



**CIEP**

Clingendael International Energy Programme

# Competition versus supply security in gas ?

Jacques de Jong

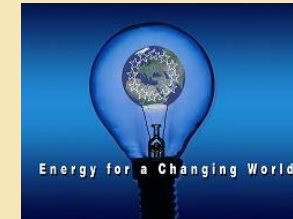
The Economics of Energy Markets  
Toulouse 15-16 January 2007

# Content

- **EU Energy package 2007**
- **EU gas demand versus gas supply**
- **Balancing the market & supply security**

# Energy package 2007

Communication internal gas & electricity market



## Competitive market:

- good for s.o.s.
- new investments in gas-infrastructures

## But, still outstanding:

- access
- unbundling
- It-contracts & forclosures
- infrastructure & intra-EC trade/transit

**FINANCIAL TIMES**  
EUROPE FRI 12.59

**Brussels raises heat on energy companies**

■ Kroes finds evidence of collusion in market

By Tobias Lehn in Brussels

Europe's biggest energy companies face an intensified crackdown by the European Union competition commissioner following an inquiry into the sector that found evidence of collusion and other serious market failings. In a summary of a 15-month investigation, Neelie Kroes, who will make "full and complete use" of her powers over mergers, government subsidies and anti-trust laws to tackle the lack of competition in the sector. Her report states: "Market concentration has been identified as a major concern for the success of the liberalisation process. The market power of pre-liberalisation monopolies has not yet been eroded."

Ms Kroes is expected to announce the results of the inquiry next week, along with a broader review of the EU's energy policy that will also look at cutting greenhouse gas emissions and bolstering the security of Europe's energy supplies. Her announcement will make headlines in Brussels, but it is also expected to have a significant impact on the rest of the world.

The report nevertheless makes clear that Europe's energy giants – and other dominant groups – are likely to face more pressure from the Brussels regulator in the near future, for example to end control over gas pipelines and the power grid or to terminate some of their long-term contracts with customers and energy suppliers. Her report says it is "essential to resolve the systemic conflict of interest inherent in the vertical integration of supply and network activities" – and calls for the break up of integrated energy companies as "the most effective way forward". One of the report's most striking findings is the concentration of collusion – or cartels – activity – among Europe's large energy groups. The report also warns Europe's energy groups that the Commission will impose tough conditions on any future mergers in the sector. It points out that approval of future deals would likely keep yet commitments to reform.

**Chirac pledges tax cut ahead of election**  
French president Jacques Chirac put a big cut in corporate tax at the top of his new year's economic wishlist as he reiterated his determination to have an impact on the pre-election debate. Mr Chirac wants the country's corporate tax rate to drop from 33 per cent to 30 per cent. Page 2

**Ako backs IPO for unit**  
Ako Nohel, the Dutch oil company, insisted it would pursue a flotation of its oil & gas investments division in spite of interest from buy-out groups keen to secure the asset ahead of its listing. Page 11

**New job for spymaster**  
John Mcgregor, who in 2006 became the first director of national intelligence overseeing the 18 spy agencies, is to leave the job to become deputy secretary of state to Condoleezza Rice, officials said. Page 5

**LME unveils strategy**  
The London Metal Exchange announced plans to double its business volume in an attempt to head off any challenge to its competitive position. Page 11

**Funds back UK lawsuit**  
Litigation funding in the UK has taken a step forward with the filing in London's High Court of a \$175m (£112m) professional negligence claim against a firm of international accountants in which the plaintiff has turned to independent trustees. Page 2

**Thais warn on attacks**  
Thailand's military-backed government warned the country to brace itself for fresh bomb attacks, following this week's explosion in Bangkok that left 10 people dead and 100 injured.

