

Boltz, Walter et al.

Research Report

How to make the EU Energy Platform an effective emergency tool

Bruegel Policy Contribution, No. 10/2022

Provided in Cooperation with:

Bruegel, Brussels

Suggested Citation: Boltz, Walter et al. (2022) : How to make the EU Energy Platform an effective emergency tool, Bruegel Policy Contribution, No. 10/2022, Bruegel, Brussels

This Version is available at:

<https://hdl.handle.net/10419/270493>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

How to make the EU Energy Platform an effective emergency tool

Executive summary

Walter Boltz

Klaus-Dieter Borchardt

Thierry Deschuyteneer

Jean Pisani-Ferry

Leigh Hancher

François Lévêque

Ben McWilliams

Axel Ockenfels

Simone Tagliapietra

Georg Zachmann

UNCERTAINTY ABOUT THE supply of Russian natural gas is causing extremely high and volatile European gas and electricity prices. European Union countries may struggle to import sufficient volumes of natural gas at reasonable prices. During the summer, the imperatives are to fill storage sites sufficiently in a coordinated manner and to organise sufficient import volumes to replace a substantial share of gas that might no longer come from Russia. Coordination is essential to ensure that disruptions during difficult winter months do not lead to a break-up of the EU internal gas market with potentially serious political repercussions.

PART OF THE EU response is establishment of an EU Energy Platform for the purchase of gas, LNG and hydrogen. This aims to pool demand to leverage the bloc's economic clout, international outreach to reliable partners and efficient use of existing infrastructure. EU leaders have backed the plan but it has not yet been translated into a feasible scheme.

THE PLATFORM SHOULD be developed into an effective emergency tool to safeguard gas supply in case Russian flows stop. We detail two complementary proposals to achieve this. First, there should be EU-wide auctioning of remuneration for filling storage sites in specific regions. Companies would remain responsible for all stages of the value chain, benefitting from remuneration and in return offering the market operator some control over how this gas is released during winter months. Second, EU demand for additional LNG quantities, and the sourcing of this on international markets, should be coordinated through a platform, creating a transparent market for these volumes.

THESE MECHANISMS WOULD resolve the prevention paradox and prevent free-riding. If EU countries buy gas jointly, they will find it much easier to let markets allocate scarce volumes across borders in case of a complete stop to Russian supplies. This would reduce the risk of energy market fragmentation, as well as the subsequent energy security, economic and political impacts of a shock that would hit member states very differently.

Walter Boltz is a Senior European Energy Adviser; Klaus-Dieter Borchardt is a Senior Visiting Research Fellow, Oxford Institute for Energy Studies; Thierry Deschuyteneer is an independent consultant; Jean Pisani-Ferry is a Senior Fellow at Bruegel; Leigh Hancher is a professor at the University of Tilburg; François Lévêque is a professor at Mines Paris-PSL; Ben McWilliams is a Research Analyst at Bruegel; Axel Ockenfels is a professor at the University of Cologne; Simone Tagliapietra is a Senior Fellow at Bruegel; Georg Zachmann is a Senior Fellow at Bruegel.

Recommended citation

Boltz, W., K.D. Borchardt, T. Deschuyteneer, J. Pisani-Ferry, L. Hancher, F. Lévêque, B. McWilliams, A. Ockenfels, S. Tagliapietra and G. Zachmann (2022) 'How to make the EU Energy Platform an effective emergency tool', *Policy Contribution 10/2022*, Bruegel

In the aftermath of Russia's invasion of Ukraine in February 2022, the European Union established an EU Energy Platform for the purchase of gas, LNG and hydrogen (hereafter, EU Platform). The idea is not new. Joint gas procurement was one of the flagship initiatives of the EU Energy Union back in 2015 (European Commission, 2015). It didn't succeed, but joint procurement of COVID-19 vaccines in 2020 was more successful and has inspired the EU Platform. The EU Platform could become an effective emergency tool to safeguard Europe's security of gas supply in case of a sudden interruption of Russian gas flows, but policymakers need to address challenges to make it work.

1 The inception and early development of the EU Platform

In March 2022, the European Commission proposed to coordinate EU gas storage refilling operations through a joint EU Platform in order to “*ensure security of supplies on favourable conditions for all buyers across the EU*” (European Commission, 2022a). The plan detailed three potential areas of intervention:

- *Demand pooling* to maximise leverage to attract reliable supplies from global markets and at stable prices;
- *International outreach* to gas partners and markets, including the main liquid natural gas (LNG) exporting and importing countries, and then broadening this to renewables and green hydrogen;
- *Efficient use of EU gas infrastructure* to maximise absorption of LNG imports and to secure storage refilling.

