

# EXPANSION OF GAZPROM INTO EUROPE

Where is the Threat?

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## EXPANSION OF GAZPROM INTO EUROPE

European countries fear Russian gas monopoly Gazprom. State controlled company is spreading its influence in countries of the European Union. Russia wants to control every stage of gas business, from extraction of natural gas to its transport and, most importantly, its distribution to European customers.

Until recently, Gazprom did not succeed in entering on most of European countries' gas markets but the situation has changed radically since 2006. Since then, Gazprom's endeavour turned out to be fruitful many times. Therefore, through subsidiaries, joint ventures or company stakes, Gazprom is now active in 18 out of the 27 EU countries.<sup>1</sup> This number might shock some people but it is not only figure which strikes the eye. In the continent, Gazprom is present by 100% owned subsidiary Gazprom export, whose name was Gazexport until November 2006. Gazprom export is the greatest supplier of natural gas to Europe – it supplies gas to 22 European countries and its share in supply of gas to Europe is reaching 26% (see Chart 1).<sup>2</sup> Moreover, the amount of gas imported to the EU from Russia is growing continuously: Gazprom supplied 140,5 billion cubic meters to Europe in 2004 and 151,1 billion cubic meters in 2006. Together with opening of new gas pipelines the imports, rising demand for gas and depletion of gas deposits in Europe, supplies of Russian gas to Europe are going to be much larger. A new pipeline calling Nord Stream, leading from Russia to Germany beneath the Baltic Sea, is said to be open in 2012.<sup>3</sup> Additionally, other pipes are at stake, e.g. connection to Blue Stream, leading from Russia via the Black Sea to Turkey and reaching Austria or Hungary (for new proposed pipelines see Map 2), or, most importantly and concerning the latter, so-called South Stream, a proposed pipeline to transport Russian gas to Italy and maybe further into Central Europe.

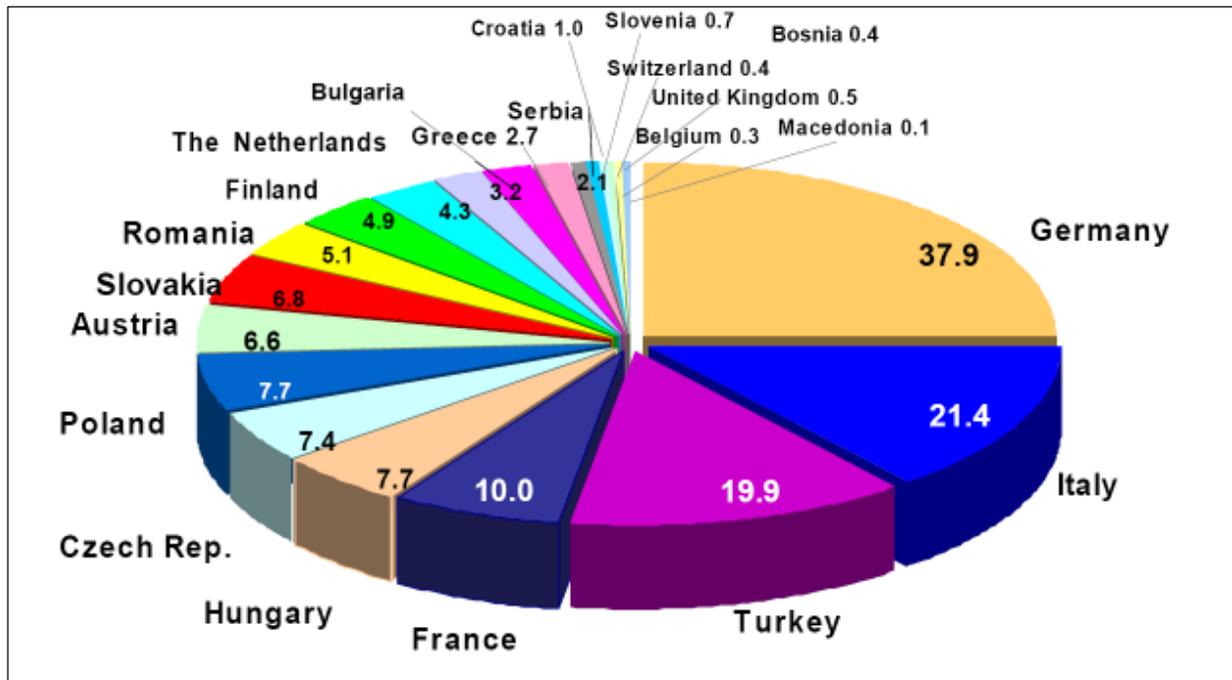
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<sup>1</sup> Moscow Times. Gazprom's EU Ties Stumble on Reciprocity. 17 July 2007, [http://www.neftegaz.ru/english/info/press/press\\_rev.php?id=3561](http://www.neftegaz.ru/english/info/press/press_rev.php?id=3561).

