European Competitiveness and Energy

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Presentation outline

- **Competitiveness in Europe**
- **The global gas market**
- **Challenges and policies**
- **The way forward**

Competitiveness in Europe

European gas—concern about competitiveness

- **Competitiveness is a 'whole economy' thing**
  - **It is not just about energy-intensive industry**
  - **… but also about household bills**

    household spending and household saving

    demand and investment in the economy

- **Energy prices are a vital input … for all**

- **High share of industrial gas demand in Portugal**
  - **About 60 percent vs European average 30 percent**

European and global competition

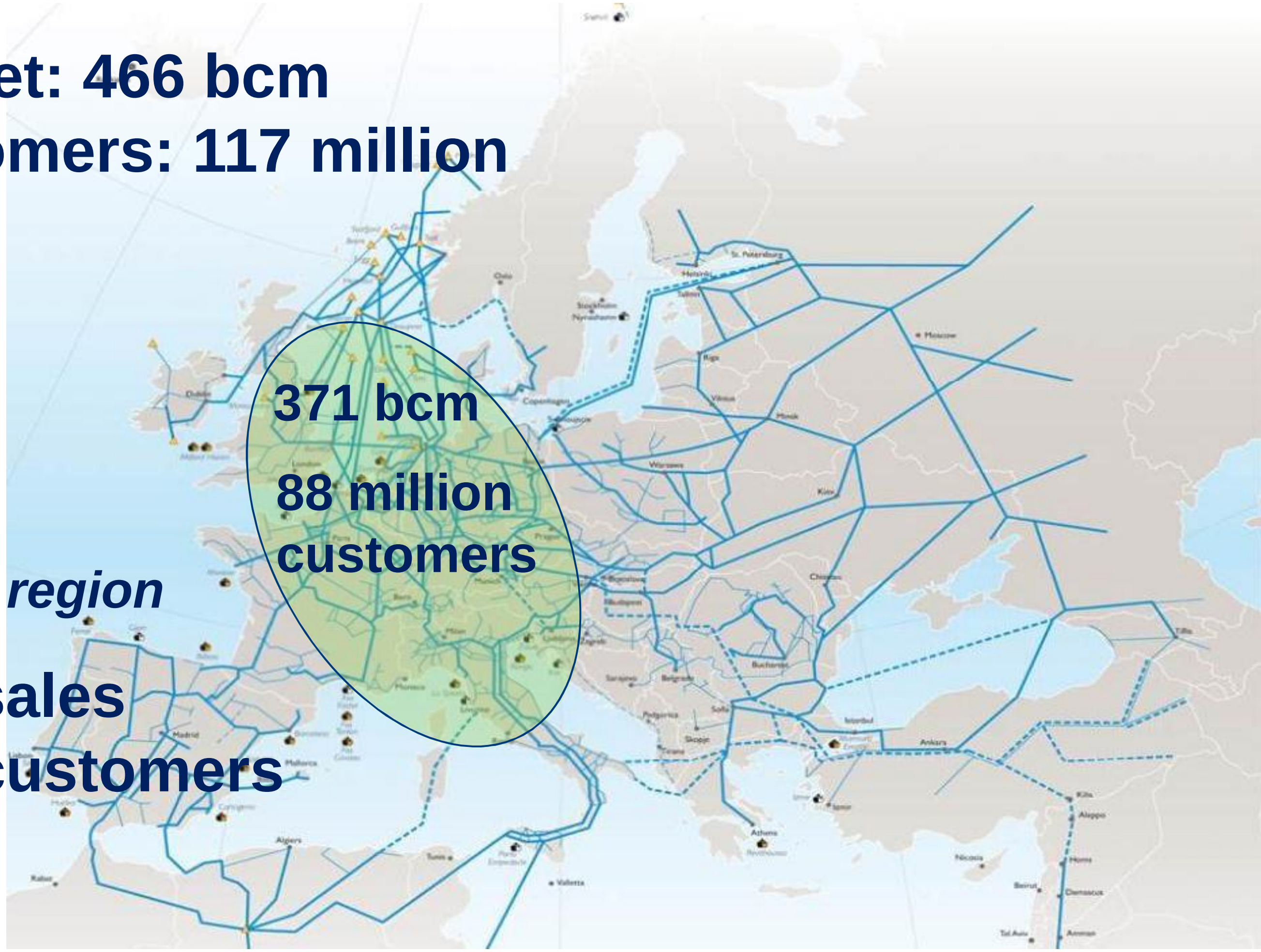
- **Focus of European policy — 1st and 2nd Directives in 1998 and 2005, 3rd Package (Directive, Regulations) in 2009 — was competition *within* the European network**
  - National policies in EU Member States have followed
  - The gas business has been transformed:
    - ‘Unbundled’ pipelines, pan-European marketers, merger of power and gas companies …
    - Some implementation still to be done
- **But global context of gas supply and demand sets the price for European gas companies … *outside* Europe**

