IEA/KEEI JOINT CONFERENCE ON NORTHEAST ASIA ENERGY COOPERATION

SEOUL MARCH 16TH – 17TH 2004

PROMOTING A SUSTAINABLE ENERGY FUTURE IN NORTHEAST ASIA:

FACILITATION OF ENERGY COOPERATION AND ITS IMPACT ON WORLD ENERGY SECURITY

EUROPEAN EXPERIENCE IN DEVELOPING AN INTERNAL GAS MARKET:

ISSUES, PROCESS, AND DIRECTIONS

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STRUCTURE OF PRESENTATION

BRIEF INTRODUCTION TO EUROGAS AND OVERVIEW OF EUROPEAN GAS INDUSTRY TODAY

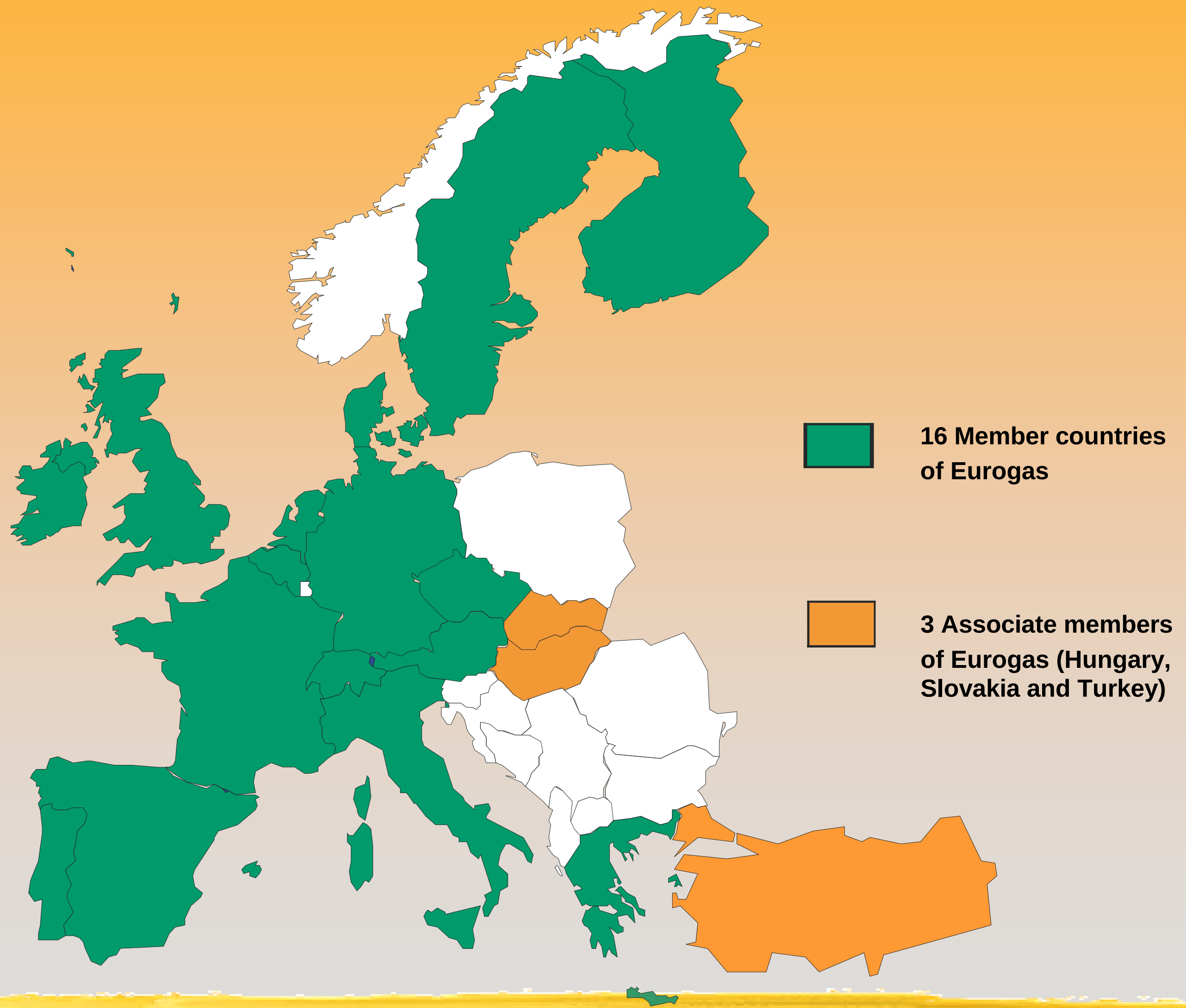
HISTORY OF DEVELOPMENTS; THE PROCESS OF CHANGE AND FUTURE TRENDS

ISSUES TO CONSIDER

WHAT IS EUROGAS?

- NON-PROFIT INDUSTRY ASSOCIATION, ESTABLISHED UNDER BELGIAN LAW
- REPRESENTS THE INTERESTS OF THE NATURAL GAS SUPPLY INDUSTRY IN EUROPE IN THE POLICY MAKING PROCESS
- SPEAKING PARTNER OF EUROPEAN UNION BODIES, OTHER INDUSTRY ASSOCIATIONS, INTERNATIONAL ORGANIZATIONS, OPINION FORMERS
