

“INTERGAS III”

Security of supply of natural gas

The Euro-MED dialogue and the role of Egypt

– Cairo 18-20.12.2005 –



by Jean-Marie Devos, Secretary General .



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Geo-strategic factors influencing the natural gas market

☒ On global level

- ☒ Increasing competitiveness of natural gas (compared to other fuels)
- ☒ Growing demand for natural gas
- ☒ Competition between regions
- ☒ Which players ?
- ☒ The role of LNG and GTL

☒ On European level

- ☒ EU enlargement process
- ☒ Increased dependency of the enlarged EU, new challenges
- ☒ Increasing demand of natural gas
- ☒ Liberalisation of EU market
- ☒ Diversity and Security of Supplies

The new equation :

EU and global markets; security of supply and security of demand ?



Some Key Issues

Importance of changes within EU, the major Egyptian gas export market

- ❑ Process of EU enlargement (10 new countries and others);
- ❑ Liberalisation of European gas market : 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,
- ❑ Importance of Europe's Energy Security of Supply;
- ❑ Dialogue and partnership with producing countries (EU-Russia, EU-Mediterranean);
- ❑ Global competition on gas market (USA, Asia);
- ❑ Kyoto Protocol and implications;
- ❑ Sustainable development and competitiveness.



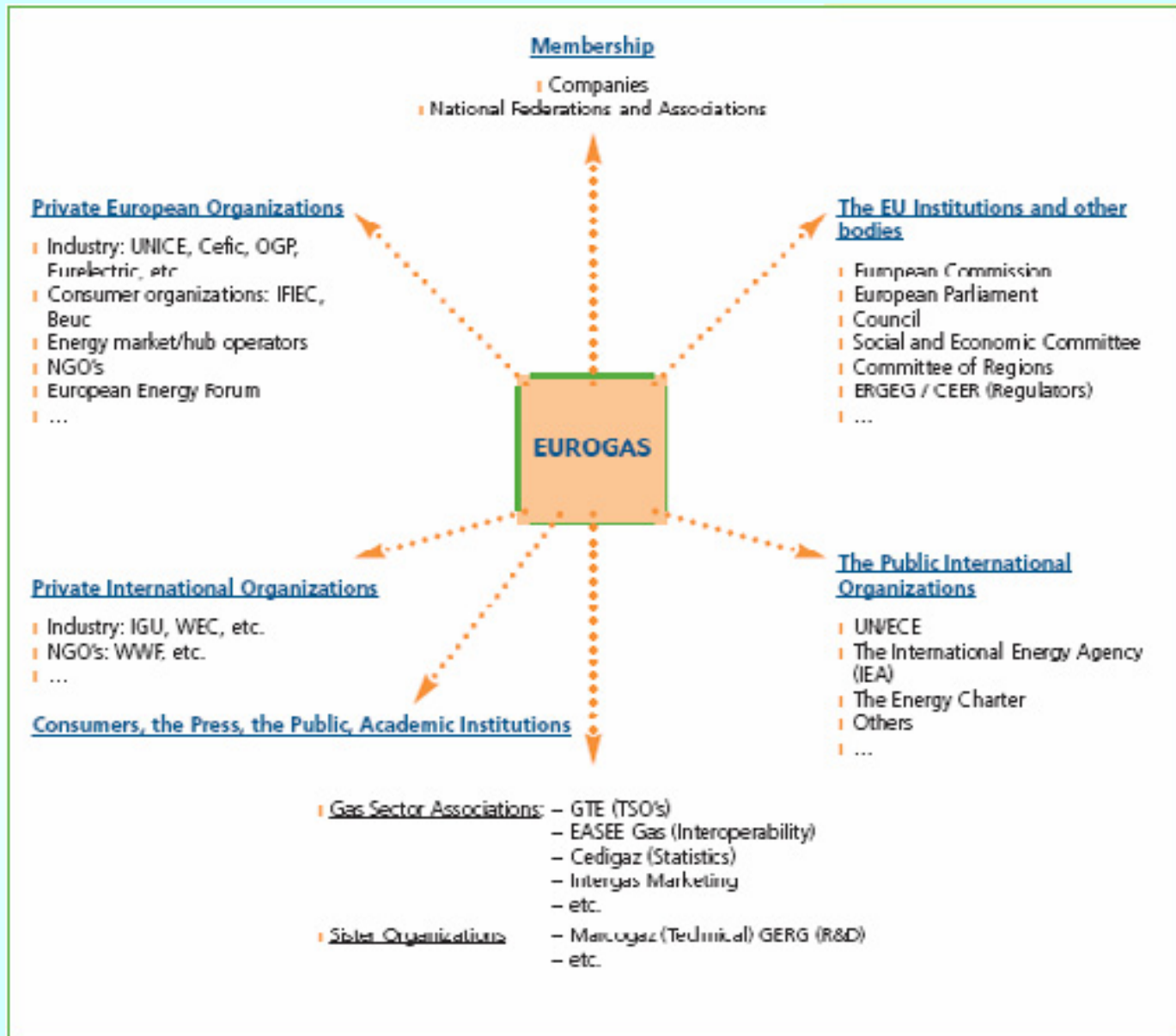
What is EUROGAS ?

- ☒ **European organisation of Natural Gas Industry**
- ☒ **Non profit international association based in Brussels**
- ☒ **Members are Companies, Federations and Associations (including Associate membership of Russian Gas Society)**
- ☒ **A Forum and Ambassador**

- ☒ **Active in :**
 - Structure and regulation of the internal market
 - Security of supply
 - Energy statistics and conomic forecasts
 - Energy taxation
 - Environmental protection
 - Legal matters
 - And dialogue with production contries
 - ...

- ☒ **Internal Organisation**
 - General assembly
 - Board
 - Committees
 - General Secretariat





EUROGAS Membership 2005



Euro-Mediterranean Partnership/ Barcelona Process

❑ Background Information

- ❑ 27-28 November 1995 in Barcelona the Euro-Mediterranean Partnership (Barcelona Process) was established. The Conference set up a framework of political, economic and social relations.
- ❑ On 1st May 2004, the enlargement has brought two Mediterranean Partners (Cyprus and Malta) into the European Union, while adding a total of 10 to the number of Member States. The Euro-Mediterranean Partnership thus comprises 35 members, 25 EU Member States and 10 Mediterranean Partners (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey). Libya has observer status since 1999.
- ❑ 28th November 2005, on the Barcelona Summit the BEI allocated 1,5 Bln Euro for the transport, energy and support of direct EU investments in the region.



