



Permanent Representation  
of the Republic of Poland  
to the European Union  
in Brussels

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## Energy market integration in Central Europe: drivers, early lessons and the way forward

Thursday April 4, 2013  
Budapest, Hungary

### DANUBE REGION ENERGY MARKET INTEGRATION: THE POLITICAL DIMENSION



## Context -The EU internal market objectives

**Internal market**

European Council : „The Presidency's report demonstrates that important progress has been made in pursuing the orientations set by the February 2011 European Council on completing the internal market by 2014(...)”

„...the European Council welcomes the agreement of the Memorandum of Understanding on North-South Interconnections in Central-Eastern Europe(...)”

„In particular, the following points require urgent progress: full and speedy implementation of the internal market legislation by Member States in full respect of the agreed deadlines(...)



## Tools – continuation of the course

Internal market legislation: 3rd Energy Package, REMIT, Competition law, infrastructure development (new TEN-E guidelines)

Security of supply: SoS regulation, diversification (southern corridor), stock management, IGA decision

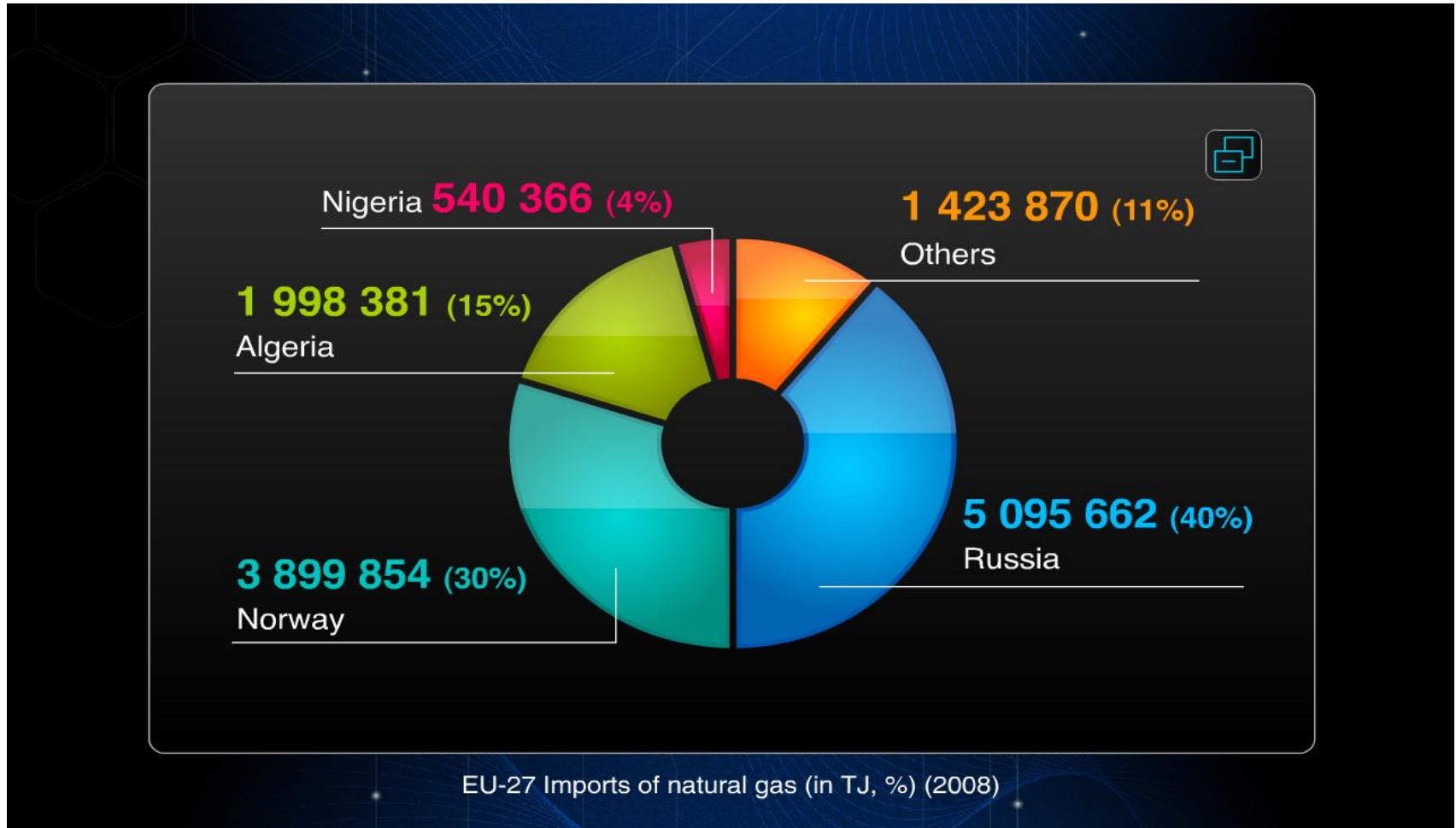
### Continuity

Regional cooperation (Visegrad countries, Baltic region)

