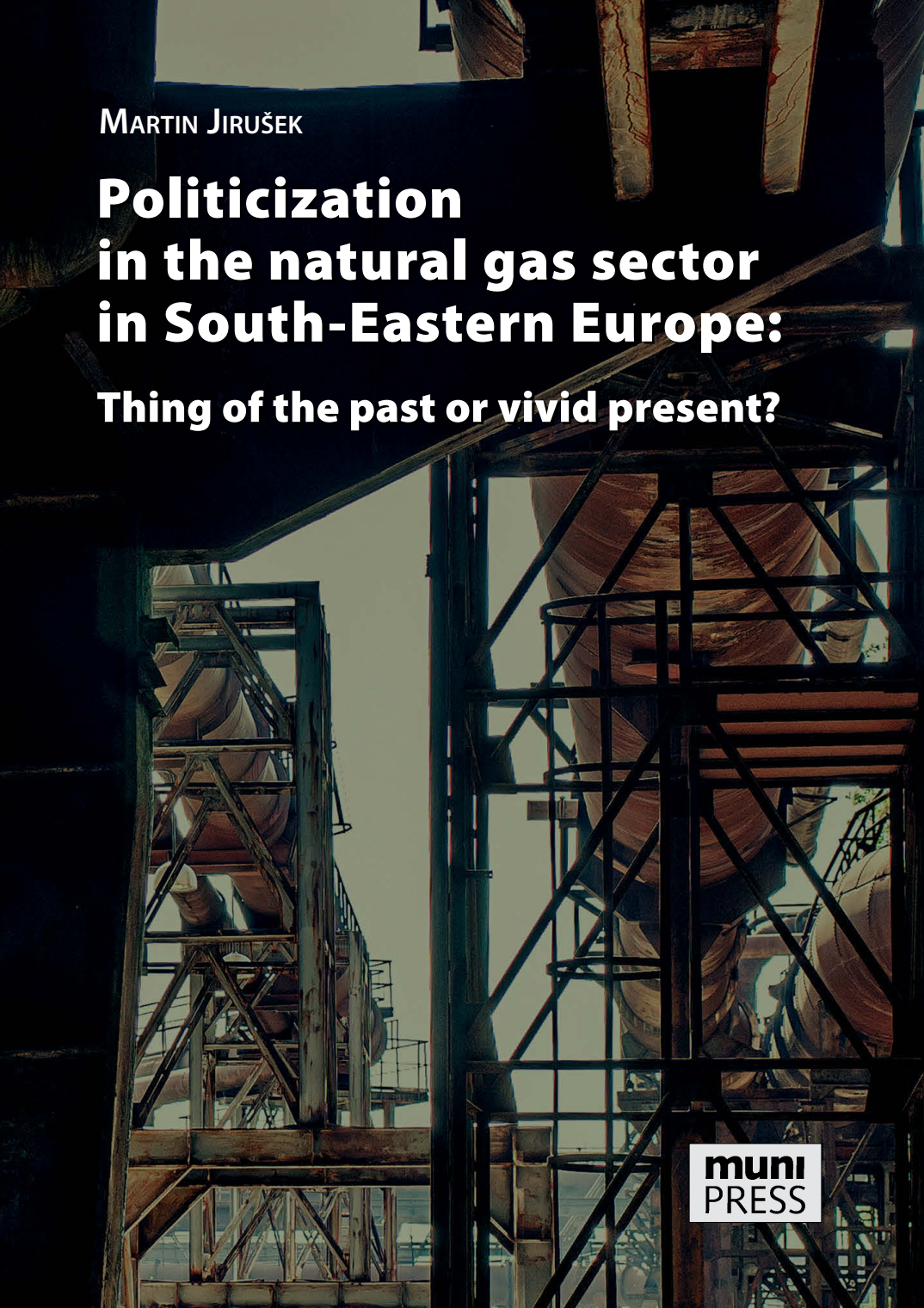

Martin Jirušek

# Politicization in the natural gas sector in South-Eastern Europe:

## Thing of the past or vivid present?

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# POLITICIZATION IN THE NATURAL GAS SECTOR IN SOUTH-EASTERN EUROPE: THING OF THE PAST OR VIVID PRESENT?

Martin Jirušek

MASARYK UNIVERSITY

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*To my parents, who have always supported me*
*in whatever I wanted to do.*

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Interviewee 30 (2016, September 22). (M. Jirušek, Interviewer) Ljubljana, Slovenia.
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Interviewee 32 (2016, September 23). (M. Jirušek, Interviewer) Ljubljana, Slovenia.
Interviewee 33 (2016, September 20). (M. Jirušek, Interviewer) Novi Sad, Serbia.
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Interviewee 47 (2014, April 22). (M. Jirušek, Interviewer) Prague, Czech Republic.

