



International  
Association  
of Oil & Gas  
Producers

# Potential future developments of the gas sector

30<sup>th</sup> meeting of the Madrid Forum  
Kick-off intervention by IOGP  
Madrid, October 2017  
Kees Bouwens, ExxonMobil, Chair EMSC

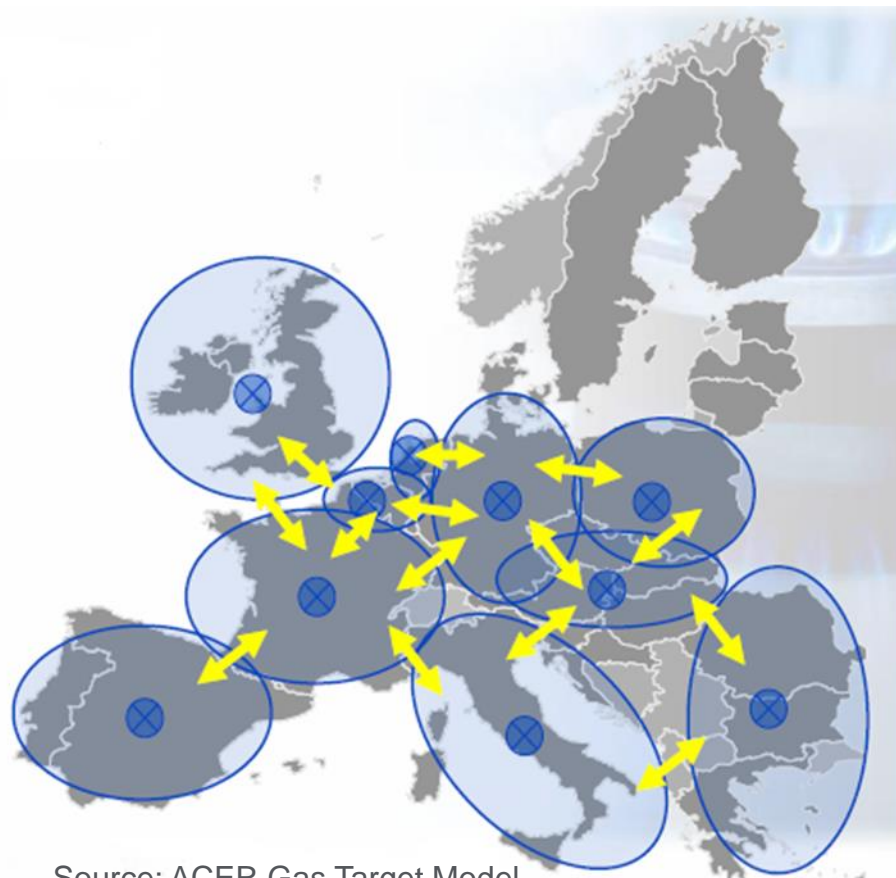


# Quo Vadis scenario “Delivery at EU border”

- Consultants selected “Delivery at EU border” scenario apparently to:
  - Reduce usage of long-term contracts,
  - Improve producer-to-producer competition, and
  - Reduce local market power of incumbent wholesalers
- It is fair to say that the consultants have expressed reservations
- IOGP has raised serious concerns about feasibility of this scenario that would require all outside suppliers to deliver long-term contracted gas quantities at EU entry points
  - Parties should be free to negotiate delivery point in commercial contracts
  - No legal basis to interfere with existing purchase-sale contracts
  - Undermines existing long-term capacity contracts and future investments
  - In the absence of EU-wide liquid markets, long term contracts remain essential to underpin upstream investments
  - Conflicts with Union’s fundamental right of free movement of goods

# An alternative approach?

- There are similarities with ACER/CEER's Gas Target Model
  - Implement Third Package and EU-wide network codes to establish competitive wholesale markets and facilitate trade between markets
- Objective is to establish single EU gas wholesale market
  - So far this project has delivered tangible results
  - Liquidity in NWE shows that the gas market design is not flawed
  - Implementation of the rules is still ongoing



Source: ACER Gas Target Model

# An alternative approach?

- Producers' key objective is to ensure commercial outlet for gas production
  - Avoid that upstream investment does not generate revenue due to market limitations
  - This is an essential difference between oil and gas production
- Historically in NWE, gas development projects would be initiated only after a long-term gas purchase & sale agreement was concluded
  - This could be an agreement to supply a market further downstream
- Today in a liquid NWE market, producers can sell their gas at the nearest gas hub (NBP, TTF) and do not need to find a market first
  - Also removes the need for long-term contracts
- Creating liquid gas hubs across the EU would provide an attractive outlet for gas producers
  - This alternative seems much better than forced delivery at EU border



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