CHAPTER 7

Brussels

Marching to Market

Two battles broke out on the gas front as the result of the increasingly active policies pursued by the European Commission. The first was the conflict that took place in Western Europe, chiefly in Germany, between the mid-1990s and the end of the 2000s, culminating in the defeat of the established utilities and the victory of market forces. The second confrontation was between the Commission and Gazprom, which began in 2011. In both of these battles the lead was played by competition law and its application to energy. In this chapter we look at the process by which the Commission gained the power to play this role, as a result of which the old order of the European gas industry was overturned.

As we saw in Chapter 6, in 1985 Jacques Delors and Lord Cockfield launched the Single European Market project, the centerpiece of which was a White Paper with three hundred specific proposals aimed at overcoming the obstacles in the way of the single market. However, the White Paper contained no mention of energy. How, then, was the White Paper on the Single European Market turned into an energy program and then into the Gas and Power Packages, despite the opposition of established companies and several member-states? Why was the industry so opposed to reform? What caused the Commission to persist? What effect did the Commission have in driving the changes that have taken place in the European gas industry, as opposed to other objective forces (chiefly economic

and technological) that were even then altering the traditional gas market? Finally, how were these events perceived in Moscow?

The Old Gas Order in Europe

Through the mid-1990s, the gas business on the Continent of Europe had stoutly and successfully resisted the trend toward greater liberalization that had taken place in other developed gas markets such as those in Australia, North America, and Great Britain, where reforms had brought liberalized pipeline access, greater stress on market signals (especially new techniques for pricing gas), and the beginnings of gas-on-gas competition. The Continental gas system remained wedded to the old order of managed markets, long-term contracts, and interfuel pricing—essentially the same system that had been in place since the late 1960s, when the cross-border gas trade first developed.[1]

Yet four fundamental trends were already bringing change to the Continental gas trade. The first was the market's growing maturity and complexity, particularly the expansion of the international pipeline network to include both new producers and consumers at the edges of Europe. In addition, electricity generators were emerging as purchasers, as technological innovations in the power sector (chiefly combined-cycle generation) made gas increasingly attractive for electricity generation. Second, there was a growing trend toward market integration, as lower fuel prices and weaker netbacks caused gas suppliers to look to gas transmission—the midstream of the value chain—as a growing source of rents. Third, there was an increasing supply surplus available to Europe, especially with the end of the Soviet regime and the emergence of Gazprom as a newly entrepreneurial force on the European gas market. Finally, there was the growing impact of information technology. With the rise of sophisticated systems of such technology, and ultimately the internet, it became possible to design systems for trading on networks in real time. These four forces for change brought to the Continental market for the first time the prospect of substantial volumes of uncontracted gas, potentially weakening the traditional model of contracts.[2]

Meanwhile, the significance of gas in the European energy economy was growing steadily. A symbolic date is 1994, when for the first time

the contribution of gas to the energy mix exceeded that of coal (although both remained well behind oil).[3]

While gas professionals were well aware of these deep trends taking place in the structure of their industry, they disagreed among themselves over their implications. The European gas world was divided between those who believed that the old system must yield to a more open and diversified market and those who defended the merits of the traditional order. As gas expert Jonathan Stern wrote in 1992, "Commentators are either enthusiasts—who can see no great difficulties inherent in fundamentally changing the commercial rules . . . or opponents, who regard third-party access as equivalent to the end of civilization in the gas business."[4] He added, "They may not have gone as far as to claim that its outcome would leave consumers freezing and starving in their homes, but this was the impression they left on their audiences."[5] The debate took twenty years to resolve, but the answer is no longer in doubt: the old gas world is gone, and the market has prevailed. Where elements of the old remain, as in eastern and southeastern Europe, they are on their way out. This was due in no small part to the steady pressure of the Commission, beginning in the late 1980s.

This pressure was strongly resented and resisted by the gas industry. Their sector, from their point of view, was a signal success story and an important one. It was not a simple matter, in other words, of monopoly or quasi-monopoly structures seeking to line their pockets. Ever since the 1960s, the gas industry had built a pipeline network and distribution system that had come to span the entire continent of Europe, and this was a matter of considerable pride. It benefited millions of consumers and supported hundreds of thousands of employees. It had hugely improved the quality of the air in cities all over Western Europe,

The industry could claim, with some justice, that it was more European than the European Commission itself. After all, the early Dutch gas missionaries had seen German, Belgian, French, and Italian customers as a natural part of their universe in the early 1960s. And in the 1980s, the construction of the Middle European Gas Pipeline (known as MEGAL, from its German acronym) to ship Soviet gas to Europe required European cooperation, as neither Ruhrgas nor Gaz de France (GDF) had the financial muscle to do it alone. The industry could point

to the Europe-wide security of supply that was assured by the capability of switching gas flows from one pipeline to another whenever there was a problem, always with the Groningen swing supply in the background and serving nearly anywhere in Europe. During the Russian gas interruption of 2009, it was EON. Ruhrgas and GDF Suez that had made sure that Belgrade and Zagreb were supplied with gas, at no cost, because of their European mission. It was a story the gas industry believed in deeply.

Moreover, the gas industry could argue that its traditional structure had served Europe well in other ways, too, including the environment. For example, the cooperation of adjacent monopolies (through demarcation agreements in Germany and de facto national responsibilities for the national companies of France, Italy, and the Benelux) ensured pricing of gas and investment in network expansion that enabled gas to attack the dominant heating oil markets in households and industry (and later, the coal market in power generation). As a result, a great deal of interfuel substitution was achieved under the corporate architecture of the time.

Lastly, because in many states the gas industry was partly or wholly owned by governments, both national and regional, it supported a variety of good causes. Gas rents accrued to a wide range of industries in the form of subsidized prices and other forms of state aid. A famous example, noted in Chapter 2, was the creation of hothouse agriculture in the Netherlands, in which low-priced gas supported an entire industry that grew cucumbers, gherkins, flowers, and tomatoes. Flowers were a special case in point: the Netherlands was exporting 84 percent of the cut flowers it produced, two-thirds of which were being imported by Germany.

Into this happy picture had come the Commission with its strange neoliberal language of price transparency, level playing fields, and opposition to state aid. The very notion of a level playing field seemed odd. When Gasunie, the Dutch gas company, found itself embroiled in an early case with the Commission's competition authority over subsidized gas tariffs for "glasshouse growers" (a case that it lost),[6] a senior Gasunie manager exclaimed with indignation (genuine if good-humored), "Why shouldn't we let our tomato growers have cheaper gas than the other EEC countries? God gave Italy the sun, and He gave the Netherlands the gas—so that's

a level playing field!" (The Russians, a quarter-century later, would put it no differently.)

