DOMINANCE OF A STATE-OWN TRANSNATIONAL CORPORATION FROM THE FAILING STATE ON A STRATEGIC MARKET (CASE STUDY OF GAZPROM)

The dominant part of production and dispatch of natural gas goes in Europe through Gazprom, a corporation with dominant position on the world market of natural gas controlled by public authority of Russia (state Russia is the major shareholder of Gazprom). We analyze the threats resulting from the strengthening economic and political position of Gazprom. We analyze the most important symptoms of Gazprom’s increasing market power (international price discrimination, elimination of competitors, overtaking companies on the related markets, detergence of potential competitors) making it natural monopolist on the European market of natural gas and its dispatch. We show that Gazprom improves its position also on the world market of natural gas (a.o. with LNG supplies). We analyze Gazprom’s ownership structure demonstrating increasing interdependence between the firm and Russia resulting in e.g. growing dependence of Russian budget on Gazprom’s payments and use of gas weapon in international relations. We discuss potential scenarios of using Gazprom’s supplies of gas as a weapon against European countries. We analyze economic and social problems of Russia making this country potentially dangerous source of strategic good (natural gas). We analyze impact of international economic crisis on Gazprom’s economic position and resulting changes in Russian economy leading to destabilisation of its economic and political situation.

Keywords: imperfect competition, international market of gas, multinational firm

JEL: F12, F52

Natural gas burns, erupts and poisons. Not only these characteristics make it as dangerous as weapon. The dominant part of production and dispatch of natural gas is concentrated in power of Gazprom, a company controlled by public authority of Russia, the heir of the superpower Soviet Union. Gazprom’s market position and ownership’s structure cause problems of its strategic behaviour and resulted uncertainty.
Below we analyze the threats resulting from the strengthening economic and – being its consequence - political position of Gazprom, both in Russia and in Europe. We demonstrate increasing interdependence between Gazprom and Russia. We discuss potential scenarios of using Gazprom’s supplies of gas as a weapon against not only Russia’s neighbouring countries but also against the European Union.

As information about Gazprom’s activities and Russian economy and society are relatively poor and partial, we analyze data from 2007-2008 wherever it is possible, but in case of its unavailability we supplement it with older statistics (from the years 2005-2006). Because the economic crisis is still in process, we only mention problems arising lately. We also use the newest economic projections of main international organisations concerning the year 2009.

The reminder of this paper is organized as follows: in section 1 we analyze Gazprom’s ownership structure stressing connections between the firm and public authorities of Russia. In section 2 we discuss Gazprom’s position on the European market of natural gas and its dispatch. We demonstrate there as well main directions of the firm’s expansion outside of Europe. In section 3 we present the most important symptoms of Gazprom’s increasing market power (international price discrimination, elimination of competitors, overtaking companies on the related markets). Section 4 contains analysis of potential economic and political threats resulting from the use of Gazprom’s natural gas as a weapon in struggle against West Europe. Finally, section 5 contains conclusions.

1. Gazprom as state owned enterprise

In April 2008 public authorities of Russia owned 49,11% of Gazprom’s shares. Pursuant to President of Russia Wladimir Putin decree, 78 gas enterprises have been removed from the list of entities liable for privatisation. By state owned holding Rosnieftiegas their assets were transferred to Gazprom (see Kublik, 2008). It was enough to ensure the Russian government control over more than a half of Gazprom shares (50,002%). The remaining 48,998 % of shares are dispersed among Russian or foreign individual owners. The Russian authorities as a main shareholder, control the firm, influencing its decisions.

The most impressive result of state ownership was a huge increase in market value of Gazprom during the period 1996-2008 (see Graph 1). Growth of its property was started directly or indirectly by public authorities of Russia (and its predecessor, the Soviet Union). Of special importance was integration/nationalization of oil and gas industry carried out by Russian Federation. This action strenghtened Gazprom's position in the country, where it
overtook other firms. Simultaneously, Gazprom’s takeovers gave the authorities control over the whole Russian gas industry.

Graph 1. Gazprom’s increase in market capitalization in 1996 – 2009, M USD

![Graph showing Gazprom's increase in market capitalization in 1996 – 2009, M USD](image)


The next stage of nationalization was clearly seen in recent years, when Russian resource fields, previously bought by foreign companies, were cheaply recovered to Russian authorities. Additionally, new explored gas fields are given to Gazprom, without any auction procedures. What is more, the authorities are able to assist Gazprom in acquiring new resources by cancelling the auctions of the gas fields. Such case took place in 2004, when the auction for Sachalin-3 gas field, won previously by Exxon Mobil was cancelled by the government, and afterwards this gas field was given to Gazprom (see: Kublik (2008)). Russian administration helps also to eliminate rivals in many spheres of Gazprom’s activities.

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1 A. Sharonov, who left the Russian economics ministry in 2007 stated: “We have turned our back on healthy competition. The system rewards those who are closer to the centre of power, not those who work better. It is easier to get competitor into a jail than to compete with him.” (see: Briefing Russia’s economy in The Economist, 1-7.03.2008, p. 26). Pietraś (2002, p. 101) stated that Russia had enough power to break commonly accepted rules of private propriety to achieve its goals on international arena.
Afterwards Gazprom expanded abroad. At the beginning of 21st century Russian oil and gas market experienced many takeovers. It became more and more horizontally and vertically integrated.

The state ownership of Gazprom brings about its profits, constituting considerable part of Russian budgetary payments\(^2\). Gazprom not only accomplishes objectives of Russian economic policy but also represents Russian *raison d’etat* on the international level (more see in further parts of this paper). At the same time Gazprom’s investments can be financed with public money or with (hidden or open) support of Russian administration. Also Russian privatization policy – as mentioned before – supports the giant.

Gazprom became also important internationally. During the period 1996 – 2008 its market value increased almost 35 times (at the same time GDP of Russia has risen less than threefold). Since 2006 Gazprom is placed among ten largest companies in the world (see: Table 1). Only in 2005 the firm's size increased 2,5 times (see: http://ceo.cxo.pl/artykuly/52810_1.html; http://gospodarka.gazeta.pl/gospodarka/1,33207,5209269.html). Since 2006 it is placed among the ten largest firms in the world. Starting then on place 9 in 2007 it became the largest European company and the sixth largest in the world (bigger ones were only American giants: Exxon Mobil, General Electric, Microsoft, Citigroup and AT&T). It outdistanced a.o. Toyota Motor, Royal Dutch Shell and BP. Then it was able to reach place 4 in the year 2008 (after American giants: Exxon Mobil and General Electric and the Chinese concern PetroChina - see: Financial Times, FT Global 500, http://media.ft.com/cms/889d77f0-4142-11dd-9661-0000779fd2ac.pdf and Kublik, 2008).

