

# **Gazprom's Reliability as a Gas Supplier**

From a European Point of View



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## PREFACE

At The Hague School of European Studies each student has to write a final thesis in order to graduate. The student can decide for himself what topic to choose, as long as the subject is related to the European Union. The final thesis is based on thorough research, which for instance can be in the form of desk research, field research or a mixture of these two methods.

I decided to write my final thesis about the position of the Russian energy giant, Gazprom, which has the biggest natural resources in the world. This issue receives a lot of media attention at the moment, but is rather complicated. Since Russia is my native country, I wanted to explore this issue in detail to not only understand the current position of the energy company but also the position of the country, on European level. By writing this thesis I have not only obtained a comprehensive and critical view on this subject but I have also amplified my knowledge of Russia.

While writing my thesis I received great help from my supervisor. Therefore, I would like to thank Mrs. Antje Grebner for providing me with critical views, background knowledge and thorough guidance. Furthermore, I would like to express my gratitude to Mr. Bert Roukens, Senior Policy Advisor at the Ministry of Economic Affairs in the Netherlands, who provided me with very relevant inside knowledge. Special thanks should go to my dear parents and my brother who have supported me during all the months of hard work. Finally, I want to thank Mieke Tekstra for taking the time to thoroughly read my thesis.

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## TABLE OF CONTENTS

<b>LIST OF ABBREVIATIONS</b>	<b>4</b>
<b>INTRODUCTION</b>	<b>5</b>
<b>1 DEVELOPMENT OF RUSSIA'S ENERGY POLICY</b>	<b>7</b>
1.1. ENERGY POLICY AFTER THE SOVIET COLLAPSE	8
1.2. ENERGY POLICY UNDER PUTIN'S PRESIDENCY	11
1.2.1. Gas cartel	13
1.2.2. Cut-off policies as a political tool	14
1.3. GAZPROM AS STATE-CONTROL	16
<b>2 GAZPROM'S POSITION ON THE EUROPEAN MARKET</b>	<b>19</b>
2.1. GAZPROM'S GAS SUPPLY TO EUROPE	19
2.2. GAZPROM'S MONOPOLISTIC MARKET POSITION	22
2.3. GAZPROM'S TACTICS TO STRENGTHEN ITS POSITION	24
<b>3 RELATIONS WITH EUROPEAN COUNTRIES</b>	<b>27</b>
3.1. GERMANY: SPECIAL PARTNER	27
3.2. OTHER COUNTRIES	29
3.2.1. Gazprom and the gas market in Italy	29
3.2.2. Relations with Poland	30
3.2.3. Gazprom in the UK	32
3.3. ENERGY CHARTER TREATY	33
<b>4 FUTURE</b>	<b>36</b>
4.1. SECURING FUTURE GAS SUPPLIES IN EUROPE	36
4.2. DIVERSIFICATION OF EUROPEAN ENERGY SUPPLIES	38
4.3. EUROPE AND GAZPROM?	40
<b>5 CONCLUSION</b>	<b>42</b>
<b>BIBLIOGRAPHY</b>	<b>44</b>
<b>LIST OF APPENDICES</b>	<b>50</b>

## LIST OF ABBREVIATIONS

bcf	billion cubic feet
bcm	billion cubic meters
CIS	Commonwealth of Independent States
EU	European Union
FSU	Former Soviet Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
kWh	kilowatt hours
mcm	million cubic meters
NATO	North Atlantic Treaty Organisation
OPEC	Organisation of Petroleum Exporting Countries
tcm	thousand cubic meters
tcf	thousand cubic feet
UES	Unified Energy Systems

## INTRODUCTION

For many years gas has been the main energy source in the EU countries. Yet, the gas demand as well as the consumption has never been as large as they are at present and it is even estimated that the gas consumption will increase heavily. However, since gas reserves in the EU countries are depleting and with this also the production is decreasing, the countries are becoming more and more dependent on gas imports from outside Europe. Currently the EU countries still import about 35 per cent of their gas demand, but it is estimated that gas imports will increase to 80 per cent in 2030 (Ramsay, 2006, p. 3). Due to its world's largest reserves and Russia's extended gas transportation system to Western Europe, the Russian state-controlled energy giant, Gazprom, has been Europe's main gas supplier for many years. (Gazprom, 2006a, "Europe" section). Since Europe's gas demand will increase in the future the countries will also be receiving more gas from Gazprom. Moreover, as the reliance on gas will increase, stability and security of energy sources become two major issues. Beside that countries are on their own responsible for the security of their energy sources, it is also the duty of the energy supplier that countries are guaranteed of consistent energy supplies. In addition, it is important for the European countries to know if they are dealing with a reliable energy supplier. Therefore this paper will examine whether Gazprom's position as a reliable energy supplier for the EU countries, has changed. The central question of this paper is therefore:

*Has the position of Gazprom as a reliable gas supplier on the European market, from an EU's point of view, changed over the years?*

The following related sub questions, which are elaborated according to each sub-paragraph, will be examined in order to give an appropriate answer to the central question:

- How does the energy policy of Russia have developed after the collapse of the Soviet Union?
- How does the Russian energy policy have been developing under Putin's presidency?
- What are the consequences of Gazprom being a state-controlled company?
- How much gas does Gazprom supply to Europe?
- What affect does Gazprom's monopolistic position have on the European market?
- Which measures has Gazprom to strengthen its position as a gas supplier?
- How does Gazprom's relation with Germany look like?
- How do Gazprom's relations with Italy, Poland and the UK look like?
- Why is it necessary to secure European gas supplies and how can this be achieved?
- What alternatives are there for Europe to be less dependent on Gazprom in the future?
- How does the future look like for Gazprom's relation with European countries?

The research method that has been used mainly consists of desk research. Several books, from different authors, have been consulted. Since this topic is a very recent matter there was hardly any literature which specifically examined developments within the area of the last couple of months or even years. Therefore, many different online sources have been consulted, such as online journals, international newspapers, and international data and information agencies, to obtain the most recent

information on the subject and to conduct the research in the best possible way. Moreover, one personal interview has been conducted to obtain the expert's view on the issue, which eventually was useful for the research as it corresponded to the examined literature and brought the examined literature more in practice. The questioned expert was:

- Mr. Bert Roukens, Senior Policy Advisor for the Directorate-General for Energy and Telecom Coordination, Strategy and International Affairs Directorate at Ministry of Economic Affairs in the Netherlands.

This final paper contains five chapters. The first chapter describes the development of Russia's energy policy by looking at the energy policy after the Soviet collapse and since the administration of President Vladimir Putin. The first chapter also argues Gazprom's status as a state-controlled company. Chapter two elaborates on Gazprom's position on the European market, by examining Gazprom's amount of gas supply to the European countries; Gazprom's dominant position on the European energy market; and the company's strategies to make its position stronger. Chapter three examines Gazprom's relations with several European countries (Germany, Italy, Poland, and the UK) and outlines what the Energy Charter Treaty can mean for the relations between European countries and Gazprom. Chapter four discusses the future by examining Europe's security of gas supplies and how the countries could be less dependent on one main energy supplier, and the chapter also argues the future relations of the European countries with Gazprom. The final chapter will try to give an answer to the central question by once again examining the major issues of this final thesis and by this means drawing conclusions.

# 1 DEVELOPMENT OF RUSSIA'S ENERGY POLICY

In order to understand the current dominant position of Russia's gas concern, Gazprom, it is essential to examine the historical background of the rise of Russian gas and the development of the Russian energy policy through the years. Although the actual expansion of Russia as a gas supplier started after the Soviet collapse its activities in the field of energy date back to the Stalin era, in which the total primary energy consumption increased annually with over 9 per cent from 1945 to 1960 due to Stalin's central planning. After Stalin, Nikita Khrushchev, the new leader of the Communist Party of the Soviet Union wanted to establish a gas industry, and officially integrated this idea in the sixth Five-Year Plan (1956-1960), and later in the Seventh Plan (1959-1960). With the Eighth Plan in 1966 began also the so-called "Siberian period" in which Siberian gas supplies were found in the fields of Urengoi. Since the smaller fields west of the Urals were practically depleted, the production moved to the east and the new Siberian reserves were installed in the already constructed pipelines, which were created to connect the western gas fields with the consuming gas areas. The new gas routes from the Siberian fields went southwest and were connected to the pipelines in Moscow, which from there went to the Ukrainian fields (Victor & Victor, 2004, pp. 4-6).

In 1968, the Soviet Union wanted to expand its gas market and developed a new pipeline called *Druzhba* ("Friendship") that provided, *inter alia*, Poland with a certain amount of gas. The oil crisis in 1973 made the Soviet Union extend its pipelines to Western European states, because gas was an essential oil substitute and the Soviet Union was in the position of demanding high gas prices, while keeping the domestic prices low. Eventually this led to a two-way profit; the Western states encouraged Soviet's share to the West, and the Soviet Union was able to expand its Siberian gas fields with the received Western technologies. As a result of these investments Soviet's amount and price of gas exports increased enormously and by 1980 revenues from both gas and oil export were US \$14.7 billion (Victor & Victor, 2004, pp. 6-10).

In the beginning of the 1980s the government of West Germany agreed with the Soviet government – in cooperation with the German company "Ruhrgas" – to develop pipelines to export Soviet gas to Western Europe. Consequently, a major pipeline network was built through which the Soviet Union exported up to 30 bcm per year to European countries such as France, Italy, Austria and Germany (Victor & Victor, 2004, pp. 10-12). In 1989, President Gorbachev restructured the Soviet Gas Ministry as a state-owned committee, with Victor Chernomyrdin as the minister (Victor & Victor, 2004; Freedman & Brown, 2006).

After the collapse of the Soviet Union, Russia started implementing its new energy policies by investing in its major gas company and developing tactics to expand its gas supply to the West. All this made the country one of the major gas suppliers in the world. Therefore, this chapter will first examine Russia's energy policy after the collapse of the Soviet Union, then it will look at the energy policy under Putin's presidency and conclude by examining Gazprom as a state-owned company.

### 1.1. Energy policy after the Soviet collapse

Under President Boris Yeltsin, who arrived in 1991, Russia's centralised economy was transforming into a more or less market economy. From 1992 to 1994 the Russian privatisation began with the share trade of companies for employees and Russian citizens. Eventually the major parts of the companies went to the management (Rutland, 2005a, p. 188). The Russian market economy differed enormously from the Western model and this became evident when the people who started privatising companies in the early 1990s, also took part in the decision-making process of the government. The economic powerful and wealthy people who privatised Russian oil and metal companies became known as 'oligarchs' and due to their support for Yeltsin's re-election in 1996 they became remarkably active in Russian politics and even became part of Yeltsin's 'family', which consisted of the President's relatives, officials and the oligarchs. The oligarchs used political influence to become business tycoons; between 1996 and 1998 Boris Berezovsky together with Roman Abramovich became rich with their Sibneft Oil Company and Mikhail Khodorkovsky with the Yukos oil company (Sakwa, 2005, pp. 6-7).

With the collapse of the Soviet Union three different changes had occurred, which all affected gas export from Russia to Western Europe. First, the disintegration of Eastern countries such as Czechoslovakia and Hungary resulted in the establishment of new independent transfer countries, which before operated as a whole but from then on started working independently. A major part of Russian gas was transferred through Czechoslovakia and as the two new independent states, the Czech Republic and Slovakia, started leaning more towards Western Europe Russia increased gas prices of both countries as if they were West European (Victor & Victor, 2004, pp. 12). Second, the independence of FSU countries appeared to be attractive for Russia as a gas supplier, because the gas pipelines that directly linked the Western part of Russia to the rest of Europe went through transfer countries as Ukraine and Belarus. Thanks to re-organising the gas transportation system, in the Soviet period, into one that was suitable for supplying overseas, by 1992 nearly 90 per cent of Russian gas went through Ukraine (Victor & Victor, 2004, pp. 12-13). The third result of the Soviet collapse was economic instability, which decreased the consumption of Russian gas in FSU countries as well as in Russia itself. According to British Petroleum (as cited in Victor & Victor, 2004, p. 13) the use of gas



reduced with 31 per cent (i.e. from 110 bcm in 1990 to 75.6 bcm in 1998) in FSU countries and decreased by 16 per cent in Russia (i.e. from 420 bcm in 1990 to 350 bcm in 1997). Although Russia's gas production also decreased during the 1990s with merely 8 per cent, the expanding gas surplus created opportunities for Russia to increase its export overseas (Gelb, 2006; Victor & Victor, 2004).

After the Soviet collapse the Russian government wanted to integrate the Russian, Ukrainian and Belarus' gas transportation into a single system, with Gazprom controlling the major parts of its enormous assets in the FSU. Yet, this initiative was not carried out and Gazprom continued operating solely as a Russian company. The same year, in order to reduce Gazprom's dependence on the German Ruhrgas, the Russian government managed to establish three joint ventures with the German gas and oil company, Wintershall; WIEH<sup>1</sup> and WIEE<sup>2</sup>, to sell gas, and Wingas, to transport gas (Ivanova, 2004, "1991" section, para. 1-3).

In 1992, Yeltsin approved two decrees: the first "On the united system of gas supplies" and the other "On the exploitation of the new gas reserves on the Yamal peninsula, in the Barents Sea and on the shelf of the Sakhalin island". The last decree meant that Gazprom was given the go-ahead to utilise all the gas resources in the country, and the next day the government offered the company the unique right for gas export, from which Gazprom was allowed to keep 45 per cent of the revenues (Ivanova, 2004, "1992" section, para. 1-4). In addition, at the end of 1992 Yeltsin approved the ruling "On transformation of the gas concern Gazprom in RAO Gazprom", which meant that RAO ("Russian shareholder company") Gazprom would completely own corporations that produced and exported gas. During the privatisation process of Gazprom, the majority of the government's share in the corporation was sold to the management of Gazprom because the government was expected to own less than 40 per cent of its shares, according to the government's decree on privatisation (Victor & Victor, 2004, p. 14). In addition, the management wanted to be as much as possible in charge of Gazprom, to eventually increase its incomes from gas transfer. The management created tactics to achieve this, by taking more control over the transportation pipelines, among other things (Victor & Victor, 2004, p. 14).

In September 1992, the Russian government agreed on the key elements of the "Concept for Energy Policy under New Economic Conditions", which supposedly set up goals until 2010. With this policy the government wanted to create consistent energy reserves for Russia, guarantee Russia's independence and safety, and stand by the country as an energy supplier (Fredholm, 2005, p. 2). Furthermore, Prime Minister Yegor Gaidar wanted to bring competition into the Russian gas industry and proposed to create self-regulating corporations that would produce gas and deliver it to the state-

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<sup>1</sup> Wintershall Erdgas Handelshaus GmbH & Co. KG (WINGAS, 2007)

<sup>2</sup> Wintershall Erdgas Handelshaus Zug AG (WINGAS, 2007)

owned gas export systems. This plan was rejected by Victor Chernomyrdin, the head of Gazprom at that time, who wanted to keep the company as one corporation (Ivanova, 2004, “1992” section, para. 1).

