# OŚRODEK STUDIÓW WSCHODNICH IM. MARKA KARPIA Centre for Eastern Studies

# Gazprom's expansion in the EU – co-operation or domination?

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# Introduction

The energy sector, especially with regard to natural gas trade, is one of the key areas of co-operation between the EU and Russia. However, the character of this co-operation has given rise to increasing doubts both in Brussels and among the EU member states. The questions have emerged whether this co-operation does not make the EU excessively dependent on Russian energy supplies, and whether Gazprom's presence in the EU will not allow Moscow to interfere in the proces of devising the EU energy policy. This report is intended to present the factual base and data necessary to provide accurate answers to the foregoing questions. The first part of the report presents the scope and character of Gazprom's economic presence in the EU member states. The second part shows the presence of the EU investors in Russia. The data presented has been provided by the International Energy Agency, European Commission, the Central Bank of Russia and the Russian Federal State Statistics Service. Some of the data is the result of calculations made by the Centre for Eastern Studies' experts who were basing on the data provided by energy companies, the specialist press and news agencies.

**Gazprom holds a dominant position as a supplier of natural gas, first of all in Eastern & Central Europe and in the Balkans.** In the case of other European countries, imports from Russia merely contribute to the diversification of gas supply sources, and help to introduce positive changes in the structure of supplies and reduce their dependence on other suppliers (for instance in Spain).

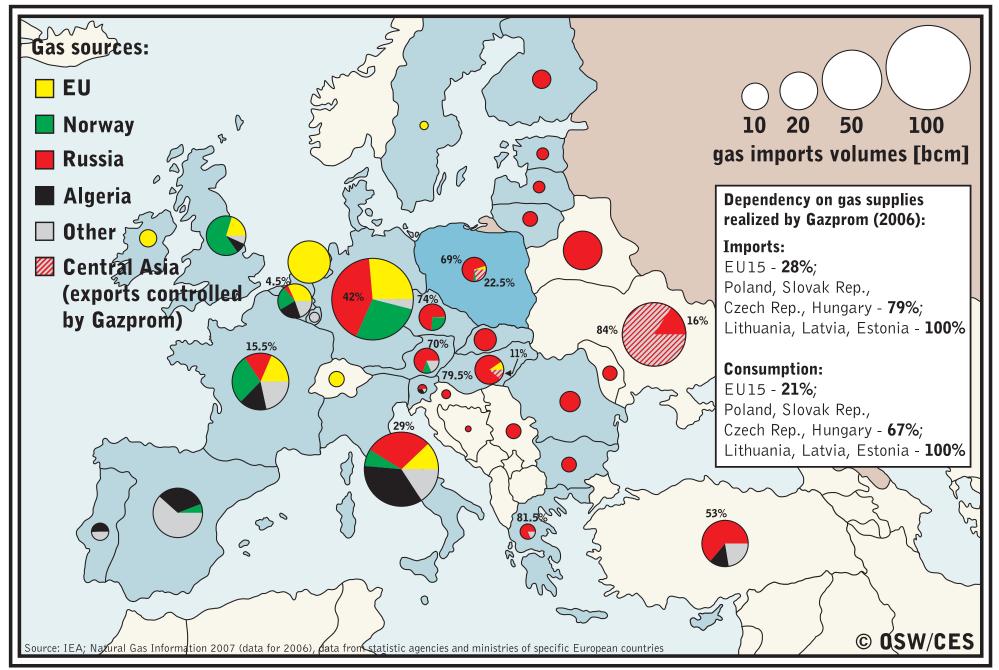
The major consumers of Russian gas in 2006 included:

- Germany (39.4 billion m<sup>3</sup>),
- Italy (22.5 billion m<sup>3</sup>),
- Belarus (21 billion m<sup>3</sup>),
- **Turkey** (19.3 billion m<sup>3</sup>).

**Russia also acts as a middleman in gas exports to Europe from post-Soviet Central Asia** - e.g. via Russian shares in RosUkrEnergo company - sole exporter of Central Asian gas to Europe, via Gazprom's monopolistic ownership of all Russian gas pipelines and by retaining state control over transit. Gazprom buys nearly 60 billion m<sup>3</sup> of gas from Turkmenistan, Uzbekistan and Kazakhstan, most of which is resold on the European market. **Majority of these supplies go to Ukraine, although minor quantities of gas are also supplied to Hungary and Poland.** 

By purchasing Central Asian gas, these countries in fact increase their dependence on gas imports from Russia.

### Gazprom as a gas supplier



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- **1.** Long-term contracts concluded in 2006 and 2007 guarantee Russia annual gas sales of nearly 90 bcm between 2020 and 2030.
- 2. Contracts concluded between Gazprom and European companies, apart from terms of Russian gas supplies, increasingly frequently include provisions which grant companies affiliated to Gazprom access to individual EU member states' final gas markets.

