17. FOR THE SAKE OF COMPARISON – COUNTRY CASE STUDY: CZECH REPUBLIC[247]

The Czech Republic was part of the so called Eastern Bloc until 1989, when the entire Soviet sphere of power disintegrated. It is thus understandable that the industry and indeed the entire energy sector were oriented eastwards, with the former Soviet Union as the main partner and supplier. The Czech Republic was supplied by the same pipelines that supplied the region as a whole with Russian energy sources. The 'Brotherhood' Pipeline, commissioned in 1967 (GAS s.r.o., 2007),[248] supplied 100 % of the country's gas demand and subsequently made the Czech Republic an important transit country (Strejček, 2011).

Diversifying the import portfolio and shaking off unilateral dependence became high priority goals for the Czech energy sector after 1989. In the gas sector, this goal was achieved on May 1, 1997, when the Czech Republic took its first deliveries of Norwegian gas from the North Sea by pipeline through Germany. This made the Czech Republic the second former Soviet bloc country after Slovenia (see above) to free itself from unilateral dependency (Strejček, 2011). Although most of the political establishment supported diversification at that time,[249]

[247] This case study is based on a previously published text written by the author (Jirušek, et al., 2015, pp. 441–454).

[248] Construction on the transit pipeline began in 1970 and the pipeline was commissioned in 1972. It supplied the German Democratic Republic and the Federal Republic of Germany through the connection points of Hora Svaté Kateřiny in North Bohemia and Waidhaus in South-Western Bohemia respectively. Austria and Italy were supplied through the interconnector from Slovakia to Baumgarten an der March in Austria (Vlček & Černoch, 2012, p. 192).

[249] The only political party that opposed diversification was the Communist Party, which has traditionally inclined to Russia and has never fully rid itself of its totalitarian past.

there were spirited discussions as to whether, given the ongoing economic transformation, the timing was right. The major concern centred on the importance of natural gas for the country's heating systems, a sector that is generally sensitive to supply curtailments. Moreover, predictions suggested that demand for gas in the country would rise in coming years. Given the unstable political situation and internal economic hardships that Russia faced in the 1990s, and the rising interest taken by Russian entities in gas distribution during the middle of that decade, sensitivity to the issue became especially acute. Naturally, Russian representatives were vocally opposed to diversification, stressing the fact that Russian gas was cheaper,[250] and presenting themselves as reliable partners. It is likely that memories of the recent past and uncertainty about Russia's attitude to Central Europe assured much needed unity within the Czech political establishment of the time, something that would likely be impossible today. Although Russia's position was considerably weaker than it is now, Czech representatives did fear retaliatory action should diversification become a reality. Fortunately for the country, though, these concerns never materialized. There are three possible reasons for this outcome. First, Russia's position in the international system after the fall of the Iron Curtain was weak, and it was definitely not in a position to pressurize the Central European states.[251] Second, even after sealing the Norwegian gas contract, the Czech Republic kept around three-quarters of its original supply intake from Russia.[252] And finally, the Central European states are considered to be among the most developed, most western-oriented of the post-communist countries.

[250] Which was also the main line of argument taken by the Czech Communists against diversification.

[251] Russia faced serious issues in the 1990s during its transformation process, troubles maintaining its territorial integrity, and a general economic crisis that culminated in 1998 (Stiglitz, 2003).

[252] The contract with Gazprom comprised 70 % of Innogy's long-term contracts. The original supply contract started to run in 1998, and the transit contract in 1999. They were prolonged in 2006 and stipulated 9 bcm/year in supplies and 30.5 bcm/year for transit (Ministerstvo Průmyslu a Obchodu České Republiky, 2014; Vlček & Černoch, 2012, pp. 196–197).

The Norwegian gas contract stipulated an annual supply of 2.5 bcm[253] to a total 23 bcm over the next twenty years (starting in 1997). This amount represented around one-quarter of the total gas demand in the Czech Republic. But all gas supplied to the country through the end of the contract was actually Russian in origin: the Norwegian gas was being replaced by Russian supplies coming in from Germany by means of so-called gas swap deals (International Energy Agency, 2014a; BusinessInfo, 2017). The existence of an alternative supply route is very important, though, as was proven during the 2009 gas supply crisis when, mostly thanks to this alternative supply route, the Czech Republic not only remained on its feet, but also played a substantial role in supplying its neighbours (Euroskop, 2009).

