity mechanisms.
- Speaking with "one EU voice".
- Necessary investments to be realized.
- Assessment of a policy 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 cooperative 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 Group**, set up at EU level to monitor and advise on security of supply issues.

Eurogas supports an external policy framework promoting

- A coherent European energy policy with appropriate roles for EU, national authorities creating the right diplomatic, institutional and legislative framework for enterprise, allowing industry to operate effectively
- Dialogue with producers and transit countries
- The Neighbourhood policy
- Diversification of supplies in terms of different sources and routes to Europe, with necessary investments in infrastructure
- Sufficient long-term commitments for upstream supplies

5) HOW TO CONTRIBUTE FOR RELIABLE SUPPLIES TO EUROPE ?

Eurogas is actively involved in EU policy making and Dialogues between authorities and industry, as illustrated by its:

1. Participation in the Gas coordination Group
2. Participation in the work of the Thematic Groups in the framework of the EU-Russia Energy Dialogue
3. Cooperation between Eurogas and the Russian Gas Society



Absolute need to move forward

KEY POINTS AND RECOMMENDATIONS AS RECOGNISED BY the European and Russian gas sectors in the framework of the thematic group on trade of the the EU-Russia Dialogue

- Use and development of long term supply, storage, sales and transit contracts, spot markets
- On a « win-win » basis, developing reciprocity and access rules and mechanisms in Russia and EU in: Investment, infrastructures, market and production
- Considering the development of wholesale energy trade hubs
- Looking at international cooperation instruments
- Systematic and structured basis for energy cooperation projects
- Infrastructure projects contributing to Eurasian natural gas markets
- Supportive framework for cooperation between EU and Russian operators in order to improve energy efficiency and environmental performances
- Joint permanent mechanism for resolving issues of conflict

Conclusions

- **The energy partnership should provide a major and pro-active contribution to the EU-Russia Dialogue;**
- **Eurogas is determined to facilitate the process;**
- **Urgency to build appropriate political and institutional framework.**

Latest Eurogas Position Papers and publications

- ✓ Position Paper on Proposals on the Internal Market - Improved Market Integration – 9.05.2007
 - ✓ Position Paper on Sustainability and Energy Efficiency – 9.05.2007
 - ✓ Proposed Guidelines for good regulatory practice – 25.04.2007
 - ✓ Evolution of Natural Gas Consumption in 2006 – 26.02.2007
 - ✓ The Way Forward
- = > For more information: www.eurogas.org

The European Gas Market

Eurogas Views On The Way Forward



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