

Arguably no company has suffered from the political risks emanating from the Kremlin more than Gazprom. The majority state-owned gas giant has seen its share price collapse with its present market capitalization at \$47 billion (USD) as of March 14, less than half of its \$96 billion market capitalization before the culmination of Ukraine's Euromaidan revolution. In June 2008, when Gazprom's market capitalization was a staggering \$365 billion and it was amongst the world's largest companies, CEO Alexei Miller famously forecast Gazprom's market capitalization would hit \$1 trillion within seven to ten years. While the realities of energy markets long ago poured cold water on those aims, Gazprom actively pursued Miller and Moscow's goals. Yet it is precisely because the Kremlin used Gazprom as a foreign policy tool that the company has shrunk exponentially. Gazprom has sent out feelers to almost every potential partner of late with the hopes of returning to growth. However, despite securing rosy pledges, once it comes time to tango, it keeps getting stood up. The best-known recent example is the December 1, 2014 cancellation of the South Stream pipeline project, which Russian President Vladimir Putin and Miller announced just days before construction was due to begin. Gazprom cancelled South Stream because it understood the EU would not allow the project to proceed as planned, and that proceeding with the pipeline could have escalated the slow-burning EU anti-trust and competition investigation.

While formally issuing a finding that Gazprom and Russia violated European Union competition and pricing laws could have major political and economic implications, the majority of EU decision makers accept that Gazprom has done so in practice. Yet when cancelling South Stream, the Kremlin signed a Memorandum of Understanding with Turkey, launching plans for the alternative 'Turk Stream' Pipeline.

A year later, Turk Stream went the way of South Stream. Although it has not formally been cancelled, it would likely take a near biblical turn of events for it to be resurrected. While proceeding with the plans would surely boost Gazprom's strategic position, once again politics have gotten in the way.

Turkish President Recep Tayyip Erdogan borrowed from Putin's playbook in the 24 November 2015 shoot-down of a Russian bomber for allegedly violating Turkish airspace, taking an unexpected and unilateral action to which the Kremlin had little choice but to respond, but could hardly escalate militarily. As a result, kowtowing to Turkey and agreeing to build the pipeline would be unacceptable for the Kremlin. This would be a clear 'victory' for Turkey; something Russian media has made it clear is unacceptable, as it would grant Russia's geopolitical rivals comfort that standing up to Putin actually works.

Even before Gazprom's hopes for the Turk Stream project went down in flames, however, it

already began pushing another project, the expansion gas deliveries directly to Germany via the Nord Stream route. The project is undoubtedly a potential success for Gazprom, if it proceeds, but it too faces major challenges. The construction of Nord Stream II would see total of 55bln cubic meters to travel directly from Russia to Germany per annum, bypassing Eastern Europe. Many argue this would make the very same Eastern European states that have borne the brunt of the politicization of gas even more susceptible to Russian influence. The impact of the political risk associated with Gazprom is quantifiable in the Nord Stream II project. On 12 November, Gazprom agreed to sell 1% in the planned pipeline, bringing its share down to 50%, in hopes that this would make the deal more appealing to the EU as it would no longer technically have full control of both the pipeline and gas supplies in potential violation of EU law. That situation is precisely the one which Gazprom has been accused of repeatedly and that which had previously all but ignored. Only two months earlier, in another concession to Brussels, Gazprom launched its first public auction for spot gas supplies. Gazprom may be realizing it cannot dictate terms to Europe if it wants to maintain its relationship over the long term.

Multiple Central and Eastern European states publicly voiced their opposition, as did EU Council President Donald Tusk and Italian Prime Minister Matteo Renzi, who led a chorus of opposition from southern European states who felt it hypocritical Germany opposed the South Stream project while it backed Nord Stream II. Gazprom was undoubtedly concerned and sought to shore up support. And while the Kremlin has reverted to form and inserted Gazprom is at the center of the ensuing political tensions, it is unclear if it holds all the cards.

On February 24, Gazprom announced a Memorandum of Understanding with Italy's Edison SpA and Greek state-owned energy operator DEPA SA to establish a 'southern route' for European gas supplies, although it does not commit them to any specific projects it does call for the expansion of the Interconnection Greece Italy (IGI) Poseidon project, a project Bulgaria also signed up to in December 2015. The project, which originally aimed to diversify European gas supplies by connecting Italy and Greece to Caspian and Middle Eastern gas, and implicitly therefore away from Russia, was long dormant.

Gazprom's desired revival of the IGI Poseidon project also is a major signal to backers of the Trans-Anatolian (TANAP) and Trans-Adriatic (TAP) pipeline projects that would connect southern Europe to Azerbaijan's rich gas fields. If Germany's Nord Stream II pipeline project proceeds, it will open up room for more serious moves by southern European states to expand gas ties with Russia, and potentially revive South Stream.

However, a much less lucrative, but no less politicized, spat demonstrates how political risks

can snatch defeat from the jaws of victory, even for once-mighty Gazprom.

On March 4, Georgian Energy Minister Kakha Kaladze - yes, of AC Milan fame - announced that, after months of negotiations, Tbilisi would not be expanding purchases from Gazprom. Instead, it secured an agreement with Azerbaijan's state owned oil company, known as SOCAR. It is too early to say whether the negotiations with Gazprom were merely meant to be used as leverage or were considered a legitimate alternative. However, the major anti-Gazprom demonstrations in Tbilisi, and potential impact a deal would have had on the cohesion of Georgia's ruling Georgian Dream coalition demonstrate add credence to those who argue for the former. Though additional Russian gas end up entering Georgia via SOCAR anyway, political risks hindered it from receiving the strategic benefits a direct contract would have offered. If Gazprom could not even secure a deal in Georgia, where Moscow has sought to restore influence since the 2003 Rose Revolution, who is to say it will be able to do so in the aforementioned EU pipeline negotiations.

Political risks have already brought down the South Stream and Turk Stream projects. They have halted a wider restoration of Russian gas supplies to the Georgian market, a political lever the Kremlin undoubtedly desired. They caused Gazprom to retreat on its outright majority ownership of the Nord Stream II project, and to conduct its first gas spot sales. Yet Gazprom continues to approach negotiations as a political actor, as the nature of its involvement in Nord Stream II and IGI Poseidon indicates, and therefore the political risks associated with the projects are only likely to grow.

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