Export of the EU legislation through legally binding tools (Energy Community, ECT)



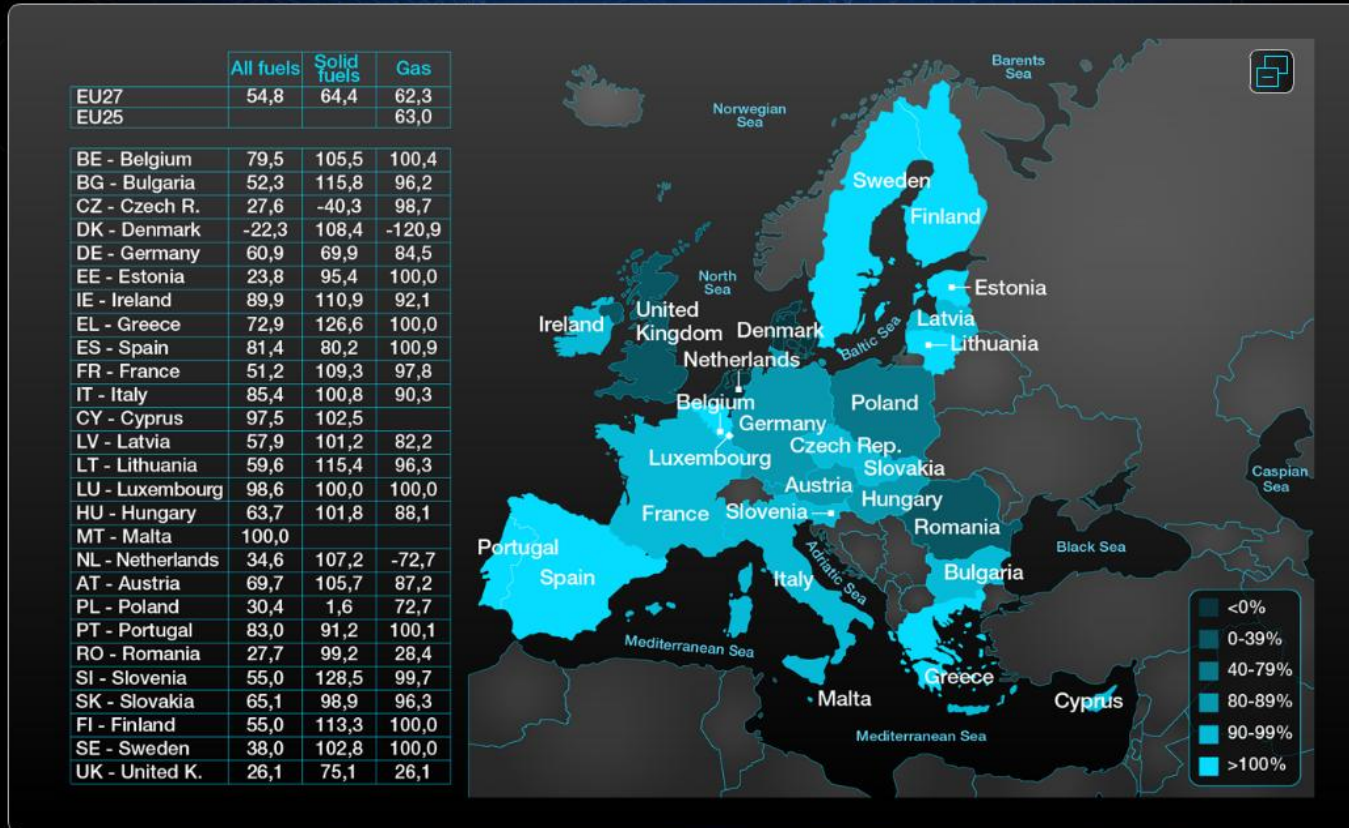
## Context – Growing dependence on import of fossil fuels 1/3



Source: European Commission



## Context – Growing dependance on import of fossil fuels 2/3



European gas import dependency (by country, in %)



## Context – Growing dependence on import of fossil fuels 3/3

„The main challenge that **gas infrastructure faces is the high and growing dependence on gas** imports (to reach about 73-79% by 2020 and 81-89% of consumption by 2030) mainly due to the depletion of indigenous resources”

„Import dependency calls for sufficient and diversified import infrastructure from various sources. This development should be closely linked with the EU's strategy towards third countries.”