In terms of governance, the Commission envisaged itself leading a negotiation team to hold talks with gas suppliers, with the support of a steering board composed of EU country representatives. This structure would be modelled on that set up for COVID-19 vaccine procurement.

EU leaders backed the initiative, on the basis that it would be voluntary and open to Western Balkan countries, and to Georgia, Moldova and Ukraine¹. While the three areas of intervention were confirmed, the governance of the initiative was scaled down, with the Commission's role turning from the initially-proposed lead of a joint negotiation team to lighter coordination of ongoing EU initiatives.

In May, the Commission provided further details (European Commission, 2022b). First, it clarified that the initiative will not touch existing long-term contracts, but would “*identify and aggregate contestable volumes based on expiring long-term contracts as well as flexible volumes under existing long-term gas contracts which could lead to roughly 30-70 bcm [billion cubic metres] of demand in the short term*”. Second, it revived the initial joint purchasing mechanism idea, saying that it would consider developing a voluntary initiative, either as a “*joint venture or a business-owned entity*” (European Commission, 2022b). On 25 May 2022, the Commission set up a new taskforce within its Directorate-General for Energy, with the aim of providing support to the EU Platform².

These early developments illustrate the difficulties of defining clearly a purpose for joint procurement that is acceptable to member states, and translating it into a feasible scheme.

1 See European Council conclusions of 24-25 March 2022: <https://data.consilium.europa.eu/doc/document/ST-1-2022-INIT/en/pdf>.

2 See https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3299.

Joint gas purchasing could serve different objectives. The first could be to create monopsony power in relation to Gazprom, protecting the European market against the exploitation of Russian market power. More broadly, Europe could act as a monopsony in relation to all gas exporters with significant market power, usually state-dominated national champions³. In the shorter-term, coordination between EU countries might also be useful to prevent overbidding (including via political concessions) to secure gas volumes. A joint platform might provide a framework for contracts between foreign and European companies for gas volumes enabled by national and European outreach to foreign governments. Joint procurement might also reduce risk premia for smaller buyers and, finally, some mutualisation of gas import costs might be politically desirable to ensure solidarity in the gas crisis. Not all of these objectives can be delivered by a single instrument.

Given the urgency of the issue, our proposal focuses on developing the EU Platform quickly as an emergency tool to procure gas and to coordinate gas distribution to EU countries in the next few months, in order to prepare for an interruption of Russian gas supplies to Europe. Later on, the EU Platform might be developed further if useful.

2 Why is emergency joint gas procurement desirable?

Ensure storage refilling

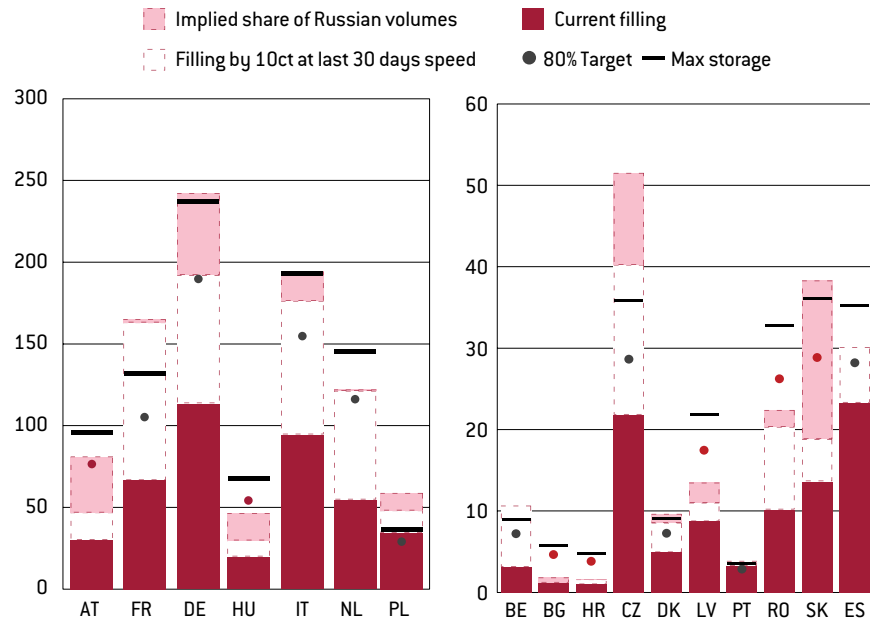
Filling storage facilities to 80 percent (or preferable higher) is essential for the EU to reduce its reliance on Russian gas while meeting winter demand. Thus, an 80 percent target to be reached by each country by 1 November 2022 was set in the European Commission's proposal⁴. This year, the EU gas-storage refilling season started a month earlier than usual and has been proceeding at relatively high speed, with storage facilities already 47 percent full by the end of May. While the aggregate progress in filling EU storage facilities was good in May 2022, Figure 1 highlights major problems.

