CONSULTATION RESPONSE

EU Call For Evidence

Critical Products – Diversifying supply chains

Diversification in gas supplies is ensured through market-enabling measures

Energy Traders Europe welcomes the opportunity to contribute to the Diversify EU process. The intention to present a diversification package that aspires to reduce dependencies in critical sectors is understandable in today's world. Our consultation response focuses mainly on the applicability of the measures considered to the dependencies observed and broadly commented on in the context of natural gas supplies (inc. LNG) but also touches upon the broader energy market.

Key Messages

Natural gas is a globally traded commodity, which offers supply flexibility to Europe. The global gas market benefits from considerable diversity, and the EU gas market has already proved its worth in adapting to alternative sources since 2022, enabling the replacement of the bulk of Russian production volumes. In terms of the new policies considered by the Commission, it is of paramount importance to ensure that access to elastic supplies remains intact, particularly as the EU fully phases out imports from Russia next year.

Europe, which is a net importer of gas and which, like the rest of the world, is facing ever-changing geopolitical risks, must play to its strengths. The internal energy market is a major strength and key asset for Europe. A stable and well-functioning market offers the most cost-effective way to attract diverse supplies to Europe and therefore provides consumers with the single biggest protection against geopolitical upheaval. Diverse supplies are attracted to Europe without the deployment of unnecessary and counterproductive interventions.

In terms of specific areas explored in this call for evidence:

1. **Market arrangements already provide the right incentive to diversify the gas supply portfolios of individual companies.** Contemporary gas markets involve elaborate contractual arrangements, often offering considerable flexibilities in terms of sources of gas supplied, delivery points, contract duration and pricing structures. These arrangements have largely replaced the inflexible long-term take-or-pay arrangements, as they facilitate efficient trade, improve reliability and liquidity and are attractive to both sides of a transaction. This

flexibility enables market participants to respond to changing supply conditions and replace volumes removed from the market. Diversification policy should preserve these arrangements rather than prescribe particular origins or portfolio compositions

2. **Natural gas being a globally traded commodity with a liquid and competitive supply, importers of natural gas to the EU should be enabled to contract freely from any source that fits with the EU foreign policy positions.** This flexibility has facilitated the switch away from Russian-produced gas since 2022 and remains essential to Europe's security of supply.

3. **It is not always possible to track the precise origin of all gas or power supplied into an integrated market.** Gas is often imported via long and complex supply chains and can be traded multiple times prior to being imported. Despite the best efforts from the EU importer, there is very often no visibility on the specific origin of gas to be supplied. In practice, requirements imposed on EU businesses to report on the origin of gas **beyond customs declaration** will disrupt free trade and create an unnecessary cost that will ultimately be passed down to consumers.

4. In addition, **attempts to affect the existing supply mix with specific trade instruments risk creating distortions** or lead to price premia for certain sources. Contractual arrangements for the supply of natural gas are flexible and efficient from an economic perspective. Gas sellers have little incentive to step back from these flexible arrangements that have developed over time and where Europe has played a leading role. Interventions such as tracing obligations will risk driving flexible supplies away from the EU and towards other markets, as gas is a globally traded commodity. In addition, both gas sellers and buyers are already naturally incentivised to diversify their supplies, which can be seen in the growth of portfolio sales and Free on Board (FOB) purchases by EU importers.

5. **Diversity of gas supplies to the EU should be considered at the level of the internal market.** While the level of integration between Member States varies in different regions, natural gas can be moved throughout Europe using its extensive gas infrastructure. The ability of the natural gas infrastructure to facilitate diverse sources of supply has been enhanced in recent years with the addition of a number of LNG importation terminals. Policy instruments already exist to ensure the adequacy of the transmission network is maintained; therefore, any consideration of diversity at regional or national level is unnecessary and will drive inefficient outcomes for diversity of supply in the internal market. Instead, efforts to

strengthen security of supply should focus on expanding infrastructure to further improve access to the global market and continue to tackle any interoperability issues between regional demand and supply centres.

6. **Care should be taken to avoid reducing the resilience of the market.** More selective diversification requirements or incentives will reduce the EU gas market's ability to respond flexibly to changing global market conditions. These potential trade-offs should therefore be considered as part of the design of any measures as a less resilient market is more vulnerable to price and supply shooks.
7. **The design of existing policies can already affect the diversification efforts of energy trading entities.** While the need to diversify away from Russian gas supplies is understandable, inconsistent implementation of the Regulation stands in the way of legitimate imports. One policy step that the EU could easily take to incentivise further diversity of gas supply is to expand the current list of exporting countries exempted from the pre-authorisation requirements of Regulation (EU) 2026/261. Whilst 6 countries currently have exemptions, all countries without the realistic capability to import Russian gas should also be exempted.

   Secondly, the importer requirements stemming from the Methane Emissions Regulation have the potential to limit the amount of gas eligible for imports into the EU. The relevant obligations should therefore only apply once sufficient levels of compliance with all requirements is confirmed. Future regulations should carefully assess potentially adverse outcomes before being put in place.

8. **Maximise domestic production potential.** Whilst the topic of this process is the diversity of imported products and raw materials, maximising domestic energy production, whether it is natural gas or electricity, should always be preferable in order to displace the need for imports and as additional diversification source. In particular, maximising the potential of domestic bio-methane and hydrogen are no-regret measures that will benefit multiple policy aims. Likewise, the eventual integration of Energy Community electricity markets into the Internal Energy Market, based on commonly agreed principles, will contribute to the policy objectives of the European Commission and should be accelerated. Similar reflections apply to the expansion of the Internal energy market to Switzerland and Great Britain.

9. **Cooperation between the energy industry, the Commission and the Member States is central to gas imports diversification efforts, as it is key to enhance integration of the internal market.** Unrestricted market access, consistent implementation and enforcement of the agreed rules underpin building the single market. A single EU market with sufficient integration, in turn, ensures efficient use of the infrastructure, ample flexibility to adapt to global market circumstances and sustained attractiveness for gas imports from all sources and is key to improve affordability and competitiveness.

10. **Reduce complexity and ensure consistent application of regulations that support EU supply chains.** The Diversify EU process is an opportunity to reduce red tape/complexity and keep regulation simple in the important supply chains that support energy production projects and network expansion. A clear and predictable EU policy toolbox that reduces overlapping measures should be created. For example, avoid duplicating NZIA/IAA requirements with new sourcing or auction rules and use existing trade-defence tools (anti-dumping, anti-subsidy, FSR, investment screening) rather than creating new ones.

Contact

Pawel Lont
Chair of the Gas Committee
p.lont@energytraderseurope.org