Table 1. Ten firms with the world largest market value in 2008, M USD

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<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>Exxon Mobil</td>
<td>US</td>
<td>452 595</td>
<td>Oil and gas producers</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>PetroChina</td>
<td>China</td>
<td>423 996</td>
<td>Oil and gas producers</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>General Electric</td>
<td>US</td>
<td>369 669</td>
<td>General Industries</td>
</tr>
<tr>
<td>4</td>
<td>6</td>
<td>Gazprom</td>
<td>Russia</td>
<td>299 764</td>
<td>Oil and gas producers</td>
</tr>
<tr>
<td>5</td>
<td>16</td>
<td>China Mobile</td>
<td>Hong Kong</td>
<td>298 093</td>
<td>Mobile telecommunications</td>
</tr>
<tr>
<td>6</td>
<td>9</td>
<td>Indi &amp; Co. Bank of China</td>
<td>China</td>
<td>277 236</td>
<td>Banks</td>
</tr>
<tr>
<td>7</td>
<td>4</td>
<td>Microsoft</td>
<td>US</td>
<td>264 132</td>
<td>Software and computer sciences</td>
</tr>
<tr>
<td>8</td>
<td>5</td>
<td>AT&amp;T</td>
<td>US</td>
<td>231 168</td>
<td>Fixed line telecommunications</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
<td>Royal Dutch Shell</td>
<td>UK</td>
<td>220 110</td>
<td>Oil and gas producers</td>
</tr>
<tr>
<td>10</td>
<td>13</td>
<td>Procter &amp; Gamble</td>
<td>US</td>
<td>215 640</td>
<td>Household and goods consumption</td>
</tr>
</tbody>
</table>

\(^2\) Gas prices are internationally tied with oil prices. Similar is true for Russian taxes and duties, though Gazprom enjoys special treatment (as we in detail describe it in this paper). At the beginning of 2008 federal taxes from oil (export duty plus resource tax) accounted for over 70 % of oil export revenues (export duty was as large as 275 USD per tonne and ca. 130 USD per tonne in resource tax (see: Country Report Russia (March 2008, pp. 20-1)). The share of oil and gas in Russia’s GDP has more than doubled from 12,7 % in 1999 to 31,6 % in 2007. Natural resources account for 80 % of Russian exports (see: Smoke and mirrors, The Economist, 1-7.03.2008 p. 27).
Market value of Gazprom is far from stable. It depends directly upon world price for natural gas and volume of its sales. In the Graph 1 we can observe drastic decrease of these prices during present economic crises. In 2009 Gazprom’s market value makes up less than 28% of its value in 2008.

Jan M. Fijor states that exploitation costs are much higher in Russia, than in comparable Canada. The reason is that in Russia, Gazprom is state owned, and in Canada the companies are private and profit oriented. The best proof of inefficient investment is the fact, that on one hand the company overpays for gas sources in Central Asia, and on the other hand it make insufficient investments in minimizing huge pipe leakiness (see: Fijor (2006)).

Tight connections of the company with the Russian government were noticed e.g. when guaranties for the secure gas supplies to Europe were refused by Russian government during the EU – Russia summit in Khabarovsk on Mai 21st – 22nd. Russia alternatively proposed then that the EU provides Ukraine with money to cover its gas consumption, which then enable Russia to provide uninterrupted gas supplies through Ukraine’s transit pipeline without risk that these would be diverted by Ukraine for domestic consumption (more see: Country Report Russia, June 2009, p. 13).

In October 2008 Russia agreed to set up a “gas troika” – an informal forum with Iran and Quatar (all three including Russia are the biggest gas producers and exporters). The parties agreed 3-4 meetings at ministerial level a year to discuss developments on the market and third-party projects. It can mean that three countries managed to create the gas equivalent of the OPEC oil cartel. The troika agreement co-exists with the Gas Exporting Countries Forum (GECF) set up in 2001 and including most important gas producers and exporters but till now remaining a grouping without spectacular results in controlling the world market of natural gas. “Troika” will however face difficulties in building an OPEC-like cartel as Russia relies on long term gas supply contracts, but it is still worth to be observed for countries heavily dependent on Russian gas supply (more see: Country Report Russia, December 2008, pp. 20-21)

2. Gazprom’s position in the world market of natural gas and its dispatch

Gazprom’s monopolistic position is not derived from any special characteristics of its product. It exploits and controls the majority of Russian gas resources but it is not the only gas producer in the world. Gazprom’s position results from controlling the most pipelines
transporting gas to its users in entire Europe and in various parts of Asia. Gas dispatch is a network industry with monopolistic position derived from the existence of one system of transport. This is the case of Gazprom, with the dominant part of its production cost created by a cost of pipeline system. In consequence, competition is naturally eliminated because of an extremely high cost of entering the market. In Russia Gazprom possesses 463,000 km of pipelines (Paniuszkin and Zygar (2008, p. 7)). It still constructs new ones in Russia as well as abroad (even outside Europe). Moreover, possessing this pipeline system allows Russia controlling Turkmen and Uzbek gas entering these pipelines.

In 2005 Gazprom opened up the US liquefied natural gas (LNG) market. LNG was delivered as per contracts signed with British Gas and Shell. In November 2005, Gazprom negotiated the first deal with Gaz de France providing for the swap of gas transported in the mains for liquefied gas (Gazprom delivered gas to Europe through a pipeline and received a shipment of LNG from Gaz de France’s joint ventures in exchange). In August 2006, Gazprom first entered the Asia-Pacific market through LNG supply to Japan. October 2006, its first LNG cargo reached the Republic of Korea. In September 2006, Gazprom and British Petroleum agreed on cooperation in LNG deliveries to the Atlantic Basin market. Over 2005 through 2006 Gazprom sold about 0.9 (American) billions cubic meters (bcm) of LNG to the USA, the UK, South Korea, Japan, Mexico and India.