Bulgaria, Hungary and Romania will not meet the EU 80 percent target if they continue at the current speed. Germany, Austria and Slovakia will find it very difficult to fill their storage facilities if gas flows from Russia are stopped.

3 In an ideal monopsony scenario, Europe might be able to exploit the minimum price each exporter would accept, instead of paying every exporter the price imposed by the last (most expensive) exporter needed to meet demand.

4 Details can be found here: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_22_1937.

Figure 1: Extrapolation of national gas storage filling levels by 1 October 2022



Source: Bruegel based on AGSI, ENTSG. Note: the dotted lines show simple extrapolations from gas storage trends in May 2022; this is likely overly optimistic as injection speed in several previous (more relaxed) years would suggest lower volumes. The red part is the volume that could be attributed to physical gas flows from Russia.

Moreover, gas storage volumes throughout the EU (also in countries without any gas storage, such as Greece) will fall short in case of a full Russian supply disruption (see also ENTSG, 2022). Hence, market players face a dilemma: when they prepare for a politically-induced disruption that does not materialise they lose money; and if they do not prepare they might not have enough gas to supply their customers. The situation becomes a full-fledged prevention paradox when considering that the risk of Russia (threatening to) cutting the supply increases with the lack of preparedness. In such an exceptional situation it makes sense for the public sector to give companies sufficient incentives to fill storage facilities, even though these volumes might turn out to be overpriced in the absence of a full crisis.

Finally, it is important to stress that, for Europe's political independence, gas in storage in the countries most dependent on Russian gas is much more important than gas in countries that can be supplied sufficiently from the west during winter. European coordination is therefore needed to ensure that the anyway asymmetric hardship is not exacerbated by rich western countries securing all the gas and leaving the most dependent countries more vulnerable.

Prevent free-riding

A major challenge for a joint system is to prevent free-riding by some countries, which could arise because gas security is very costly. Buying gas now to fill storage facilities at high prices, and possibly experiencing much lower prices next year, might incur drastic losses. However, supply security in one country that is part of the EU gas market can be regarded as insurance with positive spillovers for all other countries. In a crisis, those countries might hope to access some of the gas stored by the better-prepared country, and Russia might be less likely to cut supplies to the EU if the EU overall has already procured enough gas. Hence, countries might at the margin prefer to do too little, too late.

Reduce gas costs

LNG spot prices are at time of writing extremely high. They have risen from significantly below \$10/mmbtu⁵ before 2020 to substantially more than \$20/mmbtu after Russia's invasion. But the global market for spot delivery of LNG cargos is not organised as a liquid and transparent energy exchange that converges on a single price for all exchanges. Rather it is dominated by opaque bilateral and brokered deals between buyers, traders and sellers. Accordingly, small first-time buyers are at serious risk of being shortchanged by established sellers. By pooling demand, EU countries can eliminate the risk of outbidding each other and attract gas at more attractive prices. Furthermore, for smaller credit-constrained countries or companies, participating in a wider initiative with European backing will lower the risk premium. This is especially important given volatile energy prices and the high risks energy companies face currently.

Pool administrative capability

Small exposed countries typically do not have administrative expertise in purchasing LNG, and would benefit from pooling of technical capacity.

Ensure solidarity and internal market integrity

Competition between countries for emergency gas supplies will not only push prices higher. It will also threaten unequal distribution across the EU, which is not seen as 'fair'. There is an urgent need for coordination to help poorer countries, and those most exposed to a Russian cut-off. National subsidies for storage refilling (as seen in Germany, Austria and Czechia) imply that these volumes in a crisis might not be shared. Excessive reliance on national public gas procurement may result in cross-border flows being stopped. Instead, volumes of gas mutualised at the EU level can be a vital tool in maintaining price signals and cross-border flows, to ensure that markets do not stop functioning.

Joint gas procurement would thus have both a direct energy-security implication and a wider political purpose. It would reduce the risk of fragmentation within the EU in case of a full supply disruption by translating formal solidarity provisions⁶ into a tangible mechanism that shares the cost of preparation and implies credible rules for allocating gas in case of a disruption. At best, such credible preparation might actually reduce the risk of Russia seeking to test European solidarity.

