



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

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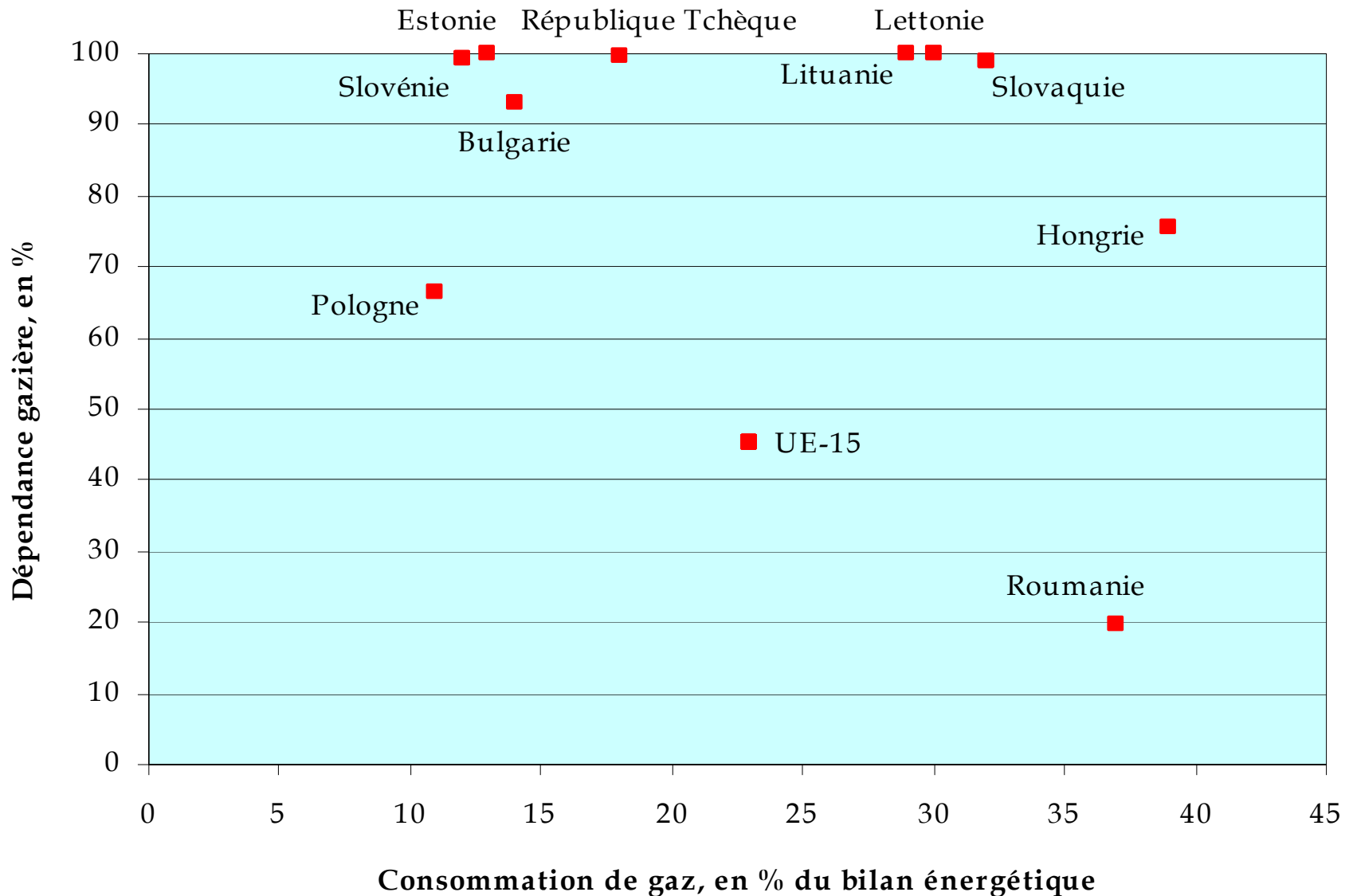
Outline of the presentation

- 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)



