Interview: Gertjan Lankhorst, ceo of Gasterra

‘We need **new partnerships** in the energy market’

As geopolitics have become the dominant concern in the world energy market, relationships between producers and consumers have become increasingly antagonistic. The Dutch model of public-private partnerships could serve as an example for a new, more harmonious market order, says Gertjan Lankhorst, chief executive of the Dutch “national trading company” Gasterra.

by Karel Beckman

The Netherlands is known for the “Dutch disease” – the government’s supposed squandering of its gas income – but also for its consensus politics. Its peculiar gas market structure, which evolved in the 1960s when the huge Groningen field was discovered, is based on a typically Dutch consensus model – an intricate network of highly successful private-public partnerships.

Could this model provide an alternative for the increasingly acrimonious relationship between producing countries and private international oil and gas companies? Gertjan Lankhorst, chief executive of the Dutch wholesale gas trading company Gasterra, believes so. Lankhorst explained the Dutch system at the summit meeting of the International Energy Forum held in April in Rome to an audience of energy ministers from around the world. He is well acquainted with the IEF’s Secretary-General Noé van Hulst, whom he succeeded as Director of Energy at the Ministry of Economic Affairs before he went to Gasterra.

‘Everyone knows that relations between producing countries and international oil companies have become greatly strained in the past few years,’ says Lankhorst, ‘to the detriment of all. We are trying to show to producing countries that it is possible to create a system that gives governments ample control of their resources and maximises their income based on partnership with private producers rather than enmity. The Dutch state has profited immensely from its gas resources without shutting out the private sector.’

Lankhorst’s company, Gasterra, exemplifies the typical nature of the Dutch gas market. Itself a public-private partnership, owned by Shell (25%), ExxonMobil (25%) and the Dutch state (50%), it was split off from then-monopolist Gasunie in 2003 as an independent trading company. It is an active player in the free market, with sales of €17.7 billion last year. At the same time it performs tasks set by the government. It is required, for example, to buy up gas from small fields and so offer private producers a guaranteed market for their product. This policy is meant to stimulate production from small fields, which might otherwise not be profitable to exploit. In addition, Gasterra buys and markets all the gas produced by the Nederlandse Aardolie Maatschappij (NAM), a joint venture of Shell and ExxonMobil, which exploits the giant Groningen field. Thus, through Gasterra, the Dutch government is able to control the bulk of Dutch gas production and maximise its profits.

Lankhorst says such a set up might be attractive to producing countries elsewhere in the world. He believes it is important to come up with a ‘solution’ for the difficult relations between producer countries and the international oil companies (IOCs). ‘The IOCs are going through a difficult period. But I am

Gertjan Lankhorst, ceo of Gasterra: 'Everyone always seems to know what the market will look like in five years, and everyone is usually wrong.'

convinced it is in the interest of the producer countries to make optimal use of the capabilities and resources of the IOCs. What are needed are new, sustainable partnerships based on mutual trust, in which each party gets its fair share. In the Netherlands we have shown that this is possible.'

Chinese walls |

The oil price rises in recent years have changed the dynamics of the energy market completely, Lankhorst observes. 'The geopolitical dimension has become much more prominent.' This is why the Dutch government backtracked on its plans a few years ago to fully privatise gas production and trading. 'The plan was for the state to withdraw from Gasterra, i.e. the trading business. But as the new realities became clear, the government decided to retain what it came to see as a strategic interest. I think that was a wise decision.'
But isn't the current structure harmful to the development of a competitive market? After all, Gasterra competes with its own shareholders, Shell and ExxonMobil, in the European market. Lankhorst does not believe this is a problem. 'It is a liquid market. And internally the companies have Chinese walls.' Nor does he feel that Gasterra's own strategic options are limited as a result of its shareholder structure. 'We are not a producer; we are a wholesaler, so we do not feel acquisitions would be suitable for us.'

