

CAPTURE PROOFING THE ENERGY SECTOR IN CENTRAL AND EASTERN EUROPE: THE CASE OF TURKSTREAM

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Strategic win for the Kremlin: The Russian foreign and energy policy of circumventing Ukraine and expanding Europe's dependence on Gazprom has succeeded¹. The share of Russian gas in European supply rose to 34% in 2020, up from less than 30% a decade ago. Most of Central and Eastern Europe (CEE) remains overly dependent on Gazprom. The Russian company has resisted efforts directed towards diversification² and has pushed through the completion of Nord Stream and TurkStream, feeding billions into Kremlin-enabling corruption networks in Europe and threatening to displace investments in renewables³.

TurkStream, construction of which was completed on 4 July 2021, will increase energy security risks in CEE and will divert scarce resources away from productive investment in energy diversification and green transition. Tellingly, Bulgaria, for example, commenced construction of the strategically important, yet decades in the making, interconnector with Greece (IGB) only after it started laying down TurkStream pipelines. As a result, TurkStream has already crowded out alternative LNG and Azeri gas supply from the regional gas market.

"A Russian gas molecule is a Russian gas molecule": The strategic corruption and state capture influence model is the same for Nord Stream and TurkStream. Nevertheless, due to the smaller size of the economies in CEE, the corrosive potential of TurkStream is much more significant:

KEY POINTS

- TurkStream increases energy security risks in CEE and is a vehicle for **capturing the decision-making** of the state-owned gas transmission companies in Southeast Europe.
- Gazprom will be the principal **financial beneficiary** from the construction of the pipeline.
- Russia has successfully **evaded U.S. sanctions** by using Saudi, Belarussian, European and American companies in TurkStream's construction.
- CEE national authorities should seek to dismantle **Russian strategic corruption networks** in the energy sector and pre-screen large foreign investments to block malign Russian or Chinese geopolitical projects.
- A robust **transatlantic policy for strategic investments** in the CEE energy sector is needed, including through the Three Seas Initiative.
- The EU and the U.S. should assist national governments and gas companies in CEE to **renegotiate their long-term contracts** with Gazprom.

¹ Shentov, O., Stefanov, R., and Vladimirov, M. (eds.), *The Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2020.

² Center for the Study of Democracy, *Energy Security in Southeast Europe: the Greece-Bulgaria Interconnector*, CSD Policy Brief No.81, November 2018.

³ Center for the Study of Democracy, *Biden's Russia pipeline dilemma is larger than Nord Stream 2*, CSD Blog Post, 9 March, 2021.

- It has undermined the public finances of Bulgaria and Serbia and captured the management of the state-owned gas transmission companies⁴. It is highly unlikely that Gazprom will actually fill the total technical capacity of TurkStream, which is 15.75 billion cubic meters per year (bcm/yr). Total demand in Bulgaria and Serbia is currently around 5.5 bcm/yr and Hungary is yet to commit to importing gas via TurkStream. Kremlin networks in the region are therefore pushing for, and will be able to capture, EU funds for gas as a transition fuel and the retrofitting of existing gas infrastructure for the use of hydrogen.
- With the help of weak or captured national regulatory institutions, EU public procurement and energy rules have been circumvented, providing preferential treatment for Gazprom-linked companies. As a result, Gazprom will be one of the principal financial beneficiaries from the construction of the pipeline since it would reclaim the paid transit fees from Bulgartransgaz and Srbijagas as per the construction contract. Russia has also been able to evade U.S. sanctions by using Saudi, Belarussian, European and American companies in TurkStream's construction.
- It has, and will continue, to displace constructive capital investments in green economic transformation. The Bulgarian government has already proposed to use as much as 5% of its allocation through the European Union Recovery and Resilience Fund to build state-backed gas fired power assets to preserve the volume of demand for Russian gas beyond 2022.
- CEE national authorities should **dismantle Russian strategic corruption networks** in the energy sector. They should work to identify and sanction companies and assets that have enabled the continuing dependence on Russian energy supply.
- CEE governments should introduce **pre-screening procedures for foreign investment** in order to stem further inflow of corrosive capital linked to Russian or Chinese geopolitical projects.
- A robust **transatlantic policy for strategic investments** is needed, including through the Three Seas Initiative, which has the potential to become an effective mechanism to bring more LNG imports into CEE to ensure further diversification and business options away from Russia.
- The **EU funds for recovery and resilience** should be used for investments in new green technologies and for attracting private sector capital for integrating CEE countries into US and EU value added chains. OLAF and the newly established European Public Prosecutor's Office should seek to prevent these funds from reaching established oligarchic networks in the CEE energy sector.
- To counter strategic corruption and illicit financing, the EU should establish a **Europe-wide anti-money laundering agency** capable of following dark money across the EU, independent of weak or captured national government bodies.
- The EU and the U.S. should assist national governments and gas companies to **renegotiate their long-term contracts with Gazprom** with the aim of putting gas ties with Russia on a market basis.
- The EU should develop a robust monitoring and enforcement mechanism to **discontinue energy projects** such as unnecessary gas pipeline, storage, LNG and power generation infrastructure that might undermine the security of supply, energy source diversification and the integration of the EU energy markets in its different regions.

What's Next?

National authorities in CEE should work with their U.S. and EU partners to reduce the malign Russian influence in Europe and to strengthen CEE's energy independence:

⁴ Center for the Study of Democracy, [TurkStream and the Russian Economic Influence in Europe](#), CSD Policy Brief No. 94, December 2020.