# LIST OF ABBREVIATIONS

Bcm – billion cubic metres
BiH – Bosnia and Herzegovina
CE- Central Europe
CEE – central and eastern Europe
East Med Pipeline – East Mediterranean Pipeline
EC – Energy Community
EU – European Union
EUR – Euro
FBH – Federation of Bosnia and Herzegovina
IAP – Ionian Adriatic Pipeline
IEM – Internal energy market
IGB – Interconnector Greece-Bulgaria
LNG – liquefied natural gas
mcm – million cubic metres
RS – Republika Srpska
SCP – South Caucasus Pipeline
SCP/X – South Caucasus pipeline expansion
SEE – south-eastern Europe
SOEs – state-owned energy enterprises
TAP – Trans-Adriatic Pipeline
TANAP – Trans Anatolian Pipeline
Tcm – trillion cubic metres
tcm – thousand cubic metres
TSO -Transmission system operator
USD – US Dollars

# 1. INTRODUCTION

Since at least the Ukrainian gas crisis of early 2009, all of Europe has been bitterly aware of just how dependent on Russian supplies some European states are. Although Ukraine received the greatest share of media coverage, and the supply curtailment caused some serious problems in the region of Central Europe (CE), the gravest impact was felt in South-Eastern Europe (SEE), where a number of states are dependent on Russian gas supplies for 100% of their consumption.

Several other aspects of energy security also come into play in the region and complicate the situation further. The majority of states in the region, which stretches from the borders of Ukraine through the eastern section of the Balkan peninsula and on to the states of Former Yugoslavia, have experienced a delayed economic transition compared to the CE states, and their foreign policy discourse has not always been clearly oriented toward the West; the states' political situation, too, has been less stable. The gas infrastructure in the region is sparse, meaning that there are very few alternatives if supply cuts come. Although there are one or two exceptions to this characterization, the bulk of these states accordingly find themselves in a very unfavourable situation in terms of natural gas supply security.

Despite this situation, surprisingly little attention has been paid to this part of Europe. It is fair to say, though, that in contrast to CE, where the 2009 gas crisis spurred work on diversification projects and precautions that would help deflect disaster in the event of a similar crisis, in SEE not much has been done. The region is thus still predominantly dependent on Russian natural gas supplies, often delivered through a sole pipeline, and this leaves these states highly vulnerable to supply curtailments.

The aforementioned crisis, particularly its timing, once again revived concerns as to whether misuse of energy supplies is a part of Russia's foreign policy toolbox. In light of the worsening state of relations between Russia and the West and the high supply dependency of

the SEE countries, the topic has taken on renewed significance. In the natural gas sector, these concerns are obviously related to the Russian national champion and energy giant Gazprom and its subsidiaries in individual countries, which are often accused of functioning as a geopolitical lever that extends the reach of the Kremlin. In SEE, Gazprom is a major source of natural gas imports, providing 100 % of imports in half the countries under scrutiny. Given the importance of natural gas to industry and heating, for which any supply curtailment can have a severe impact, the area has been a source of major concern.

Even though the high dependence of this part of Europe on Russian supplies had been known even earlier, the Ukrainian crisis of 2009 and the cut-off of gas supplies flowing through Ukraine was a bitter reminder of the current state of affairs. Subsequently, as Russia began to signal its intent to abandon the Ukrainian route in favour of new infrastructural projects aiming predominantly at supplying the more lucrative Western European markets, states that relied on the original supply routes began to worry about their future. In past years, a series of initiatives and plans to alleviate the dependence on Russian supplies by bringing gas of varied origin to Europe via the region were introduced. Plans to build major supply pipelines also spurred initiatives to enhance gas infrastructure in the region and bring gas supplies to those countries where the natural gas sector has not developed at all.

Whether for its potential role in future infrastructural projects bringing new sources of gas to Europe, for studying the operations of Russian companies, or because of infrastructural development aimed at improving energy security through higher interconnectivity, the SEE region offers ample motivation for closer examination. The region's importance is likely to grow for energy supplies, considerably elevating the role it plays. Russia's perception of the region is also worthy of attention, not just from the standpoint of the current worsening relations between Russia and the West, but also from the perspective of Russia's long-term stance towards the region. In contrast to the CE region, where Russia abandoned its former positions during the initial stages of the region's reorientation towards the West, in the SEE and to an even greater extent in some of the Balkan states, Russian foreign policy has been touchier, something demonstrated on more than one occasion,

including during the Balkan wars. Russia's economic involvement has also been more intensive, and the energy sector is no exception. This heightened involvement may not represent anything unusual by itself, but accusations of nonstandard deals coupled with cultural proximity and close ties between some Russian and local politicians offer incentive enough to examine the situation.