Gazprom is not only active in extracting and dispatching of gas but it also owns many companies in Russia and abroad (especially in recipient countries). It expands by establishing joint venture subsidiaries, purchasing companies or shares in Russia and abroad and by making successful takeovers. It owns Gazprombank. It is a partial owner of Mosenergo (a company supplying power in Moscow) and BelTransGas (grid in Belarus, partly sold to

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3 Another possibility is to ship gas, but it is both more costly (and therefore less efficient) and more constrained in quantity.
4 E.g. constructing of 1 km of pipeline on the ground depends upon many factors. E.g. cost of construction of 1 km (treated as on the ground) pipeline Maghreb-Europe Gas is equal 1,7 M USD (the same cost in case of South Caucasus Gas Pipeline (calculated in 2003) made up 1,58 M USD. Average cost of construction of 1 km of pipeline under a sea varies from 1,5 to 1,8 M USD (for Scanled see: www.pb.pl/Default2.aspx?ArticleID=f994ebf0-44d6-4b7d-91d6-d87b0fca4a99&readcomment=1). This cost is only an imperfect approximation of the whole initial cost because in this case it is not enough to calculate a unit cost. Gas should be transported to its final users, though it is not reasonable to build a few kilometers of pipeline. Its construction is not effective until it connects producer and users. The real initial cost depends on the length of the pipeline.
5 Country Report Russia, September 2008, p. 30 states “all Turkmen and Uzbek gas that enters its [Gazprom’s – note of the authors] pipelines is treated from then on as Russian gas”.
*Gazprom* for unpaid debts\(^7\)). *Gazprom* is becoming more and more a conglomerate. It possesses power companies, newspapers, TV-channels, airlines, banks, securities and sport clubs. It is even owner of an orthodox church (see: Paniuszin and Zygar (2008, pp. 7 and 16)). It becomes better known as a brand-name using different marketing techniques. It is a general sponsor of German football team *Schalke 04* and finances football club *Zenith St. Petersburg*, expressing its desire to improve its image.

Graph 2. EU – gas production and import in 2005 and forecast for 2015, in bcm

![Graph showing EU natural gas production and import](http:\naftagaz.pl)

Especially dominating position takes *Gazprom* on the European market of natural gas and its dispatch and it is improving as a result of large and growing demand for natural gas. In 2006 Central and Western Europe purchased from *Gazprom* 156,1 bcm of gas (see: http://www.gazprom.com/documents/Investor_Day_31.10.2006.pdf). The increasing consumption of gas resulted from the fact that natural gas has become a substitute for more

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\(^7\) *BelTransGas* 50 % shares are to be bought by *Gazprom* (currently *Gazprom* holds only part of Belarussian pipeline system). Pursuant to the agreement enacted on December 31, 2006 between Russia and Belarus, within 4 years *Gazprom* will buy 50 % of *BelTransGas* (12,5% annually).
and more expensive crude oil. With increasing demand for natural gas dependence of the EU on the import of natural gas (bought not only by *Gazprom*) is growing rapidly (see: Graph 2). In 2005 41% of the EU demand for gas was covered with its own production. Soon more than a half was imported. After next ten years, in 2015, import dependence of the EU should have been as large as 75%. In 2008 45% of EU – gas imports came from Russia\(^8\) (see: *Country Report Russia*, September 2008, p. 30).

The important fact is that within Russia’s territory there are 44.6 trillion cubic meters which is ca. 27% of proved global reserves (see: Frondel, Schmidt, 2007, pp. 117-128). What is more, in Central Asia are placed resources feasible for Europe nowadays mainly *via Gazprom* (they are estimated at another 6% of global reserves – see: BP report).

European dependence on natural gas sold by *Gazprom*, can be derived as well from the information about intensity of gas imports from Russia (see: Graph 3). Among 19 EU – countries presented Graph 3, only a few (UK, Sweden, Spain and Portugal) don’t buy Russian gas. Other countries more or less heavily depend on it. This dependence varies (from 100% in case of a.o. Finland, Bulgaria and Slovakia to over 60% for Poland).

Graph 3. Dependence of EU – countries on Russian gas in 2007 (share of gas import with pipelines owned by Russian firms in the whole gas consumption), in per cent

![Graph showing dependency on Russian natural gas](image)

Source: authors’ calculations based on BP statistical data

3. *Gazprom’s* monopoly behavior

\(^8\) This is however mutual interdependence since 90% of Russian gas export is going to the EU - see: *Country Report Russia*, September 2008, p. 30.
The main objective of Gazprom is to control entire supply chain “from drill to grill”. Firstly, it overtakes the upstream control by takeovers of Russian oil and gas sources. The examples are sources: Sahalin-2 taken cheaply from Shell, or Kowykta, bought cheaply from BP’s subsidiary. These re-buying transactions were assisted by Russian public authorities responsible for the environment. Secondly, it takes the midstream control, by takeovers of transit pipelines. The example is BelTransGas partly taken over as mentioned before. The other, but unsuccessful takeover concerns EuRoPolGaz (the transit company), which Gazprom attempted to fall into bankruptcy in order to cheaply buy its assets\(^9\). Gazprom also tries to control downstream activities consisting in supplying gas to final consumer. It has some subsidiaries, like Wingas, which supply German consumers. Elimination of competitors lead to higher level of vertical and horizontal integration of Gazprom and its subsidiaries. It makes this company stronger not only on the gas market but also on other (partly only weakly with gas dispatch related) markets.

Graph 4. Gazprom’s selling prices (for bcm) in the selected former Soviet Republics, 2005 - 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2006</th>
</tr>
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<tbody>
<tr>
<td>Selling prices in Russia</td>
<td>37 USD</td>
<td>41 USD</td>
</tr>
<tr>
<td>Selling prices in Western Europe</td>
<td>194 USD</td>
<td>246 USD</td>
</tr>
</tbody>
</table>

\(^9\) EuRoPolGaz forced by Gazprom (its shareholder and cooperant) to set prices of gas dispatch in Poland 25% lower than prices justified by costs supplemented with normal profit (see: Kuchciak (2007)). Price level proposed by Gazprom could lead EuRoPolGaz to bankruptcy. With lower revenues EuRoPolGaz would fall (in the short run due to limits in pipe capacity and contracted gas annual volume it couldn’t expect increase in demand making up loses occurred in result of lowering prices of dispatch). As EuRoPolGaz was established with credits from Gazprom’s subsidiary Gazprombank, the bank could overtake a grid in Poland for unpaid debts and make it another subsidiary of Gazprom.
Gazprom also strengthens its position through deterrence of potential challengers. Even if dispatching gas with Nordstream would be more expensive than with the traditional pipeline on the ground, it is a way to forbear its potential rivals to enter the market of natural gas and its dispatch. Constructing Nordstream signals readiness and power to fight against potential rivals. With building Nordstream, Gazprom signals its determination in out-passing the transit countries as well. It should force them to resign from e.g. increases in transfer fees and make them to accept higher gas prices. It also helps Gazprom to win full control over gas supplies for almost whole Europe. Gazprom is thus eager to overinvest also in other areas of its business. As an example for the purchase in 2009 of Azerbaijan’s natural gas sources, Gazprom paid for it USD 350 per 1000 cubic meters (see: Iwona Trusewicz (2009); http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=35216), where the agreements for 2010 were usually met by USD 320 or 330 per 1000 cubic meters. Thus, its strategy to remain the monopolist in the controlled markets brings inefficiency in the market and to the company (see: Sergei Blagov (2009)).