As indicated above, most gas comes from abroad. Only a small fraction of the total amount, around 1 % of total domestic demand, is supplied by domestic sources, located predominantly in the region of Southern Moravia (Ministerstvo Průmyslu a Obchodu České Republiky, 2014, p. 16; Musil, 2004). 99 % of gas is imported on the basis of import contracts operated predominantly by Innogy (originally RWE Transgas a.s.). The second company importing gas is VEMEX s.r.o. Innogy operates under a long-term contract with OAO Gazprom valid until 2035. Supplies from Norwegian sources were also contracted by Innogy, with a consortium of suppliers developing them. Consortium members were ExxonMobil Production Norway Inc., Statoil Hydro ASA, Norske ConocoPhillips AS, TOTAL E&P Norge AS and ENI Norge AS. The contract was valid until 2017 (Vlček & Černoch, 2012, p. 197). VEMEX s.r.o. entered the Czech market in 2006 as an alternative supplier of Russian gas. It is in the majority ownership of Gazprom Germania,[254] a subsidiary of OAO Gazprom. Its current contract is valid until 2017 and stipulates annual supplies of 0.5 bcm (Gazprom Export). Although the company has expanded its customer portfolio in recent years, it keeps a rather low profile. Gazprom itself is thus practically invisible in the country. Another company worth mentioning is Wingas, which entered the Czech market as a minor supplier. The company is a subsidiary of Gazprom. But there is little suspicious about the company's conduct or actions, which appear economically motivated (Wingas, n.d.).

Despite development in the last couple of years, the Czech Republic remains an important transit route not only through the transit pipeline supplying gas from the East but also thanks to the Gazelle pipeline transporting gas in the North-South direction through West Bohemia. The position of important transit country may be even stronger in coming years thanks to the planned North-South Gas Corridor connecting Central European countries and LNG terminals in North and Adriatic Sea. Therefore, despite the predicted decrease in utilization of the transit pipeline through Slovakia[255], position of the Czech Republic as a transit country is predicted to remain.

The transit network is operated by company Net4Gas created in 2005 as RWE Transgas Net. RWE Transgas Net was created in 2005 when the RWE Transgas was undergoing so called 'unbundling' to comply with the EU's Internal Energy Market ules. In 2010, RWE Transgas Net was renamed to Net4Gas and in 2013 it was sold to Allianz, German insurance company, and Borealis, Canadian investment company (Česká televize, 2013).

The case of 2009 gas crisis proved not only proved the importance of the diversified gas supplies but also the importance of gas storages. The Czech Republic is relatively safe in this regard, since it has gas storages of total capacity of more than 1/3 of its annual consumption[256]. Thanks to this setting, not only was the country able to keep its domestic consumer saturated but also to supply its supply cut-stricken neighbour Slovakia, which was left without any other supply alternative. The country's underground gas storages are located in Dolní Bojanovice, Háje, Lobodice Štramberk, Třanovice, Tvrdonice and Uhřice. Czech retailers also partially utilize the underground gas storage in

[253] The contract was due to expire in 2017 (Businessinfo, 2017)

[254] The exact share is 50.14 % (VEMEX s.r.o., 2013). 33 % of shares are owned by Centrex Europe Energy AG, an international group of companies operating in the gas sector. It is likely that this group is connected to Gazprom (Kupchinsky, 2008).

[255] See more in Černoch et al. (2011).

[256] The current storage capacity is 2.8 bcm, while annual consumption is 8.8 bcm (data from 2013). The Czech Republic is second in Europe, after Germany, in terms of storage capacity (Vlček, Černoch 2012, p. 205) (NET4GAS, 2013).

