

EFET Insight into **EFET General Agreements**

What are the EFET General Agreements?

EFET General Agreements are framework contracts, designed to streamline Over the Counter trading in energy and in energy-related instruments. They outline a trading relationship between two different parties. Once in place, the General Agreement governs all the transactions which those parties enter into for the purchase, sale or delivery of wholesale electricity, natural gas, carbon emission allowances, and green certificates.

EFET General Agreements are **the industry standards employed throughout Europe for the physical trade of power and natural gas.**

Who uses the EFET General Agreements?

EFET General Agreements are used by the vast majority of companies (traders, generators, suppliers, grid operators, customers, etc.) active in trading electricity, gas, carbon emission allowances or green certificates on Over-the-Counter Markets. By Over-the-Counter Markets we mean transactions which are negotiated between two traders (sometimes via a broker), outside of an exchange.

The EFET template contracts have been translated into [several languages](#), including German, Spanish, Bulgarian, Romanian, Polish and Serbian and their terms have been adapted so they can be used in the Turkish and Ukrainian markets.

Why do companies use the EFET General Agreements?

Trading companies use the EFET General Agreements for many reasons, including:

- **Making it easier to negotiate contracts** – market parties have to negotiate an EFET General Agreement just once. The template is widely used and accepted in the market.
- **Making life simpler for smaller players** – the General Agreement makes it easier to administer transactions and allows the same clauses to be used with all counterparties. This is a particular advantage for smaller market players.
- **Allowing easier entry to new markets** – EFET General Agreements cover a very broad geography and are legally enforceable under the different systems of law in those countries.
- **Providing a robust way of managing risk** – The terms of the General Agreement have been tested through long-standing market practice.

- **Allowing parties to tailor their contractual arrangements to their needs** – The mix of standard clauses and clauses which can be adapted to the specific circumstances of a transaction (through an Election Sheet) provides huge flexibility.



EFET General Agreements

Why is the EFET standard contract so beneficial?

- ✓ **Time saving** → you only negotiate the Election Sheet
- ✓ **Fair** → all provisions are unbiased, no side has an unfair advantage
- ✓ **Complete** → it addresses all important issues
- ✓ **Best Risk Management** → credit clauses, early termination provisions and close-out netting

Check [our website](#) to download the EFET form template documents for free: [gas](#), [power](#), [emissions](#), [green certificates](#) and more.

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NOTE: USERS USING THIS GENERAL AGREEMENT AFTER 4 NOVEMBER 2021 ARE STRONGLY RECOMMENDED TO INCLUDE THE CLAUSE UPDATING THE IBOR INTEREST RATE DEFINITIONS PUBLISHED BY EFET ON ITS WEBSITE ON 4 NOVEMBER 2021.

General Agreement
Concerning The Delivery And Acceptance Of Natural Gas

Between _____
having its registered office at _____
(“*Abbreviation of name*”)
and
_____ having its registered office at _____
(“*Abbreviation of name*”)
(referred to jointly as the “Parties” and individually as a “Party”)
entered into on _____ (the “Effective Date”)

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How do the EFET General Agreements work?

1) A Trader enters into one General Agreement

The EFET General Agreement can cover an unlimited number of trades (defined as ‘Individual Contracts’).

2) They can strike an unlimited number of contracts under that agreement

The Individual Contracts contain the terms for each trade (for example the start and end dates, delivery schedules, contract capacity and quantity, price and the total cost).

3) The General Agreement provides important contractual protections:

- a. **Managing default (counterparty) risk by allowing the automatic termination of a trading relationship in the event of bankruptcy of one of the parties.** The insolvency administrator will not be able to cherry-pick advantageous individual contracts and terminate the ones which are unprofitable for the insolvent party (a process generally referred to as “cherry picking”).
- b. **Allowing for the termination of all individual contracts under close-out netting.** Close-out netting is a way of reducing risk in the event of automatic or voluntary termination of individual contracts or a default by a trading partner. All of a company’s contracts are combined (rather than each being assessed

individually) to arrive at a single, net amount which is due or owed. Netting reduces a party's exposure to a minimum and reduces the credit risk associated with multiple trades.

- c. **Offering tools for companies to manage credit risk.** EFET terms offer credit support from the start of trading relationship or in case of a downgrade in the creditworthiness of a counterparty.

4) **And acts as a reference in case of disputes**

The tried and tested contractual EFET language provides for fair contractual arrangements, resulting in balanced legal positions of both counterparts.

5) **EFET ensures the agreements stay up to date**

In its role as a standard setting body, EFET ensures that the standard terms and conditions of the General Agreements are regularly reviewed and updated.

6) **And advocates for more positive trading conditions**

There remain parts of Europe where close-out netting is not permitted. In these areas EFET works to advocate for more favourable trading conditions.

What is EFET currently thinking about?

The energy sector is changing and there are areas where lessons from the development of the General Agreements to date can be applied. We're currently considering:

- Extending General Agreements into new geographies.
- If, and how, to develop a standard contract for hydrogen trading.
- Model agreements for the Voluntary Carbon Market.
- Contractual standardisation in LNG trading.



Summary

Today, the majority of physically settled power and gas transactions in Europe are based on the EFET documentation. The EFET General Agreements:

- Can be easily used and readily adapted to facilitate any level or scope of trading activity
- Reduce negotiation times, improve risk management and work for all markets players, regardless of size.
- Have been developed to work in many jurisdictions and with various different legal traditions
- Provide for close-out netting in cases of insolvency and other termination scenarios