3 Issues arising from joint procurement

When establishing a joint procurement scheme, a number of challenges will arise.

Avoid crowding out private purchasing

Joint procurement should be designed so it does not disincentivise the exploiting of other supply options, such as the maximisation of import volumes from long-term contracts or own production assets. A joint procurement scheme might outbid (in terms of price, financing conditions, contract length) some legacy supplier-client relationships and hence run against the idea of the system. It would, for example, make little sense if the system buys more gas from Algeria or Azerbaijan by outbidding partners that could have obtained this gas on better conditions. On a more macro level, additional buying from the mechanism will drive up international gas prices and discourage individual companies from buying to ensure their own supplies.

⁵ Mmbtu (million British thermal units) is the volume unit used for pricing LNG by the most-established Platts Japan/Korea Marker (JKM). As 1 Mmbtu = 0.29 MWh, \$20/mmbtu ~ €70/MWh.

⁶ From the EU Treaty and the Security of Gas Supply Regulation ((EU) 2017/1938).

A further risk relates to the time at which procured gas might be brought to the market. As markets will anticipate this, the corresponding forward/futures prices will be driven down for the period when this gas is expected to hit the market. As publicly procured and stored gas in principle increases prices in the buying/injecting period (spring, summer) and reduces prices in the selling/withdrawing period (winter), companies have less interest in maintaining storage themselves outside of the system. It is a challenge to design a system that does not (massively) crowd out private purchases.

Working with, not against, the market

Joint procurement should not threaten but should support the EU internal energy market and cross-border/region trading of gas. Excessive or inefficient state intervention could weaken price signals. A light-touch approach is preferable, which addresses externalities (emergency nature of sudden cut-off of Russian gas) but allows markets to still allocate most volumes.

Giving companies incentives to participate in the scheme

The more companies the new entity represents, the better it will be: the new entity will have greater leverage in relation to suppliers and will therefore obtain better purchasing conditions. Mutualisation also makes more sense if participation is broad and diverse. The EU Platform needs to be large and strong enough to succeed. When it comes to the incentives given to companies to persuade them to participate in the scheme, two elements should be considered. First, the business entity should complement current market design. Companies that benefit from good prices and other conditions in their long-term contracts will not have to lose them to join the platform. Moreover, acting individually will make their additional purchases more costly. Second, the new entity is formed to respond to short-term contingencies and participation can therefore be time-limited (eg on an annual basis). The decision to be part of the joint venture will therefore be low-risk.

Delivering gas where it is needed

The gas system must be adapted to bring gas to where it is needed, often flowing in directions atypical to the operation of gas markets and operators in preceding years. It will be a challenge to coordinate this and incentivise delivery of gas to priority areas, particularly in the case of a disruption to Russian supply.

What would happen if Russian gas supplies stop in the summer? As the current storage injection flow is greater than Russian pipeline imports, it is possible in theory to cover current demand while filling some storage at a much lower rate. However physical capacity limitations may limit delivery throughout Europe, and some storage withdrawals might be needed to compensate for lack of supply. In order to meet the 80 percent refilling target, greater intervention would be required from the EU Platform to ensure that the most-exposed storage sites are filled.

Disrupted Russian gas supplies would probably lead to higher wholesale prices and a further reduction of demand. Depending on the new supply/demand balance, emergency plans may be triggered in some EU countries to further reduce demand (eg calls to reduce temperatures in homes, offices and public buildings; demand curtailment in power and industry) and allocate available gas between countries according to the emergency plans drafted by EU countries in line with the Security of Gas Supply Regulation ((EU) 2017/1938).

Gas infrastructure operators would experience further changes in gas flows that may result in new network configurations. Cooperation between gas transmission system operators (TSOs) and competent authorities, and coordination at EU level, would be essential to limit demand disruption to the greatest extent possible.

Box 1: Gas market response so far

The gas supply and demand situation in mid 2022 can be summarised as follows:

1. Low but stable EU domestic production; stable Norwegian and Algerian imports;
2. Increase of LNG imports thanks to high prices paid by EU purchasers;
3. Reduction of imports from Russia by pipeline, also because of supply cuts to Poland, Bulgaria and Finland;
4. Lower gas consumption across Europe, mainly in the industry and power sectors, because of the high wholesale prices.

