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The Dutch Small-fields Policy and Path Dependency

Kim van Nieuwaal

VU University Amsterdam[1]

Abstract

Natural gas supply has gained an increasing interest of the public and among policy makers recently. Energy issues in general, and relatively 'clean' resources in particular, have gotten on top of the policy agenda's in the discourse of environmental concern in conjunction with an ever growing energy demand world-wide. In addition, the turmoil between Russia and the Ukraine concerning gas delivery and transport has stressed the role that natural gas plays at the level of international relationships and that it might increasingly do so in the future. In other words, natural gas supply is subjected to various kinds of dynamics. The Dutch gas policy underwent some radical changes in last decades, towards further liberalization. Nonetheless, some things have remained the same. For instance, the so-called small-fields policy is still in tact, after more than thirty years. That is rather surprising as there have been reasonable and repetitive arguments against it. This paper will investigate the inertia of this small-fields policy, being a crucial part of the Dutch gas-depletion policy.

The first oil crisis forced Dutch government to seriously reconsider its energy policy. The White Paper, which was presented by Minister of Finance Lubbers in 1974, stated that the depletion of the Groningen field had to be brought under control (MEZ, 1974). One of the means for long term effective and efficient gas production, as was suggested by the White Paper, was a 'small-fields policy'. The discovery and exploitation of additional fields had to be encouraged to benefit from the reservoir in Groningen as the cornerstone of Dutch energy production as long as possible. The Groningen field is unique for it is a relatively large and condensed reservoir. It is therefore a matter of opening the tap for a steady and firm flow of high quality gas. Despite the low marginal costs involved and its size, the Groningen bubble is not exploited with full throttle, but only in conjunction with the smaller fields.

Gas from the smaller fields in the Netherlands is unsuitable for the current devices in the domestic households and industries. However, mixing it with the Groningen substance does not require any technical adjustments. The small-fields policy aims to benefit from the various reserves spread all over the country, in conjunction with the main stock. In addition, Groningen as a swing supplier contributes to disturbance prevention of natural gas delivery. Particularly climatic conditions can cause a large variation in energy demand. Severe winters are well known for that. Its outstanding qualifications have turned the Groningen gas reservoir

[1] VU Amsterdam, Faculty of Social Sciences, Dept. of Public Administration and Organization Science, De Boelelaan 1081, 1081 HV Amsterdam, The Netherlands, e-mail: c.van.nieuwaal@fsw.vu.nl

into an extremely valuable national resource. The famous delta works preventing the Western part from the country from the sea for example would have not been possible without the gas tax revenues. Since its discovery in 1963 the Groningen field has contributed an estimated total of 195 billion euros to the national budget (VPRO/NPS, 2006).

Despite its curriculum so far, the small-fields policy has not remained without any scrutiny. However, critics of the policy have never really gotten through to the policy makers with their arguments. Secretary-general of Economic Affairs, Sweder van Wijnbergen, has tried to make his Ministry aware of the drawbacks of the small-fields policy in the late 1990's, but without success. According to Van Wijnbergen, the policy projects production with low marginal cost, as is the case with the ready-to-flow Groningen gas, into the future, while the higher marginal costs involved in small fields are brought forward. The report he had in mind on evaluating that trade off would never be finished though. At least not by Economic Affairs. The subordinates at the Ministry could not relate to such an approach. In their view, the small-fields policy had a rather successful history and served a long-term goal of supply security. In the long run, as it is believed, exploring and exploiting the relatively expensive smaller fields in conjunction with the Groningen swing supplier will turn out to be cheaper than any other succession of short term scenarios. In addition, the policy being part of a larger legal structure, has attracted a lot of small firm activities exploiting the little bubbles. The State offers to participate in the case of favorable expectancies, joint ventures emerge, random depreciation is allowed and the Gasunie, owning the infrastructural network, guarantees purchase. Not much later, the civil servants had to defend the inertial small-fields policy to the scrutiny of the OESO by assuring that the gas revenues would not be used for structural expenses. In 2006 the Central Planning Bureau published its report on the Dutch gas depletion report. The conclusions were to a large extent in line with those of Van Wijnbergen. The off-take guarantee for small fields gas "currently may outweigh the costs, but a further development of the gas market would reverse this picture." (Mulder & Zwart, 2006: 3) The report warns for the costs as a result of the reduced incentives for operators to respond optimally to short-term changes as is common in non-regulated markets. Regarding the Groningen cap, the report found that "this measure is inefficient when the cap is binding, i.e. restricting the production from the Groningen field." (Mulder & Zwart, 2006: 3) In accordance with Van Wijnbergen, the report emphasizes that the costs of capping Groningen follow from shifting returns to the future.

It has to be concluded that the small fields policy has remarkably stood tall. Despite the arguments against it, it has remained a latent controversy. Not even the environmentalists have taken up the challenge to try and oppose to it. The small-fields policy is the legitimacy for gas depletion in the Dutch Wadden Sea, which is a highly controversial exercise. These wetlands are not only hiding several small fields, it is also a nature reserve of international importance, which is – according to many – threatened by gas depletion. Nonetheless, the environmentalists have not touched the small fields policy at all. It has apparently been trapped in a mode of path dependency. The longer it last, the harder it gets to change things. Technical and legal aspects are only part of the explanation. At the cognitive level, there is a certain inertia as well. This is sustained by strong ties between the Ministry of Economic Affairs and mining company NAM (a joint venture of Shell and Esso). One thing is certain: as the Groningen field has already been depleted for about half its size, the path dependency of the small-fields policy will one day end, eventually.

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