Despite the heavy government involvement, Lankhorst, who joined Gasterra almost two years ago, sees the company primarily as a player in the free market. He now views himself as a businessman, not as a civil servant. 'We are in a very interesting phase in the development of the market. Although the market was officially liberalised some years ago, the effects of liberalisation were felt only gradually. Last year was the first time that we could see that the market had really been opened up. This was partly the result of the opening of the BBL pipeline to England and the new pipeline connection between Norway and England established in late 2006. There were great worries in the UK about gas shortages before 2006. This year, partly due to the mild winter, the market was oversupplied. This had a clear

> *'I have been seeing the same predictions of a "gap" between supply and demand for 25 years'*

impact: spot prices were lower than in the oil-indexed market. We also saw prices converging. So the free market worked.' Lankhorst notes in passing that the gas price did not decline in

A Russian-Dutch partnership?

It could become one of the world's greatest public–private partnerships, if the Dutch industry's Russian dreams come true. Last November, a group of Dutch businesses launched a remarkable initiative – they offered to help the Russians develop gas production in the huge Yamal peninsula, one of the great remaining gas provinces in the world. They got Dutch Prime Minister Jan Peter Balkenende to make the sales pitch when he met with Russian President Putin in November.
Yamal holds huge reserves, estimated at over 30 trillion cubic metres (equivalent to 45 years of total Russian gas supplies at current annual production). It is generally considered, along with Shtokman, as the most important prospective Russian gas province. Analysts agree that Russia needs to develop either Shtokman or Yamal, or both, to make up for declining production in its existing fields. However, the development of Yamal, above the Arctic Circle, requires great technological skills and huge investments of at least $160 billion, Russian energy minister Viktor Khristenko said in November.
The Russian government has yet to make a firm decision on how, where or when it will start developing gas production in the northern areas. If a decision is made to develop Yamal, foreign companies will be lining up to offer their services to Gazprom, which holds most of the exploration and production licenses in the region. The Dutch decided to jump ahead of the queue.
Lankhorst, as co-chairman (along with Viktor Vekselberg, chief executive of TNK-BP) of the energy working group, part of the joint business dialogue between the Russian and Dutch employers' associations, was responsible for putting the Dutch proposal together. In it, Dutch companies like Shell, Van Oord, Boskalis, IHC Calland and Delft Hydraulics, offer their combined expertise in maritime technology, gas production and infrastructure technology to Gazprom and the Russian government. 'Of course, the Russians are capable of achieving great feats. They are perfectly competent to take this project upon themselves,' says Lankhorst, 'but it is such an unbelievably large operation, that it makes no sense to do everything alone. Yamal may be compared to the development of offshore gas and oil production in the North Sea, only circumstances in Yamal are in many ways even harder. It took a huge international effort spanning 40 years to reach peak production in the North Sea. The reserves in Yamal are four to five times as large.'
So far, the Russian government has replied that it finds it an 'interesting' proposal. 'We are now presenting our proposal to officials at Gazprom', says Lankhorst.

absolute terms, merely relative to the oil price. 'That is why gas prices for end users went up, not down.'
The gas price also went down relative to coal prices, Lankhorst notes. 'We are now selling more gas to power plants, because the coal prices are so high.' He believes it is possible that plans to build coal-fired power plants in the Netherlands and elsewhere in Europe may be put on hold.

Many analysts predict a "supply crunch" in the gas market around 2012. If that happened, it could spell the end of a functioning free gas market in Europe. But Lankhorst is sceptical of these warnings. 'Next year, the crunch will probably come in 2013, and the year after, it will be 2014, and so on. I have been seeing the same predictions of a "gap" between supply and demand for 25 years. Everyone always seems to know what the market will look like in five years' time, and everyone is usually wrong.' It is equally possible, Lankhorst says, that 'demand will slow down in the near future, that Iraq will return to a semblance of normality, that the revival of nuclear power and alternative energies will have effects on demand. And high prices usually lead to higher production, easing the market.'