<sup>2</sup>Chelpanov, Sergej. Gazprom's Natural Gas Exports Strategy. Presentation, May 2006, Berlin, [www.gazo.ru/file/Session\\_2.Chelpanov.Gazexport.pdf](http://www.gazo.ru/file/Session_2.Chelpanov.Gazexport.pdf).

<sup>3</sup> However, there are some problems indicating that building of Nord Stream will be delayed.

Chart 1: Share of European countries in off-takes of gas from Gazprom in 2006



Source: Chelpanov, Sergej. Gazprom's Natural Gas Exports Strategy. Presentation, May 2006, Berlin, <[www.gazo.ru/file/Session\\_2.Chelpanov.Gazexport.pdf](http://www.gazo.ru/file/Session_2.Chelpanov.Gazexport.pdf)>.

The most powerful is Gazprom on the markets, countries respectively, where it is established and sells gas on a large scale (see Map 1). As can be seen in the pie chart above, the most important market for Gazprom is Germany, the biggest consumer of gas in Europe. Ever since 1993, Russian monopoly is present on German market by Wingas, a joint-venture of Gazprom and German enterprise BASF and the second biggest gas company in Germany. What has been the prize for BASF to permit Gazprom's subsidiary entry on the market? It is not hard to guess, really. Shares at Gazprom's gas reserves in Russia are the reward. On the other side of the deal, Wingas owns pipelines with length of 2,000 kilometers in Germany and it is an owner of the biggest gas storage in the whole Europe (Reden), whose capacity of 4 billion cubic meters is able to supply Norway's or Portugal's needs for a whole

year.<sup>4</sup> It is wise to remind that Germany is the greatest customer of Russia in the energy sphere and also is a country with the warmest relationship with Russia in the branch. Former German Chancellor Gerhard Schroeder is in the top of consortium which builds Nord Stream, a Baltic Sea pipeline from Russia to Germany.

Italy, the second biggest consumer of Russian gas in Europe, is another country with solid relations to Russia in energy sector. It has been recently confirmed by a new deal, under which both countries prolonged delivery of Russian gas until 2035. In this way the Italians indicated that Italy is going not to keep in step with recommendations of the EU, which puts pressure on member countries in order to liberalize gas markets on the continent. However, more important sign of warm relations between Italy and Russia in energy sphere is a strategic partnership agreement of Gazprom and ENI, an Italian energy company. It has given a right to the Russian monopoly to sell its gas directly to Italian customers in return for a promise that ENI will be allowed to acquire assets in Russia.<sup>5</sup> Besides that Gazprom has awarded a 20% share of Gazprom Neft, a Gazprom's affiliate dealing with crude oil, to Italian companies ENEL and ENI.<sup>6</sup> And most importantly, Gazprom and ENI plan to build a pipeline calling South Stream, which will deliver Russian gas not only onto Italian market but maybe also onto middle European markets too.

France is another country belonging to the most important customers of Russian gas in Europe. Moreover, it is a member of the EU with significant influence over policy of the European community. So it is reasonable for Gazprom to maintain friendly relations with the French. And really, in 2007, Russian monopoly called a French company Total to join in work on development of the Shtokman field (in the Barents Sea), which has potentially enormous amount of natural gas. Another event which is

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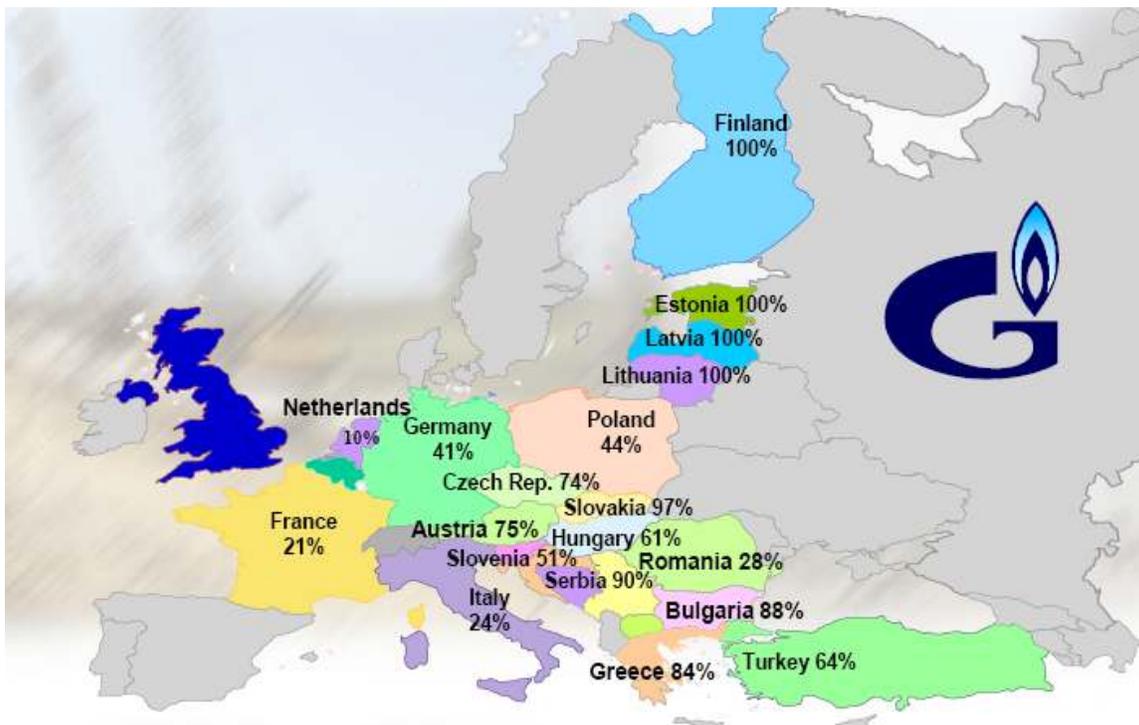
<sup>4</sup> Moscow Times. Gazprom's EU Ties Stumble on Reciprocity. 17 July 2007, [http://www.neftegaz.ru/english/info/press/press\\_rev.php?id=3561](http://www.neftegaz.ru/english/info/press/press_rev.php?id=3561).

