



Rzeczpospolita Polska
Ministerstwo
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Gas Supply Security in the Energy Union

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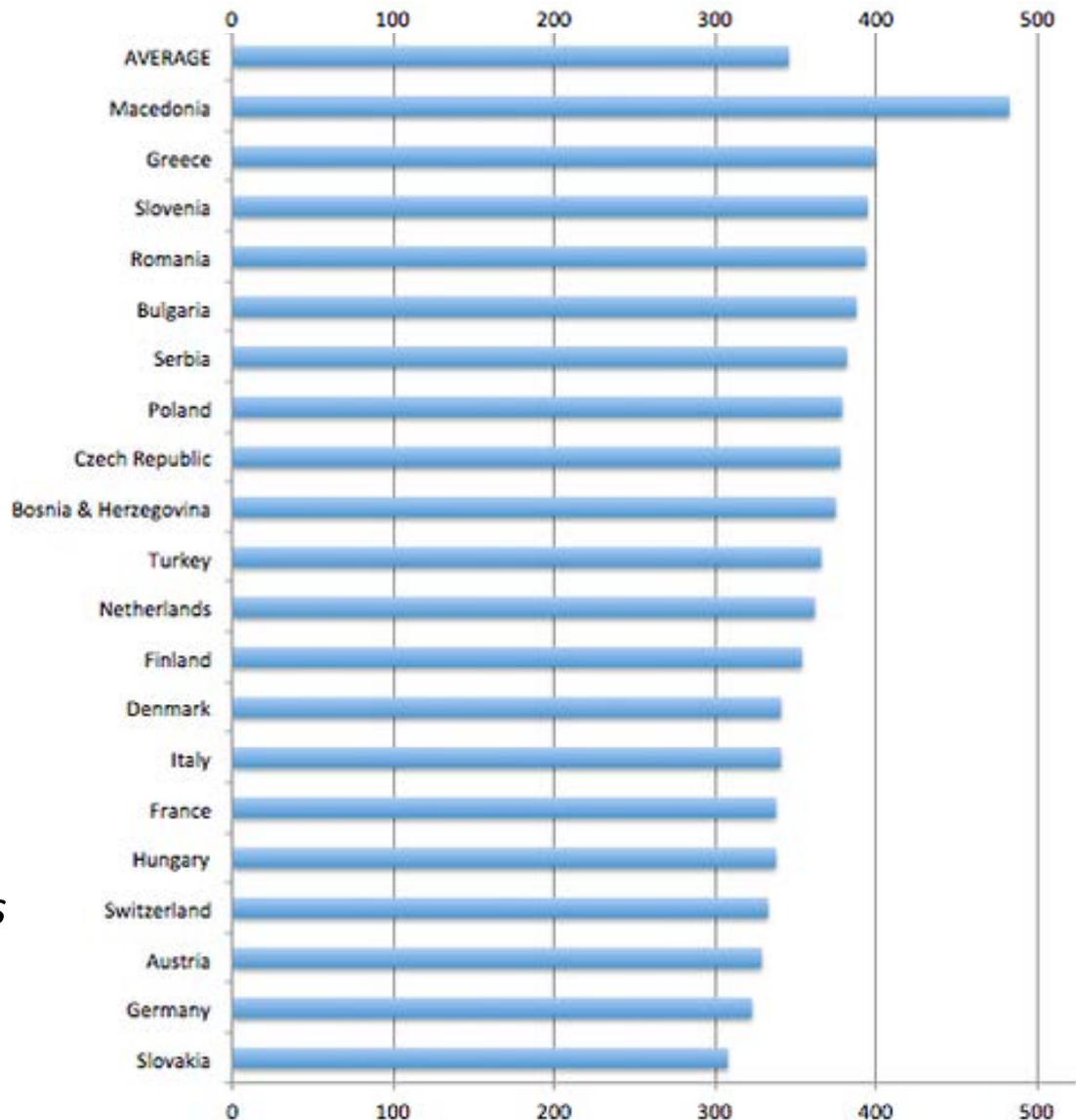
Russian gas prices in Europe

(USD/tcm in 2014)

Gazprom discriminates between different European buyers.