The gas infrastructure situation can be summarised as follows:

1. Russian gas flows: reduced from Ukraine, stopped from Belarus; Nord Stream 1 to Germany maintained at full capacity, Nord Stream 2 not opened; Turkstream flows marginally above 2021 values;
 2. LNG flows increased, mostly in Poland, Lithuania, the United Kingdom, France, the Netherlands and Belgium, sometimes close to capacity;
 3. Consequently, the west-east divide between predominantly Norwegian/LNG supplies in the West and Russian pipeline gas supplies in the East, is shifting from a line west of Germany/Switzerland/Italy to a line east of Germany/Austria/Italy, while some transit routes are congested (UK to Belgium and Netherlands; Belgium to Germany, Spain to France, TAP);
 4. Seasonal storage advancing faster than usual, also driven by incentive policies in some countries;
 5. Gas infrastructure operators experience major changes in gas flows and optimise capacity in the new market conditions. However, infrastructure limitations (eg lack of sufficient Spain-France interconnection capacity) prevent LNG imports at maximum capacity at all terminals.
-

Expertise not typically available in public administrations required urgently

Signing gas contracts requires significant legal and commercial expertise and experience. Gas supply contracts specify not only volumes and prices, but also contract duration point, time of delivery and many other provisions. Some of these elements can be negotiated with the seller to obtain an arrangement that balances the interests of the buyer and the seller (for example, at which port to deliver the LNG); other elements depend on the chosen seller (gas from Azerbaijan can only arrive via the given pipeline infrastructure); and sometimes it might make sense to combine elements from different providers (eg original supply, insurance, shipping, financing).

Private companies are currently responsible for executing these contracts and accordingly host the expertise. It would be a challenge for a public administration to adapt rapidly to this situation, and where possible a light-touch approach is desirable, as well as close cooperation with the private sector.

Overlap with legacy contracts

Many commercial transactions are involved in bringing gas from a gas field into a gas storage facility. Each stage may be based on long-term legacy contracts. Emergency gas procurement would by necessity interact with all these stages – purchase of gas, booking pipeline capacity, booking regasification services, withdrawal of gas, injecting and withdrawing gas from storage. Bottlenecks may arise when one stage of this value chain is at maximum capacity under long-term contracts, eg import capacity at a liquefaction terminal being booked, or pipeline capacity being booked. Joint procurement must: a) not infringe on long-term contracts, and

b) be aware of the extra complications that will arise from the need to carefully step around long-term contracts.

Firms may abuse market power

This multi-stage value chain lends itself to certain firms having market power in certain areas. A competitive process for purchasing gas and supplying it to a final storage point in the EU will cross many areas of market power. There is a risk that firms will exploit this to extort extreme mark-ups or public support. For example, a trader or company who has booked pipeline capacity in a certain direction, or storage/withdrawal capacity, may not be willing to sell for a reasonable price.

Compatibility with the EU's energy sector legal framework

Joint gas procurement needs a sound basis in EU law. In the context we are discussing, the legal framework would be the Security of Gas Supply Regulation ((EU) 2017/1938), as it would be amended by the European Commission's proposal to introduce a storage obligation scheme⁷.

In this context, the following principles need to be respected in order to guarantee the compatibility of the joint procurement mechanism with other EU legal principles:

- Guaranteeing the unchanged execution of long-term gas supply contracts and conclusion of new long-term contracts according to the gas wholesale market rules in the Gas Regulation ((EC) No 715/2009).
- Highlighting the voluntary nature of participation in the mechanism and the freedom to pursue private purchases under the wholesale market rules in the Gas Regulation.
- Introducing specific rules against capacity hoarding, including rules in line with EU competition rules preventing market participants from abusing their market power.
- Establishing a procedure for the development of new network configurations that would respond to the need under the joint purchase mechanism, based on the supply corridors established by the Security of Gas Supply Regulation.
- Aligning the joint purchase mechanism with the rules of the new gas storage filling obligation to be introduced into the Security of Gas Supply Regulation.
- Aligning the development of a subsidy scheme (eg contract for difference) with EU state aid rules.

It should be noted that this legal set-up is only applicable for the joint purchase mechanism with its limited scope as an emergency measure. If the mechanism was extended to the joint purchase of all sorts of molecules (natural gas, LNG, hydrogen), it should be given a legal basis under the new Gas Regulation.

4 Proposals

We make two proposals for the EU Platform that would pursue the objectives and address the challenges we have discussed. The two proposals are complementary. Both are inspired by national schemes, lending valuable experience. There is ample room to adjust them to the EU context.

⁷ The gas storage requirement will, in principle, apply from summer 2022; see https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1936.

