

**The 2013 Autumn Conference of SGOA**

**October 3<sup>rd</sup> 2013**

**Stary Smokovec**

**Jérôme Ferrier**

**President IGU**

*Allocated time: 15 minutes*

Mr Pavol Janocko, *President of Slovak Gas and Oil Association,*

Mr Jan Klepac, *Executive Director of Slovak Gas and Oil Association*

Mr \_\_\_\_\_, *Chairman of the Czech Gas Association*

Mr \_\_\_\_\_, *President of the Polish Chamber of Natural Gas Industry*

Distinguished Panellists and Delegates,  
Ladies and Gentlemen

It is a great honour and privilege for me to have been invited to the *2013 Autumn Conference of the Slovak Gas and Oil Association*. Firstly, I wish to thank Mr Klepac for his determination and patience, since he was already expecting my visit to Slovakia by last June, on the occasion of the *6<sup>th</sup> Central European Gas Congress in Bratislava*, but I was unfortunately prevented from attending the event, at the last minute, by an unforeseen air traffic control problem in Paris.

Mr Klepac was kind enough to give me a second chance to meet with the members of SGOA and to present the views of the *International Gas Union* on this occasion. Actually, this gives me the unique opportunity to visit the beautiful mountains of High Tatra and the resort of Stary Smokovec. I gather that the demand for the Smokovec mineral water has its roots centuries ago and that it was connected with belief in old-Slavic Gods of natural resources. You should rest assured that I will bring back a bottle of this precious water in Paris to drink it with my family...

IGU is a worldwide non-profit organization with 82 members representing 95 % of the global gas market. I wish to thank the *Slovak Gas and Oil Association* for playing a very active role in IGU's regional activities, along side the Czech, Hungarian and Polish gas association

The *Autumn Conference of SGOA* is an important event for our industry. It constitutes an outstanding opportunity for debating the geostrategic and economic role of Central Europe, as a region bridging Europe with four main existing and future supply natural gas sources; I mean Russia and the North Sea today, and tomorrow the Caspian region, and the new East Mediterranean gas province.

The 2013 session of the Conference is particularly meaningful since it is the jubilee event celebrating the 20<sup>th</sup> anniversary of the establishment of SGOA after the separation of former Czechoslovakia into two independent States. The presence of the Chairman of the *Czech Gas Association*, as well as that of the President of the *Polish Chamber of Natural Gas Industry* is a clear evidence of the harmony now prevailing in the region on energy matters.

The debates and resolutions of the *6<sup>th</sup> Central European Gas Congress* have shown that, for a highly capitalistic industry like ours, having a long term visibility on the EU energy policy and a stable regulatory framework is absolutely vital for sustaining investments in new infrastructures that should guarantee the expected level of security of supply.

However, a feedback from IGU's members on the prevailing EU energy policy for the present decade has evidenced a serious inconsistency between the demand and supply sides of such policy:

- On the demand side, the gas market conditions have changed abruptly since 2008, the consumption remaining stagnant, when adjusted seasonally, and the IEA is predicting that, in 2020, the EU's total gas demand will be only 540 Bcm, which is only 4 Bcm higher than in 2010. Altogether, gas is far from having the share it deserves in the energy mix, on the ground of its well-established quintuple A rating (*Availability*, with more than 250 years of reserves, including the new unconventional resources, environmental *Acceptability* as the lowest GHG contributor among all fossil fuels, *Affordability*, *Accessibility* and *Adaptability*).
- On the supply side, the EU is requesting an unprecedented investment effort in new infrastructures, amounting to 70 to 90 B €, both for ensuring the external security of supply through a higher degree of geographical diversification of sources, as well as for completing the energy market integration, in accordance with the "*Third Energy Package*" of 2010, through the development of new interconnections and the upgrading of the main intra-European gas pipelines for reverse flow.

Therefore, restoring the consistency of these goals, which form like the two sides of the same coin, in the new *Green Book 2030*, is a major challenge, failing which the competitiveness of natural gas would be hampered by the weight of the stranded costs of new infrastructures. Such costs should indeed, at the end of the day, have to be charged to the users of gas networks through the regulated access tariffs.

Furthermore, financing new infrastructure projects, like the South Corridor or new LNG terminals would be extremely difficult if they are not substantiated by some significant increase in EU's countries gas demand.