In January 1993, Yury Shafranik became minister of the Ministry of Oil and Energy and due to his proposal the gas prices went up the next month. Consequently, Ukraine started struggling with payments and the same month Gazprom implemented for the first time its gas cut-off policies and shut down gas supply to Ukraine by 25 per cent in the same year (Fredholm, 2005, p. 17). The following year Gazprom shut down gas supply to Ukraine for the second time, since the country's debt was at that time over 1 billion roubles (Ivanova, 2004, para.17-18; 22). In general countries were allowed to have debts with Gazprom, but in some cases debts were used against them to eventually put pressure on a country to achieve a certain goal, and although the cut-offs in those years had no affect on West European countries, several FSU countries had to face some problems. For instance, in 1994, Gazprom shut down gas to Ukraine, because Russia wanted to take over some Ukrainian pipelines as well as several enterprises, in exchange for dropping the country's debt (Ivanova, 2004, “1994” section, para.1). In 1995, the government did not shut down gas to the country, but instead raised gas prices to force Ukraine become a member of the Customs Union<sup>3</sup> of the CIS (Fredholm, 2005, p.17). Moreover, in 1998 it was Moldova that risked an interruption of Russian gas, which was the result of deliberations between Russia and Moldova on military operations of Russia in Transnistria – Moldova's region that wants independence (Fredholm, 2005, p. 17).

In November 1994, a paper called the “Energy Strategy for Russia” was distributed by the Ministry of Fuel and Energy and approved by the government on December 7<sup>th</sup>, in 1994. In the same year a quite important protocol was signed by Chernomyrdin and the Prime Minister of Poland that concerned the building by Poland of the gas pipeline “Yamal-West Europe”, which would transfer 50 per cent of Russian gas to Poland and Germany not through Ukraine, but instead through Belarus (Energy Information Administration [EIA], 2006; Ivanova, 2004).

In 1995, Yeltsin agreed with the first official energy policy after the Soviet collapse by signing the *Presidential Decree No. 427* (as cited in Fredholm, 2005, p.3), which established “The Main Directions of Energy Policy and Restructuring of the Fuel and Energy Industry of the Russian Federation for the Period up to the Year 2010”. From 1995 to 1997 several other provisions regarding the energy policy were approved.

In 1997, *Protocol No. 987* (as cited in Fredholm, 2005, p. 3) – the last decree approved under Yeltsin's presidency – defined the “Programme of Means for Structural Reconstruction, Privatisation and

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<sup>3</sup> The Customs Union was initially created in 1995 to promote investment and trade between Russia, Kazakhstan and Belarus (Nowek, 2000, para. 1).

Reinforcement of Control in the Field of Natural Monopolies<sup>4</sup>". That year Russia's GDP, for the first time since 1990, went up by 0.7 per cent and the inflation decreased by 12 per cent. Nevertheless, due to large government expenditures and non tax-paying influential political leaders a shortage within the central budget was created in 1996 that made up 10 per cent of Russia's GDP (Rutland, 2005a, p. 189).

The financial crisis that followed in August 1998 resulted into enormous deflation of rouble after which Russia could not pay-off its debts. After the crisis Yeltsin's power came to an end and Prime Minister Chernomyrdin was replaced by Yevgenii Primakov. He raised taxes on the energy production and reduced subsidies. Since this period, the government's budget stabilized and expenditures went from 9.2 per cent of the GDP in 1998 to 17.1 per cent in 2001 (Rutland, 2005a, p. 189). In May 1999, Primakov was replaced by Prime Minister Sergei Stepashin who was, however, very quickly dismissed in August 1999, and replaced by Vladimir Putin (Gill, 2001, pp. 19-20).

### 1.2. Energy policy under Putin's presidency

When Vladimir Putin became President in 2000 things started to change drastically. As a former KGB head from St. Petersburg Putin did not have room for the oligarchs who made decisions under Yeltsin's presidency and enriched themselves by owning successful corporations. The head of the Russian oil company Sibneft, Boris Berezovsky, who according to Alexander Goldfarb, head of the International Foundation for Civil Liberties (as cited in Jordan & Finn, 2006, para. 6-7), which is a non-profit organisation created by Berezovsky in 2000, had helped Putin to acquire his position. Yet, Berezovsky assumed that Putin would go on with the democratic reforms, started by President Yeltsin in the 1990s (Jordan & Finn, 2006, para. 7). However, with Putin's inauguration as president, according to Goldfarb (as cited in Jordan & Finn, 2006, para. 7), Berezovsky saw how democratic institutions, such as the Russian Parliament the Duma, were weakened by Putin's administration and according to Michael McFaul, Director of the Centre on Democracy, Development and the Rule of Law at the Stanford University (as cited in Pacific Council on International Policy, 2007, para. 2), decision-making was being centralized. Therefore, in May 2000 Berezovsky publicly criticized Putin's intention to reform Russia's federal structure into a more centralised one and weaken the authority of regional leaders by increasing the central government's power over the regions (Ross, 2003; Rutland, 2005b; Slider, 2005). Soon Putin turned his back against Berezovsky, which was mainly due to Berezovsky's political attack and his partial control over the media – which consisted of a 49 per cent share in the Russian Television station ORT (Jordan & Finn, 2006; Rutland, 2005b). The attack of oligarchs, that independently possessed parts of the media, such as Berezovsky, was according to opponents of Putin (as cited in Rutland,

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<sup>4</sup> "A monopoly that arises when one company can provide the whole market with goods or facilities at lower prices than two or more companies would be able to do" ("Glossary", 2006, "Natural monopoly" section).

2005b, p. 170) also because of the government's desire to tighten control over freedom of expression and gain power over the media. In 2003, Berezovsky fled to England out of fear that he would eventually lose his business status (Freedman & Brown, 2006; Rutland, 2005a).

As Putin was in favour of launching market reforms and implementing new policies to improve Russia's situation, state-control over companies became his main priority. In 2003, Mikhail Khodorkovsky, head of Russia's biggest oil company, Yukos, and besides the richest oligarch, was sent to prison for nine years for fraud and tax evasion. Consequently, Putin's men sold off this company in pieces to an unknown company called Baikal Finans Group (BFG). Not a week went by and Rosneft, the state-owned oil corporation, bought the entire BFG. Although Khodorkovsky had committed fraud he was an independent and an ambitious entrepreneur. Because of this and the fact that the merged, Yukos and Sibneft were about to be sold to a Western oil concern, Putin imprisoned Khodorkovsky to eventually take control over the successful Yukos (EIA, 2006; Freedman & Brown, 2006; Rutland, 2005a).

In 2000, German Gref created a strategy for Putin's reforms that was called "The Gref plan". This plan proposed, among other things, to restructure the economy into a more modern one. Putin's priority was the reform of 'natural monopolies', introduced by Yeltsin in 1997, – that is to say Gazprom, the Russian railways, and the electricity corporation UES, which has had control over the Russian electricity industry since 1992 (Fredholm, 2005; Rutland, 2005a). The biggest natural monopoly, Gazprom, received the first change. The company's wealthy head, Rem Vyakhirev, was replaced by one of the President's friends. Thus, in 2001, Aleksei Miller, one of Putin's former colleagues in the Foreign Economic Relations Department of St. Petersburg's mayor office, became the new chairman of Gazprom's Management Committee. In fact, Gazprom's entire management was replaced by Putin's former colleagues from St. Petersburg. Though Putin had started with the reforms, Gazprom would remain a natural monopoly (Ivanova, 2004; Kupchinsky, 2006b; Rutland, 2005a).

After Yeltsin's last decree in 1997 Putin's administration created a new decree in 2002 which was according to *Protocol No. 39* (as cited in Fredholm, 2005, p. 3) called the "Main Provisions of the Russian Energy Strategy to 2020". The Ministry of Energy modified this document with the "Elaboration on the Main Provisions of the Energy Strategy of Russia to 2020". In May 2003, the government agreed on a revised version of the energy strategy that contained Russia's most important aims in the field of energy. According to this "Russian Energy Strategy" (as cited in Fredholm, 2005, p. 3) one of Russia's goals is to enforce its position as a gas supplier in the international market. Another aspect that is of great importance for the energy policy is Russia's international relations. Support as well as good cooperation with FSU countries, the EU and the U.S. is necessary for Russia in order to implement its energy policy in the best possible way (Fredholm, 2005, p. 3).

Putin was fortunate to become President after the deflation of the Russian rouble in 1998 that coincided with the well-organised economic strategies of Prime Minister Primakov. As the economy began stabilising, President Putin wanted to continue this process. Though in his first year of presidency the national incomes fell, in 2004 they were 28 per cent higher than during all the years of Yeltsin's presidency. Russia was obviously doing better than before, yet Putin wanted an even more growing GDP, which could make the country wealthy and powerful, and besides internationally strong and less dependent on other states (Rutland, 2005a, p. 193). It is often said that the oil prices improved Russia's situation rather quickly between 1999 and 2003; crude oil from the Urals was \$12 in 1997 and increased by \$25 in 2004 (Rutland, 2005a, p.193). Due to these prices Putin has made Russia's revenues completely reliable on gas and oil exports; whereas gas and oil was 54 per cent of the revenues in 2003, it raised to 63.3 per cent of the incomes in 2005 (Rutland, 2005a, p. 193).

The rising oil prices allowed Putin's administration to discover many opportunities through which it rapidly became wealthy. For example, the government enlarged oil production and exports of Yukos, Sibneft and Tyumen Oil Company (TNK) from 135 million tonnes in 1999 to 225 million tonnes in 2003 (Rutland, 2005a, p. 194). Yet, this strategy was not worked out quite thoroughly as it was merely aimed at increasing the revenues in a short period, because eventually the oil sector did not expand quite efficiently and money was mostly spent on expanding the export instead of exploring new supplies (Rutland, 2005a, p. 194). Moreover, after the economic incident in 1998, the Russian government increased its power over export incomes and increased prices on oil exports from 5 euros a tonne in 1999 to 27 euros in 2000. Also, the government started maintaining taxes of 5 per cent on gas exports (Rutland, 2005a, pp. 194-195). From that moment Putin's reforms were focused on making the country's GDP twice as large by 2010 and decreasing the poverty by half in 2007. In order to achieve this not only cut-backs were necessary but also tax raises. The economic policy of August 2003 replaced the policy that was prepared in January 2003, and outlined the government's plans to increase the country's GDP by 2014 instead of 2010. The new policy was also no longer aimed at opening the natural gas market to competition (Rutland, 2005a, p. 197).

### **1.2.1. Gas cartel**

One of the new strategies of Putin to make Russia more wealthy and powerful is the creation of the so-called "gas OPEC" that would consist of Russia, the Arab states Algeria, Iran and Qatar and Venezuela, which together make up for almost 70 per cent of the world's gas reserves. It was already in 2002 when Putin proposed a plan to President Nursultan Nazarbaev of Kazakhstan to create a gas OPEC, but the plans were not continued before May 2006, when Gazprom and the state-controlled Algerian gas corporation, Sonatarch, signed a "memorandum of understanding". By means of cooperation with Arab

states that hold the world's largest gas reserves, Putin wants to create a gas cartel through which Gazprom will deliver gas directly to West European countries and will no longer depend on European energy corporations so that it can impose its own prices and conditions to Europe. The direct sales will increase Russia's earnings from \$290 to approximately \$500 per tcm and also enforce Russia's position over, for instance, French and Italian gas companies, since they produce less gas than they actually sell. Considering all this, Russia will have a dominant energy position in Europe and Europe will completely rely on Russian gas. (Kuphinsky, 2006a; EurActiv, 2007a; Zygar & Grib, 2007).

On April 9, 2007, during the meeting of the Gas-Exporting Countries' Forum (GESF) in Qatar – which was created in 2001 as an organisation that had no intention to set prices – the countries deliberated on the creation of the gas OPEC but announced they were not planning to form a cartel through which they would be able to determine gas prices (Calderwood, 2007; "Gas producers dismiss cartel talk", 2007; Kuphinsky, 2006; Zygar & Grib, 2007). Europe greatly feared a gas cartel, as it depends for 44 per cent on Russian gas. Moreover, in January 2007 EU's Energy Commissioner, Andris Piebalgs, outlined (as cited in Dempsey, 2007c, para. 4) his worries concerning the gas OPEC. According to the Energy Commissioner (as cited in Dempsey, 2007c, para. 3) the cooperation of several Arab states and Russia in the field of natural resources, will jeopardize competition for European energy firms. To stimulate this competition slightly and to give European consumers more choice the European Commission wants to split up major European gas corporations by dividing the tasks between production and gas transportation (Dempsey, 2007b; Calderwood, 2007). It goes without saying that this would no longer be the case if gas OPEC would start to operate, because it would own a larger proportion of the market, due to the concentration of natural resources of the different countries. In addition, the European Commission fears for cooperation between Russia and Algeria because it has recently addressed Algeria to be one of Europe's potential suppliers, to become less dependent on Russian gas (Zygar & Grib, 2007; Dempsey, 2007a).

### ***1.2.2. Cut-off policies as a political tool***

As mentioned before, Russia made its first attempt to use a gas shut down as a political instrument in 1992. However, it was not before 2006 that the government imposed severe cut-offs in Ukraine, which also affected some West European countries (Thomas, 2006, p. 8). In December 2005, it was brought into the open that the Russian government wanted to apply Western prices and let Ukraine pay four times the original price – that is to say \$230 per tcm rather than \$50 per tcm (Kupchinsky, 2005, para. 2). Russia would shut down its gas to Ukraine on January 1, 2006, if the country disagreed with the new prices. Subsequently, Russian gas supply was stopped on January 1, 2006, which resulted in a gas problem not only for Ukraine but also for some European countries such as Austria, Hungary and the

Slovak Republic, and even deprived some countries of about 40 per cent of their gas. Yet, to preserve its relations with the European countries Gazprom promised to supply 95 bcm to the countries to recover the damages. Although by January 3 most of the countries had their normal amount of gas, the European countries started worrying about the reliability of Gazprom as a gas supplier (Thomas, 2006, p. 8).

Currently, West Europe believes that Putin's Russia is abusing its position as a monopoly towards FSU countries and is using energy, in the government's interest, as a strong influential instrument by putting pressure on countries to achieve a certain goal (Dempsey, 2006a; Himmelreich, 2007; "Kremlin Inc.–Putin runs Gazprom in-house", 2006; "Russian extortion, continued", 2007). For instance, one of the reasons for the dispute between Russia and Ukraine was the power that Russia's government wanted to seize over Ukraine's transportation system. In fact, when Russia and Ukraine decided to jointly set up an international group to control Ukraine's gas system, Gazprom wanted to take control over Ukraine's transportation system for 50 per cent, yet this was refused by Ukraine. In 2003, Putin also stated that since the gas pipelines were constructed by the FSU it was Russia who should be the actual owner and preserve the network not only within but also beyond Russia (Kupchinsky, 2005, "Why the dispute?" section, para. 5).