# Major contracts concluded by Gazprom or affiliated companies with the EU consumers in 2006 and 2007

country	contract term	volume of annual supplies	description	additional agreements
Austria	2012-2027	7 billion m <sup>3</sup>	contract signed by Gazprom with OMV, EconGas as well as with GWH	The rules for gas reception have changed:
			and Centrex Europe Energy & Gas AG, affiliated to Gazprom	- change of gas recipient from OMV to EconGas ;
				- GWH and Centrex, which are affiliated with Gazprom, were granted
ĺ				the right to sell gas (nearly 1.75 billion $m^3$ annually) to Austrian end-users
Germany	2014–2031	5,25 billion m <sup>3</sup>	contract signed by WIEH (a joint venture of Gazprom	
(VNG)		(possibility of incre-	and Wintershall) and Verbundnetzgas (VNG).	
		asing supplies)	Gazprom sells gas via WIEH in the markets of other EU member states	
Germany	2011–2036	4 billion m <sup>3</sup>	contract signed by Gazprom and E.ON on supplies via NS gas pipeline	
(E.ON)		(Nord Stream)		
Germany	2020–2035	20 billion m <sup>3</sup>	contract signed by Gazprom and E.ON, being an extention	
(E.ON)			of the currently binding contracts (to expire in 2020)	
Italy	2017–2035	22 billion m <sup>3</sup>	contract signed by Gazprom and ENI which constitutes a part	- companies affiliated with Gazprom (GMT Italia, Centrex) have gained
			of the new strategic partnership agreement; extention of the terms	access since 2007 to the Italian domestic market, and sales
			of the currently binding contracts	of up to 3 billion m <sup>3</sup> annually in 2010 is allowed
				- ENI has been promised the right to buy assets in Russia
France	2012-2030	12 billion m <sup>3</sup>	contract signed by Gazprom and Gaz de France ; the currently	- Gazprom's subsidiary, GMT France, has been granted access
		+ 2,5 billion m <sup>3</sup>	binding contract is prolonged, and an agreement for supplies	to the French domestic market, and is allowed to sell up to a maximum
		(Nord Stream)	via the Nord Stream gas pipeline is concluded	of 1.5 billion m³ of gas annually from 2007
Czech Republic	2014–2035	9 billion m <sup>3</sup>	contract signed by Gazprom and RWE Transgas; prolongation	
(RWE)			of the previous agreement on gas supplies to, and transit through,	
			the Czech Republic	
Czech Republic	2008–2012	0,5 billion m <sup>3</sup>	contract concerns supplies of gas to the Gazprom-controlled	
(Vemex)			company which supplies gas to some Czech industrial customers	
Bulgaria	2011–2030	3 billion m <sup>3</sup>	Gazprom and Bulgargaz have signed a contract prolonging	
			the previously binding contract	
Romania (WIEH)	2012–2030	4,5 billion m <sup>3</sup>	the previously binding contract has been prolonged	The contract's prolongation is made dependent on its renegotiation,
				and switching to cash payments for gas transit. The agreement provides
				for the increase of the gas transit through Bulgaria in exchange
				for co-operation in the implementation of Russian gas pipeline projects.
Romania	2010–2030	2,5 billion m <sup>3</sup>	Gazprom and Conef Energy SRL have signed a contract;	
(Conef)			supplies for Alro Stalina aluminium plant	
Denmark	2011–2031	1 billion m <sup>3</sup>	Gazprom and DONG Energy have signed a contract for supplies from NS	

Based on Gazprom in Europe: Faster expansion in 2006, Ewa Paszyc, Centre for Eastern Studies, Warsaw, February 2007; data quoted from the companies' websites and news agencies

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The routes of Russian gas exports to Europe have been diversified, but to only a small extent. Almost 70% of gas exported from Russia to the EU member states, i.e. 81.9 billion m<sup>3</sup> out of 121.3 billion m<sup>3</sup> (according to CES own calculations, based on data for 2006 provided by the European Commission, IEA Natural Gas Information and news agencies) is sent via the gas mains which run **through Ukraine**. The two other routes used for exporting Russian gas to Europe, the **Yamal-Europe** and the **Blue Stream** pipelines, play minor roles.

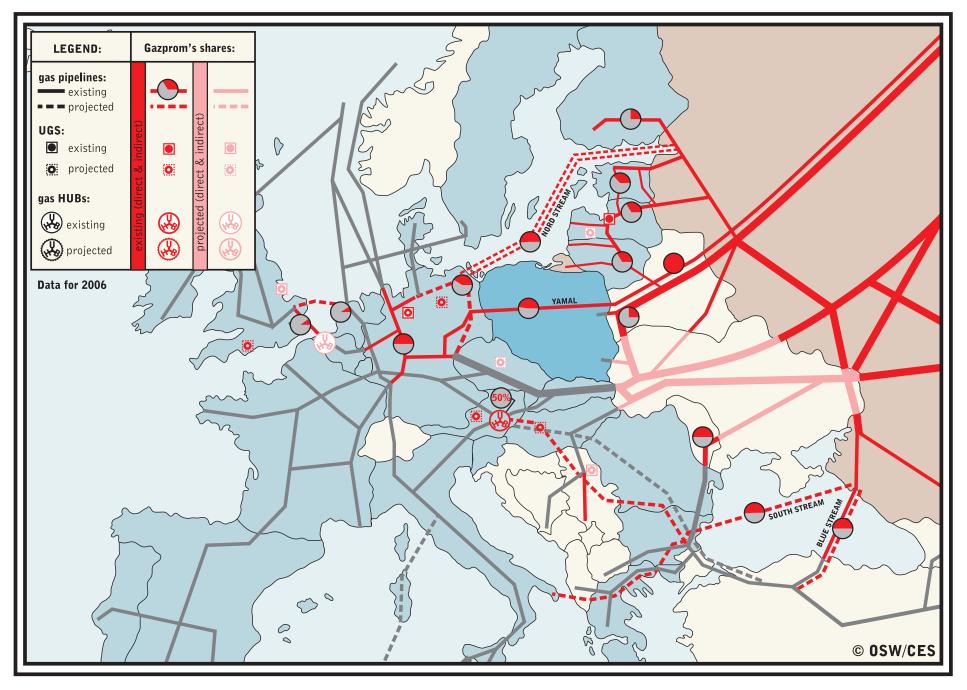
Gazprom co-owns or co-manages all the gas pipelines in the Baltic states and in Moldova, 100% of the Yamal gas pipeline and 25% of the other gas pipelines in Belarus, and a majority of gas pipelines in Finland (as a holder of a 25% stake in Gasum Oy). It also holds shares in the Yamal gas pipeline in Poland (48.64%), in some gas pipelines in Germany (50% –1 share in the gas pipeline network of Wingas, a joint venture of Gazprom and Wintershall, and 5.26% in the network owned by VNG in eastern Germany), as well as 50% in the Baumgarten gas hub in Austria. In other European countries the Russian gas giant is only planning to invest in gas transportation systems.

