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Clingendael International Energy Programme

Perspectives for EU Gas Supply Security

Jacques de Jong

Christoph Tönjes

Clingendael International Energy Programme

CESSA Conference, Berlin, 31 May 2007

Concerns about EU gas supply security

- Too little investment to meet demand
 - Upstream and downstream
 - Institutional problems in producing states
 - Investment serving other markets
- Cartelization and high prices
- More consumer competition, not purely based on economics
- Gas deliveries as political lever
 - Asymmetric perceptions within EU

EU import infrastructure coming forward

bcm/a	2006	2015
Pipelines	~ 300	~ 400
LNG Terminals	~ 75	> 160
Import Capacity	~ 375	> 560
Imports	~ 285	400-450
average load factor	0.76	0.7-0.8

on the basis of firm projects

Can it be filled ?

- Cost increases for upstream projects
- Project delays in LNG
- Tight markets and increasing consumer competition

Cartelization and price outlook

- Tight markets → High prices
- No willingness to offer gas prices that enable gas in power everywhere → price in whole market would go down
- Carbon policies increase Europe's WTP
- Prices capped by alternatives; cartel or not
- Import needs of other markets rather uncertain (examples: J; PRC)
- Demand restraint is happening right now
 - Coal and CCS
 - energy efficiency
 - fuel switching

Investments, rents and combined deals

Weak Globalization

- Stronger state involvement
- Struggle for rents and strategic positioning
- Opportunities for combined deals
 - Rents / Energy in exchange for political concessions (costly)
 - Hard to prove; perception matters
- But demand and prices remain dominant factors

Political leverage?

- No evidence that natural gas has been used for pursuing political goals
- However, perceptions vary across EU Member States
- Asymmetric risk exposure
- Mutual dependence: using energy as weapon/pressure tool has high backfiring potential
 - Who is affected?
 - Who perceives increased threat?
 - External pressure ~ internal solidarity?

	EU-27	New Member States
Domestic	41%	33%
Russia	26%	62%
Algeria	12%	1%
Norway	16%	4%
Other LNG	5%	0%

EU policy, alliances and bargaining power

- Common EU policy: Diverging interests of MS likely to delay 'one voice' policies
- Continue international dialogues
- Strong players in EU markets become stronger (demand anchor)
- Large European companies can bank on MS government support in foreign contracts; small countries might have something to gain from cooperation with large players
- 'European Champions' might mitigate concerns about bargaining power and insufficient government backing → however, watch competition policy

Possible measures

Reduce vulnerability to / impact of interruptions and scarcity

- Balanced approach to long term contracts
 - Lt contracts bring security of supply; transportation contracts to follow supply contracts
- More interconnections; bidirectional networks
 - hardly used under normal conditions → regulation should allow for it / might oblige it
 - Investments also in jurisdictions who do not perceive a problem
- Common EU standards
 - Less likelihood of singling out MS
 - ‘Whom to protect against what’ – Do not prescribe instruments (stocks vs. dual firing vs. demand restrictions)

Summing up

- EU downstream investment activity sufficient to meet demand
- Global upstream investment reason for concern → preparation for periodically higher prices recommendable
- *Perceived* politicization of gas deliveries warrants government involvement that EU can deliver only to limited extent → role for individual Member States
- More redundancy in the system would be helpful; regulation should allow for it