

POSITION ON SECURITY OF GAS SUPPLY IN THE EU

Access to a reliable and diversified energy supply under globally competitive conditions is critical for European industry. The uncertainties over the crisis in Ukraine show once again the limits set by Europe's energy dependence to our energy security. As the overall EU dependency rate for natural gas increased from 47.1% in 2001 to 65.8% in 2012, one can hardly argue that the situation is improving.

In respect of import dependence (inclusive of transit dependence), the issue of improving reliability of supply to final customers is raised. Needless to say that disruptions of energy supply would have a serious negative impact on industrial activity in Europe.

EU internal energy policy is designed to leave gas supply to the market: the price mechanism should lead to balance supply and demand. However, where security of natural gas supply is concerned, most levers remain in the hands of Member States to secure supply: developing strategic infrastructure is one building block of the solution.

IFIEC Europe strongly supports the Commission's efforts to improve European energy security. The right package of policies can increase EU's energy security and prevent future energy crises. Industrial consumers are central stakeholders in these discussions and can also be seen as part of the solution. Energy intensive industries are willing to contribute to energy system stability, provided the right policies and incentives are developed.

In particular we call for the following aspects to be addressed in the coming discussions:

a) Improved market functionality

Despite significant progress to create an internal market for energy, many challenges remain and there is still a great deal of work to be done. This is particularly true in the gas sector where regional markets remain poorly integrated, national regulations are not harmonized and prices are not set according to supply and demand.

Consequently, a number of markets are characterized by concentration, relying on one or a few external suppliers.

IFIEC Europe is convinced that full implementation of the third energy package, with well-functioning wholesale markets, will provide the most cost-efficient security of supply in the long-term. The improvement of spot markets for natural gas can also help enhance competition, as well as reduce dependence on pipelines controlled by dominant suppliers and inefficient – oil-linked - price settings.

Moreover, fully integrated European natural gas networks are the best safeguards for delivering aligned price signals, necessary flexibility, and proper solutions to the market needs from any supply direction and/or source in any market situation. Loopholes in existing legislation along with anti-competitive market behaviour should be identified and properly addressed.

b) Emergency measures

Without adequate energy supply, our society cannot function. The industrial sector is particularly vulnerable to energy disruptions and uncertainties. In accordance with emergency measure 994/2010, extraordinary supply situations can lead to forced closures of industrial plants. Any forced interventions should only be in place for as long as absolutely necessary and as a measure of last resort. Before any forced interventions are considered, market based measures, like demand side response, should be prioritised.

c) Demand response management (DRM)

Greater engagement of demand-side response, meaning that large consumers reduce demand in response to scarcity signals at times of system stress, can be an efficient tool in enhancing energy security - at least in the short term. In this way industrial consumers can, on a voluntary basis, temporarily reduce their consumption in case of urgent need, and get a fair compensation in return. Further stimulation of potential demand responses from the industrial users should be a priority in the coming discussions at European level. In this field, EU policy must have a focus on how large consumers or other market participants can contribute in emergency measures and also encourage member states to establish voluntary agreements with industries that could play a vital role in emergency situations.

d) Infrastructure investments

Moreover, the infrastructure that is required for gas as well as for electricity should be developed and should be used in an optimal way to improve the market functioning and security of supply. Existing bottlenecks in the infrastructure preventing gas to flow freely between gas hubs should be removed. This is a particular issue for the Central Europe EU Members, where interconnectors together with common legislation are crucial to ensure the proper functioning of gas hubs and to enable them to become a central part of a fully integrated internal energy market.

IFIEC believes that investments in gas infrastructure should mainly be triggered by market signals and that new infrastructure investments must ensure that they do deliver the right benefits in relation to the costs. To ensure that the right amount of cost effective infrastructure is built to deliver Europe's energy infrastructure, decisions need to be evidence-based, i.e. following a cost-benefit analysis and co-ordinated at a supranational level. Financing projects through mechanisms such as the 'Connecting Europe Facility' (CEF) for realisation of 'Projects of Common Interest' (PCI) are the right way to go forward.

e) Indigenous sources

Early studies suggest that Europe has significant resources of shale and other unconventional gas spread throughout the continent. In fact, according to the American Energy Information Agency, Europe has almost as much technically recoverable shale gas as the United States, at around 639 trillion cubic feet –three times more than the continent’s conventional gas reserves. However, exploration and development of shale gas remain at a very early stage, due to political and regulatory uncertainty at member state level. Whilst the challenges faced in extracting shale gas in Europe are different than those in the US, it nevertheless has the potential to form a medium term ‘strategic bridge’ to a longer term greener energy solution – whilst at the same time allowing Europe access to a competitively priced energy source, which will help in retaining industry and jobs.

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IFIEC Europe represents energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.