Ukraine is not the only FSU country on which Russia puts pressure through energy. Belarus, and most probably also Georgia, have also become victims of Russia's cut-off policies. In January 2006, during one of the coldest winters in history, Georgia, which had no gas reserves of its own, faced serious gas problems after the Russian part of the pipeline that carries gas to Georgia exploded ("Russia blamed for 'gas sabotage'", 2006; "Russia resumes Georgia gas flow", 2006). Although the Russian government described the explosions as terrorist attacks, the Georgian government as well as reporters in Georgia claim that there are several arguments which show that the explosions were the result of the Russian government's desire to intentionally disrupt gas supply to Georgia ("Guide to Russia's key energy clients", 2006; "Russia blamed for 'gas sabotage'", 2006; "Russia resumes Georgia gas flow", 2006). According to Georgia's President, Mikhail Saakashvili (as cited in "Guide to Russia's key energy clients", 2006, "Georgia" section, para.1), by disrupting gas supply to Georgia Russian officials wanted to put pressure on Georgia to sell its pipeline system to Russia and threaten Georgia's diversification<sup>5</sup> of gas suppliers, with which the country started in 2005 after Gazprom had increased its gas prices for the country from \$56 per 1,000 bcm to \$110 per 1,000 bcm. Currently Georgia tries to diversify its energy supplies by importing oil from Azerbaijan, and is planning to do the same with gas supplies (Chivers, 2006; "Guide to Russia's key energy clients", 2006; Khachatrian, 2006). Furthermore,

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<sup>5</sup> "A business tactic to reduce risk by adding different products, services, locations, distributors, customers and markets to a portfolio of a company" ("Encyclopedia", 2007, "Business expansion", "Diversification" section).

Georgia's President stated (as cited in "Russia blamed for 'gas sabotage", 2006, "Planned attacks" section, para. 1; 5) that the Russian border area of North Ossetia, in which the exploded pipeline is situated, was heavily guarded by Russian security and also border guards, so any intrusion from the local population was practically impossible. In addition, according to BBC's reporters in Georgia ("Russia resumes Georgia gas flow", 2006, "Punishment" section, para 1) the explosions could also be a reaction of Russia's government, to reject the fact that Georgia is following the West, and has developed a strong desire to become a member of the EU and NATO, as a way to get rid of Russia's military from its territory.

Russia's threat to shut down gas supplies to Belarus was caused by Belarus' unwillingness to pay \$105 instead of \$47 for its gas. In addition, Russia said it would even raise these prices to \$200 in 2007, if it would not get control over Belarus' transportation network that delivers gas to countries like Germany and Poland ("Russian gas demands irk Belarus", 2006, "Pipeline dispute" section, para. 1-2). Therefore, many of the West European countries feared they would face the same problems as when Ukraine was cut off. Furthermore, before Putin's arrival the two countries had been allies since the Soviet collapse and Belarus was always Russia's loyal subservient. Yet, when Putin became president things started to change and Belarus' autocratic president Lukashenko wanted to operate on his own, which led Putin to threaten with a gas cut-off to put pressure on the country as well as on the president ("Russian gas demands irk Belarus", 2006, "Pipeline dispute" section, para. 5). The gas dispute was solved when Belarus agreed to pay \$100 per cubic meter for its gas just several hours before the actual cut-off ("Russia-Belarus gas deal reached", 2006, para. 2-4). Nevertheless, a week after the concluded agreement Russia shut down oil deliveries to Belarus. This was motivated by Russia's raising oil prices for Belarus' to \$180 per ton, which made Belarus announce a \$45 fee per oil ton, which Russia delivers to Europe through Belarus. As the "Friendship" pipeline also delivers oil to countries like Germany, Poland and Ukraine, these countries did not receive their oil either. This situation increased the Western doubts about the reliability of Russia as a gas supplier and fears about the consequences for West European countries (Myers, 2007a; Myers, 2007b; "Russia extortion, continued", 2007).

### 1.3. Gazprom as state-control

Russia's energy policy is strictly regulated by the current government in the energy sector. Russia's three main energy companies, Gazprom, Transneft (joint stock company for oil transport) and the electricity system UES, are all controlled by the state (Fredholm, 2005; Transneft, 2002). According to a research of the Conflict Studies Research Centre on the Russian energy strategy (as cited in Fredholm,



2005, p. 7), the state has no intention of reducing its power over these monopolies as by this means it can strategically control Russia's energy sector.

Russia's natural gas monopolist, Gazprom, is Russia's biggest company that is under state-control, despite that it is organised as an open joint stock company in which foreign investors can invest, and that is, besides, open for sale to employees and citizens (Fredholm, 2005; Gazprom, 2006c). Yet, the major part of the shares is owned by the government. Whilst the government owned 38.37 per cent in Gazprom's shares in 2002, it has been holding 51 per cent of the shares from December 9, 2005, due to a change of law by the Duma which required the state to own 50 plus one per cent in the shares (Gazprom, 2006; Thomas, 2006). Table 1.1, shows that as from 2000, that is to say with the inauguration of President Vladimir Putin, the Russian government started to own more in Gazprom's shares whereas the share of Russian investors has been heavily decreasing.

**Table 1.1.**

Structural changes in OAO Gazprom share capital, %

Stockholders	2000	2001	2002	2003	2004	2005
Russian Federation	38.370	38.370	38.370	38.370	38.370	50.002
Russian legal entities	33.640	34.060	35.070	36.100	36.810	29.482
Russian individuals	17.680	16.070	15.060	14.030	13.320	13.068
Non-residents	10.310	11.500	11.500	11.500	11.500	7.448
<b>Total:</b>	<b>100.000</b>	<b>100.000</b>	<b>100.000</b>	<b>100.000</b>	<b>100.000</b>	<b>100.000</b>

Source: Gazprom (2006a)

As the government owns 51 per cent of the shares in the company, it controls its everyday business. Consequently, 51 per cent of Gazprom's earnings go to the state budget (Spanjer, 2006, p. 9).

The *Telegraph* defines Gazprom as "a state within the state" ("Kremlin Inc. – Putin runs Gazprom in-house", 2006, para. 7). This is shown by the fact that Gazprom's board consists of Putin's officials (Fredholm, 2005, p. 10). Moreover, considering the fact that Gazprom consists of government officials, the energy company tends to work more or less as a government agency that strongly controls information within the gas industry, which limits transparency in the whole energy industry (Fredholm, 2005; Makarychev, 2006).

The fact that Gazprom is a state-controlled company can be perceived as a big problem for the West European countries. In his dissertation "Mineral Natural Resources in the Development Strategy for the Russian Economy" (as cited in Kupshinsky, 2006, para. 4) Putin outlined that Russian mineral resources could help the country to develop economically and become a global super power again. He also wrote that the resources could only be exploited if the energy sector would be completely controlled by the government (Kupshinsky, 2006b, para. 4). These ideas are now brought into practice by Putin's officials who are running Gazprom and using the company and the pipeline network through which the

company supplies the gas, to make more countries rely on Gazprom's gas, to become internationally powerful ("Kremlin Inc. – Putin runs Gazprom in-house", 2006, para. 6; 13-14).

The European Commission is planning to reform big European energy companies to create more liberalisation in the market, and hopes the Russian government will also do this so that consumers will have more choice and the Russian market will also be open for European companies (Amsterdam, 2007; Himmelreich, 2007; Kupchinsky, 2006b). The Russian government, however, is not planning to reform Gazprom soon by splitting up the production and transportation among different companies – as Aleksei Miller stated in an interview for *Kommersant* (as cited in Ivanova, 2004, "Trends" section, para. 2). As long as Gazprom remains a monopoly, strictly under state-control, the government can completely control the domestic gas transportation as well as foreign transportation in the way that is most advantageous for Putin's administration (Amsterdam, 2007; Fredholm, 2005; Himmelreich, 2007; Kupchinsky, 2006b; "Putin's runs Gazprom in-house", 2006).

## **2 GAZPROM'S POSITION ON THE EUROPEAN MARKET**

Overall, a quarter of the European gas supplies consists of Russian gas. The FSU countries, as well as Eastern European countries, have been importing Russian gas from the very moment the country started exporting gas. But to expand its gas market and increase revenues, Russia started approaching Western European countries, in the 1980s. With its gas concern, Gazprom, the country has become the major gas supplier for Europe. Western Europe is currently Gazprom's largest market since the West European countries receive about a third of their gas from the Russian gas company (Gazprom, 2006, section, para. 7). Considering the fact that the country also has the largest gas reserves in the world and is exclusively operating like a monopoly, Gazprom has created a quite dominant market position and is planning to consolidate this position. All of these aspects are important to examine Gazprom's reliability on the European market more critically. Therefore, this chapter will first look at Gazprom's gas supply to Europe. Subsequently, it will describe the monopolistic position of Gazprom, and conclude by outlining Gazprom's tactics to create an even stronger position on the European market.

### 2.1. Gazprom's gas supply to Europe

Russia is the world's biggest natural gas supplier. In 2003, the country exported 215.17 bcm of gas, of which Gazprom exported 175.5 bcm, which is more than half. In fact, the gas concern has approximately 60 per cent of all the Russian gas, but Gazprom's responsibility over Russian gas production is much higher. The company is accountable for practically Russia's entire gas production, namely 90 per cent. Moreover, the company accounts for 20 per cent of gas production on a global level (Fredholm, 2005; Gazprom, 2006b; Gelb, 2006; Thomas; 2006).

Gazprom delivers its gas to Western European countries such as Germany, France, Italy, the Netherlands and Greece. It also delivers gas to many Eastern European countries such as Hungary, Czech Republic, Slovakia, Slovenia, Poland, Finland, Bulgaria, Romania, Croatia, Lithuania, Latvia and Estonia. As shown in Table 2.1., Germany is Gazprom's major importer of the West European countries. In 2004, the country imported 36.1 bcm of its gas from Russia, which was about 44 per cent of Germany's domestic consumption in 2004. Italy is the second major importer of Gazprom's gas in Western Europe, yet its dependence on Russian gas slightly decreased from 21.8 bcm in 2000 to 21.6 bcm in 2004. The other two biggest importers of Gazprom's gas are Turkey and Italy; Turkey's dependency on the gas has been increasing severely from 10.2 bcm of natural gas import in 2000 to

14.5 bcm in 2004, France increased its supply from Gazprom, from 12.9 bcm in 2000 to 13.3 bcm in 2004 (EIA, 2006; Fredholm, 2005; Gazprom, 2006a; Gazprom, 2006b).

**Table 2.1.**

Natural gas export to Western European countries, bcm

Country	2000	2001	2002	2003	2004
Germany	34.1	32.6	31.5	29.6	36.1
Italy	21.8	20.2	19.3	19.7	21.6
Turkey	10.2	11.1	11.8	12.8	14.5
France	12.9	11.2	11.4	11.2	13.3
Austria	5.1	4.9	5.2	6.0	6.0
Finland	4.3	4.6	4.6	5.1	5.0
The Netherlands	-	0.1	1.4	2.3	2.7
Greece	1.6	1.5	1.6	1.9	2.2
Switzerland	0.4	0.3	0.3	0.3	0.3
Belgium	-	-	-	-	0.2
<b>Total</b>	<b>90.4</b>	<b>86.5</b>	<b>87.1</b>	<b>88.9</b>	<b>101.9</b>

Source: Gazprom (2006b)

Gazprom's total gas supply to the Western European countries has increased from 90.4 bcm in 2000 to 101.9 bcm in 2004. However, within one year gas exports to Western Europe increased by 50 per cent, namely to 156.1 bcm in 2005 (Gazprom, 2006a, para. 6).

Table 2.2 illustrates that Hungary, the Czech Republic, Poland and Slovakia are Gazprom's major importers within Eastern Europe. Hungary, being the biggest importer, increased its amount of Russian gas from 6.5 bcm in 2000 to 9.3 bcm in 2004. Gazprom's gas made up about 72 per cent of its domestic gas consumption (Gazprom, 2006b; EIA, 2006). However, the second biggest importer of Gazprom's gas supplies of the Eastern European countries, the Czech Republic, decreased its imports. While the Czech Republic imported 7.5 bcm of natural gas in 2000, in 2004 the country received 6.8 bcm of Gazprom's gas. This goes also for the other two major Eastern importers, Poland and Slovakia. Poland decreased Russian gas imports from 6.8 bcm in 2000 to 6.3 bcm in 2004, and Slovakia even went from 7.9 bcm of Gazprom's gas in 2000 to 5.8 bcm in 2004 (European Commission [EC], 2007b, p. 2).

Although some Eastern European countries were the first importers of Russian gas, their total imports of Gazprom's gas are far less than those of Western countries. Whereas the West European countries received 101.9 bcm of natural gas from Gazprom in 2004, Eastern Europe received a poor 38.6 bcm of gas in the same year. There are several explanations which clarify this situation. For example, for a country like Poland, which in the EU depends the least on energy import, this can be explained by the fact that hard coal is an essential element of the country's energy mix, and in 2004 even accounted for 88 per cent of the country's energy production – making the country the biggest coal producer in the EU. Moreover, in 2004 solid fuel (e.g. charcoal and wood), made up 58 per cent of

Polish primary energy consumption, whereas gas accounted for merely 13 per cent (EC, 2007b, p. 1). Also in the Czech Republic coal makes up a big part of the domestic energy consumption, namely 47.7 per cent in 2001 (EIA, 2003; EC, 2007b). Slovakia, on the contrary, relies heavily on energy import – in 2004 imported natural gas accounted for 45 per cent of total energy imports. However, the country's energy sources are quite diverse, that is to say in 2004 energy supply consisted for 29 per cent of natural gas; for 23 per cent of nuclear energy; for 24 percent of solid fuels, while the remaining part consisted of oil and renewable resources. Thus, natural gas demand is less likely to increase in Slovakia (EC, 2007c, pp. 1-2).

The decreasing demand of Gazprom's gas from Eastern European countries is also due to the rising prices of Gazprom, which are heading more towards Western prices. Moreover, some Eastern European countries would like to become less dependent on Gazprom. Poland, Slovakia and the Czech Republic, which are all members of the Visegrad Group – created in 1991 by the Czech Republic, Hungary, Poland and Slovakia, to cooperate in the common interest and within European integration. These countries have tried to reduce their reliance on Russian gas by diversifying their energy supplies (Visegrad Group, 2006; EIA, 2003). Although Russia still delivers the major part of Visegrad's gas via the Brotherhood and Yamal pipeline systems, Poland and the Czech Republic, for instance, also import small gas quantities from Norway and Germany (EIA, 2003, "Natural Gas" section, para. 4-7). In addition, in 2003 the Visegrad countries together held an amount of 7.7 tcf of natural gas, of which Poland held about 75 per cent, that was equal to 5.8 tcf of natural gas reserves. Even though this was quite a small amount, Poland managed to produce 193 bcf of gas which eventually accounted for 39 per cent of the gas demand in Poland, whereas Hungary produced 114 bcf of gas in the same year and met 24 per cent of its domestic demand (EIA, 2003, "Natural Gas" section, para. 1).

