



OPERATIONS AND BEHAVIORAL CHARACTERISTICS OF KEY ENERGY COMPANIES IN CENTRAL AND EASTERN EUROPE – CASE OF GAZPROM

Energy Security and State Capture Risks in Europe
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Sofia, Bulgaria

Region of CEE

- Countries of the former Soviet Bloc
- Ties to Russia still perceived sensitively, especially in energy sector (traditionally perceived as vital for state functioning)
- The region's past is still influencing its energy sector
 - infrastructure
 - supplies
 - technology
 - inner structure of economies
- Sensitivity highlighted by gas crises, current situation in Ukraine & current foreign policy discourse of Russia
- Russia in stable position of prominent possessor of various energy resources and materials



Energy sector of CEE countries & Russia

- Ties to Russia still present in the most important sectors
 - Oil (transportation, chemical industry)
 - Gas (industry, heating, electricity)
 - Nuclear (electricity)
-  vital sectors of state economies

Energy sector of CEE countries & Russia

□ Oil

- structural dependency (technological setting, need for uninterrupted flow)
- rigid infrastructure

- + globally traded
- + reduced dependency thanks to different means of transport (pipelines, sea lines)

Energy sector of CEE countries & Russia

□ **Gas**

- structural dependency (nature of contracts, need for uninterrupted flow)
 - rigid infrastructure
 - partitioned market
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- + new means of transport (slowly) changing the landscape (LNG)
 - + new sources (unconventionals)

Energy sector of CEE countries & Russia

□ **Nuclear energy**

- Russian technologies in NPPs in CEE
 - Russian design of nuclear units
 - fuel supplies
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- + power generation not dependent on uninterrupted flow of fuel
 - + not dependent on supply infrastructure or specific supplier

Energy sector of CEE countries & Russia

 **Gas** in the position of most sensitive energy source where Russian influence can be exerted

Sources of concern

- lack of supply routes
 - gas crises
 - unclear price modeling
 - high overall dependency on Russian supplies in the region
 - fear of misusing supplies for exerting political pressure
 - energy exports are (vital) important for Russia
- **The main concern is therefore connected with behaviour of Gazprom**

Energy policy - when should we be worried?

Clash between two approaches

- Strategic (based on realistic theories, geopolitical reasoning)
- Market-oriented (based on liberal theories)
 - Axis within which particular policy varies
 - Theoretical grounding determines goals and means of the policy
- **Strategic approach – feared for misusing energy as a political tool**
- **Key question:** *Does Russia subscribe to strategic approach in order to maximize its influence on CEE markets?*

Energy policy - when should we be worried?

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- Strategic (based on realistic theories, geopolitical reasoning)
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- **Strategic approach – feared for misusing energy as a political tool**
- **Key question:** *Does Russia subscribe to strategic approach?*

| Feature | Indicator |
|---|--|
| Vital nature of energy/key motivation | <ul style="list-style-type: none"> - Personal links between government and key companies |
| Nationalism as a key principle | <ul style="list-style-type: none"> - Government acts against competitive projects - Restrictions against foreign investments |
| International organizations/regimes perceived as subordinated to states | <ul style="list-style-type: none"> - Preference of bilateral agreements - Agreements excluding third parties - Diminishing institutions' importance - Lack of protection for foreign investments - Opposition against liberalization/decoupling |
| Undesirable dependence on third parties | <ul style="list-style-type: none"> - Building alternative supply routes (using bilateral agreements) - Restrictions against foreign investments - Attempts to get majority of the market - Attempts to control the whole supply chain |
| Interdependency does not prevent conflicts | <ul style="list-style-type: none"> - Conflicts between producers and transit countries/consumers |
| Emphasis on security issues | <ul style="list-style-type: none"> - Long-term contracts/take or pay/ship or pay |
| <ul style="list-style-type: none"> - Energy as tool - Subordinating economic relations to state interests | <ul style="list-style-type: none"> - Rhetorical support of homeland government - Linking undesirable changes in foreign policy with supply cuts/changes in price/threats - Different pricing |
| <ul style="list-style-type: none"> - Distrust in market | <ul style="list-style-type: none"> - Preference of long-term/take or pay contracts |

Russia – favouring strategic approach or not...?

- Evidence shows that purely strategic behavior is rather rare if not impossible
- However, clear signs of strategic inclinations in Gazprom's behaviour show that there is certain rationale behind the conduct
- Gazprom is using given opportunities to maximum extent
- **Important role of institutional stability and maturity**
- **Role of membership in the EU & EU legislation**
- **Crucial importance of diversification of sources and/or supply routes**

Thank you for your attention



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