RETHINKING SECURITY OF GAS SUPPLY IN THE EU

20 January 2016, 12.30
Bruegel, Rue de la Charité 33, 1210 Brussels

Public event: This was an on-the-record event. The discussion was livestreamed and a video recording was uploaded to the Bruegel website.

Speakers

- Thierry Deschuyteneer: Executive Secretary, Gas Infrastructure Europe - GIE
- Stefan Moser: Head of Unit - Security of Supply, European Commission, DG ENER
- Ilze Nagla: Europe Correspondent, Latvian Television
- Simone Tagliapietra: Research Fellow, Bruegel
- Georg Zachmann: Senior Fellow, Bruegel

Notes

Simone Tagliapietra began by presenting the new approach to security of gas supply he has developed with Georg Zachmann.

He first recalled the role of gas in the EU system, where it represents one fourth of the energy mix. Gas supply is thus a relevant topic for all member states. However, the high dependence of this commodity on the transmission infrastructure and the overdependence of the EU system on imports from Russia have served as catalysts for the launch of the Energy Union, by raising concerns regarding the security of gas supply. This issue is erroneously considered a priority only for Central European countries, which are primarily supplied by Russia. However, geopolitical dynamics show us that a disruption in gas supply due to Russia is not the only risk potentially faced by the EU. In fact, the current geopolitical dynamics involving northern African countries, which supply gas to Spain and Italy, raise concerns about the future. Moreover, Norway, the second biggest supplier of gas to the EU, recently declared that the production outlook after 2020 is uncertain.

Simone Tagliapietra then illustrated that gas import requirements are projected to grow over time until 2040, both under current policy and in possible new policy scenarios. Even in the case of complete decarbonisation, the supply would at least remain at the same level as today.

Natural gas production in Europe is strongly declining, with the Netherlands and the UK being examples of this trend. Therefore the EU has a high level of capacity in terms of infrastructure but the level of utilisation is low. As Simone explained, Europe has a considerable margin of flexibility to exploit, and the approach to ensuring security of gas supply which he has developed together with Georg Zachmann attributes a key role to the
utilisation level of existing capacity. According to them, what the system actually needs is interconnectors, which constitute a prerequisite for security of gas supply.

The proposed new approach is EU-wide, thus bringing economies of scale and a strong internal market. The idea is to constitute a new market for the gas security margin, adding a new layer of competition to the existing market for gas supply. The concept is not different from what some European countries already developed at national level: obligations to gas providers to have access to additional supplies in moments of shortage. Both importers and producers would be legally obliged to have fast access to a certain margin, for instance the 20% level of contracted gas demand for one year. The suppliers would have a wide range of options to achieve this goal, not only storage, and the decision of how to structure their own portfolio would be up to them. Pivotal suppliers would not be recognised as part of the system.

Simone Tagliapietra described the procedure for the activation of this market mechanism. The EU Council would be in charge of declaring the state of emergency in case of a disruption in the gas supply. Then, it will give mandates to the European Network Transmission System Operators for Gas (ENTSOG) and to the national competent authorities. The former would coordinate the infrastructure aspects, while the latter would be in charge of asking suppliers to put the security margin into the market. The margin must not be used to increase the supply during cold winters, since this could generate distortions in market dynamics. Moreover, the existence of the market for the gas security margin would not imply a rough decrease in imports: Russia, which is the cheapest supplier for the EU, will continue to bring gas to Europe, for instance. However, thanks to the existence of this new market, the supply of gas would not affect geopolitics of Europe anymore.

Finally, Simone also added that the newly designed approach would take into account the regional differences, since the diversity among member states constitutes a non-negligible obstacle.

After the presentation, Ilze Nagla started the panel discussion, asking for opinions regarding what Simone said. She first asked Stefan Moser whether the model was realistic or not, as it might be unfeasible to ask for faith and cooperation to Member States regarding this theme. He replied that the European Commission is already trying to bring Member States altogether. According to him, the system has to be built gradually, and regional risk assessments and plans for the future should be put in place. However, Stefan Moser said that it is probably too early to propose the model, since the Commission is not in charge of prescribing anything specific to Member States, while decision will come from cooperation among them. Moreover, regional differences also call for a non-uniform approach in the implementation of the model.

Thierry Deschuyteneer recalled the importance of holding system capacity, which guarantees flexibility. However, security of supply regulation has to be implemented before moving to the EU-wide approach proposed. There has already been a move from a national approach to a regional approach regarding the theme of gas supply securitisation. He stated that the main elements of SoS are the risk assessment and the risk mitigation. First, the relevance and likelihood of risks in gas supply are to be notified. Then, it should be understood how to mitigate these risks, which can change at regional level and over time,
due to geographical differences and market dynamics. According to Thierry Deschuyteneer, policymakers should intervene with tools to support the market only once market solutions are not suited to face disruptions in gas supply.

Georg Zachmann challenged the view of Thierry Deschuyteneer regarding the regional approach: regional initiatives do not allow pooling the risk among Member States. Moreover, he said that the non-market based measures should leave more room for market based mechanisms, and that the idea of instituting a market for the security margin would be a huge step in this direction. Georg Zachmann also clarified that gas demand might decrease over time, but the approach proposed only prescribes the completion of the infrastructure and not the increase of the infrastructure to support higher demand.

The discussion then moved towards other possible options for ensuring security of gas supply. Simone Tagliapietra recalled that the policy discussion has focused on the diversification of supply, in particular on the southern gas corridor. ‘We support the building of new routes, but this is not sufficient for the safety of the EU’, he said. Ilze Nagla focused the attention on another important project, the Nord Stream II (NSII), wondering if this infrastructure would be needed according to the model presented. According to Georg Zachmann, it is not the best moment to discuss the role of NSII, given the current geopolitical situation. However, if the NSII would be used to import more gas from Russia, the investment cannot be considered as being a bad decision, but it might be too expensive for Europe. Stefan Moser said that the NSII is a commercial project and that what the Commission seeks is to maintain the route to Ukraine, which is the most straightforward way to serve Eastern European countries. Simone Tagliapietra commented that, even if the project is a commercial one, it is actually coming for geopolitical reasons, being a way for Russia to circumnavigate Ukraine in order to be directly linked to the European market.