<sup>5</sup> Ośrodek Studiów Wschodnich. Gazprom in Europe: Faster Expansion in 2006. February 2007, Warsaw, 8 p., [http://osw.waw.pl/files/gazprom\\_w\\_europie\\_2006\\_eng.pdf](http://osw.waw.pl/files/gazprom_w_europie_2006_eng.pdf).

<sup>6</sup> Moscow Times. Gazprom's EU Ties Stumble on Reciprocity. Moscow Times, 17 July 2007, [http://www.neftegaz.ru/english/info/press/press\\_rev.php?id=3561](http://www.neftegaz.ru/english/info/press/press_rev.php?id=3561).

reasonable to point out is a new contract of gas supplies to Gaz de France. The treaty concluded Gazprom with the French company in 2003 and it will end in 2030. The contract also encompasses cooperation in storage, transport and selling of liquefied natural gas (LNG). Both companies, with notable government's influence on its decisions, has widened the deal in 2006, when Gazprom promised to increase gas deliveries to France and, on the other side, Russian monopoly will sell gas directly to French customers.<sup>7</sup>

**Map 1: Share of Gazprom's gas in gas imports into European countries (according to Gazprom)**



Source: Verberg, George H. B. Natural Gas Still the Fuel of Choice? Presentation, November 2007, original source of the map: Gazprom, <https://www.cgoa.cz/cs/download/2007-presentace-george-h.b.verberg.pdf>.

<sup>7</sup> BBC. Gazprom expands French presence. BBC News, 19 December 2006, <http://news.bbc.co.uk/2/hi/business/6192999.stm>.

## 2006: SUCCESSFUL YEAR (FOR GAZPROM)

Nevertheless, Italy, Germany and France are not only countries in which Gazprom spreads its influence. In June 2006, for example, Gazprom scored another hit at its goal of capturing European gas markets. Russian monopoly agreed to supply a Danish company DONG Energy at that time and deliveries should start from 2011 via Nord Stream.

Gazprom was successful similarly in another part of gas business in 2006 – long-term contracts. Russian state company extended several existing contracts of gas deliveries in the year and within the renewed customers are heavy weights in terms of their gas consumption and political influence again. The new deals were concluded with France, Germany and Italy but also with Bulgaria, Romania, Austria, Denmark and the Czech Republic.<sup>8</sup> It is not need to remind that these long-term contracts, lasting up to ca 2030 at least, contradict effort of the EU to liberalize European gas and electricity markets. On the other side, the deals have been concluded in order to ensure availability of energy in the future. So was it a good decision to sign the binding contract by the EU countries? From the perspective of the European community and its quarrel with Russia evidently not, but from the participating EU members' point of view it has been rather a wise action.

Concerning the Czech Republic, Gazprom concluded a new contract with RWE Transgas, a Czech dominant gas company with 80% position on the domestic gas market, at the end of 2006. The same agreement has extended gas transit contract, under which gas flows through the Czech Republic to the west, until 2035. However, Gazprom is already present on the Czech market via its subsidiary Vemex.

Russia is not only delighted with closed long-term contracts for reason of disturbing attempts of the EU to liberalize and demonopolize European gas markets but Gazprom was given admittance to enter the internal markets of the countries in question. Moreover, in several cases (including Germany, Austria,

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<sup>8</sup> For a comprehensive overview of these contracts see Ośrodek Studiów Wschodnich. Gazprom in Europe: Faster Expansion in 2006. February 2007, Warsaw, 8 p., [http://osw.waw.pl/files/gazprom\\_w\\_europie\\_2006\\_eng.pdf](http://osw.waw.pl/files/gazprom_w_europie_2006_eng.pdf).