The heartland of EU gas—already a single market

2012

Our market: 466 bcm

Our customers: 117 million



In this core region

- **80% of sales**
- **75% of customers**

The global market

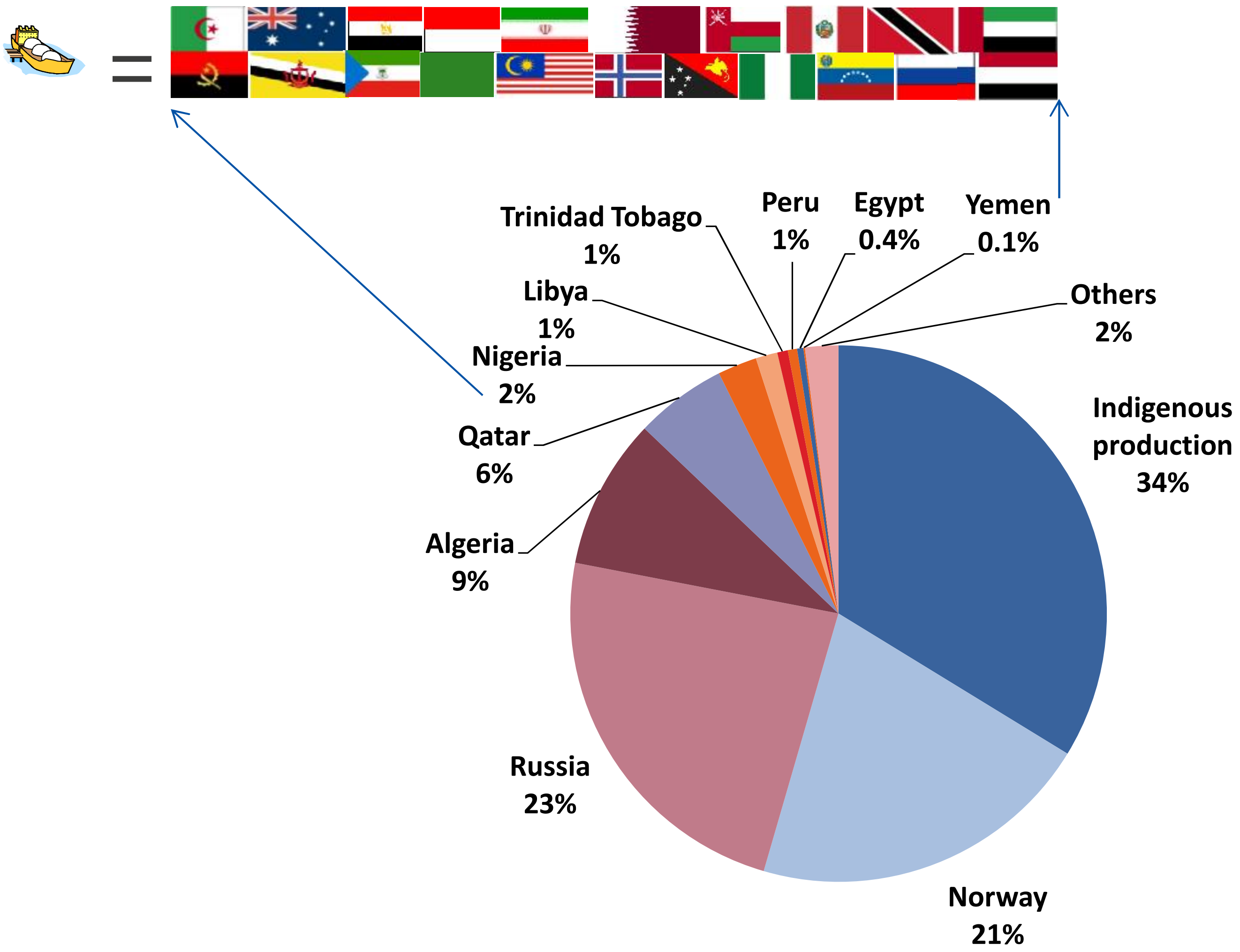
Europe and the world

- Gas importers in Europe face competition from gas demand in the rest of the world, and exposure to any supply difficulties
  - Far East, South America
  - Egypt, Nigeria, Indonesia
- Until 2016, North America remains an isolated market – with its surpluses
- In future strong exposure will remain—Chinese and Indian demand, East African and Australian supply
- Further EU integration can help …