**Turnover €bn**  
12.59

**Electricity**  
**Gas**  
**other**

**gating?**

**panies,**

# Energy Package 2007

## Supply Security and external policy

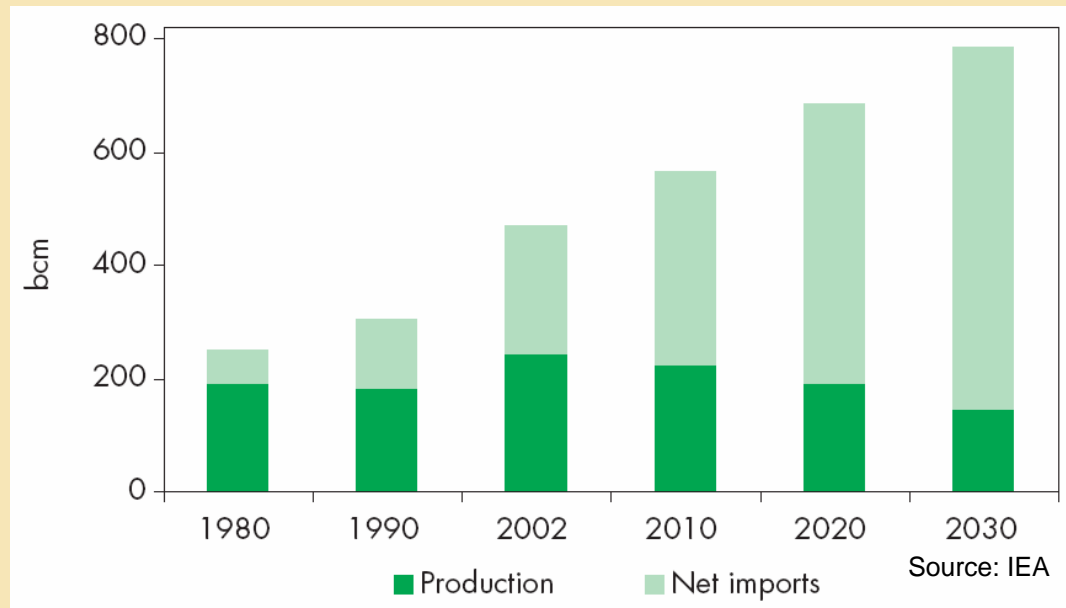


### Internal solidarity

- Expand interconnections
- Diversify away from hydrocarbons
- Boost energy efficiency

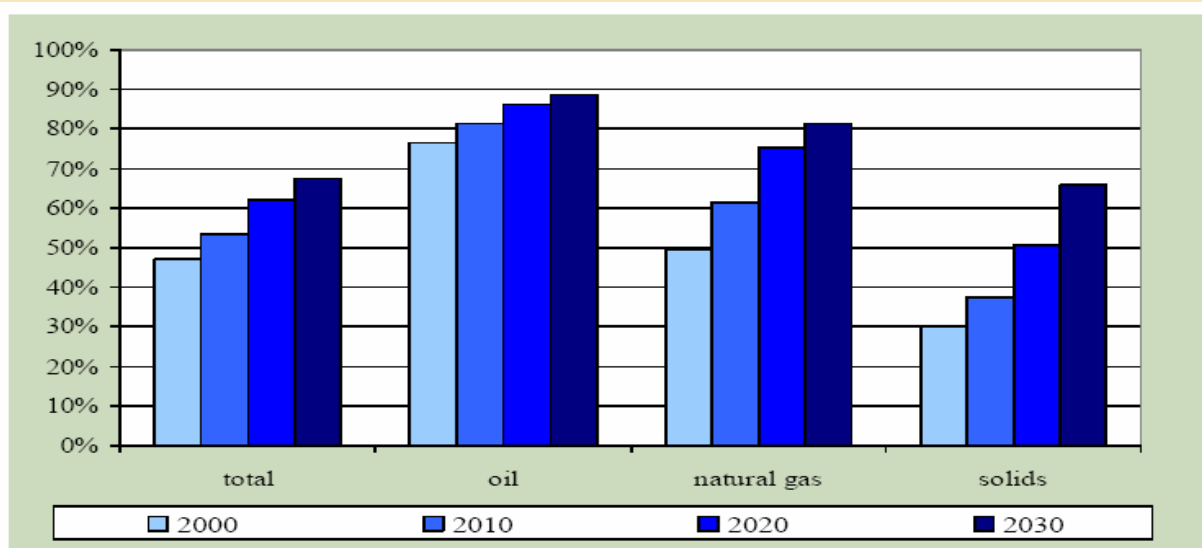
### External policy

- One EU voice
- Energy security correspondents
- Dialogue & cooperation with all concerned (esp. Russia)
- .....

