

Nord Stream 2 – A risk for the internal market and security of supply?

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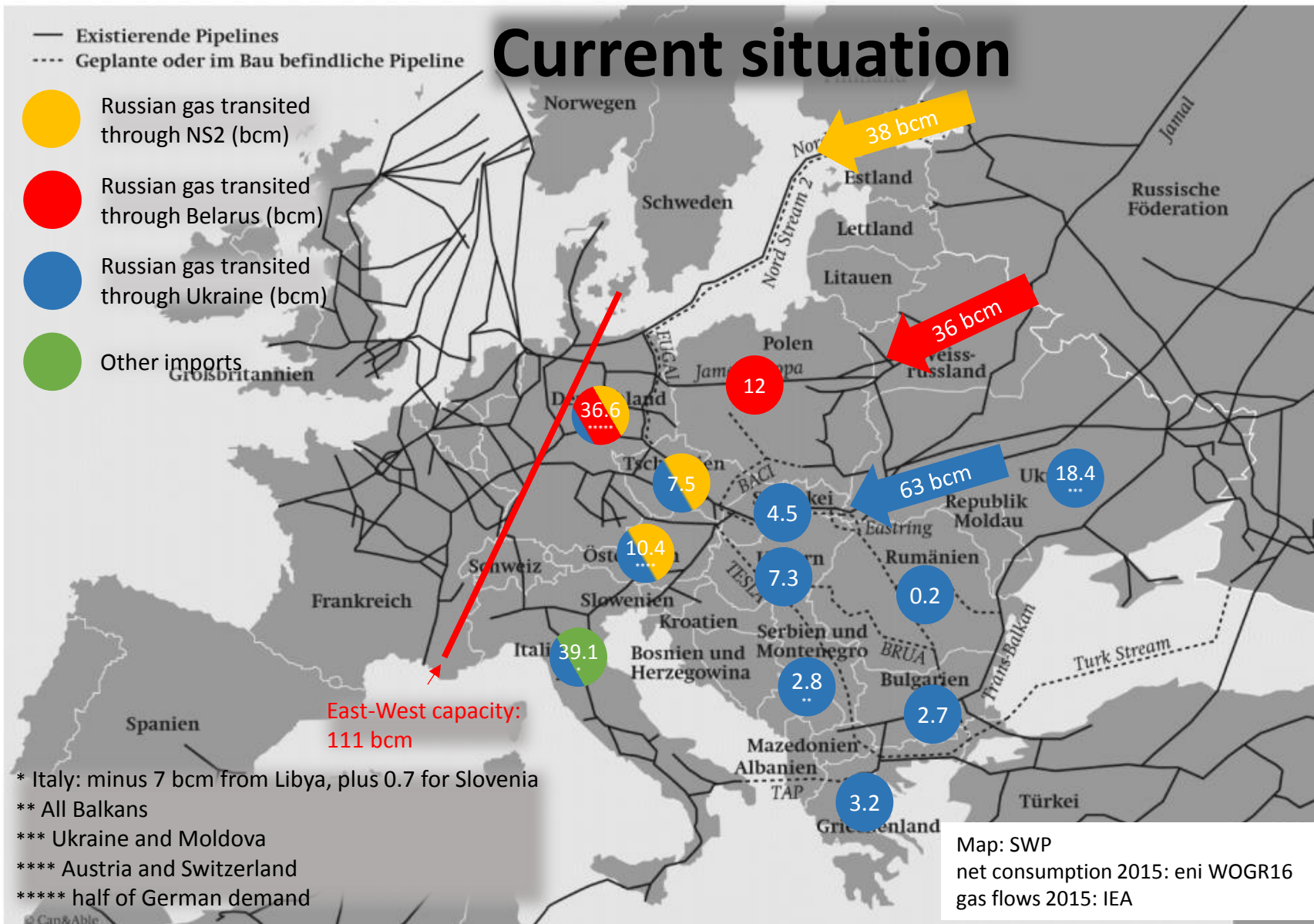
Starting Point: Limited West to East connections

