The Geopolitics of Merger and Acquisition in the Central European Energy Market

EAMONN BUTLER*

Department of Central and East European Studies, University of Glasgow, Glasgow, UK

Abstract

In September 2007 the Austrian oil and gas company, OMV, issued a declaration of intent to merge with its Hungarian competitor, MOL. The merger was regarded by MOL as a hostile takeover bid and it initiated a series of measures designed to defend its independence and position within the Central European energy market. These measures, while intended to shore up MOL’s defences in the face of an increased threat of merger and acquisition from larger companies aided by the demands of the EU to liberalise the energy market, reflect the rising instance of economic nationalism within the EU and have specific implications for the promotion of solidarity at an EU level. At the same time they also reflect the increased securitization of energy. This is important when you consider that the actions of multiple players in the battle for MOL, including Russia through involvement of Surgutneftegaz following its purchase of a series of MOL shares in March 2009, has effectively created an energy security dilemma, whereby the actions of one actor to increase its own security leads to retaliatory actions by a second actor threatened by the actions of the first. Within the Central European energy market this is happening on multiple levels and impacts the relations between EU member states, the EU and Russia. The article uses the MOL case to highlight how the geopolitics of merger and acquisition in the Central European energy market means it effectively operates in a state of persistent insecurity.

* Eamonn Butler is a lecturer and researcher in the Department of Central and East European Studies at the University of Glasgow and an associate of the UK-based Centre for Russian, Central and East European Studies (CRCEES). He can be contacted at e.butler@lbss.gla.ac.uk

The author would like to thank Giselle Bosse and Anke Schmidt-Felzmann for developing this Special Issue and inviting him to participate. Thanks also go to colleagues at CEES and the three anonymous referees for their useful comments. NOTE: This article was submitted for review in January 2009, resubmitted in January 2010 and accepted for publication in August 2010. It is due to be published in 2011 (Volume 16:3) – this is the version accepted for publication, but copyediting for final publication is still to be done.
INTRODUCTION

Energy, particularly within the European Union (EU) context, has, in recent years, become the focus of a number of key debates reflecting the economic, political and security concerns of multiple state and non-state actors. The enlargement of the EU to encompass significant parts of Central and Eastern Europe (CEE) has expanded the EU energy market thus increasing the number of actors, all of whom have their own interests and agendas. These actors include private and state-owned energy companies, national governments (of both EU member and non-member states) and the EU represented by its institutions, in particular the Commission. The Napoleonic-era inspired board game, ‘Risk’, could easily be updated to reflect the machinations of these actors as they attempt to secure a variety of different outcomes. However, for all actors involved, this is not a game and there are very real rewards to be won and lost. The seriousness of this situation can be seen by the increased use of terms such as ‘energy weapon’¹, ‘energy wars’², ‘resource wars’³, ‘new cold war’⁴ within literature focusing on not only energy issues, but wider political and international relations. The use of such hard security terminology may be questioned in terms of the likelihood of increased instances of military conflict over energy⁵, but at the same time it undoubtedly reflects the securitization of energy within European politics.

Much of this securitization has been focused on the issue of energy supply.⁶ For example, events such as the 2006 and 2009 Russia-Ukraine gas crises, when Russia cut the volume of natural gas passing through Ukraine due to disagreements over payments between the two states, directly impacted the EU’s member states by reducing the levels of Russian gas reaching the EU market. Considering that Russia is the largest supplier of natural gas to the EU and the primary supplier for many European states, particularly those in the CEE region (see table 1), these crises reinforced a realisation about the vulnerability of energy supply security across Europe. Reaction on the part of the EU to these crises has been to call for greater coordination between member states and enhanced solidarity at the EU level.⁷ This includes developing internal solutions to deal with an energy supply crisis, such as improved integration of the gas (and other energy types such as oil and electricity) transmission network to allow for a sharing of energy resources, and external solutions, such as the promotion of the Nabucco gas pipeline, which would diversify and strengthen natural gas supply. However, moves by the EU to diversify the supply of energy, and gas in particular, directly threaten Russia’s position as a supplier state and its potential for revenue development; at present 60% of its energy revenue comes from the EU.⁸ This has resulted in the development of alternative projects, such as the ‘North European Gas Pipeline’ (Nord Stream) and ‘South Stream’ pipeline projects, aimed at guaranteeing Russia’s position as an “energy super-power” able to “play a key geopolitical role by positioning itself as an essential supplier for major regional energy markets”.⁹ Russia has been open about the importance of its natural energy resources in rebuilding its geopolitical strength in the post-Soviet era.¹⁰ Robert Legvold has noted how “[e]nergy as a source of power and standing filled a void and gave the Putin leadership the confidence that Russia was no longer a ‘taker’ in international politics”.¹¹ Therefore, Russia’s position as an energy producer and supplier is of strategic economic and national importance and helps to explain why the Russian state, in the context of national interest, retains such tight control and influence over energy matters, including the actions of its energy companies.¹² Such
macro-level interpretations of the energy situation across the wider Europe are important and valid in terms of geopolitics. For example, within a securitised framework of analysis they allow for the realisation of a “energy security dilemma”, which in turn has immense implications for EU-Russian political relations. At the same these interpretations only tell part of the story and fail to fully reflect the wider intentions and actions of a varied host of actors at not only the external level but also the internal or intra-EU level. This can be seen by the fact that national or self-interest extends beyond that maintained by Russia and despite claims of European solidarity and common goals, EU member states have shown themselves to be equally capable of self-interested actions when it comes to energy related matters.

The self-interested actions of EU member states is not unknown and within much of the recent literature on EU energy matters, cases such as Germany’s support for the Nord Stream pipeline project and the involvement of Bulgaria, Hungary and Italy in the South Stream project have been acknowledged as examples of a lack of EU member state solidarity (a key principle of European integration) because these projects are potentially detrimental to the success of EU-backed Nabucco project. For the aforementioned EU member states justification in undertaking these actions reflect a number of reasons, including the fact that development of a common EU energy strategy remains in a state of flux and sovereignty over the supply of strategic national resources such as gas and oil ultimately remains in the hands of member states. Therefore, they are free to undertake whatever moves they feel are necessary to ensure their own energy security above and beyond that advocated by the EU. Self-interest in this capacity continues to reflect concern about energy supply, but the self-interest of EU member states can also be found in other energy related matters. Primary examples of this include the adoption of protectionist policies by some EU member states with respect to their ‘national energy champions’, such as were seen in the thwarted 2006 takeover attempt of France’s Suez by the Italian energy firm, Enel, or of 2006 bid for the Spanish energy firm, Endesa, by Germany’s E.ON. Framed in the context of economic nationalism, such merger and acquisition cases challenge the EU’s ability to promote solidarity and use market liberalisation to ensure energy security for consumers by utilising open competition and regulation to provide cheaper and diverse types of energy. It has been suggested within the literature that these two issues, security of supply (as an external concern related to the quantity and regular supply of gas) and market liberalisation (as an internal concern related to the ability of companies to operate within the EU’s common market and the relationship between the ‘up-stream’ and ‘downstream’ factors as well as the unbundling of wholesale production, transmission and retail with direct benefits for consumers), are different matters and that they pose different challenges to the development of a comprehensive common EU energy policy or strategy. To a certain degree this is true, but it is also possible to draw links between them, which suggest that the two issues are not as independent of each other as would at first appear, particularly in terms of the relationships between the EU, its member states and third parties (both state and non-state actors).