Romania and the Czech Republic) under the new deals with Gazprom, its subsidiaries have concluded contracts for direct gas supplies to large industrial customers.<sup>9</sup> “In economic terms, this could put Gazprom in a position to dictate prices, and in the political dimension, give Moscow more political influence, as the Kremlin is indeed using the current situation in the energy resources market to expand its political sway.”<sup>10</sup>

Gazprom has continued in successful expansion onto European gas markets next year, 2007. During President Vladimir Putin’s May 2007 visit to Austria, the Austrian government agreed to a great deal with Gazprom. OMV, partially state owned energy company, signed a long-term contract of gas supplies with Gazprom. Under the terms of the deal, Gazprom will begin, through its subsidiary, delivering gas directly to Austrian consumers in 2008. “This agreement would practically integrate Austria’s gas transit and storage networks (existed and planned) into Gazprom’s expanding network of dependencies,” wrote conservative author Ariel Cohen.<sup>11</sup> Besides this new deal, Gazprom decided to enter a new gas trading hub Baumgarten (near Vienna), which is preparing to be created. Russian monopoly closed the deal with Austrian state-dominated company OMV and created joint venture (50%:50%) calling Central European Gas Hub (CEGH) in January 2008. The reason why Gazprom made this deal is not clear. It might have concluded it because of marketing purposes, in order to sell at Baumgarten its own gas. Nonetheless there also is possible that Russian company did it to block developing of gas market under which traders would sell gas in short term or even daily deals. Some analysts write that this act would hurt Nabucco project.<sup>12</sup> Baumgarten will be one of few gas hubs in Europe and according to Wolfgang Ruttensstorfer, CEO of OMV, Baumgarten is aimed to become the leading trading gas hub in continental Europe.

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<sup>9</sup> Ośrodek Studiów Wschodnich. Gazprom in Europe: Faster Expansion in 2006. February 2007, Warsaw, p. 8, [http://osw.waw.pl/files/gazprom\\_w\\_europie\\_2006\\_eng.pdf](http://osw.waw.pl/files/gazprom_w_europie_2006_eng.pdf).

<sup>10</sup> Ibid.

<sup>11</sup> Cohen, Ariel. Europe’s Strategic Dependence on Russian Energy. The Heritage Foundation, November 2007, p. 4, [http://www.heritage.org/Research/Europe/upload/bg\\_2083.pdf](http://www.heritage.org/Research/Europe/upload/bg_2083.pdf).

<sup>12</sup> For instance, Socor, Vladimir. OMV Joins With Gazprom to Undercut Nabucco. 29 January 2008, [http://www.jamestown.org/edm/article.php?article\\_id=2372756](http://www.jamestown.org/edm/article.php?article_id=2372756)

In fact, Gazprom uses three paths of how to get onto the EU's national markets.<sup>13</sup> The first way is long-term contracts which tie the customer with the supplier for many years. As mentioned above, Gazprom has started concluding these contracts since 2006 under new terms which grant Gazprom a right to sell gas directly on the retail markets of a given country. This clause can be found in contracts with Austria, France and Italy.

The second manner of Gazprom's expansion into Europe includes measures to control gas transport routes to Europe. Belarus and Ukraine, traditional routes of gas deliveries to Europe, are both, politically and economic unreliable. In order to bypass these countries, Russia makes effort to build new pipelines, such as the Nord Stream and the South Stream, or perhaps to increase capacity of existing pipelines. Gazprom counts on these new sources of gas transport in newly closed contracts. On the other side, Russia tries to thwart other possible routes for gas to Europe continuously. One of the most evident examples of this effort is trying to prevent building of the Nabucco gas pipeline, a project of European companies to transport gas from Central Asia to Europe, which is planned to be open in 2012. Russia promotes its own way, i.e. the South Stream. Moreover, Russia tries to increase its control over gas transport in Europe. In order to reach this goal, Gazprom invests in new inter-system connections, such as the BBL gas pipeline from the Netherlands to the United Kingdom. These new investments should, according to Gazprom's representatives, satisfy higher demand for Russian gas in the future.

Thirdly, Gazprom creates a net of subsidiary companies in Europe through which Russian monopoly penetrates onto markets. Gazprom sets up as its own companies which are licensed by regulatory authorities to operate in Europe, e.g. Gazprom Marketing & Trading (GMT) in the United Kingdom, as companies established with domestic enterprises, e.g. Wingas-Europa established together with BASF or the Central Energy Italian Gas Holding (CEIGH), a distribution and trade company founded together with ENI. Some Gazprom's subsidiaries concludes contracts with individual industrial customers, for example, the Czech affiliate Vemex operates under these competences and it controls already nearly a tenth of the Czech market. By newly created companies, Gazprom also wants to get access to

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<sup>13</sup> Ibid.

underground gas storages whose possession or participating are vital in gas business. However, as no rival company wants to give up the share in them, so Gazprom has to build a new storage capacity or lease some. For instance, Russian company already finished the construction of a gas storage in Austria and plans to build new storages in Hungary, Romania, Turkey or Belgium and leases some storage facilities in Germany. Eventually, Gazprom presents proposals to European gas companies, such as Electricité de France (EdF), to sell gas together to third countries.

