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

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

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## Introduction

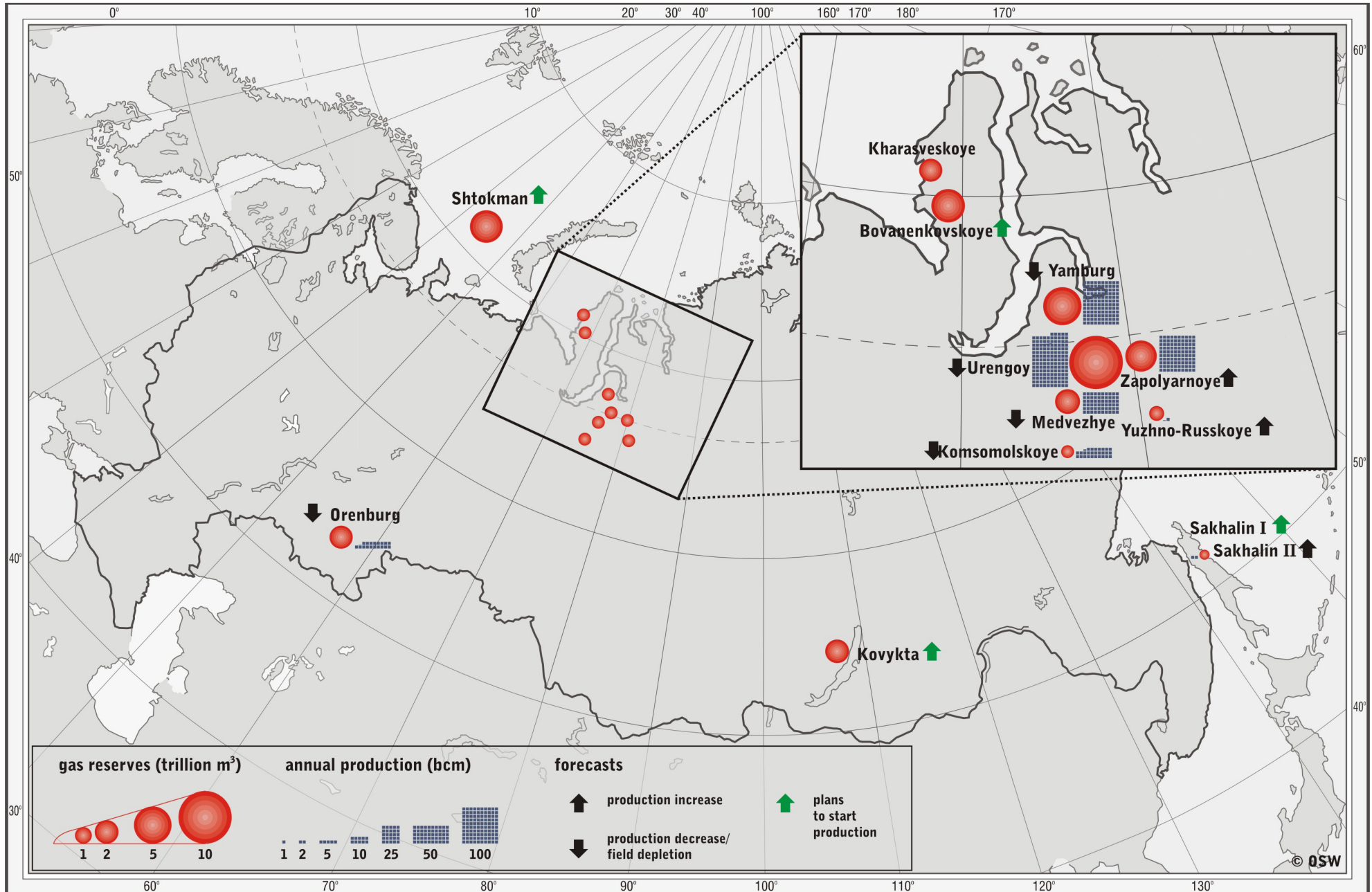
The energy sector, especially with regard to the gas trade, is one of the key areas of co-operation between the EU and Russia. However, the form this co-operation has taken has been giving rise to some concern, both in Brussels and in the EU member states. Questions arise as to whether the EU has not become excessively dependent on Russia for energy, and whether the presence of the Russian gas monopoly in the EU does not enable Russian interference with the development of EU energy policy. The objective of this series of OSW reports (for the previous edition, see [Gazprom's expansion in the EU: co-operation or domination? April 2008 – pdf 1.2 MB](#)) is to provide facts which will permit an accurate answer to these questions to be formulated.

Over the course of last year, two new factors strongly affected Gazprom's capability to operate on the EU market. One was the ongoing global economic crisis, which has depressed demand for gas both in Russia and in Europe. Gazprom has cut both its own production and the quantities of gas it purchases from the Central Asian states, and the decrease in export revenues has forced the company to modify some of its current investment plans. Less demand for gas and the need to reduce production are also having a positive impact – the Russian company is likely to avoid the difficulties in meeting all of its export commitments which, only a year or so ago, it was expected to experience. The other factor affecting Gazprom's expansion in Europe is the observed radicalisation of the rhetoric and actions of both the company itself and of the Russian authorities with regard to the gas sector as broadly understood. The gas crisis between Russia and Ukraine in January 2009, which resulted in a two-week interruption of gas supplies from Russia to Europe via Ukraine, was the most prominent example of this radicalisation. The hardening of rhetoric in the ongoing energy talks with the EU and other actors, and increased political and business activities designed to promote Russian gas interests in Europe, in particular the lobbying for the Nord Stream and South Stream projects, are further signs of this shift in tone. These issues raise the question of whether, and to what extent, the current condition of Gazprom's finance will permit the company to implement the infrastructural projects it has been endorsing and its other investment plans in Europe. Another important question is whether the currently observed changes in how Gazprom operates will take on a more permanent character, and what consequences this will have for the European Union.

The first part of this report discusses Gazprom's production and export potential. The second comprehensively presents the scope and nature of Gazprom's economic presence in the EU member states. Finally, the third part presents the Russian company's methods of operation on foreign markets. The data presented in the report come mainly from the statistics of the International Energy Agency, the European Commission and Gazprom, as well as the Central Bank of Russia and the Russian Statistical Office. The figures presented here also include proprietary calculations by the OSW based on figures disclosed by energy companies and reports by professional press and news agencies.

- **Gazprom is the world's largest company in terms of gas reserves and production**, as it accounts for 20% of global production. It also occupies a dominant position on the Russian gas market, since it controls over 60% of domestic gas reserves (Russia has the world's largest gas deposits) and up to 85% of Russian gas production (according to Gazprom's own figures for 2007). Gazprom also holds a monopoly on gas exports from Russia.
- **Production has been decreasing for the last few years in most of the fields currently operated by Gazprom, including the three most important ones** which together account for around 65% of the monopoly's production (Urengoy, Yamburg and Medvezhye) because the reserves of the currently operated, geologically 'simpler' layers are depleting, and also because of ineffective and obsolete extraction technology, etc.
- Decreasing production in the 'old' fields is being offset by:
  - production in the Zapolyarnoye field which was brought online in 2001 (in 2007, Zapolyarnoye accounted for around 18% of Gazprom's production),
  - supplies from independent Russian gas producers (including Novatek), and
  - gas supplies from Central Asia.
- Gazprom is also working to launch extraction from deeper layers of the West Siberian deposits and to put new fields into operation (including Bovanenkovskoye in the Yamal Peninsula and Shtokman in the Barents Sea). However, **work on the new fields will take years to complete – investments are in the early stages of implementation, and will require colossal expenditure**. For these reasons, and because of the recent adjustments in Gazprom's current investment policy in connection with the ongoing economic crisis, **the start of production in these fields may be delayed**. For example, the start of work on the Bovanenkovskoye field was postponed by one year in June 2009 (according to the current plans, the first phase of production in this field may start in the second half of 2012), and the target production volumes will not be reached for the next couple of years.
- At the same time, due to reduced gas consumption on the internal Russian market and in Europe (as a result of the crisis, but also as a consequence of the progress made in achieving EU energy policy targets), **demand for Russian gas will be lower** in the next few years. Thus, production in the currently running West Siberian fields will be lower than originally expected, **mitigating the risk that Gazprom might be unable to meet its contractual commitments to foreign customers in the coming years**.

# Major gas fields in Russia – reserves and production



Source: Gazprom In figures 2003–2007 ([http://www.gazprom.com/f/posts/56/123567/stat\\_eng\\_2007.pdf](http://www.gazprom.com/f/posts/56/123567/stat_eng_2007.pdf)) websites of extraction companies (<http://old.gazprom.ru/eng/articles/article21652.shtml>)

- **For the last five years, Gazprom's production has remained relatively stable.** According to the company's own figures, Gazprom produced around 550 bcm of gas in 2008. **Gazprom's exports have varied more, as they increased by around 20% between 2005 and 2008.** Last year, the company exported 280.9 bcm of gas (Gazprom's figures for 2008). However, these figures differ from the International Energy Agency's data, according to which exports have been falling gradually since 2006 (by more than 5% in 2007).
- **In 2009, in connection with the ongoing economic crisis and the decrease in demand for gas in Russia (by around 10%<sup>1</sup>) and in Europe (by around 7%<sup>2</sup>), Gazprom has been reducing its production;** in the first three quarters of 2009 it produced 319 bcm, 22.7% less than in the same period last year. Production in September 2009 was lower by around 15% than in September 2008<sup>3</sup>. Total production in 2009 is expected to fall; according to estimates made this autumn, it will amount to 450–490 bcm<sup>4</sup>. The final volume of production will also depend on the quantity of gas purchased from the Central Asian states; as of April 2009, Gazprom has cut gas imports from Turkmenistan by more than 90%. However, if the company were to meet its contractual commitments and purchase gas from Turkmenistan in the quantities provided for in the contracts for 2009, then domestic production could be even lower.
- **Gas exports have also been decreasing:** between January and September 2009 they dropped by around 28% compared to the previous year<sup>5</sup>, and Gazprom expects total exports to Europe<sup>6</sup> in 2009 to reach around 142 bcm (marking a decrease of around 22% compared to 2008<sup>7</sup>); according to Russian analysts, this figure may be even lower.
- The crisis has also prompted Gazprom to make adjustments to its production forecasts for the coming years. Even though no official forecasts are available, according to statements by Gazprom officials quoted in the Russian media this autumn, production will increase to around 510–520 bcm in 2010<sup>8</sup>, and may not return to 2008 levels by 2012<sup>9</sup>. No adjustments to Gazprom's long-term production forecasts are currently available.

