

**Preliminary Findings of the Energy sector inquiry
16 February 2006
Eurogas contribution to the CEO panel**

Ladies and Gentlemen,

Eurogas welcomes the initiative of the Commission to organise an open consultation process on the preliminary findings of the competition sector enquiry.

Eurogas is the Association representing the interests of the wholesale and retail gas suppliers in Europe. Among our members, we have companies and national gas federations from 21 countries.

As an Association, Eurogas will limit itself to general issues and is not in a position to comment on specific questions concerning companies' behaviour.

Within the limited timeframe of this introduction I am not going into a detailed discussion about the findings of the sector inquiry, but I rather want to situate them in a broader holistic approach.

The real debate must be focused on how to achieve sustainable, competitive and secure energy supplies for European citizens and industry.

The challenges Europe is facing today in terms of its energy policy are (i) a tight supply demand balance for oil, gas and electricity leading to high energy prices, (ii) security of supply and (iii) climate change. An energy policy focussed mainly on the internal market, based upon such past market conditions as low energy prices and excess availability of capacity and commodity, would ignore today's challenges and fail to provide any solutions.

Free competition is one of the pillars of the European Union. However, competition, energy and environmental policies are closely interrelated and their impact is of significant importance to EU industry. Consistency and balance between these policies and related legislative initiatives is required. It is very important that a dialogue is promoted between the EU institutions, industry, relevant stakeholders and representatives of member state governments to come to a common understanding of on the one hand the new energy challenges facing Europe today and on the other hand the policy objectives and instruments which are needed to overcome these challenges. The announced Green Paper on Security of Supply, Sustainability and Competitiveness is certainly a timely and much needed initiative and Eurogas will fully contribute to the consultation process that will follow its publication.

There seems to be a common agreement about a number of facts. Firstly, the EU is facing an increasing import dependency with respect to natural gas. These imports will come from a handful of often state-owned monopolies. Secondly, massive investments are needed to replace declining indigenous production, meet future demand growth and to restore liquidity in the gas market and avoid yet higher energy prices. These investments will need to be made along the value chain, from reservoir to burner tip. Thirdly, Europe has to compete for energy resources with other energy consuming regions in the world, such as the US, China, India, Brazil, etc. Finally, a strategic diversification of primary energy sources is key for the EU to reduce the risk arising from relying on a limited portfolio.

Within this global context Eurogas wishes to reiterate its full support for a competitive European gas market. Eurogas calls for a consistent approach taking into account (i) Europe's security of supply needs, (ii) a strategy to secure diversified gas supplies in a global competition for new resources, (iii) an external relations policy that will encourage properly functioning energy markets in neighbouring and producer countries and (iv) an overall sound and stable framework to encourage needed investments.

In this respect, long-term commodity and capacity contracts will remain the backbone to secure gas supplies. The development of spot markets and hubs is a complement for a well functioning market. Concerning the structure of our industry, further fragmentation of market operators, which are confronted with an oligopolistic structure on the production side, is not a valid long-term option.

We also have to recognize that market opening and integration is a complex process and that this process is still ongoing in most member states.

Eurogas attaches high priority to progress on a number of the issues, in areas that the Report identifies as still functioning imperfectly, and agrees that these are essential to ensure a properly functioning market.

- Non-discriminatory access to networks and other parts of the gas infrastructure.
- Capacity allocation and congestion management are important. The Report is right in identifying these issues as a matter of particular interest to the gas market. Maximizing the use of existing capacity is essential, and it is also necessary that the business and regulatory framework give signals to encourage necessary future investment in the system.
- Transparency is very important too, and is necessary for a sound market to operate. There should be a presumption towards publishing information on infrastructure use although legitimate concerns regarding confidentiality should be allowed to prevent publication of some commercially sensitive data.
- Improved compatibility of approaches and instruments in the different member states should be an overall objective also.

This objective of further market integration underpins the roadmap proposed by ERGEG and Eurogas is fully committed to work together with the other market participants to discuss this approach and to achieve further market integration.

So in conclusion

- Eurogas welcomes the opportunity 2006 will offer to debate gas market issues, and how to achieve a secure, sustainable and competitive gas market in Europe.
- To achieve this triple objective, we still have some way to go: create a framework conducive to new investments and attractive for new supplies in a global competitive environment and work on the further integration of the internal market.
- Eurogas believes a good process is underway, and that market participants themselves should increasingly drive the dynamics of the competitive market.
