

Dream of the mundane, not pipes

By [Iana Dreyer](#)

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The most realistic way to secure gas supplies quickly is to build a genuine EU energy market.

'Energy security' is a buzz-phrase in [Brussels](#). But domestic gas-market reform and market-based competition appear to be on the losing end of the debate on how to improve Europe's security of supply.

The focus is currently on pipeline geopolitics. But no one is sure that, for example, the 'Southern Corridor' through which energy would be transported from the Caspian and Middle East will turn out to be anything more than a pipe-dream.

[Günther Oettinger](#), the new European energy commissioner, has announced that he now also supports South Stream, a Russian project to bring its gas to Europe via the Black Sea. Yet shouldn't the focus be on dealing with what already exists, making domestic markets more resilient to supply crises and disciplining the behaviour of unreliable suppliers?

Instead of grand ambitions, the EU's supply security strategy should be modest and focus on the boring things: it should make sure existing EU law is applied correctly, its single-market principles implemented, and its [gas markets](#) made as competitive as any other, normal market in the European economy. Increasing evidence shows that this is the best way to fight dependencies on single suppliers and create incentives to diversify sources of imports. This means facing up to the big incumbent companies and even to [Gazprom](#), Russia's state-owned energy giant. Who but Brussels can afford to be daring?

The European Commission must build on its strong analytical track record to make the case again for what is called 'unbundling'. This is an option given to the EU's member states in the last energy package, and adopted by national leaders in late 2008. But only a minority have agreed to unbundle their energy markets – that is, to dismantle monopolies that control the entire supply chain, from imports to distribution to sales to end-users.

Separating these activities and ensuring that companies with differing ownership structures have different responsibilities in the supply chain has proven the most effective way to increase consumer choice and create incentives to invest into vital infrastructure. Unbundling has allowed the UK and the Netherlands to adjust to the fall in supply of gas from their own reserves.

It has also allowed [Hungary](#) since 2007 to reduce its dependence on Russian imports. It has made its companies eager to invest in interconnecting pipelines with its neighbours and in storage facilities. When Russia stopped supplies of gas to Ukraine in January 2009, Hungary suffered much less from the knock-on effects on supplies to the EU than neighbours such as Slovakia and Bulgaria. Hungary was able to tap into its reserves and benefit from its alternative supply routes.



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Slovakia and Bulgaria were left out in the cold. The latter had chosen to stay monopolised, and their monopolies had decided it was best to remain captive clients of Gazprom. Inadequate connections to other energy networks in the EU ensured that nobody was able to help them out.

As well as enforcing rules relating specifically to gas markets, the EU should tap rules intended to create a single market. Antitrust cases brought in recent years against big gas companies in western Europe are coming to a close. The judgments on these cases could be built upon to clean up the gas markets in central and eastern Europe, the Achilles' heel of the EU's supply security. In a case against Gaz de France, the company was charged with "underinvestment in import infrastructure capacity" into France. Similar behaviour is suspected of ENI in Italy, which stands accused of "strategic under-investment" in its pipeline grid. Is this not behaviour that directly affects supply security?

In central and eastern Europe, national gas markets are even more monopolised and isolated from each other and the rest of the EU than the big French and Italian markets. Competition policy should therefore be even more vigilant on Europe's eastern flanks. These markets are dependent on Russian imports as no western European market is. What is more, Gazprom has important shareholdings in several national monopolies in that region. Gazprom generally also owns shares in the intermediary gas trading companies. All this reinforces these markets' incentives to remain captive to Russian gas. Antitrust action in those markets would force national monopolies to open up to other gas suppliers. Furthermore, it would force Gazprom to think twice before it shuts off the gas taps again, given that it will feel the financial consequences if the companies in which it has investments ended up being fined.

The European Commission's response to the January 2009 gas crisis was a burdensome regulation that sets mandatory standards and forces government to invest in storage infrastructure and interconnections across borders to prepare for supply disruptions. But national governments are currently cash-strapped, and the procedures too bureaucratic. It is very uncertain how efficiently the newly announced € 2.3bn Commission package to build infrastructure will be allocated. This is an approach that attempts to improve supply security by administrative fiat, without ensuring that the market's underlying structures will be supportive. It is not likely to be very effective, unless it is accompanied by market reforms.

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