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Security of gas supply in the internal market

Response to the public consultation on the Revision of Regulation (EU) No. 994/2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC

The following comments, which deal with the possible ways of improving the security of gas supply at the European Union level and the related Revision of Regulation (EU) No. 994/2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC ("**Regulation No. 994/2010**"), have been based on research, thoughts and experience of a team of experts comprising economists, managers and analysts with in-depth knowledge of, and extensive hands-on experience in, the energy sector. This response has been prepared by the Energy Union Steering Committee of the European Financial Congress. Having considered the views of Steering Committee experts and comments from independent advisers and lawyers, the European Financial Congress has decided to present this response as its official position.

Wide context – ensuring access to reliable energy at affordable prices

The European Financial Congress ("**EFC**") is actively involved in the current debate about the vision of a future European Energy Union ("**EEU**"). We concur with the opinion, relevant in this context, of Jean-Claude Juncker, President of the European Commission, who has raised the issue of high cost of electricity and gas undermining the competitiveness of the European economy. **Providing reliable supplies of energy at affordable prices to all Member States of the European Union ("UE") is among the greatest challenges lying ahead the EU right now. We believe the best way to tackle the challenge would be through further, sustained development of the internal energy market, entailing tighter integration, which will deliver improved energy security for all Member States. In our view, the security of gas supplies should be considered taking into account this broad context.**

The usual definition of energy security is pretty straightforward: the availability of sufficient supplies at affordable prices. Yet there are several dimensions to it[1].

- Firstly, there is **physical security** – protecting the assets, infrastructure, supply chains, and trade routes, and making provision for quick replacements and substitution, when need be.

[1] Daniel Yergin, The Quest. Energy, Security, and the remaking of the Modern World, Penguin Books, 2012, Ch.13, p. 268 .

- Secondly, **access to energy** is critical. This means the ability to develop and acquire energy supplies − physically, contractually, and commercially.
- Thirdly, energy security is also a system − composed of the national policies and international institutions that are designed to **respond in a coordinated manner** to disruptions, dislocations, and emergencies, as well as helping to maintain the steady flow of supplies.
- And, finally and crucially, energy security involves **investment**. Energy security requires policies and a business climate that promote investment and development to ensure that adequate supplies and infrastructure will be available, in a timely way, in the future.

Oil-importing countries think in terms of security of supply. Energy-exporting countries turn the question around. They talk of 'security of demand' for their oil and gas exports, on which they depend to drive economic growth and to generate a very large share of government revenues. They want to know that the markets will be there, so that they can plan their budgets and justify future levels of investment.

All this considered, the embedding of the gas security debate within the wide context of energy security as such is essential both to reconcile the divergent national interests and to work out permanent systemic solutions, resilient to structural shocks (on the demand and supply sides), which may originate outside the gas sector.

EFC's proposal: one common goal – different time horizons for action

The EFC points out that the key **goal behind the European Energy Union (EEU) is to ensure access to reliable energy at affordable prices, i.e. the overall energy security**.

Furthermore, Article 194 of the Treaty on the Functioning of the European Union clarifies that goal by breaking it down into four specific objectives, the attainment of which should ensure the EU's energy security. The specific goals are to: (i) ensure the functioning of the energy market; (ii) ensure security of energy supply in the EU; (iii) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and (iv) promote the interconnection of energy networks.

The EFC wishes to stress that generally the EEU provides a sound and solid framework for achieving the key goal of the EU's energy policy, which is to ensure access to reliable energy at affordable prices. However, in the EFC's opinion, efforts should focus on selecting adequate and effective tools that would deliver relevant outcomes in emergencies and crises. Care should also be taken to prevent a situation where the goals articulated for the EEU are distorted or dismissed in pursuit of narrow national interests, or in other words **the solutions designed for the EEU compound the risk of the EU falling apart.**

So, a chance to create a pan-European Energy Union is through integrating the specifics and needs of the various Member States in relation to energy security, and then ordering them:

- **depending on the time horizon required to attain the respective objectives; and**

- **depending on the weight with which a deficit/surplus of national security impacts the security of all other Member States (the entire EU).**

By setting the national goals on a common platform and making them work towards the common good, we can 'reconcile' the apparently divergent national interests with the welfare of the entire EU. The resulting map of the national goals (interests) and their contributions towards the EU's energy security is a roadmap towards the EEU. The ultimate result would be a complete EEU: supporting internal competition, fostering environmental goals and providing energy security to all European citizens.

