

“EUROPEAN FOSSIL FUELS FORUM”

Security of Supply of Natural Gas and the Enlarged European Union”

- New challenges in the global energy scene -

– Berlin, 19-20 October 2005 –



by Jean-Marie Devos, Secretary General .



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- The wider EU policy and legislative environment

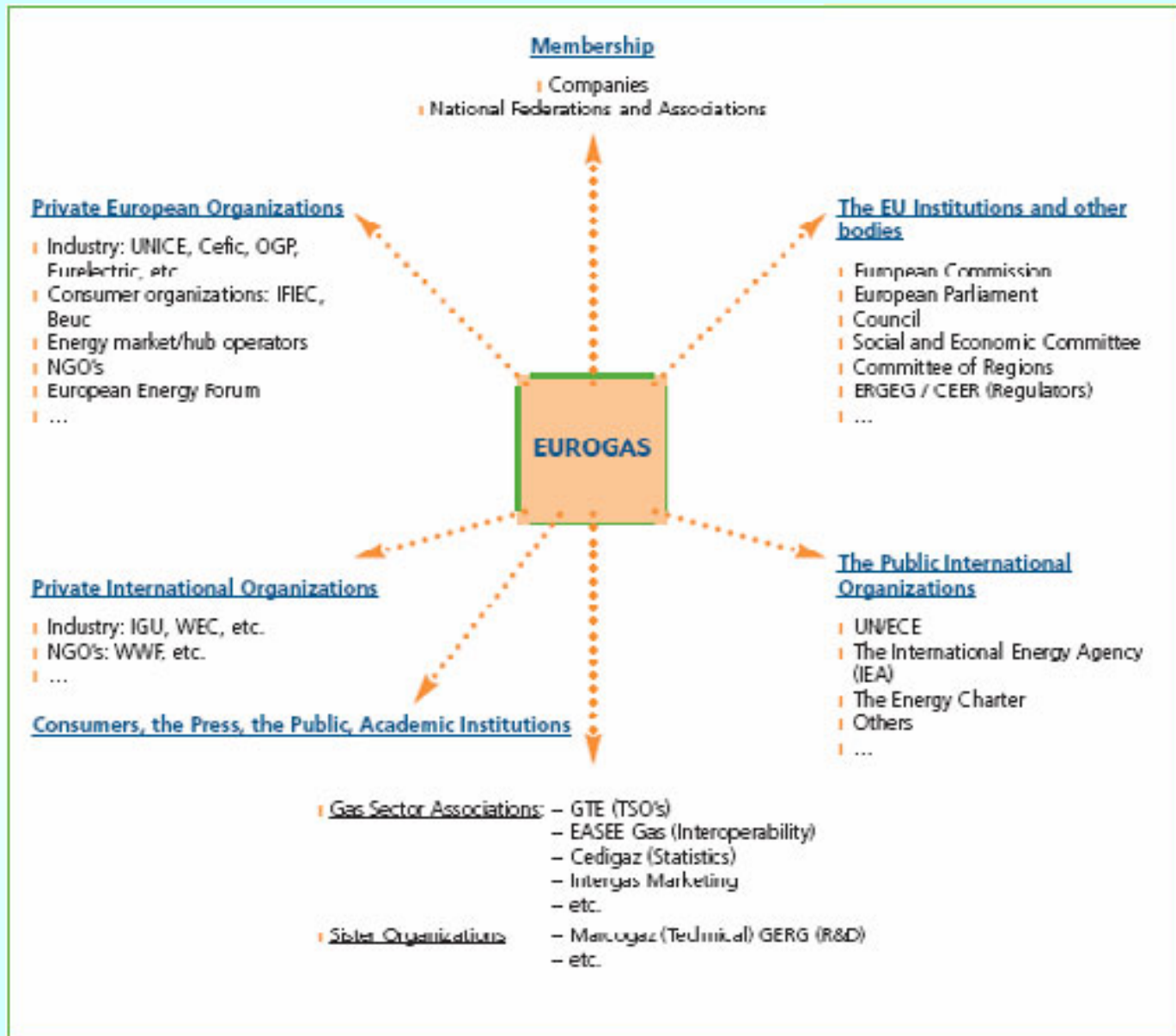
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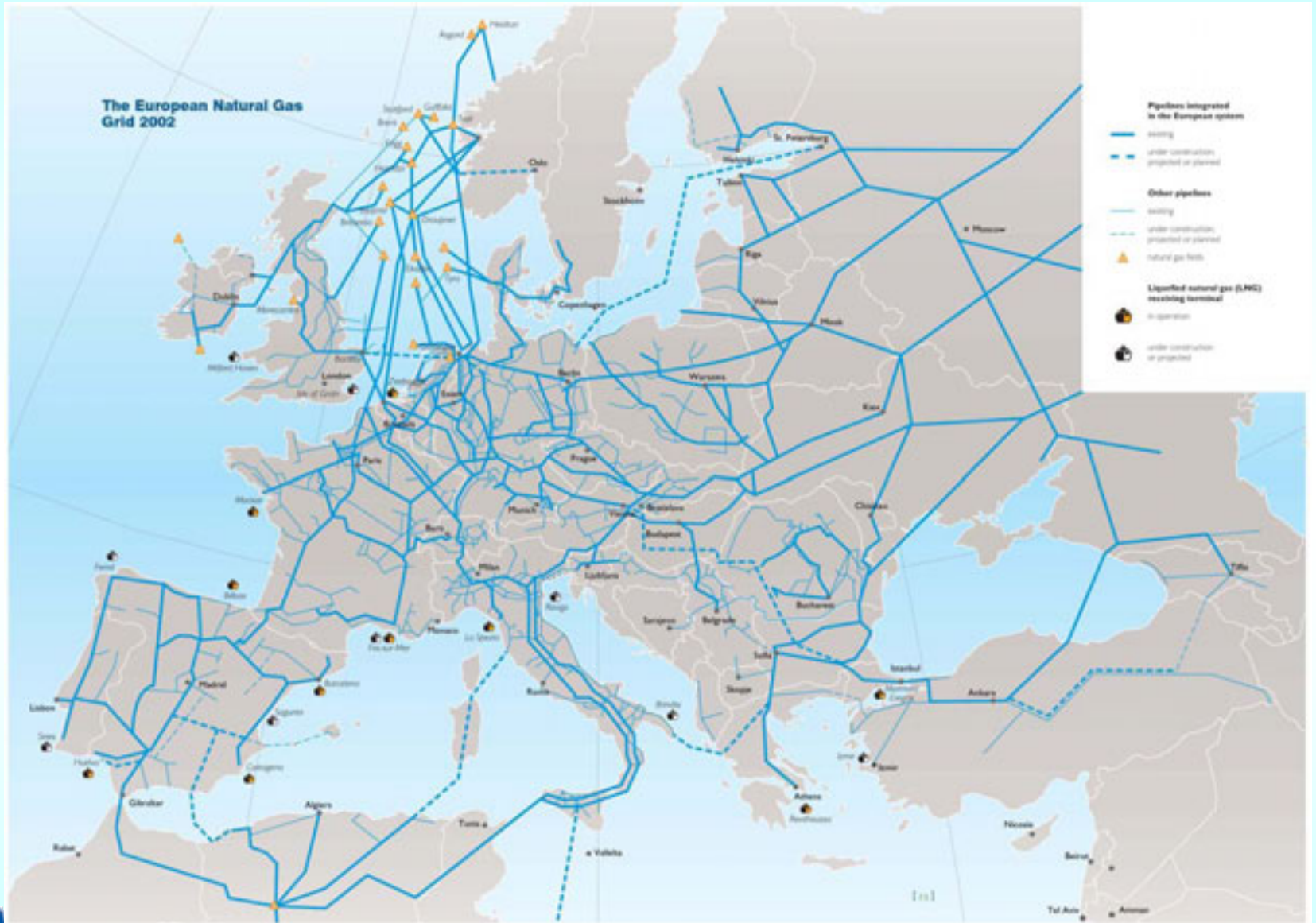
- Europe facing a global challenge
- Consequences for industry structures and competitiveness
- The need for consistency between EU, Member States and global policies