Láb, Slovakia (Technický týdeník, 2006). Worth mentioning is also the plan to build a new underground storage with capacity of 448 mcm in Dambořice by 2016. The project is a joint venture of the Czech company Moravské naftové doly and Gazprom Germania. The project is worth CZK 2,5 billion (over EUR 90 mil.). According to the agreement, Gazprom Germania will utilize the storage at 90 % for 15 years. This agreement is worth CZK 7.5 billion (over EUR 270 mil.) (E15, 2013).

FIGURE 27: Natural gas infrastructure in the Czech Republic

Source: (ENTSOG, 2016)

Although the CEE and SEE countries were rather victims of the Russian – Ukrainian gas dispute and part of the 'collateral' damage, the crisis did spur discussion and subsequent diversification efforts in number of states in CE and SEE[257]. Still, due to the diversification from 1997, the supply dependence on Russia practically ceased to be an issue in the Czech public discussion. Still, an opinion promoting cautious

[257] Especially when in fall 2009, the Russian-Ukrainian disputes resurfaced and Russia threatened supply cuts (Němcová, 2009).

attitude and close ties to the West have basically prevailed[258]. Roughly since mid-2000s the Czech public debate has seen a rise of a discourse that perceives Russia as a partner marginalizes any geopolitical threats stemming out of Russian supplies. This stream of thoughts has been most visibly represented by the former president Václav Klaus and his current successor Miloš Zeman, who seems to have good relations with Vladimir Putin and whose close collaborators are connected to some of the prominent Russian companies[259].

17.1 Reflection on the indicators

Active support by Russian state representatives for the country's state-owned energy enterprises and their activities abroad
Gazprom's and Russian state officials opposed Czech diversification which was asserted by Czech representatives since the first half of the 1990s. At that time, majority of Czech politicians perceived diversifi-

[258] The Czech Republic was a supporter of the Nabucco Pipeline (Klímová, 2009). On the other hand, in a sign that the country is taking a a pragmatic approach, it helped facilitate the supply of Russian gas through the Nord Stream Pipeline by building the Gazelle Pipeline (Česká televize, 2013)

[259] The once influential lobbyist Miroslav Šlouf, who was a former close collaborator of current president Miloš Zeman, and who was involved in several political controversies in the past, allegedly worked for Lukoil. Currently, Martin Nejedlý, once a business partner of Šlouf, is an advisor to the president and a fundraiser for his presidential campaign. He is also alleged to be in charge of business relations with a number of Russian entrepreneurs. Additionally, Nejedlý is executive officer of LukOil Aviation Czech, a subsidiary of the LukOil company active in downstream. The company also supplied aviation fuel to Prague International Airport (Bloomberg, n.d.). Nejedlý was the centre of attention when the company lost a lawsuit against the Czech state over the non-delivery of aviation fuel supplies. The company was ordered to pay a fine of CZK 28 million (ca. EUR 1 million) (Hlaváčová, 2016). This already precarious situation was further complicated by the fact that the parent company of LukOil Aviation Czech paid the fine, effectively confirming the link between the Russian company and one of the Czech president's closest collaborators (Srnka, 2016). Zeman himself, in addition to his warm relations with Putin, has been a guest of the Rhodes Forum, organized by Putin's close friend and the president of Russian Railways, Vladimir Jakunin (DOC Endowment Fund, 2016).

cation projects as another way of loosening ties to the former Soviet Union which finally led to the membership in the EU and NATO. The Russian side used the arguments of low price and stability of their supplies to persuade the Czech Republic not to diversify, but these arguments appeared to have no effect. Although some politicians, mostly from leftist parties, were opposing the idea of gas supply diversification claiming it unnecessary and opposing higher price comparing to Russian supplies, no direct influence of Russian stakeholders on this opinion group was proved[260]. Part of Czech experts and public was concerned regarding the aforementioned rhetorical opposition of Russian officials and alleged plans of Gazprom to circumvent the Czech Republic in gas supplies to the West or intentions to aggravate position of Czech exporters in Russia. None of these were realized.

Generally speaking, the relations with Russia in energy sector have not been problematic and energy-related issues are being brought into discussion only occasionally, for instance, during the 2009 gas crisis (Technický týdeník, 2006) or in 2014 during the crisis in Ukraine (Poslanecká sněmovna Parlamentu České republiky, 1997).