Security of gas supply in the EEU – assumptions/proposals

1. Energy security and time horizon.

- In economics, the points defining where short term, mid-term and long term begin and end lie on a time axis representing time needed to transform a rigid system determined by prior decisions into a flexible system unconstrained by any decision, rather than time defined by the calendar. When dealing with a production process **over a short term**, we can look for solutions among installed capacities. **Over a medium term**, existing production capacities may by enhanced using available technologies. **Over a long term**, possible choices also include technologies which are yet to be 'produced'. Over a medium and long term, it makes sense to combine energy security with an environmental agenda. Over a short term, this is impossible.
- Applied to the notion of energy security, this definition of a time horizon reveals the priorities of Poland and 'new' Member States, [2]as well as countries of the 'old EU 15'. The former seek measures to mitigate the risk of gas supply disruptions 'right away', in reliance on existing solutions (transmission networks, interconnections, exploited resources), whereas the latter, feeling no short-term threats, focus their agendas around initiatives achievable over a medium term (completion of the internal gas market while minimising/optimising capex levels) and long term (delivery of the EU's energy and climate objectives and shift to a low-carbon economy).

2. Short-term horizon (adjustments based on existing potential).

Assumption: ***Countries of the 'old EU 15' are well adapted (secure over a short term), while 'new' Member States perceive real threats to security and expect immediate adjustments***

2.1 Uniform standards and rules

The objective behind the idea of collective gas purchasing (aggregation of demand), despite some challenges this may pose, can be easily achieved through introduction of uniform contractual standards for import contracts between Member States and third countries.

[2] Countries which have joined the EU over the past decade.

A proposal to strengthen the European Commission's ("**EC**") control over **the contents of contracts under which gas is imported into the EU** was among the Energy Union package of proposals released by the EC. This proposal could be put into practice by introducing uniform contractual standards for both intergovernmental and commercial gas import contracts and by mandating public and private sector gas importers across the EU to adhere to such standards. To this end, the following rules seem indispensable:

- We propose that the regime of uniform contractual standards should only extend to contracts concluded for at least one year (gas year) or longer periods, whereas short-term and low-volume contracts should be exempt from the obligation.
- The procedure of entering into import contracts must include a notification and control clause for the regulatory body (EC/Agency for the Cooperation of Energy Regulators (ACER)). By its virtue, the regulator (EC/ACER) would be entitled (at the request of the parties to a contract or ex officio) to an ex ante review of the contract's provisions, already at the negotiation stage, for compliance with the EU acquis, potential impact of its conclusion and performance on the security of gas supply into the EU and correct application of the uniform contractual standards by its parties. The right of EC/ACER to review contracts should be accompanied by an obligation imposed on EU businesses to notify EC/ACER of their intention to conclude an import contract early enough for EC/ACER to effectively intervene in the process.
- Equally essential is the enforceability of proposed provisions, which could be aided by a catalogue of potential sanctions for failure to notify EC/ACER of a negotiated contract and for concluding an import contract with provisions inconsistent with the EU law (e.g. a re-export ban clause).
- To complement these rules, we propose:
    - implementation of uniform rules of indemnity for gas suppliers from third countries for unauthorised suspension or reduction of gas supply to a Member State under an import contract where such suspension or reduction could pose a threat to the security of supply in that Member State, a region (a group of Member States in a given geographical area) or the entire EU;
    - implementation of uniform rules of termination of import contracts depending on whether they are concluded for a definite or indefinite term;
    - implementation of the right to freely change the point of offtake of the imported gas by an EU customer with the concurrent obligation for the customer to cover any additional cost of logistics, if implicated by the change of the point of offtake;
    - restriction on the use of ToP (*take or pay*) arrangements under import contracts;
    - implementation of uniform rules of assignment to third parties of all or some of the customer's rights and obligations under gas import contracts.