<sup>1</sup> 9.7% between October 2008 and September 2009, calculations based on figures of the Russian Energy Ministry,, <http://minenergo.gov.ru/activity/statistic/1927.html> (accessed on 16 October 2009)

<sup>2</sup> Forecast for the whole of 2009, quoted from the Eurogas chief on 1 October 2009, <http://www.eurogas.org/uploaded/09P476%20-%20Press%20release%20Eurogas%20Annual%20Conference%20and%20forecast%20results.pdf>

<sup>3</sup> From the Russian Energy Ministry, <http://minenergo.gov.ru/activity/statistic/1927.html> (accessed on 16 October 2009)

<sup>4</sup> <http://www.vedomosti.ru/companies/news/2009/10/12/857973>

<sup>5</sup> From the Russian Energy Ministry, <http://minenergo.gov.ru/activity/statistic/1927.html> (accessed on 16 October 2009)

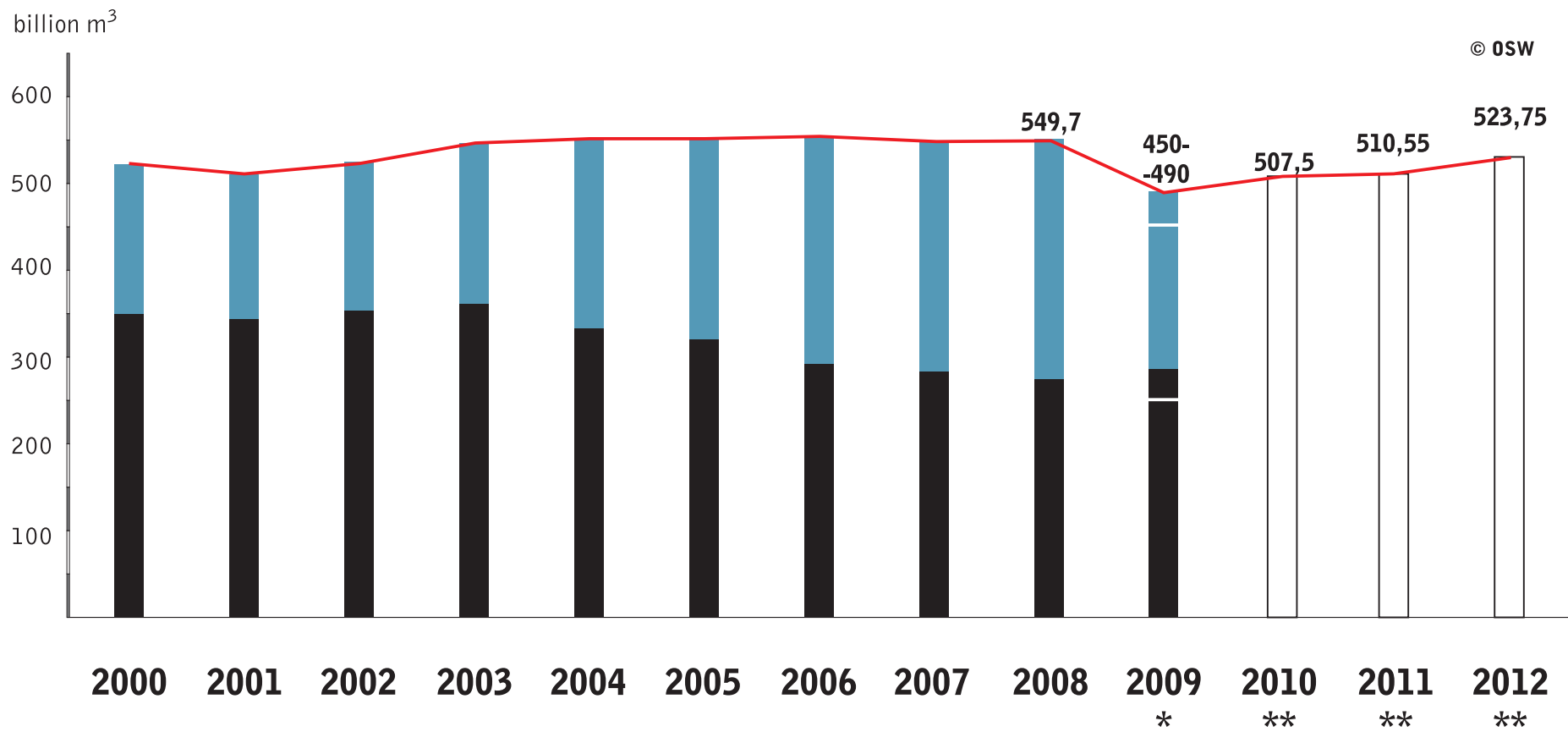
<sup>6</sup> To buyers of Russian gas beyond the former Soviet area (understood as the CIS, Georgia and the Baltic States)

<sup>7</sup> In 2008, exports to Europe amounted to 184.4 bcm according to Gazprom's figures. <http://www.gazprom.ru/marketing/>

<sup>8</sup> <http://www.vedomosti.ru/companies/news/2009/10/12/857973>

<sup>9</sup> According to June 2009 reports in the Russian media, the production forecast for 2010 was 507 bcm, 510 bcm for 2011, and 523 bcm for 2012.

## Dynamics of Gazprom's gas output and export



\* Gazprom's forecasts from October 2009

\*\* Forecasts from June 2009

■ export

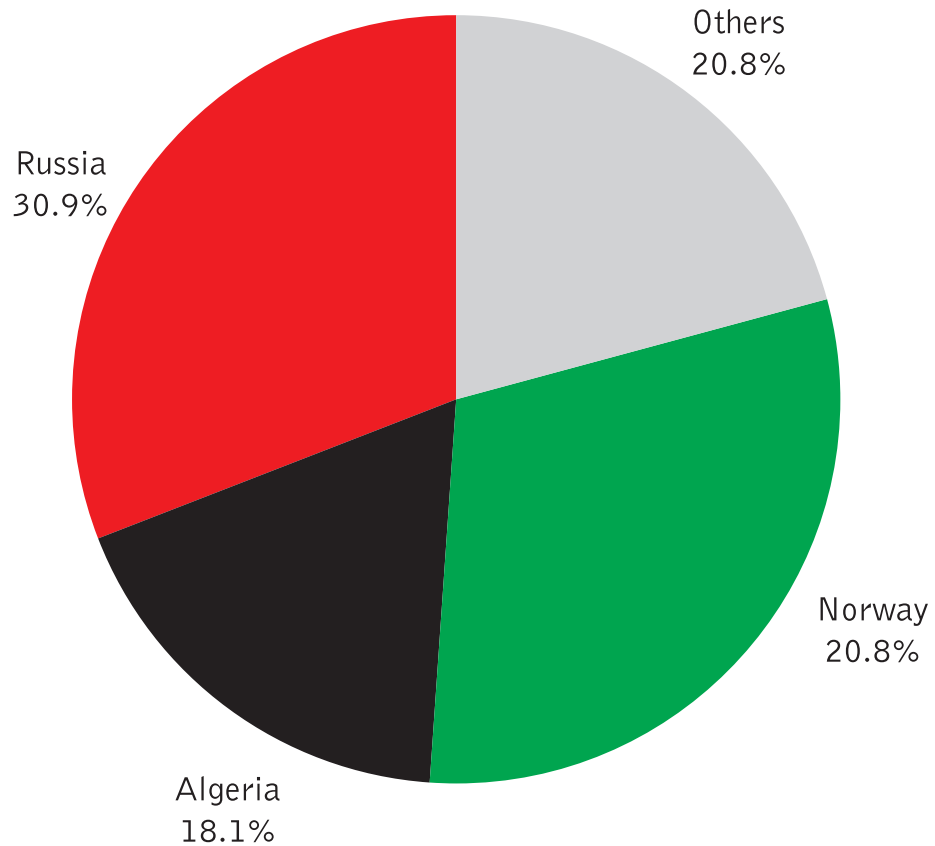
— output

- In 2008, the twenty-seven EU member states consumed more than 533 bcm of gas (IEA), of which more than 60% was imported from outside the European Union.
- **There is a clear asymmetry between the EU-15 countries (the so-called old member states) and the EU-12 (the new member states) with regard to both consumption and gas imports:**
  - the old member states account for more than 85% of total gas consumption in the EU, while the new member states consume less than 15%;
  - a similar tendency holds for imports: most of the gas imported to the EU is purchased by the EU-15 countries (85%), while the EU-12 countries buy a quantity that is several times smaller (15%).
- **The old and new member states also differ with regard to the degree of diversification of their gas supply sources;**
  - in the EU-15, the structure of gas imports is well diversified with three main sources of supplies: Russia (31%), Norway (30%) and Algeria (18%);
  - in the EU-12, the structure of gas imports is dominated by Russia, which provides more than 85% of the gas supplied.
- **The above differences are among the main reasons for the discrepancies in how these two groups of countries view the main challenges of the EU's energy policy and the ways proposed to enhance the security of energy supplies.**
- The consequences of the differences in the degree of supplies diversification, and the deep dependence of Central European states on gas supplies from Russia (provided under long-term contracts with Gazprom, but also from the intermediary companies related to the Russian monopoly such as RUE) could be observed in the first quarter of 2009. Those countries that have well-diversified gas supply baskets could optimise their purchase costs by selecting the cheapest suppliers. As a result, the volume of Gazprom's exports decreased substantially (by 30% to the EU as a whole, including by around 50% to Germany and Italy) because the prices offered by the Russian company were among the highest in Europe, due to the relatively inflexible calculation formula. Meanwhile, the Central European countries that depend on gas supplies from Russia not only bought their gas at prices higher than the European average in the first quarter of 2009, but in some cases (Poland and the Baltic states), they also increased the volumes of gas imported.



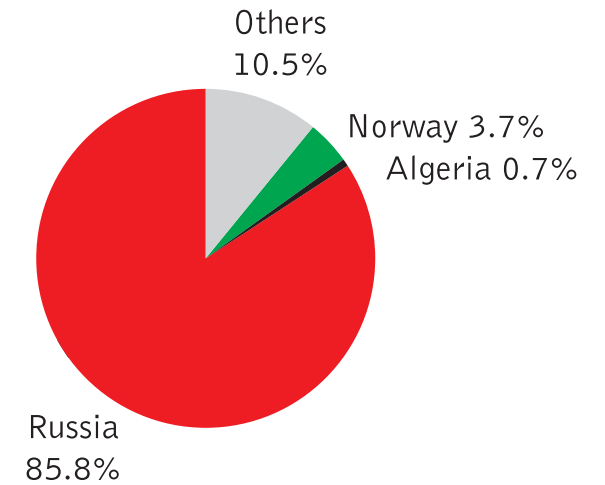
## Sources of gas imports to the EU in 2008