EUROGAS Membership since Sept. 2005





New geo-strategic factors influencing the natural gas market

- ❑ EU 25 (and more...)
- ❑ The enlarged internal European Market.
- ❑ New Member States, new policies ?
- ❑ Increased dependency of the enlarged EU, new challenges.
- ❑ The impact of globalisation :
 - New patterns of gas market;
 - Growing demands;
 - Competition between regions;
 - Which players ?
 - The role of LNG
- ❑ The new equation :
 - EU and global markets; security of supply and security of demand ?



Some Key Issues

What will be the next context at EU level

- ❑ **Completing the (enlarged) natural gas market**
- ❑ **Adapting to a new European legal and regulatory environment : the gas directive (2003/55/EC)**
 - Regulated Third Party Access,
 - Unbundling of transmission and distribution from supply,
 - Choice of energy supplier for all Europe's consumers,
- ❑ **Measuring progress and impact assessment**
- ❑ **Contributing to Europe Energy Security of Supply;**
- ❑ **Adapting to the new global gas world;**
- ❑ **Encouraging investment and entrepreneurship;**
- ❑ **Contributing to sustainable development and competitiveness.**



PART I :

Establishing a Competitive EU Market



The Legislative package and the European gas industry & its competitiveness

- ❑ **The first internal Gas Market Directive (98/30/EC)**
- ❑ **The second internal Gas Market Directive (2003/55/EC)**
 - Major political compromise on Single market Directive reached on 25.11.02.
 - Purpose was to create competitive markets and Companies
 - The implementation process – The Commission “notes” (16.01.2004)
 - The progress report on the single market (Art. 31-3, Gas directive)
- ❑ **The Madrid Forum Process**
 - A voluntary mechanism
 - Focus on (1) access to networks (transmissions, ...)
(2) technical issues (gas quality, interoperability)
 - New regulation on access to grids (July 2005)
 - Guidelines on storage adopted on 18th March 2005
 - The ERGEG initiative on a “Road Map”



Legislative package affecting European gas industry & its competitiveness

- ❑ **Security of Gas Supply**
 - Directive adapted on 26 April 2004 as a compromise between Institutions
 - Member States to adapt standards
 - Community mechanism to address serious crisis supply
 - Monitoring and multi-stakeholders group
- ❑ **Legislation or proposed Directives on the electricity market, CHP, energy tax harmonisation, emissions trading, end-use energy efficiency, ...**
- ❑ **Major “horizontal legislations” (EU competition law, HSE legislations, liability rules, integrated product policy, etc.)**
- ❑ **Lisbon program for better regulation should also apply to energy sector**