<u>Rationale:</u>

Poland and 'new' Member States are strongly exposed to the risk of disruptions in Russian gas supplies. Mitigating this risk requires urgent action, which has to be taken now. As regards gas supplies, 'old' Member States are much better off, as the well-developed gas import infrastructure (gas pipelines and LNG terminals), combined with the dense and interlinked transmission grids allow them to import gas from a number of alternative sources. For Member States which pin their hopes

for gas supply security on the idea of a liberalised Europe-wide market, which is already being deployed, collective gas purchasing is seen as a step backwards because it can lead to less favourable terms of trade than those secured under long-standing relationships with suppliers. On the other hand, access by 'new' Member States to a developed and liquid gas market is still constrained by lack of transmission grid interconnectivity and the need to implement market trading mechanisms. To change that, significant outlays are required, the effects of which would be deferred by several years.

2.2 Transparent gas prices

The European Commission and Member States should avail themselves to a greater extent of the solutions offered by the existing laws, such as Decision No. 994/2012/EU of the European Parliament and of the Council establishing an information exchange mechanism on intergovernmental agreements between Member States and third countries in the field of energy (IGA decision), dated October 25th 2012, by introducing a mechanism for exchange of information about the details of contracts between Member States and third countries. This solution would considerably bolster the negotiating position of Member States vis-à-vis external suppliers, prevent dominant suppliers from differentiating the offered terms of trade and enhance transparency of the EU energy market. One of the mechanisms serving this objective would be to set minimum transparency requirements for all existing import contracts by mandating the notification of key contractual terms to the EC, which would meaningfully deter gas producers from abusing their monopolistic status. **Such data should subsequently be aggregated and published, with due regard to preserving the confidentiality of commercially sensitive information**. This is already done with respect to import prices, which are periodically released e.g. by Germany's BAFA. In this regard, it would be possible to apply existing regulations, i.e. Regulation No. 1227/2011 of the European Parliament and of the Council (EU) of October 25th 2011 on Wholesale Energy Market Integrity and Transparency ("**REMIT**"), which principally aims at establishing a European register of information about market participants and platform for monitoring transactions on the gas market. It seems right to apply the solution prescribed by REMIT to transactions between Member States and third countries.

2.3 Extension of the methodology used to assess security of gas supply (N-1 Standard)

In the EFC's opinion, it is necessary to extend the methodology used to assess security of gas supply. The stress tests undertaken by the European Commission last autumn to check the robustness of the European gas system revealed that a more integrated approach to supply security assessment yields a fuller picture of actual security levels. A new assessment standard/methodology should look into infrastructure adequacy, but also into commercial considerations which determine whether the supply standard is met. Such approach would make it possible to assess, on an aggregated basis, the supply and demand balance, while revealing any remaining infrastructure bottlenecks. A methodology for integrated security assessment should be developed on the basis of ENTSOG's recommendations, drawing on the experience gained by that organisation while preparing the 'Winter Outlook' report and in the course of its work, together with the EC, on testing the resilience of the European gas system.

Given that the minimum N-1 requirements are already met by the majority of Member States, the existing N-1 Standard provides no incentive for new investment in infrastructure. This is why

it might be advisable to set new targets related to cross-border gas infrastructure with a view to promoting further integration of markets at the regional level. Such proposals have already been released by the European Commission for power infrastructure: the 10% and 15% interconnection targets to be achieved by 2020 and 2030, respectively. Similar targets should be set for gas grids to further the integration of markets, with a particular focus on bi-directional (reverse flow) capacities.

Key projects in Poland would be to extend or construct, by 2020, the cross-border interconnectors with Germany (Lasów), the Czech Republic (Cieszyn/Moravia project) and Slovakia. The capacity on these three supply routes linked to the European transmission grid should increase by another 5 billion cubic metres.

