

A photograph of an industrial facility, likely a natural gas processing plant. The image shows a complex network of dark metal scaffolding and structural beams. In the background, several large, cylindrical storage tanks are visible, some with a reddish-brown patina. The lighting is somewhat dim, with a hazy, overcast sky in the background, creating a somber and industrial atmosphere.

MARTIN JIRUŠEK

Politicization in the natural gas sector in South-Eastern Europe: Thing of the past or vivid present?

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

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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

features. Each introduction primarily targets the role of the natural gas sector in the country, the source of supplies and the role of Russian supplies. The introduction also provides information on other companies active within the sector and broader background on the relations between the country and Russia. This is then followed by an overview of the research indicators, providing a picture of Russian activity in the country.

The book is partly based on research conducted for the publication titled *Energy Security in Central and Eastern Europe and the Operations of Russian State-Owned Energy Enterprises*¹ which focused on operations of Russian state-owned companies in natural gas and nuclear sectors in the Central and Eastern Europe that the author co-edited. More specifically, this book uses the same methodology and also builds on information and data collected for some case studies included in the original study written by the author, namely a case study on the Czech Republic, Moldova, Romania and Bulgaria.

The actual research included in the book was conducted between fall 2013 and summer of 2017. Data used in the study were gathered from open sources and information provided during in-depth interviews and field research conducted with consultants and insiders from the examined countries. To gather the data, the author also used IntelTrak, an analytic tool capable of tracking and mapping the global business footprints of selected companies².

¹ Jirušek, M. et al.: *Energy Security in Central and Eastern Europe and the Operations of Russian State-Owned Energy Enterprises*. Brno: Masarykova univerzita, 2015.

² For more details on the program see www.inteltrak.rwradvisor.com

2. LITERATURE REVIEW

Although publications have appeared to provide a comprehensive examination of the region,³ of individual states, or certain specific aspects of the research topic, few appear to target the issue on the most comprehensive level in a way that combines all of the above. The interplay between historical development, the mutual relationships between the countries and Russia, and the current situation is crucial, and remains to be examined as a complex system.

Scholars in the field have focused on the issue from various perspectives. Most attention is, quite understandably, perhaps devoted to the principal actor involved: either the former Soviet Union or contemporary Russia. Here, the tendency has been to elect a comprehensive approach that focuses on a particular period of time in which the Soviet Union (or Russia) assumes an essential position. This has resulted in comprehensive books dealing with 20th century history like *A History of the Modern World* by Paul Johnson (1991) or works more specifically targeting Soviet Russia. The latter are often displayed as part of the broader picture of the international system of the era, as in the works of Henry Kissinger (e.g. Kissinger, 2014). A similar approach may be found in the field of energy security, where the works of Daniel Yergin (2008; 2012) are among the most cited, thanks to their depth and comprehensiveness. A similarly comprehensive treatment, albeit one that focuses on contemporary issues, is offered in *Energy and Security: Strategies for a World in Transition* by Kalicki and Goldwyn (2013). Further reading also includes *Energy Security: Europe's New Foreign Policy Challenge* by Youngs (2011).

A more focused set of work aiming at an examination of Russian foreign policy and its internal processes and policies also exists and

³ Here the author intentionally omits policy documents published by respective states of international organization that may serve as a primary source of information but provide little analytical basis.

includes *Russia's Foreign Policy: Change and Continuity in National Identity* by Andrei P. Tsygankov (2010), which describes the foundations of Russian foreign policy and their impact on the country's foreign policy actions. More recent Russian activities in the field of international relations, especially during the era of Vladimir Putin,⁴ are the subject of examination in Jeffrey Mankoff's book *Russian Foreign Policy: The Return of Great Power Politics* (Mankoff, 2009). Mankoff sketches a picture in which Russia re-assumes its position on the international stage, with its vast natural resources as one of the preconditions for power. The author explicitly mentions natural gas, but he also speaks about energy supplies as part of a broader Russian effort to revive its former power. However, the author subscribes to a perception often visible in related literature: an oversimplification of the role played by natural resources in Russia's foreign policy. Too often one encounters scholars, especially historians, who treat energy exports (particularly gas and, to some extent, oil) as a clear example of a foreign policy tool without providing a thorough explanation or any justification for their judgment. Instead, they usually offer a handful of examples that are not entirely representative.

Given the role of Putin in the Russian state and that state's role in the natural gas sector, which has become more prominent since he took office as president, it is hardly any wonder that monographs have focused on Putin's part in foreign and energy policy. One such is entitled *The New Cold War: Putin's Russia and the Threat to the West* by the renowned journalist Edward Lucas (2014).