BUSINESS PLANNING UNCERTAINTIES



Future challenges

- ❑ The progress report on the single market 2005 (Art 31-3, gas directive)
- ❑ The sector competition review 2005-2006
- ❑ Priority should be given :
 - To competitive and sustainable market
 - To effective and timely implementation of Gas directive
 - To policy making, involving EU institutions, industry and stakeholders



The key elements of the Gas Directive 2003

☒ Timetable for full liberalisation

- 1st July 2004 for non-household users
- 1st July 2007 for household users

☒ Legal separation of activities (“Unbundling”) for

- Transmission (1st July 2004)
- Distribution (1st July 2007)
(Exception possible for integrated natural gas undertakings serving less than 100.000 customers.)

☒ What does unbundling mean?

- No ownership unbundling required from vertical integrated companies
- Legal separation and operational autonomy
- But consequences for operators
 - Independent in terms of legal form, organisation and decision making
 - Unbundling of accounts also required

☒ Promoting investment and Art 22 of Gas directive



PART II :

The new security of supply challenges

- ☒ Some key facts and figures
- ☒ The external conditions for ensuring security of supply
- ☒ The internal conditions for ensuring security of supply



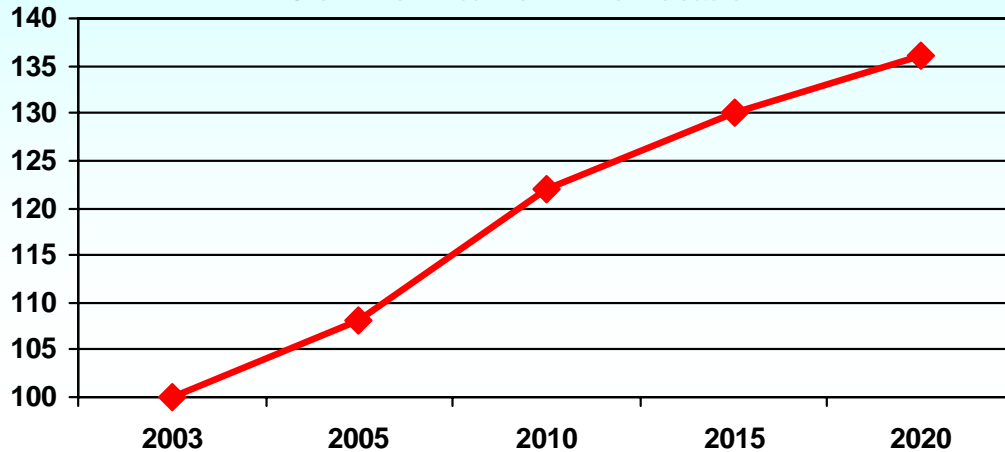
Some key facts about Security of Supply

- ❑ Natural Gas demand and consumption trends
- ❑ Natural gas demand outlook by sector
- ❑ Natural gas sources and production areas
- ❑ World reserves / Production ratios
- ❑ International Transport
- ❑ Breakdown of supplies

