Interview Marcel Kramer, ceo Gasunie

'Unbundled companies should get regulation-light'

by Karel Beckman

As the ceo of the Dutch national gas network company, Gasunie, Marcel Kramer is directly confronted with most of the big energy issues facing Europe today. Unbundling? Gasunie already went through that powerful experience. EU-Russia relations? Kramer successfully completed a major pipeline deal with Gazprom. Network integration? Gasunie has recently bought a German pipeline network and is operating a new pipeline to England.
Himself a "networker" par excellence, Kramer chooses his words with care. Although he has given a lot of thought to what the future will hold, he does not pretend to know what is good for others. About one of the most sensitive issues today - unbundling - he says: 'We are an example of an infrastructure company that is the result of a successful unbundling operation. But this does not necessarily mean our model is the only conceivable one.'

For over 40 years, the Dutch gas industry was highly 'bundled' - that is, vertically integrated and concentrated in the Gasunie company - a public-private partnership between the Dutch government (50%) and oil companies ExxonMobil (25%) and Shell (25%). In 2003, at the behest of the Dutch government, the company was split up in an infrastructure company and a trading company under a holding. In 2005, the Dutch state acquired 100% of the shares in the infrastructure company, which retained the name Gasunie, while the trading company, which kept the same shareholder structure, was renamed Gasterra.

'In our case', says Kramer, 'our shareholders wanted to unbundle. Shell and Exxon wanted to get out of the pipeline business as long as the price was right. Other shareholders in other countries may have different priorities.'

The vision Brussels has for the structure of the energy market is quite clear. It must be integrated and liberalized to become a single, competitive market. The gas and electricity networks perform a crucial function in this setup. They are to be run independently, accessible by all on non-discriminatory terms, and governed by the same rules – preferably overseen by a European regulatory agency. The Dutch government is one of the strongest supporters of this market-philosophy within the EU. One would expect Kramer to feel likewise, but he is cautious. 'This may be the right direction to go', he says, 'but we also have to look at what is feasible. As long as there is no European energy policy, the role of a European regulator is not properly founded. Such a regulator would lack an effective and democratic control mechanism. I know that national regulators are struggling with this. We all agree that there is a need for more contact and coordination. But as long as we have national energy policies, we will have national regulators. We will regret rushing into a EU regulatory agency if there is no political foundation.'

According to Kramer, the European energy market is in a transitional stage. 'The Commission's ideal is still a long way off. New gas flows are coming and energy companies are repositioning themselves. We are moving from national towards regional markets and cross-border cooperation. It is going to take time and hard work before any real integration can take place. Not only do national rules differ, ownership structures too cannot be simply harmonized.'

Kramer argues that in countries where 'infrastructure is effectively separated from other interests', there should be a possibility for a kind of "regulation-light". 'In such a case the TSO has a clear incentive to offer all capacity to the market and be fully transparent. Thus, there would be less need for detailed regulation of tariffs and the way in which capacity is allocated and congestion is managed. At this moment', Kramer says, 'it sometimes looks as if regulation is getting more detailed and the result is a slow, cumbersome process which does not help investments and is therefore detrimental to the competition in the market.'

Kramer does wonder whether Europe is moving quickly enough towards integration. 'Producers do have alternatives. The Algerians can sell gas to the UK or Belgium or Korea or the United States. The same goes for the Russians and the Norwegians. And as more and more LNG enters the market, the market will become more like the flexible, dynamic oil market. Suppliers will have more options, but Europe needs more gas. The supply picture beyond 2015 looks highly uncertain. So we need to create a structure that makes us sufficiently attractive as a market.'

As long as there is no common energy policy, it is inevitable that member states will pursue their own interests, says Kramer. 'Member states view energy first of all as a national strategic interest. That's Realpolitik. It does not necessarily mean protectionism nor does it mean you need a "national champion". But the people do want to see that the government takes care of security of supply. So governments will support their own companies when they go out into the world to secure supplies. The Netherlands does the same. Our experience and know-how as well as our geography and geology make us ideally suited to become a gas hub - to attract flows of gas, which is stored, sold and redistributed through our infrastructure system - and our government strongly supports us in that effort.'

That is the reason why, says Kramer, Dutch prime minister Jan Peter Balkenende went to Moscow last year, to clinch the pipeline deal between Gazprom and Gasunie (see box). Kramer: 'It was a matter of national interest, though not against the interest of the EU.'