**Table 2.2.**

Natural gas export to Central and Eastern European countries, bcm

Country	2000	2001	2002	2003	2004
Hungary	6.5	8.0	9.1	10.4	9.3
Czech Republic	7.5	7.5	7.4	7.4	6.8
Poland	6.8	7.5	7.2	7.4	6.3
Slovakia	7.9	7.5	7.7	7.3	5.8
Romania	3.2	2.9	3.5	5.1	4.1
Bulgaria	3.2	3.3	2.8	2.9	3.0
Serbia and Montenegro	1.2	1.7	1.7	1.9	2.3
Croatia	1.2	1.2	1.2	0.6	0.4
Bosnia	0.3	0.2	0.2	0.2	0.3
Slovenia	0.7	0.5	0.6	0.7	0.2
Macedonia	0.1	0.1	0.1	0.1	0.1
<b>Total</b>	<b>38.6</b>	<b>40.4</b>	<b>41.5</b>	<b>44.0</b>	<b>38.6</b>

Source: Gazprom (2006b)

Although Gazprom's gas supply to Western European countries grows by the year, and increased enormously between 2004 and 2005, its exports seriously decreased in the beginning of 2006. This was mainly caused by the cold winter of 2006, which strongly increased gas consumption within Russia itself. Gazprom's gas reserves turned out to be not sufficient enough to provide all of its European importers with their fixed amounts of natural gas (Gazprom, 2006a; Gelb, 2006; EIA, 2006).

## 2.2. Gazprom's monopolistic market position

The reason for Russia's massive export growth is the country's amount of gas reserves. In 2004, the country had the biggest gas reserves in the world, which then was 47,811 bcm. In the same year Gazprom owned 28,006 bcm of these gas reserves, of which the rest is owned by Russian energy companies such as the oil company, Lukoil; the oil and gas company, Yukos; the oil company, Sibneft; the oil and gas corporation, Surgutneftegaz and the oil corporation, Rosneft (Energy Business Review, 2007; Gazprom, 2006b; Lukoil, 2006; OPEC bulletin, 2006; Rosneft, 2007; Sibneft, 2006; Yukos, 2004). Ever since Gazprom was turned into a natural monopoly during Yeltsin's presidency, the country has never given up this form of business and under Putin's administration even started to tighten its control over the company in order to set out rules in favour of the energy industry of Russia. Through this monopoly combined with the company's huge amount of reserves, the country managed to create an energy policy, which has put Gazprom in a dominant position on the European energy market (Fredholm, 2005; Gazprom, 2006c).

Gazprom exploits its enormous gas reserves in the way it wants and tries to expand its markets everyday for more profits. Since the European countries do not have nearly as much gas reserves and are facing a depleting gas stock in the near future, the EU countries are becoming more dependent on one single supplier. Whereas Europe currently receives 25 per cent of its gas from Gazprom, the European Commission outlined (as cited in Paszyc, 2007, p. 2) that by 2030 the countries of the EU will depend on Gazprom's natural gas for about 80 per cent.

Though Gazprom currently holds a dominant position on the energy market, it is hard to say whether this will be the case 10 years from now. Therefore, knowing that some contracts of European countries would end in 2006, Gazprom used its monopolistic position by extending contracts with countries like Germany, Italy, France and Austria, in 2006. By signing these contracts Gazprom assured the countries its long-term gas supply (Gazprom, 2006; Paszyc, 2007; "Russia's Gazprom profits rocket", 2006).

Russia wants Gazprom to keep its monopoly power as it does not want that European companies get access to the country's gas pipelines. If European countries will gain access to Russia's

pipelines, the energy market will be completely liberalised and more competition will be created, which will result in decreasing gas prices. This is a strong disadvantage for Russia's gas concern, because due to the decreasing gas prices also the company's revenues will decrease. (EIA, 2006; Kramer, 2006a; Paszyc, 2007; "Centre for European Policy Studies [CEPS]", 2006).

The EU opposes Gazprom's position as a monopoly for several reasons. For instance, it believes that the gas market should be diversified by gas imports from different gas providers. A senior official from the EU announced (as cited in Ross, 2007, para. 8) that Caspian gas is important and Europe should start importing gas from regions other than just Russia, such as Kazakhstan; Turkmenistan; Azerbaijan; Iran and Iraq. Therefore in 2006, five European countries agreed on the construction of the so-called Nabucco gas pipeline, which will be built in 2008. The Nabucco gas pipeline will carry Caspian gas and gas from the Middle East, through five countries, namely Turkey, Romania, Bulgaria, Austria and Hungary, and transport the gas further to Western and Central European countries ("Nabucco pipeline is approved", 2006, para. 1-3). Moreover, according to the European Commission and Andris Piebalgs, Energy Commissioner for the EU (as cited in "Nabucco pipeline is approved", 2006, para. 4), this new pipeline is a good move toward securing energy supplies within Europe, which is examined more in detail in chapter four. However, Gazprom is not in favour of this pipeline as the company opposes pipelines which do not pass through Russia, because the company seeks to create its own routes ("Nabucco pipeline is approved", 2006, "Enough demand" section, para. 7).

Gazprom's monopoly position also forms a threat for European gas shortages. Because Gazprom is Europe's main gas supplier, European countries could face problems if the company is having problems with its gas production. This was already the case when due to Gazprom's gas cut-off for Ukraine, Western European states did not receive a major part of their gas supply. But also the cold weather in the same year showed Russian gas shortages for Europe, as Russia's domestic gas consumption strongly increased and Gazprom partly could not comply with its fixed amounts of gas for Europe (Kramer, 2006a; Paszyc, 2007; CEPS, 2006).

Another reason for the EU to be against Gazprom's monopolistic position is the fact that the company uses certain threats towards countries, which also negatively affects gas transport to other countries. Since Gazprom is in the position to set prices, the company raises them whenever it wants. In the case of FSU countries, the company simply shuts down gas supply when countries disagree. Though Europe has not experienced similar threats yet, the EU countries have met with another type of pressure. Recently, in 2006, Gazprom announced it would search for other markets, in particular Asian markets, if the EU would stand in its way of expanding on the European market. For all of the above

reasons it is necessary that Europe starts to look out for alternative gas suppliers (Dempsey, 2006a; Dempsey, 2006c; “Europe plays down threat to supplies from Gazprom”, 2006; EU business, 2006).

### 2.3. Gazprom's tactics to strengthen its position

Despite the fact that Gazprom's gas already makes up 25 per cent of Western Europe's gas supplies, the company is trying to expand its exports on the European market, to which already goes 75 per cent of Russian gas exports (Nord Stream, 2007a, “Secure gas supply is a mutual target of producers and consumers” section). These exports are of great importance for Russia since the gas and oil sector is extremely significant for the Russian economy, which according to statistics of IMF and the Worldbank (as cited in EIA, 2007, para. 3) in 2005 accounted for about 20 per cent of Russia's GDP and made up 63.3 per cent of total exports in the same year and even 64 per cent in 2007 (EIA, 2007; Economist Intelligence Unit, 2006). So, not only Europe depends on Gazprom, but also Gazprom strongly depends on the EU countries since a major part of its revenues comes from gas export to the EU. These revenues are also essential for the state budget, so keeping this position is very important for the overall economy (EIA, 2007; Gazprom, 2006c; OPEC bulletin, 2006).

To increase exports Gazprom tries to multiply its export routes (Gelb, 2006; Pascyz, 2007; Thomas, 2006). Therefore, Gazprom has planned several projects for extending old pipelines or building new gas pipelines. Two extensions of already existing natural gas pipelines would be the Yamal-Europe II and the Blue Stream expansion. Table 2.4 illustrates that Yamal-I currently exports 1 tcf of Russian gas to Europe through Belarus. Before this pipeline was built 90 per cent of the gas went through Ukraine, which was a huge disadvantage for Russia because Ukraine could keep large parts of the gas for its own use and Russia had to pay large transit fees (EIA, 2006; Fredholm, 2005). With Yamal-I this was no longer the case as Russian gas went from that moment to Poland and Germany through Belarus, with which Russia has always had good relations. Now Gazprom intends to extend Yamal-I with 1 tcf per year. However, this will most probably not be realised because another new gas pipeline – the Nord Stream Pipeline – will be built instead, and will transport Russian gas to the European countries through pipelines under the Baltic Sea and supposedly will reduce transportation costs since the gas will no longer go through the different transit countries. In addition, Gazprom and Poland cannot agree on the precise route of Yamal-II since both Russia and Poland want a different route for the extended pipeline (EIA, 2006; Fredholm, 2005; Gelb, 2006; Thomas, 2006; Victor & Victor, 2004). Chapter 3.2 will elaborate more on the extension of the Yamal-I.

The Blue Stream gas pipeline, which is from Russia linked to Turkey and travels 246 miles under the Black Sea (see table 2.3.), is also to be extended. In 2005, Russia delivered about 160 bcf through the pipeline but now wants to expand the pipeline to Turkish cities like Izmir and Ceyhan to



move the gas from then on to other European countries. Yet, these are still just plans that are being discussed by Gazprom and its Italian project companion, the energy company ENI (EIA, 2006; Gelb, 2006; OPEC bulletin, 2006; Paszyc, 2007; Thomas, 2006).

**Table 2.3.**



Source: EIA (2006)

Beside expanding existing gas pipelines, Gazprom plans to create new transportation pipelines to establish more routes. Therefore, in June 2003, Russia together with the United Kingdom proposed the construction of the Nord Stream pipeline, which will go 2,000 miles from Russia to Finland and the UK through the Baltic Sea. In September 2005, Gazprom signed a contract with Germany's energy companies, BASF and E.ON Ruhrgas, agreeing on the construction of the Nord Stream pipeline. With this gas pipeline Gazprom will no longer have to transfer its gas through Poland and Ukraine but will be able to deliver its gas directly to Western European countries. It is estimated that the Nord Stream pipeline will carry another 55 bcm of natural gas a year to European countries (Dempsey, 2006, para, 7). As anticipated, Gazprom will get the most profit out of the project, owning 51 per cent of the shares and leaving 24.5 per cent for each of the German companies (EIA, 2006; Fredholm, 2005; Gelb, 2006; OPEC bulletin, 2006; Thomas, 2006). However, the construction of the pipeline also creates an advantage for the European countries, as it contributes to the security of European energy supplies by means of adding more diversity of gas routes to European gas imports and the pipeline will deliver a quarter of the extra gas imports that Europe will be needing (Nord Stream, 2007a; Nord Stream, 2007b). Nevertheless, during the conference of the Ministers of Energy of Austria, Bulgaria, Hungary, Romania and Turkey, on the Nabucco pipeline – with which these countries tend to decrease their dependence

on Russian gas – it was argued (as cited in Ramsay, 2006, p. 5) that the Nord Stream pipeline will not offer diversity of suppliers yet merely diversity of routes. This is due to the fact that the natural gas that Gazprom will deliver to the European countries via the Nord Stream pipeline will come from one of world's biggest fields, the Russian Yuzhno-Russkoye gas and oil field, situated in Western Siberia (Nordstream, 2007a; Nordstream, 2007b; Ramsay, 2006). So, either way Europe's dependence on Gazprom's gas, that is to say on one main gas supplier, will rather increase than decrease with the Nord Stream pipeline, which is not entirely efficient considering the diversification of energy supplies and with this also the security of energy supplies (Larsson, 2007; Ramsay, 2006).

An entirely different technique of the company to consolidate its position on the European market is owning large shares in local European gas companies as well as establishing totally independent companies, which aim to sell Gazprom's gas in that region and the nearest countries (Pascyz, 2007, p. 3). For instance, in 2006 Gazprom together with Wintershall, the gas trading division of the big German chemical company the BASF group, agreed to create a joint-venture company, called Wingas Europe, each owning 50 per cent, so that Gazprom will be more involved in the German gas market as well as the European gas market (Kramer, 2006b; Wintershall, 2007b). Furthermore, in Germany Gazprom operates through its subsidiary<sup>6</sup>, Gazprom Germania GmbH, which deals with companies that participate in gas import and export, and sells gas through its own subsidiaries. Its main company, which has been selling Russian gas on the German market since 1994 and on Western European markets since 1998, is ZMB GmbH. In addition, by creating a subsidiary company for ZMB GmbH, the so-called Gazprom Marketing & Trading Limited (GM&T), Gazprom could in 2006 for the first time enter the energy market in the UK. Currently, GM&T supplies Russian gas on UK's market to commercial business consumers and in 2006 also delivered Russian natural gas to other European countries, namely France, the Netherlands and Belgium (Gazprom Germania GmbH, 2007a; Gazprom Germania GmbH, 2007b; Thomas, 2006; Gazprom Marketing & Trading [GM&T], 2006a; GM&T, 2006b; OPEC bulletin, 2006; Paszyc, 2007; ZMB, 2007).

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<sup>6</sup> "A company which is owned by a holding company by means of holding the majority of the shares" ("Subsidiary", 2007, "Definition").

### 3 RELATIONS WITH EUROPEAN COUNTRIES

Gazprom maintains relations with many European countries, which have played a major role in the establishment of the company's current position. It could even be suggested that without some countries in particular Gazprom would not have the current export position on the European market which it has today. The most significant of these countries is most definitely Germany, which already in the 1980s helped the FSU to export gas to Europe, by together with the Soviet Union expanding the Soviet pipelines system to Europe (Victor & Victor, 2004, pp. 10-12). From the moment the Soviet Union began exporting gas it developed very strong ties with Germany and later in 1992, when Russia started managing its gas activities through Gazprom, these ties only became stronger. However, not every European country has as strong relations with Gazprom as Germany. Poland, for instance, is the total opposite of Germany (Dempsey, 2006c; Dempsey, 2006d; Thomas, 2006). Not only the relations with these two countries but also relations with other European countries are necessary in order to determine Gazprom's reliability as a gas supplier on the European market. So, this chapter will firstly describe Gazprom's exceptional relation with Germany. Subsequently, it will examine Gazprom's relations with three other European countries, namely Italy, Poland and the UK, whose relations with Gazprom are also quite remarkable. The chapter will conclude by looking at the Energy Charter Treaty – a means by which the EU countries want European and Russian energy companies to be treated uniformly ("A bear at the throat", 2007; Dempsey, 2006d).