The argument of this chapter is that the role of the Commission was crucial in setting the agenda for the liberalization of the gas industry in continental Europe. While the Commission proved unable to reform the industry single-handedly and ultimately required the help of the courts and the national regulators, as well as some key converts in the gas industry itself, it nevertheless succeeded in creating the framework for reform and translating it into enforceable legal rules.[7] In the process the style of the regulatory relationship with industry also changed, becoming more adversarial—more American, some observers would claim—than the negotiated style more characteristic of European tradition. This in turn accelerated the broad changes that were already transforming the industry. One major result of this process was that by the time the Russians came into the European midstream in the 1990s, they encountered a world that was on the verge of becoming unrecognizable, compared to the one their Soviet predecessors had grown up with since the 1960s.

There is irony, one should note in passing, in that the liberalization championed by the Commission took the form of increased regulation—something that fit rather more with the German ordoliberal vision than the Anglo-American neoliberal one. In that sense, as we noted in Chapter 6, the neoliberal revolution as practiced in Brussels was very much a hybrid, and as time went on German players in the Commission came to play some of the lead roles in the development of its enforcement powers.

The Commission's First Moves

The debate over the future of the gas industry overlapped with the evolution of the Single European Market project and the development of a new legal and regulatory framework to enforce it. At first glance this might seem coincidental. As we saw in Chapter 6, the revival of the single market project was strongly driven by forces that on the surface had nothing to do with gas—neoliberal ideology, relations among member-states, and individual personalities.[8] At first, the single market agenda was not applied to energy at all, and then it was applied only to electricity, not gas.[9] However, notes gas expert Michael Stoppard, "the lack of harmonization

and the diversity of energy prices were becoming increasingly anomalous within the wider context of the general thrust toward a single market."[10] By the late 1980s gas had moved to the center of the Commission's attention. The result was the Internal Energy Market document of 1988, which represented the Commission's first attempt to translate the Single Internal Market White Paper into energy policy.[11]

Reform was pushed forward by two high-profile commissioners under Delors, one for energy and the other for competition. They had very different styles. Antonio Cardoso e Cunha was commissioner at the head of the Directorate-General for Energy (DG-Energy, known in those days as DG-XVII) from 1989 to 1993, in the second half of the Delors presidency. He was a politician from Portugal's Social-Democratic Party, having had a previous career as an engineer in the chemical industry. He was the first commissioner from Portugal and was presumably eager to set good precedents. He was "very committed to liberalization . . . it was almost a personal crusade."[12] Yet his approach was pragmatic: he preferred to find negotiated solutions rather than invoke the law, which occasionally led colleagues to underestimate him. Faced with the task of overseeing a neocorporatist directorate general for energy whose staff lacked the will to challenge sectoral interests, Cardoso went around it, establishing an independent task force headed by a senior official from the competition directorate, which had experience of liberalization in other sectors, and he formed alliances with his fellow commissioners from competition and industry.[13]

Thanks to this partnership, there followed a burst of increased activity. The first draft energy directive was drawn up by the Energy directorate in 1989. On transparency of prices, it was adopted without major opposition the following year. A second directive on common carriage and third-party access (according to which a shipper that does not own a pipeline may nevertheless gain access to it to ship his gas to a third party without undue obstacles), adopted in 1991, was initially limited to transit between utilities. But this was as far as Cardoso was able to go, because member-states and established energy interests began to mobilize against the draft directive. Cardoso's search for political solutions proved unsuccessful, and in the end he failed to get his proposals for the energy sector past the Council of Ministers. In retrospect, there is a feeling among his

colleagues that Cardoso was perhaps not tough enough. His competition colleague, Leon Brittan, once paid mixed tribute to Cardoso when he said Cardoso "has made considerable efforts to get things moving in the Council of Ministers"—suggesting that he had not been very successful, which was in fact the case.

Brittan, who was a commissioner at the same time as Cardoso (1989–1993), was a very different sort. We noted in Chapter 6 his close relationship with Delors. His approach from the first was more combative: unlike Cardoso, he had enforcement powers and was determined to use them. DG-COMP increasingly turned its attention to energy. Something of Brittan's resolve can be sensed from a speech he gave in the spring of 1991:

> When I arrived in Brussels in 1989 I did not see very much competition in the energy field. . . . Now my instincts tell me to be suspicious about any industry which claims to be a special case, to deserve special treatment and particularly when these arguments are presented in an attempt to justify monopolies. . . . Our objectives can be clearly stated: Consumers should have a choice of suppliers, prices should be set by competition, suppliers should be able to deliver their production through someone else's network, state subsidies should be transparent and limited and there should be no barriers to trade between the Community's Member States.[14]

Despite these strong words, by the end of his tenure as competition commissioner, Brittan had not achieved much more in the energy field than Cardoso had, and Brittan had done still less in the area of gas. It was broadly perceived by most observers that the Commission had been on the losing end in the energy field. Writing in 1992, the historian Stephen Padgett concluded that "There is general agreement that energy policy must be ranked as one of the Community's major failures."[15] Indeed, Padgett and many others believed that the situation was unlikely to change: "The commercial and technological structure of energy markets is inherently anti-competitive." In addition, Padgett wrote, there were several characteristics that made the gas and electricity industries "national," so national governments wanted to control the industries. Chief

among these characteristics was the dependence of electricity and gas on physical networks that tended to be based on national boundaries. It was not until 1998 that the Commission finally succeeded in getting a gas directive through the Council of Ministers. Jonathan Faull, who went from an early career in DG-COMP in the 1990s to become by the time of his retirement the most senior British civil servant in the Commission, summed up the reasons for the long delay in making headway in energy regulation in those days with the simple words, "It was so damned hard!"[16]

But in retrospect the verdict of failure was premature. Despite the apparent blockage of the draft energy directive, two things had begun to happen. First, largely thanks to the Commission's efforts, decision makers at the level of the member-states were beginning to consider what had previously been unthinkable concepts for so-called natural monopoly industries, including electricity and gas. Gas expert Simon Blakey noted at the time, "The Commission's impact on national-level decision-makers . . . can genuinely be said to have changed the playing field on which the gas industry conducts its business." Third-party access, transparency, and unbundling "were ideas whose time had come."[17]

A prime example of the changing playing field in the wake of the First Gas Directive was the inauguration of the UK-Belgium Interconnector pipeline, which suddenly brought the possibility of gas flows from the liberalized UK gas market to continental Europe. Two years after it had begun operation in 1998, the Interconnector—in which Gazprom took a 10 percent stake—was already serving as a major vehicle for arbitrage between British spot gas and Continental contract prices. Daniel Yergin commented on this historic development in the spring of 2000: "A yawning arbitrage gap is opening up in Europe between the price of long-term contract gas and spot gas. A new basis for pricing and trading gas on the continent—the march to market—has begun."[18] The Interconnnector brought the reality of lower British spot prices to the Continent, and European consumers took notice.