**'OLD' MEMBER STATES (EU-15)**



**Gas imports: 274.15 bcm**

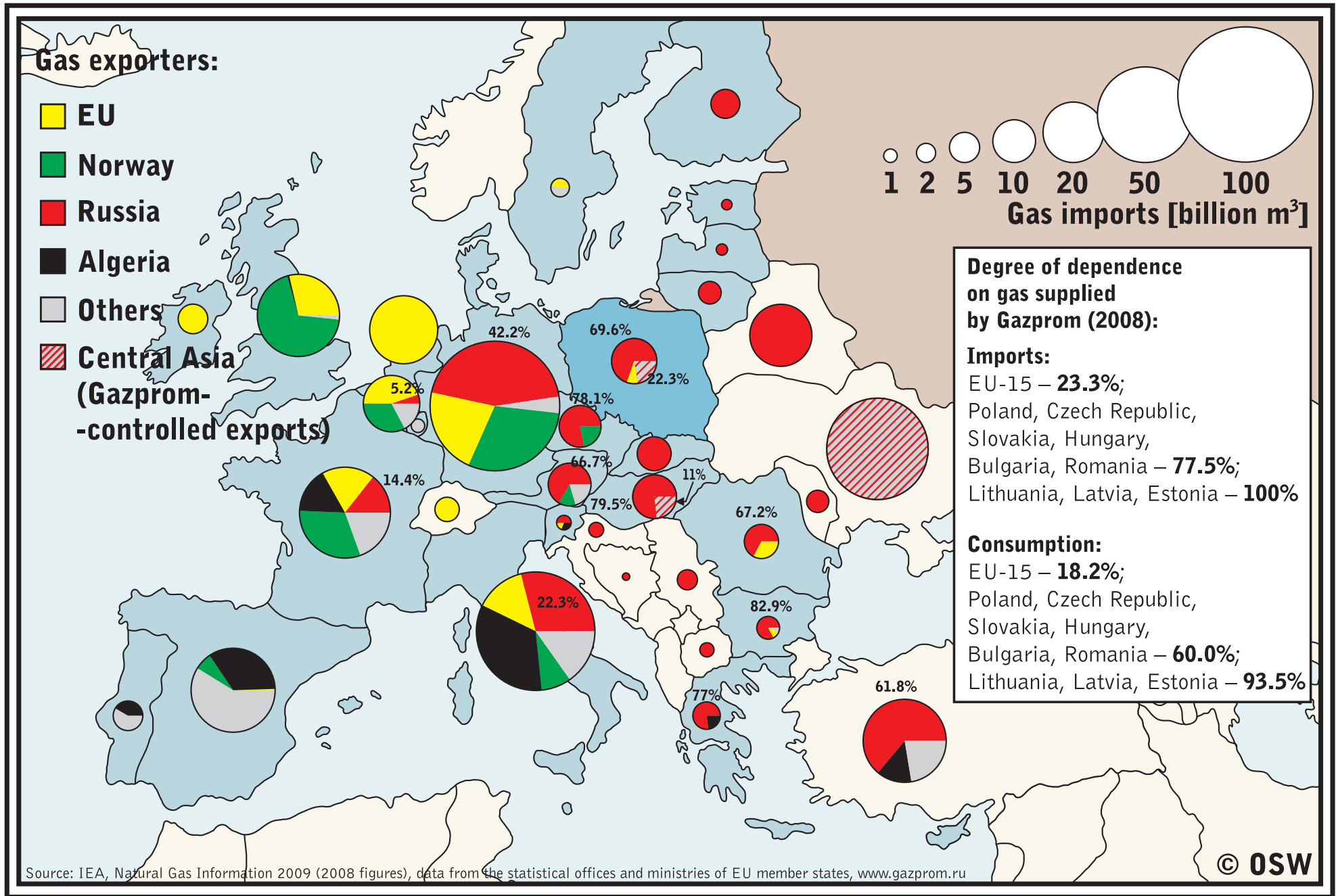
**'NEW' MEMBER STATES (EU-12)**



**Gas imports: 50.26 bcm**

- **Gazprom occupies a dominant position as the supplier of natural gas, first of all in Central and Eastern Europe, and the Balkans.** For the other European states, gas from Russia is only one item in a diversified basket of supplies (as is the case in Germany, France and Italy). In some cases it even contributes to enhancing the diversification of supplies, by enabling a favourable change in the structure of supplies and reducing the dependence on other suppliers (as is the case for Spain).
- According to Gazprom's figures, the largest buyers of Russian gas in 2008 were:
  - **Germany** (38 bcm),
  - **Turkey** (23.8 bcm),
  - **Italy** (22.4 bcm),
  - **Belarus** (21.1 bcm).
- **Russia also acts as an intermediary in gas exports from the post-Soviet Central Asian states to Europe.** Gas purchased by Gazprom is transmitted via Russian gas pipelines (owned by Gazprom), and the state controls all gas transit. Before the end of 2008, the Ros-UkrEnergo company (RUE, in which Gazprom holds 50% and the holding of Ukrainian businessman Dmytro Firtash holds 45%) played a key role in the trade in Central Asian gas. Gazprom bought over 66 bcm of gas from Turkmenistan, Uzbekistan and Kazakhstan, and then through RUE sold most of this quantity to European countries (especially Ukraine, but also Poland and Hungary), and to ZMB (currently Gazprom Germania), the German subsidiary of Gazprom. In 2009 this model was changed as a result of two developments: firstly, RUE was excluded from intermediation in gas trade, and secondly, in the first half of the year Gazprom substantially reduced gas purchases from Central Asia (Turkmenistan), as well as the exports of Central Asian gas to Europe, in connection with the drop in demand and the relatively high price of Central Asian gas.

# Gazprom as gas supplier



- Gazprom's presence in the EU upstream sector is negligible.
- The Russian monopoly is present in the British and Dutch North Sea shelf, where Gazprom Germania holds shares in four small gas exploration and production blocks (although production has not started in any of them as yet).

# Gazprom's upstream investments in the EU



Source: ZBM Annual reports

- **The gas export routes from Russia to Europe are diversified to only a small degree, and the largest portion of gas is transited to end-consumers via third countries.** Despite Gazprom's efforts to limit the importance of the Ukrainian gas transit corridor, it remains the main export route. **Ukrainian pipelines transmit 66% of the c. 155 bcm of gas sent from Russia to the EU** (calculated on the basis of Gazprom's figures for 2008) . The other two routes of Russian gas exports to Europe, the Yamal-Europe and Blue Stream gas pipelines, play a considerably less important role.
- Gazprom co-owns and/or co-operates all the gas pipelines in the Baltic states and Moldova, the entire Yamal gas pipeline, a 37.5% share in other gas pipelines in Belarus, and most gas pipelines in Finland (through its 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% less 1 share in the gas pipeline network of Wingas, and 5.26% in VNG's network in eastern Germany); through Wingas it will also hold shares in the OPAL gas pipeline currently under construction. The takeover of 50% of the Austrian gas hub in Baumgarten is currently being finalised (to be completed by the end of 2009). In other European countries, Gazprom is only planning to invest in the gas transmission systems.
- Gazprom holds shares in several European underground gas storage facilities through the stakes it holds in Germany's Wingas and VNG, as well as Latvia's Latvijas Gaze, and is leasing some storage capacity in depots in other EU countries, including the UK.

### **Gazprom's projected investments**

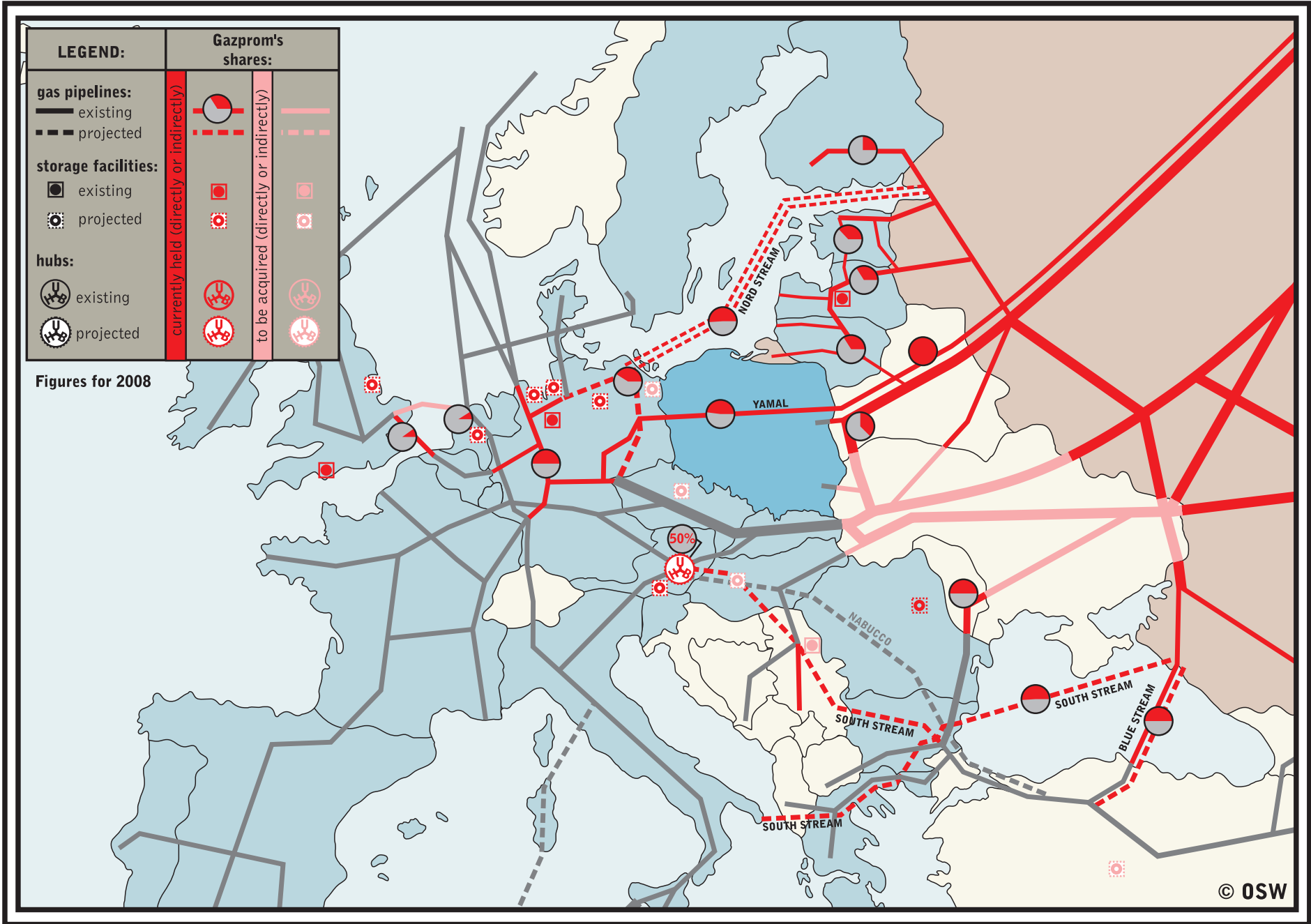
The Russian company plans to make a number of new investments in gas infrastructure, among which the Nord Stream and South Stream projects are the most important. Although the company has stepped up efforts to accelerate their implementation this year (in particular, to ensure project financing in spite of the ongoing crisis, and to boost the pipelines' importance for the EU as it looks to diversify its gas supplies), it is still not certain that both of these pipelines will in fact be built. However, in the case of Nord Stream (work on which is far more advanced than on South Stream), several key issues concerning its implementation might be resolved by the end of 2009. For example, all the construction permits for the pipeline will probably be awarded, including the permit from Sweden which has been raising reservations concerning the project; also, Gaz de France is to join the Nord Stream consortium.

#### **The objectives of Gazprom's planned investments are:**

- to diversify gas export routes to the EU through the construction of new connections bypassing the current transit countries (the Nord Stream and South Stream projects);
- to step up control over gas transit to and transport within the EU and keep liquidity on the EU market (through investments in interconnectors, hubs and storage);
- to impede the implementation of other gas pipeline projects intended to enable gas supplies to the EU from sources alternative to Russia;
- the very process of promoting new gas pipeline projects is also an important instrument for Russia to influence the policies of individual states and the EU as a whole (such as the activities regarding the South Stream project).

<sup>1</sup> According to the IEA, Russian gas exports to the EU were lower by nearly 30 bcm , i.e. amounted to 127 bcm.

# Gazprom's major investments in gas infrastructure in Europe: existing & planned



- **Gazprom has gained direct access to the final gas market in the Baltic states, Moldova, Finland, Germany** (through shares in companies present on that market) and **Ukraine** (without taking over any assets; Gazprom's subsidiary GazpromZbyt has been dealing with gas sales to end-consumers in Ukraine since 2008). In the other European countries, Gazprom has only a small direct presence on the final gas market.
- **Gazprom is also involved in the indirect sale of gas to final consumers;** that is, sales via other companies with which the Russian company has more or less transparent relations. Such companies have benefited from the liberalisation of the EU gas market, and they sign the contracts for the provision of gas to end-consumers. These have been increasingly active in the EU, although the pace of their growth is being restrained by European competitors, as well as by national and EU-wide legislation.

### Examples of intermediary companies trading Russian gas in Central and Eastern Europe:

**Vemex** – This company has operated in the Czech Republic since 2006. It is owned by Gazprom Germania (51%), Austria's Centrex Europe Energy & Gas (33%) and EW East-West Consult (16%), all of which probably have direct or indirect ownership connections with Gazprom. Vemex has signed a deal with Gazprom for the supply of 0.5 bcm of gas a year between 2008 and 2012; currently it controls around 12% of the Czech gas market. The company also holds a licence to sell gas in Slovakia.