Gazprom is a price discriminator. This statement can be proved with various approaches. In the first one we compare prices of natural gas set by Gazprom in selected countries constituting former Soviet Union and changes in these prices in the period of 2005 – 2006 (see: Graph 4). Data in Graph 4 convince that former Soviet Republics in 2004 accessing the EU (Lithuania, Latvia and Estonia) in 2005 as well as in 2006 paid the highest prices for gas what does not seem to be justified with any special costs (transport costs are comparable in all considered former Soviet Republics). It means that these countries, after relieving themselves from political and economic bonds with Russia and engaging in close cooperation with EU, were punished economically with increase of gas prices. The similar case is Ukraine, developing towards Western Europe after “The Orange Revolution” in 2004. Simultaneously, the lowest gas prices in both analyzed years were paid by Russia-loyal Belarus. Gas price in Belarus was approximately as high as in Russia. Additionally, Belarus was the only country not suffering from any price increase in the analyzed period. With the highest price increase was confronted Armenia, where gas price doubled. It was followed by Ukraine, Azerbaijan and Georgia, where price increases made up more than 80%. In spite of 2006 increase, their prices remained still far below those paid by Baltic countries. Even if – mainly for political reasons - gas prices in Russia-loyal former Sovjet Republics were
subsidized by Russia resigning with time at least at part of this support, prices paid by different countries as shown in Graph 4 support our opinion about price differentiation.

The second way to prove Gazprom’s price discrimination is to compare gas prices in Russia and Western Europe. In 2005 they were equal, respectively: USD 37 and 194 and in 2006 – USD 41 and 246 (see: http://naftagaz.pl). In the period 2005-2006 price increase was in Russia less than 11 % whereas in Western Europe it made up almost 27 %. That is a potential signal of both price discrimination and subsidization of internal sales because there seems not to be other justification for such differences in price changes (even if part of potential profit is flowing out to the transit countries). Gazprom is still keeping a relatively low gas price on the internal market. It means, that Europeans pay high gas prices to maintain Russians (and probably Belorussians if not other) gas users. However, the company's objective is to eliminate these subsidies until 2011\(^\text{10}\).

The next way to reveal price discrimination practices of Gazprom is analyzing cost of gas dispatch. Cost of dispatch of 1.000 m\(^3\) of natural gas on the distance of 100 km through the pipeline in Poland is equal to 6,98 PLN (ca. 3,5 USD). If we treat it as an average cost then prices in e.g. Germany and Italy adjusted with an estimated transport cost\(^\text{11}\) would be close to 111 USD in Berlin and 160 USD in Rome. The real price in Berlin is 130 USD higher than the price justified with a transportation cost (for Rome it is by 86 USD higher). This mark-up can as well be seen as a measure of the monopoly power of Gazprom\(^\text{12}\).

Gazprom's intention is to expand not only in gas and oil supplies, but also in other areas concerning energy supplies. It intends to operate on gas, liquefied natural gas (LNG), oil, chemistry, electricity and nuclear power industries. Already in 2005 the then Gazprom's vice-president Alexander Medvedev declared to transform Gazprom from the world leading gas company to a world leader in energy sector (see: http://ceo.cxo.pl/artykuly/52810_1.html). He stated that this company will not only operate in

\(^{10}\) As the gas production in Russia does not increase significantly (see gas production quarterly data in : Country Report Russia (June 2007, p. 34) because of high costs of necessary investments, and gas demand becomes bigger, particularly in Western Europe, Russia has problems with satisfying its own gas needs. It can not stop exporting, as gas export makes a significant part of the Federation budget. Thus gradual gas price increases on the domestic market are expected. No restrictions on gas supplies for individual customers are expected, still, the biggest recipient, UES, the energy producer, will suffer lower supply. W. Putin, the then President, in his speech from 26.04.2007 declared the switch of energy sector to coal – see: Country Report Russia (June 2007, pp. 20-23).

\(^{11}\) We aproximate transport cost with the price of dispatch of 1.000 m\(^3\) of gas per 100 km multiplying this by the distance between Moscow and the capital of the respective country. We calculate price based on Russian selling price in 2006 and on transportation costs (counted as a transportation fee times distance between Moscow and selected capitals of European countries). Such calculated price we compare with the real prices set by Gazprom for Western Europe.

\(^{12}\) Monopoly power (or more generally market power) is measured a.o. as the difference between price and cost e.g. in Lerner index (more see e.g. Perloff (1999, pp. 380-2)).
Europe and Russia, but also in North America, where it intends to take a leading position in LNG supplies. As we mentioned in part 1 of this paper Gazprom already supplies LNG to many European, American and Asian countries. Also this diversification of supply modes is an additional way to increase its market power.

4. Economic and political threats connected with Gazprom’s market dominance

The EU, and parallel Russia, or rather Eurasian Economic Community\textsuperscript{13}, dependency on Gazprom gas supplies urges to analyse potential threats to national security (see: Romm (1993, pp. 51 and the following)) of each dependent state as well as to all Europe resulting from Gazprom position.

Such a prognostic analysis is certainly nothing new, however it aspires not only to objectively assess threats but also to combine economic and political analyses. To that aim, the studied phenomenon is examined from three distinct positions, namely:

- Polish standpoint, or Central and East European states position dominated by historically conditioned fear of Russian imperialism with its ruthless pursuit of tasks accomplishment;
- West European position, dominated by German social democracy with its tendency to relativise threats and to adopt policy responsive to Russia, characterised by potential threats admittance a day following a pessimistic forecast fulfilment\textsuperscript{14};
- Russian standing thorn by centuries-long tradition of conspiracy thinking accompanied with blind faith in state authority inerrancy\textsuperscript{15}.