Additionally, Gazprom intends to make a number of new investments in gas infrastructure, the most important of which are the Nord Stream and South Stream gas pipeline projects. However, it has not been determined yet whether the projects will be implemented.

#### Gazprom's planned investments are intended:

- to diversify the routes for gas exports to the EU by building new pipes, omitting the current transit countries in Eastern and Central Europe (the Nord Stream and South Stream projects);
- to strengthen its control over gas transportation in the EU and maintain liquidity on the EU market (by investing in interconnector pipes, hubs and storage facilities).
- to impede the implementation of other pipeline projects aimed at supplying gas to the EU from sources alternative to the Russian ones.

For Russia, the process of promoting new gas pipeline projects is in itself an important tool for influenceing the policies of both individual states and the EU as a whole (cf. activities related to the South Stream project).



# Gazprom's major investments in gas infrastructure in Europe, existing and planned

**Gazprom has gained direct access to the final gas markets in the Baltic states, Moldova, Finland and Germany** (through shareholding in enterprises operating on these markets) and in Ukraine (without taking over domestic assets; Gazprom's subsidiary, GazpromZbyt, will handle this starting with 2008).

Gazprom's engagement in the final gas market in other European countries is rather small.

**Gazprom is also engaged in selling gas to final consumers in indirect form,** through companies which act as intermediaries in Russian gas trade, and have more or less transparent links with Gazprom. These companies have benefited from the liberalisation of the EU gas market, and now they can sign contracts for gas supplies to end-users. Their engagement in the EU has noticeably increased over the past three years.

#### Some examples of companies which act as intermediaries in Russian gas trade in Central and Eastern Europe:

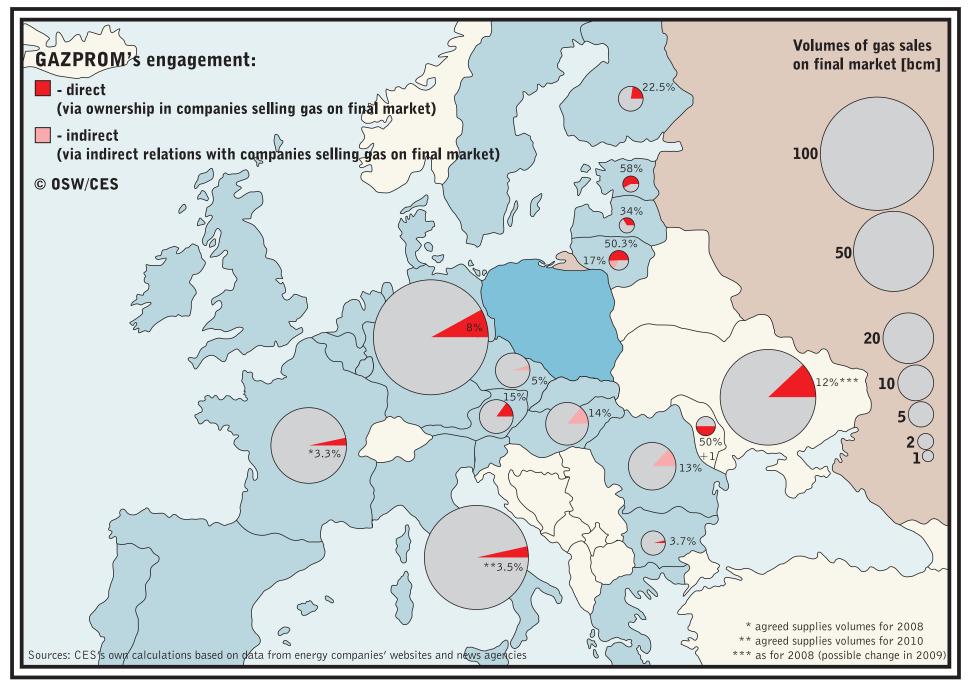
• **Vemex** has been operating in the Czech Republic since 2006. The company is owned by Germany's ZMB (33%), Austria's Centrex Europe Energy&Gas (33%) and EW East–West Consult (34%), all of which are most probably affiliated – more or less directly – through ownership with Gazprom. Vemex and Gazprom have signed a contract envisaging annual supplies of 0.5 billion m<sup>3</sup> of gas between 2008 and 2012, which guarantees Vemex a share of nearly 5% of the Czech gas market. The company also holds a licence for gas sale in Slovakia.

• **Emfesz** operates mainly in Hungary. This company has no formal ownership affiliation with Gazprom; it is a part The Firtash Group of Companies, owned by the Ukrainian businessman Dmytro Firtash (formerly Mabofi Holding, registered in Cyprus). The company buys gas from RosUkrEnergo pursuant to a 10-year contract. In 2006, Emfesz had a 20% share of the Hungarian gas sale market. The company had also signed an agreement to supply gas to Polish fertilizer manufacturer (the agreement has expired). In addition to the gas sector, it has invested increasingly actively in the electrical power industry (mainly in Hungary, but also expanding its activity to Romania and Estonia, among other countries). In 2007, negotiations on selling a 50% stake in Emfesz to Gazprom were initiated, without coming to a successful conclusion as yet.

