

**GEOECONOMICS**  
**OF POLAND'S ENERGY DIVERSIFICATION**

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## Abstract

Ever-closer economic relations between different countries have not eliminated their competitive behavior toward each other but rather shifted it from the military sphere toward the economy. In this regard geoeconomics as the concept distinctive from both geopolitics and neomercantilism is useful in conceptualizing different strategies of achieving political goals by the economic means. Nevertheless, the geoeconomic research predominantly concentrated on the agency of great or regional powers ignoring the activities of less influential countries. This paper examines the successful energy diversification of Poland as an example of an effective national geoeconomic strategy embedded in the strategic interests of more powerful players. The logic of historical explanation helps to understand that the main goals of Poland's national geoeconomic strategy were 1) fully refusing to import gas from Russia by building additional gas transporting infrastructure and 2) become a regional gas hub by selling the surpluses provided by that infrastructure to its neighbors. For its gas supply diversification, Poland successfully used the opportunities provided by securitization of EU energy policies, strengthening of sub-regional infrastructural cooperation in East-Central Europe, and assertive promotion of US energy export by Trump's administration. Nevertheless, strict regulations of the gas market due to the security reasons may undermine its potential for becoming a regional gas hub.

**KEYWORDS:** Geoeconomics, Poland, IPE of Energy, Energy Geopolitics, Interdependence Theory, Central Europe, LNG.

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# Introduction

Since the 1970s oil crisis, the problem of energy security has gained a lot of attention in policy agendas of different countries as well as in academic literature. The desire to guarantee the «availability of sufficient energy supply at affordable prices»<sup>1</sup> caused states to pursue a variety of different strategies to attain this goal including the building new infrastructure, forming new alliances, radically changing the structure of internal markets to attract more investments or even starting wars.

The case of Poland is special in this regard. In 2015 it was the first post-communist country which has built an liquid natural gas (LNG) import terminal on its territory which meant a new way of diminishing its dependence on Russian gas. This measure was supplemented by other infrastructural projects. On 15th of November 2019 PGNiG, Polish national energy corporation, officially proclaimed that Poland would not opt for extending the contract on the natural gas import from Russia which terminates at the end of 2022<sup>2</sup>. That means that the country which had had a long-term dependency on Russian gas import has succeeded in improving its energy independence by diversifying its supplies. From this reason this research would concentrate on explaining how Poland managed to diversify its natural gas import away from Russia.

The role of Poland in international energy affairs is in overall quite well-researched in academia. We can define here two broad thematic strands of literature. The first one deals more with internal developments of the Polish energy system without putting Polish developments in the wider picture. This literature is represented both with narrower analysis of different technical and economic aspects of LNG presence in Poland<sup>3</sup> as well as with looking simultaneously on development of both LNG

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<sup>1</sup> Yergin, Daniel. Ensuring Energy Security, *Foreign Affairs*, Vol. 85, Iss. 2 (March-April 2006), 69-82.

<sup>2</sup> PGNiG. Declaration of will to terminate Yamal Contract effective December 31, 2022, 15.11.2019, retrieved at: <http://en.pgnig.pl/news/-/news-list/id/declaration-of-will-to-terminate-yamal-contract-effective-december-31-2022/newsGroupId/1910852>

<sup>3</sup> Daborowski, Tomasz. Polish preparations to embrace global gas revolution: A reality check. In Liuhto, Kari (ed.) *Natural Gas Revolution and the Baltic Sea Region*. BSR Policy Briefing, 1/2015, pp. 88-97, retrieved at: [http://www.centrumbalticum.org/files/1910/BSR\\_policy\\_briefing\\_1\\_2015.pdf](http://www.centrumbalticum.org/files/1910/BSR_policy_briefing_1_2015.pdf)

Wojcieszak, Lukasz. Extension of LNG Terminal in Swinoujscie: Challenges and Benefits. *Modern Management Review*, Vol. XXIV, 26, Iss. 2 (April-June 2019), 87-94.