## GAZPROM: GOOD OR EVIL?

According to mainstream media, Gazprom and its expansion into Europe represents a threat, mainly for European energy security. However, are these opinions right? And if are they, up to which point are right?

Some authors (e.g. Guillet) point out that media has a tremendous role in depicting Russian company as a devil. Nevertheless, "it is not Gazprom's fault that Europeans want to consume more gas than they have".<sup>14</sup> "Rigthly or wrongly, the management of the company is trying to do what businesses do: maximize its income."<sup>15</sup>

The discussion is much wider. Media often speak about Russian activity of using energy resources, mainly oil and natural gas, in foreign policy. However, according to Larsson (2006), who analyzed cases of the use energy as a lever, the number of these incidents has decreased since 1991. "Since 1991, the energy lever has been used for putting political or economic pressure on Estonia, Latvia, Lithuania, Ukraine, Belarus, Moldova, Georgia that subsequently affected most of Europe. The number of incidents, i.e. cut-offs, take-overs, coercive price policy, blackmail or threats, is over fifty in total (of

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<sup>14</sup> Guillet, Jérôme. Don't Blame Gazprom for Europe's Energy Crunch. Foreign Policy, February 2007, [http://www.foreignpolicy.com/story/cms.php?story\\_id=3696](http://www.foreignpolicy.com/story/cms.php?story_id=3696).

<sup>15</sup> Ibid.

which about forty are cut-offs). Incidents appear to be equally divided on the Yeltsin and Putin eras, but the number of cut-offs have decreased by half during Putin.”<sup>16</sup>

What stands beneath Gazprom’s attempts of penetration onto European gas markets? Is it economics or policy? Some pundits say that Gazprom is a tool of Kremlin, so its goals correspond with Russian foreign policy. However, other experts underscore the economic behavior of Gazprom, i.e. it wants to diversify its risks. Gazprom’s income comes mainly from extraction of gas and similar segments of so-called upstream which can be characterized by small added value. In order to secure its incomes, it is in Gazprom’s own interest to penetrate onto other segments of gas market, most importantly downstream, which covers distribution and selling of gas to customers. As the European oil and gas companies strive for getting access to hydrocarbons deposits, so Gazprom does but in a opposite direction. Gazprom tries to sell gas directly to customers and because of absence of a middleman, the price of gas might be lower. We can trace another reason for Gazprom’s expansion, namely desire of Russian company to stabilize its deliveries to customers, so stabilize its incomes. To develop a hydrocarbon deposit, you need to ensure stable source of cash flow from customers.

So why is Russia getting demonized then? “The answer lies with European leaders, who are trying to distract the public from the mess they have made of European energy policy,” wrote Guillet. “Europeans themselves are to blame for their dependency on Gazprom, which is doing what any company would do in its place.”<sup>17</sup>

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<sup>16</sup> Larsson, Robert L. Russia’s Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Supplier. FOI – Swedish Defence Research Agency, March 2006, Stockholm, p. 4, <http://www2.foi.se/rapp/foir1934.pdf>.

<sup>17</sup> Guillet, Jérôme. Don’t Blame Gazprom for Europe’s Energy Crunch. Foreign Policy, February 2007, [http://www.foreignpolicy.com/story/cms.php?story\\_id=3696](http://www.foreignpolicy.com/story/cms.php?story_id=3696).

## WHAT SHOULD THE EU DO?

The growing participation of Gazprom on the European gas markets and infrastructure should spur member countries of the EU in common answers. However, this is impeded by distinct energy policy in the same countries. Former Soviet satellites, now members of the EU, depend much more on Russian energy resources than their western counterparts. Moreover, some countries, such as France, trust more nuclear energy than others, so it does not need so much Russian energy than other EU countries. These dissimilarities justify some pundits to say that “energy will always be a critical sovereignty issue for nations of the EU, and the battle for deregulators is unlikely to be won, at least in the near future. As a result, Gazprom is likely to continue expanding its business successfully with its German, French, and Italian partners, especially in the field of pipeline building, gas storage and gas power generation facility buildings.”<sup>18</sup>

In spite of these problems European policy-makers should show unity in face of Russian demands for a greater access to Europe and not fear threats of Gazprom’s representatives which menace Europe with halting gas supplies. “Attempts to limit Gazprom’s activities in the European market and politicize questions of gas supply, which in fact are of an entirely economic nature, will not lead to good results. It should not be forgotten we are actively seeking new markets such as North America and China,” warned the company’s chief executive Alexei Miller in 2006.<sup>19</sup>

The European Union already developed some action against Gazprom’s desire to buy out European gas companies and infrastructure. In September 2007, the European Commission proposed legislation aimed at splitting ownership of gas and power production from distribution and transmission, so-called unbundling. If the proposal comes into force, it will mean an obstacle for Gazprom to buy EU’s energy assets because of Gazprom’s presence in all parts of gas business, from upstream to downstream.