Euro-Mediterranean Partnership/ Barcelona Process

☒ Role of energy and fields of interest for Eurogas:

- Eurogas follows the evolution of the Euro-Mediterranean Partnership/Barcelona Process as well as the Commission's initiative of establishing 2005 as Year of the Mediterranean. In April 2005, the Commission launched a 5-year work programme to reinforce Euro-Mediterranean Partnership. Eurogas will attach a particular interest in the follow up of:
 - Euro-Mediterranean Energy Ministerial that should take place in 2006, in view of progressing sub-regional energy integration markets and infrastructures, as well as;
 - Completion of Euro-Mediterranean electricity and gas markets and infrastructure interconnections planned for 2010

Information from the European Commission web site



PART I :

Establishing a Competitive EU Market



Legislative package affecting 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
 - Dialogue with Regulators



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.)**
 - The sector competition enquiry
- ❑ **Lisbon program for better regulation should also apply to energy sector**



BUSINESS PLANNING UNCERTAINTIES

Future challenges for EU

☒ The progress report on the single market 2005 (Art 31-3, gas directive)

“the EU will need to give increasing focus on the **strategic dimension of its energy relations with third countries, particularly suppliers**, and how their deepening can contribute to the functioning of the EU’s energy markets. The recent decisions taken by investors to launch a number of new LNG terminal projects in the EU constitute progress in this respect. Other pipeline and LNG projects need to follow and the dialogue with gas-producing countries must be intensified. **LNG imports** from new producing regions are already becoming a competitive alternative in some cases.” (EC Report, p.14)

Conclusions of interest for Egypt:

Importance of Security of Supply underlined

Dialogue with producers to be continued

Importance of LNG for the EU market

☒ Energy Sector Enquiry 2005

Picture of current state of liberalisation process in the European market

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



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



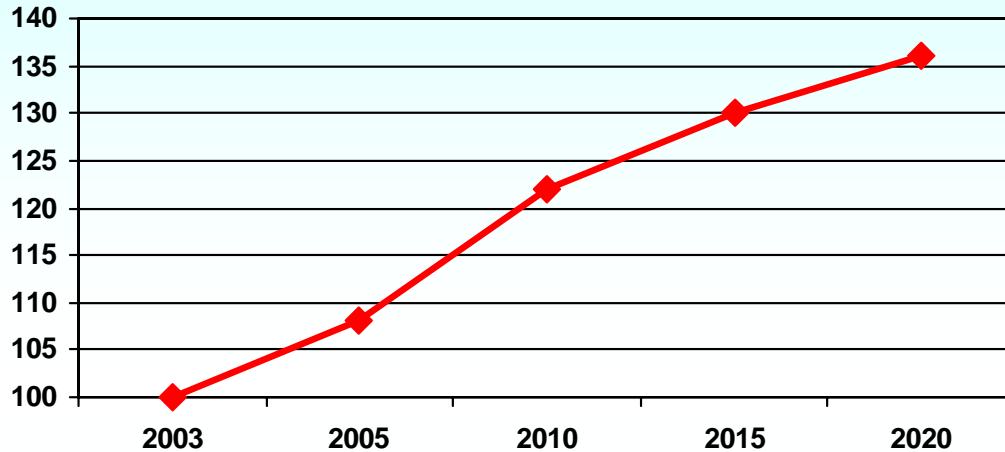
Some key facts about Security of Supply

- ❑ 1. EU key figures
 - ❑ EU Demand projections
 - ❑ Primary Energy Consumption
 - ❑ Natural Gas Sales by Sector
- ❑ 2. Natural gas reserves
 - ❑ World reserves
 - ❑ Proximity to EU market
- ❑ 3. Western Europe's current supplies and future capacities
 - ❑ Western Europe's Supplies
 - ❑ Importance of LNG
 - ❑ Future capacities

