

# European Gas Supply Security

What Role for the EU?

**Pierre Noël**

*EPRG, University of Cambridge*

JRC Energy Security Conference – Amsterdam, 17 November 2010

# Security of gas supply

---

## Two dimensions (linked but distinct)

### 1. Long-term security of supply

How to ensure sufficient investment in supply and import infrastructure?

### 2. Short-term security of supply

How to make sure the system can cope with supply and demand shocks?

# Main messages

---

## 1. Long-term gas supply security

The EU's role is to build a pan-European, competitive wholesale gas market.

## 2. Short-term gas supply security

The EU should ensure MS are held politically responsible for the level of SoS their citizens enjoy.

# Contents

---

1. Long-term gas supply security
2. Short term gas supply security

# LT security (supply adequacy)

---

## European debate structured as ‘security of supply versus competitive markets’

- Disagreements among industry
  - See: “Traditionalists versus the New Economy” (J Stern, 2001)
- And among Member States
  - See: OECD Roundtable 2007 on Energy Security and Competition Policy (OECD, 2007)
  - Positions during the 3<sup>rd</sup> package negotiation

# Competition and supply adequacy

---

## **This debate should be over**

- US experience
  - Large new import capacity (LNG)
  - 1000s of km of new pipelines
  - Huge investment in new storage
  - Multi-billion production investment (offshore + non-conv)
- UK experience
  - Very large new import capacity, pipe + LNG
  - Merchant interconnector to the Continent
  - UK = EU's 'Western Gas Corridor'!

# Competition and supply adequacy

---

## But the debate is not over!

- *'We need national (or European) champions to counterbalance the power of exporters'*
  - Government intervention on E.ON-Ruhrgas merger
  - Italian debate on ENI
  - Stoffaes report in France
  - PGNiG in Poland
  - Wicks report in the UK (yes, in the UK)
- Most EU governments want gas imports to be politicised

# Competition or politicisation?

Foreign policy attitude towards Russia (ECFR)	Oppose 'ownership unbundling'	<b>Russia-friendly member states opposed ownership unbundling</b>	Oppose 'ownership unbundling'	Support 'ownership unbundling'
<i>Trojan horses</i>				
Cyprus	•			
Greece	•			
<i>Strategic partners</i>				
France	• (leader)			
Germany	• (leader)			
Italy				
Spain				
			UK	• (leader)
			Sweden	• (leader)
<i>Friendly pragmatists</i>			<i>Moderate Critics</i>	
Austria	•		Czech Republic	
Belgium		•	Hungary	
Bulgaria	•		Romania	•
Finland		•	Denmark	•
Hungary			<i>Pragmatics, Centrists, Neutrals</i>	
Luxembourg	•		Slovakia	•
Malta			Slovenia	•
Portugal			Bulgaria	•
Slovakia	•		Spain	•
Slovenia		•	Finland	•
			Netherlands	• (leader)
<i>Frosty pragmatists</i>			Austria	•
Czech Republic			Ireland	
Denmark		•	Portugal	
Estonia			Malta	
Ireland			<i>Russia's Lobbyists</i>	
Latvia	•		France	• (leader)
Netherlands		• (leader)	Germany	• (leader)
Romania		•	Italy	
Sweden		• (leader)	Belgium	
United Kingdom		• (leader)	Luxemburg	•
<i>New cold warriors</i>			Greece	•
Lithuania			Cyprus	•
Poland				

Source: Categorising of EU countries according to their foreign policy towards Russia, from: Mark Leonard and Nicu Popescu, *A Power Audit of EU-Russia Relations*, London: European Council on Foreign Relations, 2007, p. 26-50. Position towards ownership unbundling of gas transmission from supply activities, from: Letter from the Ministers in charge of energy of eight EU member states to Angelika Niebler, Chairwoman of the ITRE Committee, European Parliament, dated 29 January 2008; "Third Option' mooted on energy liberalisation", Euractiv.com, 27 November 2007.