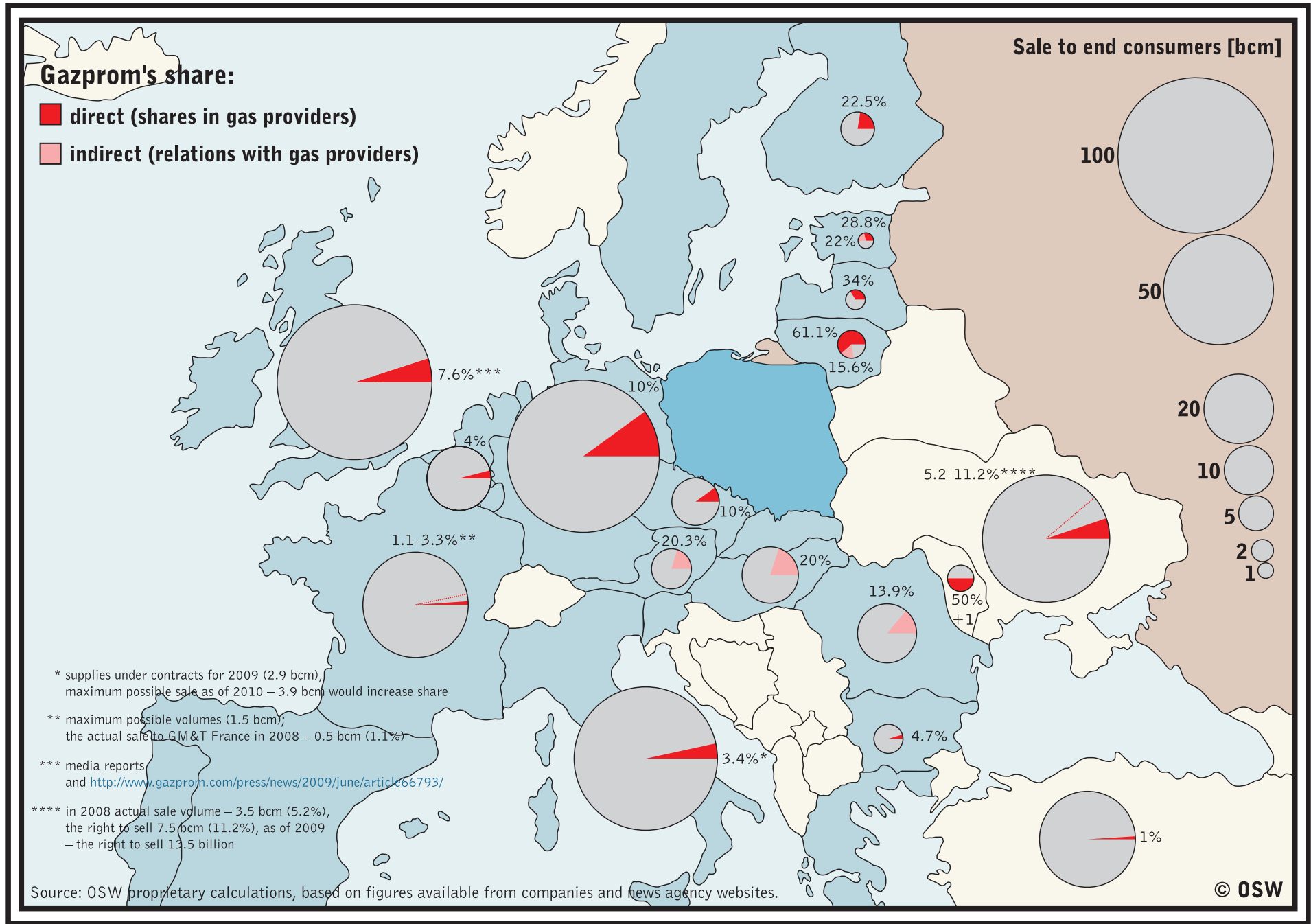
**Emfesz** – This company operates mainly in Hungary, where it holds a share of over 20% on the internal gas market. It is currently owned by Rosgaz, a company about which little is known and which is probably indirectly related to Gazprom. Emfesz is in talks with the Russian side concerning new terms and conditions for its gas purchases; it is temporarily receiving gas under short-term deals with E.ON Foldgaz because the contract it has signed with RUE for the years 2005-2015 cannot be implemented (as RUE has been excluded from intermediation in gas trade since January 2009). Emfesz is also interested in entering the Polish market. In 2006, it signed an agreement to supply gas to a Polish manufacturer of artificial fertilisers (the agreement has expired), and intends to build an underground gas storage facility in Poland. In addition to operating in the gas sector, the company has made efforts to enter the electricity market (in Hungary, Romania and others), although it did not achieve any major success in this regard in 2008.

**Conef** – This company is associated with Marco Group, the owner of Romania's Alro aluminium holding (the Marco Group is registered in Canada, and is supposedly owned by a Russian oligarch). Since 2002, it has operated on the Romanian market as an intermediary trading Russian gas in co-operation with Gazprom. In 2007, the company signed a twenty-year contract with Gazprom to supply 2 bcm of gas a year. Another such company operating on the Romanian market is the Cyprus-registered Imex Oil, also associated with Alro.

**Dujotekana** – This company has been operating in Lithuania since 2001 as an intermediary trading Russian gas. It is the third largest gas importer in Lithuania (after the former state-run monopoly Lietuvos Dujos and the Achema company). It is also importing gas under a contract with Gazprom for the period 2002–2012, and sells gas on a wholesale basis, mainly to Lithuania's power plants. In addition to gas sales, Dujotekana is also involved in electricity and heat generation, and in electricity sales. The company was probably created by Gazprom in order to facilitate a takeover of shares in Lietuvos Dujos. It has been the Russian monopoly's strategic partner in Lithuania until recently, although in recent years its situation has been deteriorating.

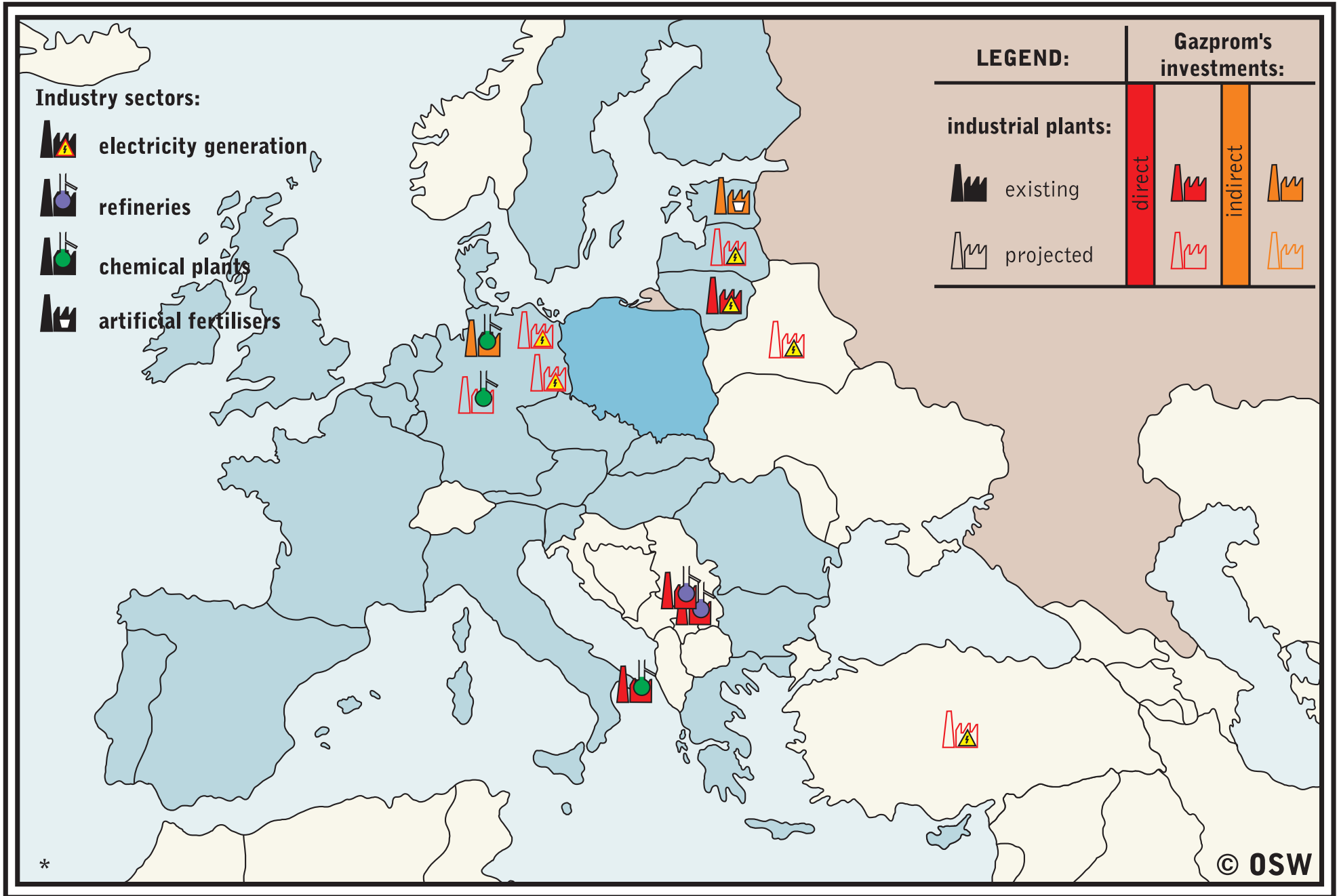


# Gazprom's share in European final gas market



- **Gazprom has made relatively few investments outside the EU gas sector. The company is mainly active in the power-generation, chemical and oil sectors.** Despite the ongoing economic crisis, in the course of last year Gazprom's subsidiary Gazpromneft became actively engaged in the European oil sector (through investments in Serbia and Italy). Gazprom also has quite ambitious plans to invest in the power-generation sector in Europe; it has declared that it will participate in planned power plant projects in Germany, Turkey, Latvia and other countries, although most of these plans are currently rather lacking in specifics.
- **Gazprom has a direct presence in Lithuania**, where it owns a gas-fired power plant in Kaunas. It holds 51% of shares **in the Serbian NIS holding** (which owns the Pancevo and Novi Sad refineries, as well as a network of petrol stations) and a stake in the relatively small **motor oil and lubricants plant in Bari, Italy** (Gazpromneft Lubricants Italia S.p.A).
- So far, investments in the so-called big chemical industry have been made by companies indirectly related to Gazprom (Germany's Akfem and the Estonian artificial fertiliser manufacturer Nitrofert, owned by the Dymytro Firtash holding).

# Gazprom's major investments in electricity generation and chemical industry in Europe



## Gazprom's mode of operation

The character of the Russian company's presence in Europe is defined not only by its actual possessions, but also by the specific ways in which it operates: the forms of its presence in particular countries, the way it uses its assets, its information policy, its manners of conduct with third countries, etc. The objective of this part of the report is to present some of the typical methods Gazprom has been employing on the European market.

### a) Overusing its dominant market position

Gazprom is the only external exporter of gas to the EU which holds a complete or near-complete monopoly on gas supplies to a number of member states (especially in Central Europe and the Balkans, as well as in Finland). It sometimes uses its position as the dominant, and in some cases only supplier, in order to:

- **become involved on the EU internal markets**, for example through the practice observed in recent years whereby Gazprom requires additional provisions concerning, for instance, access to the internal market for companies related to the Russian monopoly, when signing new supply contracts or renegotiating existing ones;
- **apply different gas prices to buyers from the same area** (see the example of the Baltic states, as well as the practice employed in the CIS, see p. 20);
- **restrict the countries concerned from diversifying their sources of gas supplies** (see the example of the Baltic states, and the measures taken by Russia and Gazprom in the Balkans and in Turkey in order to prevent the implementation of the Nabucco gas pipeline project);
- **suppress the development of genuine competition on the gas market** (see the example given below of the Baltic states and Hungary, p. 23).

