

# EU Gas Supply Security: Unfinished Business

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The security implications of Europe's natural gas supply situation have been a key theme of the international energy security discourse in the post-cold war era. Dependence on Russian natural gas has been Europe's equivalent of US dependence on Middle East oil: it has been the main point of intersection between energy realities and foreign policy challenges, the issue which has made energy an integral part of foreign and security policy thinking.

The European gas supply crisis of January 2009 appears in retrospect as the moment when these concerns peaked. Since then, two major positive developments have taken place. The first is the bypassing of Ukraine by the coming online of Nord Stream in 2011 (and South Stream likely by 2015). It significantly reduces the risk of gas supply disruptions in the EU as Ukraine is no longer able to use Europe as a hostage in its negotiations with Russia. The second development is the transformation of the north-west European gas market through a dynamics of commoditisation, integration and globalisation.

The bypassing of Ukraine benefits the whole of Europe, even though central Europe probably benefits disproportionately because, as the 2009 crisis showed, they are far more exposed than western Europe to the risk of Ukrainian transit disruption. However, the process of commoditisation and globalisation of the gas market has largely escaped Central and Eastern Europe where the contestability of Russian gas has progressed only marginally. Even the prospects for shale gas production now seem much brighter in north-west Europe – particularly the UK – than in Central Europe, where exploration disappoints and public opposition is strong in some countries. Therefore the split between East and West in terms of gas supply security might have widened since 2008. As far as Ukraine is concerned, Nord Stream has seriously weakened – and South Stream will sever – its de-facto solidarity with the EU, to the benefit of European supply security but with serious financial and geopolitical implications for the country.

It also appears that the few central and eastern European countries that may have a serious short-term supply security issue – that is, a limited ability to meet final energy demand in case of Russian gas disruption – such as Bulgaria or the Baltic States, have not addressed it seriously or systematically. The European Commission, however, has used the crisis to revive a project of Security of Gas Supply Regulation that will not induce any national government to take gas supply security any more seriously than they already do.

The EU has redoubled its policy efforts to build a single gas market. However, there are serious questions regarding the regulatory concepts and policy approach promoted by Brussels under its “single gas market” agenda. What emerges in Europe is a patchwork of tightly regulated, interconnected national gas systems governed by ever more detailed and complex rules that Brussels then wants to harmonise. Under certain conditions – such as very large price zones, found in northwest Europe, most with direct access to the international LNG market – this system may mimic the short-term outcome of a genuine integrated market (i.e., price equalisation) but lacks its main characteristics and sources of social benefits, especially decentralised investment in infrastructure development and the link between the short-term and long-term provided by deep, liquid futures and financial derivatives markets.

The EU and especially the European Commission should be commended for the renewed emphasis on gas market integration since 2009. However, it is unclear if the “market design” Europe has selected can deliver a pan-European gas market. Most member states of central and eastern Europe seem almost as cut off from northwest Europe at the turn of 2013 as they were four years ago.

Since the gas crisis the European Commission has also wasted a lot of time, energy and ultimately credibility in the pursuit of an external gas supply policy, essentially trying to solve a non-existent problem (access to non-Russian gas) through a non-credible solution (a multi-billion euro merchant pipeline through Europe and Turkey to Central Asia). The external energy policy agenda is even widening and the Commission – here again supported by most member states of central and eastern Europe – has clearly signalled its ambition to scrutinise gas import contracts and ultimately get involved in their negotiation. This is politically contentious and not needed.