Interconnection of East European Natural Gas markets: towards a cooperation between players?

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Outline of the presentation

• Setting the scene: stakes in the European natural gas
• The players’ strategies: the example of Eastern Europe
• The industrial concentration factors
• The interconnection trend in Eastern Europe
• Cooperation instead of competition between players?
• Outlook: regulation and energy policy in the enlarged European Union
Stakes in the European natural gas (1)

- Opening to competition $\Rightarrow$ single EU energy market
  - State owned / backed monopolies
  - Oligopolistic external supply side
- EU enlargement to the East $\Rightarrow$ integrate the soviet legacy
  - Weaknesses in industrial structures
  - Distorsion in energy prices
  - High dependency on Russian gas imports
Stakes in the European natural gas (2)

Consommation de gaz, en % du bilan énergétique

Dépendance gazière, en %

Bulgarie

Estonie  République Tchèque  Lettonie

Lituanie

Slovaquie

Hongrie

Pologne

Roumanie

UE-15

Bulgarie

Estonie  République Tchèque  Lettonie

Lituanie

Slovaquie

Hongrie

Pologne

Roumanie

UE-15
The players’ strategies in Eastern Europe

• Governments:
  ➢ Comply with the European *acquis* and restructure national operators
  ➢ Manage gas imports’ dependency and interconnect with the European gas network
  ⇒ *privatizations and State retreat*

• Big energy market players:
  ➢ Preserve market share and growth opportunity
  ➢ Secure supply
  ⇒ *Vertical and horizontal integration, control of the gas value chain, rent capture... Eastern Europe is an opportunity*
The industrial concentration: security and market driven
Liberalization and interconnection patterns (1)

Gazoducs européens
Gazoducs d'importation de gaz russe
Gazoducs de transit de gaz russe
Gazoducs d'interconnexion
Liberalization and interconnection patterns (2)
Cooperation instead or competition?

<table>
<thead>
<tr>
<th>Supplier / Consumer</th>
<th>Co-operation</th>
<th>Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operation</td>
<td>3, 3</td>
<td>1, 4</td>
</tr>
<tr>
<td>Competition</td>
<td>4, 2</td>
<td>2, 1</td>
</tr>
</tbody>
</table>

For the monopoly supplier:
4 (most preferred pay-off to that actor): Monopoly position. Profit maximizing
3 (2nd pay-off): Monopoly position threatened. Competitive pricing
2 (third best pay-off): Monopoly power decrease. Rent sharing
1 (worst pay-off): Monopoly power decrease. Short term profit loss

For the importing firm:
4: Security of supply improved. Dependency decrease
3: Security of supply improved. Dependency increase
2: Security of supply threatened. Search of diversification
1: Security of supply threatened. Volatility, diversification
Outlook: Regulation and energy policy in the enlarged EU

• Cooperation: best response to uncertainty for players
• But will investment be ensured by private operators?
• Lack of a credible energy policy in the EU
• Nevertheless, enlargement and liberalization present opportunities for the future European energy market
• Under the condition of tight and efficient regulation and a stable energy policy framework
Thank you for your attention!

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