In order to explore the relationship between these two issues, this article examines one of the recent ‘battles’ within the Central European energy market – the attempted takeover of the Hungarian oil and gas incumbent, MOL (Magyar Olaj- és Gázipari Nyrt.), by its Austrian equivalent, OMV (Österreichische Mineralölverwaltung) between 2007 and 2008, and the subsequent developments
during 2009 when the Russian oil and gas company, Surgutneftegaz, bought OMV’s shares in MOL. At first glance, this is a simple ‘mergers and acquisitions’ case involving companies from two EU member states and as such can be viewed as an internal EU economic issue, in much the same vein as the Suez/Enel or E.ON/Endesa cases. However, on closer examination of the situation it is possible to observe the involvement of a multitude of actors, including not only the two respective energy companies and their shareholders, but also the Hungarian government, the EU commission, and third parties including Russia and various Russian energy firms. Furthermore, these multiple actors are characterised by a range of rationales for and against the takeover, indicating that this issue is far more than a simple internal EU economic affair.

As MOL is the subject of the takeover bid, the article adopts a MOL-centric approach and uses the various methods that MOL has employed to defend itself, as starting points from which to work outwards, thus identifying other key actors and their individual interests. This, in turn, allows the article to clearly show the realities of the Central European energy market, and indeed the wider European/EU energy market, as a complex web of strategic geopolitical game play across economic and political ‘battlefields’. This game play contributes to the securitization of energy which in turn has specific implications for (1) the promotion of ‘solidarity’ as a fundamental principle adhered to by all member states and (2) the development of a state of insecurity for actors operating in the Central European which in turn impacts the political relations between the EU, its member states and Russia.

CENTRAL AND EASTERN EUROPE AS PART OF THE EU ENERGY MARKET: INTERNAL & EXTERNAL RELATIONS

The European energy market is a diverse economic sector with multiple private and state/part state owned actors; but it is also burdened with an historic legacy which emphasises the national value and importance of energy for political identity, national pride and economic security from the level of the State to that of individual consumers. Recent moves by the EU to liberalise the European energy market by ‘unbundling’ or dividing the wholesale production and transmission networks from local distribution and retail activities reflect its attempt to combat this legacy by “transforming the energy industries from regulated monopolies to a system of companies and customers that, as far as possible, operate as competitive markets”. This has resulted in the creation of a supposedly flexible market space. The economic transformation and integration of CEE into the EU’s common market, which culminated with the full economic and political accession of eight states from the CEE region in 2004 and a further two in 2007 has meant that this flexible market space has expanded. This has resulted in increased competition throughout the CEE region as west European energy companies (e.g. EDF, E.ON, Royal Dutch/Shell), recognising the potential for expansion of their businesses, have entered the market. This has been made possible due to the moves by CEE states to (1) privatise key industries thus attracting Foreign Direct Investment (FDI) which will help develop and enhance the region’s energy infrastructure, allowing it to gain from increased investment to firstly meet ‘increased power demand’ from consumers and secondly to meet strict economic
and environmental demands as set by the EU\textsuperscript{19}; and (2) adhere to the EU’s call for market liberalisation as part of the integration process.\textsuperscript{20}

The CEE region, thanks to its geographic location is also of interest to Russia, the main external energy supplier to the EU. The relationship between Russia and the CEE region is a legacy of the historic economic cooperation between the USSR and its CEE satellite states which ensured Soviet dominance of supply for both natural gas and oil. For example, this has resulted in the development of an over-reliance of the CEE region on Russian energy with over 86% of gas imports across CEE originating from Russia (see Table 1).

Table 1: Percentage of Natural Gas Imports by EU States Originating From Russia (2008).

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Volume of natural gas imported in 2008 (bcm)*</th>
<th>Volume of natural gas imported from Russia in 2008 (bcm)</th>
<th>Percentage (%) of natural gas imports originating from Russia in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>8.10</td>
<td>5.8</td>
<td>71.60</td>
</tr>
<tr>
<td>Belgium</td>
<td>18.25</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3.10</td>
<td>3.10</td>
<td>100</td>
</tr>
<tr>
<td>Cyprus</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>8.61</td>
<td>6.6</td>
<td>76.66</td>
</tr>
<tr>
<td>Denmark</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>Estonia</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>Finland</td>
<td>4.5</td>
<td>4.5</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>36.66</td>
<td>8.8</td>
<td>24</td>
</tr>
<tr>
<td>Germany</td>
<td>87.10</td>
<td>36.2</td>
<td>41.56</td>
</tr>
<tr>
<td>Greece</td>
<td>3.2</td>
<td>2.8</td>
<td>87.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>11.5</td>
<td>8.9</td>
<td>77.39</td>
</tr>
<tr>
<td>Ireland</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Italy</td>
<td>75.31</td>
<td>24.5</td>
<td>32.53</td>
</tr>
<tr>
<td>Latvia</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3.09</td>
<td>3.09</td>
<td>100</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Malta</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>Netherlands</td>
<td>18</td>
<td>4.33</td>
<td>24.06</td>
</tr>
<tr>
<td>Poland</td>
<td>9.8</td>
<td>7.20</td>
<td>73.47</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.93</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Romania</td>
<td>4.5</td>
<td>3.5</td>
<td>77.78</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5.6</td>
<td>5.6</td>
<td>100</td>
</tr>
<tr>
<td>Slovenia</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>Spain</td>
<td>10.87</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sweden</td>
<td>n/d</td>
<td>n/d</td>
<td>n/d</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>35.42</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>


* bcm = billion cubic meters

Russia is keen to retain these lucrative markets and consumers, but it also sees the CEE region, with its geographical proximity to Western and South-eastern Europe as the gateway to new and expanding markets and business opportunities. In recent
years Russia has obtained assets in numerous CEE and former Soviet Republic states, including Latvia, Lithuania, Serbia, Armenia, Belarus and Georgia. Working with third party companies, but more importantly, by gaining direct control over vital elements of infrastructure, such as pipelines and storage facilities, Russia’s main energy company, Gazprom, is aiming to secure regular and easy access for its products to the EU, a market which it is estimated could see as much as 80% of its total natural gas consumption come from Russian imports by 2030.

For incumbent CEE energy companies the increased internal and external competition that they have been exposed to makes their independent survival more difficult. Some, like Hungary’s MOL, have found that securing its competitive position has only been possible by expanding its business into other post-Socialist countries thus increasing its resource base and incorporating strategic assets, as well as utilising “local experience and existing business networks”. As such MOL has been relatively successful in maintaining its position in the face of increased competition, particularly in terms of ‘internationalising’ the company beyond Hungary. However, this strategy has also made it more attractive to larger companies keen to develop their business interests in Central Europe.

