

Supporting document¹ to IOGP Europe response to European Commission survey on 'Assessing the interest in a long-term product, cooperation arrangements and decarbonization options under the EU Energy Platform'

II. Long-term gas needs

- **Question 1: Would you be interested in using a long-term product (of 5 up to 20 years) if developed as part of the joint purchasing mechanism?**

We welcome EC's recognition of long-term contracts for natural gas supplies to Europe. Long-term contracts are complex, negotiated and tailored to manage the commercial requirements of buyers and sellers. Such long-term contracts cannot be standardised. Long-term contracts involving consortia need to consider terms related to regasification capacity booking, joint slot management, and shared liabilities in case other parties in consortia fail to fulfil contractual obligations. In the EU gas market, there are existing competitive entities navigating such complexities, which offer aggregation services to facilitate natural gas sourcing. Additionally, Exchange and brokerage services are already well-established for the main European virtual trading points, where majority of the AggregateEU's matched demand was located. It is worthwhile noting that volumes handled by the AggregateEU platform are low: natural gas trades concluded at the Dutch TTF alone amounted to more than 4590 Bcm in 2023, compared to the 45 Bcm matched by the AggregateEU platform.

- **Additional comments on long-term gas needs:**

Natural gas plays a key role in providing Europe with affordable, reliable, and stable energy and stabilizing an increasingly renewable-based energy system. In a volatile global gas market, securing longer-term supplies reduces market exposures and may help reduce overall cost of gas supply to Europe, however, these should be concluded independently by market parties in competition with each other, which is a cornerstone of the EU single energy market. The abundance of global natural gas resources can provide the European market with the needed energy, while meeting the net-zero objectives, in particular under the form of abated natural gas using CCS.

Europe has yet to secure 800 Bcm supplies from 2028 to 2040, amounting to above €260B in value (based on Fit for 55 scenario in the Rebalancing Europe's Natural Gas Supply study)². A robust strategy to secure required volumes and reduce exposure to price volatility relies on a substantial amount of long-term supplies. New LNG supply projects will likely require long-term contracts to support / underpin the significant investment required. It is also vital to recognize the security of supply provided by ample LNG regasification capacities and prevent premature decommissioning of natural gas infrastructure.

¹ IOGP Europe comments exceeding 1000 characters.

² IOGP Europe, API ; 2023: <https://iogpeurope.org/wp-content/uploads/2023/12/Europe-gas-rebalance-2023-2nd-edition.pdf>

V. Methane emissions reduction

- **Additional comments on methane emissions reduction:**

Supporting the commercialization of recovered natural gas volumes could incentivize investment in methane abatement projects where those are economically viable, however, it is crucial to allow operators the flexibility to devise solutions in line with market dynamics, given the specific characteristics and challenges of the O&G value chain, unique operating conditions of different regions and types of production, and continuous advancements in methane emission quantification.

If EC decides to support importers on the fulfilment of the new importer obligations, such support given should only be limited to the implementation (e.g. providing guidance, templates) of EU Methane Regulation Articles 27, 28 and 29. The EU Methane Regulation does not foresee standard reporting template supplementing Annex IX ('Information to be provided by importers in accordance with Article 27(1), Article 28(1), (2) and (3), and Article 29(1)') through secondary legislation. These efforts should benefit also those importers who do not participate in AggregateEU tenders to avoid discrimination against market players.

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Assessing the interest in a long-term product, cooperation arrangements and decarbonisation options under the EU Energy Platform

Introduction

Since its launch by the European Commission in April 2023, major progress [1] has been made on the operability of demand aggregation and joint purchasing (“joint purchasing”) under the EU Energy Platform [2]. Its objectives are to leverage the weight of the EU single market to secure supplies of gas and support affordability. The legal basis for the service of joint purchasing is the Solidarity Regulation [3] and its extension in 2024.

The joint purchasing mechanism currently proposes two types of products: short-term and mid-term. With the **short-term product**, flat demand and offers are expressed for each month over a period of up to 20 months. The demand is aggregated per location and month before tendering. The demand/supply matching is done on a pro-rata basis, starting with the most competitive offers. In comparison, demand in the **mid-term product** is expressed for six months (season) over a period of up to 5 years. Seasonal demand of an individual participant is tendered separately and the buyers receive all expressions of interest from suppliers. Negotiations and contracting take place outside of the existing service for joint purchasing for both types.

Please note that answering all questions is not mandatory and your feedback on any portion of the survey is valuable.

