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# Assessment of political risks in in the Natural Gas Sector in Central and Eastern Europe

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# CEE

Belarus

Bulgaria

Czech Republic

Estonia

Hungary

Latvia

Lithuania

Moldova

Poland

Romania

Slovakia

Ukraine



## Main Research Question

- Do Russian state-owned energy companies in natural gas sector in CEE act as tools of the Russian state and serve as vehicles of the Russian foreign policy?
  
- In other words: **Is Gazprom a foreign policy tool?**

## Incentives for the analysis

- Prevailing dependency of the region on Russian resources
- Worsening of mutual relations between Russia & Western countries
- Periodic accusations of misusing energy supplies and infrastructure as a leverage
- Supply curtailments (2006, 2009)
- Crisis in Ukraine

## Key findings I

- **Gazprom's behaviour reflects its operating environment**
  - In most cases Gazprom follows the rules set by the environment...
  
- **...but often stretches these rules to the maximum extent allowable**
  - Dependent countries are vulnerable

## Important factors influencing Gazprom's behaviour

- State of diversification
- EU membership and implementation of IEM rules
- Foreign policy discourse & political culture
- Case-specific factors
  - historic/cultural ties
  - external conditions (changing environment)
  - personal ties
- Debt owed to the supplier

## 2 most important factors

- **State of diversification**
  - little to no politicization in states with diversified import portfolio
  
- **EU membership and implementation of IEM rules**
  - EU's IEM rules effectively prevent the traditional way gas was traded
    - a) prohibit restrictions on re-selling
    - b) open the sector to free market competition
    - c) question traditional pricing
    - d) prohibits conditions for creating market hegemony
  
- Former market creators have become subjected to market-based rules imposed by higher authority

## Key findings II

- **Gazprom's behaviour is generally commercially-oriented**
  - Even in cases like Ukraine or Moldova Gazprom's behaviour can often be explained on the basis of ordinary supplier – consumer relations
  
- **It is not the measures that are suspicious but rather the timing and the context**
  - Gas price discount offer/cancellation correlating with Ukraine's FP discourse
  - Gas price increase & reluctance to sign new long-term contract correlating with worsening relations with Moldova & the country's will to join IEM



## Key findings III

- **Gazprom strives to be an ‘ordinary’ company...**
  - Gazprom is aware of the changing nature of the environment...
  - ...and tries to maintain its position
  
- **... balancing between economic goals and the government’s will**
  - Russia is vitally dependent on exports of natural resources
  - Gazprom is an important source of capital
  - Russian government is thus likely to use Gazprom for it’s **policy** goals

## Key findings IV

- **Involvement of Russian officials as an important indicator**
  - backing (state-owned) companies is not unusual
  - however, ‘substitutability’ of Gazprom’s and Russia’s officials is rather non-standard
  - the presence of Russia’s officials usually correlates with the importance of a particular country for the transit or consumption of Russian gas

## Main Research Question

- Despite controversies, Gazprom's **general strategy seems to be commercially oriented**
- The company is motivated to maintain its position and maximize revenues
  
- Although the company appears to serve governmental purposes in some cases, **these might be rather economic than foreign policy goals**
  
- Careful approach is highly recommended since Gazprom is inclined to use its market position to the fullest (for whatever reasons)

# Energy Security in Central and Eastern Europe and the Operations of Russian State-Owned Energy Enterprises

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[www.ceners.org/energy-research/ceners-2015-energy-security-in-cee.pdf](http://www.ceners.org/energy-research/ceners-2015-energy-security-in-cee.pdf)



## Thank you for your attention

- Questions?
- Comments?

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