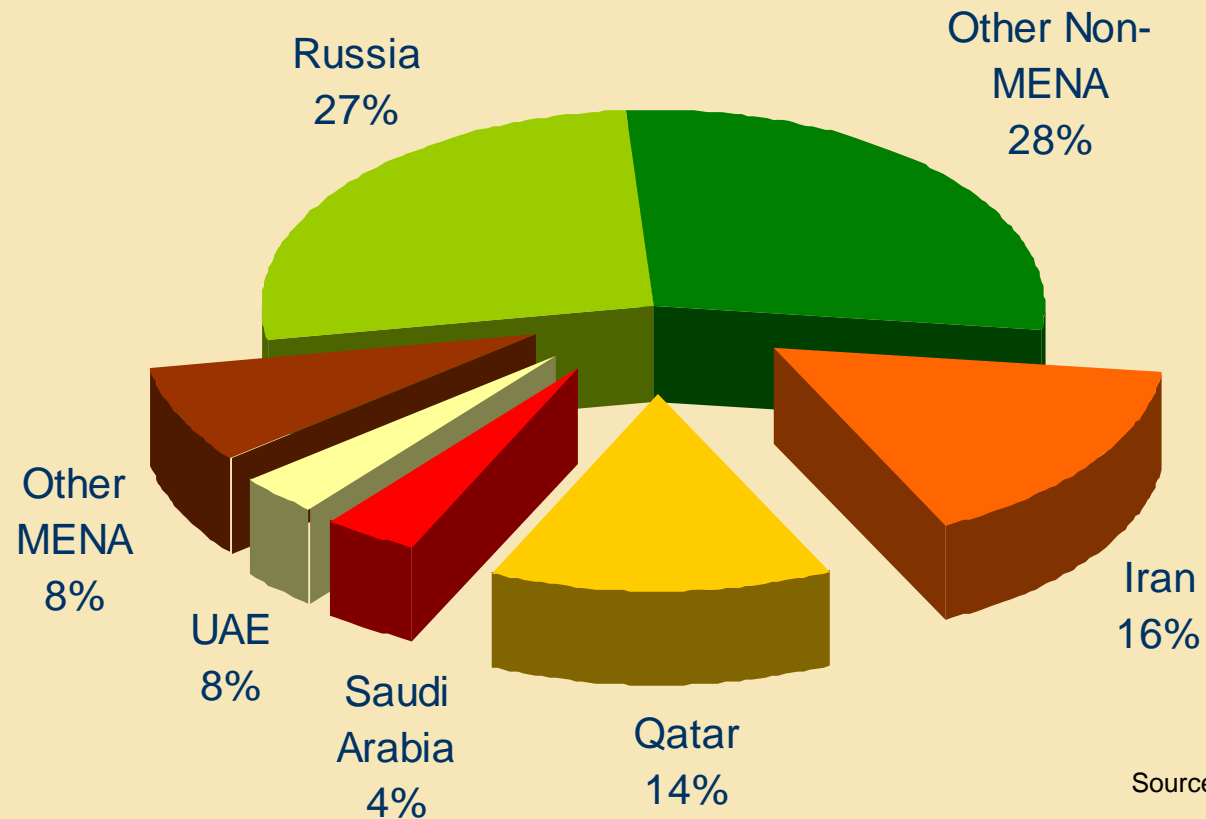


## EU Gas Supply Balance

## EU 25 Import dependency