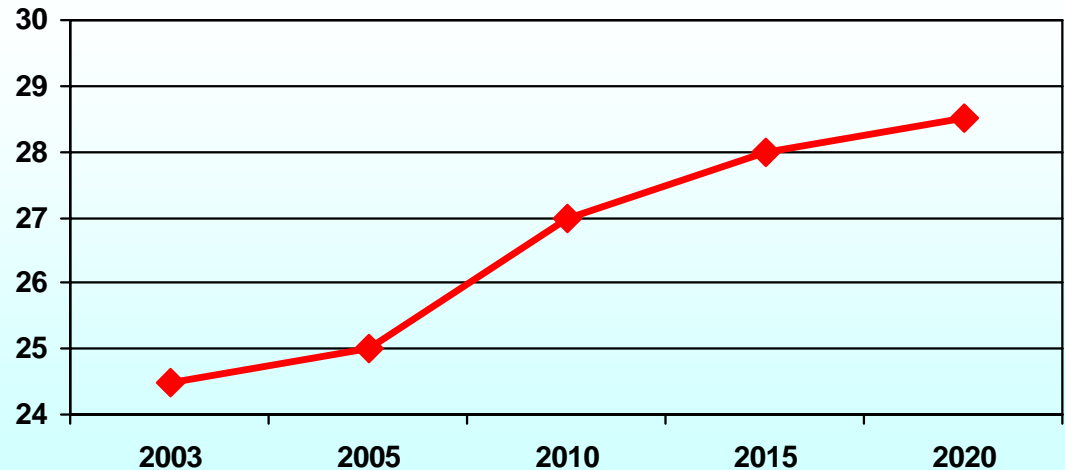


II.1) EU KEY FIGURES: GAS DEMAND TRENDS

% Demand Increase



Market Share of Primary Energy

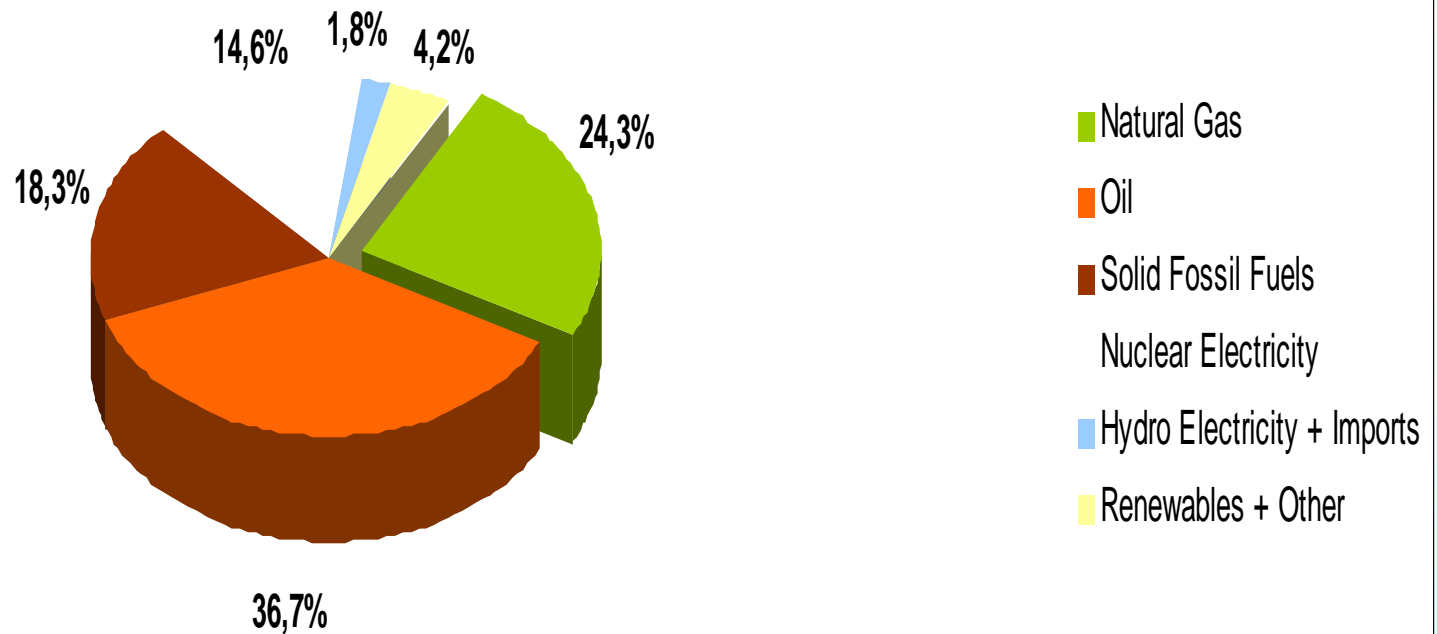


Source: Report from Eurogas members



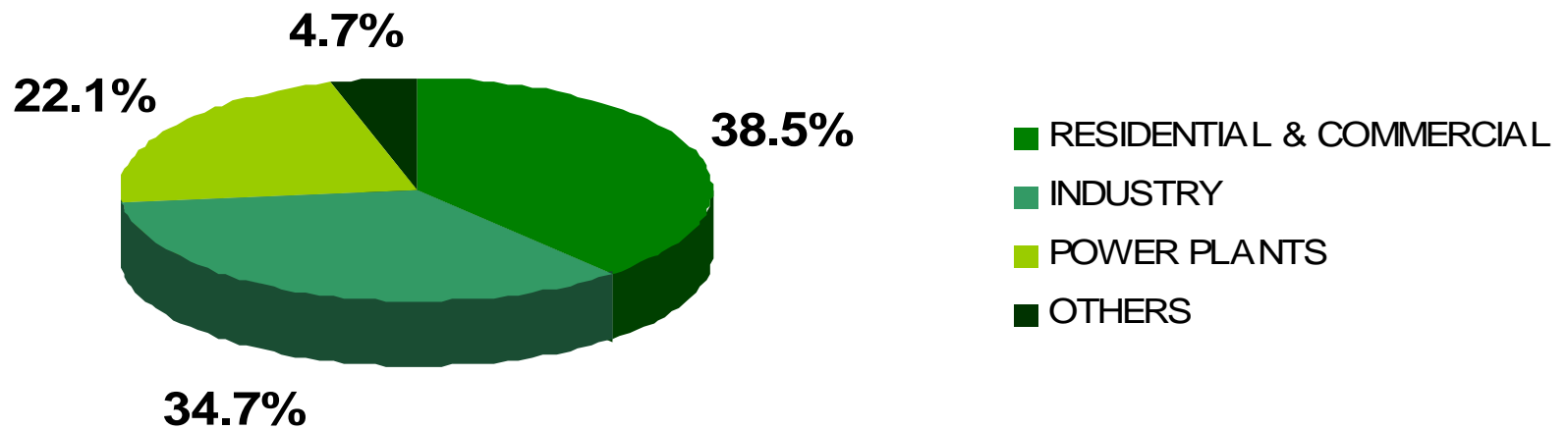
2004 PRIMARY ENERGY CONSUMPTION BY FUEL (EU25)