• **Conef** is a company linked to the owner of the Romanian aluminium holding Alro, Marco Group (registered in Canada; Vitaly Machitsky, a Russian oligarch is believed to be its owner). It has been operating since 2002 on the Romanian market as an agent in Russian gas trade, co-operating with Gazprom. In 2007, it signed a 20-year contract with Gazprom for annual supplies of 2 billion m<sup>3</sup> of gas. Another company of this kind operating in the Romanian market is the Cyprus-registered Imex Oil company, which is also linked to Alro.

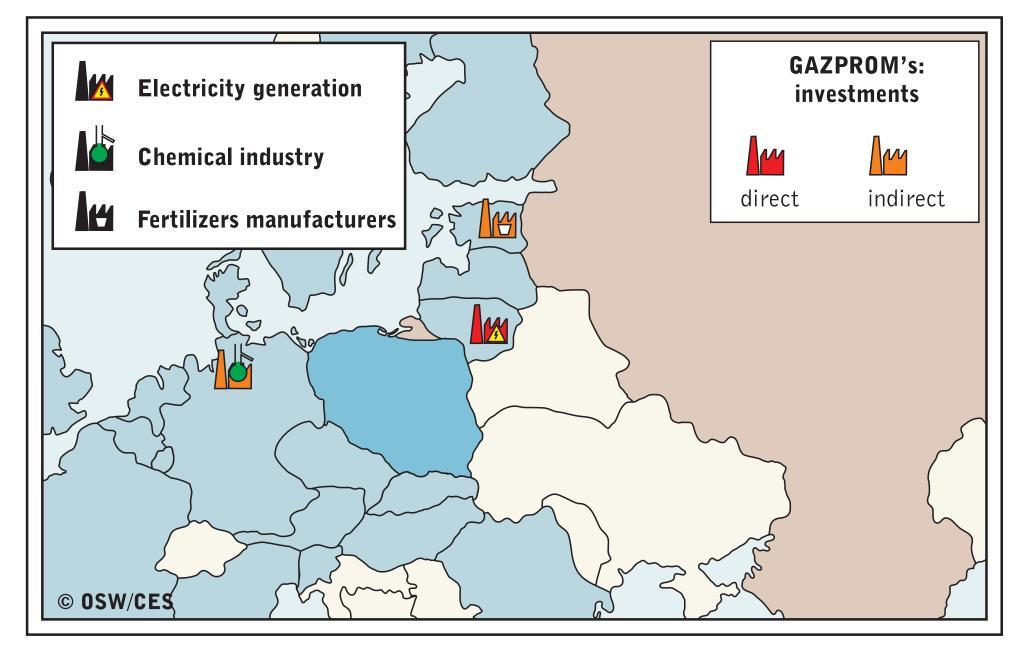
• **Dujotekana** – has been operating in Lithuania since 2001 as an intermediary in Russian gas trade. Currently, it is the third largest natural gas importer (preceded by the former state-owned monopoly Lietuvos Dujos and the Achema enterprise). It imports gas under a contract signed for the period 2002–2012 and sells it in wholesale quantities, mainly to Lithuanian electric power stations. In addition to gas sales, Dujotekana produces electricity & heat and sells electric energy. Presumably, the company has been created with Gazprom's support to facilitate the latter taking over shares in Lietuvos Dujos. Until recently, Dujotekana used to be a strategic partner of the Russian gas giant; however, its position has grown weaker lately.

# Gazprom's share in European final gas market



- 1. Gazprom's investments in other, non-gas sectors of the EU economy are relatively small. The company is directly engaged in Lithuania, where it owns a gas-fired Kaunas power plant (Kaunas CHP). Companies indirectly linked with Gazprom have invested in chemical industry (Germany's Akfem and the Estonian manufacturer of chemical fertilisers Nitrofert).
- 2. Gazprom has quite ambitious projects (albeit lacking specifics) for investing in the European electrical power industry. It has declared its readiness to participate in planned power stations in Germany, Turkey and Latvia, among other countries.

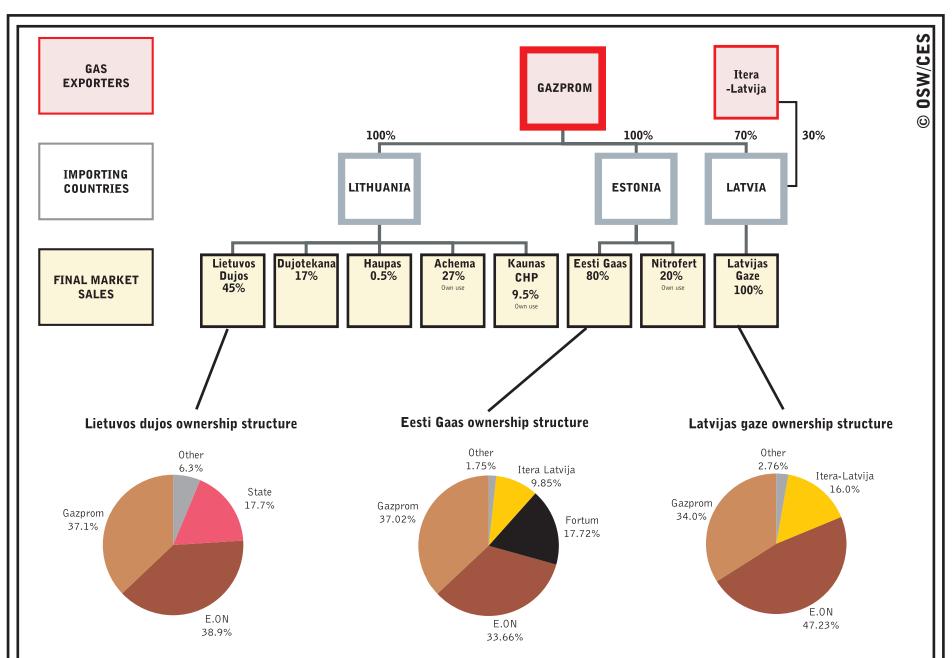
Gazprom's major investments in electric power engineering and chemical industries in Europe