- MEMBERS ARE NATIONAL GAS INDUSTRY FEDERATIONS AND/OR COMPANIES OF EUROPEAN COUNTIRES
- SET UP IN 1990 IN RESPONSE TO DEVELOPMENTS IN EU POLICY

EUROGAS, MEMBERSHIP AND MISSION



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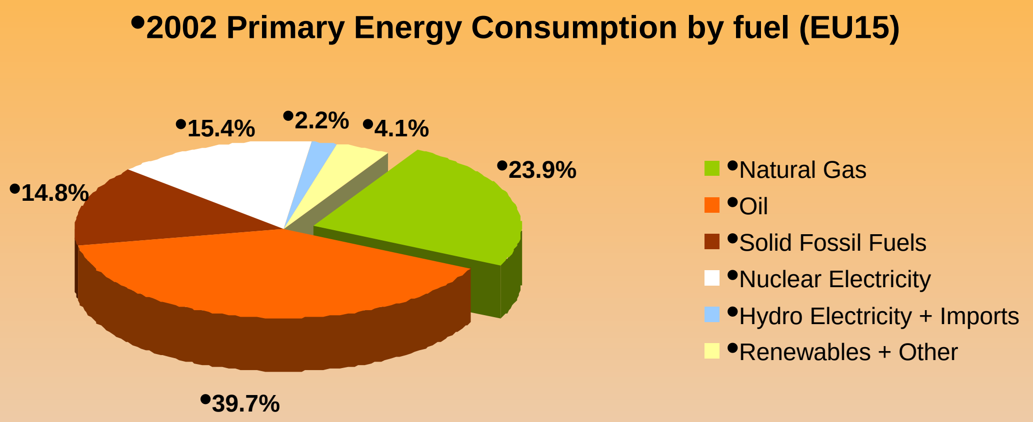
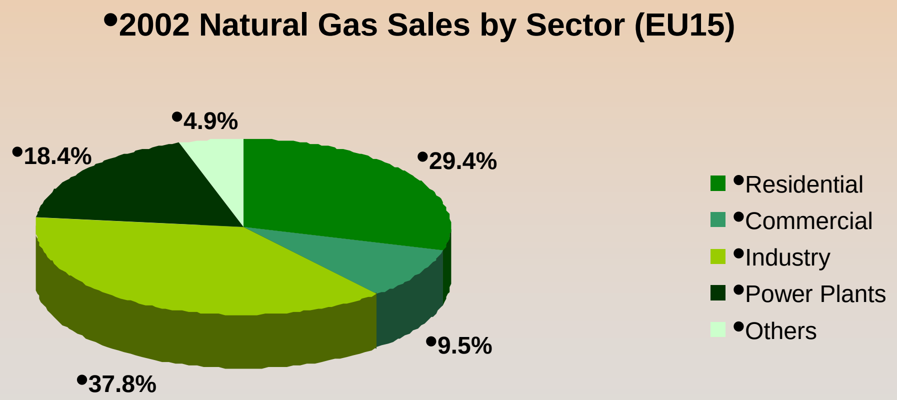
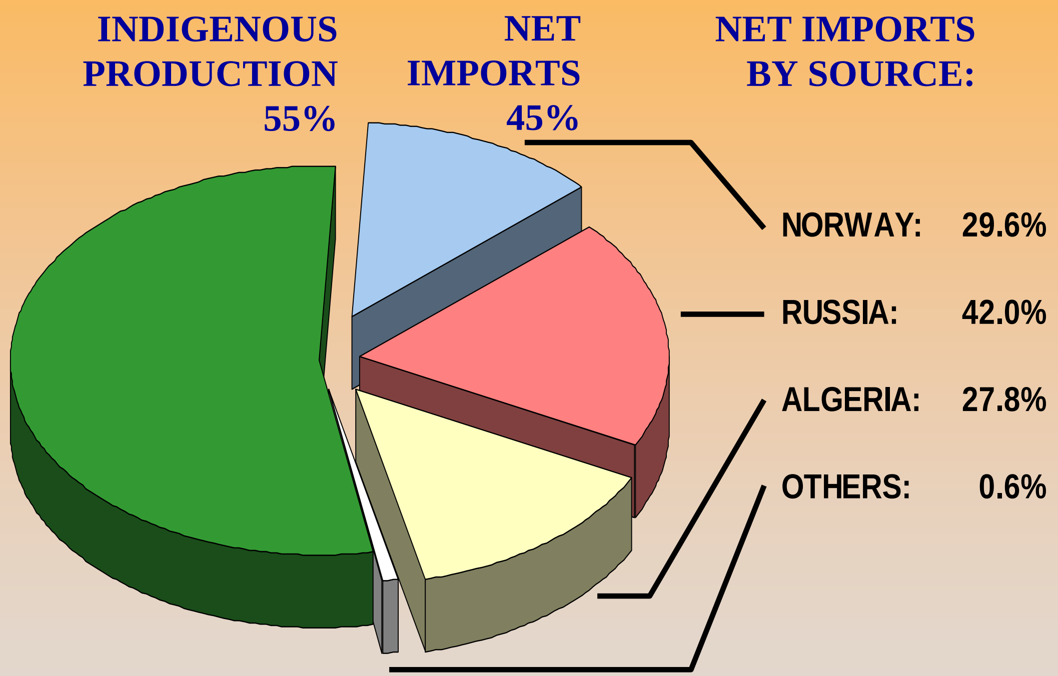
THE EUROPEAN GAS INDUSTRY TODAY





