

ECIPE Press release January 07, 2010

## **Fighting Europe's Dependency on Russian Gas more Effectively with Better Competition Policies**

By Iana Dreyer, Fredrik Erixon, and Robin Winkler

**In a new paper, ECIPE researchers argue that more, not less, competition in the EU's gas markets is required to reduce Europe's vulnerability to gas supply cuts originating in Russia. In particular, a glaring East-West divide within the EU in terms of antitrust policy must be overcome.**

“The Commission's priority on increasing competition in gas markets should be shifted to the East”, argue the Iana Dreyer, Fredrik Erixon and Robin Winkler.

In the short term, new legislation on full ownership unbundling of vertically integrated companies is not likely to be passed – political resistance is too strong.

“It is to Brussels' antitrust action, and especially abuse of market dominance, that the greatest attention should be given”, they add. “Particular emphasis should be given to countries that need it most, namely Bulgaria, the Baltic States, and Slovakia.”

Iana Dreyer, Fredrik Erixon and Robin Winkler investigate the relationship between the level of competition in the gas markets of the EU member states and their vulnerability to supply cuts from Russia's monopoly company Gazprom, which is behind most of the recent gas supply disruptions in the EU. Most markets in Central and Eastern Europe are locked into a tight one-way relationship with Gazprom, not only as sole supplier of gas, but also as investor in the domestic markets, and through long term supply contracts. All incentives in the local gas markets are skewed in such a way as to favour Gazprom.

The paper launches a new “Index of Vulnerability to Gazprom Supply Cuts”. The scores of the individual EU member states in this index show that the more the national gas market structure is monopolised, the greater a country is likely to suffer from gas supply disruptions. The highest scores are achieved by Bulgaria, Slovakia and the Baltic States.

The paper further takes a close look at the legislative measures and antitrust actions undertaken by the EU to foster such competition to create a Single Market. It examines Brussels legislation moves to liberalise the EU's gas markets since the 1990s. The failure of these policies to foster sufficient competition in the markets led to the ambitious Third Energy Package. The Energy Package, adopted in 2009, attempts to introduce “full ownership unbundling” – a complete break-up of the existing vertically integrated gas majors – because increasing evidence shows that this is the only effective means to improve customer service, reduce consumer prices, provide a more liquid and flexible Single Market able to respond to crises.

The paper also takes a closer look at current antitrust cases launched by the European Commission against some of the EU's biggest vertically integrated gas companies in Western Europe, ENI, Gaz de France, Eon Ruhrgas. The cases concern "concerted practices" (cartels) and in particular the "abuse of market dominant" position. The company actions under scrutiny had as aim and/or effect to foreclose national markets. This foreclosure leads to insufficient investment in gas infrastructure such as pipelines and interconnectors.

ECIPE's analysis reveals that the Third Energy Package exempts, Estonia, Latvia and Finland from unbundling rules. It also includes the Third Option, a watered down unbundling requirement, which will not fundamentally change incentives for gas companies. The Third Option will mostly apply to Central and Eastern Europe, thus perpetuating the uncompetitive status quo. Furthermore, the recent antitrust cases have focused on those markets that are least vulnerable to supply cuts from Gazprom, although obviously Gazprom has been behind most recent gas disruptions.

"The EC's antitrust policy in energy has neglected the Achilles heel of Europe's supply security, its Eastern rim, and in particular the new EU member states. This must change", say Iana Dreyer and Fredrik Erixon.

**Publication details:**

ECIPE Occasional Paper No. 1/2010

***The Quest for Gas Market Competition Fighting Europe's Dependency on Russian Gas more Effectively***

By Iana Dreyer, Fredrik Erixon, and Robin Winkler

The paper can be downloaded on the following webpage:

<http://www.ecipe.org/the-quest-for-gas-market-competition>

**Contact the authors:**

Iana Dreyer is a Trade Policy Analyst at ECIPE. She can be reached under

[iana.dreyer@ecipe.org](mailto:iana.dreyer@ecipe.org) and +32 (0)499 053 102

Fredrik Erixon is a Director of ECIPE. He can be reached under [fredrik.erixon@ecipe.org](mailto:fredrik.erixon@ecipe.org)

and +32 (0)499 053 107

**Press contact:**

Anna Lindelöf, Director of Communications. E-mail: [anna.lindelof@ecipe.org](mailto:anna.lindelof@ecipe.org), mobile:

+32 (0)499 053 103

# NEWS



[www.ecipe.org](http://www.ecipe.org)

[info@ecipe.org](mailto:info@ecipe.org) • Rue Belliard 4-6, 1040 Brussels, Belgium