‘MOL’ AS A CENTRAL EUROPEAN ENERGY CHAMPION

Founded in 1991 from a merger of nine independent Hungarian oil and gas companies, MOL was quick to develop its upstream value in exploration, field development, production and refining. It has recently expanded its exploration and production portfolio with the development of controlling interests not only at two sites in Russia, but also in Iraq, Kazakhstan, Pakistan, Oman and the Republic of Yemen. When considered along with its majority owned wholesale and public retail operations in Austria, Bosnia-Herzegovina, Croatia, Czech Republic Germany, Serbia, Slovakia, Slovenia and Romania, as well as crude oil refining operations in the Italy, Hungary and Slovakia and its 47.15% ownership and strategic partnership with the Croatian national oil and gas company, INA (Industrija nafte), it is clear that MOL is a company with strong international and regional ambitions. As a fully privatised company with a stock-market exchange value of €12.6 billion in July 2007 and interests in oil and gas exploration, crude oil refining, natural gas pipeline transmission and storage, wholesale and public retail operations, geological and geophysical drilling, geothermal energy operations, petrochemical manufacturing, trading and procurement, as well as research and development, it is not surprising that MOL should attract the attention of competitors, both within and outside of the EU.

For larger energy companies, such as Russia’s Gazprom, MOL presents a lucrative business within the EU that is strategically aligned to its main business operations in crude oil and natural gas, particularly oil refinery and natural gas transmission and storage; as Miklos Bonis, head of research at the Hungarian owned Inter-Europa Bank, has commented, “...amongst other things, MOL has a big gas storage capacity, and is the gateway to western and southern Europe that Gazprom needs and wants”.

Although Hungary and MOL are open to working in partnership with Gazprom, they also retain concerns about the Russian company and its dominance
within the Central European energy market, particularly with regard to the ownership of energy infrastructure. To date Hungary has been quick to dismiss the potential for Gazprom to buy key components of its energy infrastructure, as was the case in 2005 when Gazprom raised the possibility of acquiring 11.8% of MOL. Furthermore, the proposed transfer by E.ON of some of its Hungarian transmission operations to Gazprom as part of a larger trade agreement to gain access to the Russian Yuzhno-Russkoye natural gas field raised suspicions in Hungary about Gazprom’s intentions to develop a dominance within the Hungarian downstream energy market. It also highlighted concerns about MOL’s vulnerability to third party shareholders selling on strategic shares in the company to bigger players such as Gazprom. There are three reasons why Hungary has raised concern about this. The first is that should Gazprom or another third party company gain a major foothold within Hungary it could create problems for the Hungarian state in relation to its EU membership and the need to ensure a successfully unbundled domestic gas market. At present, Hungary has this, where in terms of (1) the consumer portfolio E.ON is dominant, (2) import resources Gazprom is dominant and (3) the gas transmission operator is MOL. Secondly, and as a related concern, this could have major repercussions for the retail price of gas for the average consumer, an issue of great sensitivity for the Hungarian political elite cautious of upsetting the Hungarian electorate. Thirdly, and most importantly, it threatens MOL’s position as a national champion. Despite the comment to the Financial Times by MOL’s executive chairman, Zsolt Hernádi, that “even though it is a Hungarian company it is not a Hungarian champion”, as Hungary’s only real blue-chip company trading on the stock-markets in Budapest, Warsaw and Luxembourg, MOL is held in high regard as a bastion of Hungarian economic success and is to all intents and purposes a ‘national champion’ on a regional level. Indeed, MOL has, in the past, used the term “regional champion” to describe itself, and as for whether it is, or is not, a ‘national champion’, MOL has not been afraid to emphasise its national links with Hungary; for example, a commonly used slogan in television adverts by the company declares “what is good for MOL is good for Hungary”. It is clear that when it comes to energy relations between the Hungary and MOL, the issue is very much linked to the long-term survival of MOL as (1) an independent company and (2) a Hungarian company. This highlights the geopolitical importance national champions and goes a long way to understanding why certain actors, in this case MOL and the Hungarian Government, pursue certain policies which appear to be or are protectionist and promote economic nationalism. This is most clearly evidenced by the takeover attempt of MOL by its Austrian competitor, OMV, between 2007 and 2008 and subsequent developments in 2009 when OMV sold its shares to the Russian oil and gas company Surgutneftegaz triggers real security concerns for Hungary such as those mentioned above.

THE CASE OF MOL VERSUS OMV

MOL and OMV are the two largest energy companies originating from CEE. MOL had a consolidated turnover of €11.6 billion in 2006 and a stock-market exchange value of €12.6 billion in July 2007; OMV is a slightly larger company with a consolidated turnover of €18.97 billion in 2006 and a market capitalisation of €15 billion in July 2007. Although the two companies have cooperated in the past and are both key shareholders in the Nabucco pipeline project, they remain competitors
with major interests in the same market area. For example, as mentioned above, MOL has made no secret of its intention to develop Hungary as a major hub for Russian gas imports to Europe and to this extent has developed a working partnership with Gazprom to investigate the feasibility of new pipeline routes and build storage facilities. This plan has been challenged by OMV which has developed its own close working relationship with Gazprom. For example, both companies agreed in November 2008 to expand Austria’s largest (and the EU’s third largest) gas storage facility at Baumgarten through its development as a new Central European Gas Hub (CEGH) in which OMV and Gazprom would each own 30%, with the Vienna Stock Exchange and Centrex Europe Energy and Gas each owning 20%. Centrex was founded by the ZAO AB Gazprombank and continues to have close, albeit non-transparent, relations with Gazprom, suggesting that Gazprom will effectively control 50% of Baumgarten. The geopolitical importance of this cannot be underestimated because it would potentially give Gazprom access to a key central distribution point for gas to Central Europe, Germany and Italy. The CEGH at Baumgarten could also become the final destination for gas from the Russian proposed South Stream pipeline, a project which OMV has been invited to participate in. The fact that CEGH is the designated terminus of the Nabucco pipeline raises serious questions about the tactics used by Russia to challenge the Nabucco project. This Austro-Russian alliance over Baumgarten also appears to suggest that Gazprom, despite its apparent support for the development of a European gas hub in Hungary, has decided that Austria is to be the benefactor in terms of the location of such a hub. Whether this is because Austria is Gazprom’s preferred strategic partner or whether it is because Austria has been prepared to open up key aspects of its established infrastructure to Gazprom’s ownership (unlike MOL) is not known, but what it does prove is that Gazprom is a consummate game player prepared to make offers to multiple partners to gain preferential access to necessary infrastructure assets.

