More gas competition please

Column

by Claudia Kemfert

The greatest challenge facing the gas market in Germany and Europe is the lack of competition at all levels. Germany currently imports around 44% of its gas supplies from Russia. This percentage is likely to increase in future. Russia possesses the largest gas resources in the world while the resources of supply countries such as Norway and the Netherlands are dwindling. Further, gas is playing an increasingly important role in both energy and transport. In this context, the planned construction of a new gas pipeline through the Baltic may be viewed as an important strategic decision to strengthen the trade relationship between Germany and Russia.

In order to limit the political and strategic risks for Germany, and to strengthen competition, there is an urgent need to diversify both gas suppliers and transport routes, LNG being the catch-word. Unfortunately Germany doesn't have its own LNG terminal, and the EU also imports just 17% of its gas in the form of LNG.

Within Germany, competition is restricted, especially by the complex nature of the market structure and ownership arrangements. Only four gas businesses import gas from overseas or have their own gas resources: market leader Eon Ruhrgas, Wingas, RWE, and VNG. Through this, they control not only gas sales in Germany but also its distribution, and on top of this, they own the pipelines. These businesses together have almost 80% of the market. To make matters worse, they have divided up their market areas very firmly. They supply about 24 regional gas businesses which in turn supply households and local businesses.

Insufficient liquidity on the physical gas market and long-term supply contracts between supply and distribution companies mean that new suppliers have almost no chance of positioning themselves in the market. Although long-term supply contracts for more than two years are no longer permitted in Germany, competition has not yet profited from this. In regular audits, the Federal Cartel Office and the EU commission have confirmed the lack of competition on the German gas market.

The approximately 700 regional and local gas businesses also provide no guarantee of more competition. Although they supply some 93% of German households and 7% of German business, they are dependent upon the few grid gas suppliers. In fact, two thirds of all regional and local gas businesses source at least part of their gas purchases from Eon Ruhrgas. The high gas prices in comparison with the rest of Europe and the very low rate of gas customers changing their supplier, make it clear that there is too little competition.

How can competition be strengthened? First of all, separation of ownership of infrastructure and production, or sales, would be a significant improvement. The sale of RWE's gas network, as demanded by the EU competition commission, is an important first step in the right direction. This regulatory body can prevent discriminatory behaviour by ensuring fair network tariffs. However, greater gains in competition would result if regional and local businesses had more flexibility to make their own contracts with a range of different suppliers. Therefore, the diversification in the number of supply countries and transport routes is of critical significance. In relation to this, the still common practice of tying the price of gas to the price of oil should become less dominant in the future.

This is not to say that more intensive competition and a weakening connection with oil prices will necessarily lead to lower gas prices in the long term. Price increases are probably inevitable. The number of upstream suppliers will remain limited. At the same time, extraction is becoming costlier, as are infrastructure and storage. The gas market might also attract the attention of financial players, like the oil market, which also might have an upward effect on prices. Still, more competition would at least have a mitigating effect on price increases, and lead to lower economic costs for society as a whole. ■

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