⇒ Only about 110 bcm can flow from West to East

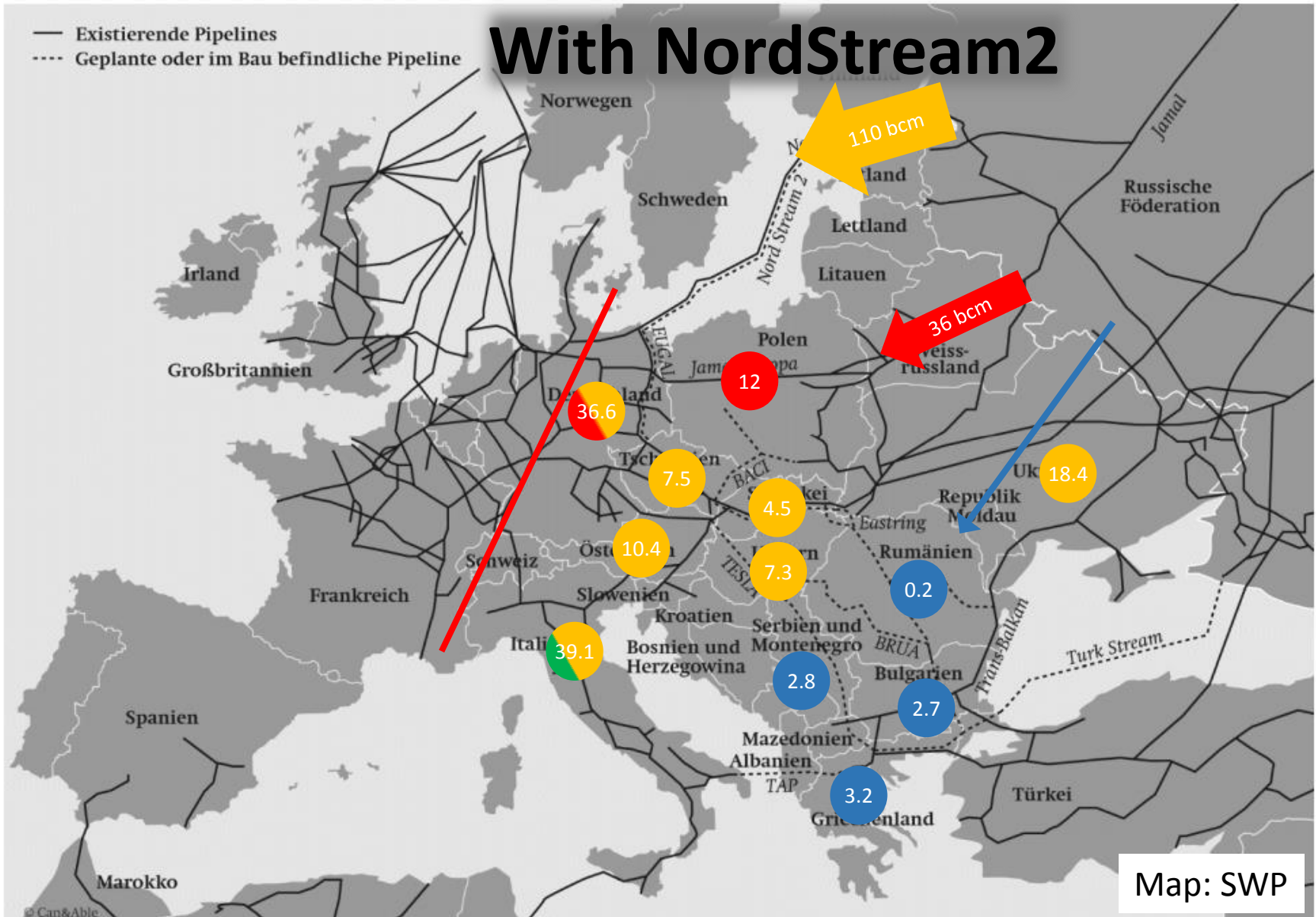


Map: ENTSO-G

Current situation



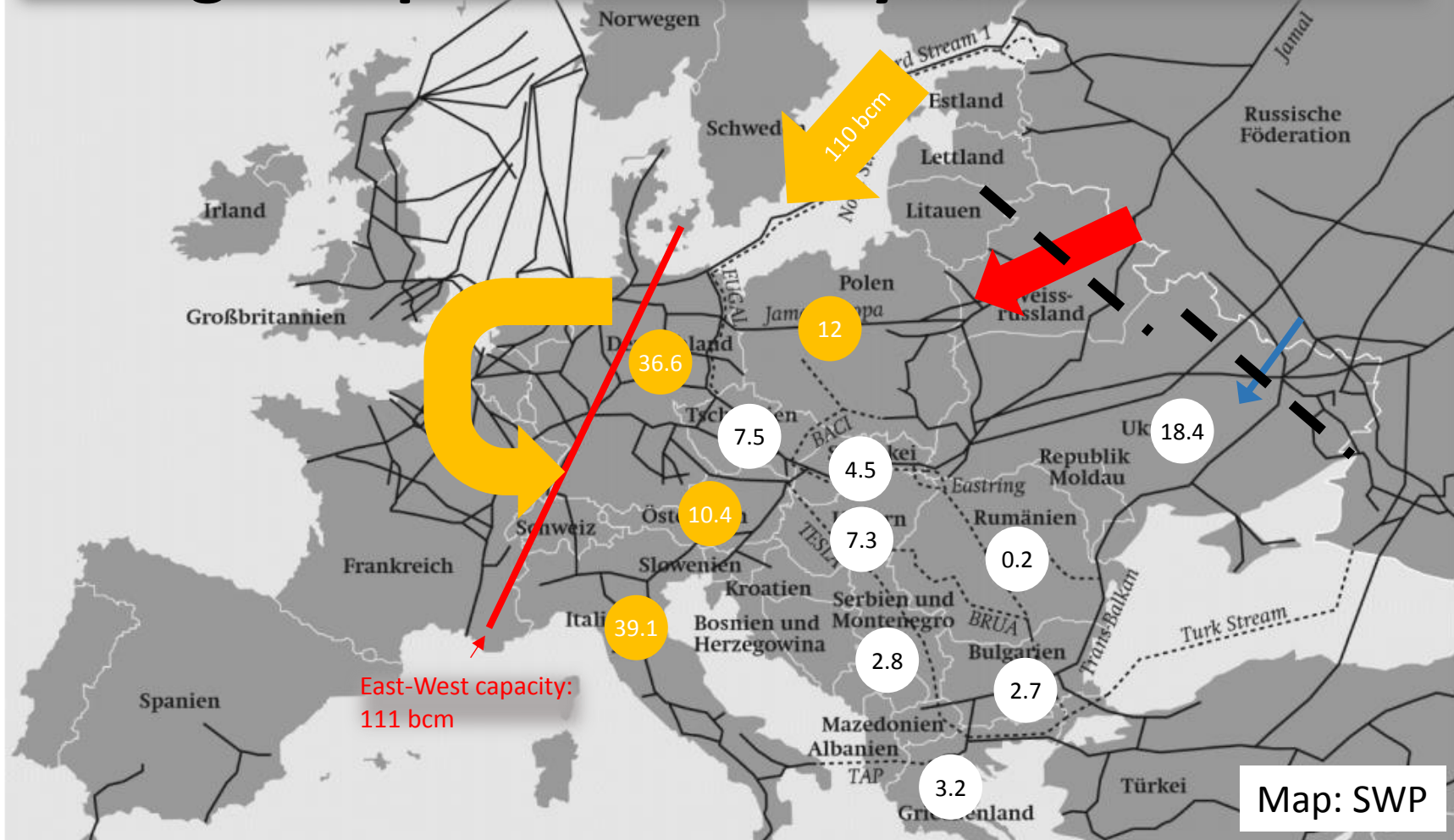
⇒ Total consumption in 2014 East of the red line is 152 bcm



⇒ Belarus-transit continues

⇒ Ukraine-transit only for SEE

Thought experiment: Only NordStream2



- ⇒ All Nord Stream 2 gas first sent to NWE to outcompete NL, NO and LNG -> low prices in NWE
- ⇒ Traders buy gas in NWE and bring up to 110 bcm to East << 150 bcm of demand
- ⇒ This induces congestion from West to East (in Germany)
- ⇒ Gazprom can ask higher prices in East and controls their security of supply

Conclusion

⇒ Risk that Nord Stream 2 can be used to **separate markets** and **exercise market power** in CEE, SEE and Italy and to **cut supplies** to Ukraine

⇒ This could be mitigated by:

1. additional pipeline capacity in West->East direction
2. alternative import capacities for the region (e.g., southern gas corridor)
3. allowing full “netting” of pipeline capacities (a one-sided flow increases the accounting capacity in the reverse direction and flows)

⇒ But those projects do not come for free, they actually become less competitive through Nord Stream 2, because if they are built, Gazprom with its lower cost and higher Nord Stream 2 volumes will lower prices and make the alternative pipelines uncompetitive (see Lithuania LNG example)

