

**Ms Catharina Sikow-Magny**

Brussels, 28<sup>th</sup> April 2022

Director of Directorate C  
"Green Transition and Energy System Integration for Energy"  
DG ENER, European Commission  
Rue De Mol 24  
B-1040 Bruxelles

**Subject: Follow-up to the April 26 stakeholder meeting on short-term emergency options**

Dear Ms Sikow-Magny, [REDACTED]

Thank you for having invited us to the stakeholder meeting to discuss short-term emergency options. We take the opportunity to further elaborate on our views shared during the meeting. This letter addresses (i) our general views on the proposed measures, and (ii) more specific views about those measures directly impacting the gas industry. In the annex, you'll find some reflections on the guiding questions in your invitation letter.

As you know, IOGP members account for around 90% of Europe's oil and gas production, but also produce oil and gas globally and are therefore able to source energy worldwide: as domestic producers, importers and traders, they help secure the supply of the EU energy market, and are also major investors into low-carbon energies, including wind, solar and CCUS.

**General views on the proposed short-term measures**

We believe that an efficiently functioning, interconnected, and liquid energy market with free and transparent price formation for competing energies from a diversity of domestic and global suppliers, coupled to intelligent demand-side solutions together with a stable legislative framework, **will best ensure cost-efficient, secure supplies to consumers**

While we acknowledge the current exceptional circumstances which influence price formation and trigger actions by policymakers, governments' intervention into the functioning of markets through measures which impact price formation should consider both short and long-term consequences on supply availability, as well as impact on demand which can contribute to balance the market.

→ We therefore suggest that any measure is carefully assessed, and market interventions are minimized and limited in time, while energy poverty can be best addressed through targeted financial support for vulnerable/low-income consumers.

→ While we understand that the Commission cannot integrate the Steering Committee of the EU Gas Supply study we presented to you on 7 April, we would be grateful for the Commission's guidance and input to ensure alignment of assumptions and objectives, so that findings can adequately inform the Commission's own efforts to find realistic solutions to substitute Russian gas imports.

In this regard, I would appreciate if you could identify a contact person in your Directorate with whom we can interact at operational level, in full compliance with transparency and existing rules and procedures.

As regards the RePowerEU Commission Communication of 8 March 2022, we were surprised to see no mention of the need to **increase domestic natural gas production, given the crucial role it plays in ensuring the basic security and diversity of energy supply in Europe, as a key element of its much needed strategic autonomy**. Domestically produced natural gas is

- ✓ a reliable and predictable source of supply,
- ✓ creates employment and economic activity in Europe itself, and
- ✓ has a lower environmental footprint (approximately 30% lower than global average) than imported gas thanks to shorter transportation distance and higher operating practices.

Today, natural gas production in Europe incl. UK and Norway amounts to about 180 Bcm/yr representing about 40% of Europe's demand; but is declining. The decline results not the least from multiple measures which prevent, hamper or ban E&P activities aimed at developing new natural gas resources in Europe, even though there are around 4000 Bcm of known reserves which can still be

developed. This figure does not include resources which may be found should exploration activities in Europe be incentivized further.

→ Therefore, to complement import diversification, we call on the Commission to review measures which today hamper the development of Europe's natural gas resources, and to give due visibility and consideration to Exploration & Production investments in Europe (including support to expedite permitting procedures, while encouraging member States to lift bans on E&P activities).

→ A pan-European Plan to Maximise Economic Recovery (MER) must be kicked off in the coming weeks, putting together industry and policy makers.

**Views on measures directly impacting the gas industry:**

*1. Regarding the proposed price limit for gas traded in the EU:*

IOGP understands that the Commission has included in its proposal the option of setting a price limit for trading gas in the EU as a last resort instrument to reduce consumer prices of gas and electricity. In assessing the impact of this instrument, the Commission should take into account the following aspects:

- If a price cap on gas traded in the EU is set too low, it would be difficult to attract additional gas or LNG supplies to the EU as gas/LNG supplies compete in a global market.
- A price cap may impact existing (long-term) gas supply contracts, resulting in existing contract interventions
- A price cap would limit the functioning of the internal EU gas market to balance markets and allocate gas where it is most needed.
- To avoid supply shortages, financial impact of a price cap on market participants would need to be compensated.
- A price cap would increase uncertainty about the stability of EU legislative frameworks for investors, not only for investors in the energy market.