The development of the CEGH in Austria did little to help an already aggravated relationship between MOL and OMV, which deteriorated quickly following OMV’s announcement in June 2007 that it had purchased an 8.6% set of shares in MOL adding to an original 10% which it had purchased in 2000. This made OMV the largest shareholder in MOL with ownership of 18.6% of the Hungarian company. OMV continued to buy shares and by September 2007 had 20.2%. At the same time OMV announced a formal declaration of intent to combine itself with MOL. This included a €13.8 billion offer for MOL, which took the form of 32,000HUF (€128) per share offer, meaning that OMV was prepared to pay a considerable premium on the 21 May 2007 (the point when OMV began to buy the additional MOL shares) MOL share price of 22,290HUF (€89). For OMV this merger, as it framed the bid, would “present a unique strategic opportunity to create one of Europe’s leading integrated oil and gas companies” and that the combined company would be a “CEE champion” which would “ensure a better, stronger future for our businesses” capable of competing “globally in E&P [exploration and production] and can contribute to the security of supply of oil and gas for the region”. The formal strategic rationale for the merger as set out by OMV states that it was about three key goals, (1) ‘enhanced growth opportunities’, (2) the ‘optimisation of the new company’s asset base’, and (3) security of energy supply to the region.
Despite these seemingly clear rationales, as well as the generous nature of the offer, MOL was quick to rebuff the move as a “unilateral and hostile” takeover bid that “does not offer benefits to…[its]…shareholders and other stakeholders”. Its direct public response stated:

In MOL’s assessment, OMV’s approach substantially undervalues MOL’s business and prospects and would be value destructive. [...] OMV […] ignores both the resulting dissynergies from a combination of the companies and the loss of value arising from the disposals programme that would be required by the anti-trust authorities. OMV’s move does not merit further consideration and MOL will not be entering into dialogue with OMV to discuss the approach.43

The possibility that the merger of the two companies would most likely result in the required disposal of key MOL assets, namely its oil refineries in Hungary and Slovakia and its petrol stations in Romania and Austria, reflects how the case is linked to debate on regulation of the EU’s internal energy market. It also raises a number of concerns for MOL and Hungary which emphasise the case’s links with externally framed energy debates about the ownership of key energy assets by third party states which do not offer reciprocity in terms of access to their own market. For example, OMV’s bid encouraged suggestions within the Hungarian and western press of a ‘Trojan Horse’ conspiracy about the involvement of Russia as a larger background player. This could related to any of Russia’s major energy companies, including Gazprom, Rosneft or LUKoil, all of which have interests in developing their downstream capacity in Europe and are deemed the most likely bidders for MOL’s refinery business should it come onto the market.44 OMV’s argument that the merger was about creating a strong central European company that would be able to withstand the advancement of larger companies like Gazprom45 was also questioned in light of the increasingly close working relationship between OMV and Gazprom over Baumgarten. Although caution needs to be taken with such conspiracy theories, they does highlight the fact that this case is not as straight-forward as it at first appears. As shall be seen later in this article, the involvement of both EU and non-EU actors necessitates observers to view the case in light of the implications for consolidation and liberalisation within the EU’s internal energy market, including justification for further development of third country reciprocity clauses (sometimes referred to as a Gazprom Clause) such as that put forward by the European Commission in 200746 and the associated implications such a move could have for the potential further deterioration of EU-EU member state-Russia relations.

DEFENDING MOL

The September 2007 ‘declaration of intent’ to merge by OMV did not come as a surprise to MOL, who had, since OMV first acknowledged its share purchases in June 2007, been expecting the Austrian company to make a more formal move. It is for this reason that MOL had begun to enact, over the summer of 2007, the first of a series of extraordinary, and in some cases contradictory, measures intended to shore up its defenses against a possible merger/takeover. These measures included the ‘buy-back’ and ‘lending out’ of shares to ‘friendly companies’, a method that has implications for how the EU’s internal market functions in terms of acquisitions and mergers. However, it was three particular methods including, (1) lobbying of state bodies resulting in the development of a protectionist law known as Lex-MOL, (2) the
development of an alternative cross-border cooperation project that appeals to the
EU’s market liberalisation stance and (3) company expansion, which have the most
relevance for geopolitical game-play within the Central European Energy market.
Although initiated by MOL, all of these measures involve various actors and provide
evidence for why this case is a good example of how the internal and external EU
energy debates are linked and have specific repercussions for the securitization of
energy as a geopolitical issue.

Lex-MOL: Utilising National Champion Status

One of the methods used by MOL to defend itself from a takeover bid has been to
utilise its national champion status and lobby the Hungarian government for support;
reinforcing the close relationship between the two actors. The Hungarian
government, although no longer a shareholder in MOL, having sold its remaining
shares and given up its ‘golden share’ following the country’s accession to the EU in
2004, reacted strongly to the news of the proposed merger, with then Prime Minister
Gyurcsány announcing that the government would use “any and all measures to block
the takeover” because, despite being a privatised company, MOL is still of strategic
national geopolitical and economic importance to Hungary and any move of its assets
out of the state would have severe economic consequences. MOL has used this fear
to great effect, particularly in the media and thus has had a considerable influence on
Hungarian public and governmental thinking on the matter. For example, Zsolt
Hernáldi, MOL’s executive chairman, in an interview given to the Hungarian weekly
news magazine, *HVG*, on the 24 September 2007, the day before OMV made its
declaration of intent said that:

> If MOL were a subsidiary of OMV, Vienna would decide how much would be spent
in Hungary and the rest of the CEE region on investments and development. If MOL
shares were withdrawn from the stock exchange, it would leave not just a large
number of local market analysts unemployed, but many law firms, auditors and other
suppliers would have to make redundancies. It would be a backward step for MOL, if
OMV, which is one third owned by the Austrian government, gained influence over
MOL, since it would be less concerned with what happened in Hungary and Slovakia
when it came to strategically important investments.

MOL’s use of such language worked because, in a surprising show of unity between
Hungary’s staunchly divided political left and right, a new protectionist law, ‘Act
(CXVI/2007) on changing certain laws concerning companies outstandingly
important for the security of public services’, dubbed ‘Lex-MOL’ (‘MOL Bill’ in
Hungarian – a misnomer in that the law does not mention MOL) was approved by the
Hungarian Parliament in October 2007. The law specifically refers to those
companies, as defined by the Hungarian government, which have a strategic role in
providing essential services to the country’s population, such as energy and water
supply. It works by forcing any potential purchaser of a strategic company to firstly
approve the takeover bid at its own general meeting; secondly, that members of the
board of directors and supervisory board of a strategic company cannot be dismissed
before their term ends without the approval of 75% of shareholders and thirdly, that
“the board of directors may purchase company shares, increase capital and influence
an ongoing public offer for a strategic company, including attempts to stop its
takeover”.