- 1. Gazprom is the exclusive supplier of gas in Lithuania and Estonia. In case of Latvia, it provides 70% of gas and controls all supplies to the country.
- 2. The state-owned monopolies responsible for gas imports & distribution and operating the entire gas infrastructure have been privatised in all three Baltic states. As a result of the privatisation, Gazprom has gained nearly a third of the shares in the Lithuanian, Latvian and Estonian enterprises, and the major shareholder in each case is E.ON Ruhrgas company, Gazprom's strategic partner.
- **3.** In addition to the former monopolies, a number of private companies operate on the Baltic states' markets (such as large industrial companies Estonia's Nitrofert being one of them, or intermediaries such as Lithuania's Dujotekana), importing gas directly from Gazprom. Many facts seem to indicate that most of these companies have informal links with Gazprom.
- **4.** The share of Gazprom in the Baltic states final gas markets is the largest among the EU member states.

#### 5. Gazprom's strong engagement affects the gas sectors and the energy security of these countries.

- No diversification at present, the gas pipeline system in the Baltic states is to a great extent isolated, and connected only to the Russian system. No feasible diversification projects or possibility of implementation of such projects exist for the time being.
- Superficial liberalisation in Lithuania and Estonia, gas is imported by several companies, although all supplies to the three Baltic countries are controlled by Gazprom. It is rather unlikely that new players, independent of Gazprom, will enter the markets.
- Modernisation practically no investments to modernise the assets owned by Gazprom have been made so far.
- `European' gas prices the Baltic states used to pay lower prices for gas delivered from Russia until 2007 (the prices have been gradually rising, and last year reached approximately US\$220–260/1000 m<sup>3</sup> in comparison to US\$270–300/1000 m<sup>3</sup>, which was the average EU price). The prices have risen to the average `European' level this year in the case of the largest importers in Lithuania Lietuvos Dujos and Latvia Latvijas Gaze. According to Lithuanian National Control Commission for Prices and Energy in April prices for Lithuania were US\$ 380/1000 m<sup>3</sup> and are to rise in May up to US\$ 400/1000 m<sup>3</sup>). The prices for Estonia's Eesti Gaas have not changed since last year. Some large industrial companies (such as Lithuania's Achema and Estonia's Nitrofert), which buy gas directly from Gazprom, pay lower prices.



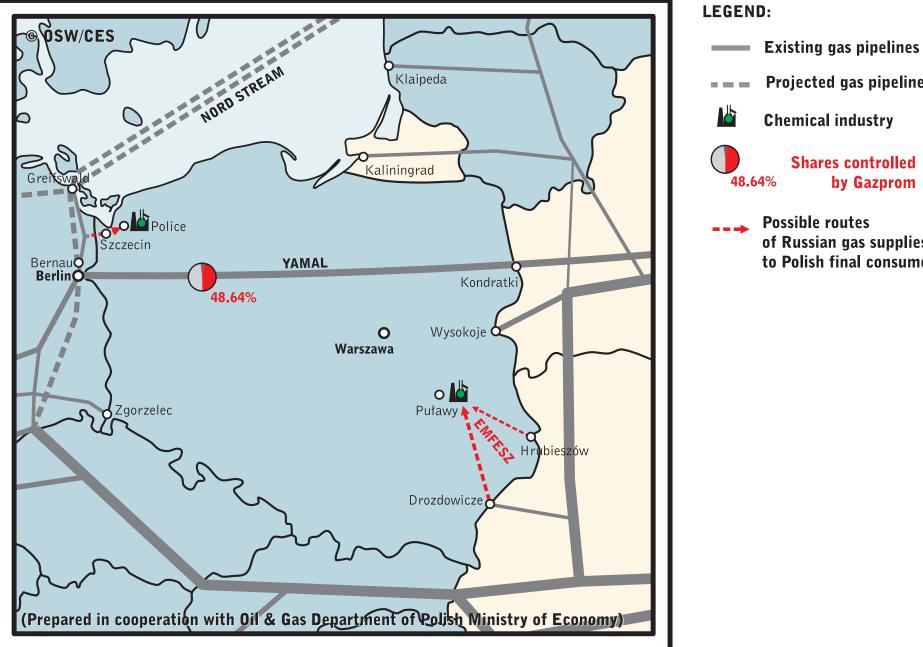
# Gas sector in the Baltic states – Gazprom's strong engagement

#### **1.** Gazprom's engagement in Poland:

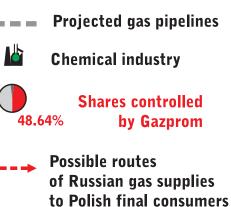
- So far Gazprom has not invested much in the Polish gas sector, and it does not sell gas on Poland's final market. Gazprom's only direct investment in Poland is the stake it holds in the company EuroPolGaz, which owns the Polish section of the Yamal-Europe export gas pipeline. The Russian monopoly controls 48.64% of its shares, compared to 49.74% stake owned by the Polish company PGNiG.
- Gazprom intends to gain more control over gas transit through Polish territory, as has been proved by the company's attempts to increase its share in EuroPolGaz. Gazprom also wants (either directly or through affiliated companies) to start selling gas to Polish end users. Emfesz company, which is indirectly linked to Gazprom and is actively engaged on the Hungarian market, has concluded a contract which provides for direct gas supplies to Nitric Acid plant in Puławy. However, the contract could not be implemented for formal reasons, and has expired recently.