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<sup>18</sup> Osipov, Igor. *Becoming an Energy Giant: An Overview of Gazprom Expansion into EU Energy Utilities and Networks Sector*. University of Alberta, September 2007, p. 19, [http://www.business.ualberta.ca/cabree/pdf/Osipov/Osipov\\_GazProm\\_Expansion.pdf](http://www.business.ualberta.ca/cabree/pdf/Osipov/Osipov_GazProm_Expansion.pdf).

<sup>19</sup> Miller, Mark. *Gazprom Threatens Europe’s Gas Supply*. *The Guardian*, 21 April 2006, <http://www.guardian.co.uk/business/2006/apr/21/russia>.

However, some key countries, such as Germany and France, are against proposals of fragmentation of its energy incumbents, so the approval of the proposed legislation is unsure. There are namely two ways of the unbundling and progress in these issues is likely to be clearer in spring 2008. The first is the ownership unbundling, i.e. transmission infrastructure of each European country will be offer to a company which does not participate in gas distribution and marketing. The second way is to establish an independent system operator which will be free of companies' interests and exert by a state agency. At the moment, it is likely the second way of the unbundling will take place or the way proposed by Germany and France and based on thorough variant of legal unbundling, which is in place nowadays.

Gazprom's representatives are naturally against any rule which could jeopardize its expansion in Europe. Gazprom's deputy chairman Alexander Medvedev even says that successful unbundling could threaten security of gas supply to Europe. "What better guarantee of security of supply could there be than that companies have an economic interest in making sure that European customers continue to get their gas?" put Medvedev as a hint to will of the EU to stop Gazprom's desire to get control over European gas grid.<sup>20</sup>

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<sup>20</sup> Kovalyova, Svetlana, Bergin, Tom. Gazprom Says EU Ban on Pipe Buys Threatens Supplies. Reuters, 13 November 2007, <http://uk.reuters.com/article/oilRpt/idUKL1388381220071113?sp=true>.

Map 2: European Natural Gas Transmission System and Proposed Pipelines



Source: Ramsay, William C. Security of Gas Supplies in Europe. Presentation, Conference of the Ministers of Energy, Vienna, 26 June 2006, [www.iea.org/textbase/speech/2006/ramsay/nabucco.pdf](http://www.iea.org/textbase/speech/2006/ramsay/nabucco.pdf).

Representatives of the EU and its member countries should continue in applying for liberalization of Russian energy markets and require Russia to open gas pipelines to competition. If the contemporary trend of Gazprom’s expansion continues, the Russian monopoly will be able to dominate the European gas sector in the longer term and, consequently, monopolize it and suppress competition, warn some authors.<sup>21</sup>

<sup>21</sup> For example Ośrodek Studiów Wschodnich. Gazprom in Europe: Faster Expansion in 2006. February 2007, Warsaw, [http://osw.waw.pl/files/gazprom\\_w\\_europie\\_2006\\_eng.pdf](http://osw.waw.pl/files/gazprom_w_europie_2006_eng.pdf).

## GAZPROM IN THE CZECH REPUBLIC

Russian monopoly Gazprom is also present, among others EU countries, in the Czech Republic. Via its subsidiary Vemex, Gazprom is a second direct importer of gas into the country after RWE Transgas which controls ca 80% of the Czech gas market. Nonetheless Vemex, focusing marketing on bulk purchasers, is successful on the Czech market. It supplies gas to more than a half of bulk purchasers, the most tempting segment of the market so far. In which way does Vemex conquer the Czech market? It is simple, Vemex offers cheaper price of gas than RWE Transgas in spite of the fact that both companies buy the commodity from Gazprom export. However, the purchase price for Vemex is always lower than the price for the Czech monopoly RWE Transgas.

Vemex will likely continue in penetrating into the Czech market in spite of some obstacles which have to be solved. Most importantly, Vemex should get access to underground gas storage capacities so it will solve the problem with flexibility of gas supplies, i.e. excessive off-takes are guaranteed by using of storages. Until now, however, six of seven domestic storage capacities serving to needs of the Czech Republic are controlled by RWE Group, RWE Gas Storage respectively. The last storage, Uhřetice, belongs to Moravské naftové doly, a Czech oil and gas extracting company, but the company leases this asset to RWE Gas Storage. Despite these circumstances, bad for Vemex, there is a chance that if the gas market opens more, the access to storage capacities will be better. This belongs to competence of the Energy Regulatory Office of the Czech Republic and partly also of the European Commission. On the other hand, Vemex could also afford the access to a storage capacity by a deal with Moravské naftové doly which is keen to establish itself on the Russian market. The goals of both companies might be satisfied by exchange of their assets. It is also possible that Vemex might use storages abroad and utilize them for needs of the Czech customers but this possibility would be likely more expensive.

