



European Federation of Energy Traders Gas Committee

Views on the EU Commission proposal of 11/09/02 for a Directive of the European Parliament and the Council concerning measures to safeguard security of natural gas supply.

General considerations on security of energy supply

Security of supply is achieved most efficiently within a competitive market framework. Emergency provisions are a prudent requirement and should be notified to the EU Commission by each Member State, but should only be implemented in the event of extreme and prolonged physical disruption.

A successful competitive gas market cannot exist without liquid and transparent wholesale gas trading. Real competition would enable security of supply within the European market to be enhanced, not only through improved price signals, but also by improved contractual and physical interconnections and investment in import infrastructure. Market liberalisation will deliver security of supply at a lower cost and will provide the possibility of price signals that do not exist with monopolies or a centrally planned system.

Trading hubs alone do not deliver supply security. The trading hub allows physical assets and gas supplies to be used more efficiently, but third party access to these assets and supplies is essential for a substantive competitive gas market.

The greatest danger to the future security of Europe's gas supplies is the continuing uncertainty and delay in implementing a single energy market.

Views on the proposed directive (11/09/02)

EFET notes that the Commission's proposals strive to acknowledge the importance of the internal market and the recognition that in the event of an ongoing emergency situation resulting from an extraordinary gas supply disruption some element of central control will be necessary. EFET is concerned that the balance might not be ideal. The Directive must make it clear that it would only be on those (extremely rare) occasions, when severe and ongoing disruptions occur, that some intervention by a central body would be warranted. Even the possibility of intervention at any other time could have severely detrimental effects of unnecessarily distorting the competitive market.

Other points that the EFET Gas Committee notes are:

- Transparent and non-discriminatory policies for security of supply are essential, as are the applications of these policies. Wholesale market participants must be made aware of the circumstances under which a Government or TSO might take action that affects the flow of gas between Member States, or involve the temporary suspension of normal trading conditions.
- The risks of disruption to gas supplies are arguably greater on particular supply routes, rather than the extreme situation of a political decision being taken by one of the countries exporting to the EU to stop all its gas exports. The Directive should clarify which type of situation is envisaged, or define in other terms what an extraordinary gas supply situation is.

- We welcome the statements that security of supply policies must be compatible with the internal market and not impose undue constraints on new entrants. For those countries that have not yet established liquid traded gas markets, the only practical way to ensure the development of competition whilst maintaining security of supply may well be to place security of supply obligations only on the incumbent companies. Exemptions for small companies and new entrants should however have a limited duration to avoid market distortions in the longer term.
- Non-discriminatory third party access to storage is essential if suppliers are to satisfy security of supply standards. Our strong preference is that this should be clearly set out in the Gas Market directive COM (2002) 304 final. Without this EU security of gas supply will be put in jeopardy.
- The development of transparent and liquid wholesale trading hubs will allow gas prices to respond to supply and demand. This will provide meaningful price signals and allow contracts to be based on a market gas price. Contracting future supplies is an issue for market participants, although clearly Governments and the Commission have a role to facilitate international trade.
- A periodic review of the operation of the wholesale market would be welcome, but an additional 'European Observation System for supply of hydrocarbons' seems unnecessary.

EFET Gas Committee
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