Price disparities **cannot be explained** by difference in terms of distance, purchased volumes or alternative supply options.

EC Statement of Objections against Gazprom (Apr 2015): the company is suspected of “charging prices to wholesalers that are significantly higher compared to Gazprom’s costs or to benchmark prices”.

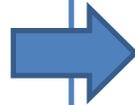


Source: Interfax (2015)

Costs of lack of Energy Union

- Estimated welfare loss for the EU due to gas market inefficiency:
11-18 bn EUR/year [ACER*]
30 bn EUR/year [Booz&Co]**

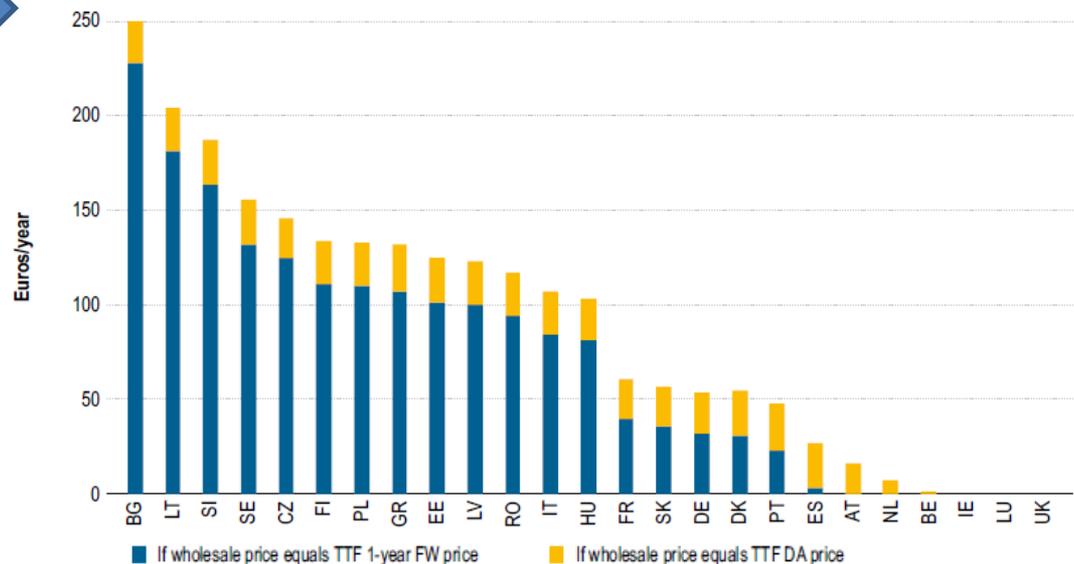
- Per household, split by Member States:



- Conclusions:

1. The costs are mostly borne by **customers in CEE region**
2. **We cannot afford it**

Figure 77: Gross welfare loss per year per typical household consumer due to a lack of wholesale and network integration in the EU-27 – 2012 (euros/year)



Source: ACER*

*ACER, *Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2012*, November 2013

**Booz&Co report for DG ENER, *Benefits of an Integrated European Energy Market*, July 2013

Road to the Energy Union

1. Energy Union proposal by Polish PM D. Tusk
- **April 2014**
2. EC Communication „Resilient Energy Union with a forward-looking climate change policy”
- **February 2015**
3. European Council conclusions on the Energy Union
- **March 2015**

March European Council endorsed the Energy Union

- The EC Conclusions on the Energy Union provide a genuine opportunity for a considerable shift of the EU energy policy
- Main focus on improving security of supplies, in line with CEE region needs
 - speeding up crucial infrastructure development
 - enhancing legislative framework for security of supplies in gas and electricity
 - **increasing transparency of gas agreements and commercial contracts with external suppliers**
 - assessing options for voluntary demand aggregation mechanisms
 - enhancing regional cooperation in energy matters