The second development, initially modest but soon the subject of major headlines, was the growing legal muscle of the competition directorate, especially in terms of its power to conduct raids and impose fines. The directorate had been granted these extraordinary powers as far back as 1957, in the founding document of the Common Market, the Treaty of

Rome. The famous Regulation 17 of the Treaty, in the words of the competition scholar Daniel Kelemen, "gave the Commission unprecedented powers":

> In other policy areas, the Commission could enforce EU law only vis-à-vis national governments. In competition policy, the Commission could deal with firms directly. . . . Commission competition officials could conduct dawn raids on company premises and impose substantial fines on violators. . . . [They] had the power to preempt investigations by national authorities. . . . Also Regulation 17 granted the Commission a monopoly on the power to grant exemptions.[19]

Commission veterans agree that Regulation 17 was both crucial and unique. As Faull commented, "The most important thing was the adoption of Regulation 17 in 1962. It would be extremely difficult to enact such legislation today."[20]

Yet though these powers had been available to DG-COMP since 1962, they were not widely used until the 1980s. Prior to the arrival of Peter Sutherland and Brittan, the competition directorate had imposed fines for violations of the Commission's anticartel regulations, but they had been modest and fewer than a half-dozen in number. With Sutherland and Brittan, however, a more aggressive phase in the directorate's use of its enforcement powers began. Though DG-COMP's weapons were not initially applied to the energy field (much of the initial attention of the competition directorate was focused on sectors other than energy, particularly telecommunications) the weapons were being sharpened.

"Muscles in Brussels"

Since the 1980s DG-COMP has gradually become the most powerful of the directorates in the European Commission.[21] In the early 2000s, an international survey of experts rated it as "the most trusted and admired" among competition watchdogs at all levels of the European Union. Its civil service positions were among the most prestigious in Brussels, and the competition portfolio was among the highly prized.[22] By the first

decade of the 2000s DG-COMP had reached the height of its power. "With its 'dawn raids,' epic legal battles, and multibillion euro fines," writes Kelemen, "competition policy has long been one of the few sources of drama in EU regulation, demonstrating . . . that at least in the field of competition policy there were indeed muscles in Brussels."[23] That is even more true today under the present commissioner, Margrethe Vestager, a former Danish deputy prime minister.[24]

But it was not always the case. DG-COMP started out in the years after the Treaty of Rome in 1957 as a "sleepy, ineffectual backwater" of European Community administration. It had only a "handful of A-grade officials," and working there carried "little prestige."[25] The directorate was perennially understaffed and underresourced (as indeed it remained over the next three decades). Its rise in the 1980s and 1990s was striking but also unanticipated. How did it happen?

Potentially strong powers in the area of competition had been granted to the Commission from the beginning. Jean Monnet, the spiritual father of the European Community, had considered competition one of the most important features of the Treaty of Rome, and he saw it "as a mandate to dissolve cartels, ban restrictive practices, and prevent any concentration of economic power."[26] Yet in its early years DG-COMP (at that time known as DG-IV) acted with great restraint, even timidity. There had been strong opposition from several member-states to including any mention of competition at all in the Treaty of Rome, and opposition only grew stronger as time passed.

The first cause of the growing power and assertiveness of DG-COMP was the strong support of the European Court of Justice (ECJ). In the landmark *Grundig* case in 1966, involving an action against the German electronics manufacturer of that name for restraint of trade, DG-COMP for the first time solicited the ECJ's opinion. The high court not only upheld much of the Commission's decision, but it also affirmed the Commission's authority against the governments of Germany and Italy, which had joined the case in support of the defendant. Over subsequent decades, the consistent support of the ECJ has been a key factor in the rise of DG-COMP.[27]

The second major driver was a succession of strong commissioners, beginning as we have seen with Sutherland and Brittan from the mid-1980s

to the early 1990s, followed by Karel van Miert, Mario Monti, and Neelie Kroes in the later 1990s and the early 2000s, down to Margrethe Vestager to 2019. The presence of strong personalities from the mid-1980s on was not a coincidence. Thanks to the strong support of Delors, DG-COMP became an increasing attractive post. But in addition, as the 1980s turned into the 1990s, competition was becoming the consensus doctrine, part of the increasingly dominant neoliberal *air du temps,* and this too attracted strong personalities.

DG-COMP is also marked by a unique culture. One longtime Commission official remarks: "DG-COMP stands somewhat on the sidelines of the Commission, not in the main line of business. It doesn't legislate, and it doesn't spend money—two matters that take up much of the time of colleagues in other directorates. It has the reputation of being so technical people think they'll never master the complexities. They stand in awe of it, and are even somewhat reluctant to be assigned there."[28]

DG-COMP is also an interesting example of the ways in which British—or, more broadly, Anglo-American—neoliberal ideas, migrated to Brussels and influenced the exercise of competition law, as discussed in Chapter 6. However, one should also note the strong presence of German officials in DG-COMP. Philip Lowe, a former DG-COMP director-general, observes:

> German competition law dominated thinking for many years. Earlier on, the Federal Cartel Office regarded DG COMP as very much its junior. And before I became Director general in 2002, all the previous Directors general had been German. Some commentators at the time said that the German antitrust community and the German government only tolerated my appointment because I spoke fluent German. . . . It is not possible to explain the reputation and influence of DG COMP without referring to the positive and fruitful way in which German and UK Competition Policy traditions interacted.[29]

In the 1980s and 1990s, the number and range of cases brought by DG-COMP grew to include abuse of dominant position, illegal market-sharing agreements, price-fixing, restrictive distribution agreements, and many other actions. DG-COMP searched the premises of suspected

violators (the famous "dawn raids"), and levied increasingly hefty fines. Total Commission fines imposed in cartel cases, for example, ballooned from 540 million euros in 1990–1994 to 3.46 billion in 2000–2004 and 9.76 billion in 2005–2009, before subsiding slightly in 2010–2014.[30] As its activity expanded, DG-COMP was consistently supported by the ECJ, which affirmed its supranational authority and enforcement powers.