As a foreign supplier, Russia rewards certain behaviours and links energy prices and deals to the client state's foreign policy orientation

Since the Czech Republic managed to diversify its portfolio, there remained only little room for 'non-standard relations'. On the other hand, seemingly higher price of gas paid by the Czech Republic liely reflects overall cold relations between these two countries. The Czech Republic was maintaining strong pro-western foreign policy discourse in two decades after the fall of communism in CEE, which was aggravating relations with Russia. As mentioned above, Czech government's drive to diversify from 100 % dependency on Russia in 1990s was perceived negatively by Russian side, but no open threats or supply cuts from the Russian side were noticed. On the other hand, the change in Czech supply portfolio probably contributed to the bad state of mutual relations.

Supply disruptions have been an issue thing for years after the break

[260] Those opposing diversification were predominantly from the former Communist Party, which is well known for its sympathetic approach to Russia.

of the century, but even then, they have been rather of technical nature or justifiable by weather conditions, etc. However, this assumption ceased to be valid with the 2009 gas crisis. However, neither this supply cut was aimed against the Czech Republic.

Abuse of infrastructure (e.g. pipelines) and differential pricing to exert pressure on the client state

Technically speaking, Gazprom has not been able to misuse its position to cut-off the country completely due to the infrastructure setting, which is favourable for the Czech Republic (alternative route from Northern Sea means diversification in terms of sources and alternative line for Russian gas – GAZELLE – connected to OPAL-Nord Stream means diversification in terms of routes). In fact, the Czech Republic not only found itself in secure position in 2009 thanks to the alternative supply route but also played an important role in terms of securing gas supplies by reverse flow to Slovakia, which was cut off completely having no alternative supply route.

In April 2015, Gazprom was accused for alleged abuse of dominance on Central and Eastern European gas supply markets, namely Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia. As the Commission stated, the Gazprom allegedly imposed territorial restrictions on gas, unfair pricing policy and various conditionality within its supply contracts to these countries (European Commission, 2015b). In spring of 2017, the Russian company signalled it is prone to agree with a settlement, indicating an important shift in its strategy in the post-communist part of the Europe. It seems that, although, naturally, the Russian gas giant is not keen to abandon its dominant position easily, eventually, it will succumb to the rules that now form the playfield (Denková, Gotev, Kokoszczynski, & Szalai, 2017).

Efforts to take control of the energy resources, transit routes and distribution networks of the client state

Czech government refused Russian bids to buy a transit route on the Czech soil. The first bid in 1994 was refused without providing any reasoning, but the overall discourse of the Czech foreign policy at that time suggests that due to historic experience and reorientation to the

West after the fall of communism, selling the strategically perceived asset was politically unacceptable. Second bid was refused in 2002 for allegedly political concerns as well (Interviewee 47, 2014). Sensitive perception of this issue by the Czech government was highlighted by the fact that Russian offer was refused despite the fact that it was worth the same amount as the bid of RWE and additional offsets in form of investments in Czech oil and gas infrastructure were promised by Russian side (Interviewee 47, 2014).

In the Czech Republic VEMEX – Gazprom's subsidiary is active in gas trading[261]. It is part of Gazprom's effort to be present at the Czech market and reach end customers. Also, according to VEMEX's annual reports, the portion of end users supplied by this company was rising (Vemex, 2013). However, it should be noted that activities of VEMEX make perfect economic sense since the Czech gas market is liberalized and the effort to use this opportunity is thus natural.

In the spring of 2013, Gazprom signed a deal with the Czech company MND Group to build an underground storage facility in the region of South Moravia to make its supplies to the west through this line more predictable. This move is thus understandable as well. Moreover, it suggests that Gazprom is trying to be seen as a reliable supplier of its western customers. The storage was opened in June 2017 (Gazprom Export, 2016).