Transparency of gas contracts

2 d) ensuring full compliance with EU law of all agreements related to the buying of gas from external suppliers, notably by reinforcing transparency of such agreements and compatibility with EU energy security provisions. As regards commercial gas supply contracts, the confidentiality of commercially sensitive information needs to be guaranteed

(EC Conclusions on Energy Union, 19.03.2015)

- Crucial provision that opens an opportunity to eliminate clauses in gas contracts CEE region countries have with dominant the external supplier, that have been undermining CEE economies for many years
- It may level up chances of EU gas companies towards external suppliers
- It may also have a chance to prevent any subsequent actions of external supplier(s) that are against the energy interests/needs of the CEE countries

Transparency of gas contracts

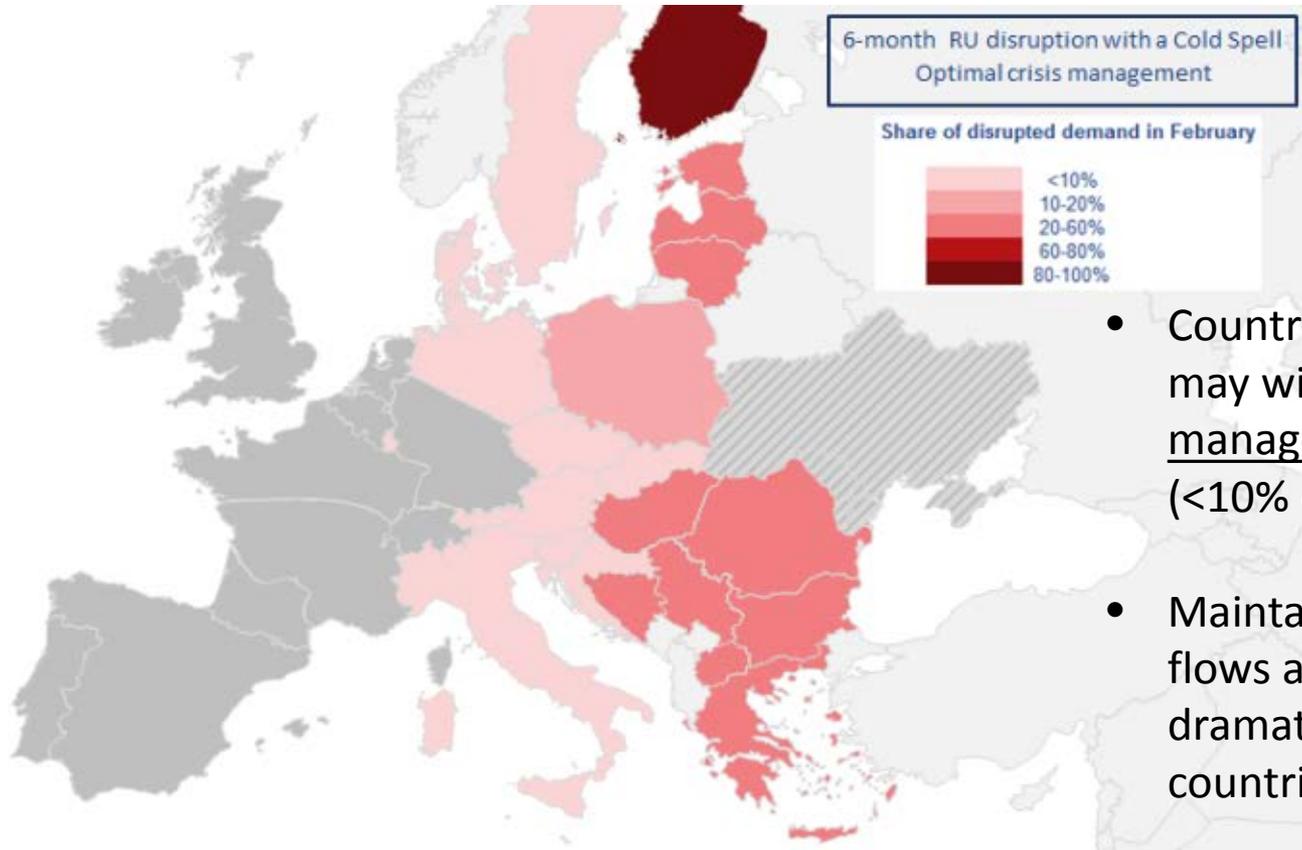
- With unfavourable contract provisions/prohibited clauses, the dominant external supplier may divide underdeveloped markets, limit access to infrastructure and impose unfair prices to its customers
- This affects policies of vulnerable countries also in other (than energy) sectors
- Existing solutions are insufficient (e.g. the ongoing EC antitrust investigation against Gazprom concerns Gazprom's policies in 2004-11)