2004 Primary Energy Consumption by fuel (EU25)

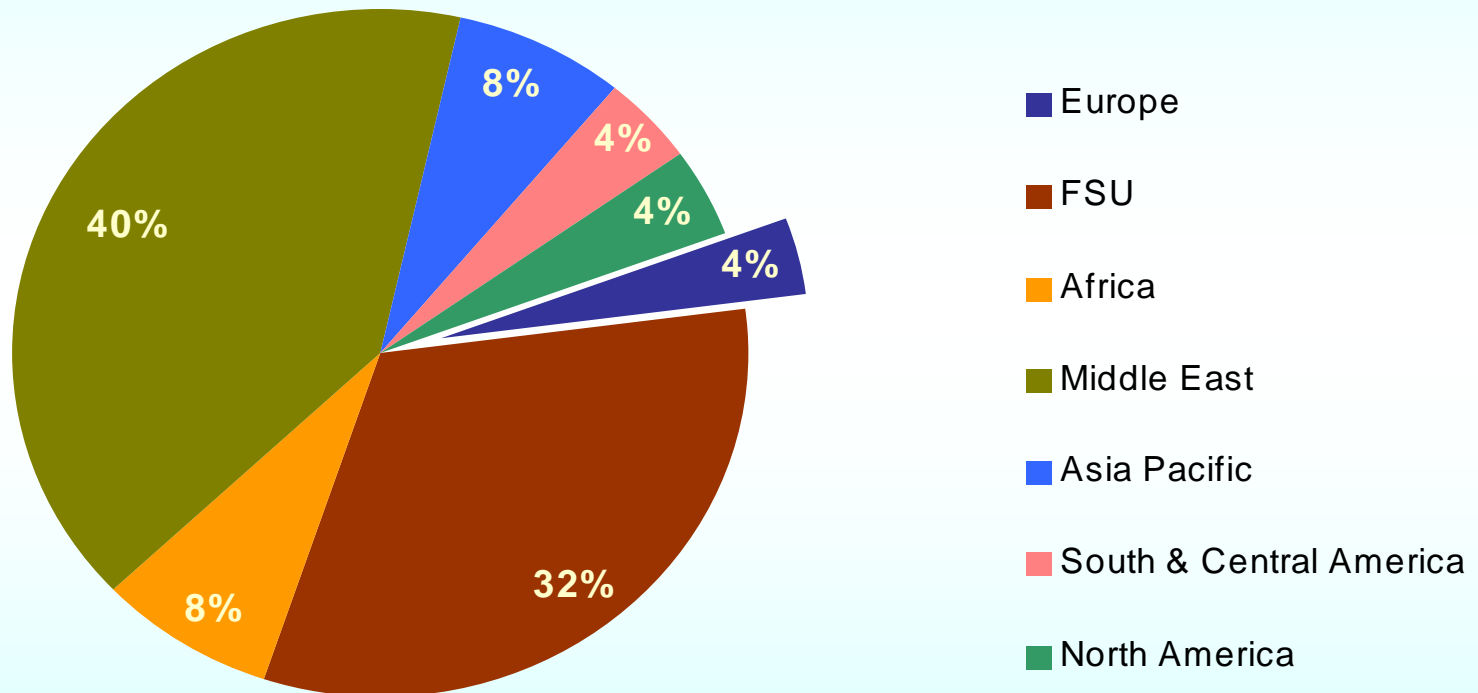


2004 NATURAL GAS SALES BY SECTOR (EU25)

2004 Natural Gas Sales by Sector (EU25)



II.2) NATURAL GAS RESERVES: 2004 WORLD NATURAL GAS RESERVES BY REGION



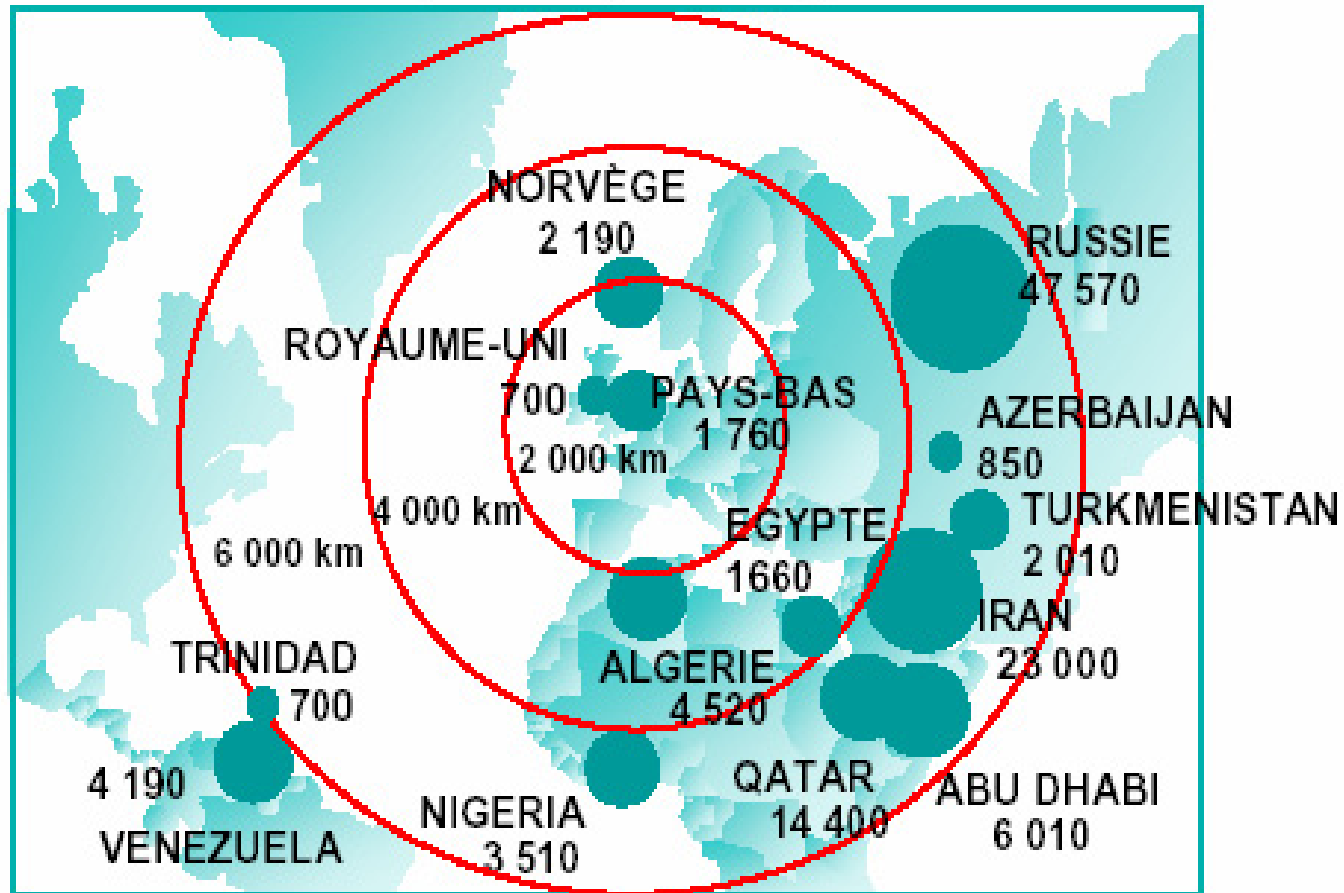