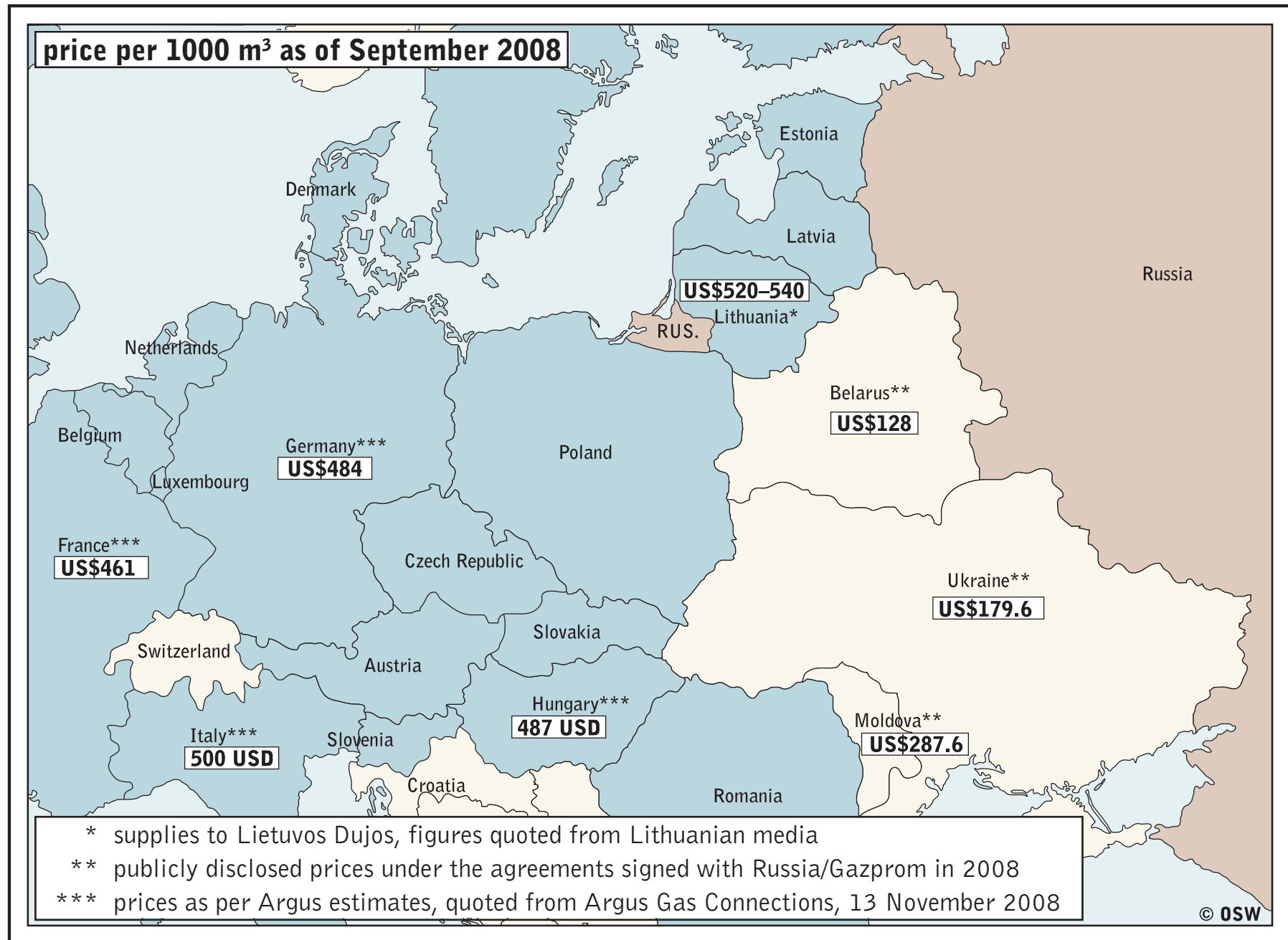
## **CASE STUDY: The gas sector in the Baltic states – the strong Gazprom presence**

- 1.** Gazprom is the exclusive supplier of gas to Lithuania and Estonia, and in the case of Latvia it supplies 70% of gas and controls the entire supply system.
- 2.** The former state-owned monopolies dealing with the import and distribution of gas and operating the entire gas infrastructure have been privatised in all three Baltic states. As a result of these privatisations, Gazprom has acquired one-third of the stakes in the Lithuanian, Latvian and Estonian companies, and its strategic partner, E.ON Ruhrgas, is the major shareholder in all three companies.
- 3.** Apart from the former monopolies, a number of private companies are operating on the Baltic markets, and they import gas directly from Gazprom (such as large industrial companies like Estonia's Nitrofert and Lithuania's Achema, and intermediary companies such as Lithuania's Dujotekana). There are many indications that informal links exist between those companies and Gazprom.
- 4.** Gazprom holds the largest share on the final gas market in the Baltic states.
- 5.** Gazprom's strong presence affects the shape of the Baltic states' gas sectors and their energy security;
  - a)** no diversification – the Baltic states' gas pipeline system is at present largely isolated and connected only with the Russian system. No projects for diversification are realistic at this stage.
  - b)** superficial liberalisation – while several companies import gas to Lithuania and Estonia, supplies to all three Baltic states are controlled by Gazprom. It is unlikely that new companies independent of Gazprom could emerge on those markets.
  - c)** no modernisation – so far, there have been practically no investments to modernise the infrastructure Gazprom owns.
  - d)** 'European' gas prices – until 2007, the Baltic states paid lower prices for gas supplied from Russia. In 2008, the prices for the largest importers in Lithuania (Lietuvos Dujos) and Latvia (Latvijas Gaze) were raised to 'European' levels. According to the Lithuanian media, in September 2008 the price for Lietuvos Dujos was US\$520–540 per 1000 m<sup>3</sup> – higher than the average price paid by European buyers (around US\$460 by France, around US\$484 by Germany, and around US\$500 by Italy).

## b) Pricing policy

- **Gazprom's pricing policy is not fully transparent. The price of gas does not always depend solely on economic considerations. Pricing policy is sometimes used as an instrument in pursuit of Russia's political and/or economic interests in particular states.**
- **This tendency has mainly been observed in the CIS area and in Georgia**, where there are still quite considerable differences between the prices of gas and the rates at which prices for the individual states rise. In the fourth quarter of 2008, Armenia and Belarus paid the lowest prices (US\$110 and US\$128 per 1000 m<sup>3</sup> respectively), while Moldova and Georgia bought their gas at the highest prices (US\$287.60 and US\$235 respectively). **Obtaining lower gas prices usually requires some concessions to be made to Russia.** In the case of Armenia, Gazprom took control over strategic assets in the energy sector (the ArmRosGaz company, practically all gas infrastructure in the country, and the fifth block of the Razdan power plant), in the aftermath of the signature of a three-year gas deal in April 2006. Currently the Russians are suggesting that the price (which has been raised in the meantime) could be cut in exchange for concessions to the Russian state-owned Atomstroieksport company, which has been seeking to build a new nuclear power plant in Armenia (the tender is to be resolved before the end of this year). In the case of Belarus, maintaining the relatively low gas price has been linked to Gazprom's takeover of shares in Beltransgaz, the national gas transmission and distribution monopoly. The preferential prices may also be interpreted as support for the regimes in Minsk and Yerevan, with which Moscow has traditionally had close relations. By analogy, high gas prices are paid by those countries with which Russia has had difficult political relations (such as Georgia), and/or those where Moscow has already accomplished its most important objectives (as in Moldova, where Gazprom gained control of a majority stake in Moldovagaz, the national gas monopoly, several years ago).
- **Additionally, statements about the very possibility of a price increase are sometimes used to further Russian interests, often unrelated directly to the question of gas supplies.** The question of raising or keeping the lower price for Ukraine used to resurface whenever Ukraine stepped up efforts linked to its aspirations to NATO membership (such as the efforts to obtain the MAP in the first half of 2008), or reopened the discussion about the terms on which the Black Sea Fleet is stationed in its territory (as happened in 2006); and Gazprom's announcement concerning a drastic price increase (over fourfold) in late 2005 was being associated with the approaching elections in Ukraine, among other factors.

## Prices of Russian gas



### c) Using untransparent intermediary companies

- **Gazprom is present on European gas markets** not only in its own right, but **also through third companies that are more or less formally linked to the Russian monopoly**. Those companies, which often have untransparent ownership structures, act as intermediaries in gas trade (especially in trading Central Asian gas purchased by Gazprom, as RUE did); they also become involved in the EU states' internal markets (such as Emfesz in Hungary, Vemex in the Czech Republic, Overgas in Bulgaria and Dujotekana in Lithuania).
- **Those companies are able to co-ordinate their operations with Gazprom, to the detriment of the states in which they operate.** The co-ordinated action in late 2006 taken by the largest gas suppliers to Poland, Gazprom and RosUkrEnergo, may serve as an example; the signature of a deal for gas supplies from RUE in 2007–2010 was then made conditional on Warsaw's acceptance of a higher price for the gas supplied by Gazprom under its long-term deal (the so-called Yamal contract).
- **The seizure of significant share of the market by such untransparent companies may pose risks for the security and stability of gas supplies to domestic consumers.** The problems with which Hungary has been struggling since January 2009 (see box) is the most evident example of this kind of threat.
- In addition, the use of intermediary companies which are somewhat less than fully reliable may be conducive to the formation of corruption-generating relations in the gas sectors of the states concerned, as the operation of such companies benefits specific persons or groups, at the expense of both Gazprom and domestic consumers.



## CASE STUDY – EMFESZ

One of the most important challenges to gas security in Hungary at the present time concerns the fact that no stable, longer-term conditions have been established for the supply of gas to the more than 20% of Hungarian consumers who receive their gas from Emfesz, a company with links to Gazprom. An additional challenge is posed by the fact that the company is currently owned by a less-than-reliable business with an opaque ownership structure, and with no documented experience in the gas sector or access to gas resources.