2.4 Reverse flows

In the EFC's opinion, the main obstacle to development of reverse flow capacity lies in the existing regulations, which make it fairly simple to get around the obligation to build bi-directional capacities. The regulations currently in place highlight only the direct benefits for recipient states. Pursuant to Article 7 of Regulation No. 994/2010, transmission system operators are required to enable firm reverse flow capacity on all cross-border interconnections where it is justified to do so. However, Article 7.4.a) of Regulation No. 994/2010 provides for an exemption if reverse flow capacity would not significantly enhance the security of supply of any Member State or region, or if the investment costs would significantly outweigh the prospective benefits for the security of supply. In this case, the key criterion has to do with reasons justifying the launch of bi-directional capacity or grant of exemption. This is why this criterion should be revised to take proper account of the interests of all market participants and curtail the possibility of seeking exemption from the obligation to enable reverse flow capacity due to high investment costs. In addition, the authority referred to in Regulation No. 994/2010 should consider the potential benefits of reverse flow capacity along the entire transmission corridor.

2.5 Coordination of security of supply measures at regional level

A. Harmonisation of Risk Assessments and Preventive Action Plans

The current format of Risk Assessments and Preventive Action Plans does not guarantee that all risks are identified and that comprehensive provisions are made to deal with potential threats to the security of supply. **The documents drawn up by Member States in accordance with the current format disregard the risks identified by neighbouring countries**. Therefore, it would be advisable to design a uniform template for Risk Assessments, which would be a proper basis for cross-analysing or comparing the risks identified by neighbouring countries in a region, which rely on gas supplies supported by the same key infrastructure.

Furthermore, it would be useful to carry out an assessment of the overall demand and supply balance at the EU level to eliminate any potential double counting of available gas supplies at the level of Member States. The preparation of Risk Assessments, Preventive Action Plans and Emergency Plans at regional and EU levels should be the role of ENTSOG, subject to review by the Gas Coordination Group. It would be advisable to prepare a uniform template for national plans so as to obtain consistent and comparable information from all Member States and to coordinate relevant actions.

It should be remembered that accurate identification of regions is vital to the planning of regional security of supply. The criteria for identifying regions should account for the infrastructure capacity and system constraints, rather than any artificial Member State groupings. The role of ENSTOG could be to identify regions for the purposes of proper Risk Assessments, Emergency Plans, etc. Common solutions should be developed at the level of trade.

We can see no need to introduce a mechanism based on a threshold value or more concrete indicators to describe various crisis situations, as the existing regulations include a sufficiently effective mechanism for identifying and announcing crises. The countries of a region should be immediately notified in the event of an emergency in another country/countries to allow them to assess their own situation.

B. Obligation to cooperate

In order to ensure better coordination and development of security of supply measures, a more region-centred approach is required. It is therefore of **key importance to strengthen the regional perspective in Risk Assessments and Emergency Plans,** in accordance with Regulation No. 994/2010.

The selection of suitable measures to promote security of supply should remain the domain of individual Member States. Only a Member State is able to accurately assess and select appropriate measures to respond to specific instances of gas supply disruptions. But regional coordination of Risk Assessments and Emergency Plans would help each Member State consider all relevant circumstances and external constraints to inform its decisions.

Also, the security procedures should be adapted to the specific features of gas systems of the relevant Member State/region, which means they need not be standardised. Operators should work out common procedures for interconnections in case supplies are reduced or interrupted. All users should be familiar with these procedures.

3. Medium-term horizon (adjustments based on potential expanded with the use of available technologies).

Assumption: ***Energy security through a common gas market, which requires substantial and urgent outlays on infrastructure in 'new' Member States, and coordination of such investments at regional and EU levels.***

3.1. Adequate infrastructure

The gas market is infrastructure-driven, as it relies on infrastructure for its efficient operation, security and stability. This is why Member States should strive to build infrastructure that would support diversification of gas supply and free trade both in the internal market and in regional markets.

Rationale:

A key condition for building a secure, competitive and liquid market for natural gas is diversification of supply sources based on well-developed and interlinked transmission grids. Since 2009, Europe has seen significant expansion of gas transmission networks and reverse flow capacities installed, with a rise in LNG regasification capacities. In this respect, however, the 'old EU 15' are still far better off than 'new' Member States.

Of key importance for the diversification and security of supply are urgent investments in infrastructure assets across Central and Eastern Europe, as well as relevant supporting mechanisms:

A. New interconnections, including the North-South Corridor in Central Europe

Development of a single European gas market is a complex and lengthy process, in the course of which successive regions are being gradually integrated and regional gas exchange nodes are being established. Adequate liquidity is a feature of well-functioning markets, and it cannot be achieved without well-developed transmission infrastructure and reverse flow interconnections supporting procurement of gas in amounts ensuring the continuity and security of supply from a number of diversified sources.