Source: Categorising of EU countries according to their foreign policy towards Russia, from: Izvestia, "Русский вопрос" раскол Европы ("Russkii vopros" raskalol Evropu), <http://www.izvestia.ru/politic/article3120068/> (2 Sept 2008). Position towards ownership unbundling of gas transmission from supply activities, from: Letter from the Ministers in charge of energy of eight EU member states to Angelika Niebler, Chairwoman of the ITRE Committee, European Parliament, dated 29 January 2008; "Third Option' mooted on energy liberalisation", Euractiv.com, 27 November 2007.

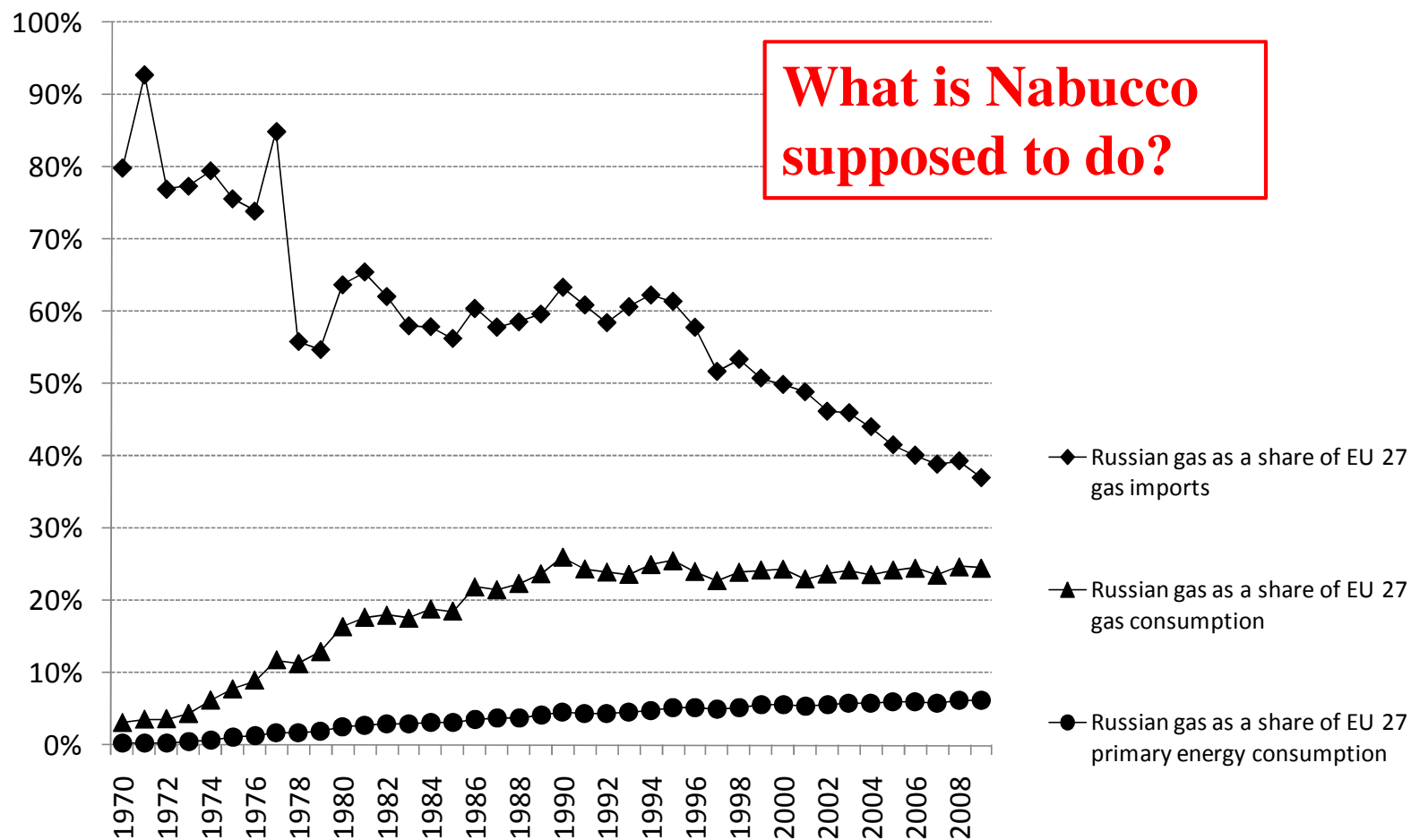


# What about Brussels?

---

- Lots of efforts to build a European gas market – *more on this later*
- But also
  - ‘EU-Russia dialogue’
  - Nabucco (among others)
  - *In general: ‘external energy security policy’*
  - New member states have pushed in this direction

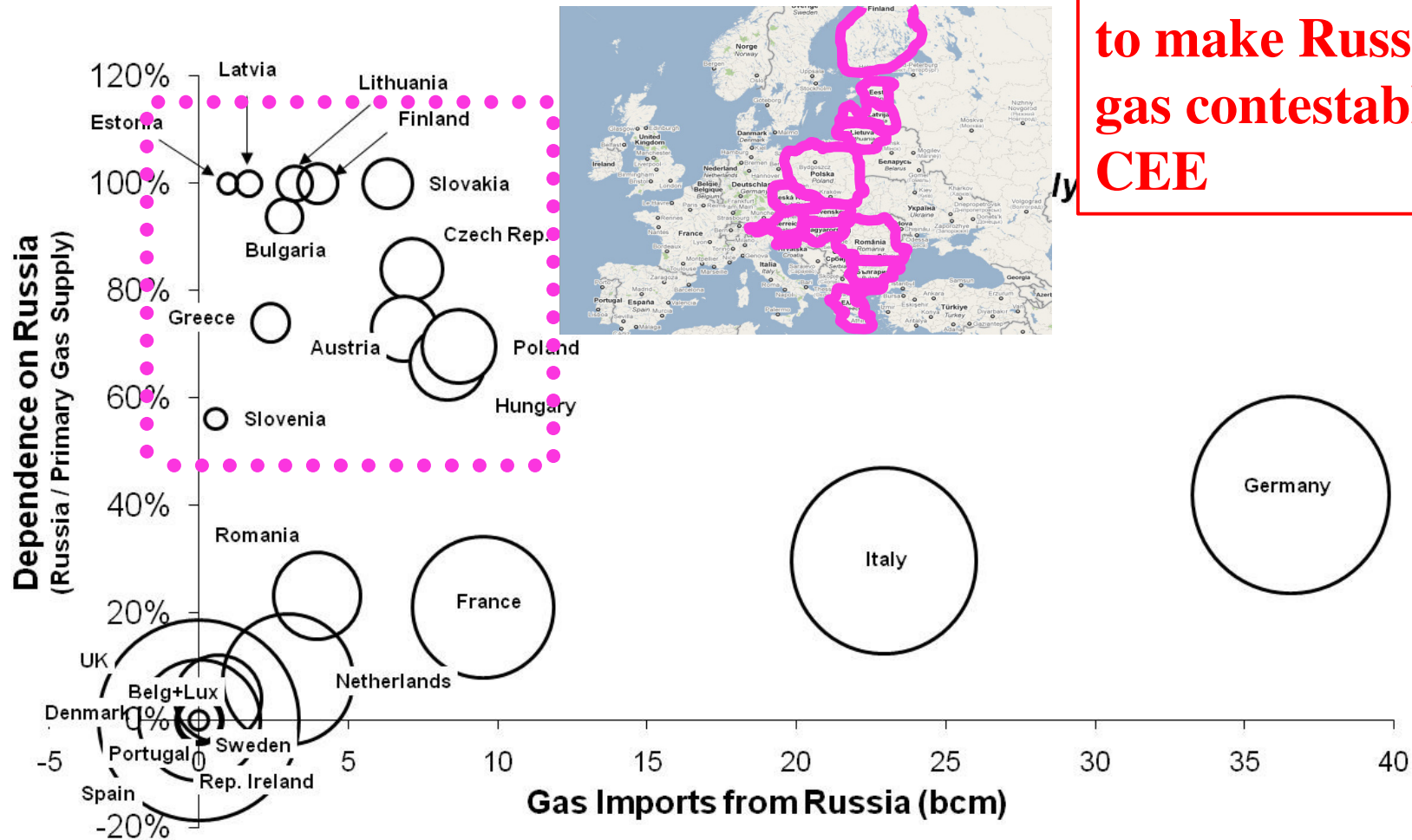
# 40 years of diversification from Russia