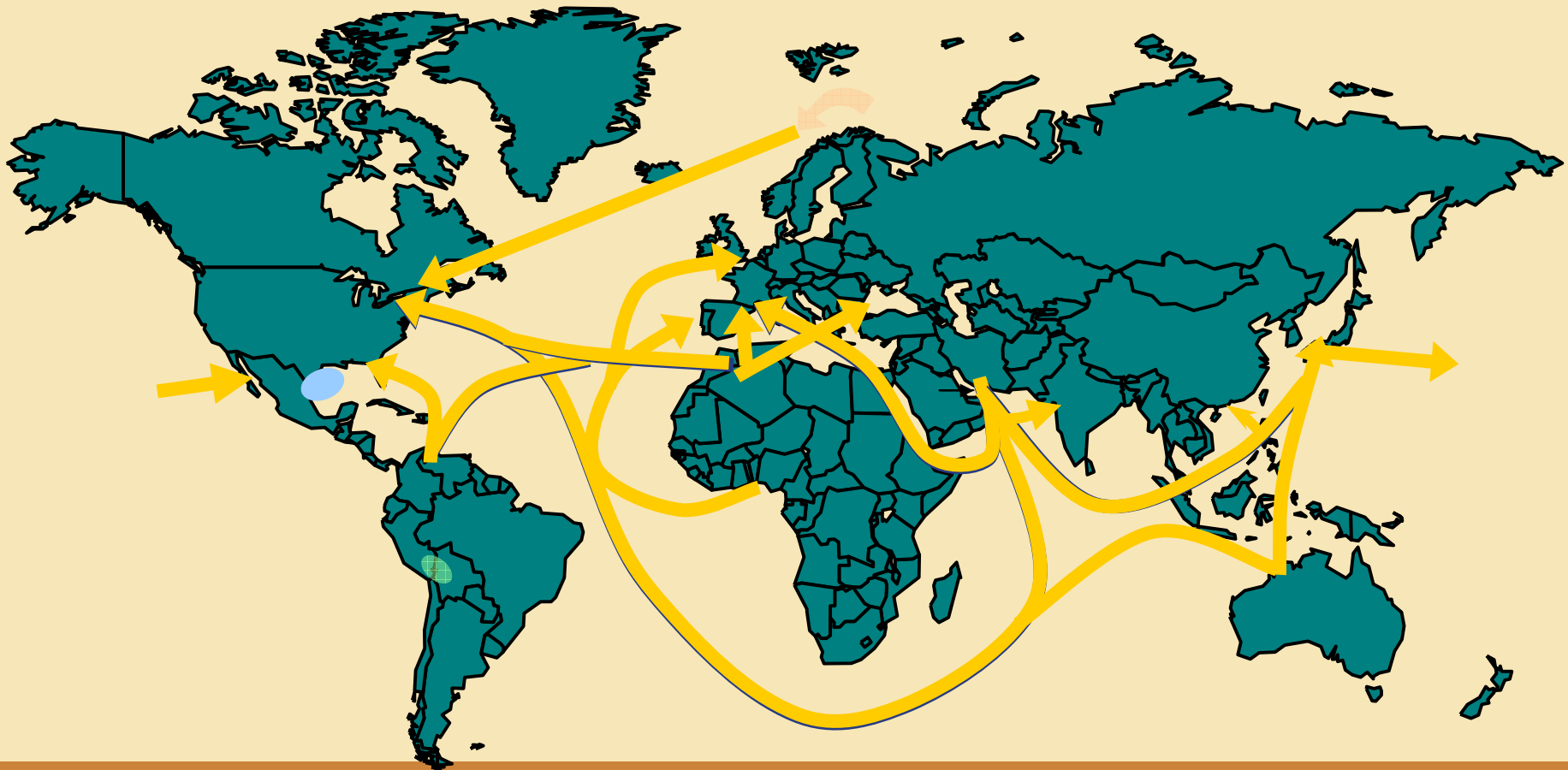


# World Proven Natural Gas Reserves

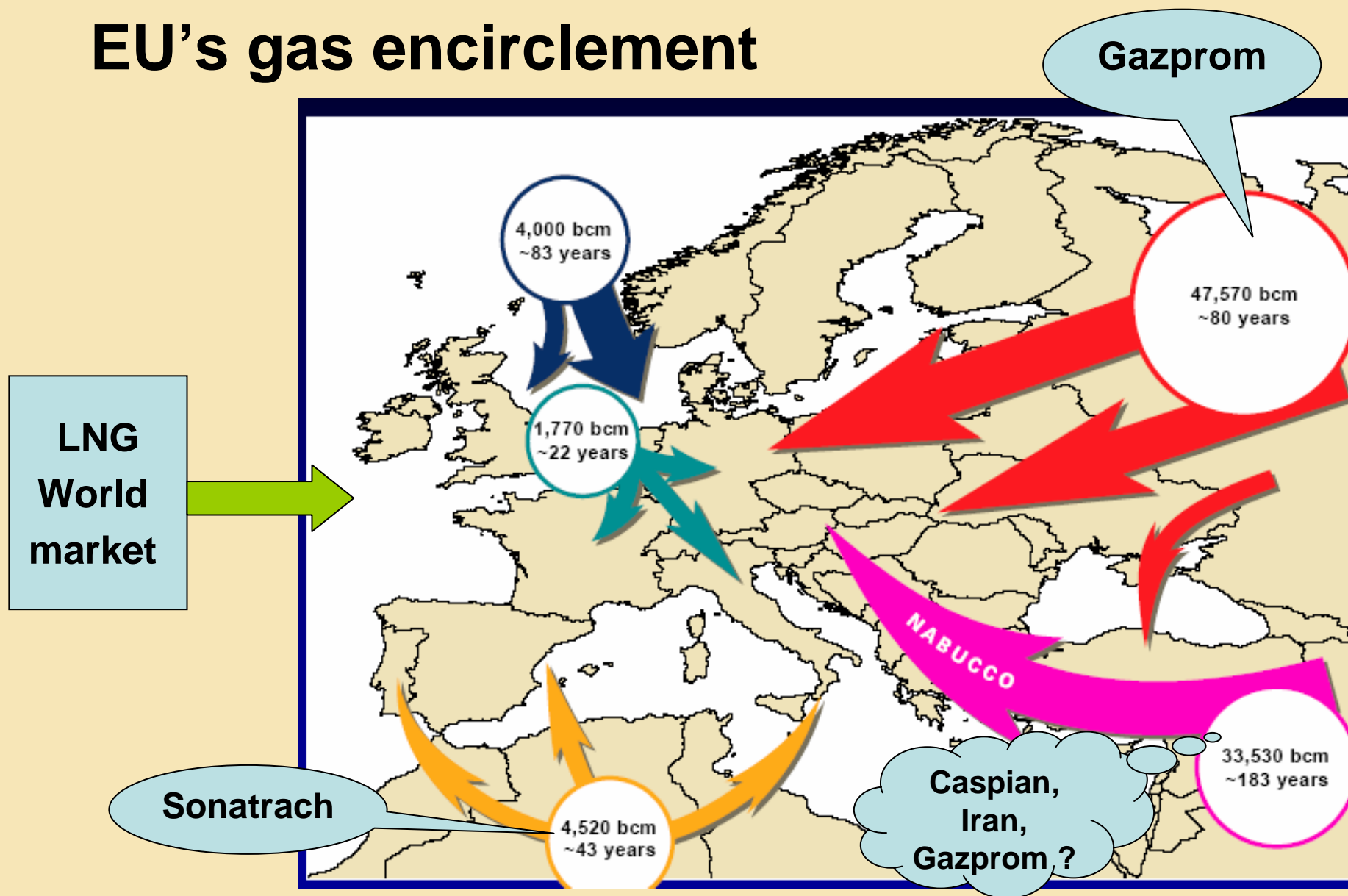


*MENA's share of global gas reserves is much higher than its share of current production, suggesting strong potential for growth*