TOTAL PROVEN RESERVES = 180TCM

Source: BP



Reserves exist not too far from Europe

Réserves prouvées (01/01/2003) en Bcm

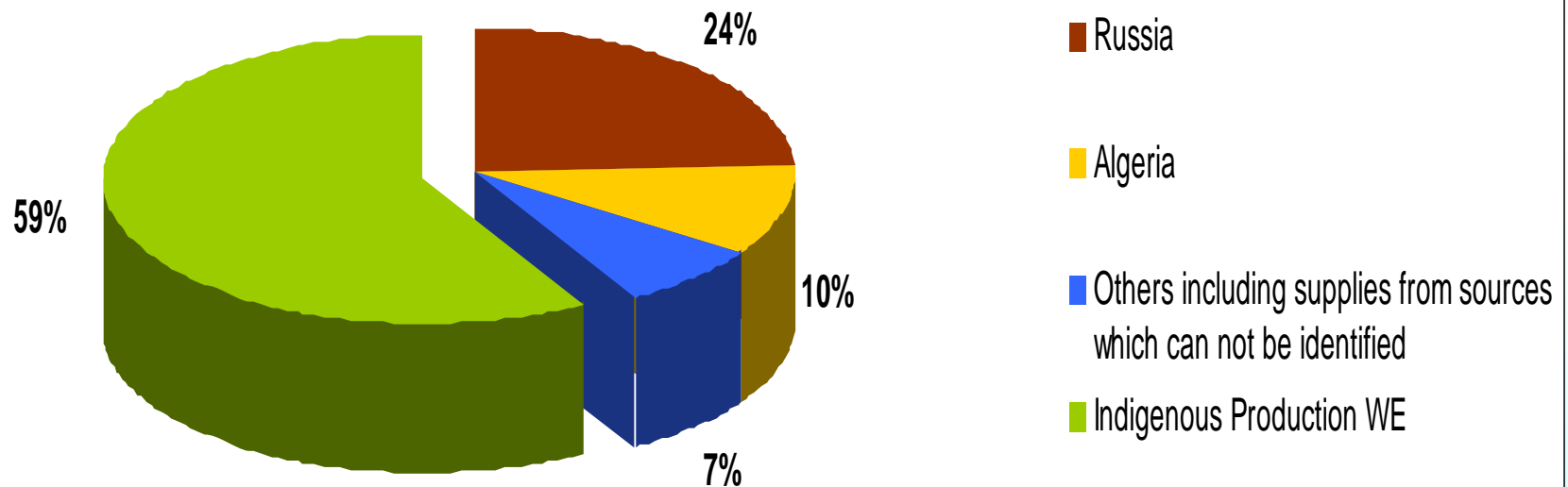


Source : BP Stat. Review 2003



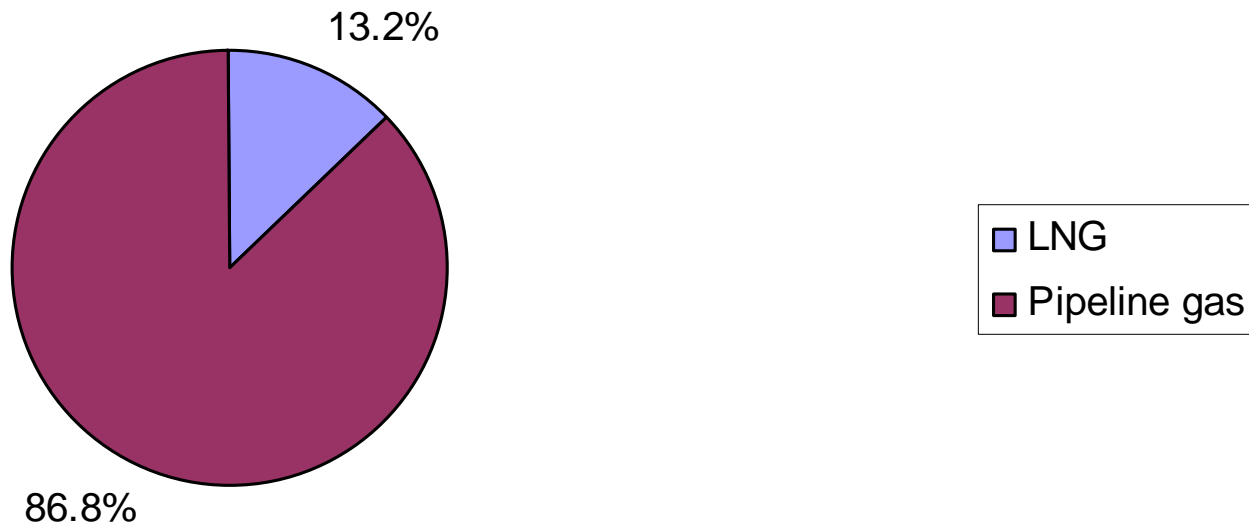
II.3) Breakdown of Western Europe's Natural Gas Net-Supplies