Countries of Central and Eastern Europe should expand their infrastructure assets available to import gas from new sources, e.g. Norway and the Southern Gas Corridor.

Should Russia discontinue supplies, countries of Central and Eastern Europe would be hard pressed to procure alternative gas, given their still underdeveloped physical linkage to alternative sources of supply.[3] The only large neighbouring market − Germany − would also be unable to satisfy Central and Eastern Europe's demand in a scenario where Russian gas stops flowing.

All this considered, there is a need to explore new supply directions for countries of Central and Eastern Europe. Only after bi-directional interconnectors are built and transmission grids are extended to allow them to tap into sources in Norway and the Caspian Sea region, will countries of Central and Eastern Europe enjoy diversification and security of gas supply. Also worth exploring are new sources of LNG supply from the US, Canada and Africa.

Furthermore, development of the Polish transmission grid is key to the **North-South Corridor** project in Central and Eastern Europe, complemented by a 10 billion cubic metres/year capacity increase between the Polish and the Ukrainian systems. The on-going and planned investments into two grid branches, the western and eastern ones, are to link the supply sources from the LNG terminal in Świnoujście and potentially, at some point in future, from the NCS through planned connections with the Danish market. To increase the capacities at Polish borders, new interconnectors should be built with the German, Czech and Slovak systems. As a parallel effort, a project should be undertaken to link the European transmission network with the Ukrainian system at the Polish-Ukrainian border.

Moreover, the transmission infrastructure of GAZ-SYSTEM would bind the Baltic Sea gas markets with the markets of Central Europe, making the region more attractive to external gas suppliers, while enhancing the security of participants of the internal market.

B. LNG strategy and LNG terminal in Świnoujście

The ability to use the capacity of LNG terminals will definitely help to diversify the sources of gas supply flowing to Europe and will contribute to the development of gas market as a whole. Accordingly, we champion the EU action plan to lift restrictions on LNG imports from the US and other producers around the world. Considering that the construction of new terminals is highly capital intensive, one of the key aspects of the LNG strategy that needs to be considered, besides

[3] The situation regarding contract links is improving, though.

the competitive strengths of the new projects relative to other import infrastructure, is whether they make a real contribution to the diversification of gas supply sources for the European Union.

It should be noted here that, unlike natural gas storage facilities, the capacity of LNG terminals is infinite and inexhaustible. Also, LNG terminals enable simultaneous natural gas imports from multiple suppliers, including from other EU Member States within the internal gas transport system.

The LNG terminal in Świnoujście is a project of strategic importance, implemented by Polskie LNG, a vehicle company. The terminal is expected to initially receive 5 billion cubic metres of natural gas a year, and later its capacity could be expanded to 7.5 billion cubic metres, depending on gas demand growth. This will be the first full-scale LNG terminal in the CEE region and − together with the floating terminal in Klaipėda launched in January 2015 − will provide the region with new access to the global LNG market, enabling imports of substantial volumes of liquefied gas.

The new LNG terminal will also offer an opportunity to develop new applications for natural gas, including as fuel in road and sea transport. This is crucial considering the recently enacted regulations on pollutant emissions from maritime transport. The growth of importance of the terminal in the region will be achieved through improvements to the security of supply and availability of reloading services to smaller satellite terminals. As the first large-scale facility of its kind on the Baltic Sea, the Świnoujście LNG terminal stands a chance of becoming the physical trading hub where LNG prices are determined for the entire region.

C. Strategic gas reserves

With the development of the European gas market and the related financial instruments, **demand for storage services is expected to decline**. As a side-effect of this process, the burden of assuring flexibility of physical natural gas supplies will shift onto external suppliers (under import contracts). This will diminish the influence of EU Member States on **the physical security of gas supplies into the EU in the event of unexpected disruptions.**

Although storage is expected to fade in importance with the advancement of the Energy Union, it should be stressed that gas storage facilities do work in short term, providing a prompt response to any gas shortages in the grid, and hence may remain key to maintaining energy security in the EU.