Yet as the power of DG-COMP grew, so did the opposition to it—particularly in the area of regulated networks, such as electricity and especially gas—and DG-COMP did not always have things its own way.[31] The same was even truer of DG-Energy. For nearly a decade, as we have seen, DG-Energy was unable to gain approval for a gas directive, and when it finally succeeded in 1998, the resulting document was so weak that it was regarded as a failure. From that point on, DG-COMP increasingly took the lead. Yet it took another decade before the Commission, even with the two directorates-general working in tandem, prevailed.

During that time, however, DG-COMP's focus on the energy sector steadily sharpened. The path of growing DG-COMP involvement in the energy sector can be traced through the successive directives that the Commission published on gas and power, beginning in 1998 and culminating in 2007, the year of the passage of the Third Gas and Power Directive, the so-called Third Package. Though these were written primarily by DG-Energy, they were developed in close alignment with DG-COMP.

In the published literature on DG-COMP and the role of the Commission as a force for reform in the gas industry, there are two schools of thought. For the first, the most important driving force for change in the gas industry was not the Commission but underlying economic and technological trends that were shaking up the gas industry, especially starting in the 1980s and increasing in the 1990s. For the second, the role of the Commission was paramount. In addition, while DG-COMP in the 1980s and 1990s was not strong enough to prevail on its own, the steady support of the ECJ made the Commission progressively stronger as the years went by.

The answer depends mainly on the period one looks at. There were broadly three phases.

Phase One: Competition Policy and the Single Market, 1985–1992

Delors's drive to relaunch European integration with the European Single Market project put the emphasis on competition as the centerpiece. As the White Paper of 1985 stated, "As the Community moves to complete the Internal Market, it will be necessary to ensure that anti-competitive practices do not engender new forms of local protectionism which would only lead to a repartitioning of the market."[32] DG-COMP took up the challenge. Under commissioners Sutherland and Brittan, the competition authority intensified its enforcement. As we have seen, it began raiding the premises of companies under investigation, carrying away paper records and, for the first time, computers. It began imposing heavy fines (although still modest by comparison with current levels, as discussed below).[33] Above all, it forced changes in corporate practices and structure.

One by-product of the single market program was an increase in cross-national mergers. Businesses began to complain to the Commission about the anticompetitive impact of mergers by their competitors. DG-COMP initially hesitated to advance into this field, but in 1987, a decision by the ECJ in a case against Philip Morris increased the extent of DG-COMP's power to review mergers. As DG-COMP expanded its activity, businesses began to take notice, asking DG-COMP for advance clearance before undertaking mergers. A new merger control regulation in 1989 increased the Commission's powers further and established that DG-COMP would be the dominant player in the merger control field.[34] Philip Lowe notes about the late 1980s:

> The first EU Merger Regulation, which set up the world-renowned European one-stop shop for mergers, was passed in 1989 in the very early months of Leon Brittan's mandate after 17 years of negotiations between the Member states. It established for the first time legal deadlines for the approval of mergers and was the model for many of the subsequent wider reforms of DG COMP's organisation and working methods.[35]

The story of DG-COMP's expanded powers in merger control illustrates an important point about the drivers behind the increase in DG-COMP's powers. It was not solely the result of the ambitions of commissioners or the desire of the directorate to expand its turf, but at least as much a product of the economic forces unleashed by the European Single Market project and the resulting surge in merger activity throughout the European Union. The result was pressure from merger candidates themselves to have a one-stop shop that could provide advice on acceptability of proposed mergers. Today, in the words of Faull, "As a result of the merger control regulation there is now an automatic turnover threshold, above which the EU gets automatic notification. Consequently, there is no discretion over whether to bring a case or not. It's automatic."[36]

These expanded powers in competition law soon began to have an impact on the Commission's policies toward the gas industry. By the end of the 1980s the traditional structure of the gas industry was coming to be seen, not only in Brussels but among a growing number of national decision makers in the member-states, as a source of obstacles to trade. The prices paid by industrial consumers were neither well-known nor accessible.[37] Lack of transparency prevented competition in a market that was supposed to operate under the competition rules of the Treaty of Rome. Instead of one European market, there was a series of national markets existing side by side. The few companies that were the major players maintained extensive cooperative agreements that amounted to restraint of trade. Among these were pricing principles that prevented competition among different sources of supply. At the beginning of the 1990s three issues had emerged as uppermost in the battle for a single market in gas: (1) exclusive rights, (2) third-party access, and (3) unbundling (that is, the separation of supply and transit into two separate companies). All three were part of the same battlefield—gas transit.[38] It was over transit that the battle was first joined.

The first real test of the Commission's powers in implementing the European Single Market project in the gas industry came in 1990, with a Directive on Gas Transit. This gave the Commission its first taste of opposition from member-states and established interests in the gas sphere. Vigorous lobbying by Germany and the Netherlands had delayed the

measure by over a year, and by the spring of 1990 it appeared to have been derailed. But on this occasion, to general surprise, the Commission prevailed, thanks to the use of the qualified majority voting rule that had been set up by the Single European Act of 1986. This was a first: "Never before had a major industrial policy measure been voted into effect by a qualified majority under the Single European Act rules."[39] Even then, it was a near thing—only a last-minute decision by Spain to change its vote to yes enabled the measure to pass the Council of Ministers and be sent on to the European Parliament. Yet this measure set an important precedent. For the first time, the Commission, backed by a majority of member-states, succeeded in overruling what formerly would have been a national veto.

Yet as far as its immediate consequences for the liberalization of the gas market were concerned, the passage of the transit directive was more symbolic than real. It was a relatively weak measure. It required only that gas transmission companies in the member-states transport gas belonging to other gas companies across their pipeline systems for delivery within the Community. Thus Gaz de France would be required to transport gas from Belgium to Spain, if the respective gas companies of the two countries concluded a sale and purchase agreement. This was still very far from third-party access, under which gas companies would be required to make space available in their pipelines for third-party producers such as petrochemical companies or power utilities. Nor did the directive specify how a transporter should respond if space was not available in its network. However, as weak as the directive was, the gas industry perceived it as the thin edge of the Commission's wedge, which it ultimately proved to be. But more than a decade went by before the principle of third-party access was fully established in EU law.