From the European perspective, Europe being the natural gas receiver, there are some potential risks. Their analysis is conducted on the assumption that Russia controls Gazprom and may use it for its revisionistic aspirations, especially for regaining its superpower position or even to alter the cold war outcome. What is more, it may happen that substituting Russian administration, Gazprom shall evolve into a substitute of the state, challenging states and international institutions and shall act as a new subject of XXI century international relations, aspiring to imperial domination\textsuperscript{16}.

\textsuperscript{13} Eurasian Economic Community, includes except Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and, since 2006 also Uzbekistan.

\textsuperscript{19} In German political thinking a surrendering idea “better red than dead” was often considered virtuous.

\textsuperscript{20} It is an opinion close to the old one that the Tsar always meant well, and the Boyars are to blame for disasters. Russia is not alone in its cult of power. After III Reich fall opinions that Hitler did not know about SS concentration camps were spread in occupation zones of the then divided Germany.

\textsuperscript{16} Gazprom has all attributes to play such a role. “September 11” war initiated by Al Qaida shows the scale of actions possible for such new subjects. More on methodological foundation of Gazprom as an empire, see: Negri, Hardt (2000).
Firstly, gas may be used as a weapon to strike a hard blow. The use of “gas weapon” would mean a complete, immediate embargo on gas sale. A stimulus to use such an arm, analysed in the second part hereby, is complete de facto dependency of Europe on Gazprom supplies. Secondly, gas can be a weapon of long-term influence. In this case no embargo on supplies is imposed, but gradual price increase implemented carefully to avoid reaction, still significant enough to result in European economies weakening and making them financially unable to undertake steps to diversify both energy suppliers and energy sources.

Embargoes, as economic warfare, have been known to Europe for the last two hundred years. Still longer is tradition of mono-cultural economic dependency. However, in this case it is a matter of a quasi-monopoly on an indispensable product, non-substitutable when embargoed. Gas shortage would result in economies, and in consequence, collapse of entire societies. It is both the inability to substitute gas with other energy source and Gazprom with other supplier.

Current idea of embargo on resources export as a weapon commenced in 1935-36 with debates within the League of Nations on applying sanctions on Italy of Mussolini. However, imposed sanctions proved ineffective due to non-League, mainly the USA, actions supplying the embargoed product to Italy (see: Stern (2005)). In 1941 gas weapon was effectively used by the USA against Japan in retaliation for its aggression and occupation of China. On June 22, 1948 the Soviet Union decided to blockade Berlin in order to increase its hold of this city. The blockade however, proved counterproductive, as the free world rebuild its political identity, defined and verified its will and capacity of effective defence.

That experience urged USA, in 1950 to acknowledge that diversification of energy resources and suppliers is an indispensable condition for national security (see: Parra (2004)). The idea has been implemented by subsequent administration to become the priority of Nixon presidency (see: Stern (2005)). Legal instruments of market security were commenced then (US Trade Act (1974)). The 1973 OPEC implementation of an increasing (5% monthly)
embargo on oil supplies to the USA, Netherlands, Portugal, Rhodesia, South Africa and Israel positively verified the diagnosis. Arab countries made oil supplies their weapon: embargoing some countries and rewarding others (Spain, France and Great Britain) by continuing the same trade terms (see: Pearson and Rochester, 1988, pp.66-71).

Economic sanctions after the Cold War have been used pursuant to decisions of international organisations (e.g. the UN) against Iraq or former Yugoslavia. Embargo proved ineffective in any case, as there was no collapse of any sanctioned state.

Those very different but all discouraging experiences do not allow for an answer whether Russia/Gazprom may consider boycott, the gas weapon, a potentially effective mean to fight Europe.

Free Europe experience of contending the Soviet Union opt for the second scenario. The USA under Reagan managed, by combining high wheat price and arms race, to accelerate fall of the Soviet Union. Long term character of gas contracts\(^{24}\) however, discourage this scenario, as it allows for the recipient reaction. Simultaneously, undertakings to create an international gas cartel (gas troika and GECF analysed by the end of part 1 hereby) speak for that scenario implementation. Such a cartel would drastically lower the potential of effective gas resources diversification.

Considering both scenarios feasibility it is worth to analyse the objective of Russian/Gazprom use of gas weapon within next 5-10 years. Assuming the gas weapon use, it is only sensible to rationalise if remembering about Russian non rejection of Clausewitzian dictum of a war as a policy tool. Had it not been a delayed reaction to the offended (by the Soviet Union fall) pride, Russia would have resorted to war. Thus, an empire construction desire makes the only possible reason for gas weapon use.

Definitely, even if Russia/Gazprom have lot of imperial characteristics, they lack one of its essential attributes, it means expansive, attractive ideology able to exert influence inwardly (in order to win social acceptance for cost increase) and outwardly (to acceptance of the conquest, being considered lawfully authorised power executed by those having higher position in social hierarchy). Both Russia and Gazprom lack such an ideology.

\(^{24}\) European importers are committed to longterm agreements with Gazprom. Gaz de France has renewed its gas import contract until 2030, E.ON Ruhrgas and Wintershall (both Germany) – until – respectively – 2035 and 2030, Gasum (Finland) – until 2025, RWE Transgas (Czech Republic) – until 2035, ENI (Italy) – until 2035. Contract extensions and new arrangements were agreed on with Austrian EconGas, GWH and Centrex. A contract for 2010-2030 was concluded with Romania’s Conef Energy SRL. For details see: http://eng.gazpromquestions.ru/index.php?id=4.
So, Russia is a country/society of pre-state phase, proceeding a national state concept, the state united by a system of common values. Russia/Gazprom makes a structure of Gesellschaft characteristics, still lacking Gemeinschaft qualities (see: Tonnies (2008)). The lack of binder marks relation of passengers – staff – aircraft rather, than the structure of citizen – civil society - authority – state makes Russia/Gazprom war against the West hardly possible.

Another, equally unlikely scenario seems not explicitly named, still present in Polish reflection on Ribbentrop-Molotov Pact is the prospect of dividing the West following the “salami slicing rule”. According to it, Russia would have regain their immediate neighbours guarantying to stop expansion on the Oder River. This scenario, even if considered attractive by Russia is impossible to implement, as proved Americans defending the blockaded Berlin. There is no sense to list all factors decisive for defending the vassal states-nations of the former Soviet Union, and Russia seems unlikely to try it (after Korea war, Berlin blockade or Iraqi attack on Kuwait).

