



**ENERGY CHARTER
SECRETARIAT**



**MINISTRY OF
NATIONAL DEVELOPMENT**

WORKSHOP ON CONTRACTUAL ISSUES RELATED TO ENERGY TRADE

**20 March 2013
Budapest, Hungary**

BACKGROUND

The Energy Charter Treaty's purpose is to promote long-term co-operation in the energy field, based on complementarities and mutual benefits. It further contains an obligation for the Contracting Parties to generally develop an open and competitive market for Energy Materials and Products. The Energy Charter is by its mandate and competence an organisation promoting international energy security.

The long-term contractual relationships between suppliers and consumers of natural gas as well as the developments towards more competitive and often short-term trading mechanisms are therefore highly relevant for the Energy Charter. These relationships are usually maintained by commercial entities, but governments and international organisations play a major role in setting the framework of rules for co-operation of private sector entities and in facilitating major projects.

The changes in the trading schemes in the natural gas sector have been particularly significant. For decades, long-term contracts for natural gas have been the backbone of energy security for many countries. At the same time, they are seen by some as impediments in the development of a competitive market. This has caused regulatory authorities to investigate into some long-term contracts in view of their compliance with competition law. In addition to that, the recent evolution of the natural gas markets, notably the surplus capacity that resulted from the US shale gas revolution, has put long-term natural gas contracts in Europe and their pricing formulas under significant pressure. End-consumers have largely appreciated this development, which went together with an increased share of natural gas traded at the hubs at lower prices. However, the implications of these developments in the long run are not easy to predict.

It is in the Energy Charter's interest to discuss the public-private interfaces related to long-term contracts and short-term trading in view of their role for energy security, defined by some as security of supply at affordable prices and by others as security of demand. This is the purpose of the Workshop On Contractual Issues Related To Energy Trade, which the Energy Charter Secretariat intends to organise in co-operation with the Ministry of National Development of Hungary in Budapest on 20 March 2013.

OBJECTIVE

The General Objective of the Workshop is to provide a venue for the stakeholders – experts from governments and industry – to engage in a matter-of-fact discussion on current developments related to long-term energy co-operation and short-term energy trading and to exchange experience in this regard. The Workshop shall facilitate open-minded reflections and interactions rather than the presentation of official positions. The aim is to contribute to a better mutual understanding of the complex underlying issues and of each party's legitimate objectives and interests. In particular, the awareness of public policy goals and regulation on the one side and commercial interests and market developments on the other shall be raised. The Workshop shall be held under Chatham House rules.

Specific objectives:

- Discuss the evolution of long-term contracts and hub trading in Europe, America and Asia
- Analyse the specific interests of exporting, importing and transit countries and how they affect the choice of the contractual structure of natural gas trade
- Build a better understanding of the influence of governments and regulators on natural gas sales-purchase contracts
- Discuss some typical clauses of long-term contracts, assess them against their purpose and compliance with competition law.

PROGRAMME

8:45 – 9:15 Registration

9:15 – 9:45

Opening Session – Setting the scene

- Welcoming remarks
 - o Amb. Anita Orbán, Ambassador at Large for Energy Security, Hungary
 - o Amb. Urban Rusnák, Secretary General, Energy Charter

9:45 – 11:00

Session 1 – Role of Long-term Contracts and Hub Trading in Natural Gas Markets (Europe, America, East Asia), Moderator: Yulia Selivanova, Expert, Energy Charter Secretariat

- 9:45 The historical context of the evolution of long-term contracts and hub trading in Europe and the USA
Kim Talus, Professor of European Law, University of Eastern Finland
- 10:05 Price formation changes in Europe and recent developments in LNG markets and their impact on gas markets in Asia
Thierry Bros, Senior Analyst, Société Générale
- 10:25 How should Japan deal with its LNG pricing challenges?
Toshikazu Ebato, General Manager, JOGMEC
- 10:40 Discussion

11:00 – 11:20 Coffee break

11:20 – 12:45

Session 2 – *The perspective of exporting, importing and transit countries; Moderator: Florian Encke, Senior Expert, Energy Charter Secretariat*

- 11:20 Long-term investments in the gas industry: the role of oil indexation
Andrey Konoplyanik, Advisor to the General Director, Gazprom Export
- 11:40 Transportation and transit: adapting to market realities
Leonid Unigovskyi, General Director, OOO ‘Naftogazbudinformatika’, Kyiv
- 12:00 Gas supplies and gas trade in Central Europe: current situation and perspectives
Marc-Antoine Eyl-Mazzege, Russia Programme Manager, International Energy Agency
- 12:20 Discussion

12:45 – 13:45 Lunch

13:45 – 15:15

Session 3 – *The role of governments and their interaction with the private sector; Moderator: Kim Talus, Professor of European Law, University of Eastern Finland*

- 13:45 Energy policy of resource-owning countries and the choice of the contractual structure
Dr. Brenda Shaffer, Advisor to the President of SOCAR
- 14:05 Public principles governing the commercial relationships in private gas trade
Simon Blakey, SAB Global Energy
- 14:25 Regulatory perspective
Kristof Kovacs, Policy Officer, DG ENER, European Commission
- 14:45 Discussion

15:15 – 15:40 Coffee break

15:40 – 17:10

Session 4 – *Long-term contracts and hub trading in practice; Moderator: Thierry Bros, Senior Analyst, Société Générale*

- 15:40 The growing role of hub-based gas pricing
Doug Wood, Chairman of the Gas Hub Development Group, EFET
- 16:00 A viable pricing model for Europe
Andrey Konoplyanik, Advisor to the General Director, Gazprom Export
- 16:20 Key provisions of long-term contracts
Georgios Petrochilos, Partner, Freshfields Bruckhaus Deringer
- 16:40 Discussion

17:10 – 17:30

Concluding session; *Moderator: Amb. Urban Rusnák, Secretary General, Energy Charter*

BUS TRANSFER TO THE NETWORKING DINNER upon invitation by the
Ministry of National Development of Hungary
Buses will depart immediately after the concluding session