In light of the above, it seems valid that **framework rules for uniform mandatory gas stocks be introduced at the EU level, similar to the rules used for holding minimum stocks of oil or petroleum products coordinated by the International Energy Agency**[4].

D. Minimum level of diversification of gas supply sources

In the context of a single gas market and the need to mitigate the risk of dependence on a single source of supply, another option worth considering is the EU-wide introduction of a minimum level of supply diversification, with a cap set on the percentage of gas that could be sourced from any single source. In this regard, it is imperative that an entity-based approach be adopted in defining 'single source of supply' (with the term understood to mean the entity from which gas is imported rather than the country in which it originated), that the diversification requirement be imposed solely on gas from outside the EU and the EEA and that reverse flow be exempted

[4] Stipulated by Council Directive No. 2009/119/EC of September 14th 2009 imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products.

from the diversification requirement.

3.2. Implementation of market mechanisms

The competencies of regional gas markets should be advanced in parallel with expanding the physical infrastructure. The institution of exchange market guarantees full transparency of market information, equal treatment to all market participants and security of settlements.

Building a common market will help bolster the negotiating position of the national gas importers and take advantage of local exchanges and national transmission grids to increase the liquidity of regional markets. It will aid in implementing the European Energy Security Strategy and will support fair and robust competition on the single EU market.

The EU Member States should strive for a common gas market through integration that would factor in the specific qualities and the diversity of the regional markets to the greatest possible extent. In particular, the EC should implement mechanisms that would enhance energy security but also eliminate the temptation to use gas as political leverage. To this end, **the EU should seek to maximise the volumes of gas traded on liquid and transparent markets by promoting the development of trading hubs and gas exchanges**.

The development of gas hubs will help to step away from the fixed patterns the EU gas markets operate on, through: (i) shifting away from long-term contracts; (ii) moving away from crude-indexed contracts towards contracts indexed to market prices; and (iii) lessening the role of gas storage in seasonal balancing of supply and demand.

A convenient catalyst of this process could be the imposition of a statutory obligation to sell a portion of imported gas on an exchange. Such exchange sale obligation, if introduced across the EU, should protect the anonymity of buyers and sellers and harness market forces to even out the price of gas. It is a tool which, by delivering market liquidity, will create conditions encouraging competition and level out price differences between the interconnected markets.

Rationale:

The process of building a common gas market within the EU requires gradual integration of the individual regional markets, taking into account the specific qualities of each of them. Gas markets in the new Member States and the CEE region are undergoing a profound transformation and tend away from market monopolies and long-term contractual arrangements. A liberalised and competitive market built on a broad base of supply sources and competing suppliers, combined with highly liquid regional markets, will improve their bargaining power and spur growth of regional gas trading points.

Gas market liberalisation means enhanced market competitiveness, achieved through improved liquidity and transparency. It also means a lower risk of reliance on a single supplier abusing its position to pursue monopolistic practices or a political agenda.

4. *Long-term horizon (adjustments to the vision in the context of technological uncertainty)*

Assumption: ***A uniform and consistent vision for a safe EU in 50–70 years time should reflect the distinct nature, the pace of change and the level of development (maturity and affluence) of the individual countries, as well as the country-specific geological, hydrological and climatic conditions (sun, wind, etc.).***