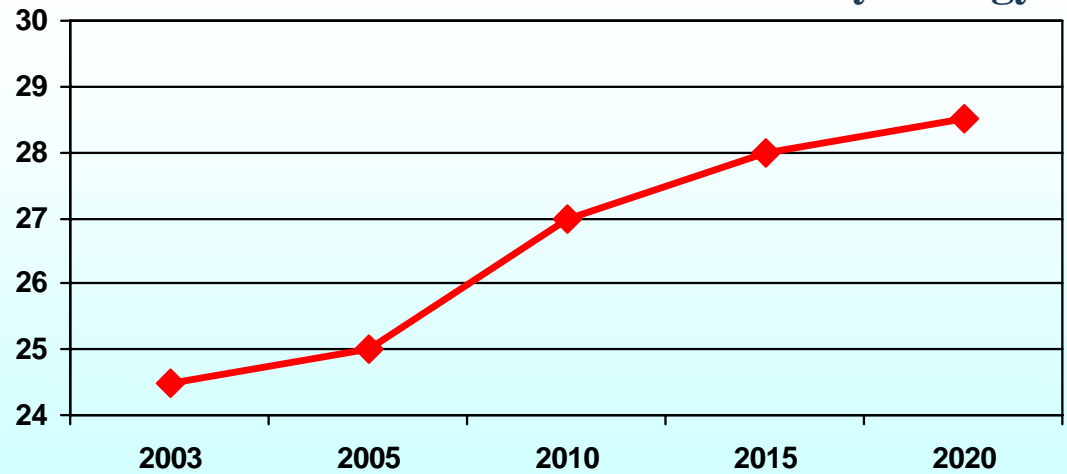


Gas Demand Trends

% Demand Increase



Market Share of Primary Energy

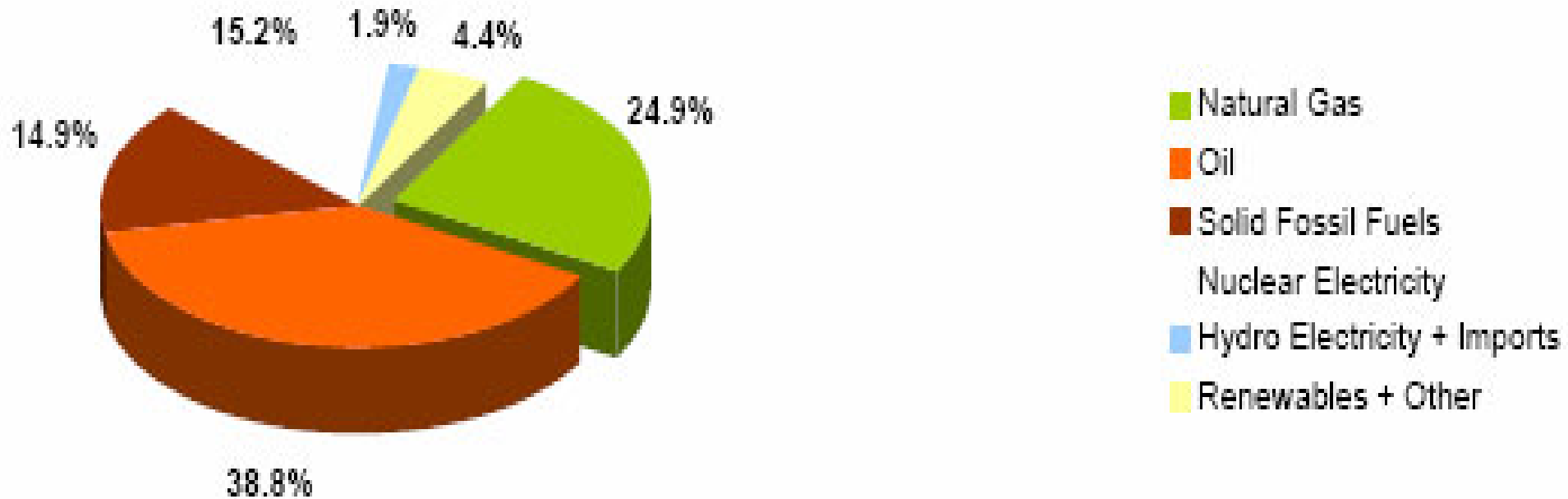


Source: Report from Eurogas members



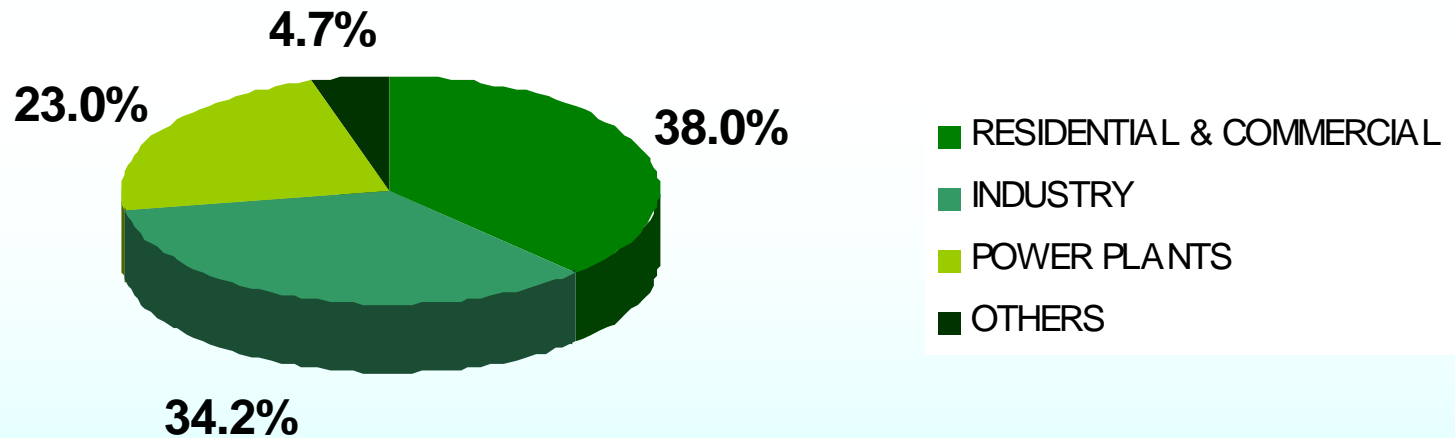
2004 PRIMARY ENERGY CONSUMPTION BY FUEL (EU15)