Level of threat higher than in other scenarios, results from Russia inner situation negatively influenced by Gazprom significance for Russian economy and society. For many years, although Afghanistan marks a breakpoint, Russia has been evolving towards failed/collapsed state\(^\text{25}\) potentially able to transform into rogue state\(^\text{26}\). The Soviet Union breakdown merely revealed the process range. It was the only state that collapsed having NBC weapons and technology of their production. For many years the West was supporting Russia with all accessible instruments of finance and politics, considering it the last resource preventing breakdown of worldwide non-proliferation regime and lack of control of weapons and know-how in Russia itself. Increasing profits from gas and oil have altered situation in Russia making it a relatively rich but still a collapsed state (see: Brzeziński (2008)).

Some of analyses of Human Development Index (HDI) indicates Russia among Third World countries, because of relatively poor base of its economic development and alarming social indicators. Russian rapid economic growth results from rocketing world oil and gas

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\(^{25}\) Failed/collapsed are states where central authorities cease to perform basic state activities due to internal circumstances. They are states lacking society, with no socially approved system of common values and objectives, with people manifesting lack of minimal level of confidence in administration and its representatives, lacking legitimate public authorities. They are states with privatized public institutions.

\(^{26}\) The main components of rogue state are as follows: an authoritarian government that violates basic human rights, it supports the terrorism, it weakens the regime non-proliferating weapon of mass destruction., and it also has not fully democratic legitimation. With its neighbours it often conducts conflicts (also war conflicts), during which the standards of international law are not respected. (see P. Minnerop, Rogue States – State Sponsors of Terrorism? German Law Journal No. 9 (1 September 2002) - European & International Law. http://www.germanlawjournal.com/article.php?id=188; more see Blum (2000).
prices rather than investments in industry or services. Russian economic structure is outdated, with unclear economic principles and competences of leading institutions. Relatively low volume and rather non standard geographic structure of FDI inflowing to Russia prove the thesis (see: Table 2). In 2006 FDI in Russia came dominantly from Cyprus, much ahead of FDI from Great Britain, the Netherlands and Luxemburg. Cyprian FDI were about twice those of German, three times bigger than French and outgrew American’s six times. Virgin Islands and Switzerland were among biggest investors, both commonly considered liberal towards capital source surveillance, *de facto* not at all performing any control. So dirty money inflows those countries and are to be invested abroad. It is highly probable that a substantial part of FDI coming from Cyprus or Virgin Islands originate from Russia and other post Soviet Unions states.\(^ {27}\) Those funds derive, to large extent, from criminal activity, so it is sheer money laundering. That sort of capital has no chance for being appropriated legally in industrialised countries for formal and legal reasons. It is possible too, that funds owners had gained their capitals from transformation of state enterprises and are not able to carry on economic activity in a democratic, low abiding state with market economy. For that reason they are interested in investing their capital in economies founded on changeable and not fully transparent rules. Such FDIs provide neither technological progress nor development of privatized enterprises. Another disadvantage is preventing or at least slowing down reforms in Russian economic and political systems, as this is the way to safeguard capital against alteration of political and economic conditions. Assumption of reasonable high probability can be drawn that such investments represent capital owners conviction that ways to enrich will continue to be alike those in the Soviet Union or at the empire crackdown (see: Stiglitz (2004, pp. 127-153); Besançon (1984, pp. 40 and the following)). Substantial part of dirty money invested in economy may discourage decent investors, being rightly afraid to compete against criminals in non-transparent conditions destining them to fail.

Unfortunately, the Russian FDI from industrialised countries do not change the situation as among leading exporters are Switzerland and the Netherlands. Yet, the non-Swiss capital flowing from Switzerland, like capital from Cyprus or Virgin Islands, comes from grey market or straight from criminal activities also in post-soviet area. The Netherlands is also considered a state of fairly liberal rules of capital investment. Thus, Dutch FDI flowing to Russia may be at least partially, of money laundering character.

\(^ {27}\) About cooperation of illegal organizations laundering dirty money internationally. See Madej, (2004, p. 236)
The conflict with Georgia, tensions with the EU and US as well as weaker performance of the world economy caused in 2008 outflow of foreign capital (see: *Country Report Russia*, September 2008, p. 17). The investment climate can become even worse after surveys of VTsIOM – a state-run pooling organisation stating that a majority of Russian society declared wish to nationalisation of the country’s banks and leading industrial enterprises (see: *Country Report Russia*, December 2008, p. 20).

Table 2: Origins of foreign investment into Russia (%)

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<tbody>
<tr>
<td>UK</td>
<td>6</td>
<td>6</td>
<td>12</td>
<td>16</td>
<td>17</td>
<td>16</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3</td>
<td>11</td>
<td>6</td>
<td>13</td>
<td>17</td>
<td>12</td>
<td>20</td>
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<tr>
<td>Cyprus</td>
<td>1</td>
<td>13</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>10</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>21</td>
<td>26</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>France</td>
<td>4</td>
<td>7</td>
<td>6</td>
<td>13</td>
<td>63</td>
<td>3</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
<td>13</td>
<td>20</td>
<td>15</td>
<td>4</td>
<td>6</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Virgin Islands (UK)</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15</td>
<td>7</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>9</td>
<td></td>
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<tr>
<td>USA</td>
<td>28</td>
<td>15</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>Others</td>
<td>33</td>
<td>25</td>
<td>19</td>
<td>17</td>
<td>15</td>
<td>15</td>
<td>28</td>
<td>23</td>
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Also analysis of Russian social indicators visualize big problems facing the country. Among social indicators the most disturbing at the beginning of XXI\(^\text{th}\) century are: shorter life expectancy, pandemia of infectious diseases (mainly tuberculosis and AIDS – see: Tables 3 and 4) and increasing alcoholism\(^{28}\). In this context, decreasing number of population and populating Russia-China border with foreigners (mainly Chinese) seem important. Table 3 proves that years 1996 – 2007 saw shortening of life expectancy (among male population higher than average). The examined period shows negative population growth rate. Both factors resulted in Russian population decrease by 7 M people.