# International LNG Trade: Connecting Markets, Competing Markets!

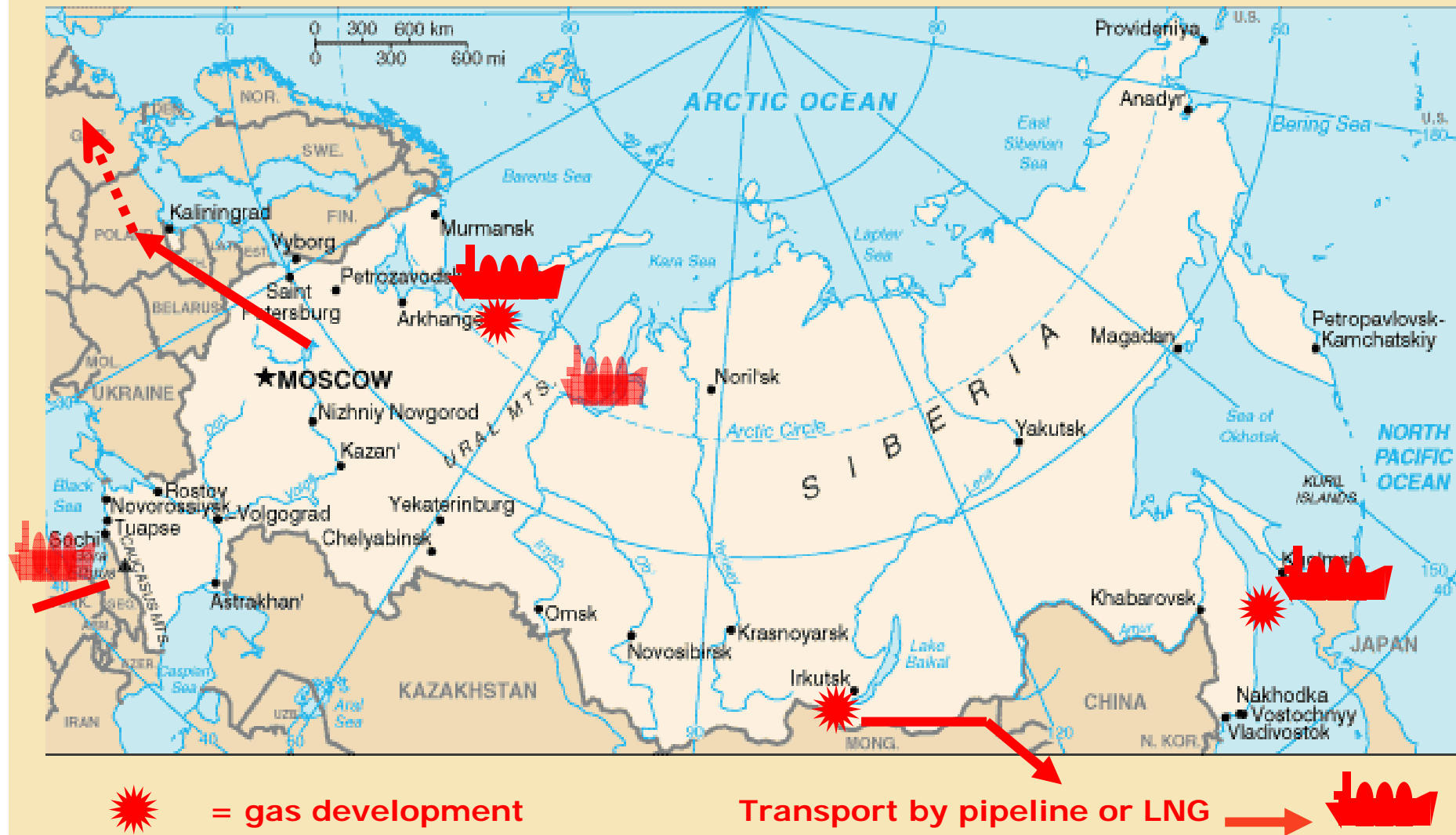


# EU's gas encirclement





# Russia's Diversification of Gas Export; Away From Europe ?



# Gas, the story with scope for upstream competition?



Nazarbaev, Putin

All eastern gas  
via Gazprom?...



“german”deals ?

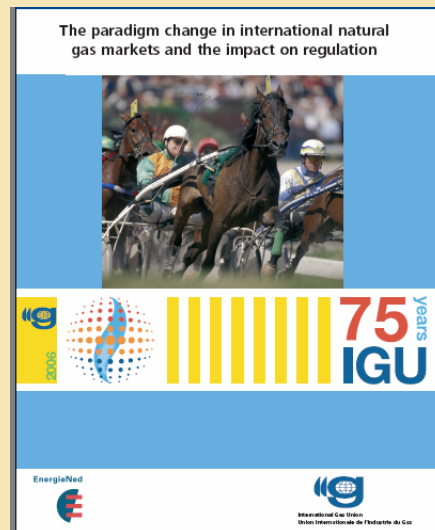


Gazprom and Sonatrach  
Sign Official  
Cooperation Accord



# Balancing market & supply ?

- EU regulatory debate too much focussed on IGM
- A new balance for downstream versus upstream competition
- A “beyond regulation” question?



## Main questions future agenda

- cross-regional supply chains in a globalising market
- de facto monopoly market power versus coordination mechanisms
- Regional governance & market design in a workable balance throughout the chain
- Regulatory concepts and competition policy in a dynamic market environment

# The upstream/downstream balance ?

- Upstream competition, producer/consumer dialogues, is there a win-win ?
- Reciprocity: Access to resources and access to (wholesale/retail) markets
- The role of It-contracts; molecules versus transmission capacity, to uioli or not?
- The role of long haul transmission: does capacity follow molecules or vice versa?
- Should we adapt our competition goals in order to secure gas supplies from external sources?

# Conclusions

- **Politics & energy supply security, the two sides of the same coin.....**
- **Geopolitical uncertainties will determine short/medium term supply developments**
- **EU policy under discussion**



**CIEP**

Clingendael International Energy Programme

**Thank you for your attention...**

**[www.clingendael.nl/ciep](http://www.clingendael.nl/ciep)**