



## Standing in the way by standing in the middle: The case of state-owned natural gas intermediaries in Bulgaria



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### ABSTRACT

Bulgaria is a significant natural gas transit state in the EU (a role set to increase with the South Stream and potential Nabucco West gas pipelines) and a Member State subject to EU regulation. As a result, the regulation of natural gas in the country is of direct relevance to the development, implementation and realisation of EU energy security policy. However, the transposition of the EU's Third Energy package seem to be dependent on the role of intermediaries in the process of transiting natural gas through and within Bulgaria. This paper uses a conceptual frame which merges literature on energy infrastructure networks, intermediaries and power to explain some key problems for natural gas supply policy in Bulgaria and the lack of transparency within the sector. The conclusion offers an explanation of how the existence of Bulgarian intermediaries influences the use of national natural gas pipelines as transmission belts for national, Russian and EU policy, as well as a series of objectives including: increasing household gasification, further liberalisation of the Bulgarian natural gas market and increasing transparency in Bulgarian energy policy.

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### Introduction

This paper explores the role of Bulgarian intermediaries in refracting the use of the natural gas transit pipeline as a transmission belt for Bulgarian state, Russian state and EU policy objectives, investigating the way state intermediaries operate and work with others to produce specific geometries of power and affect policy. The paper offers insights into state intermediaries, the flow of patterns of resources and the effect on policy by intermediaries. In doing so it constructs a more thorough understanding of energy policy in Bulgaria, and Europe. With approximately one third of EU gas imports currently sourced from Russia (Eurostat, 2014) and total technical capacity for natural gas transit transmission through Bulgaria of 18.7 bcm p.a. (Bulgartransgaz, 2014), the regulation of natural gas in Bulgaria is of direct relevance to the implementation of EU energy policy. The paper explores the influence of two specific Bulgarian intermediaries (Bulgargaz and Bulgartransgaz) on achieving a series of key objectives for Bulgarian state,

EU and Russian state policy, including: increasing household gasification; further liberalisation of the Bulgarian natural gas market; and increasing transparency in Bulgarian energy policy.

The EU's Energy Roadmap 2050 (European Commission, 2011b) sets out the objectives of a significant role for natural gas as a transition fuel, diversification of natural gas imports and the full liberalisation of the natural gas market (further discussed in Section 'Why natural gas matters to the EU'). However, in Bulgaria there have been significant delays in: (1) diversifying natural gas imports; (2) the full liberalisation of the internal market; (3) transposition of EU legislation; and (4) increasing the very low levels of residential gasification. These delays have resulted from problems in the implementation of the Bulgarian national energy policy caused by the presence and operation of a set of Bulgarian state-owned natural gas intermediaries.

The explanation for these delays is that the natural gas pipeline system of Bulgaria is a key space of power resistance and domination between stakeholders. Intermediaries are defined by Moss et al. (2011) as organisations strategically located in-between regulators and regulated public and private actors, or sets of different societal interests. Although intermediaries may mediate or facilitate between groups of actors they are never neutral in dealing with others and are capable to translate, redefine and fundamentally change what they transport (Moss et al., 2011; Latour,

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1993). In this paper, we argue that the existence of state-owned companies Bulgargaz and Bulgartransgaz – as intermediaries in the transportation of natural gas through and within the country – has undermined the meaningful transposition and implementation of EU legislation, as well as the stated government objective within the Bulgarian energy strategies of 2008<sup>1</sup> and 2011 of significantly increasing residential gasification (Bulgarian Government, 2008: 16, 52, 2011: 11).

Although the timely and successful transposition of the EU third energy package in Bulgaria is in the interest of Overgas Inc. (a Gazprom joint stock company which would receive access to Bulgargaz's pipelines and increase the number of its residential consumers) the sole ownership and management of the national pipeline infrastructure is a stronghold for the interests of the Bulgarian state. Despite intermediaries' power to undermine state policies, relinquishing control over the pipelines would introduce a number of powerful competitors for the state-owned Bulgargaz and Bulgartransgaz.

By focusing on the impact of state-owned intermediaries in natural gas transportation and distribution on the competing interests of Bulgarian state policy, Russian state interests (represented by Gazprom's proxy in Bulgaria, Overgas Inc.<sup>2</sup>) and the EU, the paper aims to explain the unique situation of the Bulgarian natural gas sector and to introduce another type of intermediary<sup>3</sup> in the natural gas supply chain. The paper focuses on examining the role of state-owned intermediaries positioned between upstream (domestic producers like Melrose Resources and the main natural gas importer, Gazprom Export) and downstream companies (gas distribution companies like Overgas Inc.). In doing so the research engages with literature on the transformation of the Bulgarian state and state capture (Ganev, 2007; Barnes, 2007; Noutcheva and Bechev, 2008; Andreev, 2009), Bulgarian energy policy (Kovacheva, 2010; Silve and Noël, 2010; Tchalakov et al., 2011; Center for the Study of Democracy, 2010; Stefanov et al., 2011) and Balmaceda's work on energy intermediaries in Lithuania (Balmaceda, 2008).

