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Energy in the EU-US Transatlantic Trade and Investment Partnership (TTIP)

Introduction

Access to secure, reliable and competitive energy sources is in Europe's strategic interest. The recent political developments in some of the EU's major energy suppliers highlighted the urgency of broadening sources of supply to enhance EU energy security. The EU must define a clear and consistent cost-effective strategy to diversify its energy sources both domestically and externally. In the medium to long-term TTIP offers interesting perspectives to expand the EU's external energy supplies. At the same time the agreement could set the benchmark for future free trade agreements on broader energy-related issues¹.

This paper is outlining BUSINESSEUROPE's views on specific energy-related issues in the context of TTIP negotiations.

Diverging paths on the two sides of the Atlantic

In the **United States**, it is clear that a significant energy "revolution" has taken place; one that is having and will continue to have a major impact on EU and global energy markets. Within a couple of years, the energy situation in the US has radically changed from being one of increasing dependency on oil and gas imports to a situation where US domestic production of both oil and gas have expanded significantly.

The US Energy Information Administration's 2014 Annual Energy Outlook suggests that US crude oil and petroleum products import dependency will continue to decrease from 41% in 2012 to only 25% in 2016. While current predictions suggest that imports may increase thereafter again, these are expected to be largely sourced from the same continent rather than from the Middle East. Today, for the first time in sixty years, the US is exporting more refined petroleum than it is importing.

And US domestic production of natural gas is expected to increase until 2040, surpassing domestic consumption before 2020 and spurring net exports of gas. The US becomes a net LNG exporter in 2016, with gross exports reaching their peak level of 3.5 trillion cubic feet in 2014. This changed situation is already having a major positive impact on the competitiveness of certain economic sectors in the US, particularly on energy intensive industries.

¹ Energy, including energy-related products such as feedstock



In the **EU**, import dependency will increase significantly as domestic oil and natural gas production continues to decline. Domestic oil production is expected to decline by 57% by 2035. Production of natural gas is expected to decrease by 46% over the same period. In the case of natural gas, the EU's imports should rise by 49% and gas import dependency rises from 66% to 84% (BP, Energy Outlook, 2014). This drop in production could be mitigated, in part, by developing EU unconventional gas resources. Alongside fossil fuels and nuclear energy, renewable energy sources and energy efficiency are expected to play a stronger role in the EU's future energy landscape.

At the same time the EU faces the challenge of high energy prices which are particularly important for the EU's relative global competitiveness. In 2012, industrial gas prices were on average more than four times lower in the U.S. than in Europe. As a result, the International Energy Agency predicts that by 2035 the EU's share of the global export market for energy-intensive products will drop by 10% while the US' share will increase by 1%.

Transatlantic energy trade

Imports of **crude oil** to the EU from the US do not exist yet, given that exports of crude oil are subject to US export license requirements. Trade in **natural gas** does not exist yet, but the first LNG exports from the US to the EU are expected in the forthcoming years.

The trade of **oil products** between US and EU has amounted to \$32billion in 2012. Gasoil/diesel is the main US product imported by the EU and increasingly so. In 2012, EU imported 340,000 barrels per day of diesel from the US. Gasoline is the main export from the EU to the US: In 2012, the EU exported 350,000 barrels per day of gasoline (US Energy Information Agency). The possibility to export this product to the US has been shrinking recently and is expected to decline even further due to the booming US refining business supported by cheap feedstock energy from US shale gas and oil production.

The US is one of the EU's largest suppliers of **coal**. In 2012, the United States were the main supplier of the EU, accounting for 49.6 Mt (23.4% of total EU imports), followed by Russia (45.8 Mt) and by Colombia (44.3 Mt) (Eurostat).

Current trade barriers

The main barriers that currently prevent an effective access to energy sources exist in the US. In particular, export restrictions for US LNG (need to undergo complex and non-transparent licence procedures) and the US ban on crude oil exports. Under current US law, natural gas exports to FTA partner countries are allowed in principle, but must nevertheless undergo a licensing procedure. In the case of natural gas exports to non-FTA partner countries, it must first be examined whether they are in the "public interest". Considering that both the EU and the US have generally spoken out against all measures that prevent free trade and access to raw materials of any nature, be it export bans or export restrictions (quotas, export duties), TTIP should set a legal



framework that goes much further than the current WTO rules on export restrictions on raw materials. This agreement could also be used as a blue print for other bilateral negotiations and serve as a role model for the multilateral agenda.

BUSINESSEUROPE positions

BUSINESSEUROPE adheres to the fundamental principles of transparent, competitive and non-discriminative international energy markets. Given the importance of the transatlantic energy trade, we see the need for dedicated chapter/provisions on energy in the TTIP agreement. We advocate an agreement that removes barriers, promotes market-oriented policies and creates genuine business opportunities that foster economic growth and job creation.

Market access

BUSINESSEUROPE calls for the elimination of all export restrictions on energy and energy-related products and services, be it in the form of export bans, export quotas, licences, or export subsidies, as well as removal of tariffs and any discriminatory measures on crude fossil fuels, refined products, equipment and other goods that support exploration, production, manufacturing, transport and retailing.

TTIP should secure the lifting of existing gas export restrictions to allow US LNG to reach the global market and it should also relax US export restrictions on crude oil. While an important one, TTIP is not the only route to improving the European energy situation. A number of internal EU factors need to be addressed such as inefficient functioning of gas and electricity markets and high taxes, levies or other surcharges. Further diversification of EU supplies and indigenous exploration of shale gas are equally necessary.

BUSINESSEUROPE recalls also the importance of eliminating provisions that create discrimination between domestic and foreign providers (e.g. “Buy America” provisions) for energy projects, especially for nascent energy industries.

Pricing

Specific provisions to prevent Dual pricing policies should be foreseen. Governments should refrain from intervening and let market prices prevail on the domestic gas and electricity markets. They should not impose prices for exporting energy productions which are higher than domestic prices.

Access to exploration and production

Once an area has been made available for exploration and production, non-discriminatory access and licensing should be provided for operators from both sides of the Atlantic. Transparency in the process of licensing and allocation conditions of licenses should be ensured.

Sustainability

EU/US leadership should support global efforts to environmental objectives and the fight against climate change. However, environmental policies on both sides should be



pursued in accordance with established WTO principles of non-discrimination and should not become barriers to trade.

Collaboration on new innovative technologies

BUSINESSEUROPE supports the conclusion of an agreement that would lead to an EU/US leadership in efficient and innovative energy and environmental technologies. In particular, it should increase the collaboration in the field of energy technologies such as smart grids, energy storage, energy efficiency, renewable energy sources, carbon capture and storage and unconventional hydrocarbons to facilitate their deployment.

It should also promote the co-ordination of financial support for pre- and early commercial deployment of technologies. And it should support the interoperability of relevant technical standards, e.g. as already achieved in smart grid, including the mandatory application of those standards.

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