Opposition from Germany was especially strong. Of the forty-three companies covered by the Transit Directive, twenty-nine were German.[40] (Indeed, more than twenty of them were either customers, suppliers, or joint-venture subsidiaries of Ruhrgas.) This was no coincidence. In Germany the gas industry was organized by region. It was largely unregulated, and it was mainly a private-sector business. Given this structure, the German gas industry and the government argued that the directive in

effect imposed an early form of open access on gas in Germany, and they saw it as the camel's nose of third-party access. A statement by Burckhard Bergmann, then CEO of Ruhrgas, testifies to the strong feelings the directive aroused in the incumbent industry:

> The German gas industry is willing to adopt a constructive approach to the transit function. In this respect the European Community Transit Directive was superfluous. It has always been possible to come to commercial arrangements on all transit issues. Whenever projects failed in the past, ostensibly due to insoluble transit problems, the argument does not stand up to scrutiny. In fact, in such cases, an excuse was often sought to explain why light-hearted promises did not materialize for projects which had never been viable.[41]

Another innovative feature of the Transit Directive was its sweep. In principle, it applied to the entire "grid of origin or final destination"—that is, to any gas flowing to, from, or through any of the European Community countries and, for that matter, the European Free Trade Association as well. Thus, again in principle, it covered gas imported from Norway or the Soviet Union. Although this feature passed largely unnoticed at the time, it was the first time that an office of the Commission had asserted, if only by implication, that Russian gas could be subject to extraterritorial rules by the European Commission—a theme with a long future ahead of it, as we shall see. But since the Transit Directive lacked teeth, it had no practical impact at the time.

Phase Two: The Courts and the Member-States Push Back, 1992–1999

The European Court of Justice (ECJ) could give, but it could also take back. As DG-COMP expanded its activity and as private actors began coming to the ECJ to challenge DG-COMP's decisions, the court began to rein it in. In addition, a new court, the Court of First Instance, was created in 1989 to take over much of the ECJ's ordinary caseload. From that point on, DG-COMP found that while the courts were its best support, they were also demanding friends. The Court of First Instance, in

particular, began to review DG-COMP's substantive fact-finding and economic analysis. (One by-product was that DG-COMP began to hire economists as well as lawyers, and today the skill set of DG-COMP is a blend of both.)

The pushback against the application of competition law to the energy sector was part of a larger backlash against DG-COMP in the 1990s. The directorate was perceived to have become both overambitious and ineffective.[42] DG-COMP was seen as lacking transparency; the grounds for its decisions were criticized as opaque, lacking sound analysis, and unpredictable. The Commission responded that DG-COMP was a victim of its own success: it faced an ever-expanding stream of complaints and requests for clearance, as well as a mounting backlog of cases. To deal with the workload, DG-COMP began taking informal shortcuts, issuing advisory opinions, unofficial comfort letters, and so on. The combination of these labor-saving measures, plus the growing scrutiny from the ECJ and the Court of First Instance, led to a decline in the cases brought and fines imposed during van Miert's tenure as commissioner, in 1993–1999. These were years of relative quiescence in DG-COMP as a whole, during which the competition directorate was on the defensive.[43]

However, at the level of the member-states there were changes afoot. The same three issues noted above dominated the discussions among the national-level regulators and governments: exclusive rights, third-party access, and unbundling. Of these the most controversial was third-party access. This had already been one of the main thrusts of the 1988 Energy White Paper and had been pushed strongly by Cardoso, but the Commission had been unable to obtain the national governments' approval for this measure in the European Council. However, at the national level cracks were already appearing in the traditional structure. One of these was the so-called Weissenborn case, in which the German regulator (the Bundeskartelamt) broke new legal ground by affirming that Verbundnetzgas, the East German gas utility, had failed to provide access to its grid for gas moving from Wintershall to Weissenborn, a paper manufacturer located on the Czech border.[44] The German regulator's decision was subsequently upheld by the ECJ.

Phase Three: "An Audacious Coup" (1999–2007)

The third phase of the growing power of the competition authority came under the vigorous chairmanship of Mario Monti (1999–2004), who served under Commission president Romano Prodi. Monti, who subsequently returned to Italy and served as prime minister (2011–2013), presided over a far-reaching modernization of DG-COMP, accompanied by a strengthening of its powers to investigate and impose fines.

Monti had already established a reputation for high energy and integrity in his role as European Commissioner for the internal market and services from 1994 to 1999—during which time he earned the nickname "Super Mario." Under Monti, DG-COMP once again began to exercise its powers. The fines by imposed by DG-COMP in 2001 totaled more than all the fines imposed by the EU in cartel enforcement up to that time, and between 2001 and 2003 DG-COMP issued an average of eight decisions per year, compared with an average of 1.5 decisions annually over the previous thirty years. Something of Monti's determination can be seen in his words in 2001:[45]

> I consider cartels to be a veritable cancer in an open market economy. Unlike other forms of anticompetitive behavior, they serve one purpose and one purpose alone: that of reducing or eliminating competition. They bring no benefit to the economy. . . . The managers and directors of companies engaging in such practices must be in no doubt that we shall leave them no respite, that they will be detected and that the penalties will be heavy.[46]

Yet Monti now faced far greater challenges in managing the Commission's competition policy than in his previous posts. His directorate-general, though the most powerful in the Commission, was systematically understaffed: year after year, national governments vetoed DG-COMP's requests for additional personnel.[47] This had been a chronic problem since the 1960s, and DG-COMP's growing caseload had made matters worse.[48] As we have seen, dissatisfaction with DG-COMP's performance had built up under van Miert, Monti's predecessor. To deal with the problem, Monti launched a sweeping modernization of the competition authori-

ty's structure and methods. Gone were the previous notifications, under which companies could seek advance clearance from the Commission for actions that might violate competition rules. Now the companies were on their own, and the Commission could go after them if they got something wrong. Monti also invoked the doctrines of subsidiarity and decentralization to engineer a wholesale devolution of jurisdiction to the national regulatory level.[49] At first, it appeared as though DG-COMP had surrendered power to member-states. But a closer look shows quite the opposite: Monti had actually harnessed national agencies, courts, and private litigants to extend the reach of EU competition policy. Kelemen called it "the most significant reform in the history of EU competition policy."[50] The result was to make DG-COMP more powerful than ever.