  … but global gas supply will be key to European competitiveness

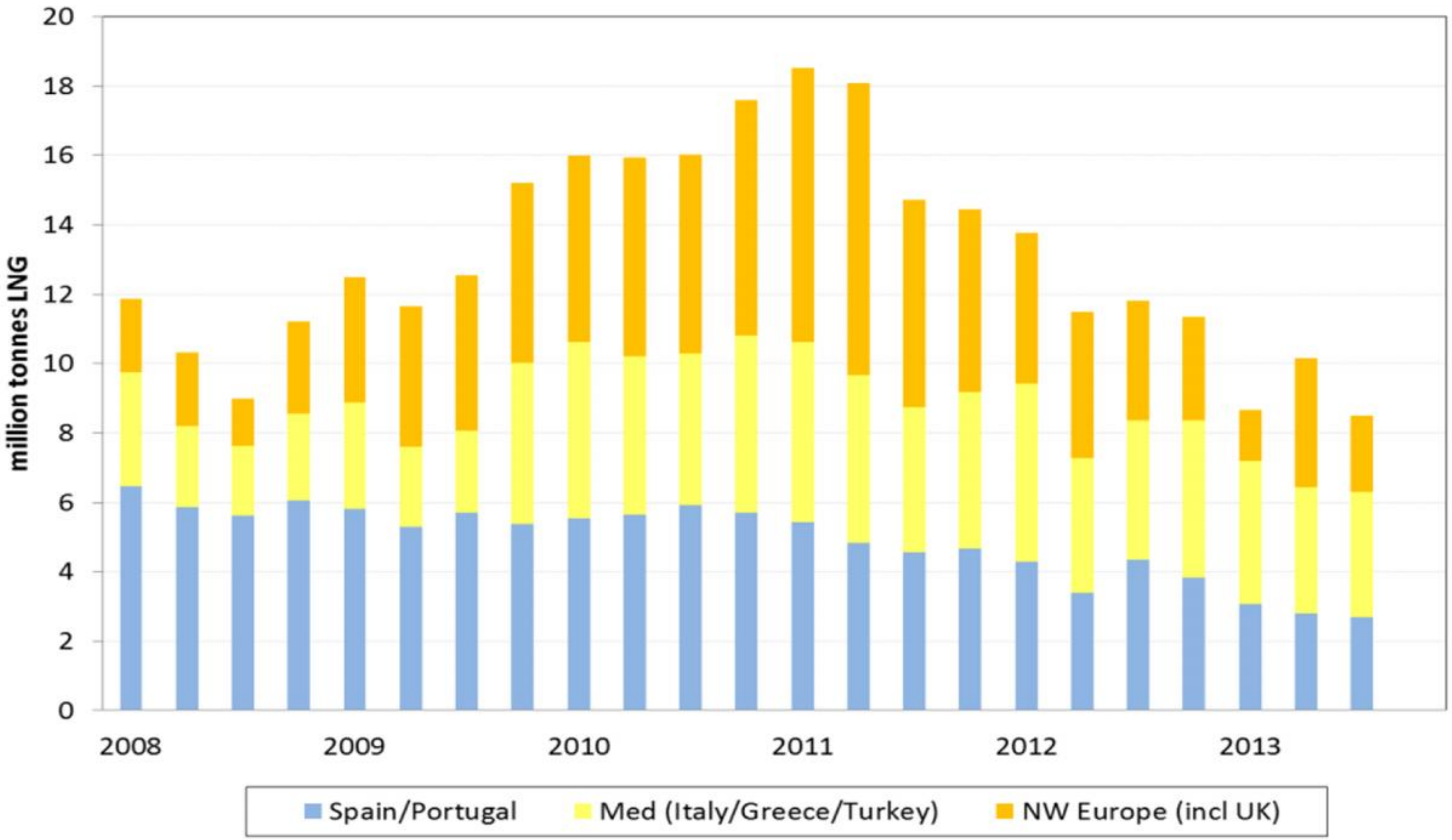
LNG has greatly increased gas diversity and security

2012 supplies (annual average)



But European purchases of LNG have dropped sharply

Imports down from 65 mt (86 bcm) in 2011 to about 37 mt (49 bcm) in 2013



Source: IHS CERA

Challenges and policies

Not a favourable environment for the gas market

- Cheap coal + cheap CO_2 allowances
- Large influx of subsidised renewables
- Price regulation
- No price for flexibility
- National rather than EU energy + climate policies

Getting the rules right

- **Fully implementing the 3rd Package**
- **Adopting + applying practical network codes and rules**
- **Creating missing pipeline links**
- **Giving back a market perspective to gas**

Way forward

Competition instead of market intervention

- **Implement the internal energy market - fully + quickly**
- **Allow price signals**
- **Adopt a 2030 framework for energy + climate policies fully + quickly + clearly**

Competition instead of subsidies

- **Be clear about who subsidises what to which extent**
- **Let all mature low-carbon options compete – in power generation, heating and transport**
- **Use subsidies to support all promising non-mature low-carbon technologies**

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