

III-2.5: Report on the National Security Concerns of Natural Gas Supply: The French Prime Minister's « Centre d'analyse stratégique » publishes Christian Stoffaës' report entitled « La sécurité gazière en Europe : de la dépendance à l'indépendance » [The Security of Natural Gas Supply in Europe : from dependence to independence], which advocates European regulation focused on energy security, especially via partnerships between Europe and its suppliers (Russia and North Africa)

Monday 24 May 2010, by Marie-Anne Frison-Roche, Managing Editor and Director of the RLR

[Full Text of the Report \(in French\)](#)

MAIN INFORMATION

The « Centre d'analyse stratégique », the strategic analysis think-tank that is part of the French Prime Minister's cabinet, published the report of the working group presided by Christian Stoffaës on the theme of « La sécurité gazière en Europe : de la dépendance à l'indépendance » (The Security of Natural Gas Supply in Europe : from dependence to independence). This report highlights the fact that Europe is in danger, in the long run, of not having access to enough gas and of becoming overly-dependent on its foreign suppliers. Europe must therefore establish policies to reduce and modify its natural gas consumption, and establish energy partnerships with Russia, North Africa, and finally, the Middle East. Europe must realise that competition is nothing more than a means to an end and must implement a true Regulation of the energy sector, in order to create secure conditions that avoid energy crises. Risk management can be achieved by creating emergency reserves; through the regulation of transport network infrastructures; and a renewed 'energy solidarity' using the interconnections at member states' borders. Thereby, Europe will evolve from dependency to independency, which will ensure its natural gas security despite its insufficient supply

CONTEXT AND SUMMARY

This report first notes that Europe is characterised by chronic natural gas dependency, which was brought to public attention when Russia cut off natural gas supply to the Ukraine in 2009.

Europe thus depends on imported natural gas, and it is necessary for governments, European bodies, corporations, and natural gas transporters, distributors, and suppliers to anticipate the risks in supply that this situation implies, by implementing pre-emptive and remedial strategies.

The first line of defence is to diversify supply, construct new gas transport infrastructures, implement trans-European solidarity interconnections, implement emergency reserves, promote the use of liquefied natural gas, establish strategic partnerships with supplier countries, and to keep a vigilant eye on the reciprocity of free trade and market access rules.

From an institutional point of view, Europe does not yet have the means to build a single, long-term European policy on natural gas security. Yet, it is necessary to construct a single solution for the near future. This might take the form of a single 'gas purchase centre' and an import regime that would influence contractual negotiations and coordinate infrastructure investments and spending according to the global interests of Europe, taken as a whole.

In any case, competition rules have to be respected, environmental constraints must be taken into account, and a long-term perspective must always be adopted in order to develop solutions for natural gas security.

The report is constructed in four parts: the first, on the perspectives for natural gas in Europe; the second, on strategic orientations; the third, on recommendations; and the fourth, on instruments for action.

As concerns the perspectives for natural gas in Europe, consumption of gas has greatly increased, even though the infrastructure required to transport and distribute natural gas is very onerous; and supplier countries are geographically concentrated, which makes Europe greatly dependent on these countries for energy supply. However, the risk of a supply cut-off is not foreseeable in the short-term, since supply is sufficiently diversified and the suppliers are reliable. However, the long-term risk is greater, because of the exhaustion of current gas fields, which raises considerations as to the considerable investments that will be required in the future.

As for the second part, devoted to strategic orientations, the report emphasises that Europe is logically pursuing the double goal of reducing consumption and developing new projects to diversify its supply. Therefore, by 2025, Europe might depend on imported gas to meet 80% of its needs: Europe therefore must strengthen its energy security and increase its autonomy. In order to do this, European regulatory policies are needed in order to allocate natural gas and avoid supply incidents.

By delving further into the problem, and completing the *Energy-Climate Package*, storage and transport capacities must be augmented in order to deal with this dependence, which creates security problems. Furthermore, the European Commission is preparing a series of regulatory instruments in prevision of a gas crisis: identify what investments are necessary, improve the transparency of gas flows, stocks, and transportation capacities. Thus, on July 16, 2009, the European Commission proposed changing the 2004 Directive *concerning measures to safeguard security of natural gas* (2004/67/EC) into a European Regulation, and reinforcing it in order to take these issues into account.

Taking a completely different tack, this report insists on enlarging 'energy partnerships' between Europe and its gas-producing neighbours, starting with Russia and North Africa, and eventually the Middle East. Thus, as concerns Russia, both parties have mutual needs: both want better energy efficiency, Europe needs energy security, and Russia needs economic development in its energy sector. In this perspective, Gazprom should be considered as a reliable and long-term partner, taking its partnership with BASF as an example. Such an alliance would propitiously compete with the similar alliances that the United States have formed with Asian countries. Doubtlessly, greater similarities between Russia and Europe in terms of market economy and infrastructure management would facilitate such a partnership.

The report insists on the fact that Europe is fundamentally dependent because it creates worry, disagreements, and mistrust. Therefore, member states feel excessively vulnerable, which creates competition between states via diplomacy, and increases Europe's fragility. Planning the path of new international gas pipelines will take (such as Nabucco) becomes exceedingly difficult because of each country's desire to ensure its supply. But, energy must become analogous to the Common Market, which transformed an area of contention into an area of conflict.