#### 2. Major dilemmas over Gazprom's engagement on the Polish domestic gas market:

- The opening-up of the Polish gas market is very likely to attract unreliable, not fully transparent trading companies (such as Emfesz). Such companies may coordinate their activities with Gazprom to the disadvantage of Poland. One example of such co-operation contrary to Polish interests was the coordination of activities in late 2006 between Gazprom and RosUkrEnergo, the largest suppliers of gas onto the Polish market. RosUkrEnergo made signing of the contract for gas supplies in 2007–2010 dependent on Warsaw's consent to raise the prices of gas Gazprom supplied under the long-term contract (so-called Yamal contract).
- The possible entry of new companies on Polish final gas market may cause an excessive supply of gas to Poland, without any possibility of selling it abroad, since the Yamal contract (as other long-term gas supply agreements signed by Central European countries with Gazprom) includes a clause prohibiting the re-export of gas.
- Direct access of Gazprom (or affiliated companies selling Russian gas) to industrial companies in Poland would mean facade diversification, and would reduce its chance for a real diversification of sources and directions of gas supplies.

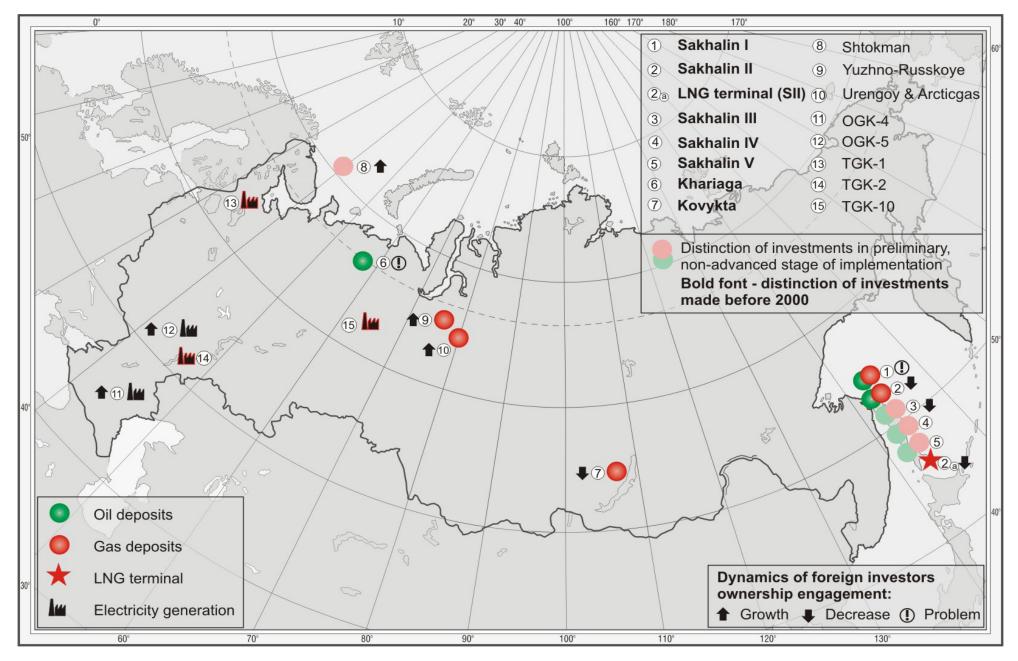


#### **Poland** – firm resistance to Gazprom's expansion



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- 1. Presence of foreign (including EU) investors in the Russian oil & gas sector is slight; they have no access at all to the Russian export infrastructure, their engagement in oil & gas upstream is relatively small, and they have minor share in the entire Russian output of oil & gas.
- 2. At present, foreign investors usually hold minority stakes in oil and gas development projects on Russian territory. Only in rare cases they do own majority share blocks (Sakhalin-1 oil and gas field and Khariaga oil field).
- **3.** The ownership structure of foreign investors (including the EU) in the Russian oil, gas and electrical power industry has been undergoing dynamic changes over the recent years. On one hand, the extent of their engagement in the hitherto implemented projects has been reduced, and on the other, ever more forin investments are being made in subsequent energy assets.



# Dynamics of foreign investments in the Russian oil & gas upstream and electric energy sectors: 2000–2008

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The state authorities have been exerting increasing pressure on foreign investors in the Russian energy sector, mainly in the gas upstream in the last few years. The aims of this pressure are:

- to minimise the autonomy of foreign investors,
- to strengthen state control over the strategic deposits and over export of energy resources as a whole, and
- to increase the resource base and production capacity of the state-owned monopoly, Gazprom, at a relatively low cost

The Russian authorities have taken various actions to alter the terms of contracts with Western companies, as a result of which:

- Gazprom has been taking over control of projects in which it had no shares previously (Sakhalin 2, Kovykta)
- gas produced by foreign investors is being taken over (Sakhalin 1, in the process of negotiation)
- the results of tender procedures or contracts have been invalidated (Sakhalin 3 and the cancellation of ExxonMobil and Chevron's licence for development of fields in 2004).

