EU launches anti-monopoly suit against Russia's Gazprom

Clara Weiss
19 September 2012

On September 4, the European Commission, the executive body of the European Union, initiated antitrust proceedings against the Russian state company Gazprom. The EC has accused the energy group of violating regulations on competition. The Russian government and Gazprom have rejected the charges.

The case exacerbates the conflict over gas supplies that has been simmering between Brussels and Moscow for years and threatens to further roil already tense political relations.

The EC alleges that Gazprom has "abused (its) dominant market position" by impeding the transport of gas to EU member states, monopolising the market, and charging customers unfair prices. The Russian state company is faced with a fine of up to 10 percent of its annual turnover, which recently stood at €113.5 billion.

The EC’s investigations currently focus exclusively on Eastern European countries: Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Estonia, Latvia and Lithuania. However, a spokesman for the EC refused to rule out extending the probe to other countries.

Eastern European countries are especially dependent on Gazprom, drawing 60 to 90 percent of their gas supplies from Russia. Gazprom provides 25 percent of the supply of natural gas for the EU as a whole. Germany purchases about a third of its gas imports from Russia.

Because of their heavy dependence on Russian gas, the Eastern European countries are virtually powerless when it comes to price negotiations. They have to pay on average far higher prices for gas than Western European countries. The Kremlin also uses the dependence on Russian energy supplies as a political weapon.

The EC’s legal proceedings followed a series of police raids on the offices of Gazprom's Western European partners last year. Among the targeted energy firms were the German RWE, Gazprom Germania and E.On Ruhrgas, as well as the Austrian OMV.

The European Union anti-trust suit is in line with Brussels' long-term strategy of becoming less dependent on Russian gas supplies, thus depriving the Kremlin of a means of leveraging political pressure. At the same time, the EU wants to reduce the prices paid by European customers.

Gazprom's long-term supply contracts, whose cost conditions are linked to the price of oil, are increasingly being challenged by European companies and governments. The price of gas on global markets has dropped significantly in recent years and Gazprom's customers now pay far more than other gas consumers. This has resulted in financial losses for many businesses.

The EU's case against Gazprom is strengthened by the fact that Gazprom's market position in Europe has in recent years been undermined by the world economic crisis and structural changes in the gas market.

The global supply of gas has increased significantly due to the so-called "shale gas revolution" in North America, and this has led to a reduction in average prices. A few years ago, the US started to boost the production of shale gas, an alternative to traditional natural gas. The former largest net importer of gas thus rose to become the world's major producer of the commodity in 2009.

The declining prices of gas have roused Gazprom's European customers to make a stand against their long-term contracts with the company. This year, Gazprom was finally forced to yield to the pressure of its main Western European customers—including the German companies Wintershall and E.On, the French EDF, and

© World Socialist Web Site

Italy's Eni—and lower its prices. Gazprom had to pay back €1.8 billion to various companies in the first half of this year alone. It is currently negotiating further price reductions with the RWE concern and the Polish state company PGNiG.

Moreover, the EU is increasingly importing liquified petroleum gas (LPG) from the Arab state of Qatar. The small Arab state has become one of Russia's main competitors on the European market. At the same time, the consumption of gas in Europe is decreasing due to the economic crisis. In the first half of 2012, Gazprom's exports to Europe fell by 8 percent owing to the recession in the euro zone.

The course of action undertaken by the EU signals an escalation of the gas supply conflict that has been simmering for years. Launched in 2009, the EU's package of energy legislation had already caused dispute. It provides for a separation of suppliers and network operators and aims to promote competition within the European gas market. The new rules are patently designed to undermine Gazprom's market position and prevent the Russian company's expansion.

The so-called "gas war" between Russia and Ukraine in the winter of 2009 increased the EU's resolve to make itself more independent of Russian energy supplies. Russia had unceremoniously turned off gas supplies to Ukraine, the main transit country for gas delivery to Europe. This resulted in supply shortages in many European countries.

The EU attempted to use alternative gas sources by promoting construction of the Nabucco pipeline, which would deliver gas from the Caspian Sea to Europe while bypassing Russia. Since this summer, however, it has become clear that the project has failed in its original version due to high costs and an insufficient number of gas sources. Still at issue is a much reduced version of the original plan, the Nabucco West pipeline. But many experts give the project little chance of success.

The failure of the Nabucco project was a bitter blow to the EU—especially since Gazprom only last year commissioned Nord Stream. Nord Stream is the first pipeline planned to deliver gas directly from Russia to Germany, bypassing transit countries such as Ukraine and Belarus. The second leg of the pipeline's construction is to begin in October.

German Chancellor Angela Merkel and Russian President Vladimir Putin have already announced their support for Nord Stream's further expansion. Gazprom also plans to begin construction of the South Stream pipeline in December. This line is intended to transport gas from Central Asia to Central Europe and was conceived as a rival to Nabucco.

The EU's anti-trust proceedings risk escalating already tense relations and have far-reaching political implications due to the strategic importance of energy supplies for both Russia and the EU. A commentary in the Süddeutsche Zeitung wrote of an "unprecedented action" and bluntly called the European Commission's proceedings "an attack on Putin."

The Gazprom state enterprise is closely linked to President Putin and plays a key role in the Russian economy. Approximately one-fifth of Russia's state budget is financed by the group. Furthermore, the corporation has about 445,000 employees, making it the largest employer in the country.

The most important positions in the business are held by confidants of the Russian president, such as Alexei Miller and Viktor Zubkov. Prime Minister Dmitry Medvedev was Gazprom's CEO for several years.

Last week, Putin issued a presidential decree requiring "strategically important" Russian companies such as Gazprom to coordinate their business abroad with the Kremlin. This means Gazprom will not be permitted to grant its European customers asking-price discounts without the approval of the Russian government.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site