- Technology contributes to the ever increasing availability of natural gas and its growing share in the global energy mix. The explanation is quite straightforward − natural gas has a relatively low carbon content. Also, it is a flexible energy source, which could play a bigger role in power generation both due to its inherent properties and to its being an efficient – and indeed needed − complementary fuel in the increasingly important renewable energy generation. For these reasons, the International Energy Agency has hailed natural gas as a fuel of the future. A uniform and consistent vision for a safe European Union in 50−70 years should clearly state the role of natural gas, with adequate funds allocated to exploiting own hydrocarbon resources (including unconventional hydrocarbons like shale gas, tight gas, and methane hydrates) and developing technologies for gas extraction and use.
- The energy security priority is best met by those technologies which tap into the indigenous primary energy sources. While the concept of sustainable energy suggests that power generation technology should be selected against three equally important criteria – energy security, emission levels and environmental interference, and the cost of energy as a factor in its availability to end consumers. Individual technologies fit differently into these priorities, and when the final choice is made one or two of the priorities are usually partly sacrificed to accommodate the others. Simultaneous improvement in all three dimensions rarely happens, and then usually as an outcome of revolutionary innovation. Thus, the concept of sustainable energy has nothing to do with the division of primary energy sources into dirty (fossil fuels being classified as such) and clean (such as RES). The debate about the future of the EU energy and climate policy should not revolve around this ill-conceived division, as if the environmental paradigm was all that mattered.
- A true long-term energy and climate policy is one that creates conditions conducive to innovative breakthroughs. This requires a departure from 'ordering' innovation and a simultaneous shift towards providing technology-neutral support for low-emission innovations in gas demand, supply, storage and transmission. Aligning a climate policy with technological advancement yields better results than aligning it with environmental protection measures.
- Systemic energy security solutions cannot be devised so as to merely reflect the conditions prevailing at a given time but they have to accommodate unexpected shifts in the structure of demand for primary energy sources which may occur in the long term due to emergence of new game-changing technologies. At present, with gas-fired power generation complementing wind and solar generation, the brisk growth of the latter fuels demand for natural gas. When efficient technologies for solar energy and electricity storage arrive, the relative position of natural gas in the energy mix will change dramatically.

5. The analogies between the European Banking Union and the European Energy Union.

Both projects are a major step towards a deeper integration of the European Union. Two analogies seem to be of particular importance.

Firstly, common EU supervision over the stability of energy supply should be the first stage and the cornerstone of the European Energy Union, just like the European Banking Supervision is the cornerstone of the Banking Union.

Secondly, the costs of energy security risks should be borne at the EU- rather than national level, as is the case with the European Financial Stabilisation Mechanism set up to guard the financial stability of the eurozone.

Obviously, the transfer of fiscal responsibility onto the EU level (costs of the risk of gas supply disruptions) should not relieve the individual countries from making efforts to diversify their supply sources.

Security of gas supply – specific proposals addressing the questionnaire

Especially important are items 20-26: Joint purchasing in a case of an emergency.

Joint purchasing of gas through exchange markets and OTC trading platforms is an idea worth promoting. Joint purchasing arrangements could be joined on a voluntary basis, not necessarily in emergencies. Voluntary joint purchasing by industrial entities and gas traders would allow them to secure more favourable final prices from suppliers based outside of Europe.

A virtual shared point reserve is needed because in the first and fourth quarters of a year production capacities are heavily utilised and require stable supplies. In that period, two factors pose a particular threat to gas consumers: temperature fluctuations and conflicts. So, to answer the questions:

24 a: a European gas reserve financed with EU funds; such reserve could be located in selected, most vulnerable places of the EU; for the CEE region, e.g. in Poland (there are 7-8 projects of private sector and state-owned entities). Businesses willing to tap into the reserve would have to bear some of the related insurance cost – to be considered.

24 b: joint purchasing of natural gas and LNG is requisite to secure competitive prices vis-à-vis other suppliers. The idea of common purchasing by a group of non-competing entities should be endorsed.

24 c: common purchasing could be implemented at a pan-European or sector level.

Conclusions

In its position on the security of gas supply within the EU as outlined above, the European Financial Congress calls attention to the need to look at the matter in a wider context of ensuring access to reliable energy at affordable prices for all Member States. This is one of the major challenges facing the EU today. We believe the best way to tackle the challenge would be through further,

sustained development of the internal energy market, entailing tighter political integration, which will deliver improved energy security for all Member States.

Thinking of continued development of the internal energy market and political integration, we indicate that one of the crucial tasks along the way would be to address the vast disparity between the levels of development of market infrastructure, which still persists in the energy sector between Western and Eastern Europe. The scale of the disparity is fairly evident on the gas market. In the old EU 15 countries, nearly 80% of the total gas volume changes hands on the internal market, while only 20% is delivered under long-term contracts. In the countries which joined the EU in 2004, the proportions are reversed, with 80% of the total gas volume covered by long-term contracts. We stress that a joint effort to overcome that disparity is not only a necessary stage in the development of a single market, but also an expression of European solidarity, as the cornerstone of the process of deepening the political ties, which the European Energy Union project could become.