

# ECONOMY AND PROBLEMS OF DEVELOPMENT

## International natural gas markets: problems and ways of their overcoming

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*The opportunity for cooperation in oil and gas sphere between Ukraine and the EU, the use of Energy Community tools, the deep and comprehensive free trade area, Ukraine's joining the single European market for gas was discussed. The CIS analysis of the standardization and Legal Framework in the gas sector and the urgent need of it improvement and development was made. The main trends in the international gas markets were shown.*

“Ukraine is the most important transit country for supplies of gas to Europe” – these words heard at joint conference “Ukraine – European Union” concerning modernization of gas transport system of Ukraine outline the role of gas infrastructure in functioning of European gas market very notably. However, it is not enough now, because Ukraine and its gas infrastructure become the part of the unified European gas market being created gradually. In addition, as of today there is no “transit” term in legal framework of European Union.

At conference «Baltic Energy Market Interconnection Plan» in September of 2012 it was emphasized once more that the basis of consensus between the governments, consumers and industry in sphere of energetic in Europe is the intention to create effectively functioning and competitive energy markets within the internal borders of Europe. Prices at these markets shall comply with offer and demand [1]. As it is known [2], European Union together with Balkan States and Turkey have created Energy Community with the purpose of creation of integrated market of natural gas and development of unified mechanism for trans-border transportation of natural gas, electric energy and other energy goods as its important part. The Agreement on Foundation of Energy Community (EFEC) provides for cooperation on gas supply security, joint measures on regulation of import and export of gas, single space of regulation of gas trade. The principle of solidarity is important. Energy Community can take measures for regulation of import and export of gas to the third countries for provision of stable functioning of domestic market. In countries – members of Energy Community custom and quantitative restrictions of import and export of gas are prohibited.

Ukraine is a full member of EFEC, which obligates it to implement the provisions of unified regulatory and legal framework of European Union in the sphere of gas and allows becoming the member of integrated market of gas and infrastructure services connected with storage and trans-border transportation of gas.

The list of basic documents, on which the unified gas market of European Union and countries – members of Energy Community is grounded, includes the documents of European Parliament and Council concerning common rules of natural gas domestic market [3] and conditions of access to natural gas transportation network [4] i.e. the special rules in sphere of transportation, supply, distribution and storage of gas and access to infrastructure and trans-border gas exchange.

The unified regulatory area is created. Agency for Cooperation of National Energy Regulators (ACER) is the body of European Union that also regulates the issues of functioning

of trans-border infrastructure: order and conditions of access to infrastructure, monitoring of gas markets, preparation of offers and conclusions for European Commission. Ukraine can and shall participate in work of ACER and other institutions created in European Union with the purpose of implementation of the idea of common market.

Important decisions that facilitate creation of common gas Ukraine – European Union market were approved in 2012:

- ✓ National plan of actions concerning implementation of Program of Economic Reforms for years 2010-2014 “Wealthy Society, Competitive Economy” includes the chapter “Political Association and Economic Integration of Ukraine to European Union” that provides for “completion of the process of drafting” and “creation of national mechanism of implementation of Agreement on Association between Ukraine and European Union”;
- ✓ Draft Agreement on Deep and Comprehensive Free Trade Area between Ukraine and European Union (DCFTA). Implementation of the Agreement reveals new opportunities for integration of effective usage of energy markets, cooperation in gas trade, effective usage of available gas infrastructure and safety of gas supply. In particular it will stimulate the development of trade relations in sphere of services on transportation and storage of natural gas, performance of diversification of customers of the services. Implementation of the agreement will give gas importers in Europe opportunity to choose the route of receipt of gas: indirect and very expensive routes or the territory of Ukraine – proved, reliable and economically attractive way. It is particularly important that trans-border transportation of imported gas will be performed through the territory of the country, where regulatory and legislative framework of European Union within common market according to common rules are effective.