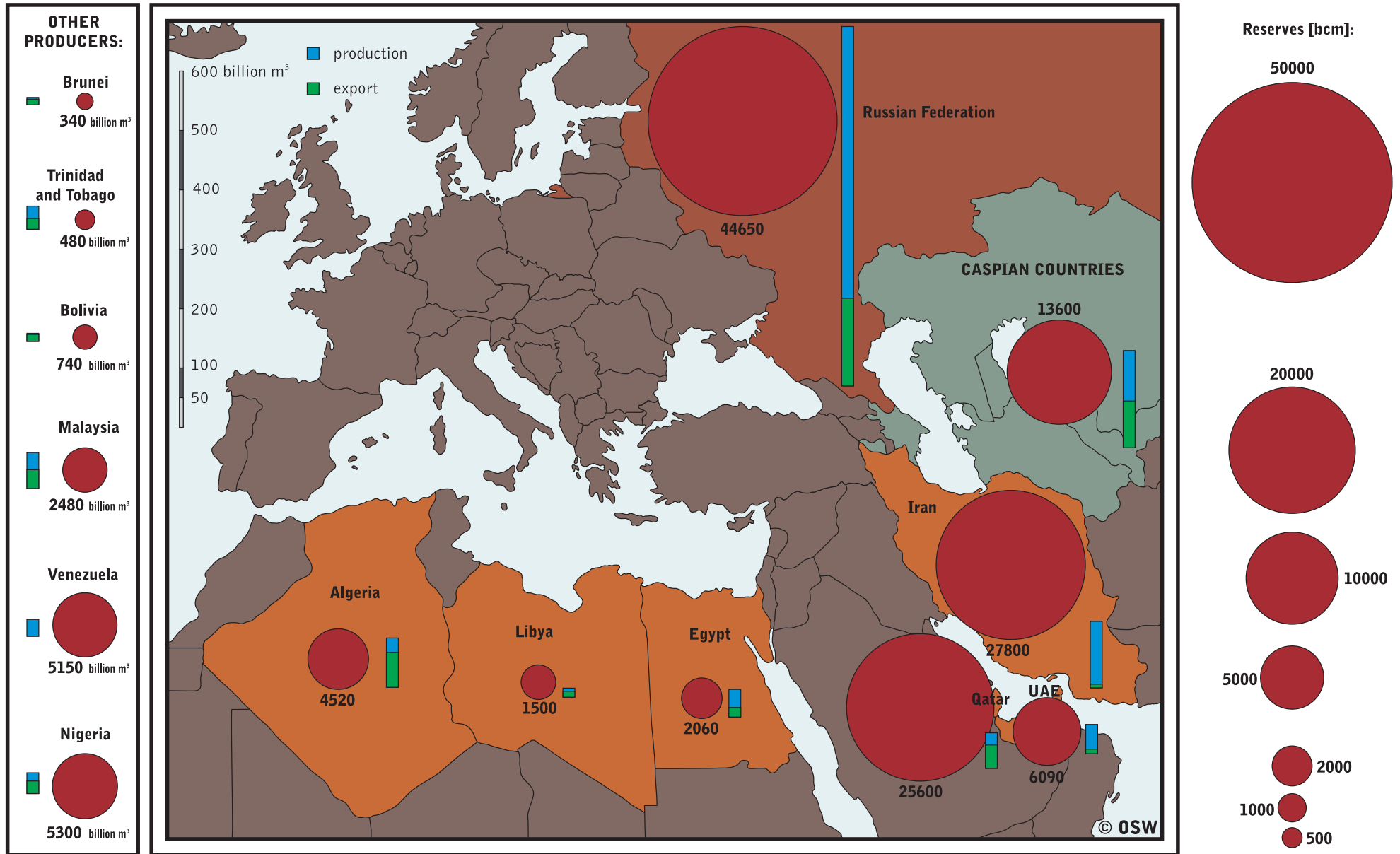
Until the end of 2008, Emfesz received gas (under a ten-year contract for 2005–2015) from the intermediary RUE (which is 50%-owned by Gazprom), and was owned by a holding controlled by the Ukrainian entrepreneur Dymytro Firtash, who also co-owned RUE. As a result of Gazprom's decision to exclude RUE from gas trade, Emfesz started to experience difficulties with guaranteeing gas supplies to its customers in Hungary. In May 2009, the company's ownership was changed in an untransparent manner, without Firtash knowing about it; Gazprom probably did know and, perhaps, inspired the change itself. As a result of a US\$1 transaction, Emfesz became the property of RosGas, a company about which little is known apart from the fact that, according to the information available, it was created in late 2008 and is registered in Switzerland. No permanent new rules of gas supplies to Emfesz have yet been developed. The company is temporarily receiving its supplies from E.ON Foldgas Trade (which buys gas from Gazprom through the intermediary PanRusGas, a joint venture of Gazprom and E.ON).

The takeover of shares in Emfesz illustrates the threats involved in untransparent companies with opaque ownership structures entering the liberalised EU markets. When RUE stopped supplying gas to Emfesz, which accounted for a substantial portion of domestic consumption, the Hungarian government had no formal instruments to demand that supplies be resumed. Neither did they have any influence on the change in Emfesz's ownership, as it was acquired by RosGas, an unknown, untransparent company without any experience in the gas sector; nor on devising new import terms and conditions that would have been favourable to domestic consumers (since early 2009, Emfesz has been buying gas at prices higher than the European average).

#### d) Efforts to keep control over gas exports from Central Asia and gain influence on other exporters of gas to Europe

- **Central Asia / the Caspian region.** Gazprom seeks to maintain control of the majority of gas exports from Central Asia, and to maintain its ability to benefit from its position as a quasi-monopsony (for example from being able to stop collecting gas supplied under a contract in force, as it did in the case of Turkmenistan). Gazprom also wishes to gain control of most of Azerbaijan's gas exports. At the same time, however, Russia's position in the Caspian gas market is coming under increasingly serious challenge – China, whose importance in the region is growing, is a real competitor (an export gas pipeline from Turkmenistan via Uzbekistan and Kazakhstan to China is to be launched in late 2009, thanks to Chinese engagement); the West is to a greater extent interested in importing gas from the region (in the aftermath of the Russian-Ukrainian gas crisis, and in connection with accelerated work on the Southern Gas Corridor, among other factors); and finally, the Caspian states themselves are looking to diversify their gas export routes and directions (in recent months Turkmenistan has been particularly active in seeking alternatives to Russian export routes). As it becomes increasingly likely that Russia's role in the region could be permanently diminished, Gazprom (and Russia) are stepping up activities in the gas-producing countries, and both modifying and toughening their methods of operation.
- **The 'gas OPEC'.** Gazprom has also been trying to influence the activities of other gas exporters, and in particular, the implementation of their export projects that concern the European market. Gazprom and Russia wish to co-operate with gas-exporting countries within the framework of bilateral relations and in multilateral formats (especially through the Gas Exporting Countries Forum, the so-called 'gas OPEC' in which Russia seeks to play the leading role). Gazprom's objective is to maintain (or even strengthen) its position as the most important gas exporter. In the longer term, co-operation with other gas exporters may also be a way to develop instruments to influence gas prices (both in response to short-term declines, as during the current crisis, but also in connection with the possibility that gas prices might fall more permanently as a result of the liberalisation of the EU gas market and the ongoing diversification of supply sources). So far, however, these bilateral contacts have not produced any significant tangible effects, and the GECF has been important mainly in the political and PR dimensions.

# Gas exporters co-operating with Gazprom



Quoted from BP, World Statistical Report 2008 (figures for 2007)

\* proprietary calculations based on the BP report and 2008 information about the reserves of the South Yolotan field

\*\* from IEA Natural Gas Information 2008 (figures for 2007)

## Conclusions

- 1. The economic crisis has not contributed to the acceleration of Gazprom's expansion in Europe. In particular, Gazprom has not expanded its investment presence in the EU gas sector to any considerable degree over the last year.** Its subsidiaries have acquired shares in two relatively small Italian companies (Gazpromneft Lubricants Italia and A2A Beta). Gazprom has also signed several contracts to supply gas (in relatively small quantities): it extended three long-term deals (with Latvia, Slovakia and Slovenia), concluded a deal for gas supplies from the Nord Stream pipeline to Denmark's DONG Energy (1 bcm), and signed two agreements providing for the joint sale of gas by Russian-Italian consortia on Italy's internal market (for a total of around 2 bcm).
- 2. Gazprom has noticeably stepped up its PR and lobbying activities, especially with a view to promoting its priority infrastructure projects (Nord Stream and South Stream), and obtaining political support and financing for these two undertakings together with its Western partners.** So far (October 2009), these efforts have not resolved the key problems or enabled work on the two projects to start. However, a qualitative change is possible in the coming months, as a result of which work on the Nord Stream will progress if (a) Finland and Sweden approve the construction of the route, and (b) the French Gaz de France joins the consortium of companies implementing the project.
- 3. Gazprom's activities in the EU's neighbourhood have produced tangible results;** the company has expanded the stake it holds in Beltransgaz, the Belarusian transmission infrastructure operator (in line with the provisions of the 2007 agreement), strengthened its position on the Ukrainian internal market (under the Russian-Ukrainian agreement ending the 2009 gas conflict), and taken over Serbia's NIS fuel complex (after lengthy negotiations, as part of a package of Russian-Serbian agreements). **The economic crisis and the declining prices of assets in the oil and gas sectors were not the direct reasons for Gazprom's expansion in any of the above cases.**

- 4. The threats posed by the way Gazprom operates** – to wit, the fact that it combines its position as the dominant and sometimes exclusive supplier of gas with not always fully transparent modes of functioning – **became apparent in 2009:**
- **the two-week interruption of gas supplies to more than a dozen European countries in January 2009 has so far entailed no financial consequences for the company** (apart from lost profits for undelivered gas) – none of the European partners have sued Gazprom for temporary non-performance under the contract, or for the losses incurred as a result of interrupted supplies;
  - **the fact that Gazprom has excluded RUE (which it co-owns) from gas trading has rendered the latter permanently unable to meet its contractual commitments to European gas consumers, and has disrupted the stability of gas supplies to Poland and Hungary. Both countries are still suffering from the negative consequences of Gazprom’s decision:**
    - a) in Poland**, RUE has failed to supply around 2.3 bcm of gas (corresponding to around 15% of domestic gas consumption) under the contract in force for 2009. This quantity was only partly offset by additional gas supplies (1 bcm) from Gazprom. Given the absence of alternative sources, Poland is now working to sign a new contract with Gazprom that would cover a period of several years, and provide for the supply of the missing quantity of gas (around 2–3 bcm a year) starting from 2010. However, the conclusion of this deal is being impeded by the fact that the Russian side has set forth additional conditions, which are not directly related to the question of the gas supplies to be included in the deal. Unless the contract is signed by the end of 2009, Poland may experience gas shortages as early as the 2009–2010 winter season.
    - b) In the case of Hungary**, no permanent terms have been agreed upon yet to supply gas to the more than 20% of domestic consumers who until now received their gas under a contract for 2005–2015 signed with RUE by the Gazprom-related Emfesz company. An additional challenge has been posed by the fact that Emfesz currently has a new owner, RosGas, which most probably has links to Gazprom, has an untransparent ownership structure, and has neither documented experience in the gas sector nor apparent access to gas sources.

## Appendix 1

### Major contracts concluded by Gazprom or its related companies with EU gas buyers in 2006–2009

Country	Duration	Annual supplies	Description	Additional arrangements
<b>Austria</b>	2012–2027	7 bcm	Gazprom's contract with OMV and EconGas and with GWH and Centrex Europe Energy & Gas AG	<ul style="list-style-type: none"> <li>- OMV replaced by EconGas as the buyer of gas</li> <li>- Gazprom's related companies GWH and Centrex were granted the right to sell gas (around 1.75 bcm a year) to end-consumers in Austria</li> </ul>
<b>Germany (VNG)</b>	2014–2031	5.25 bcm (with an option to increase supplies)	Contract between WIEH (joint company of Gazprom and Wintershall) and Verbundnetzgas (VNG).	Through WIEH, Gazprom also sells gas on the markets of other EU countries
<b>Germany (E.ON)</b>	2011–2036	4 bcm (Nord Stream)	Contract for supplies via the Nord Stream gas pipeline concluded between Gazprom and E.ON	
<b>Germany (E.ON)</b>	2020–2035	20 bcm	Extension of current contracts which expire in 2020, Gazprom's contract with E.ON,	
<b>Italy</b>	2017–2035	22 bcm	Gazprom's contract with ENI concluded as part of a new strategic partnership agreement, extension of contracts currently in force	<ul style="list-style-type: none"> <li>- admission of Gazprom's related companies (GMT Italia, Centrex) to the Italian internal market starting from 2007, and sales of a maximum of 3 bcm of gas a year in 2010</li> <li>- Eni has obtained a pledge that it will be allowed to acquire assets in Russia</li> </ul>
<b>Italy</b>	2008–2022	0.9 bcm (with an option to increase supplies)	Gas will be sold to a joint-venture company created for this purpose by the joint-venture of A2A SpA and Iride SpA with Gazprom Export and ZMB GmbH	may be extended by 5 years
<b>Italy</b>	2009–2019	1 bcm (first 3 years); 0.5 bcm (subsequent 7 years)	Gazprom's contract with Sinergie Italiane consortium concluded in August 2009	plans to establish a joint-venture company to sell gas in northern Italy
<b>France</b>	2012–2030	12 bcm + 2.5 bcm (Nord Stream)	Extension of the current contract between Gazprom and Gaz de France, and agreement for supplies via the Nord Stream gas pipeline	- admission of Gazprom's subsidiary GMT France onto the French internal market, and sales of up to 1.5 bcm of gas a year starting from 2007
<b>Czech Republic (RWE)</b>	2014–2035	9 bcm	Gazprom's contract with RWE Transgas; extension of current agreement for the supplies to the Czech Republic and gas transit	
<b>Czech Republic (Vemex)</b>	2008–2012	0.5 bcm	Contract for the supplies to the company controlled by Gazprom, which supplies gas to some industrial consumers in the Czech Republic; may be extended by 5 years	