Please insert the name of the organisation that you are representing:

International Association of Oil & Gas Producers (Europe)

Please select your organisation's field of activity:

- Integrated market player
- Retailer
- Industrial consumer
- Power generator
- Infrastructure operator/owner
- Exporter
- Producer
- Trader
- Financial intermediary
- Other wholesaler
- Other

Please, specify:

Trade association

Please enter your position:

Senior Policy Officer

[1] Through the five rounds of demand aggregation, at total of 87.7 bcm of gas demand has been aggregated, offers for 158.5 bcm have been received and 75.8 bcm have been matched.

[2] The EU Energy Platform is the operational setup put in place by the European Commission with three main objectives to address the energy crisis: (1) demand aggregation and joint purchasing of gas, (2) most efficient use of existing infrastructure and (3) international outreach.

[3] Council Regulation (EU) 2022/2576 of 19 December 2022 enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders.

Long-term gas needs

As part of our commitment to support security of supply and competitiveness of energy procurement under the EU Energy Platform, the European Commission is launching this market survey **to gauge the interest of EU gas market players in the development of a new long-term product** under the voluntary mechanism for joint purchasing.

The new product would also contribute to providing more transparency on EU future gas demand and the role of gas in the decarbonisation pathways of industries. Indeed, testing long-term gas needs could support business decisions fully aligned with the decarbonisation of the EU energy sector and the broader economy under the European Green Deal.

Provided the interest of the European buyers in using the new long-term product on the joint purchase platform, the European Commission will also explore the interest of reliable international gas producers, suppliers and traders.

The following questions aim at gathering information about the interest of gas market players in the development of a new longer-term product as part of the joint purchasing mechanism.

Question 1: Would you be interested in using a long-term product (of 5 up to 20 years) if developed as part of the joint purchasing mechanism?

- Yes
- No

Why?

1000 character(s) maximum

We welcome EC's recognition of long-term contracts for natural gas supplies to Europe. Long-term contracts are complex, negotiated and tailored to manage the commercial requirements of buyers and sellers. Such long-term contracts cannot be standardised. Long-term contracts involving consortia need to consider terms related to regasification capacity booking, joint slot management, and shared liabilities in case other parties in consortia fail to fulfil contractual obligations. In the EU gas market, there are existing competitive entities navigating such complexities, which offer aggregation services to facilitate natural gas sourcing. Additionally, Exchange and brokerage services are already well-established for the main European virtual trading points, where majority of the AggregateEU's matched demand was located.

Please refer to extended IOGP Europe response in supporting document attached.

Question 2: Can the development of the long-term product (of 5 up to 20 years) as part of the joint purchasing mechanism contribute to improving contracting opportunities (e.g. multiplicity of offers, competition between suppliers, ability to compare, etc.)?

- Yes
- No

What duration of the new long-term product would be useful and why?

1000 character(s) maximum

Natural gas plays a key role in providing Europe with affordable, reliable, and stable energy and stabilizing an increasingly renewable-based energy system. In a volatile global gas market, securing longer-term supplies reduces market exposures and may help reduce overall cost of gas supply to Europe, however, these should be concluded independently by market parties in competition with each other, which is a cornerstone of the EU single energy market. The abundance of global natural gas resources can provide the European market with the needed energy, while meeting the net-zero objectives, in particular under the form of abated natural gas using CCS.

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What should be the main parameters on which the new long-term product should focus?

- Price competitiveness
- Flexibility (destination and volume)
- Security of supply
- Benchmarking opportunities
- Others

What essential features should be designed to adequately address the main parameters you previously identified? (for example binding nature of the tenders, indicate flexibility requirements in demand submission, etc.)

1000 character(s) maximum

Additional comments on long-term gas needs:

1000 character(s) maximum

Cooperation arrangements

Cooperation arrangements for joint purchasing of gas, for example a consortium could strengthen negotiating power and enable more advantageous purchasing conditions for buyers, which would be subsequently passed-on to consumers in the downstream selling market(s) [4].

The following questions aim at gathering information about the interest of gas buyers for the development of new cooperation arrangements for the joint purchasing of gas under the joint purchasing mechanism.

Question 3: Would you be interested in entering a cooperation arrangement with other European buyers for the joint purchasing of gas to strengthen the negotiation power and enable more advantages purchasing conditions?

- Yes
- No

Question 4: In the past, have you entered into cooperation arrangements for the joint purchasing of gas?

- Yes
- No

Question 5: Could cooperation arrangements between EU purchasing companies lead to better prices or improved contractual provisions (e.g. flexibility) in long-term contracts compared to individually-negotiated long-term contracts? How?

