

**‘Gas goes global, Seller’s Market or Buyer’s Market?’
European Commissioner for Energy Mr.Piebalgs’ speech
at the Ministerial panel of the World Gas Conference,
Amsterdam, 9 June 2006**

- **Mr Chairman, fellow panel members, ladies and gentlemen, I am pleased to be at this important event today.**
- **The EU is now shaping a new energy policy. The Commission, reacting to a call by its Heads of State for a European Energy Policy, recently published a Green Paper on a Sustainable, Competitive and Secure Energy Policy for Europe. Needless to say, gas has a prominent role in this exercise. Although the scope of the EU’s review of its energy policy is vast, I would like to take this occasion to discuss just some of the key issues.**

Firstly, I would like to consider the compatibility between security of supply and the need for effectively liberalised markets:

- **Some people may argue that we have now to look after security of supply, but not on liberalisation and competition in our energy market. I agree – we have to look after our security of supply. However, this is not in contradiction with liberalisation and competition. On the contrary: I am convinced that free and competitive markets will be the best way to ensure our security of supply.**
- **A properly regulated free market is really attractive to energy suppliers; to suppliers which want to exploit the opportunities coming from a liberalised market, by swiftly reacting to market signals. Moreover, flexibility in a liberalised market allows solving security of supply problems through efficient market mechanisms.**
- **With respect to the creation of the Internal Gas Market, therefore, we are all aware that the task that the EU has set itself of creating an integrated, truly competitive European-wide market is far from completed and there remain many differences in the real extent to which national markets are open to competition.**

We need a level-playing field and we need a system where ex-incumbents have to compete fairly and fiercely on their home markets. This is not always the case today. I fear that if we do not take decisive action to guarantee fair competition in every part of the EU, competition policy will have to remain the defining characteristic of developments in this area in the coming years, leading to a loss of faith in this process by EU business and citizens. In short, we need more effective regulation, a faster and more aggressive and ambitious approach towards the creation of regional markets as a stepping-stone towards a truly European one, and we need to exclude that companies can use

their ownership of the grid to prevent fair competition developing at home. This is not to say that considerable progress has not been made, it has. And one cannot simply take developments in electricity liberalisation and apply them blindly to gas. The two markets are different. However, we need large, strong energy and particularly gas companies in the EU, but paradoxically the lack of competitive market structures will make this difficult to develop. Concrete conclusions on measures to address these challenges will therefore need to be drawn at the end of this year and I intend to do so.

Secondly, I would like to consider the need to encourage Investment in gas markets:

- **First of all, within the EU, we need regulatory stability to attract investment. The need for stability does not contradict the need to reach a final and definitive view on any additional regulatory measures that are needed to complete the Internal Gas Market. On the contrary, failure to do so will only maintain uncertainty.**
- **We have to make it easier for investment to take place. At the moment, establishing new investment is a long process which often involves too much red tape. The Commission has tried to improve the situation through its influence under the TEN-Energy programme, but at the end of this year we need to look further on how to streamline planning procedures. This is difficult to balance with the requirements of the subsidiarity principle, but we cannot ignore this issue.**
- **On a related issue, under the Internal Gas and Electricity Directives, national Regulators - subject to the Commission's agreement - can exempt major new investments from the requirements of Regulated Third Party Access, provided they enhance security of supply and are not detrimental to competition.**
- **Several LNG terminal projects in the UK and Italy have been granted exemptions from third party access for a certain period. The same applies to the gas interconnector between the UK and Netherlands and for an electricity cable between Finland and Estonia.**
- **Regarding exemptions from third party access let me be clear. I consider that a derogation from the requirements of TPA should be the norm not the exception for new LNG terminals. An exception might be when an incumbent with a very high market share of a national market wishes to build a new terminal on its home market and there are limited possibilities for actual or potential competitors to do likewise. In such cases a "hybrid" solution may be necessary, balancing the need to permit competition to flourish and the need to stimulate investment. But where a new terminal can be seen as bringing additional competition to a market, I see no reasons in principle to stand against a derogation.**

Thirdly I would like to consider international aspects of energy, and particularly gas supply:

- **The importance of realising strategic investments is stressed in the Commission's Green Paper on a European Energy Policy. Strategic investments are identified, as is the goal to create gas-supply diversification. This is envisaged through pipelines from the Caspian region, North Africa and the Middle East into the heart of the EU, as well as by realising new LNG terminals. I intend to make further progress on this by the end of this year.**
- **However, it is important to stress that no matter how successful we are at such efforts to diversify our import dependency, we will almost certainly need to import more gas from Russia than we do today, and the same applies to Algeria and Norway.**

The EU needs therefore to improve our relations with both Russia and Algeria, and to improve our dialogue with other gas producers.