Monographs that have focused on gas supplies include *Red Gas* by Per Högselius (2013), a historical overview of Russian gas deliveries to Europe. Other superb examples of more gas-focused works are the publications of the Oxford Institute for Energy Studies. This analytical institute is known for producing thorough analyses of important related studies focusing on both individual subsectors and the changes the Russian energy sector has undergone in recent years. The former

⁴ By the term 'era' the author refers to the period which started when Vladimir Putin assumed presidency for the first time, throughout his years as a prime minister until nowadays.

topic is represented by publications such as *The Russian Gas Matrix: How Markets Are Driving Change* (Henderson & Pirani, 2014) and *The Pricing of Internationally Traded Gas* (Stern, 2012). The latter topic is represented by *The Future of Russian Gas and Gazprom* (Stern, 2005), among other works. However, not even the publications of this institute examine the potential politicization of Russian supplies in individual states or the Southeastern European region. A publication that partly fills the gap and adds predictions for future development is *Natural Gas and Geopolitics: From 1970 to 2040*, edited by the renowned authors in the field David G. Victor, Amy M. Jaffe, and Mark H. Hayes (2008).

The bulk of what has been published about Russia's role in supplying European countries and the potential politicization of these supplies came out after 2000, and particularly after 2009, the year of the gas-related dispute between Russia and Ukraine which left a large number of Eastern European countries shivering on exceptionally cold January days. The region most affected by the supply curtailment, though, was Southeastern Europe which, even after this experience, remained outside the scope of both public and academic attention.⁵

Obviously, though, the crisis did draw the attention of the public and that of scholars to the issue of energy security. One of the best known contributions was the timely book by Anita Orbán titled *Power, Energy and the New Russian Imperialism* (Orbán, 2010). It focuses not only on the interplay between energy supplies and politics, but also provides a firm theoretical foundation to examine the issue. The book is, however, limited in geographical scope, examining only the Central European countries Poland, Slovakia and Hungary. Books also appeared that focused on other energy sources and sectors where Russia's position is prominent, primarily oil and nuclear energy. These also often relate to a specific country or region, as in, e.g. the work of Tomáš Vlček (Vlček, 2015; Vlček & Černoč, 2013) or Petr Binhack and Lukáš Tichý in the Czech and Central European context (Binhack & Tichý, 2011).

⁵ One of the few exceptions was a paper by The Oxford Institute for Energy Studies titled *The Impact of the Russia-Ukraine Gas Crisis in South Eastern Europe* (Kovacevic, 2009).

Academic articles, which are usually more flexible and address contemporary trends more closely, have been written on various related topics. Some address the broader issue of energy security and resource nationalism, including work by Ian Bremmer and Robert Johnston (2009); others have focused directly on Russian energy policy vis-à-vis European customers (e.g. Woehrel, 2012; Finon & Locatelli, 2008; Schmidt-Felzmann, 2011; Noël, 2008; Umbach, 2009; Vlček, 2016; Vlček & Minin, 2017). All address the issue of Russia potentially misusing gas supplies as a policy tool. But they highlight the issue of misuse of supplies in general, without paying closer attention to the SEE region.

The lack of literature dealing with the region's energy issues is surprising, especially given its complicated history (particularly in the Balkans) and the potential for energy supplies to broader areas of Europe.⁶ Most of the literature concentrates on the region's history and its still rather complicated present in light of ethnic and cultural tensions (Glenny, 2001; Weithmann, 1996). Although some publications have paid attention to the region's energy security issues, they have done so mostly from the perspective of other, broader issues like new infrastructural projects (e.g. Assenova & Shiriyev, 2015)

In any case, the majority of the issue-focused publications mentioned above perceive Russia to be the main culprit for energy security-related concerns in Europe, and most share the perception that excessive dependence on Russian supplies is dangerous, especially given Russia's current foreign policy aspirations. The literature review thus confirms the need for a thorough examination of the issue in the region, with the aim of finding out the extent to which Russia's behaviour corresponds with accusations that Russia uses natural gas supplies as a tool of foreign policy. In addition, spatially-focused analyses pay-

⁶ One must appreciate the work of the Energy Community, which produces highly complex datasets collected for the purpose of monitoring individual countries' advancement in approximating the EU's energy markets. However, even this organization does not cover the entire region. The documents it produces focus mostly on current members of the Energy Community that are not yet members of the European Union. This leaves out a portion of the Balkans and the eastern part of the region.

ing particular attention to the interplay between energy supplies and politics are generally lacking. Comprehensive analyses that assess the influence of Russia's activities and those of its state-controlled energy companies are scarce. Also largely missing are analyses of the issue within the South-Eastern European region. This book, then, aims to fill that gap in current knowledge.

3. RESEARCH METHODOLOGY AND THEORETICAL FRAMEWORK

To meet the goal of the book, the research process targeted the following question: “*Do Russian state-owned energy companies in the natural gas sector behave in Southeastern European countries as tools of the Russian state, and do they serve as vehicles of Russian foreign policy?*”

The purpose of this chapter is to explain the methodology that underlies the research process used here. First, the theoretical foundations and actual methodology are introduced and explained. Then, logic of the research and the chief tools it employs are described, and an outline of the research process itself is offered. Finally, the ideal type model used to analyse individual countries/cases is presented, with the pertinent theoretical background.