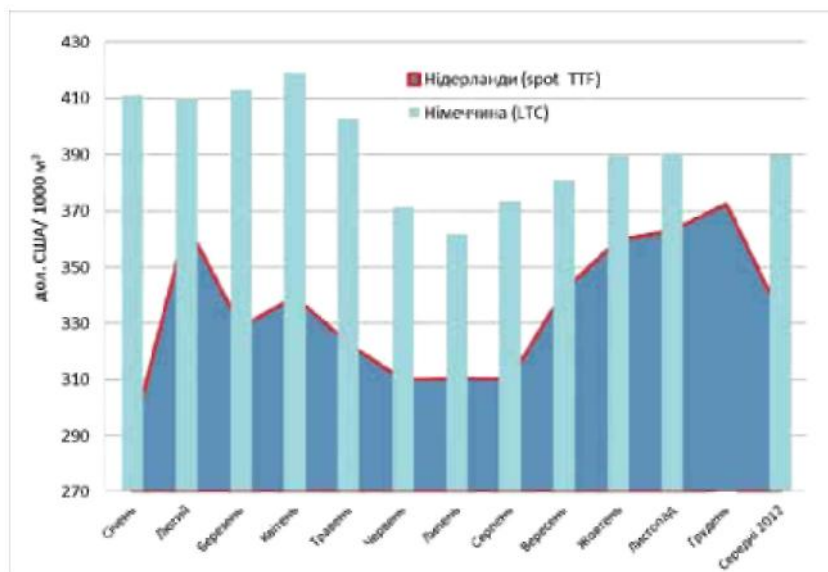


Figure. 1. Dynamics of prices (2012) for natural gas under conditions of long-term contracts (LTC) and in spot trade centers (HUB).

DCFTA Agreement with European Union determines the critical moment, after which Ukraine becomes the integral part of European gas market, and its gas infrastructure including underground gas storages turn into the links of the production chain of European companies. It will give Ukraine the opportunity to render infrastructure services to interested companies which will be applied in non-discriminative way according to European rules and transparent tariffs, to take into account the necessity of maintenance, monetization and development of infrastructure, to reflect actually incurred expenses. The tariffs shall facilitate effective gas trade, support or create exploitation compatibility of transport networks [4]. Rightful participation in European market will give opportunity to use its advantages – considerably lower prices for natural gas, solidarity and safety. Developed competitive diversified market facilitates development of spot trade that effects the prices of gas import (figure 1) [5]. The principles of solidarity in European

Union can be seen on the ground of example of Baltic countries that have only one source and route of gas import which causes difficulties on the market, in particular high prices. European commission contemplates gas market of Baltic countries (Finland, Estonia, Latvia and Lithuania) as isolated one. In 2008 High Level Group headed by European Commission that developed BEMIP – Baltic Energy Market Interconnection Plan. In compliance with BEMIP the number of measures with the purpose of involvement of Baltic countries to Europe-wide context of safety of supplies, reaching of high level of diversification of the routes and sources of gas delivery. With this purpose the projects of infrastructure interconnections with opportunity of reverse gas streams, development of underground storages, construction of infrastructure for LNG – liquefied natural gas [6, 7]. It is important that plans of European Union provide for mechanisms of financing of these projects.

Previously European Parliament has approved the decision on assistance to Ukraine in negotiations concerning the conditions of supply of gas from Russia in order to provide for compliance of conditions of gas trade between Ukraine and Russian Federation with standards and prices of European Union [8].

At the same time it shall be noticed that the majority of natural gas is imported into Ukraine to the border between Ukraine and Russia. Today it is the only way of physical delivery of natural gas from deposits in Russian Federation, Kazakhstan, Uzbekistan and other CIS countries. We shall mention two from CIS international documents: about implementation of agreed policy in sphere of transit of natural gas and the similar document concerning oil and oil products. The agreements of CIS in sphere of transit of hydrocarbons are important as they provide for: measures for provision of free transit during its pipeline transportation;

obligation to take the appropriate measures, including joint measures for both countries not be threatened by disconnection from gas delivery sources.

After well-known events of years 2006 and 2009 the importance of the last section and the level of efficiency of CIS agreements is understandable well. The agreements are effective for the majority of CIS countries, but in 2007 Russian Federation ceased temporary application of the above-mentioned agreements (Decree of Government of Russian Federation dated 29.10.2007 № 1507-p) and 2008 (Decree of Government of Russian Federation dated 01.02.2008 № 97-p).

In July of 2012 Verkhovna Rada of Ukraine approved the Law № 5193-VI that ratifies new Agreement on Free Trade Area (CIS FTA). In Article 7 “Freedom of Transit” of the above-mentioned Agreement it is stated that regulation of transit of goods is performed in compliance with the provisions of World Trade Organization (WTO). However, unlike WTO documents, “provisions of this article (CIS FTA agreement) shall not cover pipeline transport”. The agreement did not eliminate customs barriers. Countries – exporters continue to apply customs fee (up to 30 %) during the export of natural gas.