*Source: Energy infrastructure priorities for 2020 and beyond - A Blueprint for an integrated European energy network SEC(2010) 1395/2*



## Context: Poland – infrastructure projects – state of play

### Baltic Pipe – PL-DK Interconnection

Preparatory works are ongoing,  
construction when market interest  
confirmed.

### PL-LT Interconnection

Currently, both TSOs have prepared  
business case analysis. Feasibility study  
is ongoing (results – 1Q 2013).  
Technical capacity: min. 2.3 bcm/a.

### LNG Terminal Świnoujście

Regasification Capacity  
5,0 bcm/a (570 000 cm/h) – from 2014  
7,5 bcm/a (856 000 cm/h) or more – possible  
enhancement

### Yamal Pipeline

- **Nov 2010** GAZ-SYSTEM designated by Polish NRA as Yamal Pipeline independent operator
- **Nov 2011** After Network Code adopted, TPA granted (virtual reverse flow) and first agreements with shippers were signed.
- Upgrade of the capacity of the entry points in Lwówek and Włocławek is planned in order to enable greater volumes of gas to be delivered by means of physical reverse flow on the Yamal-Europe pipeline. Technical capacity: to be assessed.

### PL-DE Interconnection

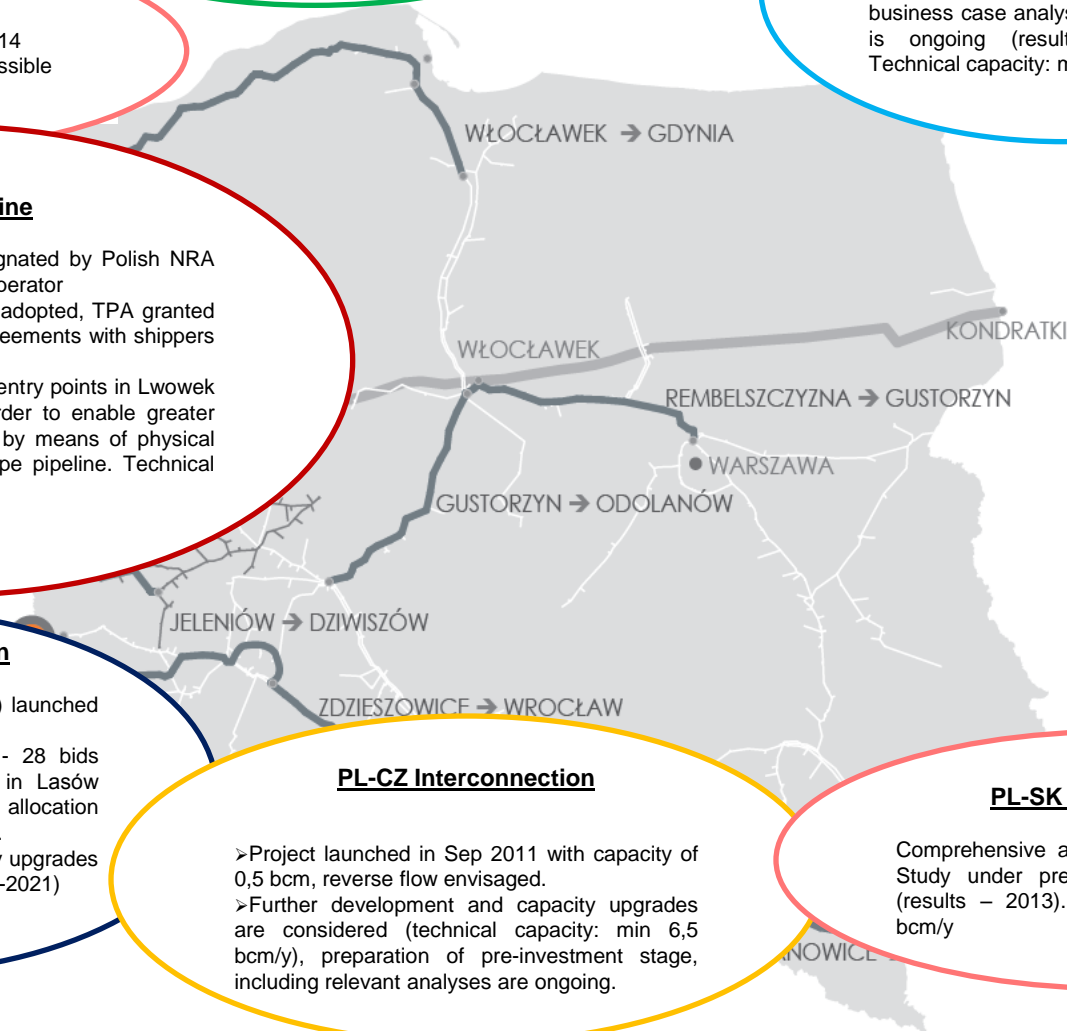
- Upgrade of 0,6 bcm (to 1,5 bcm) launched in Jan 2012.
- Huge interest from the market - 28 bids submitted for additional capacity in Lasów Entry point during capacity allocation procedure & 27 agreements signed.
- Further development and capacity upgrades are considered up to 3 bcm/y (2015-2021)