Possible solutions:

- Ex-ante assessment of contracts but limited to the most vulnerable markets (e.g. dominance of one supplier reflected in HHI)
- „Fast-track” ex-post assessment of suspected contracts/agreements
- „Pre-check” of contracts by national antitrust authorities/energy regulators

Results of gas stress tests (Oct 2014)

1. Cooperative scenario:

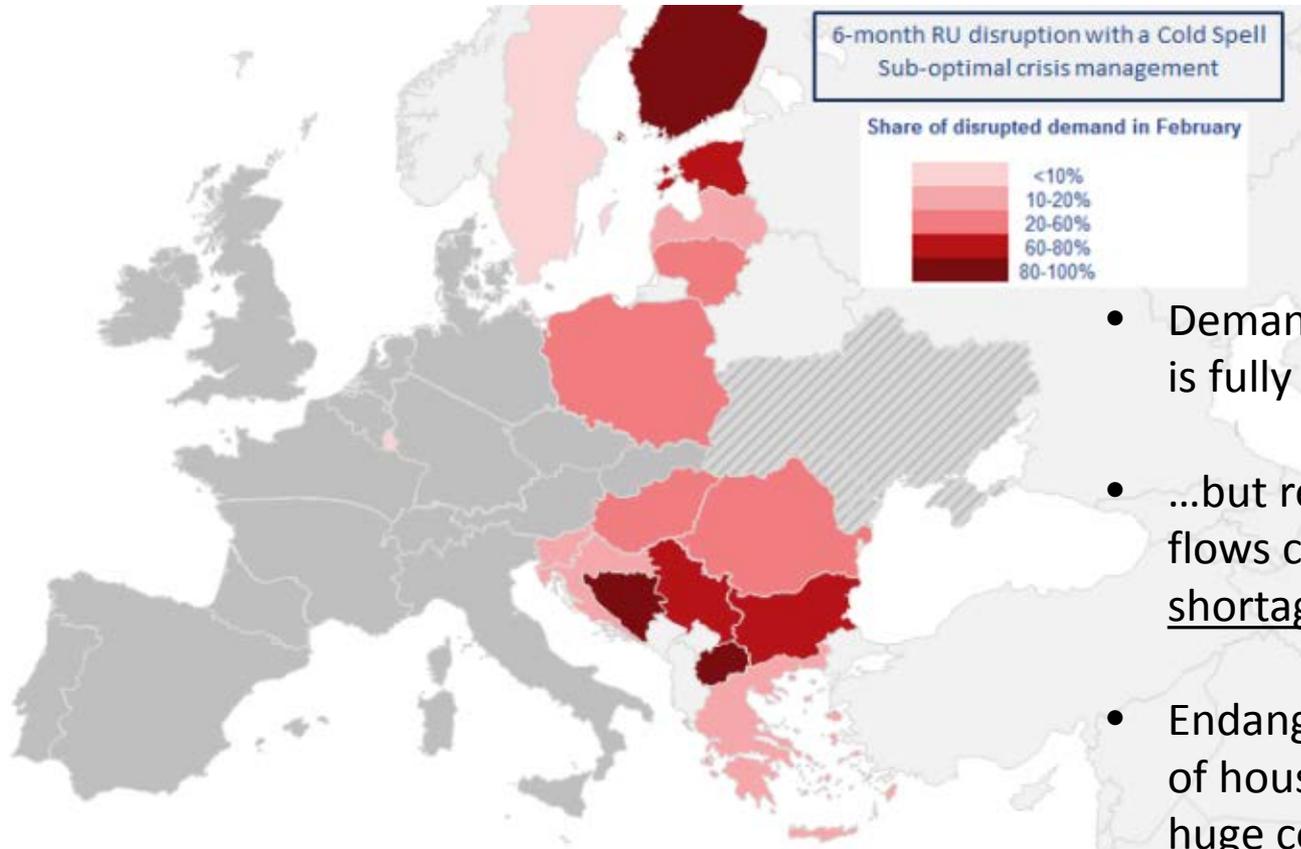


- Countries such as DE, IT and AT may witness some minor, manageable gas shortfalls (<10% of total demand)
- Maintaining West→East gas flows allows to prevent dramatic shortages of gas in CEE countries