This book mainly deals with energy security in the South-Eastern European region, comprised of twelve states: Moldova, Romania, Bulgaria, Greece, Albania, Macedonia, Kosovo, Serbia, Montenegro, Bosnia and Herzegovina, Croatia, and Slovenia. The majority of the states under scrutiny share a similar historical experience of totalitarian regimes, more or less bound to the former Soviet Union, which influenced the internal structure of their economies, including the energy sector. In most cases, countries within the region have remained dependent on infrastructure built for supplies from Russia and on Russian supplies as such. Although they may still be mostly dependent on Russian supplies and infrastructure, at the same time they are poised to become important transit countries as part of various planned infrastructure projects to bring energy commodities in from various points of origin.

As much as the region might be perceived as a more or less coherent group of states experiencing a delayed economic transition (with the exception of Greece, Slovenia, and probably also Croatia), especially from the long view, one that divides Europe into regional clusters, the reality is somewhat different. Although, as mentioned above, half of these states are 100 % dependent on Russian supplies and all have Russia as their major supplier, the region also includes states with a diversified import portfolio. Some states have entered the EU, some are candidate states. Some still struggle with basic economic reforms, while others have emerged from the transitional period in good shape. This diversity forms a great basis for the research. The region's importance from a European energy security standpoint, its interesting internal dynamics, the high level of Russian involvement, and the unclear relationship between Russian foreign policy and the conduct of Russian energy companies are the main incentives for this research and the book.

Its aim is to provide an in-depth analysis of the operations and behaviour of Russian state-owned energy enterprises (SOEs) and their subsidiaries active in the natural gas sector in South-Eastern Europe. The research aims to find out whether Gazprom, as the state-owned company in charge of Russian natural gas exports to Europe, and its subsidiaries, engage in specific patterns of conduct that might be labelled state-guided, focused on expanding the influence of the Russian state, and effectively act as a Russian foreign policy tool. In essence, the research addresses the often-asked question of the extent to which Gazprom serves as a foreign policy tool of its home government. To address the research aim, the following research question was formulated: *"Do Russian state-owned energy companies in the natural gas sector in SEE act as tools of the Russian state and serve as vehicles of Russian foreign policy?"*

The book stresses the importance of the interplay between the historical, economic, and political aspects of energy supply and provides evidence that the energy sector cannot be characterized in purely technical terms. As hinted at above, there are substantial differences between the CE states and those in the SEE in terms of both economic development and energy security. The explanation traditionally offered is that the CE states pulled off the post-communist transition and transformation with relative success, while states in the SEE were forced to contend with developmental delays and numerous hindrances affecting the natural gas sector. Grave economic decline, internal conflict, and a complicated, politicized relationship with Russia are just some of the issues the region has faced. To determine what the main setbacks and issues in the SEE region have been, then, the author chose to create a comparison with the Czech Republic. The country was chosen for its prominent position among post-communist states, be that for its non-violent transition to democracy, its clear orientation to the West, or the rapid reorientation of its economic ties to the Western market. Within the energy sector, the Czech Republic had already shaken its dependency on Russia by the mid-1990s, becoming one of the first post-communist countries to achieve a diversified oil and gas portfolio. For these reasons, and to identify the determining factors mentioned in the research question above, the Czech Republic was included. Its

inclusion allows a comparison of the development and current state of the SEE versus the CE, and permits recommendations to be derived for gas sector development.

This research is based in the realist paradigm in international relations that gave birth to the so-called strategic approach to energy policy, which emphasises geopolitical logic and the importance of energy resources for state power and their use as foreign policy tools. For purposes of the research, the author developed an ideal type model of state-guided, strategically-oriented behaviour characterised by a set of features and indicators. These indicators were then sought in individual cases/states to assess the extent to which Gazprom and its home state engage in behaviour perceived to be problematic.

First, a review of literature dealing with the issue is provided, followed by the methodology and theoretical framework to be employed in the research. Then, a chapter examining important related factors, terms, and infrastructural projects follows. This chapter examines the over-arching issues and infrastructural projects that influence the region as a whole. Explored are Russia's relations with the region, the importance of energy exports for the Russian economy, important factors in relations between Russia and Europe, specifics of the natural gas sector in the region, the influence of EU Internal Energy Market rules and related changes in the European environment, and major planned cross-border infrastructural projects, among other issues. This section is followed by the core of the book, which consists of 13 case studies (12 SEE states, plus a case study of the Czech Republic), each devoted to a particular country. These case studies are followed by a concluding chapter divided into three subsections: findings, which provide readers with an overview of the main research results; reflection on the research aim; and reflection on the actual research process. In the final subsection, the author also addresses the challenges he faced during the research and their impact on it. Lastly, a subsection considers how the research might be expanded in the future. A chart that summarizes the results in an easy-to-digest form is attached as an appendix.

The actual case studies share the same structure in order to derive comprehensive comparable outcomes. First, an overview of the natural gas sector of the country in question is laid out, introducing its main