Proposal 1: EU Strategic Storage Based Options

Our first proposal is inspired by the Strategic Storage Based Options (SSBO) scheme recently tested in the German and Austrian markets⁸. Via auctions, the market operator purchases supply for delivery to, and physical storage at, each participating storage site at a given time. For example, one lot could be for: 'filling 500 million cubic metres (mcm) into Rehden by 1 August'. Storage capacity holders must meet certain fill levels throughout the winter. That is, the privately owned volume is permitted to be released only at, say, 100 mcm per winter month maximum (no minimum). In addition, a defined percentage of the contracted storage volume would be reserved for a call option until the end of the performance period for call-off by the market operator at any time. The rationale is to ensure that sufficient stored volumes remains in place throughout the winter months to be prepared for a Russian cut-off, and that high prices in November do not incentivise rapid emptying of storage.

A centralised, state-of-the-art auction platform would be designed to mitigate market power (including bid-rigging, artificial congestion creation, upstream coordination) and to facilitate substitution across purchase timing, performance periods and storage sites.

The cost of filling would be shared between participating countries. Cost sharing should be based on dependence on Russian gas and GDP *per capita*, to reflect the benefits of filled storage to participating member states and their financial capabilities. In return, the mechanism would ensure that gas purchased through it will be distributed among participating member states based on competitive prices. A requirement for joining the mechanism would be that participants commit to allowing market-based flows of gas to continue across borders. This may be extended also to other forms of market intervention (eg excessive gas-price subsidies for heavy industry).

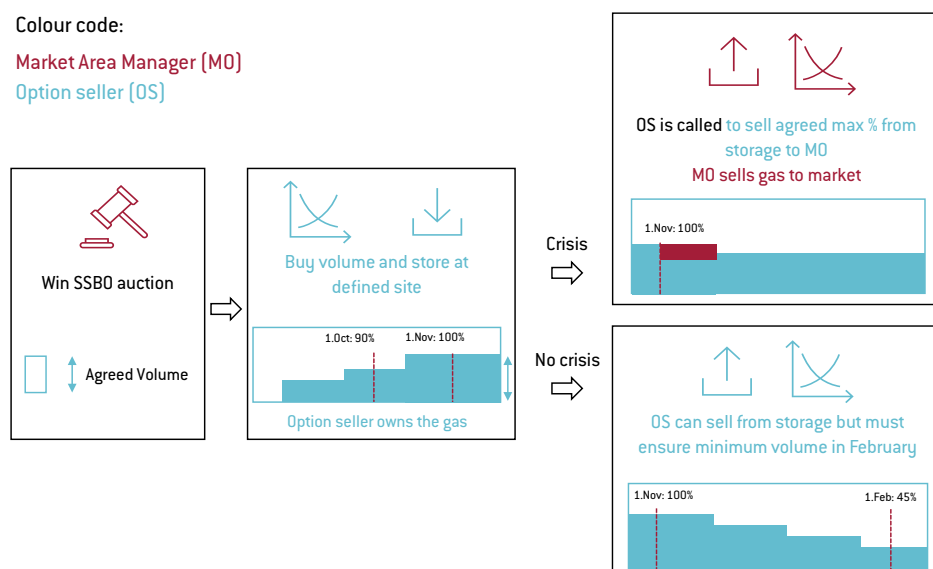
In this way, the mechanism would support the filling of storage facilities across Europe, based on a solidarity-based joint-purchasing strategy, and would also prevent opportunistic behavior in a crisis by establishing the price mechanism as a coordination and allocation mechanism. This would provide an incentive for EU countries that rely on cross-border trade in a crisis to support joint efforts to fill European storage facilities.

Figure 2: Strategic Storage Based Options for Europe

Colour code:

Market Area Manager (MO)

Option seller (OS)



Source: Bruegel.

⁸ See press release of 4 May 2022: https://www.tradinghub.eu/Portals/0/DLC%20Presse/20220504_Press%20Release.pdf.

The first German SSBO auction bought 48 TWh of SSBOs (total German storage capacity is 237 TWh) for a option premium of €371 million, implying €7.70/MWh of fixed cost only to ensure storage filling. On top, the average surcharge at which the contractual drawdown volume (20 percent) could be requested by the market operator was at €12 /MWh above the day-ahead spot-price.

Heroically extrapolating the idiosyncratic German auction results to cover all of Europe's storage would suggest that the total cost of the scheme could be in the order of €10 billion⁹.

The auction system would allow different prices to be achieved for different countries. For example, bidding for storage in the Iberian peninsula could be expected at very low prices because storage facilities there are already quite full and there is no reliance on Russia. Poland, too, with already well-filled storage facilities, should prove a low-bid zone. Conversely, areas that are highly reliant on Russia and have limited alternatives (eg Bulgaria, Hungary) would likely see higher prices. Implicitly, support is then targeted to the most-exposed regions.