Source: European Commission, COM(2014) 654 final, 16.10.2014.

Results of gas stress tests (Oct 2014)

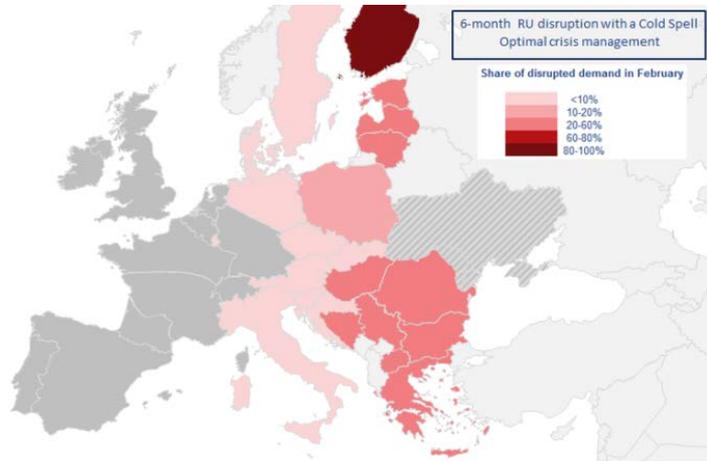
2. Non-cooperative scenario:



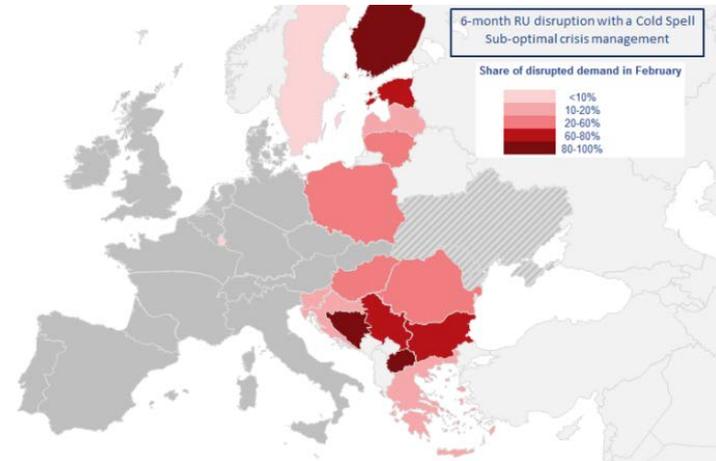
- Demand in Western gas markets is fully met...
- ...but restricting West → East gas flows causes dramatic gas shortages in some CEE countries
- Endangered health and safety of household consumers and huge costs for the whole economy [*vide* South-Eastern Europe in 2009]

Source: European Commission, COM(2014) 654 final, 16.10.2014.