The paper is structured as follows: the first section develops an understanding of the concept of intermediaries and the nexus between energy infrastructure networks, intermediaries and power. The second section offers an overview of the conditions of natural gas supply in Bulgaria, while the third section outlines the differences in interests between the four key actors. Section 'The divergent preferences of actors in the EU gas market: Explaining delays in Bulgarian transposition of EU gas legislation' focuses on explaining the ensuing problems within Bulgarian natural gas policy. The paper concludes by explaining the role of Bulgarian intermediaries in refracting the use of the natural gas transit pipeline as a transmission belt for Bulgarian state, Russian state and EU policy objectives (specifically, the increase of household gasification, full liberalisation of the Bulgarian natural gas market and increasing the level of transparency in energy policy in Bulgaria).

<sup>1</sup> Draft.

<sup>2</sup> As explained in Section 'The Russian state, its proxies Gazprom and Overgas Inc.' Overgas Inc. is a private company, jointly owned by the Bulgarian Overgas Holding (50%), Gazprom (0.49%) and GazpromExport (49.51%) (Overgas, 2013b; Gazprom Export, 2013) and as such is considered to be representative of Gazprom's main objectives of increasing its natural gas volume in Europe (Locatelli, 2008). Since the Russian state has a 50% controlling stake in Gazprom, we argue that Overgas Inc. is representative of the interests of the Russian state with regards to natural gas supply to the EU (Gazprom, 2014).

<sup>3</sup> Most discussions of intermediaries in natural gas transit refer to midstream "independent" companies with exclusive contracts to buy natural gas straight from suppliers like Gazprom and resell it at a higher price to companies like Bulgargaz. Often such companies are closely linked to, or are straightforward subsidiaries of the upstream company (Ivanova, 2012).

## Gatekeeping energy infrastructure networks

### Intermediaries

The term 'intermediaries' is used to describe individuals, organisations, networks, institutions, processes or organisations strategically located in-between regulators and regulated, public and private actors, or sets of different social interests (Moss et al., 2011), where existing boundaries between stakeholders are being eroded or redefined (Healey et al., 2002; Beveridge and Guy, 2011). Intermediaries can work to facilitate, coordinate, make connections and mediate disputes to enable relationships between different groups of actors. They work by forming a range of (formal and informal) networks and coalitions, following a specific order and/or hierarchy of interests and actors, thus creating new forms of interdependencies and socio-technical assemblages (Medd and Marvin, 2011). By doing so, they are enabling the use of energy infrastructure networks as transmission belts for actors' interests. However, intermediaries can work *against* as well as *with*, stalling change and contributing to system obduracy (Moss et al., 2011: 8; Paddison, 2003; van Lente et al., 2003). Randles and Mander (2011) discuss the ability of some intermediaries to 'gate-keep' within a system, i.e. to maintain a strategic position within a supply chain in order to block access of new actors to that system, by exercising control over access points to products and services, so as to maintain existing market structure in the interest of incumbents.

The role of intermediaries is not neutral (Moss et al., 2011). They translate and redefine what they convey between stakeholders (Latour, 1993). By translating between sets of actors and interests, intermediaries redefine and reframe, pursuing their own agendas and creating new realities and meanings. Therefore, intermediaries embedded within natural gas infrastructure in Bulgaria possess a degree of independence from the interests they are meant to represent and are capable of changing them. This degree of independence suggests that their interests, as natural gas intermediaries, constitute a distinguishable set of interests from those of the Bulgarian state and other supply chain actors (for example, distribution companies).

Sometimes intermediaries operate strategically so that they can support a particular socio-technical infrastructure and configuration of power. Marvin et al. (2011) argue that in the context of fragmented infrastructure which is subject to multiple competing agendas, intermediaries are able to strategically reconfigure relations between different system actors and components in order to advance particular interests. By virtue of their strategic position in-between competing interests, between the private and the public, and between regulators and regulated, intermediaries can 'produce an outcome that would not have been possible, or as effective, without their involvement' (Marvin and Medd, 2004: 84–85).

### Energy infrastructure networks and geometries of power

Networked energy infrastructures such as natural gas transportation pipelines are capable of unevenly binding spaces together across cities, regions, nations, and international boundaries, creating in the process specific material and social dynamics within and between these spaces (Amin and Graham, 1998). Energy infrastructure networks interconnect (parts of) these spaces and mediate the multiple connections and disconnections within and between them (Graham and Marvin, 2001). As infrastructure networks embody what Bijker (1993) calls 'congealed social interests', they can be used by institutions, companies, individuals and the state to extend their influence in time and space beyond the 'here' and 'now' (Curry, 1998: 103), thus sustaining specific 'socio-technical geometries of power' (Massey, 1993). This means that infrastructure

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