Table 3. Main indicators of Russia

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<tbody>
<tr>
<td>GDP growth rate</td>
<td>-3.6%</td>
<td>10.0%</td>
<td>8.1%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Life expectancy at birth, total (years)</td>
<td>66.2</td>
<td>65.3</td>
<td>65.8</td>
<td>66.63</td>
</tr>
<tr>
<td>Population growth (annual %)</td>
<td>-27.2%</td>
<td>-0.4%</td>
<td>-0.5%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Population, total (M)</td>
<td>147.7</td>
<td>146.3</td>
<td>140.7</td>
<td>140</td>
</tr>
</tbody>
</table>


\(^{28}\) Public Chamber of Russia (which gathers autonomies, social and creative circles) estimates, that drunk Russians cause losses of 2.7 trillions roubles (RUB, c.a. 55 billions USD, if dollar is 31 RUB, which is equivalent of about 6% of Russia’s GDP – for more see Trusewicz, 2009).
Table 4. Main health indicators of Russia

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</thead>
<tbody>
<tr>
<td>Adult mortality rate (probability of dying between 15 to 60 years per 1000 population) both sexes</td>
<td>218</td>
<td>313</td>
<td>300</td>
<td>312</td>
</tr>
<tr>
<td>Adult mortality rate (probability of dying between 15 to 60 years per 1000 population) female</td>
<td>117</td>
<td>161</td>
<td>158</td>
<td>164</td>
</tr>
<tr>
<td>Adult mortality rate (probability of dying between 15 to 60 years per 1000 population) male</td>
<td>318</td>
<td>451</td>
<td>432</td>
<td>448</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>69</td>
<td>65</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Life expectancy at birth (years) female</td>
<td>74</td>
<td>72</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>Life expectancy at birth (years) male</td>
<td>64</td>
<td>59</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Prevalence of tuberculosis (per 100 000 population)</td>
<td>72</td>
<td>168</td>
<td>125</td>
<td>115</td>
</tr>
</tbody>
</table>

* - data for all Soviet Union,

Source: WHO, http://www.who.int/whosis/database/core/core_select_process.cfm#

Table 4 shows deteriorating health conditions of Russian Federation citizens. Male life expectancy indicator seems alarming in particular, as men are more affected by alcoholism and occupational diseases. Increasing number of tuberculosis incidents, in spite of progress in medicine, seems significant. Health deterioration of Russians seems even bigger, as data from 1990 refers to the Soviet Union and not only to Russia, so it is an average encompassing very low indicators coming from most underdeveloped Soviet Republics. Data concerning Russia from 1990 would have been more optimistic, thus deterioration is more profound than information presented in Table 4.

Also UNDP’s Human Development Report\(^{29}\) shows, that in terms of health, Russia is far behind the average of the world. It reached the 119 position out of 177 researched countries. In opinion of the authors of Report this result is obvious in a country with the public expenditure on health lower than public expenditure on army (See: Human Development Report 2007/2008 and update to Human Development Report 2008). Overall Human Development Index places Russia on 73\(^{th}\) position, after Ecuador and before Mauritius (to compare, Lithuania was 43\(^{rd}\) and Latvia 44\(^{th}\)). In Russia the overall HDI is still lower than in 1990, however it is slowly rising (see: Graph 6). Russia is not quite poor country, when considering Human Poverty Index (see: UNDP), which places the country on 31\(^{th}\) position, between Ecuador and Venezuela, among 135 researched developing countries (defined as UNDP does). The rank position is quite strong as a consequence of e.g. low

illiteracy rate, and quite good access to the improved water sources. However, the probability of not surviving age 40 still remains more than 10.5%, what places Russia on 64th position) and indicate relatively big social problems in the country.

Graph 6. The dynamics of change of HDI in Russia in 1990-2005

![Graph showing HDI dynamics in Russia](http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_RUS.html)

After the Soviet Union collapse neither the state nor its institutions have been restored. Lack of institutional safeguarding against coup d’etat prove this situation\(^\text{30}\). Russia, having in its modern history a sole short democratic episode (July till November 1917 - government of Kierensky) eliminated even such elements of soviet democracy as separation of army and political departments (at that time a transfer from party to army leading position was possible, but not the other way round) or party circles selecting and controlling the government. Those rules ceased to exist and the procedure of appointing succeeding, after Boris Yeltsin, presidents has not adopted democratic principles\(^\text{31}\).

A particularly painful for the citizen symptom of the state collapse was the central government insolvency. Gazprom financing Russia functioning has taken over the role of the

\(^{30}\) Within last two decades Russia has experienced a number of coup d’etat attempts. Janajev’s putch was hardy a mock version. General Lebiedz attempt was among the most dangerous. (Lebiedz established a military republic at Dniestr, died when his helicopter crashed in suspicious circumstances).

\(^{31}\) In democratic states both the voters and the observers may not know the winner, but they are aware of his power. In Russia elections are not forged, but programmed in details. Voters simply have no choice. Political rules of Russia are not constitutionally clarified, but set by an elite mostly anonymous. For more see Applebaum (2008).
public power. As the process pursued, limits of Gazprom and the State effaced. Owing Gazprom money from gas trading\textsuperscript{32}, Russia has become a state capable to bear costs of its existence, that however, like in case of 16-th century Spain financed with money from American conquest, may lead to the decline the state and its economy. In 2009 Russia expects its first budgetary deficit since 1999. After its budget revision the deficit is planned at 7,4 \% of officially forecast GDP (revenues are expected to decline in comparison with 2008 by 28 \%, whereas spendings should be increased by 28 \% - these expectations are based on the assumption about world price of Urals Blend oil of 41 USD/barrel, what is less than 50 \% of the assumed in the original budget’s price equal 95 USD/b - see: Country Report Russia, June 2009, pp. 6-7).

Russia is not a democratic state and Gazprom is not an enterprise acting under market conditions (see: Applebaum (2008)). Thus, there is a unique, because of its scale, situation that what is good for Gazprom is good for Russia and vice versa. Making the state dependant results in all disturbances in gas market and resulting profit decrease affect Russia with domino effect causing reciprocal disturbances in the gas market. Russia and Gazprom close relations result in transferring the enterprise difficulties to the State causing disturbances which subsequently affect Gazprom.

Gazprom monopolistic position and unmarked character do not encourage the enterprise neither to rationalise costs nor to look for new profit sources\textsuperscript{33}. Gazprom is a monoculture duplicated into a monoculture state (it does not create even the structure of Korean chaebol or Japanese keiretsu – the successor to the pre-war zaibatsu). It is hard to accept that the situation may be a permanent one, with no breakdowns in middle range perspective. In this case even temporary breakdown of Russia-Gazprom hybrid may cause disturbances of gas supplies to Gazprom clients.

Gazprom is governed suboptimally, because of a pressure to meet the political expectations. In consequence its fortune was strongly diminished during the crisis. When looking at the Graph 1 and Table 1, one may see sharp decline in the Gazprom’s fortune. What is interesting, the western oil and gas giants (like Exxon Mobile), didn’t experience so big problems. On one hand the contraction could be explained by the investors unreasonable panic, however, the inefficient management, overinvestments (like described in section 3),

\textsuperscript{32} In 01.-06.2008 energy (oil, oil products, natural gas) export accounted for 67 \% (compared with 61 \% a year before) of total goods exports of Russia with all threee groups of goods expanding in export - – more see: Country Report Russia, September 2008, pp. 27-28.