Conclusions from gas stress tests



Cooperative scenario



Non-cooperative scenario

What is needed in the revised **Security of Gas Supply Regulation (994/2010)**:

- **Obligatory common risk assessments and crisis response mechanisms** are necessary to reduce costs of supply disruptions and allow optimal allocation of scarce gas resources among protected customers in the EU.
- **Obligatory reverse flows** on all interconnections – current exemptions regime prevents free cross-border flow of gas in crisis.
- This would also allow to limit the impact of disruptions on **Energy Community countries** (Ukraine, Moldavia, Western Balkans).

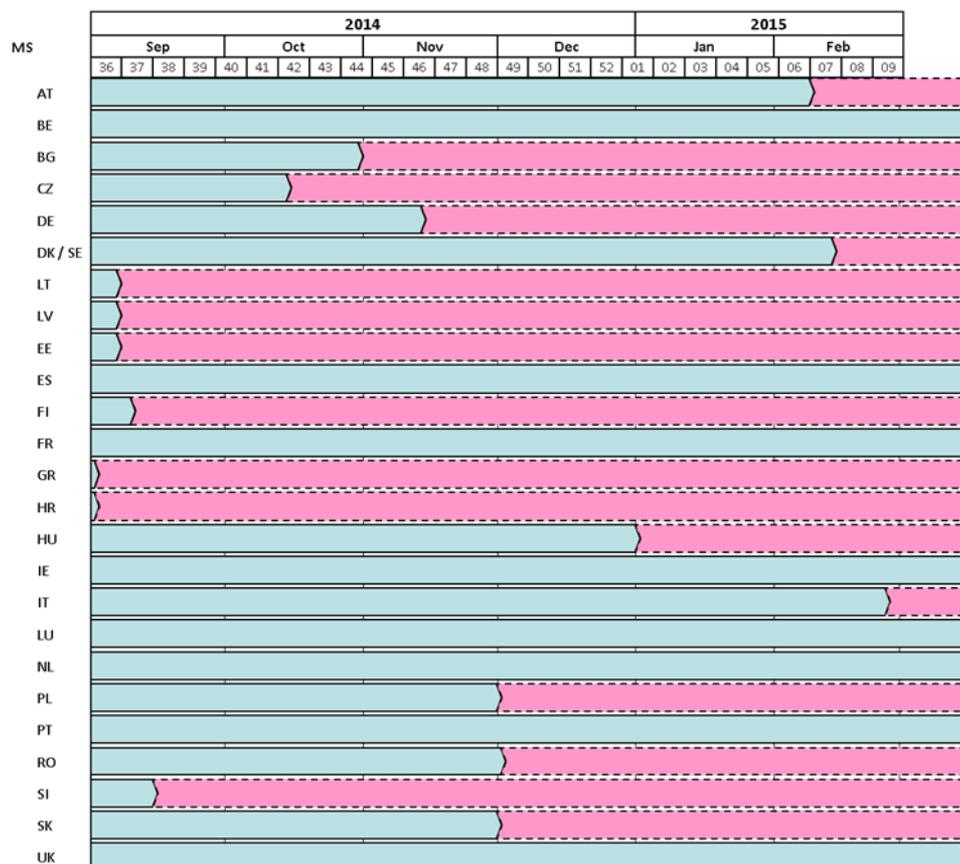
Conclusions from gas stress tests

Scenario 6 month without Russian gas

The introduction of non-market based measures in different MSs currently lacks any coordination (GR before BG, DE before PL or HU in case of Russian gas cut-off).

Cooperation and solidarity between Member States are crucial to **limit harm to consumers**.

A **common virtual gas reserve** would enable a more efficient use of existing assets in the EU (pipelines, LNG and storage facilities).