SOURCES OF NATURAL GAS SUPPLIES 2001 (EU)

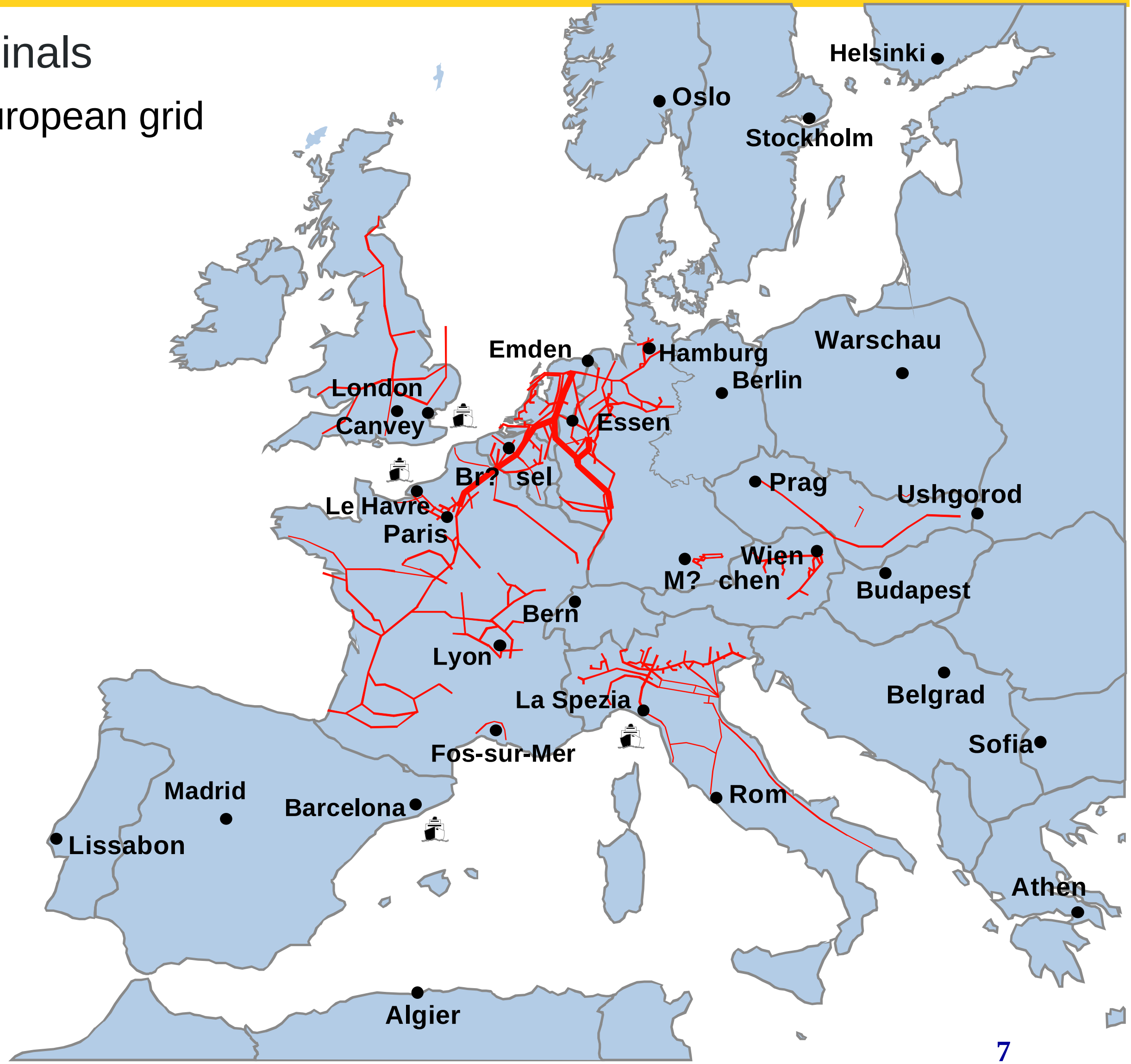


European Natural Gas Transmission System 1970

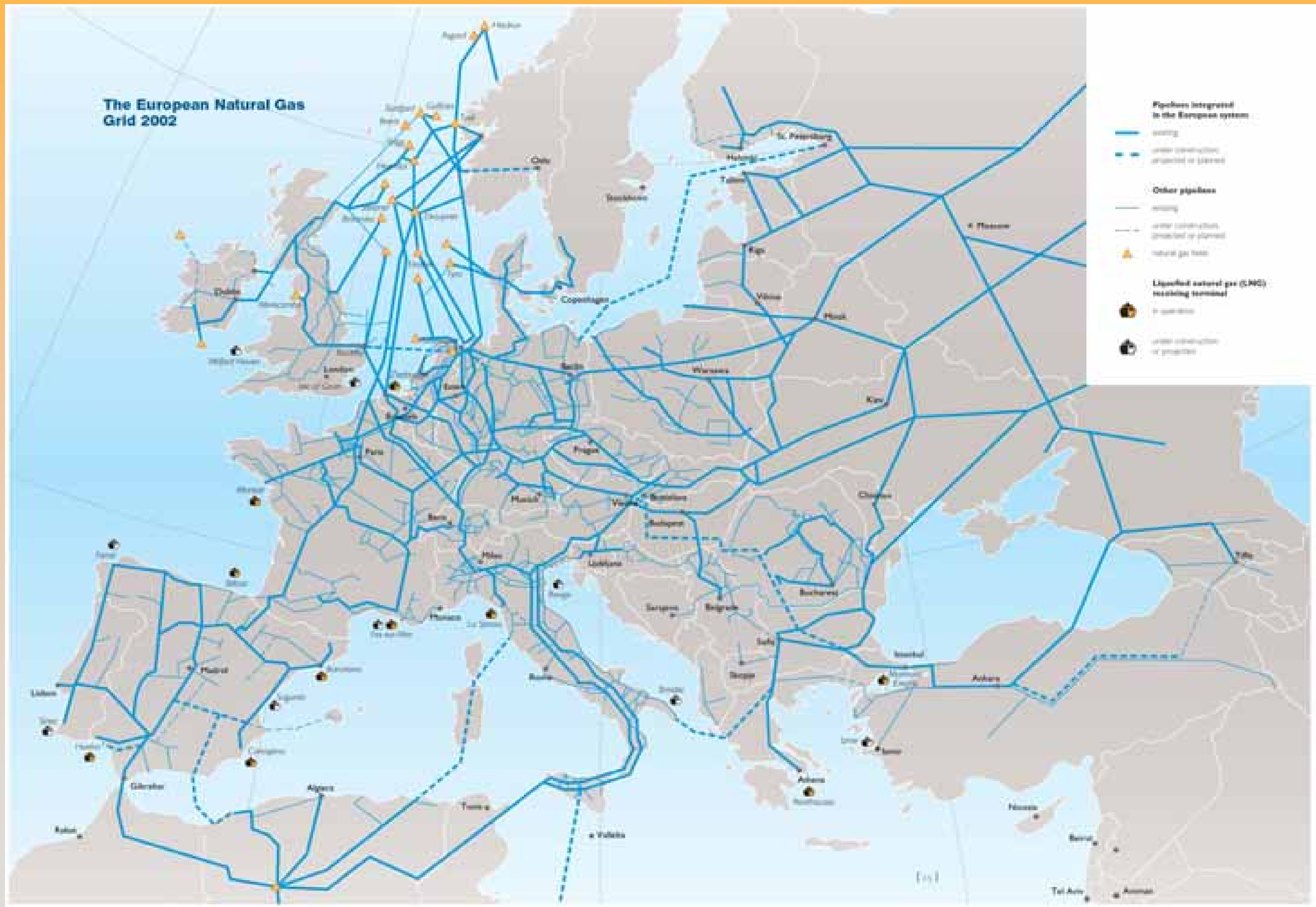
ruhrgas

pipelines/LNG receiving terminals

- natural gas pipelines in European grid
- other pipelines
- LNG receiving terminals



EUROPEAN NATURAL GAS PIPELINE AND LNG SUPPLY LINES



FACTORS THAT CONTRIBUTED TO GROWTH OF EUROPE'S GAS INDUSTRY BEFORE 1990

- DISCOVERY OF INDIGENOUS SUPPLIES, NETHERLANDS AND NORTH SEA IN 1960s

- AVAILABILITY OF "NEAR" SOURCES, THE USSR (1970s), ALGERIA AND NORWAY (1980s)

    - LOCATION OF SUPPLIERS AND ECONOMICS FAVOURED NORTHERN AND CENTRAL EUROPE INITIALLY

- COMMERCIAL CO-OPERATION AMONG NATIONAL "MERCHANT" CHAMPIONS

    - PURCHASE CONSORTIA
    - SHARED CONSTRUCTION AND OWNERSHIP OF MAJOR INTERNATIONAL GAS PIPELINES
    - TRANSIT AGREEMENTS

- LONG-TERM CONTRACTS UNDERPINNING INVESTMENTS

DEVELOPMENT OF A POLITICAL/LEGISLATIVE FRAMEWORK

1985 – THE EU BEGAN TO DEVELOP POLITICALLY AND ECONOMICALLY; THE VISION LATENT IN THE TREATY WAS TO CREATE ONE SINGLE MARKET FOR GOODS, SERVICES, PERSONS AND CAPITAL

1990 – FIRST PROPOSAL ON GAS AND ELECTRICITY INTERNAL MARKETS ADOPTED IN 1998 AFTER YEARS OF DEBATE

1998 TO PRESENT DAY – FURTHER FRAMEWORK LEGISLATION PLUS MORE DETAILED REGULATORY DEVELOPMENTS AT EU LEVEL AND AT NATIONAL LEVEL