Although the law is not intended to prevent private companies investing
in a company through purchasing shares, it is aimed at preventing any foreign state-owned company from buying a Hungarian firm (state owned or private) that is deemed to be of strategic national importance to Hungary because this would transform the investment into one with political influence. The MOL/OMV case is relevant to this law because OMV is 31.5% owned by the Austrian state and 17.5% owned by the Abu Dhabi state investment fund. From a geopolitical perspective, it can be argued that should these states, through OMV, gain ownership of MOL, then they would have non-transparent political influence over a strategic Hungarian commodity.

From an internal perspective in terms of EU/member state relations, it can be argued that Lex-MOL is actually anti-competitive in that it could be seen to inhibit unrestricted cross border investment within the EU and goes against moves to liberalise the EU’s energy market. This is something that former EU Internal Market Commissioner, Charlie McCreevy, argued and on the 13 November 2007 he issued a “Letter of Formal Notice” to this effect which essentially placed the onus on Hungary to prove that it was acting within EU law. Should Hungary fail to do this the Commission can issue a “Reasoned Opinion” detailing the required remedial actions to be undertaken by the state, and if this is then not carried out the Commission can refer the case to the European Court of Justice (ECJ), which can impose fines or repeal the original state law. The Hungarian government was confident that it adhered to EU legislation on the matter. Essentially it was able to do this by justifying its actions in the name of ‘national security’ for both energy supplies and political influence. This allowed Hungary to claim that ‘Lex-MOL’ is not the same as similar laws passed in other EU member states which have fallen foul of the European Commission and ECJ, such as Germany’s Volkswagen Law (a law which privileged a named company of no strategic national security importance, unlike ‘Lex MOL’ which does not mention companies by name and refers to those essential commodities necessary for the effective functioning of the state). There is some precedent for this argument, with the ECJ ruling in 2002 that states can use special voting rights in the event of a exceptional crisis with legitimate public interest, allowing Belgium to uphold its ‘golden-share’ in gas supplier, Distrigaz SA. At the same time, Hungary may be in breach of European law; the ECJ has made a number of rulings against companies making similar arguments, including France and oil refiner Elf Aquitaine in 2002 and more recently, Spain in the E.ON/Endesa case. The ECJ could rule against Hungary by arguing that its justification for exemption from EU legislation on the issue of special voting rights is not valid because EU liberalisation policy already takes into account the security of supplies and is aimed squarely at consolidating the market. There is no doubt that the development of ‘Lex MOL’ has implications for a variety of actors; for example, by involving the Hungarian government, MOL has potentially exposed the Hungarian state to a lengthy court case in the ECJ. However, in the context of this article it can be noted that there are two important outcomes from the development of ‘Lex MOL’. The first is the enhanced securitization of energy because the law specifically frames energy and the acquisition of energy companies in terms of strategic national security vis-à-vis the involvement of other states. The second relates to the rational self-interest of Hungary and reinforces the reality of economic nationalism as an obstacle to the solidarity of common EU interests existing within a liberalised energy market. The rise of economic nationalism is something that the European Commission is finding increasingly
difficult to prevent and a clear hindrance to the free movement of capital within the EU and that “market integration [is] not seen in terms of rules-based development but to be carried out on the basis of ‘national champions’, building corporate energy empires.”

It appears, therefore, that “nationality of ownership matters.”

NETS: Cooperation as an Alternative to Merger

Whereas the development of ‘Lex-MOL’ challenged the concept of EU energy solidarity, the third method used by MOL to defend itself actively utilised the EU’s support for energy solidarity and liberalised markets with separated production and transmission operations. This allowed it to promote an alternative strategy to aid regional market consolidation, thus downplaying the need for company mergers. This alternative is the proposal for a New European Transmission System (NETS) which would create a cooperative company to own and run the fully integrated 27,000km long gas pipeline network for Central and Southeastern Europe. This new cooperative endeavour would include Austria (providing an alternative cooperation venture between the two states, thus deflecting OMV’s takeover bid), as well as Bosnia-Herzegovina, Bulgaria, Croatia, Serbia, Slovenia and Romania. MOL claims that NETS would unbundle the regional transmission systems, pool them into a single corporate network which would then be able to fend off, or compete successfully against Gazprom or other Russian companies’ attempts to “privatize” national transmission systems in the region. The NETS project has already gained considerable support from Hungary, Croatia and Romania, all of which have signed a Memorandum of Understanding (MoU) to develop and link their respective gas pipelines. Bosnia-Herzegovina has signed the MoU as an observer, Serbia has announced it hopes to sign shortly, and Bulgaria and Slovenia have declared they are watching the situation closely with the view to participating in the near future. To date, of the original eight invited countries, Austria is the only one not to show any commitment to the NETS project. Of course there are very good reasons for the various states involved in the project to take part, not least the fact that the participating linked states will be able to trade gas between themselves in times of crisis when shortfalls occur on the part of supplier states such as Russia. However, the timing of the proposal allows it to be seen as an attempt by Hungary to ingratiate itself to the EU at a time when the OMV/MOL case was being investigated by the Commission. Indeed, NETS has been welcomed by the Commission, which claims that it would increase investment, enhance security of supply and open markets to competition through being attractive to wholesale gas suppliers other than Gazprom. Of all the measures adopted by MOL to defend itself, NETS clearly brings together all key internal and external energy debates in terms of market liberalisation and security of supply.

Company Expansion: Strength in Size?

MOL has been the driving force behind the development of NETS as a regional energy market consolidation project, but it has also sought to use a different form of consolidation – the expansion of its core business – as a means to ward off any potential takeover from OMV or other energy companies. This tactic was clearly observable in the months after OMV’s takeover bid came to light, with MOL’s
purchase of (1) 100% of Tifon, a Croatian fuel retail and wholesale company in October 2007; 64 (2) a 40% interest in a new venture to build off-shore oil wells in Cameroon; 65 and (3) 100% of IES, an Italian oil refinery and marketing company. 66 These deals highlight MOL’s strategy to expand and thus become too big for its “Austrian neighbour to swallow”. 67 MOL secured a €2.1 billion revolving credit facility in October 2007 to help it with its future expansion plans as well as to pay for its purchase of MOL shares. 68 The most high profile development in this regard has been MOL’s success in developing its strategic partnership with the Croatian state oil and gas company, INA. MOL and INA have a strong partnership which includes MOL’s long-term 25% ownership of the Croatian company which it bought in 2003. However, in light of the OMV takeover moves, MOL sought to develop this relationship and following the end of a 5 year moratorium on purchasing further shares it was able to purchase an additional 22.15% of INA shares in October 2008. This purchase was on top of a share swap scheme which MOL initiated in July 2008 with the Croatian Government which holds 44.8% of INA’s remaining shares. 69 The scheme would see the Croatian government offered a series of MOL shares in return for most if not all of its INA shares. While the Croatian Government would prefer cash to the share swap, the latter remains an attractive offer because of the long-term strategic partnership and the fact that the two companies are strategically aligned with a strong synergy between their respective assets. 70 Considering MOL and the Hungarian government’s strong resistance against a foreign-owned company (in this case OMV) gaining access to MOL 71 which resulted in the development of ‘Lex-MOL’, the share swap scheme appears somewhat contradictory. MOL has faced such accusations before. Shortly after OMV’s announcement of its June 2007 MOL share purchases, MOL agreed a partnership with Czech energy company, CEZ (Skupina ČEZ), to build a series of gas-fired electricity generating power stations at MOL’s Hungarian and Slovak oil refineries. 72 This would include CEZ taking a 10% stake in MOL, and could also include a possible share swap deal with the Czech government which owns 67% of CEZ. The partnership was interpreted by many, not least of all OMV, as a strategic blocking move on the part of MOL to defend itself from OMV. 73 MOL justified the CEZ agreement by claiming that unlike OMV, CEZ was not a competitor and threw up no competition issues or had any desire to influence MOL strategy. These are the same arguments that MOL has made about the INA share swap scheme. This suggests that the issue of ‘threat perceptions’ is very much at play in terms of how MOL approaches its alliances, which are ultimately designed to favour MOL as the dominant partner. As was the case with the historic dual-monarchy between Austria and Hungary in the nineteenth century, any dual-company created from a merger of OMV and MOL would probably result in the Hungarian partner taking on a junior role. For MOL and the Hungarian state, this is quite clearly an unthinkable outcome.