#### 3.1. Germany: special partner

Germany is Gazprom's major gas importer in Western Europe and has of all the European countries the closest ties with Gazprom (Gazprom, 2006c; Haaland, 1997). Germany and Russia have been helping each other, each for their own purpose. As already mentioned in chapter one, during the 1980s when the company was not officially named Gazprom, Ruhrgas and the Soviet gas sector agreed to construct an export system to help the FSU export its gas to Europe (Victor & Victor, 2004, pp. 10-12). Furthermore, in the beginning of the 1990s, Gazprom – already at that time – was trying to enforce its position. The company did this by opposing other big monopolies, such as the German company Ruhrgas. Fortunately for Gazprom, Germany's biggest privatised energy company at that time and biggest oil and natural gas manufacturer in Germany at present, Wintershall, had similar intentions (Thomas, 2006; WINGAS, 2007; Wintershall, 2007b). Therefore, Gazprom together with Wintershall, which is owned by the largest chemical producer in Germany, BASF, as also already mentioned in chapter 1.1, tried to liberalise the gas market in Germany and created three joint ventures; WINGAS –

an energy company that was the first to bring competition into Germany's energy market – was created as a pipeline and advertising company, WIEH (in Germany) and WIEE (in Switzerland) were created to sell gas to Central European countries (Victor & Victor, 2004; WINGAS, 2007). Nowadays, through the German ZGG that sells Russian gas in Germany and other West European states, Gazprom owns 35 per cent of the shares in WINGAS. WINGAS is currently the owner of Western Europe's biggest gas storage space in Northern Germany; owns approximately one-fifth of Germany's available storage capacity, and holds a large gas transportation system (2,000 kilometres) in Germany and outside the country, through which the company has been distributing gas to consumers in Germany and other European countries, since 1993 (Thomas, 2006; WINGAS, 2007). WINGAS has been receiving Gazprom's gas for many years, mainly through the Yamal pipeline – which as already outlined in chapter 2.3 started transferring 1 tcf of Russian gas to Poland and Germany through Belarus – and its own sales have been growing by the year and even went up from 100 billion kWh of natural gas in 2000 to 228.2 billion kWh in 2006 (WINGAS, 2007, "More energy together" section, para. 3). In addition, together with Wintershall, Gazprom owns 50 per cent of the shares in WIEH and WIEE (Thomas, 2006, p. 15). The three joint ventures have been continuously increasing their sales; by 2005 their sales amounted to 330.2 billion kWh, which is an increase of 8.6 per cent compared to 304.1 billion kWh of natural gas in 2004 (Wintershall, 2007, "Natural gas trading" section, para. 1).

Not only does Gazprom have major shares in German companies, German companies also have several investments in Gazprom. These investments started in 1998 when Ruhrgas obtained 2.5 per cent of the shares in Gazprom (E.ON Ruhrgas, 2007b, "1998" section, para. 4). According to E.ON Ruhrgas' website (E.ON Ruhrgas, 2007b, "1998" section, para. 4) this was the biggest share trade between a Russian and a German corporation, and the biggest share trade between a Russian company and a foreign energy corporation. Nowadays, E.ON Ruhrgas AG, which has been part of the E.ON group since 1993 – the biggest multinational energy company in Europe with a main focus on Central and Eastern Europe – owns 6.5 per cent of shares in Gazprom, making it Gazprom's major foreign investor (E.ON Energie, 2007; E.ON Ruhrgas, 2007b; Gazprom, 2006f). The two companies are constantly interacting. E.ON Ruhrgas' website states (as cited in E.ON Ruhrgas, 2007b, "1993" section) that in October 1993 Ruhrgas and Gazprom celebrated their 20-year anniversary of consistent Russian gas supply to Germany and in October 1998 their 25-year anniversary of gas supply. In these 25 years Russia had supplied 340 bcm of natural gas to the German energy company (E.ON Ruhrgas, 2007b, "1998" section, para. 3).

Gazprom's relations with Germany have always been close but have also been used for specific purposes. As already mentioned in chapter two, Gazprom has recently used these strong relations in the agreement on the construction of the Nord Stream pipeline, in 2005. In that same year, Gerhard

Schröder, at that time still Germany's chancellor, was named chairman of the management board of the Nord Stream pipeline project ("Guide to Russia's key energy clients", 2006; "Schröder says Russian-German pipeline won't be delayed", 2007; Whitlock & Finn, 2005). His election as chairman during the construction of the pipeline was the result of close relations with President Putin during his seven-year term (Whitlock & Finn, 2005, para. 7). While Schröder, the by now former chancellor of Germany, has strong relations with both Russia and its gas concern, and is effectively involved in the construction of the Nord Stream pipeline, the present chancellor, Angela Merkel, takes a much harder stance when it comes to Gazprom's position and its cooperation with Germany on the Nord Stream pipeline. In fact, when in 2006 Putin made a proposal for Germany to be the only transporter of Shtokman gas, a field that is situated in the Barents Sea on Russia's side and is going to be developed by Russia, Angela Merkel did not accept the offer (Yasman, 2006, "Shtokman deal" section, para. 2-3). Though this offer could have been very profitable for Germany and according to President Putin (as cited in Butrin, 2006, para. 5) could have created an important position for Germany as a natural gas distributor, Merkel turned down the offer. The main reason behind this was that Merkel was more committed to the Energy Charter Treaty, which is described more in detail in chapter 3.3. Instead of taking Putin's offer and with this tightening relations with Russia, Merkel made an agreement with the former French President, Jacques Chirac (Butrin, 2006, para. 1). One of the aims of the coalition between Germany and France in the field of energy is to persuade Russia to ratify the Energy Charter, which will open Russia's transportation pipelines to other companies (Butrin, 2006, para. 2). In addition, Merkel's decision to take a hard-line stance could be perceived as a smart move since it is yet unknown what the future will bring not only regarding Gazprom's decreasing gas production and low investment levels in Russia's energy infrastructure, but also in the field of Russian politics (Barentsinfo, 2007; B. Roukens, personal interview, April 25, 2007; Gault, 2004; "Guide to Russia's key energy clients", 2006; Yasman, 2006).

### 3.2. Other countries

Germany is perhaps one of the few countries in Europe that has such a special relation with Gazprom. Of course there are other European countries whose gas amounts received from Gazprom are similar to Germany's gas imports. However, most of these relations are not quite as 'remarkable'. Yet, other relations, such as relations with Italy, Poland and the UK are worth being examined in order to determine Gazprom's reliability position in Europe.

#### **3.2.1. Gazprom and the gas market in Italy**

Italy is after Germany the second largest importer of Gazprom's gas and has therefore also quite a few business relations with Gazprom. One of the main relations is between Gazprom and the Italian

company, ENI, which is one of the biggest companies on international level, both in the field of gas and oil (Gazprom, 2006e; Thomas, 2006). In 1998, the two companies concluded a deal to mutually control the Blue Stream Pipeline, as described in chapter 2.3, this is the pipeline that goes from Russia to Turkey and partly travels under the Black Sea (EIA, 2006, p. 12). However, Russian gas supply to Italy began already in 1969 when ENI started receiving 6 bcm of Russian gas per year, through ENI's subsidiary that deals with gas transmission and delivery, SNAM. In 1992, Gazprom agreed to supply SNAM with supplementary amounts of gas in exchange for equipment to renovate Russia's pipeline system. In 1996, Gazprom made an agreement with SNAM for more gas supplies and the following year SNAM received 13.7 bcm of gas from the Russian gas giant. In 1998, the amount of Gazprom's gas received by ENI through SNAM was already 16.7 bcm and increased to 21.6 bcm in 2004 (Gazprom, 2006e, para. 9-10). In 2006, Gazprom and ENI extended their contract from 2017 to 2035 and with this contract it is estimated that Italy will receive about 28 bcm of natural gas per year from Gazprom (Gazprom, 2006e; Paszyc, 2007). Moreover, through the new contract Gazprom obtains the possibility, as from 2007, to deliver natural gas immediately to final gas consumers in Italy (Pascyz, 2007, Appendix 1). This is an advantage for Gazprom because gas is Italy's main source within the energy industry, of which Russian gas accounts for a third of all the gas imports, which is equal to 29 per cent of Italy's entire gas use (Energy Business Review, 2006, para. 4).

Gazprom's expansion plans in Italy are not welcomed by everyone. Although the deal concluded in 2006 has allowed a company other than ENI to deliver gas to Italian consumers, Gazprom's cooperation with ENI and the entrance of Gazprom on the final energy market of Italy will reduce the possibility of competition (Energy Business Review, 2006, para. 1). Therefore, according to Antonio Catricala, the head of the Antitrust Authority of Italy (as cited in Energy Business Review, 2006, para. 1-2; 7), the deal is not quite good for competition from other European companies, and thus also not advantageous for final consumers in Italy since their possibilities to choose between different energy suppliers will be reduced. In addition, according to Agata Loskot-Strachota, energy specialist on Russia for the Centre for Eastern Studies in Poland (as cited in Dempsey, 2007a, para. 17-20), if competition is reduced Gazprom will have more freedom in arranging its own prices and conditions for sales to European countries.

### **3.2.2. Relations with Poland**

Although Poland is listed in the top-3 of Eastern European countries which import gas from Russia, it is a country that has probably the least good relations with Gazprom compared to other European countries which import Gazprom's gas. Poland has been an importer of Gazprom's gas for many years and in 2004 Russian natural gas accounted for 60 per cent of Poland's domestic natural gas

consumption. With the creation of the Yamal-I pipeline the country started receiving gas through another transit country, namely Belarus, and consequently also became a transit country since from Poland the Yamal pipeline carries gas to Germany (EIA, 2006; Gelb, 2006; Thomas, 2006). As already mentioned in chapter 2.3, in 2006 plans were launched to extend the Yamal-I with 1 tcf. However, in the same year Poland and Gazprom could not agree on the route for the new part of the Yamal-1. Gazprom wanted the expanded pipeline, also known as Yamal-II, to go partly through Poland, namely via Southeast of Poland and then on to Slovakia, whereas Poland proposed that the extended pipeline would completely go through its own territory (Gelb, 2006, p. 11). The extension of Yamal-Europe 1 is still under consideration. Poland thinks that this project might be cancelled because of the construction of the Nord Stream pipeline, which will carry Russian gas under the Baltic Sea and this way avoid all major transit countries, including Poland, and thus also transit costs (Thomas, 2006, p. 11). Poland fears that if the country will be bypassed, the country's energy security will be reduced (Barnett, 2006, "The German connection" section, para. 3). Poland also believes that through bypassing the country, Gazprom will be able to put more pressure on Poland to make the country reduce its transportation costs (Thomas, 2006, p. 11).

Gazprom's relations with Poland are weakened by the fact that Poland, as being one of the transit countries, has few securities when it comes to Gazprom's gas supplies. Evidently, this is caused by the various cut-offs of both Ukraine's gas and Belarus' oil, which resulted in gas and oil shortages in Poland ("Gazprom in dispute with Polish gas pipeline operator", 2007, Thomas, 2006). Due to these issues and Gazprom's gas policies to put pressure on specific countries, Poland is extremely sceptic about Russia and particularly about Gazprom as a gas supplier (Dempsey, 2006c; Dempsey, 2006d; "Gazprom in dispute with Polish gas pipeline operator", 2007). Furthermore, business relations have also been strained in the beginning of 2007, when the Polish oil and gas company, PGNiG<sup>7</sup>, announced that Gazprom had disrupted cooperation in the joint venture of EuRoPol Gaz – the Polish part of the Yamal pipeline (PGNiG, 2007, para. 1). This was due to the fact that Gazprom wanted to increase its shares in EuRoPol Gaz from 48 per cent to 50 per cent, but PGNiG disagreed. Originally, PGNiG has been the owner of 48 per cent of the shares and has been owning an additional 4 per cent with another Polish gas company ("Gazprom in dispute with Polish gas pipeline operator", 2007; PGNiG, 2005; Thomas, 2006). Another reason why Gazprom partially stopped cooperation was because the company did not agree with the increased transportation costs of the Polish part of the Yamal pipeline. Gazprom and PGNiG have been arguing for over a year for more shares in EuRoPol yet the situation has not changed as PGNiG is not going to break with the agreements made in 1993 and so the cooperation between the two shareholders remains strained (PGNiG, 2007, para. 1).

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<sup>7</sup> Polskie Górnictwo Naftowe i Gazownictwo (PGNiG, 2005)

Poland is very much aware of Gazprom's dominant position as well as its expansion on the European market and its accompanying strategies. The Polish nationalist-conservative government is extremely critical about Russia's gas strategy and Gazprom's tactics to use gas for political pressure, and so knowing that 60 per cent of its gas consumption consists of Russian gas, the country tries to search for more alternative sources (Dempsey, 2006c; Dempsey, 2006d). Moreover, chapter 2.1 has already mentioned that gas is not the only energy source in Poland, as hard coal forms a big part of Polish energy consumption and production, and Poland is a country which does not strongly rely on energy imports (EIA, 2003; EC, 2007b).

### **3.2.3. *Gazprom in the UK***

Although the UK cannot be described as a country that receives gas from Gazprom, the presence of Gazprom's gas supplies has become more visible since 2006. The fact that this has occurred could be explained by the decrease of UK's own gas production as well as Gazprom's desire of expanding gas sales on the European market (Stern, 2006, "UK gas dependence, import dependence and security" section, para. 1). As a result of the decrease of production in UK's Continental Shelf, the island could become dependent on imported gas for about 60 per cent by 2010 (Stern, 2006, "UK gas dependence, import dependence and security" section, para. 2). Being aware of this fact, Gazprom intends to be the first gas supplier of the British Isles by penetrating the market by means of the creation of companies that sell Gazprom's gas by closing deals with British companies and purchasing British energy corporations (OPEC bulletin, 2006; Pascyz, 2007).

Gazprom's actual presence in the UK – and by this also its cooperation with the island – started in 2006 when Gazprom established its own company, GM&T, which from then started selling a limited amount of Gazprom's gas in the UK (OPEC bulletin, 2006; Stern, 2006; Thomas; 2006). Chapter two already outlines that this executive division of Gazprom in the UK not only sells gas within the UK, but is also allowed to distribute gas to the nearest countries (Pascyz, 2007; Thomas, 2006). So, creating this company was not only a way to gain access to UK's gas market but to also expand exports to the West. Gazprom's expansion plans in the UK are rather serious. This is shown by the fact that activities to sell more gas in the country do not stop with the establishment of simply one company. In June 2006, Gazprom bought a small gas supplier in the UK, the Pennine Natural Gas, through Gazprom's company GM&T in the UK. Gazprom did not deny that this purchase was part of the company's plan to eventually own 20 per cent in the gas market shares of the UK (Kingsley, 2006; OPEC bulletin, 2006). This plan was continued when in 2006 Gazprom wanted to take over UK's largest energy company, Centrica, which is the owner of British Gas and has over 17 million gas consumers. However, due to the fact that Gazprom's chairman, Alexander Medvedev, informed the BBC about Gazprom's desire to become the



world's biggest energy corporation, assumptions were raised that owning UK's main energy concern would help increase Gazprom's role not only from a business point of view but also from a political viewpoint. Considering this, and to maintain the security of energy deliveries within the UK, the company turned down the offer ("Centrica declines after bid surge", "Status quo" section, para. 3-8).

By 2010, Gazprom wants to increase its current shares of 2 per cent in UK's gas market to 10 per cent and does everything to achieve this goal. This varies from trying to buy companies to supplying several large buildings in the UK, such as the York Minster (Macalister, 2007, para. 1). Although relations are preserved remarkably well with the already existing partners in the UK, Gazprom's desire to expand exports to the UK has raised concerns in UK's gas industry about the actual purpose of this expansion. In UK's energy sector it is assumed that Gazprom's expansion on the European market could also have political motives, such as the desire of the Russian government to improve Russia's political position abroad (Macalister, 2007, para. 3). Although the UK was already aware of Gazprom's political pressure towards Ukraine and therefore the decrease of the company's reliability, it was not until 2006, when Gazprom made a bid for Centrica, that concerns were raised regarding Gazprom's reliability and its true motives, which were suggested to lean more towards acquiring a greater global role (Macalister, 2007; Stern, 2006).

