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No. 2: Natural Gas in the Netherlands; From Cooperation to Competition?

Theo Westerwoudt, May 2003

On May 21 the joint publication of the Oranje-Nassau Groep (ONG) - investors in the oil and gas business – and the Clingendael International Energy Programme (CIEP) was presented to Joop Wijn, State Secretary of Economic Affairs. The book is published to mark the the 25th anniversary of ONG's natural gas production in The Netherlands.

In eight chapters the authors, Coby van der Linde (director of CIEP), Aad Correljé and Theo Westerwoudt (both research fellows of CIEP), sketch in detail the history, development and radical changes of the Dutch gas system, which they describe as „an extremely complex phenomenon”. From coal mining to the very first discovery of natural gas in 1948, the giant Groningen field in 1959 and the hundreds of smaller fields, from the gas distribution, the gas exports and the Dutch contribution to a European gas market and the fascinating impact on the national economy, readers are guided on a tour through the Dutch energy policy.

In an Annex of *Natural Gas in the Netherlands*, Wim van den Bosch, an experienced geologist and member of the technical advisory council of ONG, describes the geological aspects of gas and hydrocarbons. Interviews with experts from the gas sector, and with politicians, former ministers, civil servants and bankers illuminate many issues further.

As becomes clear from *Natural Gas in the Netherlands*, the role of the Dutch government has been essential in both the development and the commercial strategy of the gas sector. Public policy was often a compromise between conflicting political objectives like the level of gas prices, the size of the state revenues, the rate of depletion and the development of new reserves. Public policy had to take into account the intervening interests of the various oil companies involved in the exploration and production of gas, struggling to achieve reasonable remuneration. The authors explain how a balance was struck between these conflicting interests in the

subsequent periods, while also dealing with the changes in the oil prices, the supply and consumption levels of gas and shifts in environmental perspectives.

Requiem

Dutch political parties are in favour of continuation of the Dutch small fields policy: saving the reserves in the Groningen field by developing small gas fields. But most of the parties oppose exploitation of the gas reserves in interesting small fields under the Waddenzee, a precious wetland nature reserve between the mainland coast along the northern provinces and the Wadden islands. The first ten year moratorium on gas production had ended formally in 1994, however by 2003 still no permits have been granted for exploration drillings. In a new coalition agreement between the three political parties – CDA, VVD and D66, which are in the process of forming the new ministerial cabinet Balkenende II (May 2003) – it is mentioned that considerable investments have been made in two proved gas fields and ‘deviated production technology’ in the Waddenzee area. Nevertheless, the new coalition wants to strive for a new, second moratorium for ten years on deviated drilling to gas reserves under the Waddenzee. The outcome might be that under stringent conditions a production tests in the two fields – which are ready for production – will be allowed. The test could prove that using the ‘deviated production technology’ no subsidence or any other environmental damage to nature occurs, as experts have assured.

A second moratorium would most probably outlive the balance function of the Groningen field. This would make exploitation of many existing small and marginal gas fields in The Netherlands very uncertain.

Top-official dr. Noë van Hulst from the Dutch ministry of Economic Affairs says in an interview in *Natural Gas in The Netherlands*: „I agree with those who say that if you keep the oil and gas people away from important gas fields in all sensitive nature reserves, we can very soon write the requiem for the small fields.” And: „The Waddenzee is believed to hold a substantial part of the present futures in gas reserves. If a moratorium meant that that this part of the reserves could not be touched for ten to fifteen years, a serious problem results. The risk that the gas will stay in the underground forever, because over time production may no longer be viable, as the pressure in the Groningen field becomes so low that it cannot perform any more its balance role for the production of small fields. (...)”

Losing control?

Despite the 40 years of experience as a gas producing nation, some controversies still determine a great part of the national energy policy. Part of the Dutch energy policy is nowadays predetermined by developments with the European Union. George Verberg, the CEO of Gasunie, fears in an interview in *Natural Gas in The Netherlands* certain developments in the European law-making. „If this continues and the Dutch government accepts it, I predict that in, say seven years, the whole policy concerning the Dutch gas reserves will move to Brussels. That would mean that the national governments lose control and sovereignty over their own energy reserves. Fortunately I hear a lot of criticism about this trend.”

Off the energy map

The Dutch government plans to split Gasunie in a transport company owned by the state and two trade identities owned by ExxonMobil and Shell, mean, according to Verberg, „a radical, far reaching change of the Dutch *gasgebouw* that brought our society and our government so many advantages. But a strikingly negative result could be that The Netherlands in a very short time will be played off the European energy map.”

On this issue the book concludes that the plans for the split-up and unbundling of Gasunie „will considerably reduce the influence of the State in the exploitation of the gas fields. The old *gasgebouw* governance system will be replaced by a multi-layered governance system with a different coordination mechanism for the market and for the State. The integration of these systems of governance becomes the critical task of the regulator. Some fear that these synergies, now easily organised in the *gasgebouw*, will be lost in the new governance system. Today, a critical review of the various options would do justice to the importance of the gas sector for the Dutch economy. (...) The Dutch owe such a reflection to their pragmatic predecessors and to the public that has been locked out of such debates in the past. (...) To generate such a commitment amongst Dutch citizens for a new governance model, a more open debate would be beneficial to gain acceptance. Furthermore, such a debate could prevent an ambiguous outcome in which the government opts for governance by the market, but cannot accept the outcomes and responds with over-regulation.”

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