### PL-CZ Interconnection

- Project launched in Sep 2011 with capacity of 0,5 bcm, reverse flow envisaged.
- Further development and capacity upgrades are considered (technical capacity: min 6,5 bcm/y), preparation of pre-investment stage, including relevant analyses are ongoing.

### PL-SK Interconnection

Comprehensive analysis, including Feasibility Study under preparation with Slovak TSO (results – 2013). Technical capacity: min 6 bcm/y







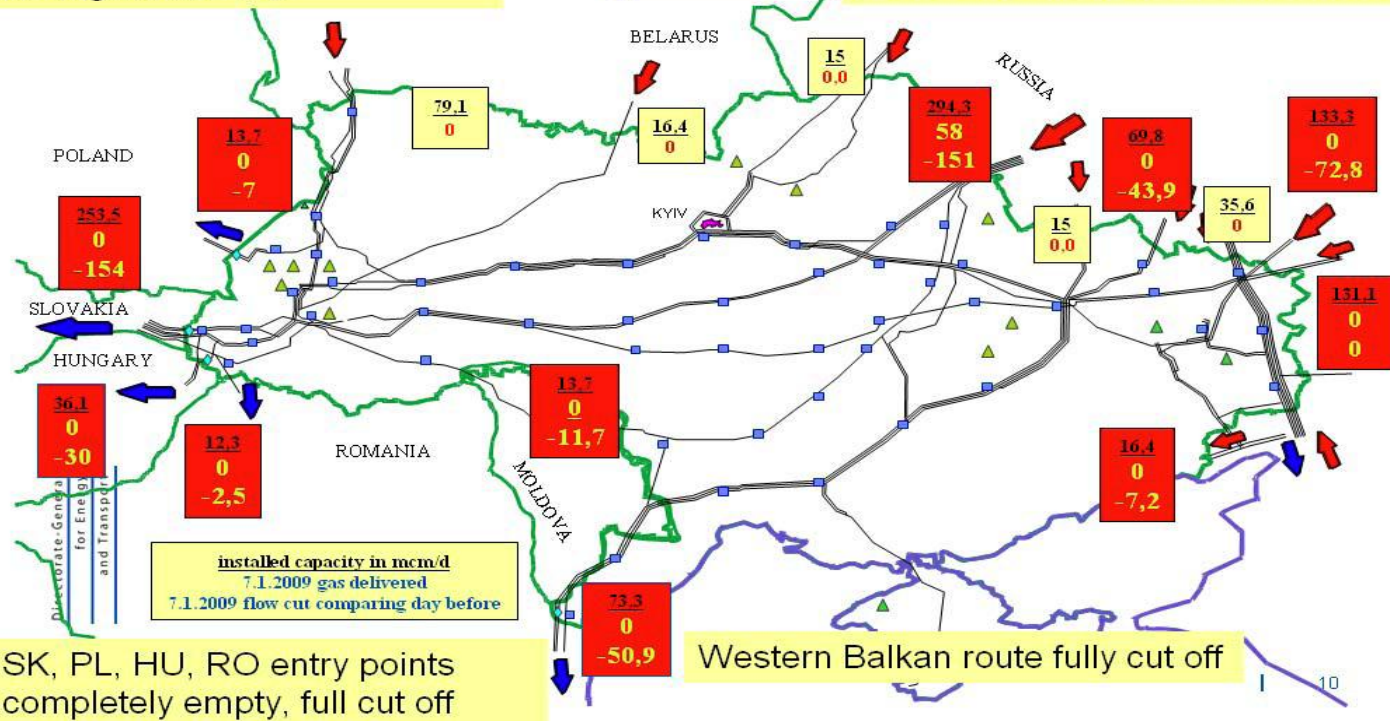
## Context – gas crises of 2009

### Full gas cut to EU – 7.1.2009,0:00

Gas delivery to EU cut from  
midnight 7.1.2009

Gas delivery to Ukraine decreased  
on 6.1.2009 from 222mcm/d at  
0:00 to 58mcm/d at 15:00. Full gas  
cut to Ukraine at 7:44 on 7.1.2009