DISCUSSIONS ONGOING/SECTOR IN EVOLUTION

CHARACTERISTICS OF EU GAS MARKET

PRE-LEGISLATION (1)

KEY PLAYERS

- INTEGRATED NATIONAL **MERCHANT** COMPANIES PURCHASED, SOLD, BUILT INFRASTRUCUTRE, AND TRANSPORTED GAS VARIOUSLY TO LARGE CONSUMERS, TO CITY GATE, TO DOMESTIC CONSUMERS
- NATIONAL GOVERNMENTS DETERMINING ENERGY POLICY, TO DIFFERING DEGREES

NATIONAL MARKETS – DIFFERENCES

- GAS RICH COUNTRIES ↔ IMPORT DEPENDENT
- STATE OWNERSHIP ↔ PRIVATE OWNERSHIP
- YOUNG MARKETS ↔ MATURE MARKETS
- NO GAS TO GAS COMPETITION ↔ DEGREES OF GAS TO GAS COMPETITION
- NO SEPARATE DISTRIBUTION ↔ A FEW TO HUNDREDS OF DISTRIBUTION COMPANIES

CHARACTERISTICS OF EU GAS MARKET

PRE-LEGISLATION (2)

PRICING

- MARKET VALUE
- STABLE

SUPPLIES

- DIVERSIFIED
- UNDERPINNED BY LONG-TERM CONTRACTS
- TRANSIT (OVER 50% OF GAS CROSSED BORDERS)

GAS MARKET TODAY AND FUTURE TRENDS (1)

PLAYERS

- CUSTOMERS
- UNBUNDLED INCUMBENTS, TRADERS, NEW COMERS
- EU
- NATIONAL GOVERNMENTS
- NATIONAL REGULATORS

MARKETS – NATIONAL, STILL DIFFERENT, BUT,

- NEW CROSS-BORDER ACTIVITIES
- NEW GAS TRADING MECHANISMS - HUBS
- OWNERSHIP CHANGES, PRIVATE CAPITAL INTRODUCED INTO STATE COMPANIES, TAKE-OVERS/CONCENTRATIONS, ELECTRICITY/GAS COMPANIES, ALSO CHANGES IN DISTRIBUTION SECTOR

GAS MARKET TODAY AND FUTURE TRENDS (2)

PRICING

- MORE VOLATILE

SUPPLIES

- DIVERSIFIED
- LONG-TERM CONTRACTS (BUT WITH NEW MARKET RESPONSIVE FLEXIBILITY)
- SPOT

ISSUES TO CONSIDER (1)

FRAMEWORK TO ENSURE NO ABUSE OF MARKET POWER, NON DISCRIMINATION

- TSO SEPARATE OR UNBUNDLED FROM SUPPLY/RETAIL COMPANY
- NON-DISCRIMINATORY AND TRANSPARENT ACCESS TERMS AND CONDITIONS TO TRANSPORT FACILITIES

BALANCE OF MARKET/REGUALTION?

- CUSTOMER CHOICE IN PRACTICE AS WELL AS IN PRINCIPLE

THRESHOLDS FOR ELIGIBLE CUSTOMERS?

- DEVELOPMENT OF NATIONAL MARKETS

HARMONIZED APPROACHES?

ISSUES TO CONSIDER (2)

SECURITY OF SUPPLY

- DIVERSIFICATION OF SUPPLIES, PHYSICAL AND CONTRACTUAL
- LONG-TERM PLANNING

TARGETS AND STANDARDS?

- STORAGE – ECONOMIC AND GEOLOGICAL FEASIBILITY
- GOOD RELATIONS WITH NEIGHBOURING, TRANSIT AND SUPPLY COUNTRIES; COMMERCIAL AND DIPLOMATIC.

IDENTIFICATION OF MUTUAL INTERESTS AND DEPENDENCIES?

INVESTMENT

- PROMOTE A CLIMATE CONDUCIVE TO INVESTEMENT

HOW WILL THE MARKET HANDLE RISK?

- IN A REGULATED ENVIRONMENT

HOW ENSURE AN ADEQUATE RATE OF RETURN?