Anti-Gazprom clause

Kramer has had extensive dealings with the Russians in the past few years. He found this to be a positive, business-like experience. He believes the Russians are reliable partners and is 'worried' about the 'anti-Russian rhetoric coming out of Brussels sometimes'. 'If Russia is prepared to let foreign companies own 49% of one of its most strategic assets, the Nordstream pipeline, I see that as proof that they are open to cooperation. They do not need our money for this project; they do it because they want to involve their western partners and bring more stability into the process. I think we should appreciate their intentions. It is in our interest, after all, if their economy grows and their society develops in a stable way.'

The European Commission last year proposed rules that would make it difficult for "integrated" companies from outside of the EU to invest in energy infrastructure inside the EU. This has been widely described as an "anti-Gazprom clause", although Brussels denies this. The Commission argues that no company active in production and trade should be allowed to own or operate infrastructure, and it is simply applying the same rules to non-EU companies as to EU-companies.

Do the new EU rules, if they become law, mean that Gazprom will

Recent Gasunie highlights

6 November 2007: Gasunie acquires 9% share in Gazprom's Nordstream pipeline (Russia to Germany); Gazprom has option to acquire 9% in Gasunie's BBL pipeline (Netherlands to UK).

23 November 2007: Gasunie buys BEB pipeline network (3,600 kilometres) in Germany from Shell and ExxonMobil.

18 December 2007: Gasunie announces building of LNG terminal in Rotterdam with Vopak.

Gasunie head office in Groningen. Photo: Gasunie

be prevented from investing in energy infrastructure in the EU, e.g. in the Nordstream pipeline or the BBL pipeline? Kramer doubts it. 'I cannot imagine it will come to that. Gazprom has to stick to the same rules as everybody else of course. They understand that and will do so, so they will be able to invest in the BBL.'

Kramer cautions against "dogmatism" in dealing with the Russians. 'They have a strong tradition of linking trade and transport. We have done exactly the same for 40 years. With highly profitable results. We have only just got rid of this structure. Do we have to be so dogmatic that others from outside the EU, who are vital suppliers to us, must make a quantum leap towards a form of puritanism that we ourselves in the EU are hardly ready for? When they are involved in business in the EU, they are prepared to play by the same rules as we do, that should be sufficient.'

Perhaps the most important thing, says Kramer, is the tone we adopt in our dealings with the Russians. 'The main thing is mutual trust. We need each other. The alternative to Russian gas is not clear to me. Diversification is important, but the reality is that alternative supplies may not be more reliable than Russian supply. The Russian track record is excellent.'

The Gasunie-chief is not worried about Russia teaming up with Iran, Qatar and Algeria to form a "Gaspec" similar to oil cartel Opec. 'They talk to each other. That does not have to be bad. It could lead to better understanding of market needs and challenges, among themselves as well as with us.'

Speculative

As a company, Gasunie is primarily focused at delivering what its stakeholders want, says Kramer. 'Safe, reliable, efficient day to day gas transport – that is where our priorities lie – not in conquering the European market. But our shareholder also wants us to think long-term and to look at the interests of the market as a whole.'

That does not mean there are no tensions with private suppliers and traders, Kramer concedes. 'Private parties put pressure on us to build more capacity. But we only build on the basis of concrete demand. We do not want to overinvest, that would be a waste of resources. We cannot simply invest out of some abstract notion of securing supply or predicted growth that may not ever materialize. In principle we only build on the basis of concrete contracts. Our shareholder requires us to make a return on investment of about 7%. That precludes speculative investments and rightly so.'

> *"The alternative to Russian gas is not clear to me"*

In carrying out Dutch gas policy in the area of infrastructure, Gasunie is acutely aware that its customers operate in an international market. 'That is partly why we decided to invest in an LNG terminal in Rotterdam', says Kramer. 'Customers like Dong and Essent asked for this terminal to better serve their customers in and outside the Netherlands. We would probably not have come to this investment if our customers had only considered the domestic market.'

Kramer sees room for growth in further developing Dutch infrastructure to support the international activities of its customers, for example in creating more storage capacity. What about expanding in Belgium? Kramer: 'It is not clear at this stage whether assets will become available and whether they would be a good fit for us.'

Conversely, the current Dutch government is not considering selling shares in Gasunie, says Kramer. 'We are occasionally approached by investors who are interested in investing in infastructure. But privatization is currently not on the agenda in The Hague.' ■