3.1 Theoretical foundations of the research

Before the methods and research tools themselves are introduced, the ontological and epistemological stances taken in the project must be presented and explained. Since they underlie everything that follows, their significance is considerable. It is worth mentioning that the philosophical stance assumed by a researcher is not, or should not be, subject to casual change and should not be based on the immediate research aim. The researcher’s ontology and epistemology are bound up with his overall philosophical beliefs—beliefs which may endure a lifetime. Herein lies the reason why social science is a diverse field, and here also is the explanation for why certain researchers follow certain research paths, while others take a different route. For purposes of this book, the author will rely on the distinctions and explanations made by David Marsh and Paul Furlong (Marsh & Furlong, 2002, pp. 17–40).

In its widely understood meaning, ontology focuses on questions of existence, the nature of reality, and the state of being. Here, the chief

dichotomy is between those who believe that the environment—the reality of all that is around us—exists objectively, independently of our perception of it, and those who believe that there is no objective reality but rather only that which is given to us by our senses. Those who believe there is an objectively existing reality independent of our senses are called ‘foundationalists’. Those who by contrast reject the existence of an objective reality are called anti-foundationalists (Marsh & Furlong, p. 18). The author of this text is firmly on the foundationalist side of the divide. He believes in the objective existence of the world, independent of our perceptions of reality. This research is, therefore, also based upon a foundationalist ontology.

When it comes to epistemology, we deal with questions whose focus is our ability to perceive and examine reality. In doing so, we come right back to ontology and the question of the objective (non)existence of reality. Foundationalists typically believe that reality can be examined and understood through the senses, since they believe its existence to be independent of our perceptions. Anti-foundationalists, on the other hand, claim there is no way to objectively examine a reality that is not truly externally given; objective perception is, by definition, impossible (Marsh & Furlong, 2002, p. 19). Here, the author subscribes to that epistemological viewpoint which suggests that reality may in fact be objectively perceived and examined. But he is also of the view that, in addition to that portion of reality we perceive via our senses, there are phenomena which are not directly observable but whose existence may be inferred through their manifestation in reality (Marsh & Furlong, 2002, p. 30). This research is based, then, on the realist position, which recognizes the existence of these directly unobservable phenomena as described in Marsh & Furlong (*ibid.*, pp. 30–32).

One further note about the nature of the research before proceeding to describe the methodology: conventionally, social science methodology distinguishes between qualitative and quantitative approaches, and sometimes scholars portray the differences between the two as so wide that they are incompatible with each other. The author of this text, however, believes qualitative and quantitative research both lie along a single continuum. Nor should the distinction between the two ever be the defining principle for research. Rather, the researcher should focus

on the research goal and choose a methodology strictly on that basis. Here, reference may be made to the well-known work of Gary King, Sidney Verba and Robert O. Keohane, *Designing Social Inquiry: Scientific Inference in Qualitative Research*, in which the authors attempt to bridge the gap that has emerged between proponents of qualitative and quantitative research (King, Verba, & Keohane, 1994). They note that the distinction between qualitative and quantitative measures is more a question of research 'style' and level of abstraction. In effect, they insist that most research is neither exclusively qualitative nor exclusively quantitative; rather it combines both, depending upon the level of analysis (King, Verba, & Keohane, 1994, pp. 3–5). The present author can vouch for these views. The research undertaken here may not strictly be labelled as either purely qualitative or purely quantitative. On the most general level, given the research process and methodology employed and the way the data are treated, it may be perceived as predominantly qualitative. This is perhaps most visible in the fact that the case study approach is used to examine individual countries. The deep understanding this brings and the clear-cut mapping it provides of individual countries are also characteristic of that approach⁷ (Creswell, 2009, p. 164). The way the findings are communicated also reveals the predominantly qualitative nature of the research, particularly as regards its use of narrative (ibid., p. 186).

That said, some phases of the research do show elements of a quantitative approach. One such element is the data simplification process used to address individual indicators (see the following subsection). Another is that the indicators employ a binary logic, that of existence/nonexistence, which is closer to the quantitative side of the continuum. Thus, the ambiguity of the research methodology is in line with the realist position within the foundationalist tradition which acknowledges the utilization of both types of methodology⁸ (Marsh & Furlong, 2002, p. 31).

⁷ The manner of data collection employed and the utilization of multiple sources are also indicative of qualitative research as described in Creswell (2009, p. 164).

⁸ As described in Marsh & Furlong (2002), the realist position was influenced by the critique offered from interpretist positions, resulting in the partial acceptance of qualitative measures (Marsh & Furlong, 2002, p. 31).