

## Interview Pippo Ranci

# 'An Italian gas hub will reduce Eni's market power'

*The start of the LNG terminal at Rovigo could be a turning point in the development of a competitive Italian gas market, says Professor Pippo Ranci, Italy's former energy regulator. But there are still many regulatory and political hurdles to take. 'Anyone who wants to pursue the true advantages of size should encourage the removal of barriers and strong antitrust regulation.'*

| by James Osborne

Italian government policy for a long time has been aimed at transforming Italy into a European gas hub with excess gas re-exported to central Europe. Vittorio Mincato, when he was ceo of energy company Eni, often warned that building too much infrastructure would lead to a gas glut. Today, however, Eni's competitors are still struggling to secure supplies that don't pass through Eni's pipelines. Although gas demand and imports have grown, the growth has been restricted to increased capacity along Eni-controlled pipes. Pippo Ranci, professor of economic policy at the Cattolica University of Milan, was in charge of Italy's energy authority during the transition from a monopoly environment under state-controlled Eni to a liberalised market under European Union rules. In this interview he explains what is needed to turn Italy into a southern European gas hub.

**Considering Mincato's warning almost a decade ago and the development we have seen so far of import capacity, what do you make of the state of openness of the Italian gas market today?**

Pipeline expansions and the start of the Rovigo LNG terminal are increasing supply capacity just as demand is weakening, so today we should be seeing the catastrophic fall in prices that Mincato feared. Nothing of the kind: Italian prices are still remunerative and high with respect to European prices. In order for Italy to

become a trading centre, a "hub" serving a bigger area, other conditions are needed. They were described in a recent study by ref., the economic and financial research centre ([www.ref-online.it](http://www.ref-online.it)): transparency for OTC contracts, the start of a gas exchange, the elimination of obstacles to the commercial use of storage, transformation of gas balancing in favour of market forces. If achieved in the next year or two, these conditions will help gas trading to develop and become more varied. There will be purchases from abroad for final use in Italy but also opposite transactions to reverse purchases that exceed demand and to re-balance positions; purchases for final use in other consuming countries; and contracts simply to take advantage of price differentials between different hubs. They will generally be spot or short-term contracts, alongside existing long-term contracts. Nothing radically new but a reinforcement and development of the kinds of operation that already exist on a small scale today. If things move in this direction, we'll be able to say that a "hub" has been created, helping to provide greater security for the Italian market and economic justification for the investments that have been carried out to increase capacity. If, however, people don't believe in this kind of development and think that there should only be a continuation of a simple, one-way flow to supply the Italian market with long-term, rigid contracts, then these



Pippo Ranci. Photo: Energia Spiegata

investments will have been excessive and a collapse in prices will only be avoided by the market power of the dominant operator. This is not desirable. The development of trading over an area bigger than Italian territory is a way to reduce Eni's market power, avoid the risk of a glut and make the Italian market more normal and competitive.

In this context, the Rovigo plant takes on a certain symbolic value as it is the first LNG plant to be built in Italy for more than 35 years: could this mark a turning point the Italian market? Do you think it will be followed by more plants in the near term or will the NIMBY effect still play a role?

There won't be a lot of other plants in the short term, no, but this project is certainly a turning point. Often these collective phenomena act like a pendulum: I think the acute period of NIMBY activism is over and that it will be easier now to find a location for some plants. An approach will have to be adopted, as has been done in a few cases, that involves careful planning, clear and exhaustive information provided systematically to local authorities and residents, a good ability to listen and to respond in a timely fashion to requests for clarification and expressions of concern, and predefined margins for negotiations to meet requests for reduced environmental impact. Rovigo will be seen as an example. Other groups of companies will see the need to have a point of entry for LNG into Italy. For the Italian market it's certainly a positive development.

What steps do you think are necessary for the Italian market to be better integrated into the European system? Does it only depend on favourable regulation or will it require a joint political commitment at a European level?

I would say it depends mostly on regulation so long as politics doesn't put any obstacles in the way.

The boundary between politics and regulation isn't well defined in Europe. At the true political level, a fundamental decision was taken a while ago to have a single energy market and to adopt the liberalisation directives. What can create obstacles is the policy of silently protecting national champions and the desire to limit the sphere of activity of technical institutions like regulators in order to maintain discretionary power at a political level on specific issues and give certain operators favourable treatment. These special kinds of industrial policy can provide competitive advantages to some companies but, by hindering or slowing the process of European integration, they reduce the system's overall competitiveness. We need to strengthen European regulation. Joint political commitment should focus on the creation of a strong body, putting into effect the recent directive that foresees an agency for regulatory co-ordination.

What chances do you see of the European gas market developing in this direction? Is the "lobby" of dominant operators, which seek to protect margins to the detriment of consumers, too strong?

All companies try to protect their margins. The best protection for consumers is to have lots of companies in competition. Most politicians think public institutions should encourage the creation of bigger companies, thinking this helps employment and technological innovation and that it's an advantage when competing with other countries. But that correlation is often not proven. They undervalue the cost to consumers of less competition. The European market provides a chance to have big companies that compete with each other without having privileged links to political power. Anyone who wants to pursue the true advantages of size should encourage the removal of barriers and strong antitrust regulation. We also need to make clear the issue of security of gas supplies. It's true that in order to trade big amounts with a powerful seller in a non-competitive market it's useful to have a big buyer, but it's a big jump from this simple and easy-to-understand statement to limiting competition within the European market. ■

## Who is Pippo Ranci?

*Pippo Ranci, born in 1938, is professor of economic policy at the Cattolica University of Milan and director of the Florence School of Regulation. He was Chairman of the Italian authority for electricity and gas from its foundation in 1996 until 2003 and was also a founding board member and deputy chair of the Council of European Energy Regulators (2000-2003).*