Neelie Kroes and the Third Package

As active as "Super Mario" was as head of DG-COMP during the first half of the 2000s (1999–October 2004), his successor, Neelie Kroes (2005–2009) went him one better. Under Kroes the total fines levied by DG-COMP (9.4 billion euros) were nearly triple the total levied under Monti.[51] Kroes took on some of the biggest corporate giants of the world—including Intel and Microsoft—and won. It was also under Kroes that the first energy sector inquiry was launched by DG-COMP, and although (as we shall see) Gazprom was not a target at first, it was Kroes's sector inquiry that prepared the ground for the investigation of Gazprom that followed under her successor, Joaquin Almunia, starting in 2011. In short, the shift from cooperation to conflict that began in the Russian-European gas relationship toward the middle of the 2000s has its origins to a substantial degree in the changes that took place in DG-COMP's approach to energy under Kroes.

Unlike Sutherland and Brittan, Kroes was not a lawyer by background; neither was she a noted academic economist like Monti. She had studied economics at Erasmus University in the Netherlands, but at the age of thirty she was elected to the Dutch parliament, and from that point on she was employed mainly as a working politician, serving for seven years as transportation minister. When she was first named competition

commissioner by Commission president José Manuel Barroso, it was whispered in Brussels that he chose her because he wanted to increase the number of female commissioners, and all of her predecessors had been male. Kroes's confirmation hearings before the European Parliament did not go smoothly: her English was rusty and she knew little of the fine points of competition law. "She had a pretty rocky start," said one Brussels-based lawyer.[52]

But as a professional politician, Kroes had good survival instincts and a keen sense of politics, and these served her well as she learned her trade as commissioner. She was a tough and resourceful negotiator, and she ran a tight meeting, but with charm and skill. She developed a smooth working relationship with Lowe, her deputy. As Lowe commented, "At the beginning she was pretty unfamiliar with what competition policy was all about, but she rapidly caught up speed on the major cases involving companies such as Microsoft and Intel and on the follow up to the energy enquiry." Above all, she brought to the job deep promarket convictions, instilled partly by family business ties, that she expressed in tough and plain speech. "I feel myself come alive when I speak about our cartel work," she would say to audiences. "Nothing is more fundamentally wrong in our field than a cartel. I am not a shy person. . . . We are prosecuting more cartels and preventing more consumer harm than ever before."[53]

She brought equal passion to energy, as well as a sense that the field had been relatively neglected. As she told an audience in Vienna in the spring of 2006,

> Despite two waves of liberalization . . . a single competitive European energy market is still not a reality. . . . Shortly after coming into office, I was pleased that my Commission colleagues backed my suggestion for an in-depth assessment of the energy markets. Over the past nine months, we have used a new tool—the sector inquiry—to find out more about the barriers to free competition in energy.[54]

"The old incumbents," Kroes told her listeners—who happened on this particular evening to be the cream of the Austrian energy community—"appear to remain the top dogs." She was particularly scathing toward

the Austrian gas and power industry, where "the largest player covers around half of the electricity and three-quarters of the gas supplies to final customers. . . . There is very little market entry." And she gave fair warning of what lay ahead: "The Commission will launch individual anti-trust investigations where this is appropriate, for example, where there is vertical foreclosure caused by long-term downstream contracts, or hoarding of capacity on pipelines, gas storage and interconnectors." "Vertical foreclosure," "capacity hoarding," and so on was new language for the established gas industry. With language and concepts such as these, drawn from the academic literature, DG-COMP was able to outflank the industry at the intellectual level.[55]

The sector inquiry lasted from mid-2005 to early 2007, focusing chiefly on electricity and gas. DG-COMP then proceeded, on the basis of the findings, to draw up a package of recommendations for new legislation—the famed Third Package. On the eve of its presentation, in September 2007, Kroes briefed an audience on the chief findings of the sector inquiry and the new package. Her chief conclusion was brief and to the point: "The results were deeply concerning."[56] The sector inquiry, the commissioner went on, had found five main problems:

> First, continuing high levels of concentration so incumbents maintain market power; second, vertical foreclosure, as the old monopolists continue to own the energy infrastructure; third, low levels of cross-border trade, due to insufficient interconnector capacity and to contractual congestion since spare physical capacity is not always released; fourth, lack of transparency about operations in the wholesale energy sector, which makes it difficult for new entrants to understand how the markets work in practice and the risks that they take on; and finally, lack of confidence that wholesale energy prices are the result of meaningful competition.[57]

However, these were, in a sense, generic problems, and previous commissioners would probably have come up with the same list. What made this speech different was that Kroes was now armed with facts, and there was a tone of moral outrage in her words as she described the abuses

DG-COMP had uncovered. For example, on the subject of discrimination in access:

> I can cite the case of a Transmission System Operator that granted its affiliated supply company substantial rebates that were not available to others. In another case a Transmission System Operator offered transport capacity to its affiliated company while refusing firm capacity on an almost identical route to other suppliers.

Certain of the abuses discovered in the sector inquiry came close to insider dealing:

> In some cases the top management of the supply branch have access to strategic business information of the transport company, either directly or as a result of their presence on the Board. Or on a more practical level, e-mails are copied to affiliated companies. In some cases it appears that central functions, such as legal advice, are still provided by the group holding company to all members of the group.[58]

Kroes concluded, "There are therefore limits to how far Chinese wall arrangements can actually achieve their function on the ground." The implication was clear: the only real cure would be to make the Chinese walls real by breaking up the companies involved.

Before we go on with the implications of such a breakup and what followed, it is important to note one singular feature of the sector inquiry: its main targets (and the only ones cited by name) were West European. Gazprom was not mentioned. In Kroes's 2007 speech, the only indirect mention of Russia was an endorsement of the Nabucco Third Corridor project to bring gas from Turkmenistan to Western Europe by way of Turkey. The chief villains of the inquiry, in contrast, were named explicitly—E.ON, Distrigas, GDF, and Eni, but not Gazprom. Indeed, the only mention of Gazprom in the sector inquiry report occurs in a footnote and is entirely neutral in tone: "New fields are also being developed in Russia, but these would appear likely to be marketed in the traditional way to the former incumbents or companies in which Gazprom has ownership or other links."[59]

The same silence on the subject of Gazprom and Russia during Kroes's tenure can be seen in the annual reports issued by DG-COMP. In the period between 2006 and 2009, neither Gazprom nor Russia was mentioned even once, despite the fact that 2006 and 2009 were the years of the two cutoffs of Russian gas to Europe. Only in 2011, the year of DG-COMP's first dawn raids in Eastern Europe, was the silence finally broken. One plausible inference is that as far as DG-COMP was concerned, the cutoffs were not competition issues. A more plausible one is that DG-COMP's sector inquiry had not covered Eastern Europe, where the toughest competition issues subsequently arose. But the 2009 cutoff changed the attitudes of the Europeans toward Gazprom. By 2011 DG-COMP was no longer in any mood to ignore the Russians, as we shall see in Chapter 13.