Still, Lankhorst does see a 'fundamental difference' between the market today and in the past. 'We know where the gas is, but we are not sure anymore which projects are going to be developed to take the gas out. That is now in the hands of producing countries and they are not transparent about it. This does make me worried. Gazprom tells us they will invest enough, but we do not know for sure. The lack of transparency is very damaging to the trust and confidence of market players. I do give Gazprom the benefit of the doubt; they have always kept their promises. But it would be nice if they were more open about it.' In addition, the people and resources needed to carry out new projects are very scarce, Lankhorst observes. 'The problem, as someone recently summed it up, is not in the tank, but in the tap.'

Domain name

Recently there has been much talk of the gas producing countries getting together to form a gas cartel, a "Gaspec". There will be a meeting in Moscow in June of the Gas Exporting Countries Forum (GECF) where such an initiative will be discussed. The Netherlands, incidentally, has requested observer status at the GECF. But Lankhorst doubts that a Gaspec will be formed. 'If these countries get together somehow, this might have an effect on the price. I am not sure. I don't think it will lead to physical scarcity. Opec has never led to scarcity in that sense. We will have to wait and see.'
Lankhorst would deplore the establishment of a gas cartel. 'I am in favour of free markets. In the end, I don't think a cartel will actually work, as we have seen with Opec in the past.' In one respect, though, Gasterra could profit by the establishment of a Gaspec. 'When we were researching a name for our own company *(the name Gasterra was established in 2006, ed.)*, we registered the domain name Gaspec. If you look up gaspec.

The Russian nuclear icebreaker Yamal plows through the ice of the Arctic Ocean on the way to the North Pole. Photo: Peter Guttman/Corbis

com on the internet, you are diverted to the Gasterra-site. So if they do form a cartel, let's hope they will call themselves Gaspec,' Lankhorst jokes.

The Gasterra chief equally deplores the sometimes hostile rhetoric between consuming and producing countries, in particular the EU and Russia. He is critical of the so-called "anti-Gazprom clause" proposed in the European Commission's energy package last year, which would make it difficult for integrated, state-owned non-EU companies to invest in the EU energy sector. 'It's not a very wise thing to do.'
But isn't it fair that the Commission demands "unbundling" from non-EU companies since it is also required from EU energy providers? 'Frankly,' Lankhorst replies, 'whether Gazprom or some other state owned company owns the networks in their own country, does not worry me a bit. You will never have a perfect market with a perfect level playing field in this sense; you will have to accept that life is not perfect like that.'
Neither does Lankhorst lose any sleep over the EU-countries that are lagging behind in the liberalisation of their energy markets. 'Liberalisation is a process, it takes time. You see now that the Germans are starting to turn around.' Nonetheless, he does support the Commission in its attempt to force through unbundling inside the EU. 'It simply is the easiest and most effective way to create a competitive market.'

Lankhorst concedes that competition in the electricity market is easier to achieve than in the gas market. 'You can produce electricity anywhere in lots of different ways. The supply of gas is much more limited.' Yet, as a result of liberalisation, competition in the gas market is growing and trading hubs are developing rapidly, he believes. 'Our own company is a case in point. In 2006, out of a total sales volume of 78.8 billion cubic metres, we sold 1.1 billion cubic metres through trading platforms such as the TTF in the Netherlands and the National Balancing Point in the UK. Last year, we increased this to about 8 billion cubic metres. And I expect further strong growth in our spot market activities.'

Lankhorst agrees with the Dutch government that the Netherlands has a unique possibility to become the major gas hub considering the market that is slowly developing in north-western Europe. But, he warns, more action is needed to bring this about. 'We still have a lot of gas, more than any other EU country. The Groningen field is still in full swing. Altogether Dutch reserves add up to 1,400 billion cubic metres, that's half the original Groningen field. But we have to position ourselves now to prepare for the future. Gasterra already imports large amounts of gas and we export much of this gas to other EU countries. So we are a gas hub already in that sense. But more needs to be done. Gasunie *(the 100% state-owned company responsible for the gas infrastructure in the Netherlands, ed.)* needs to invest in a system of quality conversion to stimulate gas transport. That's a key factor.' ■