- Yes
- No

Why?

1000 character(s) maximum

No joint purchases of those registering their demand are enabled by the platform, reflecting recognition of the legal and commercial complexities of joint purchases (e.g. agreement by multiple parties on joint liabilities, governing contract laws, credit worthiness criteria, prices, joint delivery points, force majeure terms, jetty slot management for LNG ships, etc). These complexities would likely not lead to better prices / contractual provisions if joint long-term purchases were enabled compared to those negotiated individually.

Question 6: Would you expect the European Commission to assist European buyers in forming these cooperation arrangements?

- Yes
 No

Why?

1000 character(s) maximum

While support may include facilitating negotiations and providing regulatory guidance, it is critical for the Commission to maintain a market-based approach, promoting fair competition and transparency.

Additional comments on cooperation arrangements:

1000 character(s) maximum

There are concerns that AggregateEU is having an adverse effect in Member States and Energy Community Contracting Parties where the existing market framework has not fully matured or competition is in its infancy.

[4] For example, joint purchasing arrangements may allow smaller undertakings to obtain better purchasing terms and thereby remain competitive on the downstream selling market(s) when faced with strong competitors. Undertakings may also engage in joint purchasing in order to prevent shortages or address interruptions in the production of certain products, thus avoiding disruption to the supply chain.

Contractual arrangements supporting decarbonisation

Innovative contracting practices can support the progressive decarbonisation of energy purchases, while allowing those contracts to last for longer. These could, for instance, consist of the inclusion of GHG abatement provisions as part of gas sales and purchase agreements, in emission standards requirements or in energy contracts foreseeing the progressive switch over time from a carbonised energy vector (i.e. gas) to a decarbonised one (e.g. hydrogen).

The following questions aim at gathering information about the interest of gas buyers in the development of innovative gas contracting practices under the joint purchasing mechanism.

Question 7: Can the joint purchasing mechanism support the standardisation of contractual framework for decarbonisation of energy contracts (e.g. methane emission requirements, transition from gas to decarbonised energy vector, etc.)?

- Yes
- No

Additional comments on contractual arrangements supporting decarbonisation:

1000 character(s) maximum

Generally, gas buyers participating in wholesale markets can autonomously handle their decarbonization endeavours, rather than being mandated to align with competitors. It is important to note that "contractual standards" lack efficacy and are subject to alteration by contract parties. The EC is already establishing a requirement for methane emission MRV equivalency vis a vis suppliers in the context of the EU Methane Regulation. EC should prioritise confirming such equivalency. Further, EC should continue international work to establish a global GHG emissions MMRV framework.

Methane emissions reduction

The following questions aim at gathering information about the interest of gas buyers for the development of solutions to market and monetise gas volumes resulting from emissions reduction projects (i.e. leak detection and repair or capturing gas from venting and flaring activities) related to existing assets in producing countries.

Question 8: Should the joint purchasing mechanism propose dedicated solutions supporting methane abatement projects in oil & gas production and transport and support the commercialisation of recovered volumes?

- Yes
- No

Projects associated methane abatement can lead to lower return on investment than other standard upstream investment (i.e. greenfield or brownfield production extension projects).

Question 9: What do you see as possible revenue models to support the monetisation of such projects?

1000 character(s) maximum

Projects aimed at reducing methane emissions in oil and gas production and transportation, along with initiatives for commercializing recovered volumes, could receive support independently of joint purchasing mechanisms. For instance, this support could be provided through tax incentives or offering low-interest loans for investments in methane reduction.

Question 10: Should the joint purchasing mechanism support EU importers on the fulfilment of the new import obligations under the provisional text of the Methane Regulation? (i.e. methane intensity level limitations)

- Yes
 No

Additional comments on methane emissions reduction:

1000 character(s) maximum

Supporting the commercialization of recovered natural gas volumes could incentivize investment in methane abatement projects where those are economically viable, however, it is crucial to allow operators the flexibility to devise solutions in line with market dynamics, given the specific characteristics and challenges of the O&G value chain, unique operating conditions of different regions and types of production, and continuous advancements in methane emission quantification.

Please refer to extended IOGP Europe response in the supporting document attached.

We welcome your position paper.

Please upload your file(s) below.

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/Supporting_document_to_IOGP_Europe_response_to_market_survey_on_long-term_contracts_in_joint_purchasing_mechanism.pdf

Thank you for your contribution!

Please note that your responses will be used solely for analytical purposes and to inform policymaking initiatives.



Contact

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