2004 Breakdown of Western Europe's Natural Gas Net-Supplies

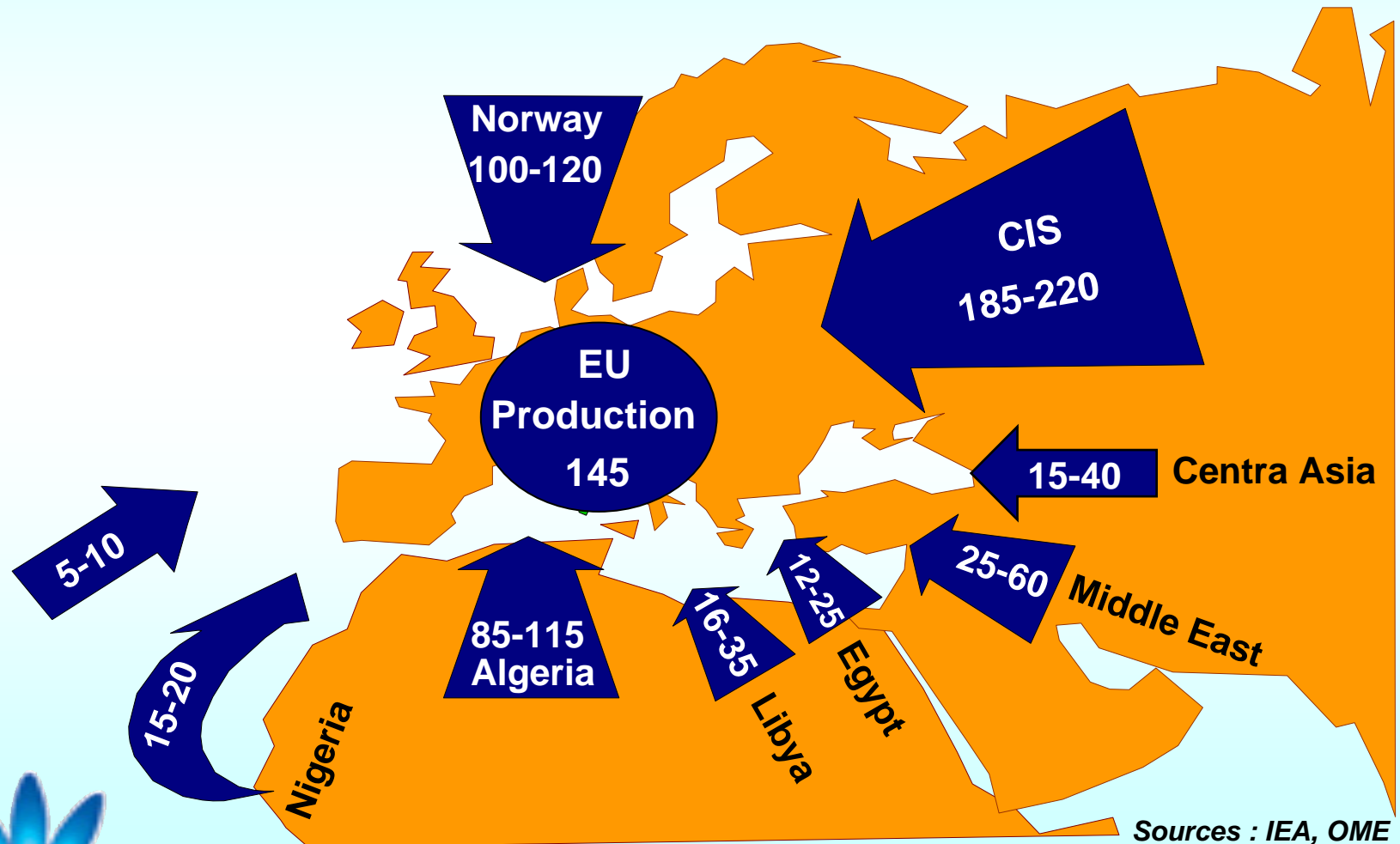


2004 EU25 NET IMPORT BY TRANSPORT

2004 Net-import by transport (EU25)



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



Sources : IEA, OME



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 business 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.



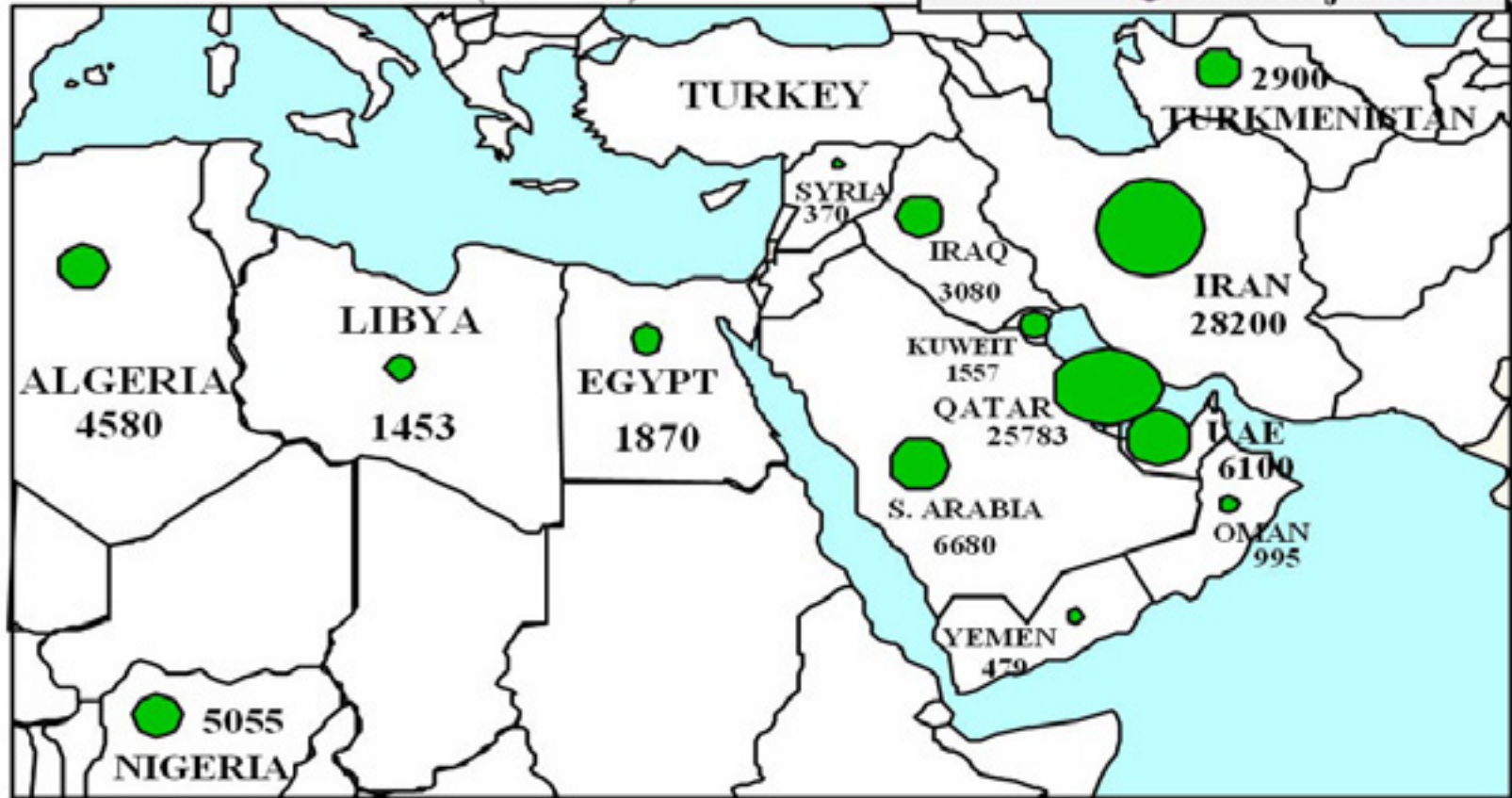
PART III :

The European-Mediterranean Energy dialogue and the role of Egypt



Gas Reserves around the Mediterranean

Proved Reserves in Bcm (1.1.2005)