Persuasion Is the Best Weapon

At this point we need to circle back briefly to the 1990s to pick up an earlier story. DG-COMP looms so large in our account that we have left the other key directorate—DG-Energy—largely in the shade. It is true that DG-Energy lacks the legal, investigative, and enforcement powers of DG-COMP. It cannot batter down doors at dawn and haul away computers. But it has the power to persuade, and that is what it deployed in the mid-1990s. Even before the passage of the toothless First Gas Directive in 1998, DG-Energy had convened a pair of regular forums (the first in Florence and the second in Madrid) to discuss market reforms in the electricity and gas industries. The idea was to create a venue for all sides in the reform debate to be represented, explore the technical and political issues, and get the buy-in of the companies under the eye of government representatives. Both forums continue to meet twice a year, and their role has been invaluable in creating a common set of understandings throughout the power and gas industries.[60]

Thus as one visualizes the role of the Commission in the energy field from the 1990s to the present, it consists of two strands—that of competition law (embodied in DG-COMP) and that of regulatory persuasion and consensus building (embodied in DG-Energy). Both have been essential in building the Commission's role in the energy sphere. The complementarity

between the two directorates-general is symbolized by the continuity represented by Lowe, who was director-general of DG-COMP from 2002 to 2010 and of DG-Energy from 2010 to 2013. Lowe commented about his own role in the collaboration between the two services:

> Before the end of the mandate of Mario Monti, I launched the idea of a competition enquiry into the energy sector. When she became Commissioner, Neelie Kroes enthusiastically took this up, with the active support of the Energy Commissioner, Andris Piebalgs. Quite apart from the antitrust investigations subsequently launched by DG-COMP into the practices of some energy companies, the authors of the proposals for the Third Energy Package were the services of DG-Energy, under Andris Piebalgs, and not DG-COMP, although we were of course among the main protagonists.[61]

Back in the USSR

Meanwhile, how did the neoliberal currents that were revolutionizing economic and political thinking in the Anglo-American world reach the Soviet Union, and what influence did they have on the rise of the reform movement in Russia? This is an important theme that we shall return to at intervals in the rest of this book, because it underlies several key questions to come: To what extent were the Russians aware early on of the revolutionary trends taking shape in the power and gas sectors of Europe? Did the Russians follow the rise of liberalization and competition doctrine in Brussels? Did they sense its implications for their business in Europe—and ultimately for the gas business in Russia itself? Or were they taken by surprise?

The answer, of course, depends on which Russians we mean. The future reformers of the Boris Yeltsin era could be found in ones and twos in the late 1970s in the academic institutes of Moscow and Leningrad, the media, and even the apparatus of the Communist Party. Yegor Gaidar—who as acting prime minister and then finance minister led the first radical reforms in 1991–1993 but at the same time (as we shall see) blocked the breakup of Gazprom—was an economic editor on the staff

of *Kommunist,* the official monthly of the Central Committee of the Communist Party of the Soviet Union. He came from one of the most prominent families of the communist upper crust. "I started out as a convinced communist," Gaidar told me in an interview in 1996:

> In the late 1970s I began post-graduate studies, and realized that halfway measures or hybrid compromises—"market socialism"—simply wouldn't work. There were plenty of like-minded people to talk to, and it wasn't so difficult to find things to read. . . . If you read foreign languages and were willing to take the trouble, you could find a lot to read on market economies. The most important influence on me was the Hungarian economist Janos Kornai. His analysis of the economy of shortage, in the early 1980s, had a great impact on all of us. He was addressing *our* problems. Among Western writers, the most important influence on me was Friedrich von Hayek. He gave a very clear and consistent picture of the world, as impressive as Marx in his way.[62]

Anatolii Chubais—one of the first reformers in Saint Petersburg, the head of the Russian Privatization Committee in the 1990s, and the man often called the father of Russian privatization in the early 1990s—writes in a memoir, "Eurocommunism, market socialism, socialism with a human face—I believed whole-heartedly in it all at the end of the 1970s and early 1980s." But the formulas came and went, and nothing seemed to change: "The state of the Soviet economy became ever more hopeless, and along with the worsening of the economy our illusions melted away. . . . Gradually, step by step, we came to understand that the foundation of any healthy and successful economy is private property."[63]

Aleksey Kudrin, another early reformer in Saint Petersburg, went through a similar evolution, as did many other future reformers. Kudrin went on to be Vladimir Putin's finance minister for a decade and was the man most responsible for the modernization of the Russian fiscal and banking system in the 2000s, but he began life as a convinced Marxist. He recounts that his first doubts began in high school, but like many others, he was influenced primarily by reforms in Eastern Europe.

It was only as a graduate student in Moscow that he became convinced that a market economy was the only solution to Russia's economic problems.[64]

For Chubais, Kudrin, and other Russian reformers, a moment of revelation was the publication in 1987 of a book titled *Drugaia zhizn'* (Another life) by the economist Vitaliy Naishul'. Naishul' is widely acknowledged by the leading Russian reformers today as one of the spiritual founding fathers of the market economy in Russia. His book opens with a call to battle:

> Dear reader! Do you know that you get from the state only half of what you earn with your labor, live twice as meanly, eat two times worse, dress twice as badly, and live in worse conditions, than you might . . . in *another life?* And for this life, what is necessary is Economic Reform and a division of state property *from the people to the people!*[65]

Naishul' gathered around him a group of like-minded young people who came to be known (among themselves, at any rate) as the Snake Hill Gang, from the Moscow neighborhood where they met. In an interview he commented:

> I myself understood in 1979 that the Soviet Union would be dead soon. I worked in the State Planning Committee—Gosplan—and I observed huge economic discouragement, huge and growing. . . . The consensus was that we had failed. So I started to think about how to change from this system to a market economy. . . . I immediately began to think about privatization, about how it should be carried out. I thought about voucher privatization at the beginning of the 1980s.[66]

The members of the Snake Hill Gang were certainly aware of neoliberal ideas in the global economy. In fact, some of the members went to Chile to observe how market reforms were being carried out there under Augusto Pinochet.[67] But by this time it was late in the Mikhail Gorbachev period, when restrictions on foreign travel were eased.