Chlopinska, Evelina; Gucma, Maciej. The impact of a liquefied natural gas terminal on the gas distribution and bunkering network in Poland, *Scientific Journals of the Maritime University of Szczecin*, Vol. 53, Iss. 125 (2018), 154-160.

infrastructure and conventional pipelines interconnectors<sup>4</sup>. Another group of literature pays more attention to the foreign policy dimension of Polish energy policies. However, the studies in this group are predominantly preoccupied with only some chosen aspects without looking at their interplay. The basic topics here include Polish gas relations with Russia and their conflictual nature<sup>5</sup>; the peculiarities of Poland's involvement in the agenda-setting of European energy policies<sup>6</sup>; regional cooperation in Central European Europe with the emphasis on the construction of new energy infrastructure<sup>7</sup>. Additionally to the two basic strands of literature, it is also worth to mention studies which do not refer to Poland directly but can help us to understand better the context in which it was operating. The special role here play the works on US economic and political activities in Europe<sup>8</sup> and transformations of Russian gas exporting strategy towards EU<sup>9</sup>.

The examination of Poland's energy diversification in the context of international relations needs an appropriate theoretical framework for its coherence. For that purpose such branch of research as geoeconomics is chosen for this role. Such decision could be justified with three basic reasons. First, this strand of the literature, which would be broadly discussed in the Chapter 1, represents conflictual

<sup>4</sup> Weiner Csaba. Diversifying away from Russian Gas: The Case of Poland. *Outlines of Global Transformations: Politics, Economics, Law*, Vol. 12, Iss. 2 (2019), 138-163.

<sup>5</sup> Orban, Anita. *Power, Energy, and the New Russian Imperialism*. Praeger Security International, 2008.

Szul, R. Geopolitics of Natural Gas Supply in Europe - Poland Between the EU and Russia. *European Spatial Research and Policy*, Vol. 18, Iss. 2 (2011), 47-67.

Brown, Heather. Post-Communist Poland and the European Union: Energy Policy and Relations with The Polish Review, Vol. 61, No. 3 (2016), 85-98

Posaner, Joshua. *Held Captive by Gas The Price of Politics in Gazprom's Long-Term Contracts with Central European Buyers (2009 to 2014)*. Springer International Publishing, 2020.

<sup>6</sup> Roth, Mathias. Poland as a Policy Entrepreneur in European External Energy Policy: Towards Greater Energy Solidarity vis-à-vis Russia?, *Geopolitics*, Vol. 16, Iss.3 (2011), 600-625.

Gawlikowska-Fyk, Aleksandra. Poland: Coping with the Challenges of Decarbonization and Diversification. In Godzimirski, Jakub M. (ed.) *New Political Economy of Energy in Europe: Power to Project, Power to Adapt*. Palgrave Macmillan, 2019, 195-214.

<sup>7</sup> Daborowski, Tomasz. Visegrad Gas Market Integration – Brief History and Reality Check. *International Issues & Slovak Foreign Policy Affairs*, Vol. 23, No. 3-4 (2014), 12-26.

Slobodian, Nataliya; Theisen, Nolan; Goda, Samuel; Karaskova, Michaela. *Single Gas Market and Gas Market and Energy Security in the Visegrad States: Models, Challenges and Perspectives*, Regional Centre for Energy Policy Research, 2016, retrieved at: [http://rekk.hu/downloads/projects/2016\\_visegrad\\_gas\\_market\\_energy\\_security\\_report.pdf](http://rekk.hu/downloads/projects/2016_visegrad_gas_market_energy_security_report.pdf)

Oravcova, Veronika; Misik, Matus. EU Funds and Limited Cooperation: Energy Infrastructure Development in the Visegrad Group. *International Issues & Slovak Foreign Policy Affairs*, Vol. 27, No. 3-4 (2018), 11-26.

Dyduch, Joanna; Skorek, Artur. Go South! Southern Dimension of the V4 States' Energy Policy Strategies – An Assessment of Viability and Prospects Energy Policy, Vol. 140 (May 2020), DOI: <https://doi.org/10.1016/j.enpol.2020.111372>

<sup>8</sup> Coote, Bud. *Surging Liquefied Natural Gas Trade: How US Exports Will Benefit European and Global Gas Supply Diversity, Competition, and Security*. Atlantic Council, 2016, retrieved at: <https://www.jstor.org/stable/resrep03638>

Cornot-Gandolphe, Sylvie. *The US Natural Gas Exports: New Rules on the European Gas Landscape*. Institut Francais des Relations Internationales, Ifri, Centre Energie, 2016, retrieved at: [https://www.ifri.org/sites/default/files/atoms/files/etude\\_cornot\\_gaz\\_naturel\\_en\\_europe\\_en\\_okdb\\_complet-reduit\\_ok.pdf](https://www.ifri.org/sites/default/files/atoms/files/etude_cornot_gaz_naturel_en_europe_en_okdb_complet-reduit_ok.pdf)

Leal-Arcas, Rafael. *Natural Gas, US Shale Dynamics and Energy Security: A View from the European Union*. In Raszewski, Slawomir (ed.) *The International Political Economy of Oil and Gas*. Palgrave MacMillan, 2018, 73-86.

