
Comment

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How will the organizational structure of the European Gas Industry look like in 15 years? This is an important question. By anticipating future developments, we can derive appropriate decisions today. Mr. Estrada's paper contains important considerations which are no doubt useful for the assessment of the future market development. Nevertheless, some conclusions are surprising. In other cases, comments seem necessary.

It is not possible, of course, to deal with the entire breadth of arguments and information presented in Mr. Estrada's paper. Therefore a few key theses are singled out and commented on from the viewpoint of a company centrally placed in the European gas industry.

My discussion follows the basic structure of the paper under consideration.

1. Background

Mr. Estrada states, "Several historical circumstances explain why gas currently enjoys a 'window of opportunity' in European Energy markets" and, "In short, the apparently sudden interest in natural gas seemed to coincide with the emergence of an enthusiastic West Europe."

The growing demand for gas in Europe is indeed a factor that must be taken into account when reflecting on the future of the market.

But it is likewise necessary to take into consideration the causes of this anticipated rise. In my view, Mr. Estrada's analysis overstates the importance of politics and understates the importance of economics and of market organization on the European gas market developments.

It is true that there have been political events with a deep impact on the energy markets. The OPEC crisis or the upheaval in Eastern Europe provide examples. The EU directive of 1975, which for many years restricted the use of gas in power stations, is another case in point. Politics may provide part of the explanation of the varied successes of gas between different European countries.

In the final analysis, however, it seems to me to be more important to discuss the merits of gas and of the gas market institutions in their own right, if one is to understand what happened in the past, and what may occur in future.

Thus, it is noteworthy that the development of gas in western Europe was marked by continuous growth from the 1960s onwards, despite the highly restrictive EU directive of 1975, precisely because of the inherent advantages of gas vis-a-vis other fuels. The transformation of Eastern Europe provided new opportunities for different forms of energy, but the ensuing success of the natural gas option is, to a major part, attributable to the good performance of the gas companies embracing high security of supply, good service and competitive prices.

2. Possible Consequences of Gas Market Deregulation

In the second main part of his paper, Mr. Estrada deals with the question of why the enthusiasm of the early 1990s, which he ascribes to political and historical coincidences, has subsequently vanished. He believes that there are three aspects deserving special attention:

- 1) The rising prominence of the security of supply issue, as gas increases its market share in the power sector;
- 2) The arguments put forward by the gas industry in its campaign against deregulation;

- 3) The latent concern about future cost developments in the gas sector.

Like many political forecasters, Mr. Estrada was far more optimistic in 1990 about future gas sales than in 1992/93. In the latter year, Europe was indeed marked by a deep economic crisis. At the same time, economic recovery and liberalization in the east were not as fast as many optimists had expected in 1990. This setting is a reason for the political forecasts in 1992/93 being more pessimistic than in 1990.

But it is remarkable that in this section too, Mr. Estrada seems to focus entirely on politics, and that the market, the actual scene of events, is hardly at all taken into consideration in his analysis. From the point of view of Ruhrgas, a private company whose product is exposed to stiff interfuel and gas-to-gas competition, and which competes for new supplies since 30 years, this is astonishing.

I wish to comment briefly on the first two of Mr. Estrada's arguments. The third one, future costs of supply, seems too speculative and warrants no comment on my part.

Mr. Estrada claims that fears about supply security are mounting in consequence of the anticipated increase in the share of gas in the power sector. I think this claim is too general to be credible. Concerns about supply security of a particular fuel in the power station sector depend greatly on the relevant circumstances in the specific markets. Nevertheless, as a gas company we are not able to gauge whether electricity companies experience such fears.

The actual behavior of gas companies refutes Mr. Estrada's assertion that supply security issues restrain gas use in power generation. Large-scale gas sales increases in the power sector are forecast in some European countries. The German gas industry is pursuing business opportunities in power generation for 30 years. Major sales in this sector were achieved already in the 1970s and 1980s. In the 1990s, decentralized CHP and CCGT plants are energetically promoted. How, against this background, Mr. Estrada can see any restricting fears among the gas suppliers, is therefore not understandable.

