Overview
After more than 8 years from the Directive 98/30 the results of the reform process seem to be still blur and uncertain. In particular, a number of barriers to entry still exist on the European market.

With this paper we analyse the reasons of the remaining barriers on the market and we try to indicate a possible roadmap to regulation to overcome the current impasse.

Methods
We focus on four main points:
1. Long term contracts and take or pay clauses;
2. Price formation;
3. Vertical foreclosure, separation of network ownership and new investments;
4. Storage regulation.

Each of these points implies a certain degree of distortion in competition for different reasons (e.g. entry without competition, incumbent advantage, discrimination in the capacity allocation process and so on). We discuss these topics starting from what the economic literature tells us about them; thereafter we provide a detailed analysis of the current situation of the market with reference to above mentioned issues and finally we elaborate a few suggestions for policy-makers aimed at overcoming the remaining barriers to entry on the European gas market.

A policy roadmap to competition on European gas markets

![Diagram]

Source: IEFE, 2006
Results
In fact in the economic theory there are several contributions directly addressing the above
mentioned issues with special reference to long term take or pay commitments, vertical
foreclosure and access to the networks, spot trading and storage policy.
On the other side the European gas market, although open to competition in name, seems
far from being a level playing filed on which different operators can actually compete.
The theoretical analysis seems to indicate that the Commission, in order to actually
liberalise the market, should pursue competition through integration of the markets. Just in
this way it would be possible to achieve the targets the reform process was meant to yield.
Integration can occur through a common regulation able to promote new investments, cross-
border transactions and to increase flexibility and security on the supply side.

Conclusions
The gas liberalisation carried on by the European Member States is still incomplete and asks
for a greater coordination role for the European Commission, which has a unique tool to
intervene on the market: regulation. We believe that through this tool, the Commission
should promote market integration which is the conditio sine qua non a competitive and
secure market can arise. Finally it must be kept in mind that this might not be enough: in
fact, in order to be effective, competition must be introduced also among producers, given
that EU is getting more and more dependent from imports.

References
E. Baranes et al., “Une Analyse Economique de la Structure Verticale sur la Chaîne Gazière
Européenne”, CREDEN Cahier de recherche N° 03.11.39, 2003.
Braeutigam R. R. (1989), Optimal policies for natural monopolies, in Schmalensee R., Willig R. D.,
Creti, B. Villeneuve, “Long-Term Contracts and Take-or-Pay Clauses in Natural Gas Markets”,
S. Dorigoni, “Il Ruolo delle Tariffe di Trasporto del Gas Naturale nella Liberalizzazione del Mercato”,
2004.
P. Lyon, S. C. Hackett, “Bottlenecks and Governance Structures: Open Access and Long-Term
Contracting in Natural Gas”, Journal of Law, Economics & Organization, Vol. 9 No. 2, pp. 389-398,
1993.
A. Neumann, C. von Hirschhausen, “Less Long-Term Gas to Europe? A Quantitative Analysis of
European Long-Term Gas Supply Contracts”, German Institute for Economic Research – Dresden
University of Technology, 2004.
1998.