Source: BP Statistical Review of World Energy; International Energy Agency; Eurostat

# Diversity is in Western Europe

**We need a market to make Russian gas contestable in CEE**



Data source: BP Statistical Review; Eurostat; National Statistics -- 2008 data

Electricity Policy  
Research Group

# Can the EU deliver a single gas market?

---

## It has been trying hard for 20 years!

- Do we have the right market model?
  - Model: 'interconnected' national entry-exit systems
  - Some recent progress in adjacent countries
  - **But no progress towards a pan-European market**
    - No liquidity in wholesale trading
    - No investment/trading in pan-European transport capacity
    - No supply projects (incl LNG terminals) dedicated to EU mkt
- **Time for analysis and hard questions**

# Contents

---

1. Long-term gas supply security
2. Short term gas supply security

# Short term security of supply

---

## Can it be left to the market?

- With the right incentives, the market can take care of short term security, but:
  - Issues of market power
  - Strong nerves needed from politicians – let the price go up
- Only GB has a market-based SoS policy
  - TSO and suppliers have incentives to build enough security
  - Wider context of a liquid wholesale market
  - But also: interruption policy; emergency arrangements
- United States
  - Competitive wholesale market
  - But distribution companies do have SoS obligations

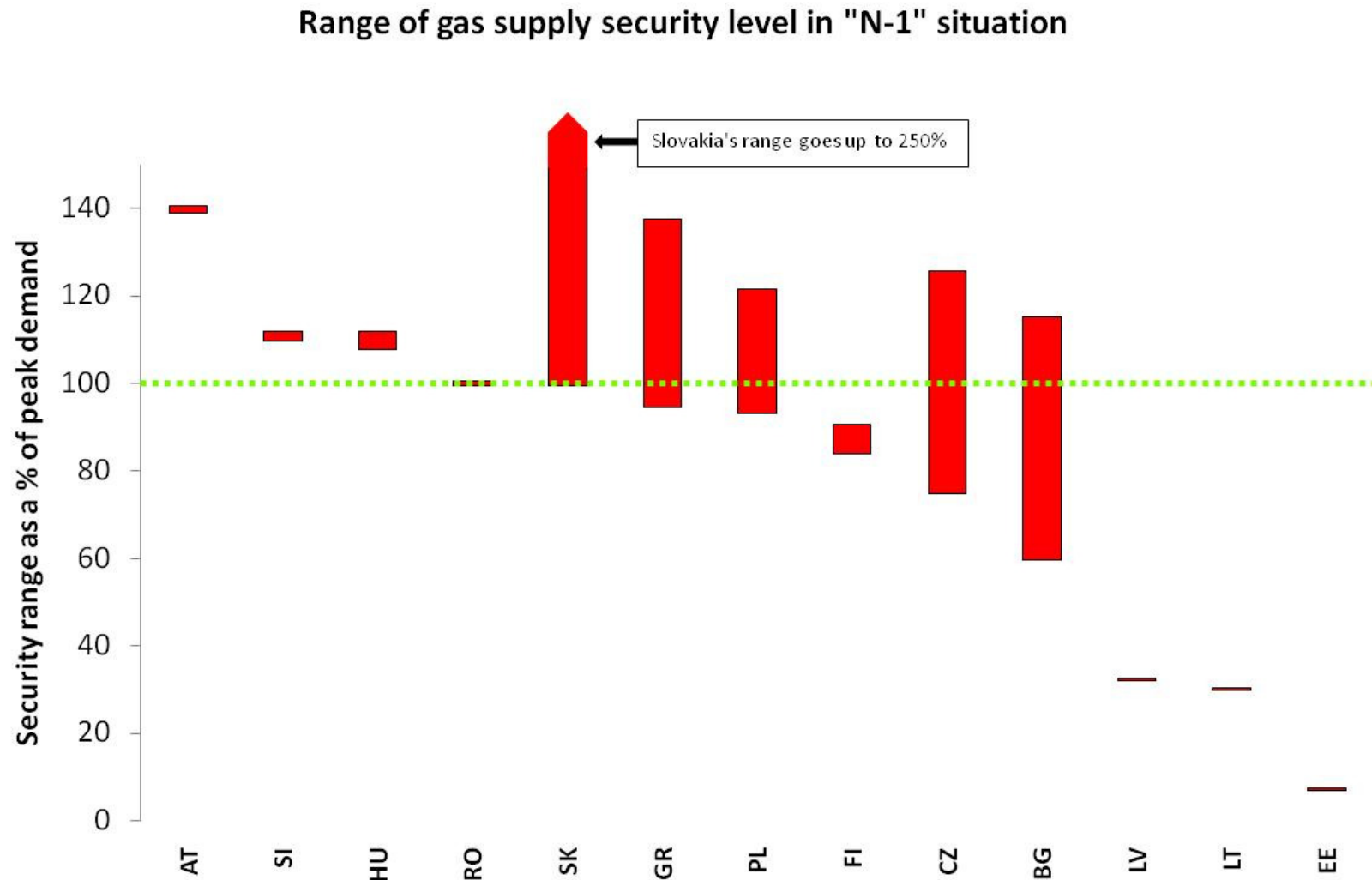
# Short term security of supply (2)

---

## Outside GB, SoS policies are mostly ‘central planning’

- National authorities decide how much security to buy, and by what means
  - Storage requirement
  - Dual-fuel mandate for power plants
  - Mandatory interruptible contracts
  - LNG regasification reserve capacity
  - Supply diversity standards

