



## POSITION PAPER ON SHALE GAS

### Introduction

IFIEC and Fertilizer Europe are convinced that shale gas development in Europe is vital for secure, competitive energy supplies. European industry has a history of operating to the highest possible environmental and safety standards in the world. The same safety and environmental standards (like currently been undertaken by DECC in UK and other agencies) will provide a sound platform for the development of shale gas.

### Shale gas in US

Exploration and production of shale gas during the last years in US has created a revolution in the North American gas market, a development that has proved highly beneficial for both households and industry. The development of shale gas has transformed North America from a net gas importer to a prospective exporter.

According to estimates from the International Energy Agency, shale gas will enable the US to become self-sufficient by 2030.

Note that shale gas in September 2012 was 35% of the US supply. It is not necessary for Europe to be self sufficient in shale gas in order to have a profound impact on the market dynamics.

Only a few years ago the US was prepared to construct a number of LNG receiving terminals and prices were above the present gas price in Europe. Now, low gas costs are helping to hold down electricity prices in North America as the share of natural gas in power generation increases. Furthermore, the shale gas revolution has cut the US's greenhouse gas emissions to their lowest level since 1992, as power plants across the country have switched to gas from coal.

### High energy costs puts European firms at competitive disadvantage

Access to a stable and diversified energy supply under competitive conditions is critical for European industry. For a long period of time, there has been a significant and growing gap between the energy prices paid by European businesses and their foreign competitors. This trend has been reinforced further by the shale gas revolution in the US as availability of low-cost natural gas has created a competitive advantage for American manufacturing industry. There is a widespread fear that this growing divide between European and US energy costs could drive energy-intensive manufacturers to divert investments that might have gone into Europe to the US instead. And this dramatic competitive disadvantage for Europe will be sustainable. According to a forecast from the International Energy Agency, electricity costs in the EU will be 50% higher than those in the U.S. and about 300% higher than in China by 2035.

## **Shale gas potential in Europe**

Early studies suggest that Europe has significant resources of shale gas spread throughout the continent. In fact according to the American Energy Information Agency, Europe has almost as much technically recoverable shale gas as the United States, at around 639 trillion cubic feet –three times more than the continent’s conventional gas reserves. However, exploration and development of shale gas remain at a very early stage, due to political and regulatory uncertainty. Whilst the challenges faced in extracting shale gas in Europe are different than those in the US, it nevertheless has the potential to form a medium term ‘strategic bridge’ to a longer term greener energy solution – whilst at the same time allowing Europe access to a competitively priced energy source, which will help in retaining industry and jobs. At the same time, Europe has a well developed supply infrastructure which will allow rapid development of shale gas resources, with an increased security of supply and less reliance on Russia and the Middle East and with lower prices compared to a European energy market where shale is not developed.

## **Environmental issues**

Environmental concerns have accompanied the growth in shale gas exploration and production in the US, and colored the argument about proceeding with exploration in Europe. However, many technologies and best practices that can minimize the risks associated with exploration and development are already available, and the International Energy Agency has independently concluded that such technologies, as the so called green fracking for example, could address these issues.

IFIEC and Fertilizers Europe support the approach proposed by DECC in the UK and the recommendations laid out by the International Energy Agency to address these concerns and recognizes a need for a comprehensive regulatory framework that also includes an effective mechanism for monitoring compliance, but also councils against unreasonable regulation which could stop the development of this energy resource and damage European industry.

## **Recommendations**

IFIEC and Fertilizers Europe believe that shale gas development in Europe offers a number of benefits for member states. Aside from the wider issue of significantly improving each countries trade balance (through reduced imports of gas), by exploiting its indigenous reserves, Europe can diversify and add security to its gas supply. This additional gas availability will increase competition and make the European gas market more globally competitive, which will turn into benefit for European industry and households. Furthermore, development of shale gas would also strengthen Europe’s negotiating position against gas exporters, such as Russia. We therefore welcome and encourage initiatives to safely explore the shale gas potential in various member states.

In order to safeguard gas-intensive activities in the EU (like petrochemistry, chemistry, fertilizers,...) in terms of employment and environmental reasons an important focus on gas is key. In the range of actions that need to be taken in respect of this market, we are convinced that Shale Gas exploration will be one of the very important contributors.

***IFIEC Europe and Fertilizers Europe represent energy intensive industrial consumers where energy is a major component of operating costs and directly affects competitiveness.***

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