Proposal 2: An EU two-sided auction for LNG deliveries

Proposal 2 complements Proposal 1; it pursues a different goal but follows a similar market logic. It addresses concerns that European buyers are outbidding each other (including in terms of political concessions) in the opaque and extremely tight international gas market, and that smaller/less-experienced players might find it difficult to activate competitive supplies to replace a potential shortfall of Russian volumes at short notice. Hence the proposed platform for emergency imports should not compete with established gas exchanges (eg TTF), over-the-counter bulletin boards and other trading platforms. The proposed platform should be time-limited (initially for winter 2022/23) and restricted to additional volumes of LNG.

Transactions would consist of three steps. First, demand would be determined based on indications of volumes required and where (and what the maximum price might be). This could for example consist of 50 percent of the Russian gas deliveries to a country in 2021. Gas infrastructure operators (TSOs, storage system operators and LNG system operators), and the European Network of Transmission System Operators for Gas, the EU Agency for the Cooperation of Energy Regulators and the European Commission would play key roles in assessing target volumes, timing and location, and in final bid/offer selection. This would be in order to avoid physical congestion and find solutions that would not work with the in-place network access rules.

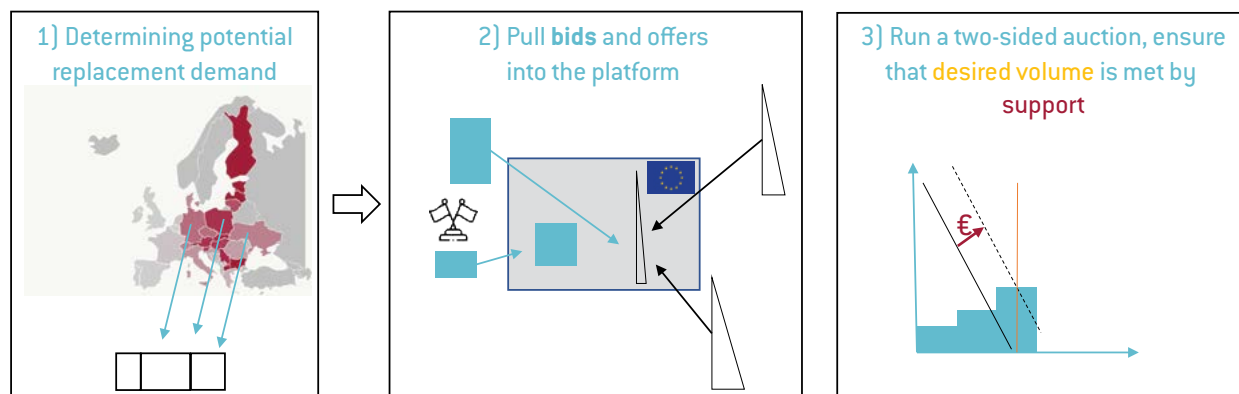
Centrally determined target volumes will allow relevant products to be defined. The definition of the product will have to trade-off liquidity/competition (a rather general definition) and expediency (a very specific definition). One way to resolve this trade-off to some extent could be to define a product (delivery during a certain period to a certain place; eg 1 TWh/day in December to the Baumgarten gas hub – a point in Austria that is gaswise well connected to East and West) and allow bidders on both sides to propose mark-ups/downs based on clearly-defined deviations from this standard product (eg for delivery to the Slovak border, a €10/MWh mark-up; for delivery in January, a €5/MWh mark-up).

In a second step the platform would collect binding offers for volumes on international markets, including from suppliers brought into the tender by means of coordinated international outreach. In parallel, the platform would collect binding bids for the defined products from eligible buyers.

Finally, the platform would try to match sellers' offers and buyers' bids in terms of volume, delivery time and location. A subsidy might be implied by promising to cover the potential price differential between buying price and selling revenue, eg up to the amount needed to achieve a certain predetermined matching volume. The handling cost would also be mutualised.

⁹ Assuming that all eligible countries participate and all participating countries want to completely fill their storage facilities, the scheme would cover up to 1200 TWh (for Ukraine, we assume one-third filling of the huge storage facilities = 110 TWh). If we assume that the German auction result of €7.70/MWh for the option premium is some guide, the cost of the scheme – only for the filling part – would be about €10 billion for winter 2022-23.

Figure 3: LNG procurement platform for Europe



Source: Bruegel.

The support level will depend on the covered volume and the price difference between bids and offers. For 750 TWh (about half of Russian supplies in 2020 or 2021) and a mark-up to meet the desired demand level of €10/MWh, support would amount to to €7.5 billion. The tool might also be designed to put a fixed ceiling on the support level, and thus determine volumes.