Country	Duration	Annual supplies	Description	Additional arrangements
<b>Bulgaria</b>	2011–2030	3 bcm	Extension of current contract between Gazprom and Bulgargaz	The extension of the contract was subject to its renegotiation and replacement of the barter settlements by cash payments for gas transit. The agreement provides for increasing gas transit via Bulgaria in return for co-operation on the implementation of Russian gas pipeline projects (e.g. through the use of Bulgaria's underground gas depots for this purpose).
<b>Romania (WIEH)</b>	2012–2030	4.5 bcm	extension of current contract	
<b>Romania (Conef)</b>	2010–2030	2 bcm	Gazprom's contract with Conef Energy SRL, supplies to the Alro Stalina aluminium plant	
<b>Denmark</b>	2011–2031	1 bcm	contract for supplies from the Nord Stream, concluded by Gazprom with DONG Energy	
<b>Denmark</b>	2011–2030	1 bcm	contract for supplies from the second branch of the Nord Stream, concluded by Gazprom with DONG Energy	
<b>Turkey</b>	2007–2021	0.25 bcm	Gazprom's contract with Shell Enerji A.S. (as part of the liberalisation of Turkey's gas market, BOTAS is admitting other companies to the external market)	
<b>Turkey</b>	2008–2021	0.75 bcm	Gazprom's contract with Bosphorus Gas A.S.	
<b>Turkey</b>	2008–2021	0.5 bcm	Gazprom's contract with Avrasya A.S.	
<b>Latvia</b>	2015–2030	no data available	Contract concluded between Latvijas Gaze and Gazpromem and Itera Latvija in February 2009	
<b>Slovakia</b>	2009–2028	6.5 bcm	Extension of the contract between SPP and Gazprom Export, which expired on 31 December 2008	Contract between Gazprom and Eustream for the transmission of a total quantity of 1 trillion m <sup>3</sup> of gas throughout the contract's duration
<b>Slovenia</b>	2010–2025		Extension of the contract with Geoplin expiring in 2010 (unconfirmed information)	

Based on: 'Gazprom in Europe: faster expansion in 2006', Ewa Paszyc, Centre for Eastern Studies, Warsaw, February 2007; company websites; news agencies.

## Appendix 2

### European investments by Gazprom and its related companies (excluding the CIS)

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>'New' member states (EU-12)</b>							
<b>Eesti Gaas</b>	Estonia	37.02			E.ON Ruhrgas (33.66), Fortum Oil&Gas (17.72), Itera (9.85)	import, trade, transport, distribution, retail	A group of three companies: AS Eesti Gaas, AS EG Ehitus and AS EG Vorguteenus
<b>Lietuvos Dujos</b>	Lithuania	37.1			E.ON Ruhrgas (38.9), Lithuanian government (17.7)	import, trade, transport, distribution, retail	
<b>Kaunas Electric Power Plant</b>	Lithuania	99.5			Clement Power (0.001) Dujotekana (0.5)	electricity generation	
<b>Latvijas Gaze</b>	Latvia	34			Itera (16), E.ON Ruhrgas (47.23)	import, trade, storage, transport, distribution (monopoly)	Owner of the Inculkalns gas depot
<b>EuRoPol Gaz</b>	Poland	48			PGNiG (48) Gas Trading (4)	transport, gas pipeline operator	Talks are underway concerning the elimination of Gas Trading from the shareholding of Europol Gaz.
<b>Gas-Trading</b>	Poland	16	Gazprom Export		PGNiG (43.4), Bartimpex (36.1), Węglokoks (2.3), Wintershall (2.3)	trade and transport	
<b>Slovrusgas</b>	Slovakia	50			SPP	trade and transport	In liquidation since 2005
<b>Tagdem</b>	Slovenia	7.6				trade	
<b>Vemex</b>	Czech Republic	84	Gazprom Germania (formerly ZMB GmbH) and Centrex Europe Energy&Gas	Gazprom Germania, Centrex	Gazprom Germania (była ZMB) (51), Centrex (33), EW East West Consult (16)	trade, retail	shares increased from 66% (33% for each shareholder)
<b>General Banking and Trust Co. Ltd.</b>	Hungary	25.5*	Firthlion Limited			banking	Informal connections with Gazprom; shares owned by Gazprombank were sold in 2005 to Firthlion Limited (owned by the family of Megdet Rahimkulov)
<b>PanRusGas</b>	Hungary	50	+ 10% via Centrex Hungaria	Centrex	E.ON (50), Centrex Hungaria (10)	trade and transport	
<b>Centrex Hungaria Rt.</b>	Hungary	100	CEA Centrex Energy & Gas	Centrex		trade, retail	
<b>NTV Hungary Commercial Limited Liability Company</b>	Hungary	100*		Gazprom-Media/ Gazprombank		media, finance	
<b>Emfesz</b>	Hungary	100*	RosGas AG			gas distribution	Informal connections with Gazprom probably exist



Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>Topenergo</b>	Bulgaria	100				trade, distribution, retail	Gas trade intermediary
<b>Overgas Inc. AD</b>	Bulgaria	50			Overgas Holding AD (50)	trade and distribution	
<b>DEXIA Bulgaria EOOD</b>	Bulgaria	25.5	Wintershall Erdgas Handelshaus Zug AG (51)	Gazprom Germania	Agropolychim (49)	gas trade	
<b>WIEE Romania</b>	Romania	50	Wintershall Erdgas Handelshaus Zug AG (100)	Gazprom Germania		gas trade	
<b>WIROM</b>	Romania	25.5	Wintershall Erdgas Handelshaus Zug AG (WIEE) (51)	Gazprom Germania	Distrigaz Sud (49)	gas trade and distribution	
<b>Leadville Investments Ltd.</b>	Cyprus	100*	Gazprom-Media	Gazprom-Media/ Gazprombank		investments	
<b>Gasexco Gas Exploration Company Limited</b>	Cyprus	100*	Gazprombank	Gazprombank		investments	
<b>Ecofran Marketing Consulting &amp; Communication Services Company Limited</b>	Cyprus	100*	Gazprom-Media	Gazprom-Media/ Gazprombank		media	
<b>Greatham Overseas Limited</b>	Cyprus		Gazprombank	Gazprombank			
<b>NTV World Ltd</b>	Cyprus		Gazprom-Media	Gazprom-Media/ Gazprombank		media	
<b>Odex Exploration Ltd</b>	Cyprus	20*	Oilsoc	Gazprombank	Oilinvest (46), Soco NA (34)	oil and gas prospecting	Licence to develop fields in Libya
<b>Siritia Ventures Ltd.</b>	Cyprus	100*		Gazprombank		investments	
<b>MF Media Finance (Overseas) Limited</b>	Cyprus	100*		Gazprom-Media/ Gazprombank		media, finance	
<b>PRIVATE COMPANY LIMITED BY SHARES GPBI (CYPRUS) LIMITED</b>	Cyprus	99*		Gazprombank			
<b>Ferenco Investment LTD</b>	Cyprus	100		Gazprom-Neft		investments	

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>'Old' member states (UE-15)</b>							
<b>GWH</b>	Austria	100	50 – Gazexport, 50 – Centrex Europe Energy & Gas	Centrex	Centrex Europe Energy & Gas	gas trade	
<b>Centrex Europe Energy &amp; Gas AG</b>	Austria	100	created in 2003 by Gazprombank	Centrex		transport, distribution, retail, services etc.	Created in 2003 by Gazprom- bank; according to some sour- ces, 100% of shares are held by the Gas I fund managed by an investment company controlled by VTB; operates on the European market
<b>Central ME Energy &amp; Gas AG</b>	Austria	100	Centrex Europe Energy & Gas	Centrex		transport, distribution, retail, services etc.	Operates on the Central European market
<b>CEA Centrex Energy &amp; Gas AG</b>	Austria	100	Central ME Energy & Gas (49.9), Gazprom Germania (formerly ZMB) (50.1)	Centrex, Gazprom Germania		transport, distribution, retail, services etc.	Austrian market
<b>Central Energy Italian Gas Holding AG (CEIGH)</b>	Austria	66.67	Gazprom Germania (formerly ZMB) (25.10), Centrex Europe Energy and Gas (41.57)	Gazprom Germania, Centrex	members of the Italian Mentasti-Granelli family (33.33)	transport, distribution, retail, services etc.	Italian market
<b>Arosgas Holding AG</b>	Austria	100*		Gazprombank			
<b>Gazprom Neft Trading GmbH</b>	Austria	100		Gazprom Neft		trade in petroleum products	In 2007, Sibneft Oil Trade Company GmbH (Siboil) was renamed as Gazprom Neft Trading GmbH.
<b>Haidach UGS</b>	Austria	33	Gazprom Export		Wingas, RAG	gas depot	Second part under construc- tion, to be completed in April 2011; capacity 2.4 bcm
<b>Central European Gas Hub (Baumgarten)</b>	Austria	50*	Gazprom Germania (30), Centrex Europe Energy and Gas (20)	Centrex, Gazprom Germania	OMV (30), Vienna Stock Exchange (20)	gas hub	Transaction not finalised, EC approval of the new shareholding structure still in early stages (9 October 2009)
<b>ZGG-Zarubezhga- zneftechim trading GmbH</b>	Austria	100	Gazprom Germania (formerly ZMB)	Gazprom Germania			
<b>Centrex Beteili- gungs GmbH</b>	Austria	37.65	Centrex Gas & Energy Europe AG			distribution	

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>ZMB Gasspeicher Holding GmbH</b>	Austria	100	Gazprom Germania (formerly ZMB) (66.7) and Centrex Europe Energy and Gas (33.3)	Gazprom Germania & Centrex		gas storage	Created to purchase, control and administer blocks of shares in gas storage companies
<b>Wingas Belgium</b>	Belgium	100	Wingas	Gazprom Germania		trade, retail	
<b>Gasum Oy</b>	Finland	25			Fortum (31), the Finnish state (24), E.ON Ruhrgas (20)	gas transport and distribution	
<b>North Transgas Oy</b>	Finland	100				construction of gas pipelines	Works on the Baltic Sea bottom
<b>FRAgaz</b>	France	100	Gazprom Germania [formerly ZMB] (50)			gas trade	Formerly a joint-venture company of Gazprom and Gaz de France; GDF sold its shares to ZMB in June 2008
<b>Gazprom Marketing and Trading</b>	France	100	Gazprom Marketing and Trading Ltd	Gazprom Germania		gas trade	
<b>Prometheus Gas</b>	Greece	50	Gazprom Export		Dimitrios C. Copelouzos, CEO of the Copelouzos Group (50)	marketing and technical services for gas companies	Prometheus joint venture: Marina Zaes (>50), Euro-prom Telecommunications (45), Enelco (25), Naco (25)
<b>Peter-Gaz</b>	Netherlands	51			Heerema Oil and Gas Development (49)	gas trade, sea bottom exploration	
<b>Gazprom Netherlands B.V.</b>	Netherlands	100				management of production companies	
<b>Gazprom Finance B.V.</b>	Netherlands	100				investments, finance, consulting services	
<b>Gazprom Libya B.V.</b>	Netherlands	100				research	a company created to manage and represent Gazprom's interests in Libya
<b>Gazprom Sakhalin Holdings B.V.</b>	Netherlands	100				foreign relations, assistance in mergers, acquisition of shares in other companies, business supervision	holds 50%+1 share in Sakhalin Energy, the operator of the Sakhalin-II oil and gas field
<b>Blue Stream Pipeline B.V. (PSPC)</b>	Netherlands	50			ENI	construction, transport	a company created to build the Blue Stream pipeline; it holds shares in the land section of the pipeline and the Beregovaya compressor station
<b>West East Pipeline Project investment</b>	Netherlands	100				construction, investments	