Since the early 1990s, the EU Commission

has entertained plans for fundamentally altering the framework and structure of the European gas industry. If these plans had been implemented in their original form, West European gas supply would be considerably impaired or even jeopardized. The European gas industry is therefore engaged in an intensive and constructive dialogue with the EU Commission on this issue. There is no impasse between the parties. Contrary to Mr. Estrada's claim, the arguments of the gas industry are concerned with assuring steady and constructive growth of the gas market on the continent.

3. Emerging Trends in the Organization of the Gas Industry

On this topic, Mr. Estrada presents a host of ideas which cannot be dealt with individually. The line of argument is not always consistent. This comes out clearly in some remarks on the German gas market. To start, it may be appropriate to straighten out three such remarks:

- 1) It is true that Germany plays a special role in European gas supply, on account of its geographical location. But how can it be asserted that Germany has "a comparative advantage to control overall management of gas resources injected into continental Europe"? This assessment ignores the fact that:
 - the German gas industry is formed by private companies;
 - the competitive framework allows import, export, marketing, transportation and free pricing to everybody;
 - gas companies in Germany are owned also by foreign and international investors;
 - almost no gas supplies need transit through Germany geographically, but they have been attracted to German transit routes since more than 20 years due to the prevailing liberal legal framework;
 - the question of transit was finally resolved by the EU transit directive.
- 2) The assertion that Germany is about to abolish closed supply areas and introduce a limited TPA system is not correct as stated. It is true that there are ideas along those lines. However, the Government is unlikely to take a unilateral step. More probably, it in-

tends to pursue the principle of reciprocity at the European level. In any case, the measures under consideration are unnecessary because intensive competition already takes place within the existing framework.

- 3) Ruhrgas has always striven to ensure high security of supply for its customers by suitably diversifying its supply sources. This approach will not change in future. Ruhrgas will continue to obtain gas from various countries, maintaining and enhancing its balanced supply portfolio under existing long-term contracts. Considering that Ruhrgas is the largest customer for Russian gas, it is odd to predict the formation of Ruhrgas/Norway and Wingas/Russia blocs, as the author does.

Mr. Estrada's basic desire appears to be market liberalization. However, in his view, such liberalization presupposes a new organizational structure for national markets. In his perception, this is to be achieved by a regulatory model far exceeding any plans currently discussed in Brussels.

An important reason the author gives for the need of further regulation is that the lead time of gas projects has decreased in the last ten years. Even if lead times may have shortened in many cases, there are important exceptions, as indicated, for example, by the extended planning and development schedules for the Troll and Yamal projects. Nevertheless, it is unclear why shortened lead times should necessitate additional regulation, especially since the European gas industry has ensured stable gas supplies over the past 30 years, not because it was forced by regulation, but on the basis of entrepreneurial responsibility. This was recently confirmed by the IEA in a study dealing specifically with issues of gas security.

The following list shows the main features of the regulatory system presented by Mr. Estrada:

- independent regulatory office
- clearing-houses
- import-permits
- TPA
- controlled transportation tariffs
- regulatory bridges between countries
- direction of capital investments.

Presented in this way, the list reveals clear and irreconcilable contradictions vis-a-vis the market liberalization that Mr. Estrada claims to desire. Furthermore, his proposals do not help to meet the challenges of the future. On the contrary, they put the future of an efficient gas industry at risk.

Nevertheless, the author acknowledges that "...the likelihood of this type of 'intentional' policy-driven development model seems today rather low," and concludes that future developments will be controlled by the market.

4. Outlook

The German gas industry concurs with the last

conclusion. Furthermore, it views a market solution as the most favourable for Europe. We expect that private capital will get a better chance to invest in a couple of countries. Different regional developments are certainly conceivable. Changes may also occur in other areas, such as the number of market actors.

A benign development of the European gas market, with steadily growing demand and supply will only be possible if market forces are not impeded by further regulation. At the same time, I strongly believe that the agents and particular features of the gas market that have proved their worth in the past should be permitted to play their constructive roles in the future, too.