OMV has also suggested that it would be willing to purchase some of the shares that the Croatian government holds in INA. This was seen by MOL as a gross invasion of its sphere of influence considering its long-term strategic alliance with INA and operations in Croatia. The expansion of MOL, although intended to strengthen it against a possible takeover by placing it out of the reach of OMV in terms of what the Austrian company could pay, also weakens MOL by over-stretching its financial capital and reducing its cash-flow, thereby exposing it to a possible takeover threat from larger companies, including Russian ones. This raises many
possible security questions not only for the national or strategic security of the Hungarian state, for which MOL is considered an essential component, but also for the EU in terms of EU-Russian relations and the possibility of Russian operations in a liberalised EU energy market-place without reciprocal agreements for EU-based companies to operate in Russia.

THE EU POSITION

Besides the EU’s concern over the development of ‘Lex-MOL’ by the Hungarian state, the EU Commission paid particularly close attention to the MOL/OMV case in terms of possible challenges it might pose for competition within the Central European region. Like Charlie McCreevy (former Commissioner for the Internal Market), the former Commissioner for Competition, Neelie Kroes, highlighted her concern about severe competition problems within the European energy sector, compounded by the fact that “interference in the sector by national governments and the behaviour of some major companies appears to be keeping energy prices unnecessarily high and jeopardising environmental protection and the security of energy supplies”. Neelie Kroes commented that a merger of OMV with MOL would need to ensure that competition in the Central European region would not deteriorate further. OMV’s view on this matter was that it would not create problems, while MOL argued that it would. Although no formal takeover bid was ever made, OMV did notify the Commission on 1 February 2008 about its interest to take over MOL. This set in motion a ‘merger-control procedure’ on the part of the Commission’s Competition DG. It should be noted that the issue of the merger and that of ‘Lex-MOL’, although linked, were viewed by the Commission as separate concerns and that neither would influence its decision on the other.

In response to the investigation in ‘Lex-MOL’ and the OMV takeover bid, MOL was rumoured to have lobbied the Commission’s competition watchdog over OMV and Gazprom’s agreement over Baumgarten, a development that has not been scrutinised by the media or relevant authorities to the same extent as ‘Lex-MOL’. Although MOL has no direct interest in the OMV/Gazprom Baumgarten deal, by focusing attention on that deal it may have been trying to deflect some of the media attention on its own case with OMV and certainly raise awareness of OMV’s close working relationship with Gazprom, raising suspicions about OMV’s ‘true’ intentions.

The European Commission took the investigation into OMV’s attempted takeover of MOL to a second level on 6 March 2008, when it initiated an in-depth investigation (IP/08/397). The Commission was to rule on this by June 2008, but was delayed in publishing its initial ruling until July. This came in the form of a Statement of Objections. The news was not to OMV’s liking, with the Commission agreeing with many of the points MOL had raised. The 134 page report set out the Commission’s concerns that “the merger would remove MOL as the most significant…regional constraint on OMV, and at the same time, removes OMV as the most significant constraint on MOL”. The report highlighted oil refining and wholesale and public retailing as the areas most likely to be affected by a merged company. For example, competition for the supply of aviation fuel would be removed by the fact that “the competitive pressure that such contestability allows would
disappear if the three refineries [OMV at Schwechat in Austria, and MOL at Szazhalommbatta in Hungary and Bratislava in Slovakia] had a single owner. The Commission also felt that competition would be curbed for other refined oil products and would likely lead to a rise in prices. Although the Commission’s comments were only part of a Statement of Objections and it had not made a final ruling on the matter, OMV stepped back from the deal and withdrew its notification of the proposed acquisition of MOL in August 2008.

THE RUSSIAN DIMENSION AND THE IMPLICATION FOR GEOPOLITICAL RELATIONS

Throughout the MOL/OMV takeover ‘battle’, Russia, at least on the part of the Hungarians, was always seen as a potential stalking horse, although neither it nor any of its respective energy companies were ever clearly linked to the Austrian takeover bid. The perceived threat of background tactics being played by Russia was evident in the conspiracy theories that abounded in Hungarian public discourse about OMV’s real intentions for its proposed merger with MOL. Regardless of questions about the validity of such theories the fear of a Russian actor getting involved became a reality in March 2009 when OMV sold its slightly increased percentage of shares in MOL (21.22%) to OJSC “Surgutneftegaz” (Surgut), the fifth largest company in Russia and its second largest oil group, with very close relations to the Russian government and a relatively unknown player within energy markets outside of Russia. The fact that it was Surgut and not another of the big Russian energy companies such as Gazprom, Rosneft or LUKoil, all of which have publically stated their interest in the CEE region’s energy market, could be for a number of reasons. The first is that Surgut could genuinely want to move beyond the Russian energy market and play a greater role in Europe. Certainly this is what the company stated when it announced the purchase: “Acquisition of MOL shares will establish a firm foothold to start long-term beneficial cooperation and will promote energy security in Europe.” However, reports have also suggested that Surgut, which has never had previous business dealings with MOL, was acting on instruction from Moscow because it was the only Russian company with sufficient funds to make the €1.4 billion purchase price which at €63.10 per share was almost twice the €32.70 per share market value of MOL at the time. The Hungarian media acknowledged these fears, running headlines such as “Gas Attack” (Gáztámadás) and reporting widely in the following months on MOL’s statements about the purchase being hostile and how it has no plans to cooperation with Surgut. The timing of the announcement on 30 March 2009 of Surgut’s purchase of OMV’s MOL shares was also made during a period of high political crisis within Hungary following the resignation of Ferenc Gyurcsány as Prime Minister on 24 March and his subsequent announcement to step down as leader of the Socialist Party (MZSP) on the 29 March 2009. The sale of the shares was apparently unknown to MOL and the outgoing Gyurcsány government, both of which expressed shock and concern at the move. The Hungarian President publically stated his “worry” about the deal and the Foreign Minister summoned the Russian Ambassador to explain why the Hungarian government had not been notified of the purchase prior to it being made public. The Hungarian government also stated that, as with the OMV takeover bid, it would do everything in its power to maintain the
independence of MOL; a stance that the Hungarian opposition political parties and the caretaker government headed by Gordon Bajnai have maintained.

