Future gas demand and supply in Europe – market decision or politics?

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1. Global framework: COP21 and changing markets
2. The EU’s approach: All new with the Energy Union?
3. Difficult decisions to take: Pipeline politics as the new normal?
The Paris Agreement at COP21:

- Aim to limit global warming to no more than 2°C with a perspective to go to 1.5°C

- Based on INDCs/NDCs and a comprehensive approach targeting all UNFCCC members (not just industrialised countries)

- Global stock-take every 5 years and review with the aim to increase ambition
INDCs and the question of consistency with 2°C and 1.5°C

Source: UNFCCC INDC Assessment 2016
The carbon budget is getting smaller

Source: UNFCCC INDC Assessment 2016
CSS is becoming crucial to remain consistent

Inconsistency between targets and mitigation pathways is growing.

Climate action will strongly depend on regional or national policies (increased by Trump-effect).

If the world would be consistent on targets and mitigation, the corridor for natural gas without CSS would be very small.
Global market conditions for natural gas have improved massively over the last decade

Growth in LNG trade, low prices, break-up of monopolies, increasing inflexibility: positive developments on the side of gas consuming/importing regions

Very favourable market conditions for natural gas consumers overall in the mid-term
The «Regulatory State»: The EU’s success model for gas market integration

Contrary to developments on a global scale («Renationalization», «state companies»), the EU tried to design, order and maintain a single EU gas market since the beginning of the 1990s.

The idea behind creating a single market was also to «depoliticize» gas trade, reduce costs and increase security through internal flexibility.

Natural gas to become a normal commodity.
The EU Commission’s main tools in natural gas policy

- **Competition Policy:**
  - Increased transparency on gas trade
  - Delete destination clauses

- **Market Regulation:**
  - Unbundling rules
  - Creation of independent national regulators
  - N-1 infrastructure provision as security measure

- **Infrastructure Support:**
  - Reverse-flow mechanisms
  - LNG facilities

→ Creating a functioning EU market environment as the agreed common feature among all EU member states
Success stories around the EU’s gas market:

- Increase of flexible spot-trading in the EU
- Growth in LNG import
- West-East gas flow option (eg for Ukraine)
- Ending the isolation of markets (eg Baltic states)

Shortcomings:

- Exporting the regulatory state model (except Energy Community)
- Being a relevant political actor in energy geopolitics
LNG in Europe

- Share of LNG import capacity as % of total gas import capacity
- Share of LNG imports as % of total gas imports
- LNG import capacity in Europe, in billion cubic metres per year

Sources: European Commission, Eurogas, EON
EU gas exports to Ukraine through West-East-flows

Source: IEA 2016
Why did the concept of the «Energy Union» enter the EU policy sphere in 2014/15?

- Continuing conflicts about «decarbonization and transformation» on the one hand and a more political energy policy vis-à-vis Russia on the other hand.

- Commission deal to get both and keep market approach at the same time.
Decarbonization in addition to EU ETS

+ Securitization of natural gas

The political challenges over the last months have shown that diversification of energy sources, suppliers and routes is crucial for ensuring secure and resilient energy supplies to European citizens and companies, who expect access to affordable and competitively priced energy at any given moment. To ensure the diversification in gas supplies, work The Commission will assess options for voluntary demand aggregation mechanisms for collective purchasing of gas during a crisis and where Member States are dependent on a single supplier. This would need to be fully compliant with WTO rules and EU competition rules.

Energy policy is often used as a foreign policy tool, in particular in major energy producing and transit countries. This reality has to be taken into account when discussing Europe's external energy policy.
Challenges for natural gas in the context of the «Energy Union»

- Less influence of EU ETS and carbon price signals and more influence by diverging national regulations (energy efficiency), subsidy systems (RES and coal), free allocations in ETS sectors
- Over-politicization of natural gas as «security problem» leads to non-market behaviour (eg exclusion of specific sources), higher prices and increases investment costs
- Reasons for the success of the EU’s regulatory approach in the past are being neglected
Nord Stream 2

Does the EU treat infrastructure projects vis-à-vis Russia differently than with other suppliers?

Do we grant Ukraine a transit monopoly for Russian gas and for which reasons?

In how far can a single infrastructure project be a danger for an integrated large gas market?

On which basis are we trying to stop competition for EU customers?
Southern Corridor and Turkey

Turkey might gain a strategic transit role for gas supplies to South-East Europe

Potentially decisive for deliveries from Aserbaijan (hypothetically Central Asia/Iran), Russia and Cyprus/Israel

Strategically, in the «new gas world», transit countries have more bargaining power than ever before
The role of natural gas in the future strongly depends on the consistency of targets and measures, but also on the deployment of CCS and more innovation in the sector.

Europe should make use out of its favourable position in present day world gas market by sticking to its liberal market model and not politicize gas trade.

If politics and not markets control supply and demand, this will harm natural gas use in general due to higher costs and inefficiencies.

Europe should assess the role of transit countries and their bargaining power vis-à-vis supplier countries in a more critical and risk-aware way.
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