# The examples of pressure on foreign investors in the Russian oil & gas upstream sector

assets	description	shareholders	problems
Sakhalin 1 - estimated reserves: 485 bcm of gas and 307 mt of oil - developed according to PSA rules	PSA signed in 1996; Production launched in 2001.	ExxonMobil (operator) 30%, SODECO 30% ONGC 20% Rosneft 20%	Gazprom is impeding gas exports to China. Negotiations have started on selling this field's entire production to Gazprom, who wants to resell it on the domestic market.
Sakhalin 2 - estimated reserves: 800 bcm of gas and 180 mt of oil - developed according to PSA rules	The agreement signed in 1996; Production launched in 1999. An LNG plant is scheduled to start in 2008, which will enable gas exports to Japan, China and South Korea.	originally: RoyalDutchShell 55% (operator) Mitsui 25% Mitsubishi 20% <u>at present:</u> RoyalDutchShell 27.5% Mitsui 12.5% Mitsubishi 10% Gazprom 50% + 1 (operator)	The shareholding structure changed in 2007, when Gazprom took over the controlling stake (as a result of pressure exerted on the consortium for several years by Russian tax and ecology authorities)
Sakhalin 3 - estimated reserves: 770 bcm of gas - PSA cancelled	The licence for the field development was granted according to PSA rules in 1993. A new licence has not been granted. The field has not been devel- oped yet.	Development licences granted to Exxon Mobil and ChevronTexaco	The PSA licence was cancelled in 2004, officially due to amendments to Russian legislation. ExxonMobil wants to obtain a development licence according to general taxation rules. Japanese companies consortium is also interested in this project.
Kovykta - estimated reserves: 1.9 trillion m <sup>3</sup> of gas	Agreement on field development accord- ing to general taxation rules as of 1997 for TNK (currently TNK-BP).	TNK-BP 62.9% (operator) Interros 25.8% Irkutsk oblast 10.8%	After several years of pressure exerted by the different Russian state institutions , it was decided in 2007 to sell the entire stake in the field owned by TNK-BP to Gazprom (not yet carried out, due to disagreements over the stake price, among other issues)
Khariaga - estimated reserves: 160 mt of oil - developed according to PSA rules	PSA contract signed in 1999; Annual production level is 1 million tons of oil.	TotalFinaElf 50% (operator) NorskHydro 40% Nenets Oil Company 10%	Between 2004 and 2007, the consortium was accused of failing to comply with ecological regulations and of delays in the development of the field. The accusations have now stopped. TotalFinalElf has recently become Gazprom's partner on the Shtokman gas field.

According to the Central Bank of Russia estimates, the Russian Federation received US\$52.5 billion in foreign direct investments in 2007, which was 62% more than in 2006. A significant part of this amount was invested in oil & gas upsteram sector and in electrical power industry. **FDI influx in the Russian energy sector has been increasing over the last three years**.

However, in 2007, a significant part (25.7%) of investments in the Russian energy sector was not allocated for new projects; instead they were spent on the purchase of the bankrupt Yukos company's assets (the Italian companies Enel and Eni paid US\$5.8 billion<sup>1</sup> for the company's gas assets), and restructuring & privatisation of a part of the assets of the electric power company RAO UES of Russia (Germany's E.ON and Italy's Enel paid US\$7.7 billion<sup>2</sup> for two electricity generation and wholesale companies).

Investors have also been given access to new gas upstream projects (Shtokman and Yuzhno-Russkoye fields), although under the new regulations adopted during Vladimir Putin's second term. Pursuant to them, a foreign investor can have only a minority share and a right to a part of revenues from the sale of the resources produced in Russia (sold exclusively to Gazprom). Usually, Western companies have to give some of their other assets to Gazprom in exchange for access to Russian fields (vide Gazprom's agreements with BASF and ENI).

<sup>&</sup>lt;sup>1</sup> http://www.eni.it/en\_IT/media/press-releases/2007/04/Eni\_announces\_\_5\_83\_bn\_acquisi\_04.04.2007.shtml

<sup>&</sup>lt;sup>2</sup> http://www.eon.com/en/downloads/Acquisition\_of\_0GK4\_17092007.pdf