Overall, price limits impact or undermine the stability of the legislative frameworks for investors into the EU energy system and impact its competitiveness.

*2. Regarding the proposed establishment of gas volume and price targets for different routes and suppliers based on a joint negotiation strategy coordinated at EU level:*

The independent purchase and sale of natural gas (or other energies) by market parties in competition with each other is a core element of a functioning, competitive, liquid market and a cornerstone of the EU single energy market. While we understand that the current sudden and unexpected possible short term need for the purchase of large volumes of natural gas may justify coordinated action, we suggest that Governments and Authorities may have a role in facilitating the conclusion of commercial agreements but should not become a party to it. Furthermore, policy actions can also address the removal of export restrictions to the EU, where they exist.

Collective purchasing of gas risks significant reductions in competition and unwinding the benefits of a competitive market that have been established over the past decades. It will be essential to ensure that competitively sensitive information is not shared with / taken advantage of by parties who are active in competitive EU gas markets and that this does not lead to the re-promotion of national champions.

It must be recognised that any common gas purchases will be competing for supply with other gas purchasers around the globe, significant volumes of which are secured under long term contracts for the security of supply. Sellers will likely be looking for long term contracts to underpin the security of demand and project financing.

We remain at your disposal for any further information you may need, as well as for a follow-up meeting at your convenience

With kind regards,

François Régis Mouton,  
Regional Director Europe

## Annex: IOGP reactions to the questions listed in the invitation to this meeting

**Regarding the question, which of the options are best aligned with the EU's decarbonisation objectives** we point out that none of the options proposed are beneficial in reaching the decarbonization objectives. price differentials between competing energies incentivize or disincentivize the use of the one energy versus the other. E.g., currently high prices for natural gas may lead to demand side reactions and possibly incentivize the use of or investments into renewable sources. These exemplary effects would contribute to the decarbonization objective.

**Regarding the question, which of the options are least costly** we reiterate that an efficiently functioning, interconnected, and liquid energy market with free and transparent price formation for competing energies from a diversity of domestic and global suppliers, intelligent demand-side solutions, and with a stable legislative framework **will best ensure cost-efficient, secure supplies to consumers**. The proposed market interventions will impact the efficient market functioning thereby likely increasing overall cost of energy supplies to consumers. We suggest that energy poverty is best addressed with targeted financial support (such as the proposed vouchers) for vulnerable/low-income consumers.

**Regarding the question, which options best avoid risks for security of supply** we reiterate that price variations are an inherent element of **market-based price formation**, are the basis for long-term investments, ensure that supplies are directed where the demand is, and drive actions to rebalance supply and demand. This will best ensure cost-efficient, secure supplies to consumers.

**Regarding the question, which options best avoid distortions in the internal energy market** we point out that all the proposed options are market interventions which create distortions in the internal energy market. Understanding the current circumstances, we suggest that when establishing such measures, Members States limit their duration. We also reiterate, that policymakers may best address energy poverty with targeted financial support for vulnerable/low-income consumers.

**Regarding the question, which options help to reduce the EU's dependence on imported fossil fuel** we reiterate that we are surprised that the Commission's Communication of 23<sup>rd</sup> March did not mention the role an **increase in domestic natural gas production can play to address security and diversity of supply in Europe**. Domestically produced natural gas is

- a reliable source,
- creates employment and economic activity in Europe instead elsewhere, and
- has a lower environmental footprint (approximately 30% lower than global average) than imported gas because of its short transportation distance to the consumers and because it is generally produced in a sustainable manner.

Today, natural gas production in Europe incl. UK and Norway amounts to about 180 Bcm/yr representing about 40% of Europe's demand; but it is declining. The decline results not the least from multiple measures which prevent, hamper or ban E&P activities aimed at developing new natural gas resources in Europe, although Europe has more than 4000 Bcm of known reserves which yet can be developed. This figure does not even include those resources which can be found if exploration activities in Europe are restarted. Therefore, complementing EU policy measures aiming at more imports, **we urge the Commission to review measures which hamper the development of Europe's natural gas resources**. In this context we suggest that policy creates more visibility for E&P industry investments into gas resource developments in Europe and that policy supports expediting permitting procedures.