* BA, RS, Cyprus & Malta not included

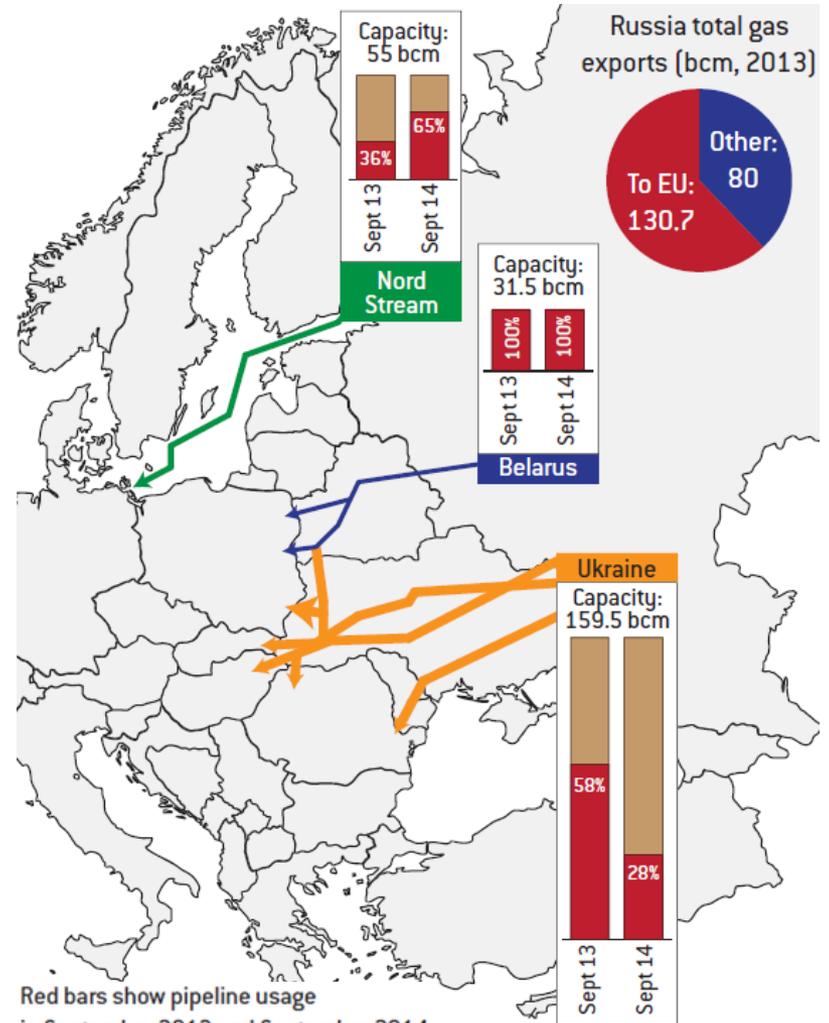


Gas supply security and climate policy

- Lack of supply security and transparency in the gas market influences Member States' choices of energy mix.
- **Once gas is secure, available and reasonably priced in the CEE region, countries like Poland will be more willing to use it as a less CO₂ emitting energy source on the way to energy transformation.**

Nord Stream 2 – the costs

- Why build an additional pipeline when existing capacities of Russia-EU pipelines are not fully used?
- The costs will ultimately have to be paid by consumers in DE and the connected markets, i.a. in CEE.
- Estimated costs of:
 - Nord Stream 2: **10 bn EUR**
 - Turkish Stream: **15 bn EUR**
 - Modernization of the Ukrainian gas transit system: **5 bn EUR**



Red bars show pipeline usage in September 2013 and September 2014

Sources: Bruegel based on IEA Gas Trade Flows in Europe; Nord Stream website.

Source: Zachmann, Loskot-Strachota, *Rebalancing the EU-Russia-Ukraine gas relationship*, Bruegel, 12.2014

Nord Stream 2 – the impact

Nord Stream 2 would further deepen the **overdependence of the CEE region on a single supplier**, who already abuses his dominant position (as shown by the EC antitrust case).

Every project which aims to **bypass Ukraine as a transit country** (South Stream, Turkish Stream, Nord Stream 2) would weaken its already difficult economic and political situation:

- Lack of important budget revenues (transit fees)
- Russia's additional leverage over the Ukrainian government (possibility to halt/reroute gas flows)

NS2 puts the EU credibility to a test – we need to stick to agreed market rules and energy security priorities to pass it.



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**Thank you
for your attention**

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