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Market power and long-term gas contracts: the case of Gazprom in Central and Eastern European Gas Markets

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Abstract

We explore a major European competition decision, the 2012-18 Gazprom case, using a global gas market simulation model. We find that access to LNG markets alone is insufficient to counterbalance Gazprom's strategic behaviour; central and eastern Europe (CEE) needs to be well interconnected with bidirectional flow capability. 'Swap deals' created by the decision facilitate CEE market integration, while limiting Gazprom's potential market power. Such deals may increase the diversity of contracted gas and number of market players, but do not improve physical supply diversity. In the next five years, swap deals could marginally impact negatively the utilization of strategic assets in CEE, but since Gazprom's commitments expire by mid-2026, utilization of these strategic assets may fall considerably, especially if Gazprom withholds supplies. As an unintended consequence, CEE markets may disintegrate from the rest of Europe. Avoiding such outcomes will require further gas market reforms, particularly, market design for gas transportation.

Keywords Gazprom; European Commission, Market Power; Natural Gas; Security of Supply; Competition; Long-term contracts; Swap deals

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