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Liberalizing the European Gas Market: The Role of Network Codes

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Abstract

The European market for natural gas has for long been a fragmented patchwork of nationally operated transmission systems, transporting gas between producers and consumers based on long-term contracts. A few interconnector points, made for one-directional transmission of gas to import dependent countries, feebly connected the national networks. As liberalization of gas markets became a political focus in the 1990s, efforts to integrate these markets have multiplied. The European Union launched in 2009 its Third Energy Package for Gas, including the development of twelve Network Codes (NCs), which will regulate numerous aspects of cross-border transmission of gas. This paper economically analyzes the impact of the four most advanced Network Codes at the time of writing, by introducing the different segments and dynamics of the gas industry, the role of interconnector points in the wholesale market, the characteristics of the NCs and the potential economic effects they should generate. The study shows that the codes will indeed have positive effects on entry barriers, capacity allocation, congestion problems and the proliferation of hub-based gas trading, but a completely liberalized EU internal gas market is unlikely to be the result.

Keywords

Liberalization

Natural gas market

Network Codes

Third Energy Package for Gas

Interconnector Points

European Gas Hubs