<sup>9</sup> Kim, Younkyoo; Blank, Stephen. *US Shale Revolution and Russia: Shifting Geopolitics of Energy in Europe and Asia*. *Asia Europe Journal*, Vol. 13, Iss. 1 (March 2015), 95–112.

Mitrova, Tatiana. *The New Russian Gas Export Strategy After the Ukraine Crisis*. Hafner, Manfred; Tagliapietra, Simone (eds). *The European Gas Markets: Challenges and Opportunities*. Palgrave Macmillan, 2017, 195-226.

Mitrova, Tatiana; Boersma, Tim. *The Impact of US LNG on Russian Natural Gas Export Policy*. Columbia SIPA, Center on Global Energy Policy, 2018.

and cooperative tendencies in international political economy (IPE) not as dialectical opposites but rather as the manifestation of some unified more complex developments. Second, geoeconomics encompass some geographical sensitivity which makes it a good theoretical tool in the discussion about political competition between the different infrastructural projects with distinct geographical spatiality. Third, the geoeconomic perspective take into consideration also some notion of the interplay between state's internal policies and its posture in the international arena. It would play an important role in our study due to examination of correspondence of ambitious Polish goals of selling LNG surpluses abroad to the actual state of its gas market.

The perspective of geoeconomics is also present in some studies about international energy relations in Europe. To these texts belong studies about geoeconomics of EU gas security<sup>10</sup>; the geoeconomic implication of the US shale revolution<sup>11</sup>; the geoeconomic role of strategic investments in European energy infrastructure<sup>12</sup>, Russian geoeconomic strategy in the Baltic region<sup>13</sup>. Nevertheless, none of these contributions have considered Polish geoeconomic strategy in energy affairs as something analytically independent.

This perfectly illustrates that the limitations of usage of a geoeconomic perspective in academic research. The literature on this topic was predominantly preoccupied with the agency of great or regional powers leaving the narrower motivation of less powerful countries without attention. Nevertheless, the outcome of international energy relations in East-Central Europe could not be simply described as the great game between Russia, the US, and the EU as a coherent IR actor in making. Poland, despite clearly delimited its anti-Russian, pro-American, and EU-pragmatic position, still has a distinct interest that could not be fully equated with the motivation of any other actor.

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<sup>10</sup> Bilgin, Mert. Geo-Economics of European Gas Security: Trade, Geography and International Politics. *Insight Turkey*, Vol. 12, No. 4 (Fall 2010), 185-209.

<sup>11</sup> Rossbach, Niklas. Energy and the future of US primacy: the Geostrategic Consequences of the Shale Revolution *In* Aaltola, Mika; Scholvin, Sören; Wigell, Mikael (ed.) *Geo-economics and power politics in the 21st century the revival of economic statecraft*, Routledge, 2019, 114-127.

Blackwill, Robert; Harris, Jennifer. *The Geoeconomics of North America's Energy Revolution* *In* Blackwill, Robert; Harris, Jennifer. *War by Other Means: Geoeconomics and Statecraft*. Cambridge, London: Harvard University Press, 2016, 204-219.

<sup>12</sup> Collins, Gabriel; Mikulska, Anna. Gas Geoeconomics in Europe: Using Strategic Investments to Promote Market Liberalization, Counterbalance Russian Revanchism, and Enhance European Energy Security. James A. Baker III Institute for Public Policy of Rice University, Working Paper, 2018, retrieved at: <https://www.bakerinstitute.org/research/egas-geoeconomics-europe/>

<sup>13</sup> Lachininskiy, Stanislav. Russia's Energy Policy in the Baltic Region: a Geoeconomic Approach. *Baltic Region*, Vol.2 (2013), 12-21.

Therefore, in extended and theoretically refined manner, the research question could be formulated as follows: how Poland managed to wean itself off of gas import from Russia by putting its geoeconomic strategy in the context of broader geoeconomic interests and developments? In similar way, the basic contribution of this study would be in making a new synthesis of applying the geoeconomic thought to the interpretation of Poland's external energy policies and their broader implications for the Central European region.