### 3.3. Energy Charter Treaty

Gazprom's relations with European countries are based on individual agreements between Gazprom and companies in each country. There is no such thing as, for instance, a common strategy that the EU countries have implemented towards Russia in the field of energy, and Gazprom in particular, since each country and their companies have their own economic interests, and relations with Gazprom are different within each country. However, the EU countries agree that, to have a stronger position towards its energy partners, and particularly towards Gazprom, a coherent strategy that will suit all the EU countries would definitely be very practical and could also have a serious impact on Gazprom's attempts of dominating the European energy market. As the European market is a large market, Gazprom would most definitely be impressed if the EU countries would stand up with a coherent strong attitude towards Gazprom (B. Roukens, personal interview, April 25, 2007; Gault, 2004; Dempsey, 2006b; Mandelson, 2006).

The Energy Charter Treaty is an instrument with which the EU countries intend to secure their energy supplies. Therefore, regulations within the Energy Charter – which particularly concerns energy

from the CIS<sup>8</sup> - deal with gas production and gas transportation as well as the security of gas supplies and trade and investment in energy (Haaland, 1997; Gault, 2004). Moreover, the treaty was originally created as the foundation for negotiations between Russia and the European Commission with regard to energy deliveries (Haaland, 1997, pp. 73-74). Furthermore, one of the main principles is that all parties that signed the treaty should accept energy transfer through their countries from other states, and countries are not allowed to interrupt this in case of a dispute with another country. In December 1991, the EU countries, the Central European countries, the CIS, the EFTA members, Japan and the U.S. all signed the Energy Charter, (Haaland, 1997, p. 75). However, Russia has not ratified the Energy Charter and has no intention either to sign the Transit Protocol, which implies that the pipelines of a country should be accessible to every other state (Gault, 2004, p. 177). It does not look like Russia will sign the Transit Protocol any day soon, as it imposes limits for Gazprom because the company will then have to open its transportation pipelines to other countries, for instance to countries of the Caspian Region or Central Asia. Such countries will then be able to send their gas through the Russian pipeline system, for instance to European countries. The result of this is that they will be able to take Gazprom's market share away (B. Roukens, personal interview, April 25, 2007; Gault, 2004; "Putin firm on EU energy charter", 2006).

European leaders, such as Germany's chancellor, Angela Merkel, but also EU officials such as Energy Commissioner Andris Piebalgs, in 2006, and Competition Commissioner Neelie Kroes, in 2007, have been trying for several years to make Russia ratify the Energy Charter so that European companies would be able to use Russia's transportation pipelines (Bilefsky, 2006; Dempsey, 2007b; EurActiv, 2007b). Currently, foreign energy companies, but also domestic companies that want to transfer gas to Europe from Central Asia, for example, may only use the Russian system if they sell their gas to Gazprom, which in most cases happens not at world market prices, but rather at domestic prices (Dempsey, 2007b, para. 5-6). According to Neelie Kroes (as cited in Dempsey, 2007b, para. 2) this is actually the main idea behind the liberalisation of EU's energy market, in which partners have equal access to each other's systems. With the liberalisation of the European energy market, a sole European energy and electricity market could be created (Dempsey, 2007b, para. 2). Moreover, the EU as a whole believes that European shareholders should have the same rights as the Russian corporations when it comes to entering the energy market of Russia, ("Putin firm on EU energy charter", 2006, "Reciprocity" section, para. 4).

Energy security became of great importance after the incident with Ukraine and the Energy Charter is an important tool to strengthen this security ("Putin firm on EU energy charter", 2006,

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<sup>8</sup> The Commonwealth of Independent States was created in 1991, after the collapse of the Soviet Union, to form an economic community, and contains 12 countries: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. (CisStat, 2007, para. 1-2).

“Reciprocity” section, para. 5). Yet, results have not been achieved so far, since Putin does not want Russia to ratify the charter as Russia is not planning to liberalise its gas market, and lose Gazprom’s monopoly position by letting foreign companies transfer gas through Russian pipelines to sell gas to European countries, and on top of that enter the Russian energy market (B. Roukens, personal interview, April 25, 2007; Bilefsky, 2006; Euractiv, 2007b; “Putin firm on EU energy charter”, 2006).

## 4 FUTURE

Currently, the majority of the European countries depend on the monopolistic Gazprom and, considering the fact that Gazprom holds the biggest amount of gas reserves in the world, the Russian energy company probably will remain Europe's main supplier. However, there are several issues that should be taken into consideration when looking at the future relation of the European countries with Gazprom. So, this chapter will first analyse the current dependence situation of the European countries and describe why it could be important for the EU countries to secure future energy supplies, and create a common energy security strategy. Afterwards, it will look at the importance for the European countries of diversifying energy sources, and conclude by looking at the future relations between the European countries and Gazprom.

### 4.1. Securing future gas supplies in Europe

Gazprom is very much aware of its current dominating position. But the Russian energy giant also knows that there have been several disputes, in particular the gas dispute with Ukraine, which made Europe aware of the fact how strongly it depends on Gazprom and therefore made the European countries strongly doubt Gazprom's reliability. Consequently, the countries fear about their future gas supplies (Galpin, 2006; Horsley, 2006; Ramsay, 2006). Therefore, several major officials such as the European Commission President, José Manuel Barroso, and Energy Commissioner, Andris Piebalgs, have started to encourage the EU countries to come up with a unified Energy Security Policy mainly aimed at securing European gas supplies and approaching Russia and Gazprom in a strategic way (Bohlen, 2006; Dempsey, 2006c; Dempsey, 2006d; Mandelson, 2006).

Since after the Ukraine crisis in 2006 several EU countries had faced gas shortages, the European countries started realising how important their energy security is. This concerns not only how well consumers are assured of their gas supplies but also if they are provided with sufficient supplies both in the present and in the future (Spanjer, 2006, p. 2). A month after the crisis the main consultant to the Commission for Energy and Transport, Luc Werring, raised awareness and stated (as cited in Dempsey, 2006c, para. 3) that EU countries should put their energy and foreign policy together to secure their energy supplies. Another important issue is that currently there is no common energy strategy towards Gazprom and Russia in general. However, since Gazprom is penetrating the European market as a whole, and with projects as the Nord Stream pipeline the company will start selling gas directly to most of the European countries, the problems and gas shortages European countries could

face could become a shared problem for the EU countries (Dempsey, 2006c; "Russian extortion, continued", 2007). Therefore, energy security should not only be maintained on a domestic level but also at European level (Dempsey, 2006c, para. 9). According to Kevin Rosner, US' energy expert and leading chief of NATO's energy security forum (as cited in Dempsey, 2006c, para. 9), energy security should even be expanded to the international level since securing energy supplies has raised awareness globally and should therefore be dealt with on a broader level rather than merely on a national level.

In March 2006, the EU countries came together to discuss a possible common energy policy to deal with Russia as a gas supplier and therefore also with Gazprom. Countries agree that if they join forces they will have a stronger position towards Gazprom and chances will be increased to actually secure gas supplies from Gazprom on the national level, because with a common energy security policy they will be able to put more pressure on Gazprom when it comes to reliable deliveries (B. Roukens, personal interview, April 25; Dempsey, 2006b; Mandelson, 2006). In this view, in the beginning of 2006, Poland – which takes a much harder stance towards Russian energy dominance than any other European country – has proposed a plan regarding energy security in Europe. The plan was put forward by the Polish President, Lech Kaczynski, and was supposed to be in the form of an energy security treaty for Europe, which aimed at the cooperation between the EU and NATO in the field of energy security and would exclude Russia from becoming a member (Dempsey, 2006c; Dempsey, 2006d). Nevertheless, this plan as well as a common energy security regarding gas supplies from Gazprom will most probably not be achieved since most European countries have their own relations with the state-owned company and have each their own interests in the business relation with Gazprom (B. Roukens, personal interview, April 25; Simpson, 2007). For instance, some countries such as in particular Germany, but also France and Italy, have rather strong ties with Gazprom and the creation of a European policy to take a tougher approach towards Gazprom would not entirely be in their interests as it perhaps could harm their relation and therefore also have an affect on beneficial business deals ("A bear at the throat", 2007; Simpson; 2007). A country like Poland is more in favour of coherent energy security and less enthusiastic about Gazprom's domination of the market and its expansion in their energy sector, as it wants to become less dependent of Russia and fears that Gazprom will eventually take control over Poland's entire energy sector (Dempsey & Bilefsky, 2006; "Gazprom in dispute with Polish gas pipeline operator", 2007) Although it will be a rather hard task to develop a common energy policy, gas shortages in Europe due to the Ukraine crisis and oil shortages caused by oil cut-offs to Belarus have shown that an energy security strategy on EU level is really necessary (Gelb, 2006; Ramsay, 2006). Fortunately, the European Commission keeps on stressing this – most recently in January 2007, during the discussion about proposals for the new EU energy plan when the president of

the European Commission linked the importance for a common position towards energy partners, and therefore the need for an EU energy policy, to oil shortages in EU countries due to Belarus' oil cut-off in 2006 (EC, 2007a, para. 3).

#### 4.2. Diversification of European energy supplies

Although in the future Gazprom's presence in Europe will still be very visible, that is if Russia can keep up with its gas production and does not neglect its investments in gas production, perhaps in about 15 years the situation will be already different than it is today when it comes to Gazprom's power which is based on the company's control over major natural resources, because European countries are already starting to look for other energy sources as well as energy suppliers (Ramsay, 2006; Spanjer, 2006). By 2030, the EU countries will increase their natural gas imports to about 80 per cent, of which currently a quarter comes from Gazprom (Ramsay, 2006, p. 3). Considering these statistics and thus the high dependence on Gazprom, the European Commission has started, as from 2006, to call on the European countries to diversify their gas supplies and gas providers. Diversification of energy supplies significantly contributes to a stronger energy security of the European countries, and European political leaders such as the German chancellor, but also officials of the European Union's Commission for Energy and Transport and the president of the European Commission, all believe that EU countries should definitely start diversifying their energy sources and distributors to be less dependent on merely one supplier (Bohlen, 2006; Dempsey, 2006c; Dempsey & Bilefsky, 2006).

An alternative for the natural gas currently exported to Europe is Liquefied Natural Gas (LNG), the role of which is strongly increasing on a global level, but which is not being produced or exported sufficiently by Gazprom (Gault, 2004; "Gazprom steps on the gas", 2007; OPEC bulletin, 2006; Spanjer, 2006). Countries that produce and export LNG are mainly Middle Eastern countries, such as Qatar, Iran and the United Arab Emirates. These countries have always been exporting mainly on the Asian markets but recently several deals were concluded with European countries, such as Italy and Spain. However, it is not likely that the Middle East will become one of Europe's main alternatives for gas supply, as Asian markets are growing and supplies from the Middle East will most probably move towards the Asian markets (Gault, 2004, pp. 172-173)

The use of renewable energy sources, such as wind and solar power, is an option to diversify current energy sources and thus become less dependent on natural gas, and therefore also on Russian gas and Gazprom (Dempsey & Bilefsky, 2006, para. 12). Moreover, countries in North Africa, such as Egypt, and in Asia, such as Pakistan, but also Azerbaijan and the Caspian Region are other suppliers through which the European countries would be able to diversify their energy sources (Gault, 2004;

Dempsey & Bilefsky, 2006; Ramsay, 2006). In fact, the construction of a Trans-Caspian gas pipeline project, through which Central Asian gas could be delivered to Europe, is currently being discussed ("Moscow tries to prevent construction of trans-Caspian gas pipeline bypassing Russia", 2007; Ramsay, 2006). The plan to create such a pipeline was initiated by the United States already in 1996. However, Russia is not in favour of this project as the pipeline is not meant to go through Russia. Therefore, in May 2007, the Russian President visited both Kazakhstan and Turkmenistan, from which Gazprom buys most of its gas, to try to persuade these countries to consider a different route to deliver gas from Central Asia to the European countries, preferably one that would go more along the coasts of Russia, Kazakhstan and Turkmenistan. This route is different from the Trans-Caspian project of the United States, Europe and Georgia, which propose a pipeline that will go under the Caspian Sea and send gas to European countries through Azerbaijan, Georgia and Turkey (Blagov, 2006; "Moscow tries to prevent construction of trans-Caspian gas pipeline bypassing Russia", 2007; "Putin to lobby gas pipe via Russia in Turkmenistan, Kazakhstan", 2007; Ramsay, 2006). Nevertheless, Kazakhstan was also not favouring the Trans-Caspian route and therefore during the Russian President's visits an agreement was reached between Turkmenistan's President and the President of Kazakhstan to build a pipeline that will go from Turkmenistan along the coast of Kazakhstan all the way to Russia, which has the exclusive right to sell gas from Turkmenistan ("Russia, Kazakhstan, Turkmenistan agree on Caspian gas pipe –2", 2007, para.1-2). According to chief executive of Gazprom, Alexander Miller (as cited in "Russia, Kazakhstan, Turkmenistan agree on Caspian gas pipe –2", 2007, para. 3-5), with the new pipeline project and the renovation of the old Soviet pipeline system, Turkmenian gas supplies could be increased to 80 bcm a year, that is within the contract between Turkmenistan and Russia that goes on to 2028.

Several reasons exist why diversification of European energy supplies and suppliers is so necessary. First of all, this way the European countries could become less dependent on merely one gas supplier, which at the beginning of 2006 turned out to be less reliable than European countries thought beforehand. Approaching other markets, such as the North African market and the Caspian Region, would perhaps be a good alternative (Gault, 2004; Ramsay, 2006; Simpson, 2007).

Another reason why it is crucial for the European countries to diversify their energy sources is because Gazprom's natural gas production is severely declining. Whereas Gazprom's overall gas production was about 560 bcm of natural gas a year in 2002, the gas production is predicted to decline sharply over the next years and fall to about 340 bcm per year in 2020 (Bohlen, 2006; Ndefo et al., 2007). Although Russia has more than enough reserves, Gazprom has not been investing sufficiently in its gas production, because buying cheap gas from Turkmenistan, from which it started buying gas in 1997, and selling it for a much higher prices is easier ("A bear at the throat", 2007; B. Roukens, personal interview, April 25, 2007; EIA, 2006). This tactic of buying Turkmenian gas for \$65 per tcm and

selling it to Western European countries for about \$140 tcm was criticized by former head of state of Turkmenistan, Saparmurat Niyazov (as cited in Blagov, 2006, para 4), as “re-selling Turkmenian gas at over 100 percent markup”. In September 2006, Alexei Miller finally agreed that Gazprom will be paying \$100 for Turkmenian gas, which would be considerably fairer if looking at Gazprom’s sales prices (Blagov, 2006; Gazprom, 2006b). Furthermore, if Gazprom wants to provide its European partners but also countries from the CIS and Turkey, which currently all use about 325 bcm of natural gas, with fixed amounts of gas agreed in the contracts, it will strongly have to boost its gas production, otherwise it could perhaps fail in delivering a sufficient amount of gas in the near future (B. Roukens, personal interview, April 25, 2007; EIA, 2006; Ndefo et al., 2007; Ramsay, 2006). In addition, Russia’s domestic gas consumption is growing by 2.5 per cent a year. Therefore, to hold the same major energy position in the future, Gazprom also has to find extra energy sources and quickly start increasing the production of fields as Sakhalin, Yamal and Schtokman (Ndefo et al., 2007, “Russian natural gas production” section, para. 3).