From 6-20 January  
2009 – around 300  
mcm/day was  
missing







## Context – main external/internal risks and trends

External suppliers adopting anti-competitive practices on the EU market

External geopolitical and commercial risks

Uncertainty as regards future gas transit through Ukraine (modernisation of the GTS, Nord Stream, South Stream)

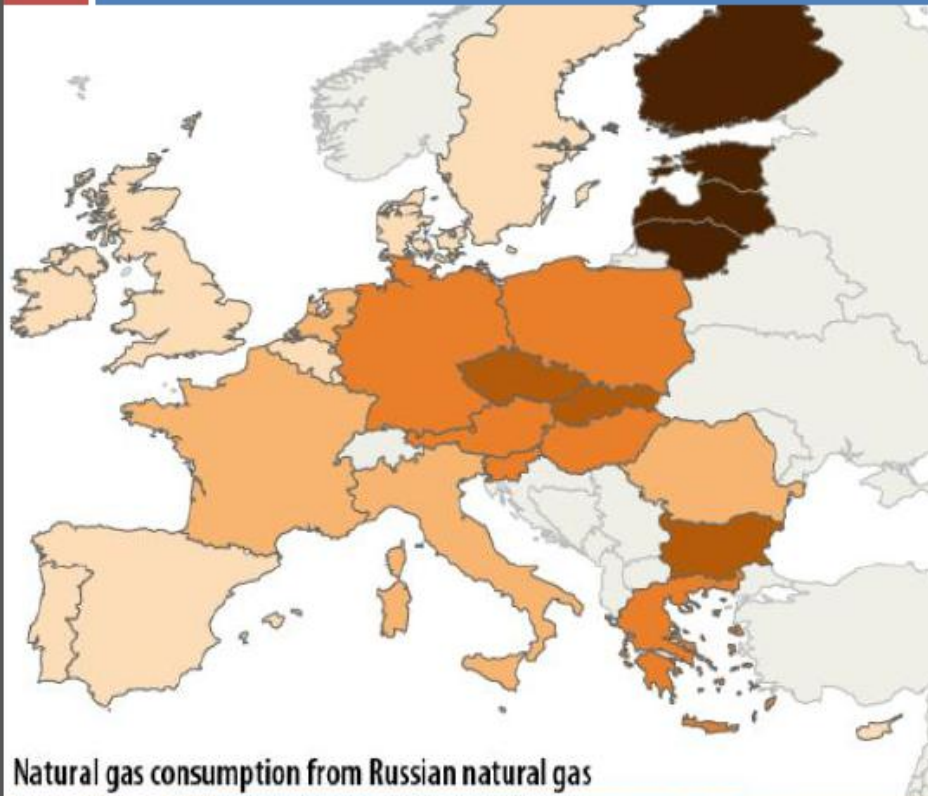
Southern Gas Corridor: Nabucco West vs TAP (capacity, scalability, time framework).

LTC – future pricing mechanisms (oil indexation formulae vs. market pricing based on a marker gas hub)



## Context – gas prices

### Russian gas import dependency



### EU Energy Consumption of Russian Natural Gas (%)

	Primary Energy	Natural Gas
Austria	14.2%	62.5%
Belgium	0.0%	0.0%
Bulgaria	10.8%	99.5%
Cyprus	0.0%	0.0%
Czech Republic	18.4%	71.9%
Denmark	0.0%	0.0%
Estonia	6.0%	100.0%
Finland	13.9%	100.0%
France	2.9%	16.7%
Germany	9.7%	37.9%
Greece	5.7%	52.8%
Hungary	24.9%	65.0%
Ireland	0.0%	0.0%
Italy	7.4%	17.0%
Latvia	13.2%	100.0%
Lithuania	38.8%	100.0%
Luxembourg	0.0%	0.0%
Malta	0.0%	0.0%
Netherlands	9.8%	8.1%
Poland	8.5%	63.1%
Portugal	0.0%	0.0%
Romania	5.6%	17.0%
Slovakia	30.4%	98.2%
Slovenia	6.3%	56.2%
Spain	0.0%	0.0%
Sweden	0.0%	0.0%
United Kingdom	0.0%	0.0%
<b>European Union</b>	<b>5.7%</b>	<b>26.3%</b>