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*

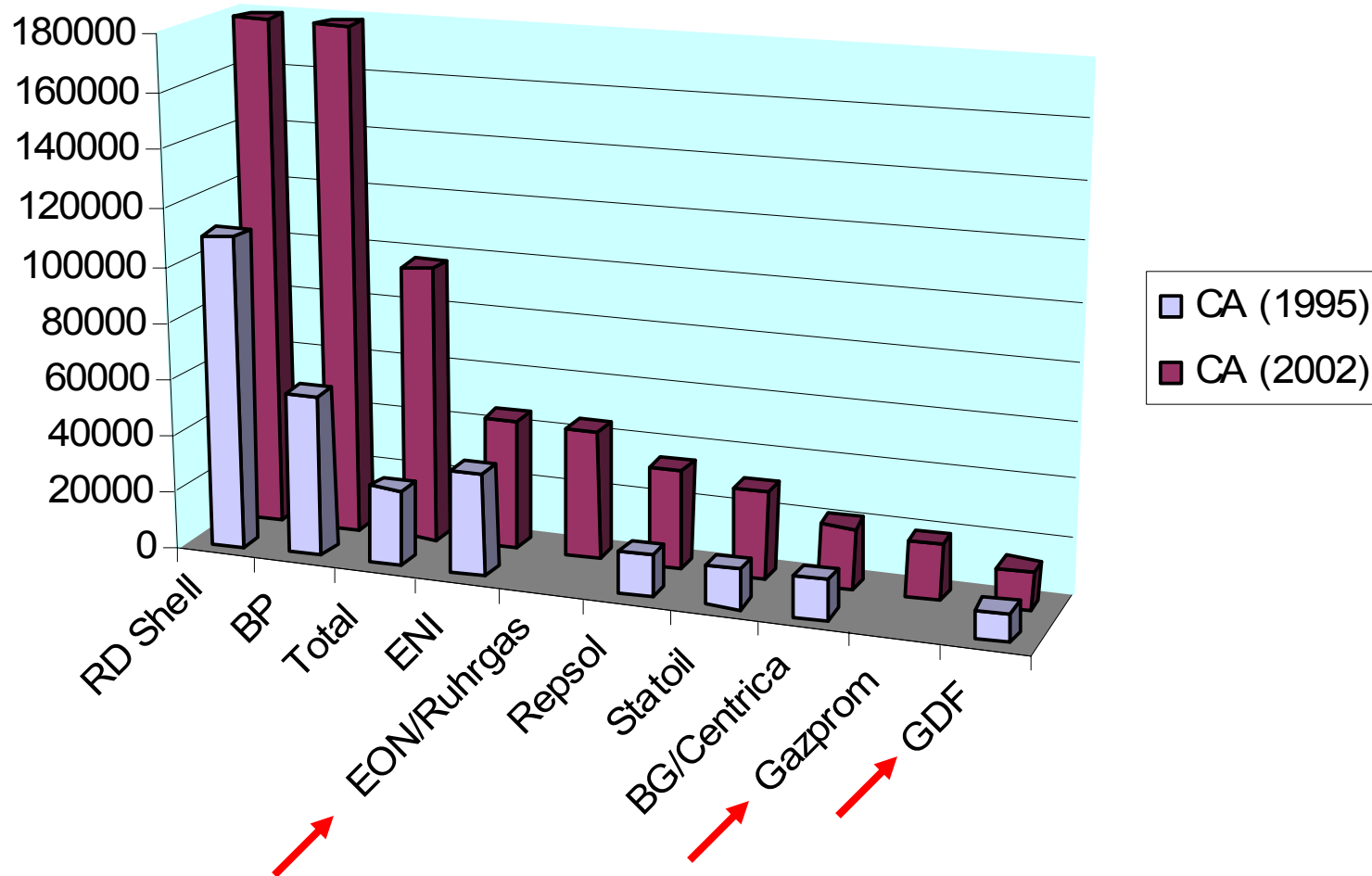
- Big energy market players:

- Preserve market share and growth opportunity

- Secure supply

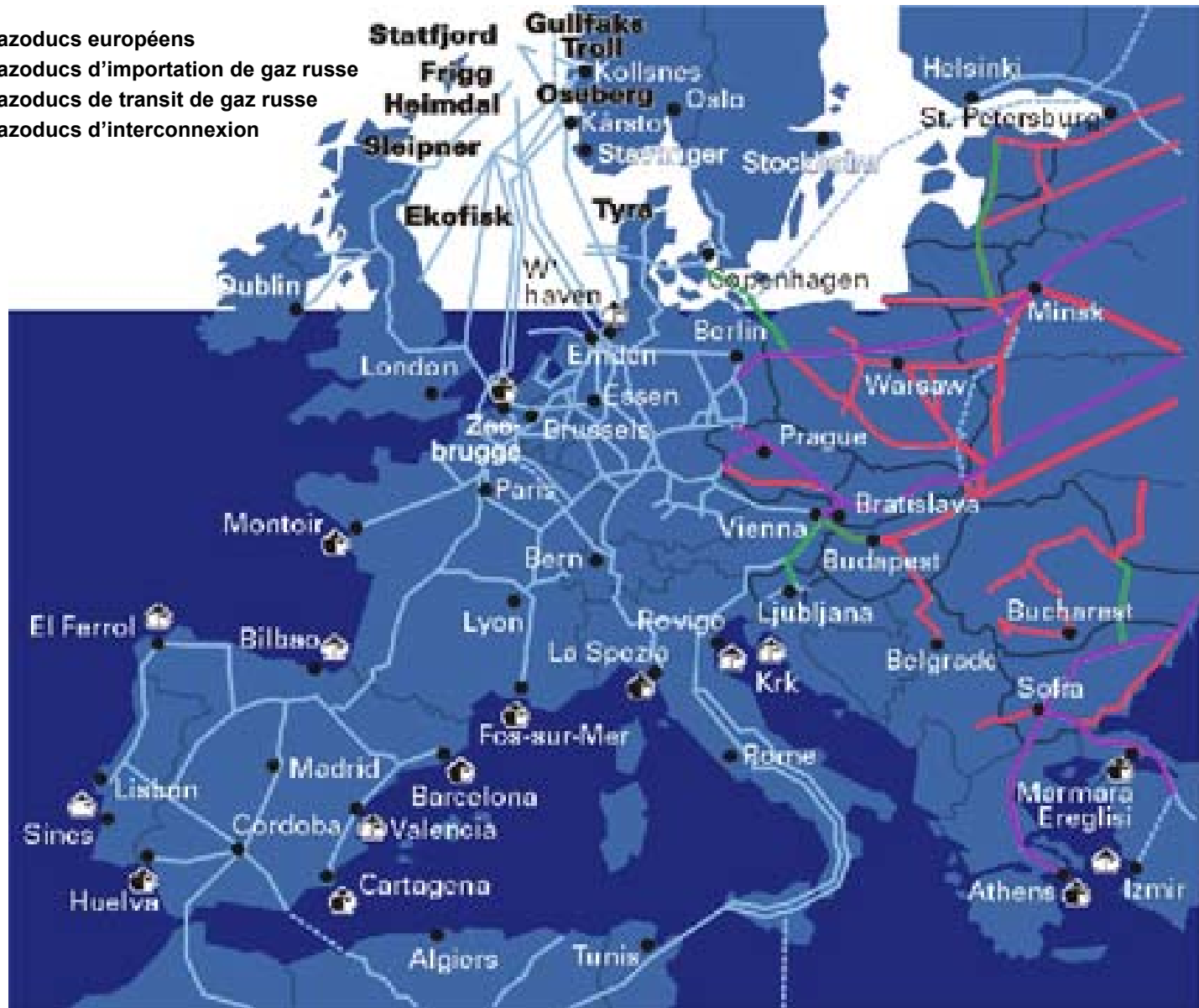
- ⇒ *Vertical and horizontal integration, control of the gas value chain, rent capture... Eastern Europe is an opportunity*