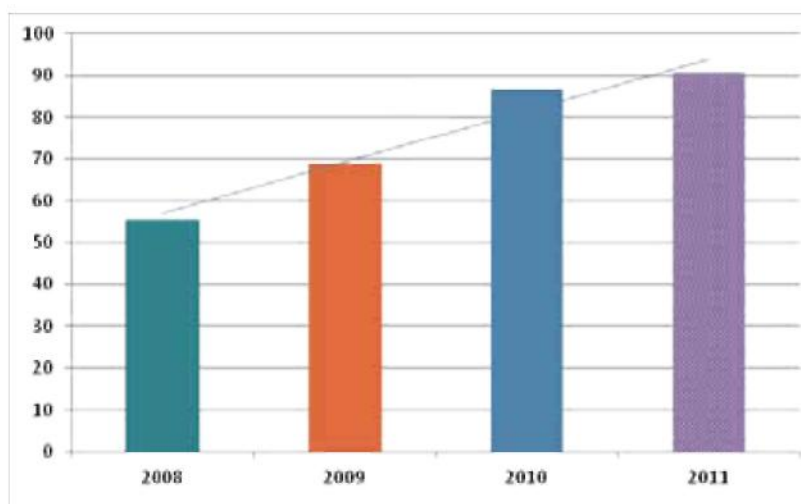


Figure 2 . Total import of LNG to Europe in 2008–2011, billions m<sup>3</sup>

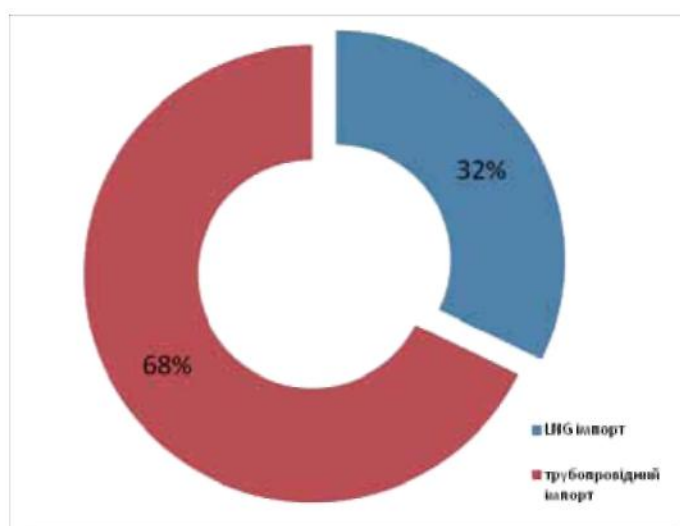


Figure 3 . Comparison of volumes of world import of LNG and gas delivered by pipelines in 2011.

Regulatory and legislative framework of CIS today does not allow cooperating in gas field effectively and requires development and improvement on the basis of effective plurilateral documents of WTO, Energy Charter with consideration of experience of EU gas market. There is the necessity of increase of the efficiency of use of CIS effective agreements through adjustment of regular monitoring of their fulfillment.

Gas markets of the world and particularly of Europe changed considerably during the last time. Import of LNG to European markets developed quickly. During 4 years (from 2008 to 2011) volumes of import increased for 65 % (from 55 in 2008 to 91 billions m<sup>3</sup> in 2011) (figure 2) [9]. The group of the biggest importers includes Great Britain that increased its LNG import from 1 to 25 billions m<sup>3</sup> (28 % of import to Europe) and challenged Spain (27 %) in its top position in Europe. In 2011 import of LNG was: in France – 16 %; in Italy – 9 %; in Belgium and Turkey 7 % from annual import to Europe. In total in 2011 world import of LNG was 330,8 billions m<sup>3</sup>, which is 32 % from total import and 52 % from volume of gas import (694,6 billions m<sup>3</sup>) by pipeline transport (figure 3) [9]. The trend of diversification of natural gas import is continued. In 2011 Poland, Czech Republic and Hungary received gas not only from Russian Federation, but also from Norway, Germany and other EU countries. Modernization

and expanding of infrastructure of underground storage as the important factor of reliability and safety of gas supplies, data base GSE creation (organization represents interests of 31 operators of gas storages, which potential is 85 % of the one available in EU) will give opportunity to increase capacity of storages for 70,8 billions m<sup>3</sup> [10]. Ukraine maintains leading positions due to the existing infrastructure of underground gas storage. Ratio of capacities of underground gas storage and annual volume of storage is over 60% in Ukraine in comparison with 15–25 % in other countries.

So regulatory and legal framework of CIS requires further development concerning usage of gas infrastructure and implementation of monitoring of fulfillment of effective agreements.

Entering of Ukraine to common gas market of EU, usage of instruments of the Agreement on Foundation of Energy Association, provisions of the Agreement on Deep and Comprehensive Free Trade Area between Ukraine and EU will allow using European experience with the purpose of creation of economically effective gas market that have diversified sources, routes of gas supply, and uses advantages of exchange and spot trade.

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