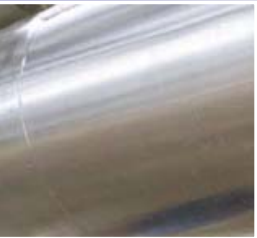


# Gas Supply Security

## Crisis Management & Stockpiling



***Bernd Schnittler***

*Secretary General*

*Union of European  
Petroleum Independents*

# UPEI is the umbrella organisation for the independent European oil trade

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- Independents – mainly small and medium sized companies – are represented through their national trade organisations in UPEI
  - > Companies are active in all fields save crude oil production, that is in importing, wholesaling, retailing, distribution, logistics and refining – and also in gas, electricity and renewable energies
- UPEI represents and promotes the interests of its Members at European level to ensure fair trading conditions, to promote competitive markets and to enhance security of energy supply

# Introduction to Gas Supply Security

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- Gas – Europe's most important primary energy source second to oil (24% of total fuel cons.)
- Fossil fuels will remain indispensable for energy supplies in the future as well
- Risks for security of supply are manifold
  - > Dependence on imports: By 2030 the dependence of OECD Europe on imports will increase to 69%
  - > Concentration of resources: 25% of European gas needs is imported from Russia
  - > Natural disasters, socio-economic instability of producing countries, dependence on pipelines...



# Examples of Energy Crises

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- Oil crises

- > 1973, Arab-Israeli war, oil embargo
- > 1980/81, Iranian revolution & Iran/Iraq war
- > 2005, Hurricane Katrina
- > Strike by oil delivery drivers (UK)

- Gas crises

- > 2005/2006 Ukraine
- > 2006/2007 Belarus
- > 2008/2009 Ukraine – some EU countries without gas (supply interruption)
- > ?
- > ?



# Crisis Management System

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- There is no crisis management system for gas in Europe
- The only measures are long-term gas supply agreements (contracts) and interruptible supply agreements ('fuel switching') in a few cases
- Storage of gas reserves is handled by the gas companies (e.g. E.ON) themselves who insist that
  - > Stocks for 40 days exist (e.g. in Germany) – transparency?
  - > “crisis precautions do function”
  - > “a general obligation to maintain stocks is (too) cost intensive”



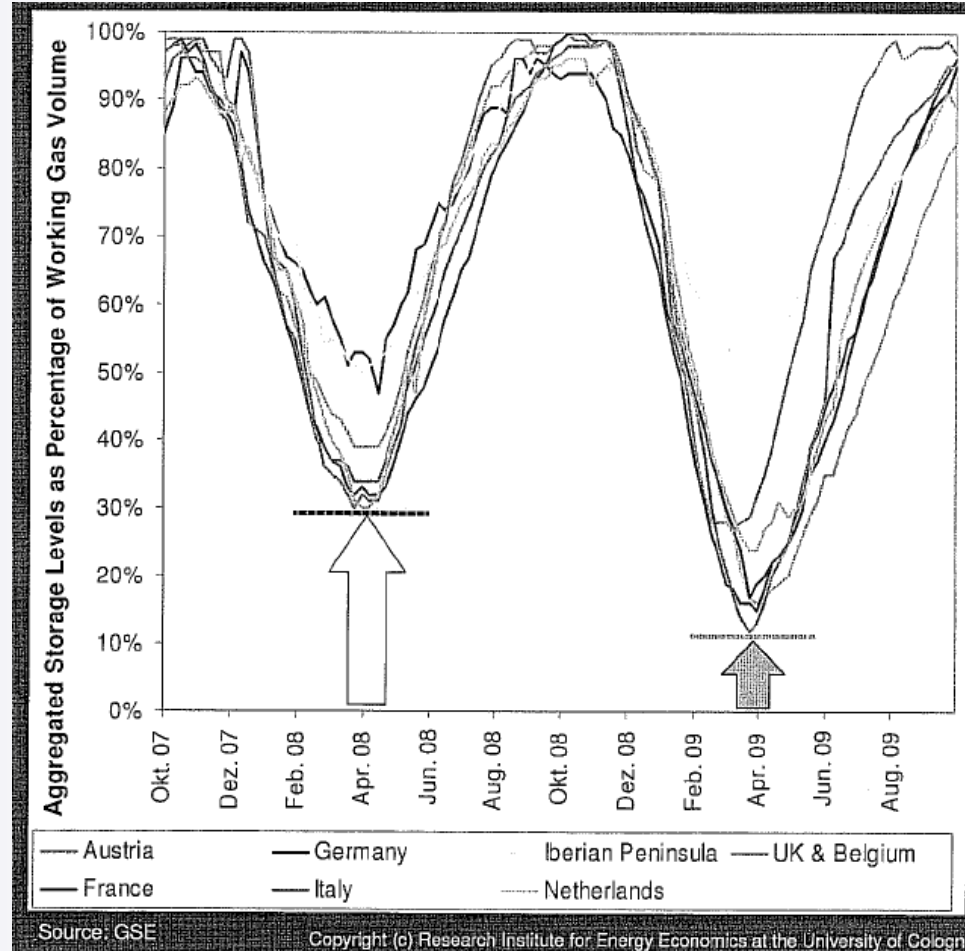
# The Role of Strategic Storage for Security of Supply

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- Distinction has to be made between commercial and strategic stocks, the first serve primarily to smooth out peaks in consumption
- Benefits of strategic stocks
  - > Greater price stability in crisis situations
  - > Smoothing out fundamental disruptions in supplies
  - > Time for policy makers to react
  - > Independence, thereby avoiding a tendency to political blackmail



# The Availability of Gas Stocks



# Costs of Strategic Storage

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- The macroeconomic and social costs of an interruption of supplies far exceed the cost of strategic storage
  - > i.e. costs of inflation, imbalance of trade and payments, high unemployment,...
- gas prices follow oil – and since oil prices include costs of security stocks as well as additional costs for cargo (winter/summer...) consumers pay already for that!



# Demands

- We need a **single emergency management system** for supply disruptions, particularly in Europe
- **Strategic stocks are an important element** of a risk management system for securing energy supply

We call for an effective European crisis management system that provides for gas storage which exists independently of the suppliers' commercial stocks!



# Upcoming EU Legal Framework

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- We welcome the new Regulation Proposal by the Commission concerning measures to safeguard security of gas supply
- However,
  - > **Voluntary solidarity** as foreseen in the proposed regulation will fail in times of crisis
  - > The proposal puts not enough emphasis on maintaining the **full gas supply scheme** and **security stocks**



# Conclusions

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- We need an effective crisis management system on national and EU level including strategic storage
- Concerning the proposed Regulation:
  - > The **prime responsibility** has to be more firmly anchored in the public domain
  - > **Primacy of EU crisis management** needs to be strengthened or formulated less ambiguously
  - > The encouragement of **interruptible contracts** must be coupled with the security regime of the alternative fuel