2004 Primary Energy Consumption by fuel (EU15)



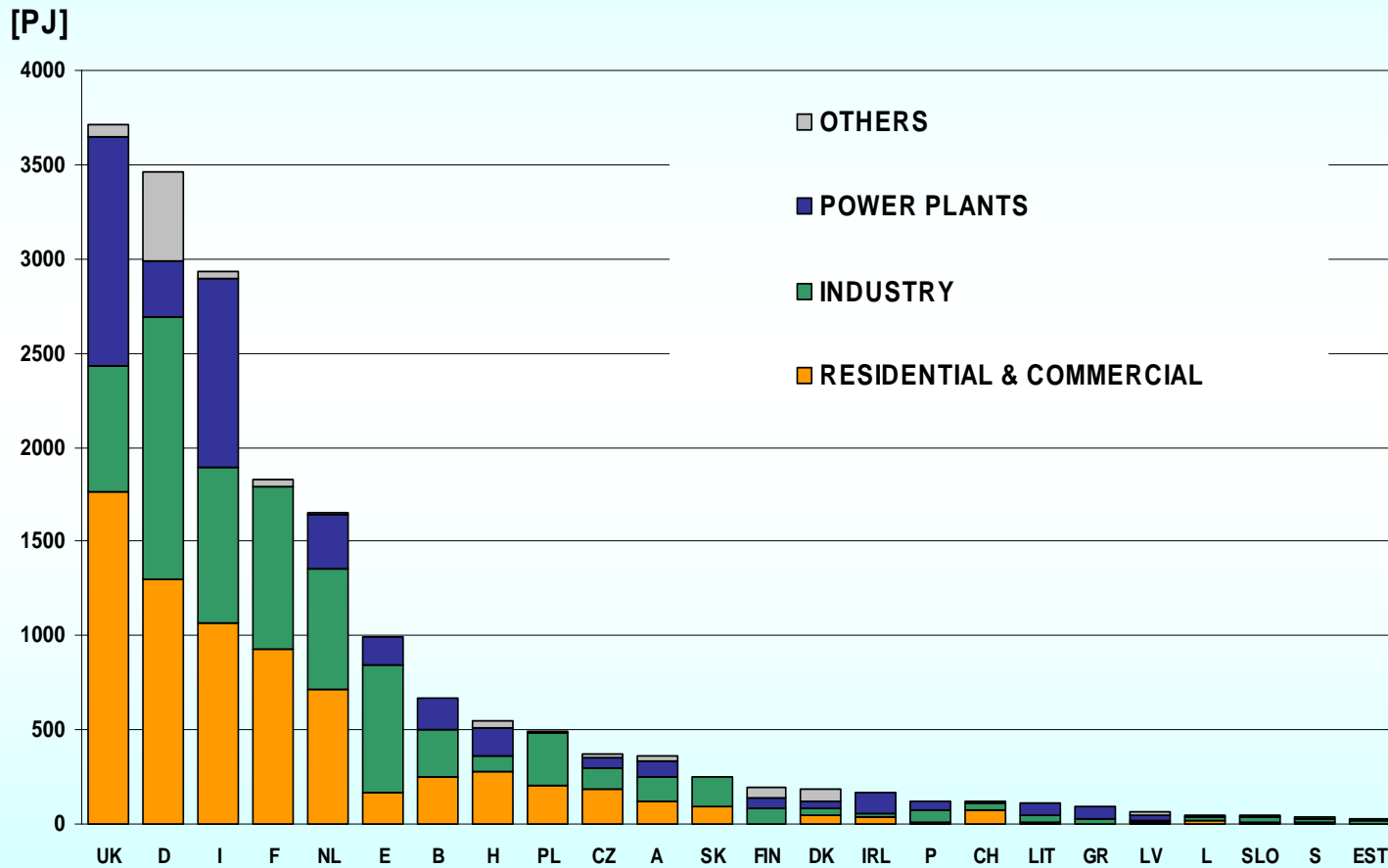
2004 NATURAL GAS SALES BY SECTOR (EU15)

2004 Natural Gas Sales by Sector (EU15)



2003 INLAND SALES OF NATURAL GAS SALES BY SECTOR (EU25)

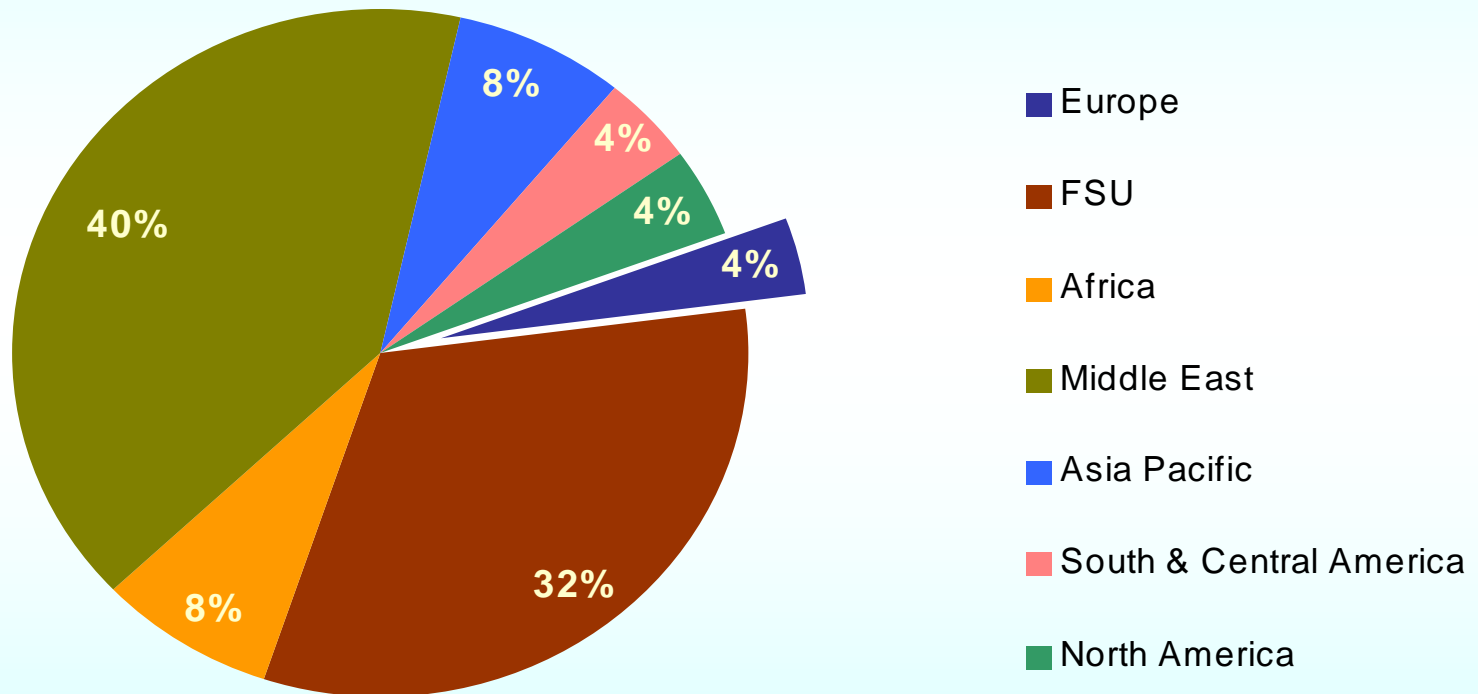
In 2003 the Total Natural Gas sales in EU25 reached 18367 PJ (EU15 – 16462PJ)