The Hungarian state’s concern about MOL’s independence reflects longstanding recommendations within Hungarian energy policy that the domestic energy market should take “national characteristics into account”\(^88\) and, as noted earlier in this article, the importance of MOL as a ‘national champion’, if not indeed a ‘regional champion’, including its place in ensuring Hungary’s status within the Central European region’s energy sector. The importance of maintaining MOL’s champion status and independence from foreign ownership and, therefore, access to key strategic assets appears to be of significant relevance and the real driving force behind Hungarian economic nationalism. This is in contrast to economic nationalism being driven by any genuine fear of Russian companies operating within Hungary, which does not seem to exist. Hungary has been open to developing a series of joint partnership ventures with Russia and its energy companies. For example, the Hungarian government signed an agreement to participate in the South Stream project and through the Hungarian Development Bank (MFB) established a new jointly owned Hungarian-Gazprom company to operate and build the Hungarian section of that pipeline. In 2009 a new company jointly owned by MOL and Gazprom was established to convert and operate a large gas storage facility at MOL’s Pusztaföldvár-Düs natural gas reservoir.\(^89\) This is on top of a number of other joint MOL-Gazprom ventures including the gas trading company Panrusgas.\(^90\) It is important to recognise that these ventures are partnerships and aid investment in Hungary in a way that does not threaten the long-term independence of MOL as a strategic Hungarian national champion. Fear of Russia per-se cannot be regarded as a justification for both the Hungarian state and MOL’s strong reaction to OMV’s sale of its MOL shares to Surgut; rather it is the fact that Surgut is in position which no Russian or other foreign state has had concerning potential influence over strategic decisions which would impact MOL and subsequently Hungarian energy security. One of the biggest concerns is how the purchase will influence Hungarian-Russian political relations. Hungary is heavily reliant on Russian oil and gas. Its reliance on gas in particular is concerning because natural gas makes up to 40% of its energy mix in terms of the production of electricity. As László Varró suggests, “a rational Hungarian energy policy cannot function without Hungarian-Russian relations based on equitable cooperation”.\(^91\) However, equitable cooperation is placed under considerable pressure in the context of a perceived hostile takeover. Hungary would have to tread carefully in any takeover battle as Russia has been known to terminate or significantly reduce energy supplies to specific countries with which it has political disagreements, including Latvia in 2004, Lithuania in 2006 and the Czech Republic in 2008.\(^92\) The potential for gas or oil to be used as a ‘weapon’ by Russia thereby escalating any ‘boardroom battle’ to that of an ‘energy war’ between the two states clearly highlights the danger and problems Hungary faces in light of Surgut’s ownership of MOL shares.

Many questions about the intentions behind Surgut’s purchase can be made, not least because of the close, albeit non-transparent, relationship the company has with the Russian government. Numerous theories have been raised within the Hungarian and international press about the purchase, including its geopolitical implications not only for Hungary, but also for the Central European energy market and the EU, including specific projects of strategic importance to European energy
The importance of the Russian dimension at this stage potentially threatens to overlook the relevance of the OMV takeover bid to the case as a whole. However, the three key defensive features of that period of events remain significant and continue to inform and emphasise the geopolitical underpinning of this acquisition and merger case.

Firstly, it was the OMV takeover bid that led to the development of ‘Lex-MOL’. The law, as was mentioned earlier, is specifically aimed at preventing foreign states from obtaining access to companies of strategic national importance. This specifically applies to the Surgut situation and ‘Lex-MOL’ is being used to challenge the validity of Surgut’s ownership of the shares, thus delaying Surgut’s ability to participate in MOL shareholder’s meetings and gain access to company documentation. This is particularly important from a geopolitical perspective because MOL is a major partner in the Nabucco project, the main rival to Russia’s own European pipeline plans. As a shareholder in MOL, Surgut would theoretically be privy to sensitive information about Nabucco that would be of major interest to Russia.

A similar situation would also occur with regard to information about the NETS project which MOL heavily promoted in light of its targeting by OMV. Through the consolidation of the gas transmission network in South-eastern Europe, thus allowing for more effective internal trading, including access to liquefied natural gas (LNG) entering South-eastern Europe via Croatia, NETS has the potential to significantly reduce the region’s reliance on direct Russian gas imports. Such a development would be of major concern to Russia. As MOL is the lead company in the NETS project, this threat could be reduced by increasing control or even possible ownership over MOL, thus allowing for the NETS project to be developed in such a way so as to benefit Russia by providing it with a highly integrated regional transmission network. Surgut’s actions could therefore be seen as a possible “first offensive” to counter any potential future challenge posed by NETS to Russia.

The third method used by MOL to defend itself from OMV’s takeover threat was to expand and develop its strategic alliance with Croatia’s INA. This too is relevant in the context of geopolitics. Croatia is the proposed location for the Adria regasification LNG terminal which would offer an alternative source of gas to markets in Austria, Croatia, Hungary, Italy, Slovenia and Romania. Although denied by Surgut, recent press reports suggest that Surgut has offered to swap its MOL shares for those shares which the Hungarian company holds in INA. Those shares could either be held by Surgut or sold on to another major Russian energy company such as Gazprom or LUKoil, both of which have substantial business operations across Southeastern Europe, including Gazprom’s 2009 purchase of a 51% share of Serbia’s leading energy company, NIS (Nafina Industrija Srbije), and LUKoil’s widespread retail operations across the region. Such a move would also provide Russia with the means to become directly involved in a project designed to diversify gas supply in Europe. It could also offer Russia an alternative route by which to transport its own gas to Europe which would bypass traditional pipeline networks. Even without a share swap, Surgut by default through MOL’s partnership in INA has become a shareholder in the Croatian company. As in Hungary, fears have emerged in Croatia over this development. A prominent Croatian oil expert commented: “...now that Surgut has entered MOL, whereby it also entered the ownership structure of INA, the
Russian company has set the scene for assuming control over the energy markets of Southeastern Europe, from Slovenia to Bulgaria.95