The third part of the report is made up of recommendations. The first recommendation concerns 'The next frontier of European expansion'. It will be

necessary to balance the power struggle between Europe and its natural gas suppliers, especially Russia and Gazprom. In this perspective, competition cannot be considered as an end in itself, and government-led industrial policy must take on its former importance in this domain. The second recommendation is to evolve from 'deregulation in Europe to European regulation'. The recent financial crisis has shown us just how unacceptably dependent Europe is; Europe must therefore develop mutual interdependence. In order to achieve this, Europe must speak with one voice through a credible and effective European diplomatic service.

Europe must organize strategies to:

1. Inverse the tendency towards an increase in natural gas consumption, especially by reducing consumption and relying more on nuclear energy;
2. Periodically review Europe's need for natural gas, and construct the infrastructures necessary for European solidarity, such as cross-border exchanges and liquefied natural gas terminals.
3. Conclude strategic partnerships with Russia and North Africa, and then, later on, with the Middle East;
4. Develop partnerships with operators at every phase of natural gas production, supply, transport, and use;
5. Reflect upon Europe's emergency stockage capacities;
6. Establish minimum standards for supply security and supplier authorizations.

The report is, however, realistic on the feasibility of such a strategic plan because of tensions between the governments in question, especially because the May 2009 Summit between Europe and Russia concluded with the rejection by Russia of the very idea of signing an energy charter in whatever form, because of the difficulties it was then experiencing with the Ukraine.

The fourth part of the report has conceived 'instruments for action'. The report emphasizes that private petroleum and natural gas companies each adopt their own strategies to preserve their individual interests, and Europe must impose its objectives on these countries. This is why it might be a good idea to construct a monopsony of buyers, in the form of a single European natural-gas purchasing centre that would take long-term investments into account and could demand development of transport networks. Truly, competition is simply an instrument to build a single European market, and energy-dependency concerns, as well as the amount of investment required to create economically natural monopolies, might justify non-competitive solutions. The report evokes the possibility for member states to implement contingency plans to deal with peak-demand periods, in order to prevent cut-offs in supply. It also puts forth *dirigiste* propositions, which would see a European regulator organize infrastructure development and incite corporations to adopt its natural gas security strategies.

In this, the report simply relays the debates that have taken place within the European Commission, itself.

The report insists that it is absolutely necessary to overcome disagreements with Russia on the energy charter and on economic models in order to construct an energy partnership, and do the same thing with North Africa.

By the same token, the report insists that energy security must be apprehended as a major problem and should lead Europe to develop appropriate instruments in order to stymie the risks of a crisis. Concomitantly, the report emphasizes that corporations are market-players, while governments are not, which means that the latter no longer have the means to impose norms. Governments therefore have to develop a European natural-gas policy through a coherent and strategic discourse.

Links with other documents in the same sector:

BRIEF COMMENTARY

This report is important because it analyses natural-gas issues through the political, economic, and legal triangle that is constitutive of Regulation. Furthermore, it apprehends these problems through a global perspective, which is also characteristic of Regulation. Depending on the sector, one of the three points of the triangle is more or less important, and it is quite clear that as concerns natural gas, the political element is of premier importance: despite the huge sums of money at stake, the major issue is political relations between Europe, Russia, and the Ukraine. Economics are not absent from the question, because the very subject (natural gas) highlights the strategic question of stockpiling, which is not possible for other forms of energy; moreover, diversification as an economic policy sends us back to this discipline. Nevertheless, Law is nearly absent from these questions: even though there has been a large amount of legislation on the subject (liberalization Directive of 1996, Energy Security Directive of 2004), they are nothing more than the legal transcription of political and diplomatic negotiations.

Our second observation is that the report hardly evokes competition at all, while it continuously makes reference to Regulation, consecrating entire sections to the idea. This seems contradictory not only to the intrinsic evolution of the natural gas sector, since the 1996 Directive on liberalized the sector and regulation was seen as the way to bring a formerly monopolistic sector towards competition; and also because this is contrary to the evolution of the electricity sector, into which successive legislation has introduced more and more competition. This is due to the fact that this report focusses on natural gas *security*, which brings with it the implied notion of natural gas *crisis*. Truly, when there is a lack of security, as the report very exactly explains, whether this insecurity be real or imagined, there is a risk and therefore there is an intimation of a crisis. So, if we want natural-gas security, we have to rely upon the system contrary to competition: Regulation. This is what the report naturally does in its recommendations, which never propose using competition as a reference, but rather organizing markets *ex ante*, force them to invest, or even to form legally-sanctioned cartels. We can see that regulation, and not competition, is the natural model for organizing a regulated sector characterized by economically natural monopolies (transport and distribution networks). Regulation's prevalence is increased when it is necessary to pre-empt risk, which here, exists in the form of a supply cut-off.

This last observations allows us to make our final remark. This situation is analogous to the one we observe in banking and financial regulation. Whatever be the level of competition between private actors on a market, the stakes are guaranteeing the system's security to prevent risks: we can easily make the analogy between a cut-off in gas supply, an electricity black-out, a bank failure, or a domino effect on a financial market. This regulatory system has nothing to do with competition, but everything to do with risk; the behaviors it imposes and the rules it establishes are no longer accountable to Competition Law. The fact that the Stoffaës report does not mention competitive mechanisms proves our point.