As for the academic economists in Moscow, it is difficult to imagine two worlds more remote from one another than the University of Chicago and, say, the Institute of Mathematical Economics of the USSR Academy of Sciences, which had the reputation at the time of being the best institute for quantitative economics in the Soviet Union. The monetarist macroeconomics that was the central strand in the thinking of Milton Friedman could hardly have been more foreign to a system that had as its central ambition the elimination of money as anything more than a passive unit of account. It was not so long before, during the Joseph Stalin period, that Western-style economics had been brutally suppressed. As a noted specialist on the Soviet economy, Gregory Grossman, observed in his dissertation, "The economic literature disappeared with the economists themselves."[68] When modern economics was slowly reborn in the Soviet Union in the 1960s under Nikita Khrushchev, it was largely in the guise of abstract mathematical models, which were less controversial politically.

In sum, the exposure of different Russians to neoliberal ideas depended very much on who they were, what their main preoccupations were, and what period one is talking about. For some the turning point was in 1979, coinciding with the stagnation *(zastoi)* under Leonid Brezhnev, the end of détente, the invasion of Afghanistan, and a general depression that settled over the Russian intelligentsia in the late 1970s and early 1980s. But the key point about the reformers' life paths is that their early disillusionment with the Soviet system did not take concrete form as a program until late in the 1980s. By the beginning of the 1990s, the neoliberal tide had become a flood in Russia, but the main reason it poured in when it did and as powerfully as it did was the vacuum inside.

What then of gas? As the 1980s turned into the 1990s, what did the Russians make of events in Brussels and their potential implications for the Russian gas industry? Through what channels did they follow the trend toward the Single European Market in the 1980s and the Commission's efforts to apply neoliberal ideas to the gas industry? To what extent did they follow the gas regulation issues that brought such vehement opposition from the European gas industry, and what was their reaction to them? As the European gas market began to evolve away from the Groningen model and toward the development of spot trading and

hubs, how early were the Russians aware of the trends and the politics surrounding them?

The answer depends very much on how close they were to the gas trade. A man such as Yurii Komarov (discussed in Chapter 10)—the first Russian cochairman of Wingas, Gazprom's joint venture with the German energy company Wintershall—was naturally at the center of the questions we have been discussing in this chapter and would have been informed to the last detail (although he may well have absorbed some of the skepticism of his German partners). The same would have been true of other foreign trade and financial specialists in the overseas offices of the foreign trade ministry and the USSR State Bank, such as the future head of Gazprombank, Andrei Akimov, and his partner Aleksandr Medvedev, until 2019 cochairman of Gazprom responsible for export policy, who were both investment bankers in Vienna during the late 1980s and 1990s.

But apart from such specialists, the broad answer is that until the beginning of the 1990s most Russians, even those at the upper levels of Gazprom, probably had very little knowledge of these questions and very little reason to be interested in them. But that changed practically overnight, starting in the early 1990s. There were several reasons. First, the collapse of the Soviet Union and the advent of market reforms inside Russia soon raised the question of the status of Gazprom itself. For the market reformers, Gazprom was the *sovetskii monstr,* a sinister remnant of the era of central planning, and as such needed to be broken up. In a remarkably short time, the reformers acquainted themselves with the basics of gas regulation, drawing directly from the Western literature and contacts with the Western gas industry. The World Bank was a particularly important channel of communication and learning.[69]

The second broad channel of communication was through Gazprom itself—or rather, GazpromExport. As we saw in Chapters 2 and 3, Russian gas professionals had been in contact with their Western counterparts since the earliest days of Soviet-European gas trade in the 1960s. These contacts intensified with the end of the Soviet system. Gazprom became a quasi-private corporation in 1989 and absorbed Soiuzgazeksport, the specialized gas-trading organization of the USSR Ministry of Foreign Trade. But more important, the breakup of the Soviet empire placed

Gazprom right in the middle of the European gas industry. Instead of dropping off gas exports at the West German border, as it had traditionally done for two and a half decades, Gazprom formed a trading alliance with a German company, Wintershall, and began participating directly in the midstream of the industry—that is, transportation and distribution. Through this connection, GazpromExport officials became acquainted with gas regulation issues in Germany and in other European countries where Gazprom created joint trading houses and became intimately involved in the European gas business as a direct player.

However, all this does not mean that the Russians were necessarily paying attention to the fundamental changes going on in the European Commission in Brussels. On the contrary, according to Stern, until the end of the Rem Viakhirev era Gazprom did not focus particularly on Brussels. For this there were, again, several reasons. First, the Russians have always been suspicious of the so-called European project and, more important, have tended to underestimate its importance, preferring to deal on a bilateral basis with individual European governments rather than the distant and (to Russian eyes) confusing bureaucracy of Brussels. For a brief period shortly after Putin was elected president, there was much talk of a strategic alliance between the European Union and Russia (the so-called Putin-Prodi process), but the Russians soon tired of the constant lectures they received from the European Union, and the process soon came to end as Putin returned to a more traditional bilateral approach, especially with the Germans.[70]

Until the mid-2000s there was little pressing reason for the Russians to pay more attention than they did. The Commission's efforts to reform the gas industry would come to nothing, their German partners assured them, and initially that appeared to be true. The Russians' own observations over the previous decade appeared to confirm this. One observation post for the Russians was the apparatus of the Energy Charter, a secretariat created to support the creation and adoption of a treaty to guarantee the security of Eurasian gas transmission. The Energy Charter never achieved its early aims. But it did serve as a vehicle for the education of a generation of Russian officials in gas regulation issues, especially those Russians who were assigned as staff members of the Energy Charter organization. When they returned to Russia, they became a resource for

the dissemination of knowledge about gas regulation issues, in both Gazprom and its competitors.[71]

As the Russian-European relationship became more troubled in the mid-2000s, chiefly as a result of the Orange Revolution in Ukraine (see Chapter 11), the Russians began to focus more intently on what now appeared to Russian eyes to be the threatening progress of the Commission's gas and power directives, and the apparent crumbling of opposition to them from national companies and governments, particularly in Germany. This is the subject of Chapter 8.