http://www.enel.com/en/financial/ogk5 offer/results/

# Foreign investments in Russian gas and energy sectors in 2006 – 2007

assets	description	shareholders/investors	comments
gas and/or oil fields			
Shtokman - estimated reserves: 3.7 trillion m <sup>3</sup> of gas	The gas field in the Barents Sea is expected to be a source of gas for the Nord Stream gas pipeline. The field is expected to come online in 2013. The esti- mated annual production capacity will be 23.7 billion m <sup>3</sup> at the beginning, to finally reach a level of 67.5 billion m <sup>3</sup> . A gas liquifying plant is also planned.	Shtokman Development company: Gazprom 51% (operator) Total 25% Statoil Hydro 24%	a new project, preliminary phase
<b>Yuzhno-Russkoye</b> - estimated reserves: 825 bcm of gas	The gas field was put into operation in late 2007. It is expected to be a source of gas for the Nord Stream gas pipeline.	Gazprom 75%, BASF 25% minus one share, plus one privileged share worth 10%, albeit without voting power. Ongoing negotiations with Germany's E.ON on exchange of assets should ultimatelly enable company to join the consortium (E.ON is to receive 25% plus one share).	a new project
Fields in the Yamalo-Nenets Autonomous Area - estimated reserves: 900 bcm of gas	In 2007, a consortium of ENI and ENEL bought three gas companies, Arcticgas, Urengoil and Neftegaztechno- logia, former assets of Yukos. The companies held licences for 5 fields in the Yamalo-Nenets Autonomous Area. Currently, gas is produced only in one field, due to the companies' problems with access to pipelines.	ENI 60% ENEL 40%	The fields were bought during the sale of Yukos's assets. Gazprom has an option to buy out 51% of the shares, starting from 2009.
electric power engineering		·	
OGK-4 - wholesale electricity and heat producer - the production capacity is 8630 MW of energy	The block of shares was bought for US\$4.1 billion in 2007. 5 electric power stations located across Russia, including in Moscow, Krasnodar, Tyumen, Smolensk and Perm oblasts.	E.ON 76% RAO UES 22.5% Minor shareholders 1.5%	The shares were bought during the privatisation of RAO UES at the end of 2007. E.ON has the right to acquire 100% of shares.
<b>OGK-5</b> - wholesale electricity producer - the production capacity is 8672 MW of energy	Block of shares bought for US\$1.8 billion in 2007. 4 electric power stations located in Ural, the North Caucasus and central Russia.	ENEL – 60% RAO JESS – 40%	The shares were bought during the privatisation of RAO UES at the end of 2007. ENEL has the right to acquire 70% of shares.
<b>TGC-1</b> - regional energy producer - the production capacity is 6278 MW	Block of shares bought by Fortum. CHP plants located in the northern part of the Russian Federation (including in Leningrad and Murmansk oblasts)	RAO UES 42.3% Fortum 25.7% Norilsk Nickel 5.6% Russian Energy Project 17.7% Other 8.7%	The shares were bought during the privatisa- tion of RAO UES in 2005.
<b>TGC-2</b> - regional energy producer - the production capacity is 2576 MWBlock of shares bought by RWE for US\$0.39 billion.CHP plants located in the northern part of the Russian Federa- tion - comprises generating capacities of 6 regions - Arkhan- gelsk, Vologda, Kostroma, Novgorod, Tver and Yaroslavl.		RWE (jointly with Syntez Group) 33.5% RAO UES 49.3%	The assets were bought during the privatisation of RAO UES at the beginning of 2008. RWE has the right to increase its stake to 51%
<b>TGC-10</b> - regional energy producer - the production capacity is 3000 MW	Block of shares bought for US\$3 billion. CHP plants located in Khanty-Mansiisk,Tyumen, Karagan and Chelyabinsk oblasts.	Fortum 76.5% RAO UES 13.8% Agency for Federal Property Management 2.8% Minor shareholders 6.8%	The assets were bought during the privatisation of RAO UES at the beginning of 2008.

- Gazprom's presence on the EU energy market has been gradually increasing. The gas giant's position in the EU has strengthened, although this process has been taking place at a relatively slow rate, especially regarding its investments in the transport infrastructure. The following four levels of the Russian monopoly's presence in the EU can be distinguished:
- **Gazprom as a supplier (exporter) of gas.** In this area the Russian company has the strongest position in Central and Eastern European countries and in the Balkans, where it predominates or holds a monopoly. A number of long-term contracts that guarantee the continuity of Russian supplies to the EU have been signed in the last few years. Yet these contracts cannot determine whether the share of gas exported by Gazprom will increase in the EU overall consumption. However, the rules by which new contracts are guided (in some important cases European contractors have made additional concessions) clearly indicate that the EU member states are not only unwilling to give up long-term contracts with the Russian company, but they are even seeking to sign them. It seems quite likely that in the future the EU states may even end up competing among themselves for Russian gas supplies.
- **Gazprom as a co-owner of transport infrastructure**. The Russian company's engagement in the EU's gas infrastructure is still relatively small. It can be best noticed in the Baltic states, but also in Germany, Poland and Finland, and more recently in Austria. Gazprom's investments in this area have been growing relatively slowly over recent years. What increased significantly was the number of infrastructural projects planned and promoted by the Russian company in the EU. It has not yet been decided whether any of them will be implemented at all. However, if they were implemented, the European Union's situation in this sphere would change completely. In such a case, Gazprom would control most of the gas pipelines running from the CIS area to Europe. This control could be further strengthened by the Russian monopoly's increasing share in the gas pipeline networks in countries bordering the EU, principally in Belarus. Gazprom would also have diversified export routes to the EU. Last but not least, the gas monopoly would also be able to impede the implementation of the projects that could diversify EU gas supply sources.
- **Gazprom as an actor on the final gas market.** The Russian company's presence on this market is still small, although it has grown steadily over recent years. The newly introduced principles on the EU gas market liberalisation enable Gazprom and its affiliated companies to become suppliers in the final gas market. The Russian company has secured the access to the final gas market while extending long-term contracts with individual EU member states, among other measures. Gazprom is getting involved in the European market

by buying shares in enterprises operating on the final gas market (as in the Baltic states), via its subsidiaries (such as ZMB in Germany, GMT Italia, etc.), through joint ventures (Wingas of Germany, GWH of Austria), and sometimes using companies that are indirectly (Vemex in the Czech Republic) or unofficially (Emfesz in Hungary) affiliated with Gazprom.

- **Gazprom as a tool of Russian foreign policy.** In the last few years both the company's management and the Kremlin have increased their involvement in promotion of Gazprom's planned investments in the EU. These activities, apart from advertizing the projects as such, are also aimed at presenting the company and Russia itself as key actors in the EU energy sector. They are also meant to influence the energy policies of both the individual member states and the EU as a whole.
- 2. Regardless of the implementation of the second gas liberalisation directive, none of those EU member states where Gazprom has been a traditionally dominant supplier has managed to diversify their supplies significantly (only the Czechs have relatively succeeded in doing this). Those countries which have accepted Gazprom as one of the key investors in their infrastructures and final markets (Lithuania, Latvia and Estonia) have not embarked on any diversification projects, and now have to buy gas at rates which are higher than the average European price.
- 3. Gazprom's strengthening position in the EU is being accompanied by a redefinition of the rules applicable to Western (including EU) investments in the oil & gas upstream in Russia. The share of foreign capital in projects which have been deemed strategic, especially in the gas sector, is being reduced, and control of such projects is transferred to state-owned companies, i.e. to Gazprom in the case of gas projects. Recently, investors have been given access to new oil & gas assets in Russia; however, they can only hold minority stakes and have no right to export their production.