Source: Gas data from BP Statistical Review of Energy 2011, Cedigaz, Eurogas, European Commission; boundary data from ESRI, 2005. Graphic created by CRS.  
*Borders are not necessarily authoritative.*



## Context – gas prices

### Oil – linked gas prices vs. market based formulae

Europe's second-biggest gas producer (STATOIL – AL) is moving away from oil price-linked gas contracts, which are increasingly unpopular with European customers, hoping to cash in on market leader Gazprom's refusal to give up the traditional pricing mechanism.

February 7, 2013; [www.reuters.com](http://www.reuters.com)

Gazprom, the world's top gas producer, expects to hand \$4.7 billion in price cuts to European consumers this year, company officials said on Friday, and vowed to make good on dividend promises despite the cash flow hit.

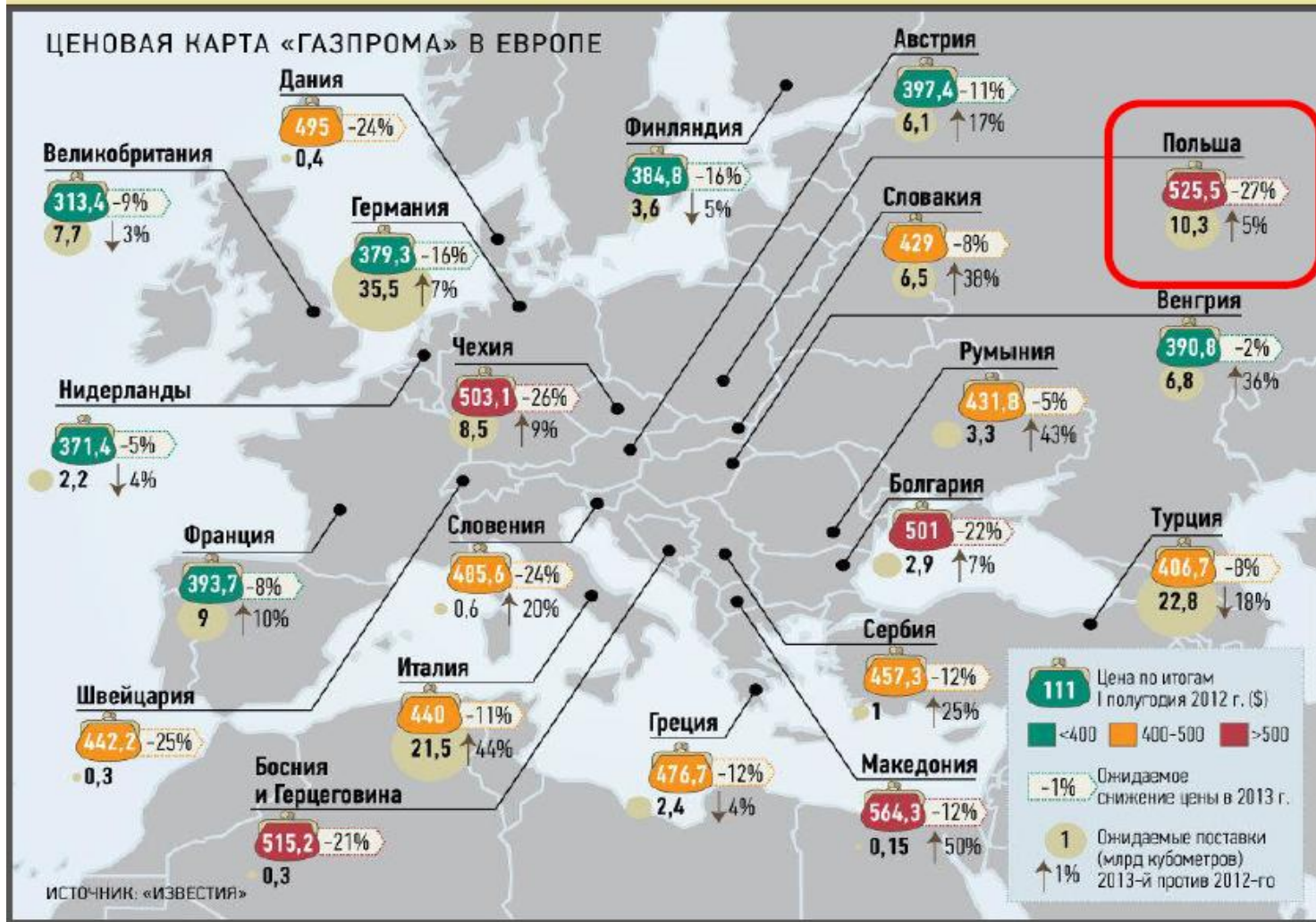
February 8, 2013; [www.reuters.com](http://www.reuters.com)

Russian gas major Gazprom has lowered its extraction plan for this year from the 507.7 billion cubic meters (bcm) written into the company budget as confirmed in December to 495.7 bcm.