GCV – Gross Calorific Value



2004 WORLD NATURAL GAS RESERVES BY REGION

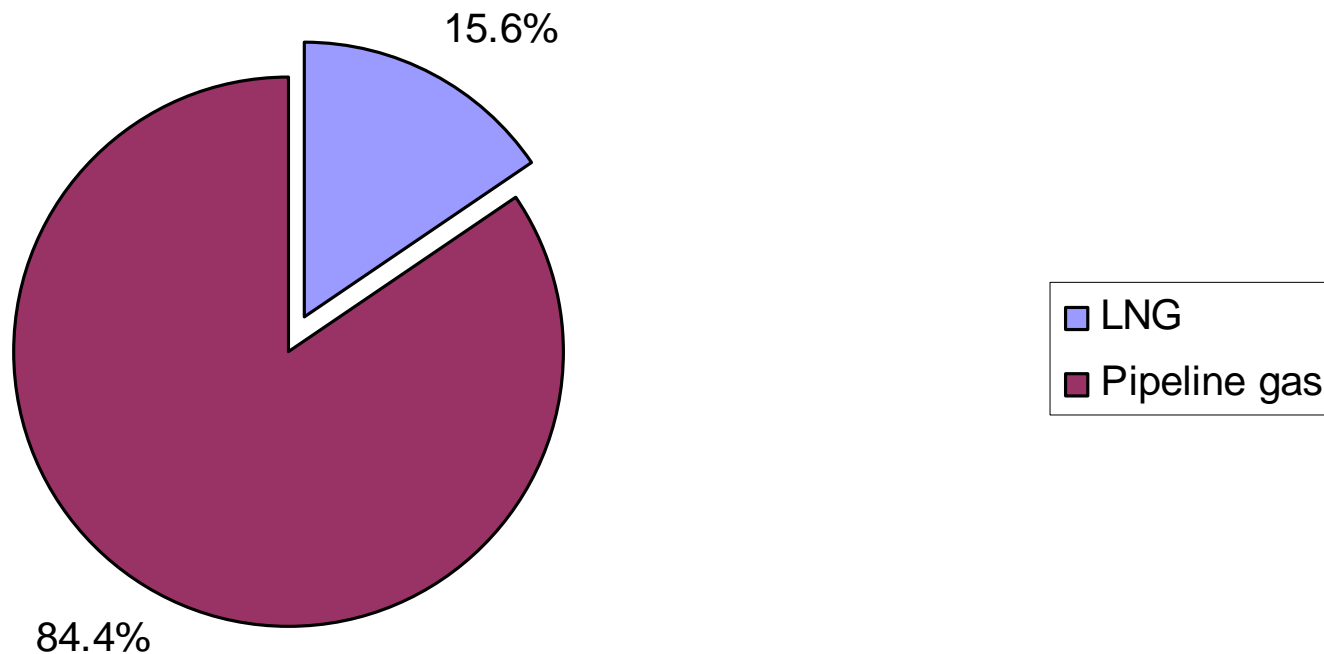


TOTAL PROVEN RESERVES = 180TCM

Source: BP

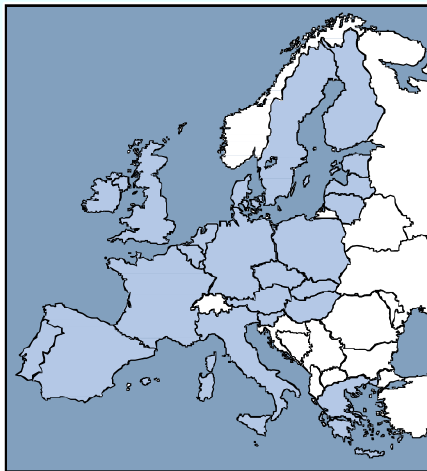


2004 EU15 NET IMPORT BY TRANSPORT



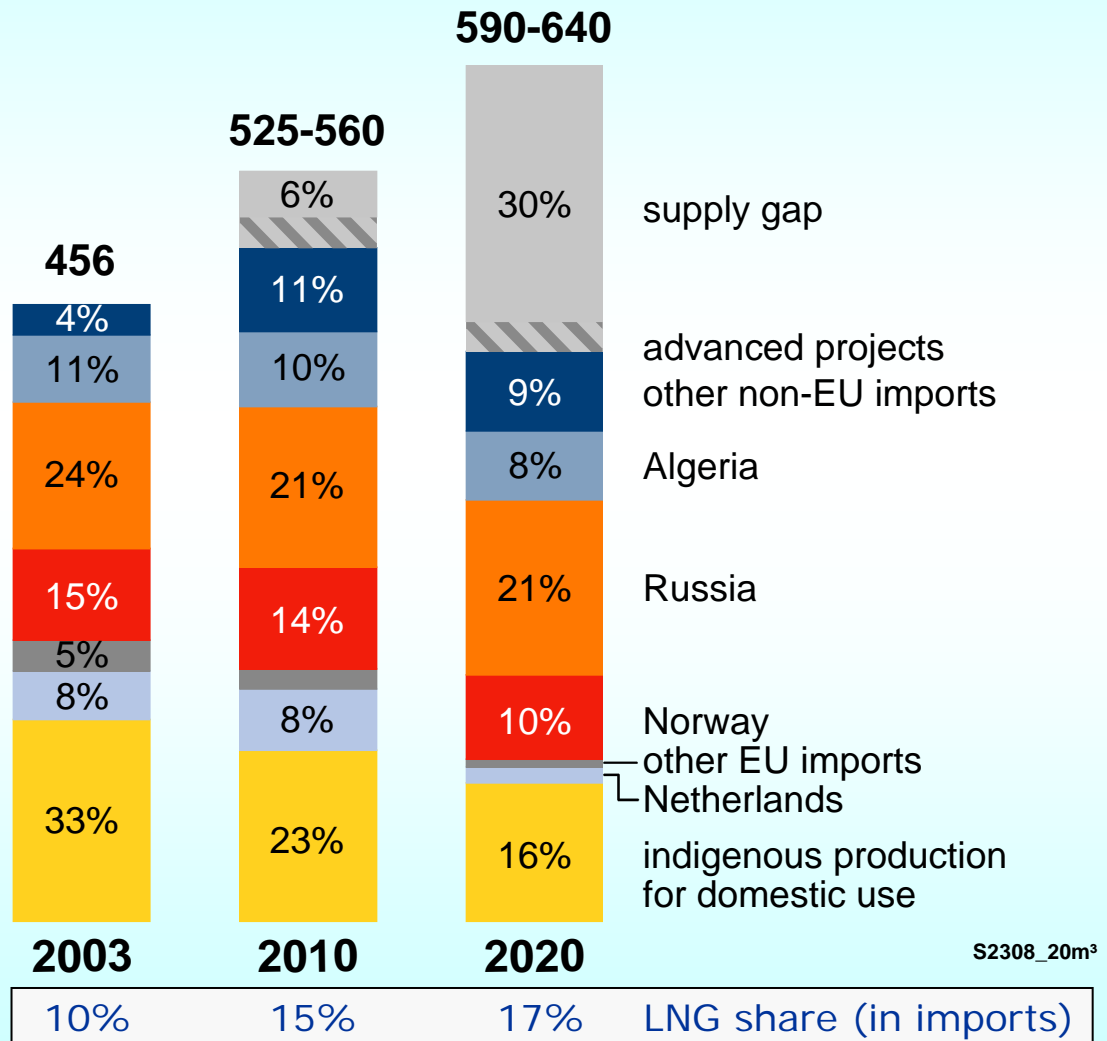
Development of Natural Gas Supplies in the EU25