Because of no access to gas storages Vemex has contracts with bulk industrial purchasers and favours deals with so-called technology off-takers, i.e. consumers with regular off-takes. Within its customers belongs, however, even Pražská plynárenská, one of the eight regional distributors of gas to all types of

consumers, from households to big industrial companies. Overall, Vemex supplies ca 400 million cubic meters onto the Czech market, so it has a 5% share of the market.<sup>22</sup> However, Vemex wants to boost that share to more than 9%.<sup>23</sup> In order to do this, in October 2007, Vemex has closed a five-year contract with Gazprom export, Gazprom's export unit, which will supply Vemex with 500 million cubic meters of gas per year. Besides Vemex Russian monopoly Gazprom was present by other company on the Czech gas market – Wingas, which is owned by Gazprom and German company Wintershall. Nevertheless, due to unfavorable circumstances prevailing on the Czech market Wingas abandoned the Czech Republic in 2006.

Despite ubiquitous afraid of Russian gas monopoly and its expansion into Europe, we can notice that the presence of Gazprom's subsidiary on the Czech market has some positive consequences. Most importantly, as puts Gavor<sup>24</sup>, Vemex, as a competitor, brings some elements of functional market into rigid Czech gas industry. Success of Vemex has already enforced dominant supplier of gas to Czech customers to come up with new products.

However, besides raising power of Gazprom's subsidiary Vemex on the Czech market, the greatest threat for the energy security of the Czech Republic is in a possible purchase of RWE Transgas or its part by Gazprom or Russian capital. Some voices are warning that Gazprom might be interested in buying RWE Transgas Net, which operates the main gas lines.<sup>25</sup> In fact, Gazprom wanted to create a joint venture with Transgas, as sounds former name of the Czech gas monopoly, in 1994.<sup>26</sup> More recently, it was even an applicant for the privatization of Transgas in 2002. In the future, there is still a chance that Gazprom will buy Czech gas monopoly, because the privatization clause between the former Czech government and RWE Group about not to sell Transgas will expire in 2010. However, the

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<sup>22</sup> Hudema, Marek. Gazprom cílí na české zákazníky. *Hospodářské noviny*, 15 October 2007, [http://ihned.cz/3-22206400-vemex-000000\\_d-79](http://ihned.cz/3-22206400-vemex-000000_d-79).

<sup>23</sup> Ibid.

<sup>24</sup> Gavor, Jiří. Ceny zemního plynu – co nového v roce 2007. *Magazín Pro-energy*, 2007, p. 28-30.

<sup>25</sup> Hudema, Marek. Gazprom cílí na české zákazníky. *Hospodářské noviny*, 15 October 2007, [http://ihned.cz/3-22206400-vemex-000000\\_d-79](http://ihned.cz/3-22206400-vemex-000000_d-79).

<sup>26</sup> Ibid.

possibility of selling is very unlikely because of strategy of RWE Group to dominate in the region of Central Europe, profitability of RWE Transgas as well as current market conditions which spur energy companies to battle over markets when prices of energy are taking up.

Nonetheless, the deal with Vemex will expire in 2012 and by that time, a gas line under the Baltic Sea is to be open, allowing Russian gas to bypass Ukraine, Slovakia and maybe the Czech Republic on its way to Europe. The Czech Republic, as a main transit country in Europe, might be, however, saved from lower gas flows. RWE Transgas Net, a Czech transit system operator, is preparing the building of a pipeline Gazela which should ensure that gas designated for needs of Western Europe will flow through the Czech Republic continuously. Gazela should connect Nord Stream via the pipeline OPAL (from Greifswald) to the Czech entry point of Hora Sv. Kateřiny and then Russian gas would flow to the Czech exit point of Waidhaus to Germany and other western countries or to forthcoming Baumgarten hub in Austria. Despite this new route the old way of transporting Russian gas to Europe, i.e. via pipelines running through Belarus, Ukraine, Slovakia and the Czech Republic, will likely not be completely closed down, but will only transport less gas than today. How much gas will be transported by this way depends mainly both on political factors, such as situation in the former Soviet satellites and mutual relations, and on economic aspects, like costs of gas transportation by competitive pipes and its utilization. "

Moreover, there is even chance that Czech pipelines will transport more gas. If Nabucco or South Stream been completed and ended in Austria (Baumgarten) or Hungary, as is planned, Czech transit pipelines, with excessive potential, could transport even higher volume of gas than nowadays. Concerning this, however, there is a lot of work which has to be still done.

## ABSTRACT AND CONCLUSIONS

The study deals with Gazprom, a Russian gas giant, and its presence, mostly by subsidiaries, in Europe. Gazprom, controlling production, transport, distribution and export of natural gas in Russia, is continuously trying to capture European markets, mostly by selling own gas to end customers, without any middleman. The paper focuses on its strategy and unveils some practices doing in order to expand into Europe in contrast to an effort of the European Union to liberalize gas markets in the member countries. The study also investigates the situation and a growing role of Gazprom in the Czech Republic.