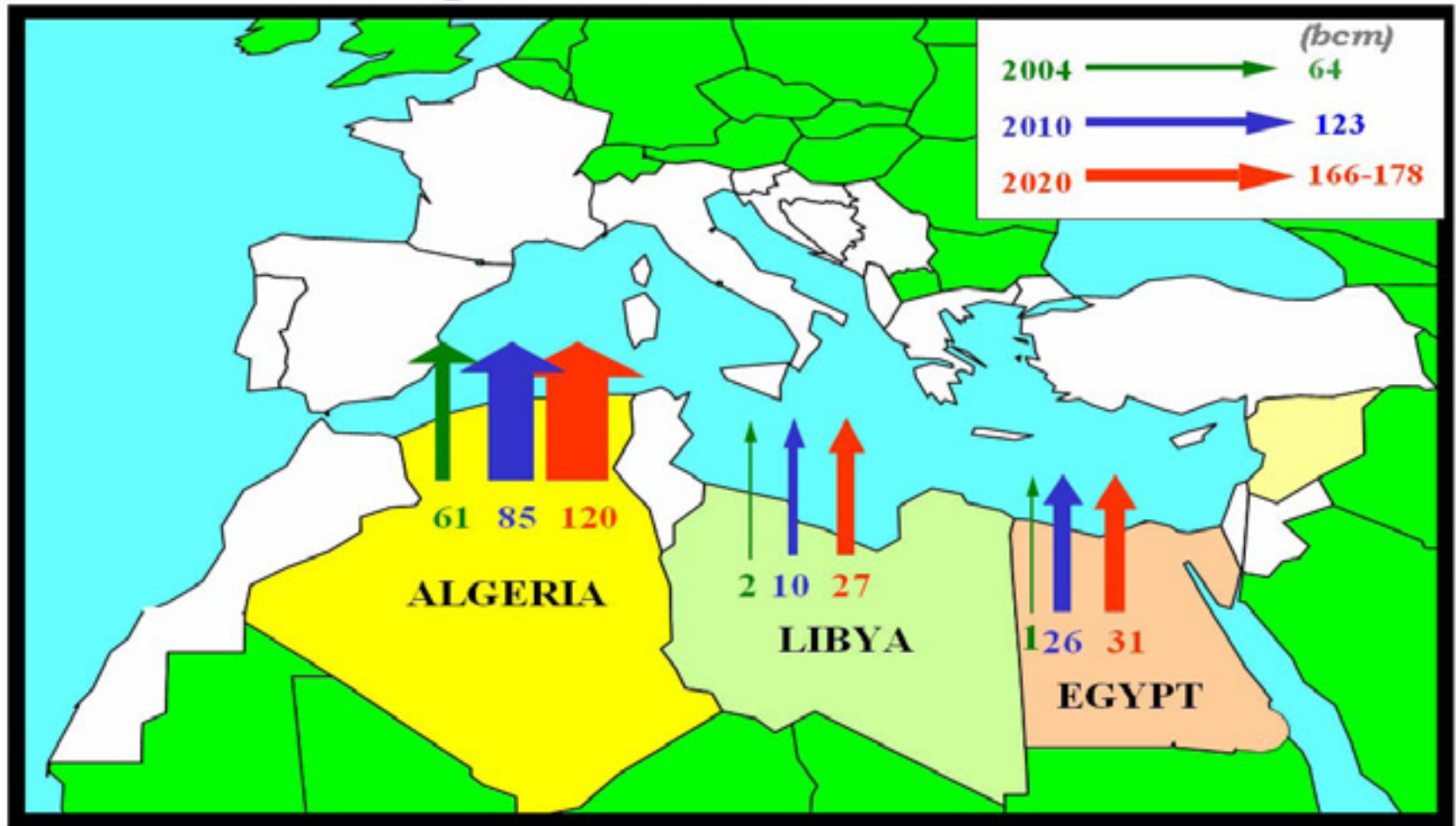


Source : Reserves from Cedigaz July 2005

OME, 2005



Gas Export Potential from SEMCs



Source: OME, October 2005

Need of Gas Infrastructures to convey gas from producing areas to consuming areas ?

From Algeria

Expansion of GME

Expansion of Transmed

Medgaz

Galsi

Expansion of Algerian LNG

(Skikda & Arzew)

LNG Gassi Touil Integrated Project

GTL Tinrhert Integrated Project

From Libya

Expansion of GreenStream

Expansion of Libyan LNG

From Egypt

Expansion of Segas LNG in Egypt

New Egyptian LNG (Idku)

Arab Gas Pipeline (Egypt to East

Mediterranean countries)