Considering Gazprom’s declining gas production it should also be taken into account that Gazprom itself is expanding its exports to other parts of the world, such as Asia and the U.S., to which it first exported in 2005 (Gazprom, 2006; RPI, 2006). In 2006, Gazprom started to export to Japan and South Korea but a country like China already has a demand of 38 bcm of gas and the growth of its gas consumption is increasing and therefore deliveries from Gazprom to the country are quite important for Gazprom (“Gazprom steps on the gas”, 2007; Gazprom, 2006d; Ndefo et al., 2007; OPEC bulletin, 2006). Since Gazprom is strongly pushing its gas exports to other markets, but has a lack of gas production, it becomes even more important for European countries to diversify their energy sources as it is uncertain whether Gazprom will be able to satisfy the demand of all its partners in the near future (EIA, 2006; EU Business, 2006).

#### 4.3. Europe and Gazprom?

It is quite difficult to predict how the relations between specific EU countries with Gazprom will be. But since it is forecasted that by 2030 the EU countries will depend for 80 per cent on external gas supplies, Gazprom will stay in the picture on the European market, as long as it seriously starts investing in its gas production (B. Roukens, personal interview, April 25; Galpin, 2006; Ramsay, 2006). Since 60 per cent of the future gas imports will come from Gazprom, the EU countries will be very cautious of the fact that Gazprom’s gas production is declining, as already mentioned in chapter 4.2. In fact, energy experts fear that Gazprom will have great trouble satisfying the rising demand for gas of the European



countries, due to the fact that Gazprom has not been investing sufficiently in its gas production and infrastructure (Galpin, 2006, "Europe's worries" section, para. 4).

Gazprom's declining gas production but also its behaviour towards the Ukraine has made the EU member states seek for a plan to guard Europe from energy shortages similar to the ones of January 2006 (Galpin, 2006, "Energy scares" section, para. 2-3). Nevertheless, as already mentioned, a common energy strategy within the EU will be difficult to achieve since the EU countries' diverse national energy policies as well as their bilateral relations with Gazprom make it difficult to form a mutual agreement on energy security on EU level (Galpin, 2006, "Energy scares" section, para. 4).

Another issue that the EU countries are now already taking into account, but which should also be given attention in the near future, is that Gazprom is also expanding its exports to the Asian markets, and in particular China, and has also started its export to North America (EU Business, 2006; Gazprom, 2006d; OPEC bulletin, 2006; Ramsay, 2006; RPI, 2006). Announcements have already been made by some Russian officials to the EU countries (as cited in Galpin, 2006 "Gas wars" section, para. 3), portraying their high interests in Asian markets. Gazprom is in fact already exporting to countries such as Japan and South Korea (Gazprom, 2006d, "Japan/South Korea" section). In addition, exports to China are expected to rise since Gazprom's president, Aleksei Miller, announced at the World Gas Conference in Amsterdam, in June 2006 (as cited in OPEC bulletin, 2006, p. 44) that Gazprom is deliberating with China on several big projects that will increase exports to China from currently 38 bcm to annually 68 bcm, as from 2011. For the European countries these facts are important as they are aware of Gazprom's declining gas production which could perhaps, according to top energy analysts (as cited in Galpin, 2006, "Chronic underinvestment" section, para. 4), create in the near future a major gap between the amount of gas that the European countries need and the quantity of gas that Gazprom is capable of producing. Moreover, in March 2006, Andris Piebalgs stated in an interview in Brussels (as cited in Bohlen, 2006, para. 3) that the EU countries are seeking assurance that Gazprom is investing sufficiently in its gas production. But since there is little transparency in the Russian energy sector, the EU countries will not be able to discover whether Gazprom is investing enough in its gas production to meet the growing gas demand of the European countries in the future (Amsterdam, 2007; Bohlen, 2006). Keeping Gazprom as their major partner but looking for other important gas suppliers will be the main tactic of European countries in the next few years (Bohlen, 2006; Dempsey, 2006c; Dempsey & Bilefsky, 2006; Galpin, 2006).

## 5 CONCLUSION

This paper elaborated on the question whether the position of Gazprom as a reliable gas supplier on the European market has changed over the years. The final part of this paper will try to answer this question from the point of view of the EU, by examining the main issues discussed in this paper.

After examining all the facts it becomes quite clear that currently Gazprom holds a very strong position on the European energy market, yet this position did not occur all of a sudden. After the collapse of the Soviet Union the Russian government worked on a proper energy policy for Russia. Gazprom played a major role in this process since it was the country's monopoly for gas trade. Despite the fact that in that period Russia was economically in a poor condition, at the end of the 1990s gas exports eventually helped to slightly raise Russia's GDP. Although already at that time two countries, namely Ukraine and Moldova, were facing some problems with regard to their gas supplies from Gazprom, Gazprom's duties as a reliable supplier and trading partner were not questioned, since the EU countries had not experienced any difficulties with Gazprom's gas deliveries from the moment Russia started exporting gas to the West in the 1980s.

Since Putin became President the situation has changed. The government has taken major control over the country's resources by increasing its stake in Gazprom, which owns the major part of Russia's resources. This position permits Gazprom to more or less easily pursue its economic interests. The major feature in this is Gazprom's price policy. For a long time Gazprom maintained special prices for FSU states, but since some relations with countries such as Ukraine and Georgia had become rather weak, measures were found from within the government to put pressure on such countries via energy. Attempts to take over pipeline systems or suddenly raised prices resulted in cuts of Russian gas to Ukraine, which made several European states lose part of their gas supply. Due to these gas shortages in the EU countries, the EU started to question Gazprom's reliability as a gas supplier, which had never occurred before. Two points at issue could be considered here. Namely the fact that Gazprom is not willing to liberalise its gas market, which could substantially reduce uncertainties about reliability of deliveries since this way each different activity, such as gas production, distribution and trade would be carried out by separate companies. Also the fact that Gazprom's entire board is made up of government officials and so political leaders are in the position to put pressure on a country or important officials through Gazprom, for political interests or other kinds of issues. Therefore, the reliability, and also the stability, of a company that strongly pursues the interests of the government, is being put at stake. This is exactly the case with Gazprom.

For the last couple of years Russia's energy position has been a central point for discussion, mainly in the countries of the EU. This is due to the fact that gas imports will grow heavily in the EU countries in the near future, and more dependence on Gazprom will be the result.

Taking into consideration Gazprom's relations with EU countries, maintaining relations with Gazprom is clearly also quite profitable for the EU countries. Gazprom assures EU countries of new long-term gas supplies, and in some cases involves them in pipeline projects. Nevertheless, it is already being questioned whether Gazprom is also pursuing political interests when the company tries to buy European energy companies or increases its shares in companies. Although profit exists for both sides, European energy companies do not have access to Russia's transportation system, and there are no signs that this will change as Russia refuses to sign the Transit Protocol of the Energy Charter Treaty. So, the market is basically divided disproportionately, with Gazprom owning the majority.

Even though Gazprom has planned several new projects to expand Russian gas routes, and with this also deliveries to the European market, calculations have showed that it is uncertain whether Gazprom will be able to meet the rising gas demand of the EU countries because the company has more or less been neglecting its decreasing gas production. Also, because Gazprom is expanding gas sales on the European market and even has entered Asian markets, it is uncertain whether the gas production will be sufficient to fulfil deliveries of the fixed gas amounts within the prolonged contracts.

In view of EU's dependence on Gazprom, the company's position could be considered as dominant. This has several underlying reasons, which include Gazprom's world's biggest gas reserves and the company's sole right to use Russia's transportation network. Depending on one main supplier was not an issue in the past, but has become a more critical point since January 2006. The EU countries realise that to secure energy supplies the liberalisation of the gas market is essential (Gault, 2004, p. 177). Yet, Russia is not planning to liberalise its energy market since it is quite profitable for the state that Gazprom continues trading gas as an exclusive supplier.

All in all, it can be assumed that Gazprom's position as a reliable gas supplier on the European energy market has definitely changed over the past few years into a less reliable position. Despite some wrangles with FSU states, Western countries did not experience difficulties in the 20<sup>th</sup> century. Also, during the last few years problems have occurred which all contribute to the decreasing reliable position; EU's gas shortages due to the closing of gas taps of transit countries, Gazprom's pursuit of perhaps political interests, and a gas production that is not consistent with the growing gas demand of the European countries. Liberalisation of the EU energy market, establishment of a coherent EU energy strategy, and diversification of energy sources would all contribute to security of EU energy supplies and subsequently, perhaps, the question whether Gazprom is reliable would be misplaced.

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## **LIST OF APPENDICES**

Appendix 1: Maps

Appendix 2: Tables

Appendix 3: Transcript of interview

## APPENDIX 1 – MAPS

Map 1.1. Russia's primary gas and oil pipelines



Source: EIA (2007)

**Map 1.2. Gas pipelines in the Caspian Region**



Source: IMF (2007)

**Map 1.3. Route Nabucco pipeline**



Source: Nabucco-pipeline (2007)

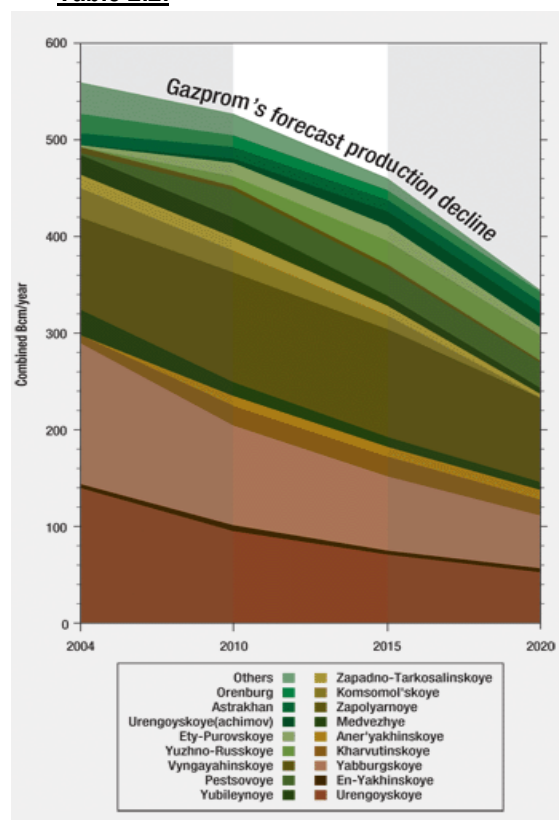
## APPENDIX 2 – TABLES

**Table 2.1. Major importers of Russian natural gas (2005)**

Rank	Country	Imports (bcf/year)	Pct of Domestic H/G Consumption
1	Germany	1,291	43%
2	Italy	824	30%
3	Turkey	630	65%
4	France	406	26%
5	Hungary	294	62%
6	Czech Republic	252	84%
7	Austria	246	70%
8	Poland	226	47%
9	Slovakia	226	108%
10	Finland	148	105%
11	Romania	140	23%
12	Fmr Yugoslavia	134	57%
13	Bulgaria	101	89%
14	Greece	85	96%
15	Switzerland	13	12%
<b>Sales to Baltic &amp; CIS States, 2005'</b>			
	Ukraine	2,113	79%
	Belarus	710	100%
	Baltic States	205	100%
	Azerbaijan	120	36%
	Georgia	46	100%

Source: EAI (2007)

**Table 2.2.**



Source: EAI (2007)

**Table 2.3.**

World Proved Natural Gas Reserves by Region as of 01.01.2004

	Proved Reserves, bcm
Russia*	47 811
of which Gazprom*	28 006
North America	7 526
South America	7 349
Europe	7 834
Africa	13 849
Near and Middle East	71 611
Asia-Oceania	24 656
<b>Total</b>	<b>180 636</b>

\* Explored reserves (categories A+B+C<sub>1</sub>)

Source: Gazprom (2006b)

## APPENDIX 3 – TRANSCRIPT OF INTERVIEW

**Interview with Bert Roukens, Senior Policy Advisor for the Directorate-General for Energy and Telecom Coordination, Strategy and International Affairs Directorate at Ministry of Economic Affairs in the Netherlands.**

*Date: April 25, 2007*

*Place: Ministry of Economic Affairs*

*Bezuidenhoutseweg 30*

*2500 EC The Hague, the Netherlands*

**Marianna Tsirelson:** Gazprom is momenteel bezig met de uitbreiding op de Europese markt en gezien de verschillende deals die het bedrijf met Europese bedrijven heeft gesloten in 2006, zoals de VK waar Gazprom aanvankelijk niet naartoe exporteerde, gaat de uitbreiding Gazprom goed af. En toch hebben de EU landen na de Ukraine-crisis hun betrouwbaarheid in Gazprom verloren. Hoe zit u dit in de huidige context en hoe zou u Gazprom's huidige positie op de Europese markt kunnen omschrijven?

**Bert Roukens:** Een aantal van de zaken die je zojuist genoemd hebt, dienen uit elkaar gehaald te worden. Het eerste punt is dat Gazprom momenteel een strategie handhaaft om het grootste energiebedrijf ter wereld te worden. Deze strategie houdt in dat het bedrijf zich niet enkel bezighoudt met het produceren van gas, olie en elektriciteit, maar dat het bedrijf dit ook zelf actief probeert te verkopen aan eindafnemers. Het gebeurt natuurlijk met allerlei soorten grondstoffen, bedrijven die grondstoffen hebben, houden hier redelijke inkomsten aan over, maar het verkopen van producten aan eindverbruikers levert nog meer winst op. Daarom is Gazprom ook bezig om niet alleen gas te leveren tot aan de grens van Europa, maar probeert het bedrijf ook zelf contracten af te sluiten met afnemers. Daarbij probeert Gazprom ook een stevige positie op de markt te krijgen. Soms gebeurt dit door de overname van bepaalde bedrijven, soms door het opbouwen van netwerken, wat je veelal in Midden-Europa ziet en soms participeert Gazprom in bedrijven, zoals in Wintershall en Wingas in Duitsland. Zo heeft Gazprom dus veel manieren waarop het een sterke positie op de markt probeert te verkrijgen. Soms heeft dit een politieke achtergrond, maar voornamelijk heeft het een economische achtergrond, want Gazprom weet dat er meer geld te verdienen valt aan het vermarkten van producten. Daarnaast zie je dat dit voor Gazprom, maar ook voor andere partijen, goed werkt, omdat de Europese energiemarkt een markt is waarin je gemakkelijk van het ene naar het land kan leveren. Daarom zie je Gazprom in een aantal landen, en Duitsland is een belangrijk zwaartepunt, een steeds belangrijkere positie opbouwen.