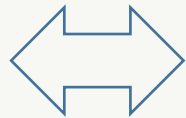
⇒ Should we allow Nord Stream 2 in the first place?

Nord Stream 2 involves some risk, that can be mitigated, at some cost

The case for/against Nord Stream 2

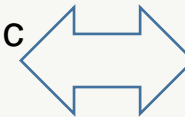
Germany gains

- Network revenues
- Lower gas prices
 - Possibly, lower transit cost
 - Price discrimination
- Trading business
- Possibly Security



CEE/SEE/IT loses

- Network revenues
- due to higher gas prices
 - DE + transit cost
 - or even monopolistic pricing
- Security
 - will be at end of the pipe



Russia gains

- No transit rent to Ukraine
- Market power in CEE/SEE
 - higher prices
 - and/or political concessions (esp. in UA)

But:

- Network cost increase:
 - NEP w/o NS2: €3.9 bn,
 - NEP w NS2: €4.4 bn

Political repercussions:

- Project by DE and RU at the expense of the CEE might derail EU energy collaboration (RES, IEM)
- Back to coal in the East?

Back-up

- DE and AT have no overbooking-and-buyback rules
- Bottlenecks largely in DE, but cross-border cot allocation only theoretical -> hard fro CEE/SEE to build non-commercial pipelines in DE (like MEGAL in the past)
- Seasonal flows could even induce more congestion; but, storage could reduce market power
- Small pipelines can have an above-proportionate impact to lower market power
- gas supply in North Western Europe declines