From Caspian & Gulf through Turkey

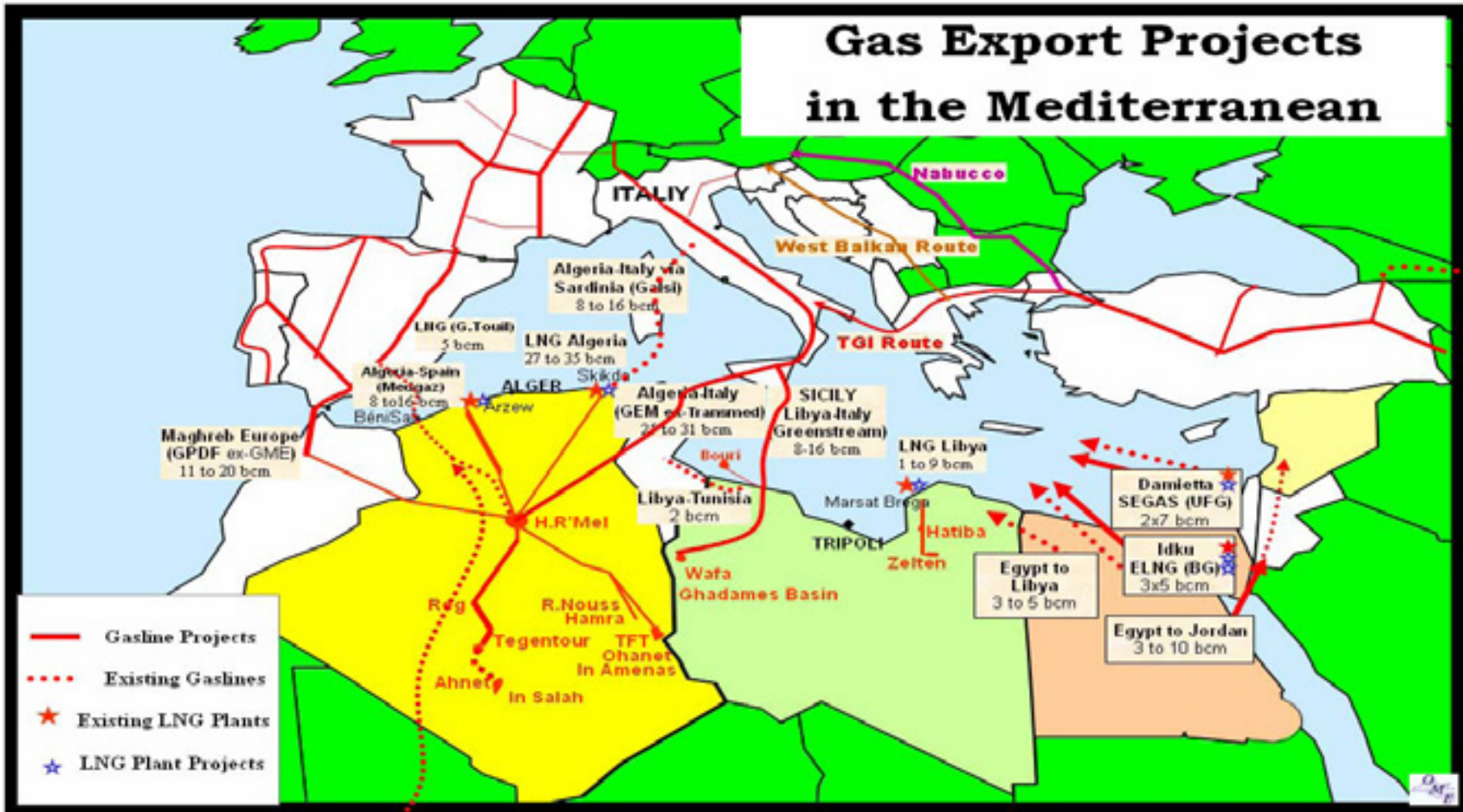
Turkey-Greece-Italy Pipeline

(TGI Route)

East Balkan Route (Nabucco)

West Balkan Route



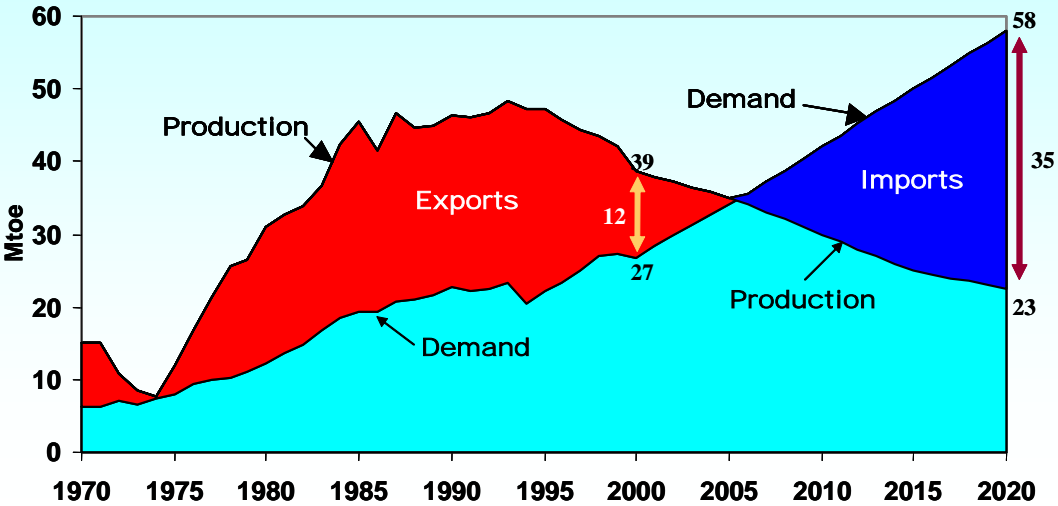


NIGAL
Nigeria-Algeria to Europe

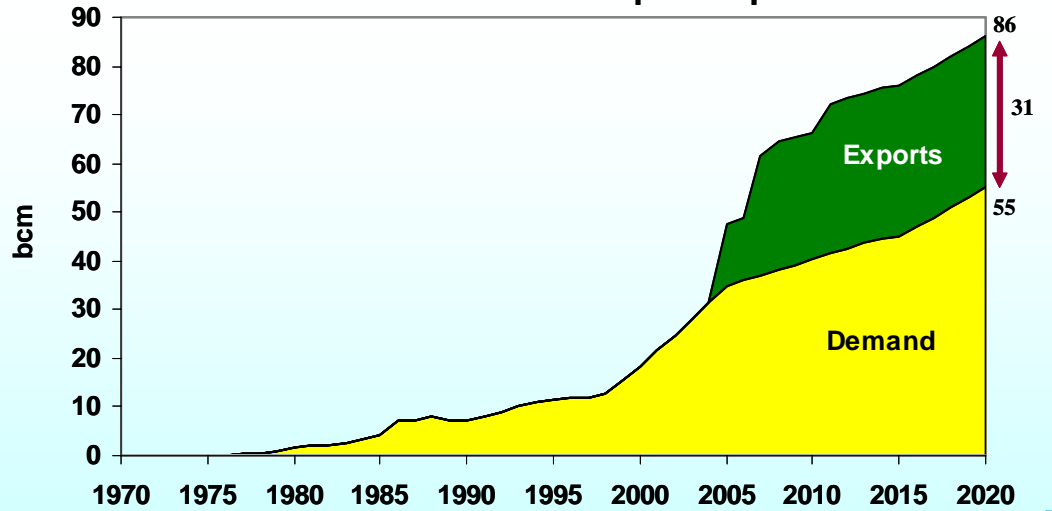
Source: OME, 2005



EGYPT : Evolution of Oil Export Capacities



EGYPT : Evolution of Gas Export Capacities



Economic and policy developments

- ❑ **Mediterranean basin is a “Natural” geo-political area for cooperation**
- ❑ **Interpenetration of economies**
- ❑ **Energy and natural Gas expected to play a growing role**
 - As factor of development of regional economies
 - As a pole for industry cooperation
- ❑ **Imports of Natural Gas from “North Africa / Middle East region will boom**
- ❑ **To be supported by timely investments in infrastructures and joint projects (Production, liquefaction plants, terminals, pipes...)**
- ❑ **Fundamentally, a responsibility of economic operators**



Economic and policy developments

☒ **...But**

☒ **Nothing possible without :**

- Political stability
- Mutual Benefit and understanding
- Clear and stable legal / regulatory environment
- i.e. cooperation between public authorities and economic operators

☒ **Egypt as an expanding actor.**



Economic and policy developments : the case of Egypt

- ❑ Natural Gas is seen as a “Strategic Activity” for the economic development of Egypt
- ❑ Analysed both as growing internal market and a growing exporter
- ❑ Natural Gas Industry is
 - Capital intensive
 - Long time return for investments
- ❑ Consequence : To continuously reinforce confidence political / legal / regulatory system
- ❑ Due to its geo-political situation Egypt play a major role in Europe-Med energy dialogue
- ❑ Cooperation and partnership is absolute must :
 - Between companies to develop projects responding in time to market needs
 - Between public authorities, economic actors and their representatives organisations



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, Production countries and Industry on these issues should provide a sound basis for achieving our common strategic objective. i.e. secure competitive and sustainable natural Gas supplies.