February 8, 2013; [interfax.com](http://interfax.com)



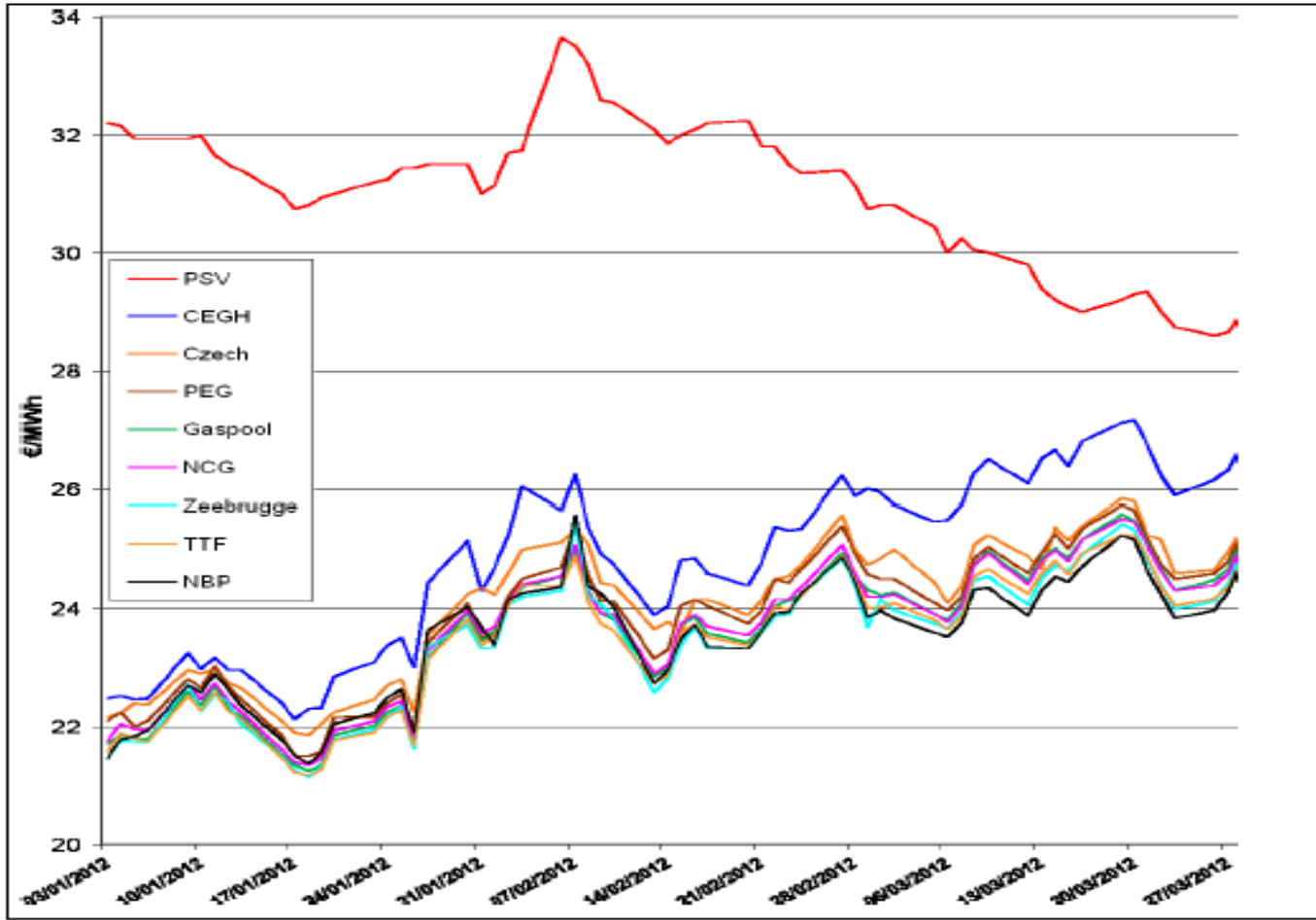
## Context – gas prices





# Context – gas prices – main EU hubs

Figure 19: European Month Ahead prices: Q1-2012



Sources: ICIS-Heren, P. Heather



## Objectives of Polish V4 Presidency

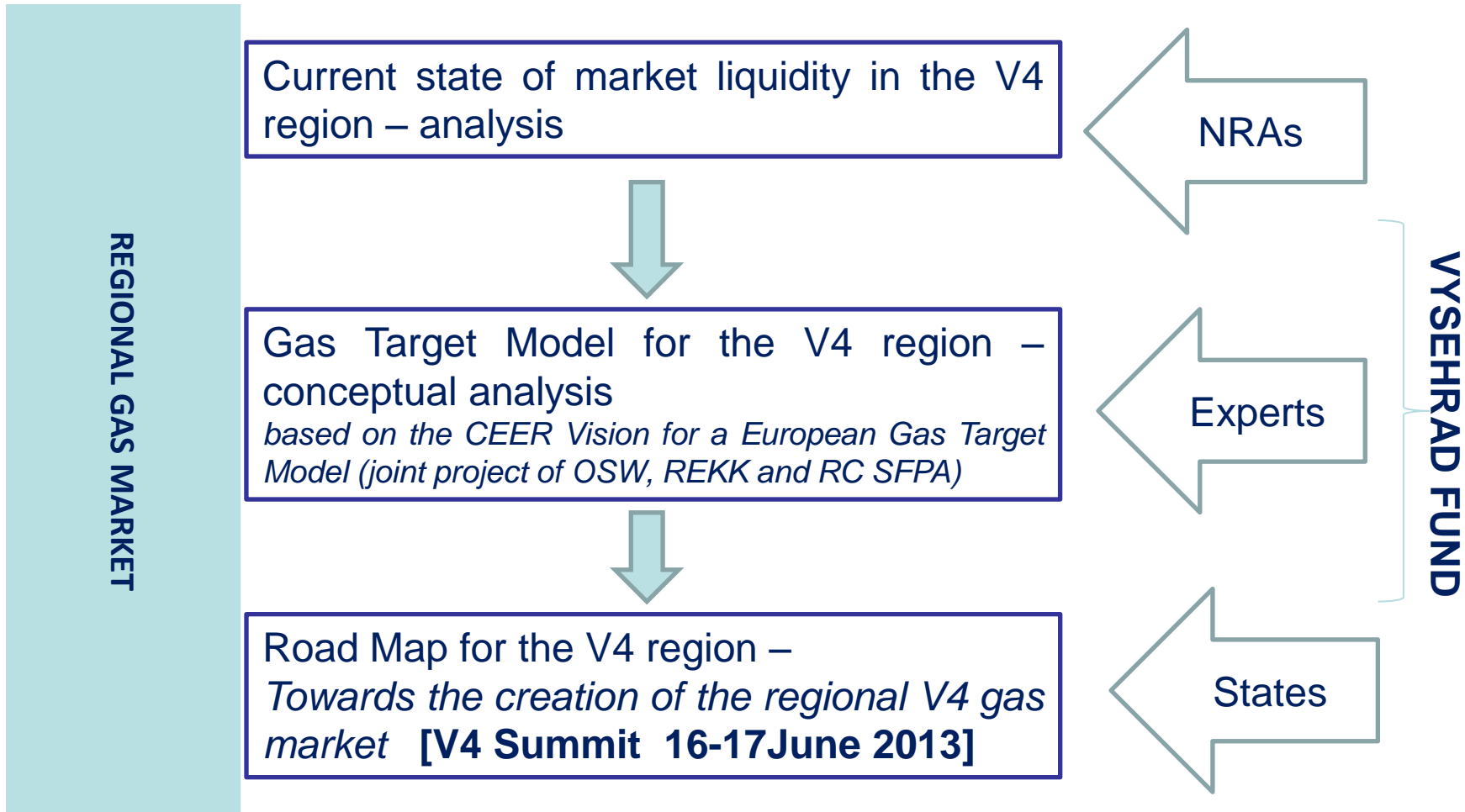
### Polish V4 Presidency aims at:

- ❑ **enhancing cooperation and coordination in the EU decision making process – indicated in the Operational Plan**
- ❑ **triggering the huge potential enshrined within the V4 which goes beyond the current EU agenda - *Towards the regional gas market***





## Towards the regional gas market





Thank you for your attention.

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