The wider geopolitical implications of this MOL case on EU-Russian relations can be seen in not just in debates about the security of energy supply, but also in terms of the repercussions the case may have for the regulation of the EU’s liberalised energy market and its openness to third party companies. Moves by the EU to force Russia to liberalise its energy market have not been successful and Russia continues to refuse to ratify the 1994 Energy Charter Treaty, an issue that has caused considerable disunity between Poland and the Baltic States and some of the larger EU members such as France and Germany.96 According to the third energy liberalisation package proposed by the European Commission in September 2007, member states are required to ensure “the effective unbundling of transmission system operators and supply and production activities not only at national level but throughout the EU. It means in particular that no supply or production company active anywhere in the EU can own or operate a transmission system in any Member State of the EU”.97 The Commission also noted that “this requirement applies equally to EU and non-EU companies”. Therefore, any company from a third party country wishing to benefit from the EU’s unbundling of Europe’s vertically integrated companies will have to “demonstrably and unequivocally comply with the same unbundling requirements as EU companies”.98 At the time this move was seen as necessary to ensure a level playing field for all companies operating in Europe. As Commission President José Manuel Barroso stated, the proposals were deemed necessary to “protect the openness of our market...[and] place tough conditions on ownership of assets by non EU companies to make sure we all play by the same rules.”99 The development of these clauses was regarded to be a reaction to the potential for increased levels of Russian activity within the unbundled EU energy market. It is for this reason that the reference to reciprocity became commonly referred to as the “Gazprom Clause”.100 Indeed Gazprom and other Russian energy firms have become more involved within Europe while European companies have found it increasingly difficult to operate within Russia due to the Moscow approved monopoly of exports held by Gazprom.101 Russian reaction towards this move by the EU was not positive, particularly in relation to its ability to develop downstream European operations. As one Russian commentator put it, “damage from such politicizing of investment issues will be reciprocal, but will hit the European Union more severely.”102

In a victory for national sovereignty over supra-nationalism the EU Commission was forced to relent on the reciprocity issue in October 2008 and allow member states to choose whether or not to permit foreign company investment.103 As Christie notes, “what is happening is that strictly bilateral relations continue to be cultivated at the expense of a wider EU-Russia relationship”.104 At the same time, however, the issue of reciprocity has not been fully put to bed and, as a test case where the investment of a third party Russian company in an EU state has not been welcomed (as demonstrated by the MOL acquisition case outlined in this article), the EU may be forced to revisit the idea. This could open up not only difficult challenges for intra-EU relations between those who accept and argue for reciprocal agreements and those states that reject the idea, but it also has the potential to further chill EU-Russian relations by forcing Russia to react to what it deems an unwelcome suggestion about how to operate its own market system.
CONCLUSION

The MOL/OMV/Surgut case presents clear evidence of the complexity of the Central European energy market with regard to linked internal (market liberalisation) and external (energy supply security) factors. It also highlights how the self-interest of multiple actors within a geopolitical context helps to promote the securitization of energy and ensure that the Central European energy market operates in a permanent state of risk and insecurity. This is particularly evidenced by the need for Hungary’s MOL to shore up its defences in the face of an increased threat of merger and acquisition from larger companies aided by the demands of the EU to open national markets to competition by unbundling vertically integrated energy companies. The geopolitical game play that surrounds merger and acquisition in the energy market allows companies and states to promote tactics which will ensure their own security and potentially survival, but which at the same time have significant implications for other matters. For example, the Hungarian state was quick to develop protectionist legislation to help MOL, as a Hungarian national champion, maintain its independence while at the same time ensuring security for a strategic national commodity with immense political significance at the state level. The development of protectionist legislation, in this case ‘LexMOL’, is only one case in a long line of EU cases which highlights an increasing lack of solidarity between EU member states. This should not be surprising considering that solidarity only works if there is unanimous agreement, or at least adequate balance of interest. When it comes to energy, an adequate balance of interest among EU member states has been hard to find. Other methods utilised by MOL to defend itself from takeover highlighted in this article include the development of specific projects such as NETS and a move to expand and takeover other smaller companies in a bid to make itself larger and strengthen its own strategic business plans, such as the development of the strategic partnership with Croatia INA. Although these developments were seen as defensive by MOL they may well have been part of the reason for the further acquisition attempt on the company by Surgutneftegaz. This is because they create geopolitical threats to Russia by challenging its dominant position as the lead producer and supplier of energy to Europe. There is no clear evidence to suggest that these defensive moves on the part of MOL were the actual reason for the purchase of OMV’s MOL shares by Surgutneftegaz. However, from a geopolitical standpoint, the purchase does offer Russia considerable leverage to turn threats in the shape of an integrated gas transmission network in Central and Southeastern Europe and the development of an LNG terminal as an alternative source of gas into potentially positive opportunities which would strengthen Russia’s position within the Central and East European energy market. At the same time any move by Russia into EU markets is unlikely to be reciprocated with the full opening of the Russian energy market to European companies. The entry of Surgutneftegaz into the ownership structure of an EU company may actually encourage the Commission to reopen debate about the so-called ‘Gazprom Clause’ on reciprocity of market access. This is an issue which Russia is unlikely to look kindly upon and could lead to further cooling of EU-Russian relations. Therefore, what might have at first seemed to be nothing more than an internal market issue between two EU member states is clearly a much bigger issue with implications that go beyond economic interests of the respective companies and
effectively fuel the existence of an energy security dilemma operating on multiple levels.

NOTES


5 Debate about the likelihood of actual war or violent conflict over energy has increased in recent years. The Russian government has acknowledged that around its borders the use of military force cannot be excluded as a means to address competition for [energy] resources. For details refer to: ‘Strategy of National Security of the Russian Federation Until 2020’, section 2, part 12, (12 May 2009), see <http://www.scrf.gov.ru/documents/99.html> (accessed 10 Jan. 2010). It has also been suggested that the 2008 Russian-Georgian conflict did have a strong energy dimension considering the importance for Russia of Georgia as a transit energy route, see T. German, ‘Pipeline Politics: Georgia and Energy Security’ Small Wars and Insurgencies 20/2 (June 2009) pp. 344-362.


10 Rutland (note 1) p. 203.


14 Natroski and Surrallés (note 6) p. 72; A. Schmidt-Felzmann, ‘All for One? EU Member States and the Union’s Common Policy Towards the Russian Federation’, Journal of Contemporary European


18 The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia joined the EU on 1 May 2004; Bulgaria and Romania joined the EU on 1 Jan. 2007.


25 Heinrich (note 23) p. 11.


35 Wagstyl and Escritt (note 33).

36 Wien International (note 28).


Ibid.

Ibid.

Ibid.

Ibid.


Ibid.


Wagstyl and Escritt (note 33).


Ibid.


Grätz (note 8) p. 71.


MOL Group (note 61).

MOL Group, ‘Closure of the purchase of Tifon, a fuel retail and wholesale company in Croatia’, (31 Oct. 2007), see
The Geopolitics of Merger and Acquisition in the Central European Energy Market

70 EBR (note 27).
71 Escritt (note 69).
75 Ibid.
80 Ibid.
81 Ibid.


Varró (note 31) p.16.


See Adria LNG website for details <http://www.adria-lng.hr/> (accessed 8 Jan. 2010).


EurActiv (note 83).

Walker (note 2) p. 2.

Commission of the European Communities (note 46) p.7.


EurActiv (note 99).

Grätz (note 8) p. 77.

Christie (note 21) p. 288.