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>GazInvest Finance B.V.</b>	Netherlands	100*	Gazprombank	Gazprombank		finance	
<b>Brochan B.V.</b>	Netherlands	100*	Gazprombank	Gazprombank		investments	
<b>NTV HTB Holding and Finance B.V.</b>	Netherlands	100*		Gazprom-Media/ Gazprombank		media	
<b>NTV Plus B.V.</b>	Netherlands	100*	Gazprom-Media	Gazprom-Media/ Gazprombank		media	
<b>Sib Finance B.V.</b>	Netherlands	100*	Sibneft Oil Trade Company Limited	Gazpromneft		finance, investments	
<b>Carbon Trade &amp; Finance SICAR S.A.</b>	Luxembourg	50*	Gazprombank	Gazprombank	Dresdner Bank	investments	investments in projects concerning CO <sub>2</sub> certificates, mainly in the CIS countries
<b>DITGAS Handelshaus GmbH</b>	Germany	49			Debis International Trading (100% subsidiary of Daimler Chrysler)	gas trade	
<b>Gerosgas</b>	Germany	51			E.ON	gas trade, stock exchange operations; partner Ruhrgas	Under an agreement from June 2009, Gazprom will acquire the remaining 49% of shares in Gerosgas later this year. (E.ON will acquire 25% less 3 shares in Severneftegazprom)
<b>Verbundnetz Gas (VNG)</b>	Germany	5,26		Gazprom Germania	EWE AG (47.9), Wintershall (15.79), EEG (5.26), VNG Verwaltungs- und Beteiligungsgesellschaft mbH (12 municipal shareholders) (25.79)	gas transport, trade and marketing	2008 information about possible co-operation between EWE and Gazprom that would enable them to control VNG; shares owned by EWE AG are being taken over by EnBW Energie Baden-Württemberg AG
<b>ZMB Mobil</b>	Germany	100	Gazprom Germania (formerly ZMB)	Gazprom Germania		gas applications in automotive industry	
<b>Wingas</b>	Germany	50%-1		Gazprom Germania	Wintershall Holding AG	gas distribution, transport, storage, trade	
<b>Wingas Transport</b>	Germany	100*	via Wingas	Gazprom Germania			
<b>Wingas Transport Beteiligungs GmbH</b>	Germany	16.7	Wingas		Gasunie, Wintershall (50.02)		

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>EuroHub GmbH</b>	Germany	16.7*	via Wingas	Gazprom Germania	E.ON, BEB, Statoil	gas hub	Located in Haan (Germany), operations suspended since 2006, currently in liquidation
<b>Wintershall Erdgas Handelshaus GmbH &amp; Co. KG (WIEH)</b>	Germany	50		Gazprom Germania Group	Wintershall Erdgas Beteiligungs-GmbH (50) – subsidiary of Wintershall (daughter company of BASF)	distribution of gas supplied by Gazexport to 2012	
<b>Gazprom Germania</b>	Germany	100				gas trade	Until 2006 – ZGG
<b>Schwarzmeer und Ostsee Versicherungs-Aktiengesellschaft (SOVAG)</b>	Germany	18.9	Gazprom Export		Volga Resources 54.1 + minority shareholders	insurance	Supports Western investors in risk assessments in Russia, Kazakhstan and other CIS countries; the sale of 54.1% of shares in Ingosstrakh VAG to Volga Resources is currently being authorised; Gazprom has attempted to sell its shares several times
<b>HTB Europa GmbH</b>	Germany	100*	Gazprom-Media	Gazprom-Media/ Gazprombank		media	
<b>Gazprom Libyen Verwaltung GmbH</b>	Germany	100				investments	
<b>Gazprom Oil and Gas Germany GmbH</b>	Germany	100				investments	
<b>Interconnector Ltd.</b>	Germany	10	Gazprom Marketing and Trading Ltd		BG (25), E.ON (23.6), Distrigas (16.4), ConocoPhillips (10), Total (10), ENI (5)	operator of the gas pipeline from Bacton (United Kingdom) to Zeebrugge (Belgium)	
<b>Gazprom Marketing and Trading Retail</b>	Germany	100*	via Gazprom Marketing and Trading Ltd	Gazprom Germania		gas trade	renamed from Natural Gas Shipping Services
<b>Gazprom Marketing and Trading Ltd</b>	United Kingdom	100	Gazprom Germania (formerly ZMB)	Gazprom Germania		gas supplies	
<b>WINGAS Storage UK</b>	United Kingdom	75	Wingas i ZMB Gasspeicher Holding	Gazprom Germania		gas storage	current main task: exploitation of the Saltfleetby field
<b>WINGAS Storage Enterprise Ltd.</b>	United Kingdom	50	subsidiary of WINGAS Storage UK	Gazprom Germania		gas storage	
<b>WINGAS UK</b>	United Kingdom	50	WINGAS	Gazprom Germania		retail	Has taken over NorskHydro's shares in the HydroWingas joint undertaking
<b>Pennine Natural Gas</b>	United Kingdom	100					

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>Sibur International Ltd.</b>	United Kingdom			Sibur Holding/ Gazprombank			
<b>TruRead</b>	United Kingdom	30	Gazprom Marketing and Trading	Gazprom Germania		smart metering	
<b>Sibir Energy</b>	United Kingdom	55	Gazprom Neft	Gazprom Neft	2.3 Bennfield (joint venture of Gradisson Consultants owned by Shalva Chigirinsky and Orton Oil owned by Igor Kasayev), 23.4 disputed between Shalva Chigirinsky and Ruslan Bajsarov, 19.3 Moscow authorities	retail	23.35% acquired through the purchase of Orton Oil Comp. in June 2009 (Orton Oil Comp. holds 50% of shares in Bennfield, which holds 47% of shares in Sibir Energy); operator of the Salym field in West Siberia; it holds 50% of shares in the Moscow refinery; further acquisition plans
<b>Saltfleetby UGS</b>	United Kingdom		via Wingas and ZMB Gasspeicher Holding GmbH (33,3% via ZMB Gasspeicher Holding)			gas storage	conversion of a natural gas deposit into a natural gas storage facility; delays in the authorisation process for construction permits; capacity of more than 700 million m <sup>3</sup>
<b>Hydro Wingas Ltd.</b>	United Kingdom	100*	via Wingas	Gazprom Germania		gas trade	British market; until June 2007 a 50:50 joint-venture company of Wingas and Norwegian Norsk Hydro
<b>Sib Oil Trade Company Limited</b>	United Kingdom/ Gibraltar	100		Gazprom Neft			
<b>NTV Media International Limited</b>	United Kingdom/ Virgin Islands	100*		Gazprom-Media/ Gazprombank		media	
<b>Media Financial Limited</b>	United Kingdom/ Virgin Islands	100*		Gazprom-Media/ Gazprombank		media, finance	
<b>Benton Solutions Inc.</b>	United Kingdom/ Virgin Islands	100*		Gazprom-Media/ Gazprombank			

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>Nagelfar Trade &amp; Invest Limited</b>	United Kingdom/ Virgin Islands	100*		Gazprombank			
<b>Dolby International Holding Ltd</b>	United Kingdom/ Virgin Islands	100		Gazprom Neft		investments	
<b>Jones Resources LTD</b>	United Kingdom/ Virgin Islands	100				investments	
<b>Richard Enterprises SA</b>	United Kingdom/ Virgin Islands	100		Gazprom Neft		investments	
<b>Promgaz</b>	Italy	50			ENI	gas trade and marketing	
<b>Volta</b>	Italy	49			Edison	gas trade and transport	
<b>Central Energy Italia S.p.A.</b>	Italy	25.1	Central Energy Italian Gas Holding AG	Centrex			
<b>CEA Centrex Italia Srl</b>	Italy	75	CEA centrex Energy & Gas	Centrex			
<b>Gazpromneft Lubricants Italia S.p.A.</b>	Italy	100	Gazprom Neft	Gazprom Neft		production of engine oils and lubricants	Transaction concluded in April 2009; the company has been renamed (from Chevron Italia S.p.A.); the plant's annual output is up to 30,000 tons of oil and 6,000 tons of lubricants
<b>Enia Energia S.p.A.</b>	Italy	50	Centrex Europe Energy & Gas AG, Gazprom Germania (formerly ZMB GmbH)		Enia S.p.A.	gas and electricity provision	EC approval
<b>A2A Beta S.p.A.</b>	Italy	50	Gazprom Germania (formerly ZMB GmbH), Gazprom Export	Gazprom Germania	A2A Alfa S.r.l. (70% of A2A Alfa belongs to A2A S.p.A., 30% - to Iride S.p.A.)	gas trade	

Company	Country	Shares	Via	Group	Other shareholders	Sector	Details
<b>Non-EU European states and the CIS</b>							
<b>ZMB (Schweiz)</b>	Switzerland	100	Gazprom Germania (formerly ZMB)	Gazprom Germania			
<b>Wintershall Erdgas Handelshaus Zug AG (WIEE)</b>	Switzerland	50	via Wintershall Erdgas Handelshaus GmbH	Gazprom Germania	Wintershall Erdgas Beteiligungs (50)		
<b>Baltic LNG AG</b>	Switzerland	80	via Gazprom Germania (formerly ZMB)	Gazprom Germania	Sovkomflot 20		
<b>RosUkrEnerg AG</b>	Switzerland	50			Firtash Group of Companies (50)	gas trade	
<b>Centrex Energy &amp; Gas AG</b>	Switzerland	100	Centrex Europe Energy & Gas	Centrex		trade	Activities focus on Central Asia, Belarus and other Eastern European countries.
<b>Centrex Central Asia AG</b>	Switzerland	50	Centrex Europe Energy & Gas	Centrex	Gasnex AG	trade	Centrex Group, deals mainly with the trade in gas from Kazakhstan and Turkmenistan
<b>Gas Project Development Central Asia AG</b>	Switzerland	100	Gazprom Germania (formerly ZMB), Centrex Energy & Gas AG	Gazprom Germania & Centrex	Centrex Energy & Gas AG	exploration and development	Operates in Uzbekistan
<b>Centrex Finance AG</b>	Switzerland	100	Centrex Europe Energy & Gas	Centrex		financial services	
<b>YugoRosGas</b>	Serbia	73			25% – Srbijagas, minority shareholder – Central ME Energy and Gas A.G.	gas trade, transport, construction of gas pipelines	Supplies gas to southern and central Serbia, Kosovo and Montenegro; operator of the Pojate–Nis gas pipeline; Srbijagas is trying to purchase another 24% from Gazprom
<b>Progres Gas Trading</b>	Serbia	50			Progres DSO, NIS	gas supplies, marketing	
<b>NIS</b>	Serbia	51	GazpromNeft	Gazprom Neft		oil refineries, trade in petroleum products, gas stations, oil depots, LNG	Operates in Serbia and Angola, owns refineries in Pancevo and Novi Sad; agreement in December 2008, takeover completed in February 2009
<b>Bosphorus Gaz Corporation A.S</b>	Turkey	40	Gazprom Germania (formerly ZMB)	Gazprom Germania	Tur Enerji 60	gas distribution	Plans to increase the stake to 51% in the second half of 2009, and to 71% in the further future
<b>Turusgas</b>	Turkey	45			Botas 35, Gama 20	gas trade	Sale of gas from the Blue Stream gas pipeline
<b>GAMA Gazprom</b>	Turkey	45			Botas 35, Gama 15.6	handel gas trade	

\* the share held by the company through which Gazprom holds shares (in the Via column)



Gazprom holds 41% of shares in Gazprombank  
Gazprom-Media is 100% controlled by the Gazprombank Group  
Gazprom Germania is a 100% subsidiary of Gazprom Export  
Gazprom Marketing and Trading is a 100% subsidiary of Gazprom Germania

Collected and processed by OSW, based on information from annual reports from Gazprom and Gazprombank, company websites and news agencies.

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