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GAS LIBERALISATION IN EUROPE AND SECURITY OF SUPPLY: THE BIG CHALLENGE

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Overview

The so-called “gas war”, the recent dispute between Russia and Ukraine for the renewal of the gas supply contracts, has focused the international attention on a crucial topic: security of energetic supplies, in this case of natural gas. This terminology indicates the possibility, for a given country, to access reliable, stable in time and easily predictable gas provisions. To be secure, natural gas supplies have also to be enough to cover the foreseeable demand evolution at fair prices.

The European energetic policy has dramatically changed its approach to the problem of security of gas provisions: in the last years this crucial point has been set apart in favour of liberalization and integration of the national markets, unbundling of the different industry phases, development of competition and the privatization of the old and (supposedly) inefficient monopolies. The underlying principle is that the more operators are in the market, the stronger is the competition push to lower prices and to make them converge to marginal costs.

Another critical point is the indexing of gas supply contracts to oil price, here the focus has been on the so-called decoupling process: the effort of creating an original gas price. This is a risky procedure, because if it is true that then the price of gas would indicate the actual condition of scarcity of gas and could give the right signals to investors, it is also interesting to note that a “pure” gas price would be extremely more variable than it is today.

The liberalization process has another side effect: the stress on efficiency and market integration is the cause of a natural reduction of the security of supplies, because of the increase in the use of short and variable spot contracts instead of the classic Take or Pay.

The point is that liberalization fails so far to reach the expected results: it has effectively created more competition, but only in the midstream (wholesalers) and downstream (retailers) phases, where the margins which could be eroded are low; in fact, taxation apart, the bigger slice of the gas bill concerns the border price which belongs to the producer/exporters. In other words, the European liberalization has not succeed in creating competition among the big gas producers, but this is a hard task, because the European Union is not self-sufficient and cannot produce the whole amount of gas it consumes and therefore it has to import a large quantity of it from non European countries like Russia, Libia and Algeria where the producers are often a state-owned monopolist which usually is not keen to start a price war with its few competitors.

It is possible to say that liberalization has increased the number of operators in the European arena, but it has not decreased the margins, while has certainly undermined the security of supplies by increasing the systemic risk in the search of efficiency.

But there are also exogenous factors which have worsen the situation: wars and the perennial instability of Middle-East, the blur political situation in Russia and its will to become again a superpower thanks to its rich energy reserves, unpredictable natural disasters, and the shut-in of a number of LNG facilities which has decreased the availability of gas and thus increased the spot price in all the markets.

All these factors together have put the theme of security of supply again at the centre of the European political agenda and now the concern is about how to support the development of competition in the European gas market without undermining the security of supplies.

Methods

In order to indicate a number of proposals to temper the search for efficiency with the security of supplies, this paper draws a number of different scenarios about the future situation of gas provisions for the European Union, taking into consideration endogenous as well as exogenous variables, like the liberalization process (its stages and the expected results), the infrastructures development, the evolution of the European gas production, the LNG market dynamics and the eventual creation of a number of gas hubs.

Results

The results of this study highlight how the European Union is running the risk of being extremely contingent on extra EU gas provisions and on the unpredictability of the LNG industry. New possibilities will occur for a price downward trend as competition arises, but the risk could be too high both from an economical and a political point of view.

Considering that the whole European economy depends on the energetic sector (of which natural gas is maybe the most important field) and the hard Chinese competition on energetic sources, it is easily understandable why the importance of security of supply should be taken into account more seriously than in any other field of the economy.

Conclusions

The faulty liberalization implemented in the European Union has not brought the expected results, but has certainly decreased the security of supplies. Other exogenous factors have worsen the situation and the problem about how to bear the energetic supportability of the European economic development is no longer escapable.

This paper suggests that, because of the extreme importance of the energetic industry (and within it of the gas sector) for the whole economy, security of supplies should receive a greater consideration than it would get in another industry.

Creation of gas hubs, wide availability of free infrastructures, diversification of gas import, full support to both LNG and pipeline transportation projects and strengthening of renewable sources of energy are some proposals that emerge from the proposed scenarios.

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