This approach would carry some risks. The most critical is a lack of liquidity. If there are too few participants on one side of the trade, the platform might raise expectations it cannot fulfil, which might at worst deter participation. The hope would be that the expectation of a certain level of subsidy would lure buyers and sellers into the platform.

Another issue is that incumbent market players might game the system to extract subsidies. A dominant player either on the sell or buy side could also be active on the other side to create unmet demand/supply. Rules to reduce such risks would be desirable. Finally, it will be a challenge to ensure additionality of the volumes, and not to only redistribute offers that would anyway go to European buyers.

Complementarity of the two proposals

The two proposals fulfill different functions and can run side by side. If well-designed, support provided through one tool might reduce the cost of the other tool.

Table 1: Side by side operation of the two proposals:

	Proposal 1: joint auctioning of SSBOs	Proposal 2: joint procurement of replacement LNG
Reap benefits of collaboration		
Pool administrative capabilities		x
Pool diplomatic support		x
Risk reduction and mutualisation	x	x
Demand pooling for better prices		x
Coordinate storage filling [dependent countries first]	x	
Prevent risks of non-collaboration		
Overbidding	x	x
Free-riding	x	x
Market breaking in a crisis situation	x	x

Source: Bruegel.

Many EU countries have national tools to incentivise market players to fill gas storage facilities (ACER, 2022). The cost is typically passed on to gas consumers. In case an EU mechanism co-finances some of the cost involved in companies provisioning volumes, it must be ensured that companies do not benefit twice. In principle, this should be possible. Moreover, it would be desirable that countries that already have instruments for storage filling benefit from the European instruments we propose, as this would socialise the cost to countries that before were free-riding.

Most importantly, the proposals would complement the gas-supply security provided by gas markets themselves. Both tools would be conditional on a commitment by member states to not restrict market-based cross-border flows, and thus the proposals support the most efficient (and depoliticised) allocation of scarce gas volumes in a crisis situation.

5 Conclusion

Europe needs urgently to scale up its preparations in case of full interruption of Russian gas supplies in the winter of 2022-2023 – a scenario that cannot be dismissed given the current circumstances. The EU should develop the EU Platform into an effective tool for safeguarding gas supply in the near term. The Platform needs to focus first on filling storage facilities ahead of the winter, providing sufficient additional imports throughout the year to compensate for shortfalls from Russia and on developing mechanisms to ensure cross-border flows of gas are maintained even in a disruption scenario.

The EU Platform, if set up as we have outlined, might evolve subsequently into a broader

initiative, focused not only on storage refilling and delivering LNG next winter, but more generally on delivering gas to the European market by pooling EU gas demand. Similarly to how an EU taskforce of negotiators has purchased COVID-19 vaccines, the EU Platform could become an EU interface for gas, LNG and hydrogen.

Developing the EU Platform into a workable and efficient tool to secure storage refilling would also help avoid political fragmentation on both the internal and external fronts.

Internally, an uncoordinated response to an interruption of all Russian gas supplies might lead countries to outbid each other to attract LNG cargos, and even to close their borders to energy exchanges with their EU neighbours. The Platform can be a tool to safeguard EU solidarity and political unity in case of full-scale disruption of Russian gas flows to Europe during next winter. In such a scenario, having a workable mechanism in place to secure sufficient volumes to cope with the situation and to efficiently allocate volumes across Europe would put Europe in a much stronger position.

The mechanism would also reinforce the EU's external policy. In case of major disruption, coordinating effective external action – such as maintaining EU sanctions against Russia – would become increasingly difficult, undermining Europe's ability to act jointly and giving Moscow a way to withstand the economic consequences of its aggression. European states can effectively counter Putin, even in a scenario of full interruption of gas supplies. A strong EU Platform would represent a cornerstone of the new European energy security architecture.

References

ACER (2022) *Report on Gas Storage Regulation and Indicators*, European Union Agency for the Cooperation of Energy Regulator

ENTSO-G (2022) *ENTSO-G summer supply outlook*, European Network of Transmission System Operators for Gas, available at https://www.entsog.eu/sites/default/files/2022-04/SO0035-22_Summer_Supply_Outlook_2022_BOA_Rev8.1_220427%20for%20publication.pdf

European Commission (2015) 'A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy', COM(2015) 80 final

European Commission (2022a) 'REPowerEU: Joint European Action for more affordable, secure and sustainable energy', COM(2022) 108 final

European Commission (2022b) 'REPowerEU Plan', COM(2022) 230 final