IGU is advocating a more realistic EU energy policy that might reconcile climate risk mitigation and competitiveness, by unlocking the contribution of natural gas to the energy mix, along the following main lines:

- The competitiveness of the EU manufacturing industry should be a priority, which may imply setting more realistic targets for the share of renewables in the energy mix, so as to reduce the average cost of electricity production;
- The path to follow for reducing GHG emissions to a level of, say, minus 30 % in 2030 when compared to 1999, should prioritize the lowest costs options over that of reaching an absolute figure for the share of renewables in the energy mix. This would entail to privilege natural gas as a back up for renewables, while reducing the massive amount of subsidies granted to renewables by governments, which are eventually transferred to electricity consumers;
- The post 2020 ETS system should be reassessed with a view to avoiding the extreme volatility observed over the recent years and to give clearer and more stable incentives for natural gas potential users.

In this outlook, the countries of Central Europe have a major role to play, both for enhancing EU's security of supply and for achieving the completion of a pan European gas market in the medium term:

**1. Firstly, a contribution to a safe geostrategic diversification of gas resources:**

With the on-going development of TAP, resources of the Caspian region will converge to Central Europe and create a physical hub from which they will be dispatched towards the neighbouring countries, Poland, Germany, Hungary, the Czech Republic, Italy and France. The flexibility offered by the existing transit lines through Slovakia and the important storage capacities that might be dedicated to mitigating the supply risks constitute additional factors in favour of such diversification.

*Slide 1*

The aggregated underground storage capacity of Austria, The Czech republic, Slovakia and Hungary exceeds 13 Bcm.

*Slide 2*

Moreover, these countries have a storage/demand ratio far exceeding the 25% average figure prevailing in the EU, with almost 50 % for Austria and Slovakia, 36 % for the Czech Republic and 28 % for Hungary. The storage capacities in these countries therefore bring a significant contribution to the overall security of supply of the EU's gas system.

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For the long term, *Gas Storage Europe* expects the development of additional EU storage capacities, from the now prevailing 82 Bcm to a minimum of 130 Bcm in 2025, and it is obvious that they have to be located, in priority, in Central Europe for enhancing the supply security in the heart of EU's gas system.

**2. Secondly, a wider opening of the energy market in Central Europe and its connection to the Western Europe trading system:**

The on-going development of the *Central European Gas Hub (CEGH)* will be much fostered by the resources expected from new pipeline infrastructures such as *Southstream*, *TAP*, which will trigger more competition among suppliers in the region. The CEGH will be connected to other physical or virtual hubs and to their market places, in Germany (NCG, Gaspool, and EEX), in Austria (Baumgarten), in Italy (PSV) and in France (PEG).

*Slide 4*

The *CEGH*, which offers easy access for gas trading in Baumgarten and other points where the Austrian grid interconnects with other gas networks, is one of continental Europe 's leading gas hubs. *CEGH* has become the operator of the *Virtual Trading Point* for Austria and has seen the number of members rise to 147, with trading volume over 50 Bcm in 2012.

*Slide 5*

In September 2012, *Eustream*, the Slovak gas transmission operator has acquired a 15 % stake in *CEGH*, alongside *OMV Gas & Power* and the *Vienna Stock Exchange*. As mentioned by Gunnar Löwensen, Member of the Board of Directors of *Eustream* on this occasion, I quote, " *A participation in the leading gas trading complements our traditional position of the major gas highway for the EU. It is a logical extension of our business as one of the most important system operator in this region*".

In 2006, Slovak natural gas industry celebrated its 150<sup>th</sup> anniversary. That very year, Slovakia has entered into the new EU gas era by unbundling the former vertically integrated activities of SPP and has established, for transmission and distribution, two daughter companies, respectively *Eustream* and *SPP Distribution*.

With a capacity that exceeds 90 Bcm, *Eustream's* system forms part of a major backbone of the newly interconnected core European network. The physical

reversal of flow is possible at the interconnection points of both the Czech and Austrian borders. A project to construct an interconnection with Hungary is underway and will be part of a wider North-South corridor aiming to connect LNG terminals of Poland and Croatia.

I have no doubt that the on-going integration of the EU gas markets will be beneficial to the Slovak gas industry and that it will be achieved in the coming five to six years, which is just one day in its long and successful history

Once again, I would like to thank SGOA for having invited me to this conference and I look forward to seeing all of you at the next *World Gas Conference* in June 2015, in Paris.

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