This begs the question: what type of relationship is the EU looking for with our major suppliers?

It would be a considerable mistake if we permitted distrust and misunderstanding to lead to underinvestment upstream, so that in a few years gas supply becomes tight and today's gas prices in the EU end up looking cheap. The EU therefore needs to actively engage Russia to develop a true energy partnership based on mutual self-interest; the EU with transparent and predictable markets open to Russian supplies and Russia ensuring that the investment is made to meet demand on a fair and transparent basis. In addition, we need to look for continued progress on the investment and access regime in Russia. I believe that these objectives can be progressively achieved, and the recent letter sent by Minister Bartenstein of the Austrian Presidency and myself, and its reply from Minister Khristenko is an important step forwards. The next important opportunity to make progress with Russia is the High level Conference on Market and Policy Developments, scheduled to take place in October.

With respect to Algeria, at present we have no formal Energy Dialogue. This is rather surprising considering that they provide approximately 25% of the EU's imports of gas today. I have recently met their energy Minister; they are open to a closer energy relationship with the Community and I believe that the EU should move forward on this.

- **Another important international agreement that was recently established is the Southeast European Energy Community. Here countries have agreed to implement the *acquis communautaire* in the field of electricity and gas. One of its goals is to enhance investment in energy infrastructure in this region.**

- **The Energy Community is again a great step forward in co-operation to the creation of mutual trust. The founders of the European Union would not have wanted it otherwise, although coal and steel have been now replaced by gas and electricity. In this Community, a one-stop shop for big infrastructure investments has been created. The creation of the Energy Community forms part of the larger goal to strengthen our relationships with our neighbours in the field of energy.**

Finally, I would like to indicate where I see the next steps in the development of a European Energy Policy.

At the end of this year the Commission will adopt the first EU Strategic Energy Review. This document, which I intend to be updated on a regular basis, is envisaged to be the “key” energy document outlining the objectives of a European Energy Policy, identifying the challenges facing us and proposing solutions. It is scheduled for adoption on December 13th, at the same time as the final conclusions on the Sectoral Energy Competition Review. Together with the Review, I intend to identify conclusions on possible future concrete proposals, notably in the following areas:

- **Action at the EU level to meet our long term climate change objectives. This means a “Renewable Energy Road Map” with possibly, revised longer term targets for renewable energy.**
- **Action on security of supply, both in terms of electricity and gas. In particular, we need to ensure that the EU has the gas and oil stocks and mechanisms in place to react appropriately to future energy shocks on global markets**
- **A Strategic Infrastructure Communication, a “Priority Interconnection Plan”, identifying key infrastructure projects for the EU and concrete measures that will help make them a reality.**
- **Measures to contribute to transparency on world oil markets, and finally,**
- **As I already mentioned, possible additional measures to ensure the completion of the Internal Gas and Electricity Market.**

This is far from a complete list, but does give an idea of the scope of importance of the Strategic Review. Whilst conclusions need to be drawn in the Strategic Review on the nature of new measures necessary to meet the identified challenges, it is not however my intention to table the actual text of legislation at the end of the year. This will follow during the course of 2007. However, by the end of this year we should decide on the course that we intend to follow to establish a European Energy Policy. This will also give a pause for reflection.

A European Energy Policy needs to be inclusive in its nature. It needs to involve citizens, business and Member States in its preparation and development. The public and political consultation on the Green Paper is therefore very important. I shall be holding a major Public Hearing on the Green Paper on September 22nd. In addition,

the continuing meetings of the High Level Group on Competitiveness, Energy and Environment, as well as the Florence, Madrid, Amsterdam and Berlin Forums will discuss the follow-up to the Green Paper. All of these will provide important input into this process. The consultation process will finish on September 24th. I look forward to your comments and your active involvement during this consultation process