The industrial concentration: security and market driven

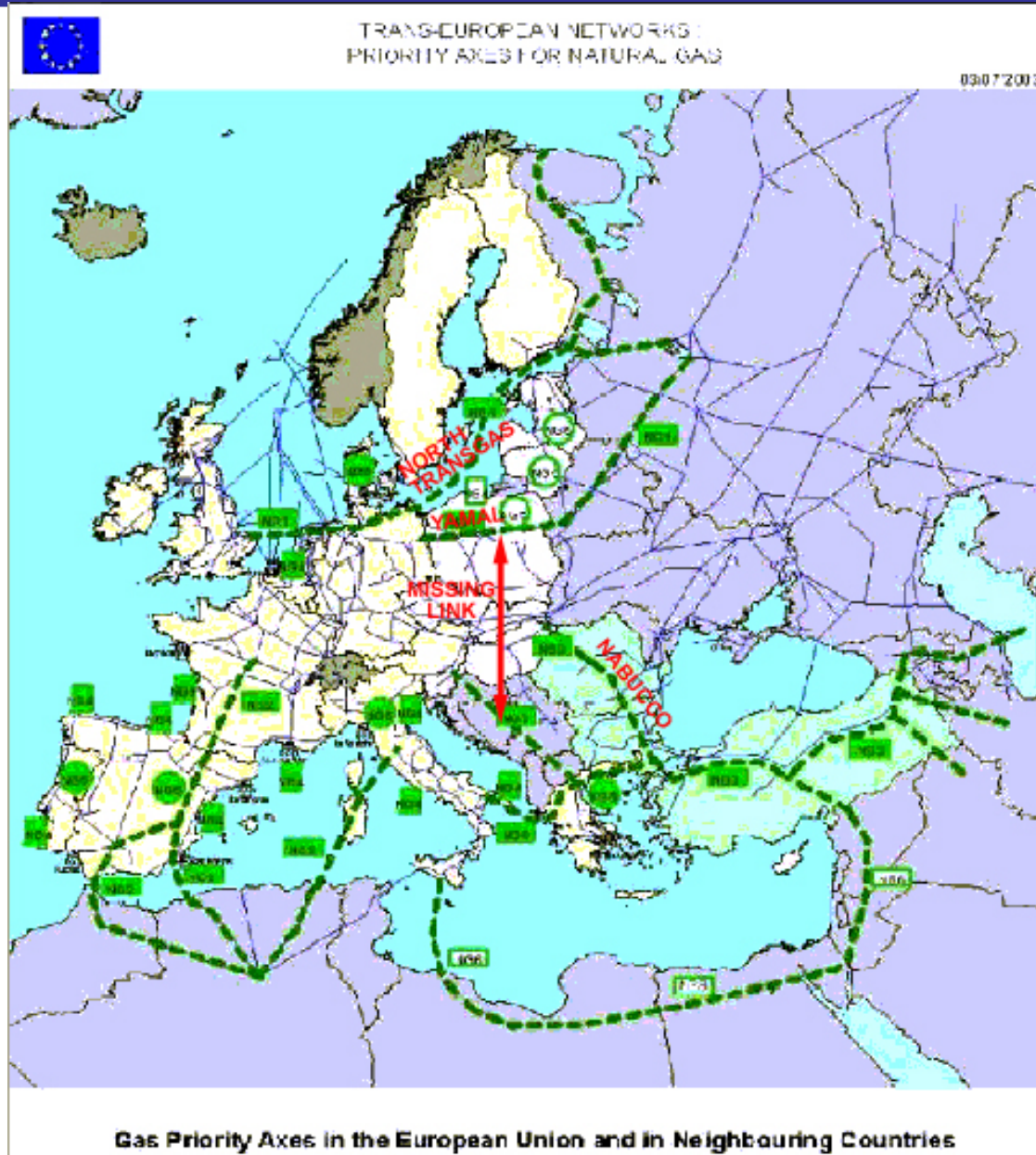


Liberalization and interconnection patterns (1)

- 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?

Supplier / Consumer	Co-operation	Competition
Co-operation	3, 3	1, 4
Competition	4, 2	2, 1

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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