The best answer to Gazprom's appetite for European customers and gas infrastructure should be a common policy of the European Union. Author understands of impediments to creating of the unity within the member countries but from the current situation of disunity benefits only Gazprom. However, the earlier this policy occurs, the better.

**Factbox: Gazprom expansion in Europe**

**GERMANY**

- Gazprom plans to build a gas-fired power station in Germany and to trade power on Europe's largest power market.
- Already Gazprom supplies one third of Germany's gas under term deals with E.ON's Ruhrgas and BASF's Wintershall. It controls a 1,830 km gas pipeline network in Germany via Wingas, a joint venture between Gazprom and Wintershall, Western Europe's largest gas storage company.
- In October 2007, Gazprom and BASF completed a deal that gave BASF unit Wintershall 25 percent minus one share in its Yuzhno Russkoye gas field and increased Gazprom's share in a joint venture Wingas. The following month, Gazprom announced it had also given BASF one preferred share with no voting rights, raising BASF's stake to 35 percent.
- A long-discussed asset-swap agreement between E.ON and Gazprom will be sealed at the end of 2007, E.ON said in September. The deal under discussion would see Gazprom sell a stake of 25 percent minus one share in Yuzhno Russkoye to E.ON's Ruhrgas in return for some as yet unspecified assets in Europe.
- Industry sources have said Gazprom is seeking stakes in British power assets owned by E.ON in return for offering E.ON interests in Russian gas fields.

**HUNGARY**

- Under a deal announced on July 13, 2006, Gazprom gained stakes in Hungarian gas and power companies in return for giving Germany's E.ON a share in the Siberian Yuzhno-Russkoye field.
- Gazprom and MOL have formed a company to study the proposed extension of the Blue Stream gas pipeline, which takes Russian gas to northern Turkey.

**ITALY**

- Gazprom supplies one-third of Italy's gas under term contracts with ENI.
- Gazprom and ENI in June unveiled a plan for a big new pipeline - the South Stream pipeline - to take Russian gas under the Black Sea to Europe, undermining an earlier plan to extend a Turkish route, the Nabucco project.

Gazprom's chief executive Alexei Miller has said Gazprom still might take a stake in the Nabucco pipeline that will bring Caspian and Iranian gas to Europe.

- In November last year Gazprom signed a landmark deal with Italian energy firm ENI under which Gazprom would sell gas directly on the Italian market from 2007. Gazprom would extend supply contracts to ENI to 2035, and the two companies would cooperate on upstream projects in Russia and other countries.

- ENI directors may soon be joining the board of Gazprom Neft, the Gazprom's oil arm. The ENI representatives could join the board in November, Russian news agency Interfax reported.
- Gazprom has separate deals to supply utilities in Italy, and wants to expand these activities to take advantage of Italy's gas market liberalisation. The firms include Enel and Edison.

#### **THE NETHERLANDS**

- Dutch pipeline operator Gasunie is in talks with Gazprom on a pipeline stake deal that would see Gasunie acquire a 9 percent share in the Nord Stream pipeline project, of which 51 percent belongs to Gazprom. The Russian gas export monopoly would receive a 9 percent stake in Dutch firm BBL Company, of which Gasunie owns 60 percent and which was set up to build and operate a pipeline to carry natural gas from Balgzand in the Netherlands to Bacton in Britain.

#### **SLOVAKIA**

- Gazprom owns 49 percent of gas network SPP together with Ruhrgas and Gaz de France.

Source: Reuters<sup>27</sup>

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<sup>27</sup> Reuters. Gazprom Expansion. 5 November 2007, <http://uk.reuters.com/article/oilRpt/idUKL0545497020071105>.



### **ASSOCIATION FOR INTERNATIONAL AFFAIRS**

The Association for International Affairs (AMO) is a non-governmental organization founded to promote research and education in the field of international relations. Our main goal is to increase awareness of international affairs. Thanks to its activities and more than ten-year tradition, AMO has established itself as a preeminent foreign policy think-tank in the Czech Republic.

AMO Strives To:

- publish analyses and research papers;
- organize international conferences, expert seminars, round tables, public briefings;
- promote educational projects;
- provide critical assessment of current affairs for Czech and international media;
- foster development of a new generation of foreign policy experts and scholars;
- encourage interest in international relations among the general public;
- cooperate with Czech and international like-minded institutions;

### **RESEARCH CENTER**

Founded in October 2003, the AMO's Research Center has been dedicated to carrying out research into and raising public awareness of international affairs, security and foreign policy.

The Research Center strives to identify and analyze issues important to Czech foreign policy and the country's position in the world. To this end, the Research Center produces independent analyses; encourages expert and public debate on international affairs; and suggests solutions to tackle problems in today's world. The Center's activities can be divided into two main areas: First, the Center undertakes research and analysis of foreign policy issues. Second, the Center fosters dialog with the policy-makers, expert community and broad public.