

# IOGP reaction to proposed market interventions in context of 2021 energy price rises

**Introductory comment:** This reaction comes in the context of globally increasing energy prices. We recognize the severe impacts these can have especially on the most vulnerable consumers in society. We note that Governments are contemplating political remedies and on Oct. 13<sup>th</sup> the European Commission has adopted a Communication including a toolbox of immediate measures which Member States can use within the existing EU legal framework to address the impacts of the current prices increases. It is in this context that IOGP shares its views with interested stakeholders.


**On energy demand / supply:** The recent global rise in energy prices seems mostly driven by fundamental supply and demand developments resulting in a tightening of the global energy supply/demand balance. Energy demand declined significantly during the COVID19 pandemic and is now picking up again with the global economic rebound, especially in Asia. This increase in demand is confronted with reduced investments in supply capacities over the past years partially resulting from an unfavourable investment climate. Maintenance and repair works, unfavourable weather conditions across the world, and possibly lower than expected supply availabilities have also contributed to a tightening of the energy supply/demand balance.

**On market functioning:** The EU internal gas market rules implemented under the 3<sup>rd</sup> Gas Package have delivered a well-functioning market: As recent price increases seem to be mainly caused by a tightened global supply and demand balance, we have not observed major market dysfunctioning in Europe. The secure and safe supply to consumers in Europe has not been impacted by the rise of prices for short-term supplies at wholesale level. **This is thanks to a multitude of producers operating across the globe, reliable global supply chains, and a well-functioning European gas market and infrastructure which enables suppliers and transmission companies to source and dispatch gas across the network to meet market demand based on a variety of commercial arrangements including spot, mid and long-term contracts.**

**On natural gas's role in the energy mix:** In an environment of overall tight energy supplies, natural gas is demonstrating its essential role in the energy mix as a flexible, non-intermittent, and secure source of energy supplying reliably tens of millions of households, industry, and the power generation sector. Natural gas plays an important role in balancing the energy system and allows for a smooth and flexible integration of low carbon and renewable sources, while the more carbon intensive options are being phased out.

**On energy efficiency:** The increase of energy prices also reminds policy makers and industry about **the importance of investments into the efficient use of energy** and the significant impact such investments have on climate-protection.

**On government interventions / strategic storages:** **Direct government intervention into functioning markets including into free market-based price formation may have unintended long-term consequences and should be very carefully assessed.** We recognize that rising energy costs cause real challenges for certain consumers. **Where required, policy makers may best address energy poverty with targeted financial support of vulnerable/low-income consumers.** Such support can best be provided through social policy instruments and should not impact the functioning of the wholesale markets. In this context, we remind policy makers of the EU Security of Supply Regulation which established solidarity measures across the industry protecting supplies especially to vulnerable consumers. Establishing roles for the EU or



other authorities to manage strategic gas storage reserves or joint gas procurement require careful evaluation of costs and benefits and need to demonstrate how they can indeed help improve EU security of supply and prevent circumstances similar to the ones we are currently experiencing.

**On EU energy market framework and climate policy proposals:** IOGP supports the goals of the Paris Agreement and the EU's ambition to reach climate neutrality by 2050 **and highlights that an efficiently functioning energy market with free and transparent price formation for competing energies from a diversity of domestic and global suppliers including LNG will best ensure cost-efficient, secure supplies to consumers.** We remind policymakers not to lose sight of energy market fundamentals and the need for a stable framework **including for investments into domestic production**, transport and storage of natural gas as well as into low-carbon and renewable gases as they will have an important role in the supply of an increasingly fluctuating demand for decades to come. In this context, we point out that the EU Fit for 55 climate proposals including the Hydrogen and Decarbonized Gas Package are an important opportunity to support the integration of low-carbon and renewable gases into the EU energy system.

Finally, we recommend support for policies that allow for new investments into domestic natural gas production and infrastructure within the EU energy policy framework.

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