\textsuperscript{33} In: Briefing Russia’s economy, The Economist (1-7.03.2008, p. 26) names Gazprom “inefficient monopoly”.

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whereas the other giants were more pragmatic, thus their fortune hadn’t be diminished so sharply.

Previous increases in prices of oil and gas was of a windfall character, being simultaneously the primary source of balancing Russian budget. Thus, it is hardly possible to consider budget income sources stable. In the short run, price fall conditioned by the worsening of performance of world economics may result in immediate profits decrease (it is the case with deterioration of oil price in 2009 by more than 50 % in comparison with 2008, what itself is an enormous terms-of-trade shock for the Russian economy (see: Country Report Russia, June 2009, pp. 8). In the first quarter of 2009 real GDP fell in Russia by 9,8 % (year on year), the greatest decline since the mid-1990s. In the same time Russian goods export declined by 45 % (year on year – see: Country Report Russia, June 2009, pp. 8-10)In the long term, deteriorating economic situation in Russia may lead to disputes over distribution of profits from gas production and sale, ending up in stealing assets and slowing down economic development. In this case struggle for money involves enterprises and public authorities alike, as in case of Russian and Nigerian oil production (see: Nore (2004, pp. 263-4)). Another factor of growth slowdown could be looking for benefits rather than output efficiency increase. Corruption accompanying the above phenomena intensifies ineffectiveness (the situation referred to as the resource course). Dutch disease as variation of the resource course appears in those countries, who can no longer dictate prices on world market. It is appearing a new export sector in a national economy e.g. benefiting from the increase of world price for the extracted raw material. A favorable alteration in world prices, is followed by a new sector “sucking out” production agents offering them better remuneration. Fall of traditional export sectors, unable to compete against a new one, is a usual side effect. Still, the new sector appearance favours the national economy as long as its export product prices are relatively high. Their decrease may result in the economic breakdown and prosperity decline.

In fact, this scenario took place in 2009, when oil prices stabilized on a level of about USD 60 per barrel. Russia and Gazprom lost much. The Gazprom’s losses could be explained easily: there was a slowdown in the oil and gas sector (however it lost more than private competitors in other parts of world). But when one consider Russia’s rapidly shrinking economy (IMF projections in April 2009 showed economic contraction by 6%), whereas the other BRIC members suffer a little, or like China still have positive economic growth (IMF projections in April showed 6,5% economic growth and projections for India are 4,5% of economic growth), one may say, that Russia didn’t use the potential to modernize the
The concentration on one even promising branch and several companies (like Gazprom) caused the effect of dutch disease, which made Russia dependent on global situation on oil and gas markets. The symbol of this phenomenon is that, the main Russian stock exchange index, which is for the most part composed by the companies in extracting sector (oil, gas, minerals, metals), experienced high level inconstancy during the global crisis. When the demand for these resources was strong, the country profited its strategy, but during the downturn its economic situation deteriorated sharply. The global economic downturn showed that company governance made by authorities brought inefficiency to the company, and as a consequence of dutch disease, brought inefficiency, less welfare and more fragility to whole Russian economy.

The institutional indices point at Russia’s lack of efficient governance. The Index of Economic Freedom in 2009 composed of 10 specific factors is 50,8 for Russia, whereas the world average is 59,5\(^3\) (see: http://www.heritage.org). This index is deteriorated when compared to 1995, when it was 51,1 in Russia and 57,7 globally. When looking at the particular factors, especially on business freedom, investment freedom, property rights and freedom from corruption, Russia stays far behind the world average, deteriorating situation compared to 1995. It means that there were no actions undertaken aimed at modernization of the economy, but there is continued cream skimming from lucrative sectors.

Russia has some attributes that characterise countries at high risk from political unrest (high level of inequality and corruption, low public trust in institutions, and a history of instability). The sharp economic downturn since late 2008 has already been accompanied by a rise in social protests a.o. in Pialevo near St Petersburg (see: Country Report Russia, June 2009, p. 5). Simultaneously the use of riot police to break up protests in late 2008 and early 2009 in Vladivostok (against an increase in tariffs on imported used cars) gives a signal that the authority is ready to use force (see: Country Report Russia, June 2009, p. 5).

Analysis of threats endangering Gazprom receivers proves their high level, difficult to be lowered in other than diversification way. The use of gas weapon by Russia-Gazprom is one of the threats, as there are no instruments influencing the state building process available, as the state reinforces it and makes independent from Gazprom that would result in embracing the enterprise by market economy rules in a democratic state.

\(^3\) The greater value has this index, the freer is the economy. The maximum is 100. The factors are as follows: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, labor freedom. These factors are also compounded by several subfactors. (see: http://www.heritage.org/Index/pdf/Index09_Methodology.pdf)
Even the low probability of Russia/Gazprom use of gas as a weapon does not mean that the existing dependency is a desired one. Strategic analysis and planning must take into consideration multiple check of correctness, pursuant to which a non-democratic state administering weapon is tempted to use it for its sole interest. Weapon in itself, including the economic one, is not dangerous, contrary to its non-democratic administrators. Ignoring this rule means consenting for the risk of dying on the beaches of Normandy having rejected to die for Danzig. This logic forces, while applying all instruments available to EU and its member states, to parallel diversification of suppliers, energy sources and steady broadening of strategic reserve. Simultaneously, EU countries should stop making bilateral deals with Russia and co-ordinate their co-operation with this country as well as equivocally support rival projects of supplying Europe with natural gas.

5. Conclusions

With an increase of market power of Gazprom Russian government is winning an instrument to influence public authorities in almost entire Europe. Strong position of the Soviet Union in bipolar political system destroyed by the end of 80s of the 20th century is, at least partly, regained by state-owned Gazprom – through economic power. Fast development of this company, its expansion not only in the market of natural gas, and its dispatch can be politically dangerous for the whole Europe. It is as well dangerous for Russian society that dependence on public authority has not only economic but also political nature. Windfall profits from rising oil and gas prices are an instable source of Russian budgetary revenues. Falling oil and gas prices can adversely affect Russian economy and – indirectly – its political system. Destabilization of Russia can be even more dangerous for Europe than the use of gas as weapon directed against European countries.

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