# MS enjoy different levels of security



Source: Noel & Findlater, forthcoming



# A role for the EU?

---

- It is not a public good
  - Poland cannot free ride on Germany's security
  - Insecurity in Sofia does not impact Ljubljana
- Level of security and how to achieve it should be left to Member States
- But there is a political case for not letting MS underprovide
  - Bulgaria's situation had a political impact on Europe
- What should the EU do?

# The recent EU Regulation

---

- More than one year of negotiation
- To define EU security of supply ‘standards’ that will likely not be enforced
  - MS either comply ex-ante or will be exempted (*de facto* or *de jure*)
  - Insecure MS cannot be forced to invest to meet arbitrary standards
  - Some MS may be more secure than the standards show
- Most valuable aspect is the encouragement of regional co-operation on gas supply security policy

# An alternative to EU-level regulation

---

## **Make the national political process work**

- Force MS to carry out rigorous assessments of their SoS, based on a common methodology
- Review their assessments independently
- Publish the assessments and the reviews on the Commission's website
- Organise public presentations in national parliaments

# Conclusions

---

1. Long-term gas supply security is ensured by attracting gas – *and large, liquid markets attract gas*
2. The globalisation of the gas market makes it even more important for Europe to have a single market
3. Europe's market-building policy has failed. **The Commission should pause and think hard about the model** (interconnected national entry-exit systems)
4. The EU does not need an external energy security policy
5. Short-term security should be left to member states. EU can make sure they don't grossly under-provide.