A person worth mentioning is Ing. Alena Vitásková, who was the head of the Czech Energy Regulation Office, that is the main regulation body in the Czech energy sector, between 2011–2017. Alena Vitásková was criticized for conflict of interests while chairing the Club of Gas Sector Entrepreneurs which owned 5 % of the VEMEX company (Gazprom's subsidiary). However, in 2011, after being appointed as the head of the Czech Energy Regulatory Office, she sent the company into liquidation and it ceased to exist (Česká televize, 2017).

Disruption (by various means) of alternative supply routes/sources of supply

In the case of the Czech Republic, Russian state officials verbally opposed Czech diversification efforts that ultimately led to establishing

[261] The company has also been active in electricity trading in the last couple of years.

alternative supply route bringing gas from North Sea. Thanks to the then relative weak position of Russia in international relations, clear pro-western orientation of the Czech Republic and dependence on revenues from supplies of hydrocarbons, this negative stance remained in verbal form.

Efforts to gain a dominant market position in the client country; Attempts to control the entire supply chain (regardless of commercial rationale)

Although Gazprom itself and the Russian state representatives were definitely not happy about the supply diversification that took place in 1997, no countermeasures were implemented, nor any effort of increasing the influence took place. The Gazprom's subsidiary active in the country (VEMEX) keeps a rather low profile and is nowhere near a significant position on the market.

Efforts to eliminate competitive suppliers

Not present. Gazprom lacks tools to make this happen. The only opportunity for such activities was in the time when Czech officials were considering diversification of the Czech gas supply portfolio in mid-1990s. As mentioned above, these activities remained rhetorical.

Acting against liberalization

Gazprom has not opposed the liberalization process openly as it was part of the country's accession to the EU, however, it did try to dodge the rules to maintain its position in the region. Gazprom was accused for abuse of dominance on Central and Eastern European gas supply markets, including the Czech Republic *where the Russian company allegedly imposed territorial restrictions on gas marketing, unfair pricing policy and various conditionality within its supply contracts (see above).*

Preference for long-term bilateral agreements and "take-or-pay" contracts

The condition is present in the current contract, although Gazprom lost a lawsuit with RWE on this condition in 2012. Also 'ship-or-pay' condition is present.

Diminishing the importance and influence of multilateral regimes such as the EU

Not possible since the Czech Republic is a member of the EU. However, Russia and Gazprom were clearly upset by the so called 3rd liberalization package since it seemed to be directed against them, and also that they were not consulted in the process of creating this legislation.

Economically irrational steps taken to maintain a particular position in the client state's market

All Gazprom's actions related to the Czech Republic have seemed to be made on sound economic logic. This applies also to the case of alleged dodging of IEM rules and imposing unfair pricing policy and territorial restrictions Gazprom was accused for in 2015. In this sense, a clear effort to maintain its position on the given market is evident.

18. CONCLUSION

The aim of this research has been to address the widespread accusations that Russia uses its state-owned enterprises (SOEs) as political leverage. The focus was on the natural gas sector, where these accusations have been most frequent, and the aim was to examine countries in the Southeastern European region, where most states depend upon Russia for their gas supplies, as they do on infrastructure built to handle those supplies. The main goal of the research, therefore, was to determine the extent to which Gazprom, and Russia as its majority owner, utilize a strategic approach to energy policy in the natural gas sector and the extent to which the company is used as a foreign policy tool.

To address this, 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 the Russian foreign policy?"* For this purpose, an ideal type model of strategic behaviour based on the strategic approach to energy policy and its paradigmatic groundings was developed. The strategic approach is a basis for energy policy that suggests a state should be using energy and energy commodities as tools to achieve foreign policy goals, i.e. that energy commodities should be subordinated to the state's needs. The states investigated are naturally sensitive to any perception of such a strategy, especially given Russia's past and present ties to the region.

The above-mentioned ideal type model is defined by a set of features and derived indicators that were assessed for individual cases. In alphabetical order, the cases were: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia, Moldova, Montenegro, Romania, Serbia, and Slovenia. Incentives for selecting these cases lay in the similarities they share in terms of history and experience with authoritarian regimes, geographical area, the structure of their economies, energy relations towards Russia, economic development, potential for future infrastructural projects, and experience with supply curtailments. Finally, these states comprise a geographically coherent