

*Susanna Dorigoni and Sergio Portatadino*  
**A POLICY ROADMAP TO REGULATION OF THE EUROPEAN GAS MARKET**

Iefe -Istituto di Economia delle Fonti di Energia, Università Commerciale Luigi Bocconi,  
V.le Filippetti 9, Milano; Phone: office +39 02 58363806; mobile +39 7883949; +39 349 8916557  
e-mail: susanna.dorigoni@unibocconi.it

**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.

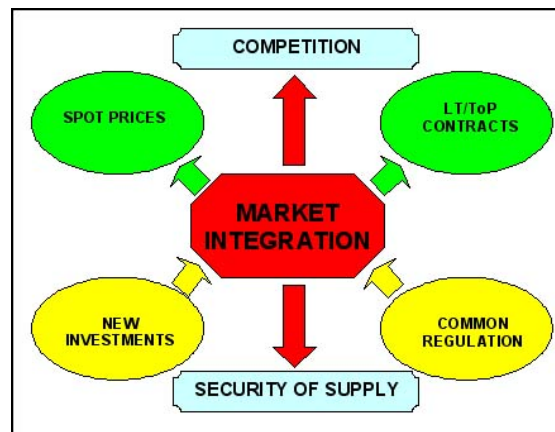
**Methods**

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**



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 field 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 Économique 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., *Handbook of industrial organization*, vol. II, North Holland, Amsterdam, pp. 1289–1346.
- Creti, B. Villeneuve, "Long-Term Contracts and Take-or-Pay Clauses in Natural Gas Markets", *Université de Toulouse*, 2003.
- S. Dorigoni, "Il Ruolo delle Tariffe di Trasporto del Gas Naturale nella Liberalizzazione del Mercato", 2004.
- R. G. Hubbard – R. J. Weiner, "Long-Term Contracting and Multiple-Price Systems", *Journal of Business* 65, pp. 177-198, 1992.
- 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. 380-398, 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.
- M. Polo, C. Scarpa, "Entry without Competition", *IGIER Working Paper*, 2003
- Salinger, "Vertical Mergers and Market Foreclosure", *Quarterly Journal of Economics*, pp. 345-356, 1998.
- Waldman – Jensen, *Industrial Organization: Theory and Practice*, 2002.