Het tweede punt is dat Europa steeds afhankelijker wordt van externe energieleveranciers en niet alleen van Rusland, ook al is dit land wel een hele belangrijke energieleverancier voor Europa, maar er zijn ook andere landen zoals Saoedi-Arabië en Koeweit. De reden hiervan is dat de hoeveelheid aan reserves die zich in Europa bevinden, zoals bijvoorbeeld olie op de Noordzee, gas in Engeland en in NL, afneemt en dat betekent dat we het van buiten moeten halen. Uiteraard wordt er momenteel al veel gekeken naar alternatieve energiebronnen en ook al zijn deze sterk aan het groeien, momenteel is de hoeveelheid hiervan nog te beperkt. Dit betekent dat er dus steeds meer afhankelijkheid ontstaat van het buitenland en dus ook van een land als Rusland. Tot nu toe is Rusland altijd een vrij betrouwbare leverancier geweest, maar in de afgelopen decennia zijn er wel enige strubbelingen geweest, zoals de Koude Oorlog, maar daar hebben allerlei energie leveranciers nooit zo onder geleden. Recent hebben we echter al wel wat problemen gezien met Ukraine en Wit-Rusland. Het is vrij lastig om hier een oordeel over te geven, maar naar mijn mening zijn er wel een aantal dingen die je moet onderscheiden. In deze twee landen had Rusland namelijk al langer lopende afspraken om geleidelijk de gasprijzen naar de marktprijzen toe te brengen. Natuurlijk komen hier vaak ook politieke wijvingen bijspelen, maar is het hierbij niet de bedoeling dat landen die het Energie Handvest hebben getekend, weliswaar nog niet geratificeerd, gaskranen dichtdraaien. Wel had het al een langere achtergrond en in het geval van zowel Ukraine als Belarus had Rusland het gevoel dat deze landen onevenredig profiteerden van het feit dat de Russen gas via hun grondgebied lieten lopen. Er waren dus meer problemen dan enkel op politiek gebied die meespeelden. Maar het betekent wel dat heel veel landen erg geschrokken zijn door wat er toen is gebeurd en zich toen pas goed zijn gaan realiseren dat hun afhankelijkheid toch wel ontzettend groot is. Toen is sterk de discussie opgekomen, onder andere in de EU, over hoe het energiebeleid zich in de aankomende tijd verder zou gaan ontwikkelen en hoe met name de EU landen relaties zouden gaan onderhouden met landen die voor hun energielevering van groot belang zijn.

**MT:** De EU landen zijn nu aan het overwegen om een algemene strategie aan te nemen om onder andere om te gaan met de gigantische energie leverancier, Gazprom. Denkt u dat dit op korte termijn nog zal gebeuren?

**BR:** Op het gebied van CO2 reductie, duurzame energie en energie besparing zijn de lidstaten al gekomen tot gezamenlijke doelstellingen, die toch zeer ambitieus zijn. De lidstaten zullen hun uiterste best moeten doen om deze doelstellingen te

behalen. Verder gebeurt er ook ontzettend veel op gebied van de interne markt, het verbeteren van deze markt en de toegang tot elkaars markten binnen de EU. Het is al heel wat dat landen op deze punten enigszins met elkaar eens zijn geworden. Een wat lastige kwestie is die van externe betrekkingen van de EU en landen buiten de EU, omdat alle onafhankelijke EU lidstaten hun eigen buitenlands beleid voeren en tevens zelfstandig relaties onderhouden met energie landen. Gezien dit feit is er altijd de discussie omtrent de verhouding tussen het externe beleid van de EU als geheel en de relaties die individuele EU lidstaten onderhouden met landen en tevens energie landen zoals Rusland, Algerije en Saoedi-Arabië. En algemeen beleid voor hoe relaties met zulke landen te onderhouden, is momenteel het minst ontwikkeld.

**MT: Denkt u dat als een dergelijke algemene energie strategie zou worden aangenomen, de gezamenlijke positie van de EU landen ten aanzien van Rusland en met name Gazprom, zou worden versterkt?**

**BR:** Ik denk het wel. Als de EU gezamenlijk kan optreden tegen Rusland, zal dit zeker een grote indruk zal maken, omdat het een erg grote markt is. Er zijn momenteel echter wel veel verschillende belangen en posities binnen de EU, zoals bijvoorbeeld van de Duitse kant. Duitsland heeft veel contacten en contracten met Rusland, maar er zijn ook andere posities, met name van de kant van de Baltische landen en een land als Polen. Deze landen zijn juist veel terughoudender als het gaat om Rusland. Deze verschillende relaties laten zien dat het moeilijk is om een eenduidig energiebeleid binnen de EU te voeren. En als dit beleid gevoerd zou worden, denk ik dat ik dat de toonzetting van de EU richting Rusland, het belangrijkste is. Rusland ziet zichzelf namelijk als een grote speler in de wereld en wilt ook zo benaderd worden.

**MT: U had het zojuist al over de betrekkingen met NL. Vorig jaar is er een contract gesloten tussen Gasunie en Gazprom. Denkt u dat, gezien de positie van Gazprom, deze overeenkomst in de toekomst enige negatieve gevolgen met zich kan brengen, zoals bijvoorbeeld complete overname van Gasunie, zodat Gazprom directe toegang kan krijgen tot de Nederlandse energiemarkt?**

**BR:** Gazprom zal ongetwijfeld op onze markt komen, maar niet door overname van Gasunie. Gasunie is een staatsbedrijf en het bedrijf beheert het gasnetwerk in NL. Het is niet zomaar een staatsbedrijf, want de overheid heeft hier dus alle aandelen van in handen, omdat NL vindt dat de energie infrastructuur heel belangrijk is en wilt niet dat deze in buitenlandse handen valt. Gasunie heeft wel een "memorandum of understanding" gesloten, het kan namelijk nog geen echt contract genoemd worden, en daar zijn ze nu momenteel mee bezig. Aan de ene kant creëert NL hiermee zekerheid voor zichzelf, om te zorgen dat wij in de toekomst genoeg gas krijgen. Aan de andere kant komt de positie van NL als belangrijk gas land erbij meespelen. Momenteel zijn we dat nog, aangezien NL al voor 15 tot 20 procent van de Europese gasbehoefte zorgt. Dat gaat echter verdwijnen naarmate onze gas hoeveelheid gaat teruglopen. Daarnaast heeft NL wel een belangrijke positie op gebied van kennis en technologie ontwikkeld en deze positie wilt NL graag houden, omdat deze erg nuttig kunnen zijn. Momenteel is NL aan het kijken of het land een soort gas rotonde of verdeelschijf kan worden in ons deel van Europa, nu onze positie als gas land nog steeds vanzelfsprekend is. Zo zal NL in de relatie met Gazprom een belangrijk doorvoerland worden voor het Russische gas, dat naar Engeland geëxporteerd zal worden, aangezien dit land over steeds minder gas gaat beschikken en steeds afhankelijker zal worden van gas import.

**MT: In hoeverre kan de liberalisering van de Europese gasmarkt bijdragen aan minder afhankelijkheid van Gazprom's gas?**

**BR:** Ik denk dat de afhankelijkheid niet minder wordt door liberalisering. Maar als er problemen zijn binnen Europa en binnen de EU is er een gezamenlijke markt met voldoende verbindingen tussen landen, gas of elektriciteit direct geleverd zou kunnen worden als er in een bepaald deel van Europa problemen zouden ontstaan. Elektriciteitscentrales worden echter gestookt met brandstof en die hebben zulke bedrijven dan toch echt nodig, ook omdat er steeds meer gasbedrijven zijn.

**MT: En LNG (Liquefied Natural Gas) dan?**

**BR:** Dit kan inderdaad aangevoerd worden, maar dan is er sprake van vergroting van de kring van aanbieders. De afhankelijkheid van het buitenland blijft nog steeds, wel hebben importeurs dan een wat grote kring van aanbieders en dat is ongetwijfeld een verbetering. Om deze reden worden nu initiatieven genomen om een terminal voor LNG aan te leggen in de Rotterdamse haven en in de Eemshaven. Dit wordt door NL hard toegejuicht, omdat dit past bij de ideeën m.b.t. de "gasrotonde", om NL zo een centrale positie op gebied van gas te laten innemen. Zo zal gas dus niet alleen meer langs ons via pijpleidingen komen, maar ook via schepen.

**MT: Als Rusland zijn gasmarkt liberaliseert, zullen Europese energiebedrijven toegang krijgen tot de Russische pijpleidingen. Zouden deze energiebedrijven hiermee hun positie kunnen versterken?**

**BR:** Dat is eigenlijk de discussie die al jaren gaande is, maar nog steeds niet richting daadwerkelijke liberalisering gaat. De Russen claimen hun gas en olie en willen hier ook bepaalde inspraak in hebben. Dit wordt heel duidelijk door het feit dat bij alle nieuwe participaties, buitenlandse bedrijven wel kunnen investeren in energie, maar de Russische bedrijven altijd het

recht blijven hebben op meer investeringen. Liberalisering in Rusland zou verder betekenen dat er betere toegang zal ontstaan tot allerlei netwerken. Daarnaast zou het denk ik meer ruimte geven voor andere ondernemingen om olie en gas te produceren en het kan best zijn dat deze ondernemingen hierdoor meer gaan produceren en er zo meer olie en gas beschikbaar zal zijn. Dus op deze manier kan verdere liberalisering helpen om de productie te verhogen. Al jaren wordt van Rusland geëist dat het land zijn energiemarkt liberaliseert, maar zoals ook vele andere landen vindt dat het buitenland zich niet met hun moet bemoeien, deelt ook Rusland deze mening en zegt dat het land zelf over zijn grondstoffen gaat.

**MT: Wat zegt een dergelijke houding van Rusland, de EU over het land als gasleverancier?**

**BR:** Olie en gas zijn voor Rusland zeer waardevolle grondstoffen, waarmee het land veel geld binnenkrijgt en hiermee de staatsfinanciën kan saneren. Daarnaast is het land van plan om deze rijkdommen maximaal te benutten. Er wordt wel gezegd dat energie één van de belangrijkste instrumenten is van het buitenlands beleid van Rusland. Momenteel komt de discussie op in hoeverre Rusland de macht die het land heeft als energieleverancier, nu daadwerkelijk zal gebruiken, of dat het land simpelweg een economische houding zal kiezen, zonder zichzelf echter uit de markt te prijzen. Dus hier zitten zowel politieke als economische argumenten aan vast.

**MT: Door de hoeveelheid gas dat Gazprom exporteert naar de Europese landen, bestaat er een kans dat het bedrijf steeds minder gas zal overhouden voor eigen consumptie. Hoe zal dit in de toekomst eruit zien?**

**BR:** Dit zou best een mogelijkheid kunnen zijn. Er is echter een verschil tussen wat er geproduceerd wordt en wat er daadwerkelijk is aan reserves. Reserves zijn er genoeg en voor een land als Rusland is dit zeker niet het probleem, want Rusland heeft de grootste gasreserves ter wereld. Wat wel een probleem is, en daar maken meer mensen en internationale organisaties zich momenteel zorgen om, is dat de productie wel op peil moet blijven en zou moeten groeien als er meer vraag is. Rusland produceert momenteel uit een aantal grote velden, die echter al wat beginnen terug te lopen. Om deze reden zou er meer geïnvesteerd moeten worden in grote gasreserves, zoals die van het Schtokman veld, de Barents Zee, Yamal enz. Reserves zijn er dus genoeg, alleen moet er geïnvesteerd worden, zodat er meer te produceren valt en er geen gebrek zal ontstaan. Maar momenteel houdt het tempo van de investeringen niet de groei van de vraag bij.

**MT: Wordt Rusland hierop geattendeerd door de EU?**

**BR:** Ja, zeker. Rusland speelt naar mijn mening een beetje op safe, door de Europese landen te laten weten dat ze gas kunnen bestellen en dat het land er wel voor zorgt dat het gas er komt. Het achterliggende idee is dat Rusland wel kan beginnen te investeren, maar als op een gegeven moment de vraag naar gas verdwijnt, dan zit Rusland met een tal van investeringen die niet rendabel zijn. Dit is echter wel moeilijk voor te stellen, aangezien het redelijk goed in te schatten is hoe de groei van de gasvraag eruit gaat zien in de komende jaren.

**MT: Voor een land als NL is er momenteel geen gevaar als het gaat om betrouwbare gaslevering vanuit het buitenland, maar voor een land als Duitsland ligt dit anders, aangezien dit land veel meer afhankelijk is van Gazprom. Wat voor alternatieven houden zulke landen voor ogen?**

**BR:** Duitsland heeft sowieso baat bij een goede relatie met Rusland. Maar door de Ukraine crisis zijn de EU landen zich gaan realiseren dat het niet goed is om te veel afhankelijk te zijn van één land. Een goede relatie met Rusland is echter wel van groot belang, maar door het besef dat de te grote afhankelijkheid van één land niet goed is, beginnen de EU landen wel te zoeken naar andere leveranciers. Vandaar dat landen zich meer beginnen te richten op LNG en relaties worden aangegaan met bijvoorbeeld Algerije, om zo te zorgen dat gas van veel verschillende plaatsen komt en in geval van problemen de Europese landen niet direct in de kou staan.

**MT: Momenteel gaat het erom of Gazprom het Transit protocol van de Energy Charter Treaty zal ratificeren, wat de EU ook verlangt van Rusland. Maar het ziet er niet naar uit dat Rusland het zal ratificeren, aangezien dit bepaalde beperkingen met zich meebrengt voor Gazprom en daarnaast zullen de Russische pijpleidingen toegankelijk worden voor Europese energiebedrijven. Wat voor invloed heeft deze houding op bepaalde relaties van Gazprom met Europese energiebedrijven, die duidelijk voor de ratificatie van de Charter zijn?**

**BR:** Rusland heeft de Charter inderdaad nog niet geratificeerd, maar wel getekend en houdt zich hier ook redelijk aan, behalve in situaties zoals met Ukraine en Wit-Rusland. Volgens de Charter moeten landen in zulke gevallen tot arbitrage overgaan. Het Transit protocol zou andere bedrijven inderdaad toegang moeten geven tot Russische gasleidingen, maar Rusland is hierop tegen en wilt zelf bepalen wie wel of geen toegang krijgt tot de pijpleidingen. De Europese landen proberen Rusland al een lange tijd over te halen om de Charter toch te ratificeren, maar ik denk niet dat dit zal lukken. Rusland wilt de toegang over zijn eigen netwerken zelf in de hand hebben en de monopolie van Gazprom niet opgeven en de Transit protocol vormt hier een te grote belemmering voor.