billion m³



Remark:
Malta and Cyprus are not supplied with natural gas

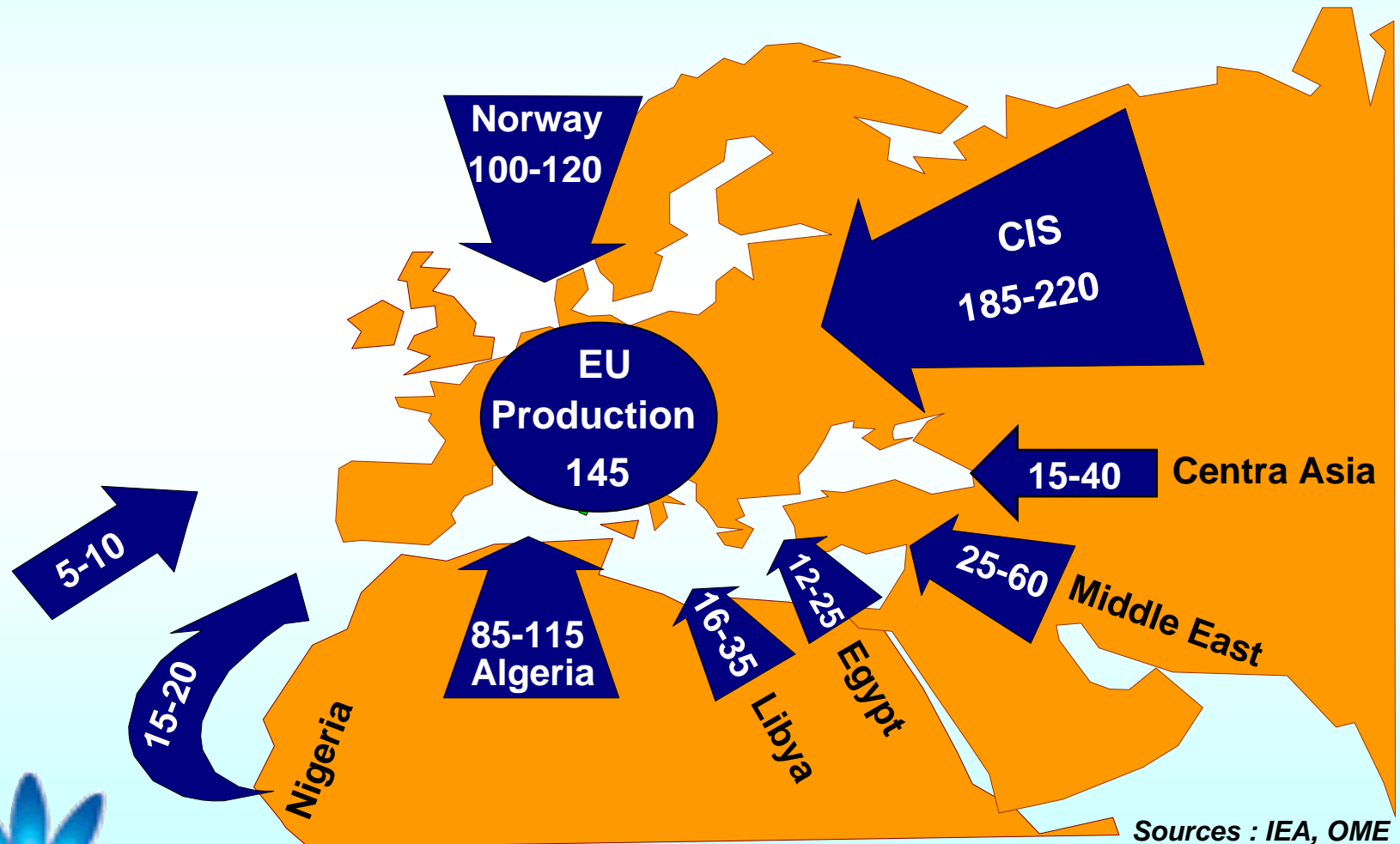
Source E.ON Ruhrgas



S2308_20m³



Supply capacities for Western Europe 2010-2020 (billion m³/year)



Sources : IEA, OME

Berlin, 20/10/2005 - F



The external conditions for ensuring Security of Supply

- ❌ Security of supply records are excellent, but...
- ❌ We are not isolated !
- ❌ Geopolitical realities and policies of other major consumers regions
- ❌ Access to reliable and diversified sources
- ❌ Importance of politically stable and legally clear relations with major non EU production areas (Russia, Mediterranean countries, new emerging areas, ...)
- ❌ Promoting partnership through dialogue : the EU russia dialogue, Euromed, ECI, South East Community, ...
- ❌ Authorities must promote a competitive business climate, both inside and outside EU
- ❌ Long term contracts and spot markets have both a role
- ❌ Sustainable security of supply requires long term investment and transparent market prices



The internal conditions for security of supply : How to build confidence ?

- ❑ Building an effective and well functioning internal market
- ❑ Having regard to regional realities
- ❑ Promoting the conditions for a European globally competitive companies
- ❑ Promoting investment
- ❑ Promoting stable, clear and entrepreneur-friendly environment (Lisbon program)



The Investment Challenge

- ❌ Upstream investments and transportation capacities will be necessary to meet gas demand in Eurasian Countries;
- ❌ How to attract investment ?
- ❌ The needed balance between right policy/legal framework and industrial initiative;
- ❌ Need for sound businessmen decisions and market analysis with close cooperation of economic operators and financial institutions;
- ❌ Once defined from technical and business angles, projects should be facilitated through appropriate legal/regulatory/fiscal tools.



General Conclusions



General Conclusions

I. From a regional to a global business

- Main sources for new gas supplies to Europe
 - Pipe gas: Russia
Caspian region
North Africa
 - LNG North and West Africa
Middle East
- Different regions competing for LNG
 - Atlantic (- Mediterranean) basin
 - Asia-Pacific



General Conclusions

II. Major Trends

- Gas
 - Environmental , technical and economic advantages on other fuels
 - ➔ “bridging” fuel to a sustainable energy system
- Growing European demand and declining indigenous production
 - Increasing import dependency
 - Growing trade distances: large-scale and capital-intensive infrastructure necessary
 - Globalisation
- Security of supply ↔ security of demand
- Need for diversification



General Conclusions

III. Policy implications

- Conditions to successfully meet the future challenges:
 - European gas companies with critical mass to take the risks of long-term engagements
 - Long-term contracts and spot markets
 - Stable regulatory environment supportive of new investments
 - Dialogue with major producing areas
 - Improvement of the functioning of the internal EU Gas market
 - Consistency between “strategic” , “legislative ” and regulatory levels



General Conclusions

The Natural Gas Industry is confident of meeting the challenges of growing gas demand in the enlarged single market provided some key conditions are fulfilled. Positive investment climate and sufficient entrepreneurial flexibility must be ensured, allowing structural adaptation.

The adoption of the new EU Directive concerning common rules for the internal market create a new legal framework, which will be very demanding for economic actors, whilst offering new opportunities in a stable legal environment. This environment should support industry adaptation and competitiveness.

A continued and structured dialogue between Member States, the European Institutions and Industry on these issues should provide a sound basis for achieving our common strategic objective.

