RUEGEL
POLICY
CONTRIBUTION

ISSUE 2016/01
JANUARY 2016

RETHINKING THE SECURITY OF THE EUROPEAN UNION'S GAS SUPPLY

SIMONE TAGLIAPIETRA AND GEORG ZACHMANN

Highlights

- The security of the European Union's gas supplies is crucial to ensuring that supplies to households are not disrupted in freezing winters, that industry can flourish and that the EU cannot be blackmailed in vital foreign policy questions.
- Gas supply security should be addressed at EU level because a joint solution would be cheaper, national approaches could undermine the internal energy market and have adverse effects on other countries, and the EU Treaty explicitly calls for energy solidarity.
- The current focus on supply diversification and reduction of dependence on imported gas is expensive and does not constitute a systemic response.
- Instead of doing everything to reduce gas supplies from key suppliers, gas supply security could more effectively be safeguarded by ensuring that unused alternatives are maintained so that they can be tapped into for an indefinite period in case of supply disruption from a key supplier. This Policy Contribution outlines a market approach that could safeguard gas supply security at very low cost.

Simone Tagliapietra (simone.tagliapietra@bruegel.org) is a Research Fellow at Bruegel.
Georg Zachmann (georg.zachmann@bruegel.org) is a Senior Fellow at Bruegel

Telephone
+32 2 227 4210
info@bruegel.org

egel o g

RETHINKING THE SECURITY OF THE EUROPEAN UNION'S GAS SUPPLY

SIMONE TAGLIAPIETRA AND GEORG ZACHMANN

The European Union would benefit from a new approach to ensure the security of its gas supply, not least because gas imports are likely to increase. The EU's existing gas infrastructure is sufficient to buffer a major supply shock. Therefore, instead of focusing on expensive policies to stimulate supply diversification and to reduce of dependence on imports, the aim should be to find a way to maintain an adequate level of flexibility and make it available when needed. This could be done by creating an EU market for a gas security margin, which could be an asset for the EU in the context of the unpredictable nature of gas supplies, with countries today perceived as secure be"

This implies the EU is vulnerable to a few external suppliers that might, at any moment, cut their supplies for technical or geopolitical reasons. On this point a caveat is necessary: while the EU security of gas supply debate is often exclusively co

percent for LNG terminals. By contrast, only 18 percent of the 92 bcm of EU gas storage capacity (GIE, 2015) is currently nots

2. Calculated as follows: pipeline imports: January 2014/31, IEA (2015); pipeline imports margin: (December 2010 – January 2014)/31, IEA (2015); LNG imports: 2014 data/365, GIIGNL (2015); LNG imports margin: (Total capacity – imports 2014)/365, GIIGNL (2015); domestic production: 2014 data/365, BP (2015); domestic production margin: (Netherlands 2010 peak – Netherlands 2014 data)/365, BP (2015); storage: DTMTW, average 2014, GIE (2015); fuel-switching potential: 50 percent of 2013 gas consumption.

curtailment, storage, liquefied natural gas plants, pipelines, domestic production or domestic fuels). Neither the current market design nor *ad-hoc* national approaches appear well suited to efficiently ensure security of supply.

Without an EU framework to safeguard gas supply security, member states will have to act. But nationally-decided supply security measures and infrastructure projects have often detrimental repercussions beyond their borders. If Lithuania builds an LNG terminal, Latvia or Estonia might find it more difficult to finance one, and if Germany builds an additional pipeline from Russia, south-east Europe might be more sud

MGSM) and intermediate sales (which are not).

A last option would be to impose the obligation on consumers. But given the large number of consumers, it would be hard to justify the administrative effort.

The size of the security margin should be determined at EU level, on the basis of an agreed definition of what constitutes an emergency situation. A very basic approach would be to oblige importers/producers to maintain a fixed share, such as 20 percent of contracted gas demand for 1 year. A more
to link the security margin to the importer's
producer's sources of gas. Similar to

place. In this respect, the Ten Year Network Development Plan (TYNDP) (ENTSO-G, 2015) developed by ENTSO-G should play a greater role in identifying the true bottlenecks and encouraging cost- efficient solutions. To promote proper coordination of gas infrastructure development at EU level, the role of the Agency for the Cooperation of Energy Regulators (ACER) should be enhanced. It should be provided with sufficient tools (modelling capabilities, staff) to evaluate the cost-effectiveness of proposed EU gas infrastructure developments. Proposals from other parties (outside of ENTSO-G) should also be considered. For projects that are not part of the TYNDP, the relevant national regulator should need to demonstrate that they are not detrimental to EU energy policy objectives, before they give their approval.

THE POLITICAL ACCEPTABILITY OF THE EU-MGSM

Economic considerations will not be sufficient to secure approval for an EU-MGSM. Political acceptability will also be a fundamental prerequisite to enable the creation of such an EU-wide mechanism.

There are significant differences between member states in terms of energy mix and security u Cp÷

11. Because of increasing demand in Asia, and also in response to stronger decarbonisation policies.