

The Role of Governments and the Private Sector in Multinational Projects

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Key Facts

1. Energy Co-operation among European states – especially in gas – was successfully established in the 1970s with large infrastructure investments being made as a result
2. The frameworks for doing so depended on gas companies and governments, not regional institutions
3. Cross-border trade in electricity was significantly less than gas
4. This ‘Age of Expansion’ was also an ‘Age of Monopoly’
5. Since the late 1990s the European region has been in a Transition to a Liberalized Market (the Single Market in Energy), in which regional institutions have played an important role in promoting a more competitive environment
6. To bring about a further expansion in EU infrastructure, a different form of energy cooperation is required, and steps are being taken to make this happen

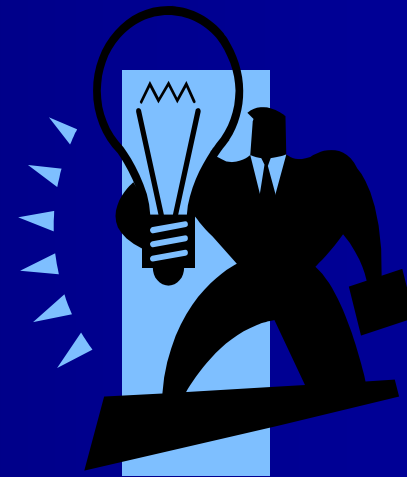
What does this mean?

For NE ASIA there are two sets of questions:

- How did Europe get its first form of energy cooperation off the ground & can any lessons be learned for this region?
- Does the current European experience of energy cooperation (one that is still in development) provide any insights into what should be done in the 21st century to establish energy cooperation? Has the checklist of 'difficult issues' changed since the 1970s?

Examples of New Issues

- Electricity: reliability of supply is an issue due to Black-outs in 2003 on large scale
- Gas and Electricity: Security of installations/infrastructure is an issue



European Energy Cooperation – Phase 1

- Cross-border gas pipelines were set up based on – legal or de facto monopoly powers held by utilities plus exclusive rights and guarantees
 - such as the German 'demarcation zones'
- Extensive state support
- Long term contracts



Phase 1 continued

- Framework for co-operation was very ad hoc and project specific
- Driver was the gas industry
- Close links between gas companies and governments at the time through various means: state shares, ownership etc.
- No significant role for regional institutions (European Community) nor national regulatory authorities

Transition to a Liberalised Market

- Expansion of gas industry in 1990s in anticipation of legislation on liberalisation
- New phase in energy co-operation introduced by EU laws of 1997-98
- Drivers for change were national governments and European Commission

Key Features of New Phase

- Companies required to separate infrastructure from service functions
- Introduction of Third Party Access to networks
- Establishment of national regulators
- Commercialisation and/or privatisation of energy companies

New Forms of Institutional Co-operation

1. INDUSTRY: Associations of operators in gas and electricity and oil industries
 - Organised spontaneously or at initiative of EC
 - Informal in character but often have consultative status with EC
 - Either vertical or horizontal in character

New Cooperation: 2. Regulators

- Groups voluntarily established such as the Council of European Energy Regulators (CEER)
- Have no legal personality and decisions not binding
- Groups established by the EC itself such as the European Regulatory Committee (set up by legal mechanism) – aim is consultation

What they do

- Horizontal approach
- Specialised operators' associations include associations of producers, traders, consumers and network operators – the last is the most influential.
- Examples are ETSO and GTE

The Network Operators

- ETSO brings together high-voltage electricity transporters, co-existing with various regional grids like Nordel
- GTE brings together gas transmission network operators. It has set up a wide range of working groups to consult with the EC and influence legislation (transport prices; capacity and congestion management and interoperability for ex.)

Vertical Co-operation - Industry

- A different form of coordination and cooperation is set up by the Forum mechanism (see my paper)
- Electricity and Gas have a separate Forum
- Membership includes regulators, ministries as well as industry
- It is chaired by the EC
- Its decisions/resolutions are not binding

Drivers of Cooperation

- EC and legislative plans are the main incentive for energy companies to cooperate
- Failure to become involved is the riskier strategy



Some Reflections

- The new phase of cooperation is based on liberalisation – in turn based on a very successful establishment of the gas industry in the last few decades and growing electricity trade across borders
- Could this have been attempted if sound networks had not first been put in place? Probably not.
- Will it limit a further expansion in networks?

Two Notable Problems for Regional Cooperation

■ Regulatory Uncertainty

- Lack of coordination among regulatory authorities; inappropriate price controls or inadequate returns

■ Environmental Issues

- Growing impact on industry of Europe-wide and national rules on climate change, with long term impact

Lessons from this for NE Asia

- In phase 1, close coordination between governments and energy companies helped to get the multinational network in gas into place
- In phase 2, establishment of informal and non-legally binding decision-making processes involving governments and industry associations might provide a suitable mechanism for action