The findings and basic arguments of this research are generated by the process of historical analysis. The historical explanations of this study are based on examination of the different types of sources. To them belong texts of the documents or official analytical materials presented by organizations or institutions; news from news outlets and specialized industry web-pages or official sites of the companies and infrastructural projects; statistical data present in special databases or official sites of relevant organizations or institutions; analytical reports of NGOs; arguments from academic literature.

The master thesis consists of three chapters. The first one is dedicated to the discussion of the key features of geoeconomic literature and its relevance to the topic of the study. The second chapter concentrates on the background conditions which enabled Poland's energy diversification in the context of two basic geoeconomic projects: Nordstream and North-South Gas Corridor. The third chapter presents the main Polish achievements in developing infrastructure and discusses its prospects for becoming a regional gas hub.



# Chapter 1. Theoretical framework

The theoretical framework of this research is based on the literature on geoeconomics. This chapter is organized as follows. Firstly we would present the general meaning of geoeconomics and then contrast it with similar terms, such as geopolitics and neomercantilism. At the end of the chapter, we would briefly explain the usage of presented theoretical tools for the examination of empirical material of this research.

## 1.1. The general notion of geoeconomics

Despite being often undertheorized, the geoeconomic strand of academic research provides a lot of valuable insights on the interrelation between politics and the economy in international relations. The main idea of the concept of geoeconomics is that ever-closer economic relations between different countries in the contemporary world do not exclude the possibility of conflicts between them as was predicted by the idealist IR theory but the competition has shifted from the military towards the economic sphere. As Edward Luttwak put in his seminal article: “*This neologism [geoeconomics] is the best term I can think of to describe the admixture of the logic of conflict with the methods of commerce - or, as Clausewitz would have written, the logic of war in the grammar of commerce*”<sup>14</sup>. Blackwill and Harris are more precise when they define geoeconomics as “*the use of economic instruments to promote and defend national interests and to produce beneficial geopolitical results; and the effects of other nations’ economic actions on a country’s geopolitical goals*”<sup>15</sup>.

The literature on geoeconomics uses the basic terms of liberal interdependence theory developed by Robert Keohane and Joseph Nye. Two main concepts of this theory about the effects of tight interrelations between national economies are sensitivity and vulnerability. Sensitivity means the speed in which the economic modification in one country may considerably affect another one and how costly these changes could potentially be. Vulnerability refers to the more long-term cost of finding alternative solutions for substituting particular economic partners and the ability to control the level of

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<sup>14</sup> Luttwak, Edward. From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce. The National Interest, Vol. 20, (Summer 1990), 19.

<sup>15</sup> Blackwill, Robert D.; Harris Jennifer M. War by Other Means: Geoeconomics and Statecraft. Cambridge, London: Harvard University Press, 2016, 20.

sensitivity to particular relations<sup>16</sup>. Keohane and Nye recognize that interdependencies often may have asymmetric nature which would give advantage to the actor with the lower cost of finding alternatives by the bargaining leverage over their partners<sup>17</sup>. That is why they are aware of the potentially conflictual dimension of economic interdependence<sup>18</sup>.

The securitization of interdependencies and viewing them as vulnerabilities is regarded as one of the most important of geoeconomic tendencies today<sup>19</sup>. The list of possible geoeconomic measures applicable for such securitization have evolved over time in scholarly interpretations. Luttwak defined five main geoeconomic tools: tariffs and quotas; regulatory restrictions to imports; discounted export financing; national technology programs; development of economic and technical intelligence<sup>20</sup>. In his view the main goal of geoeconomics is to achieve or preserve the state's leading role in strategic branches of industry with high added-value<sup>21</sup>.

On the other hand, later researches expanded the scope of geoeconomic measures. For example, Blackwill and Harris distinguish seven main instruments of defending geoeconomic interests: trade policy, investment policy, economic and financial sanctions, cybersecurity, aid, financial and monetary policy, energy and commodities<sup>22</sup>. Concerning energy which is the main concern of this study, they define three factors that contribute to the country's ability to improve its geopolitical positions via means of energy policy. They are: the monopoly power of sellers (OPEC), monopsony power of buyers (China) and which means and beneficial location of transit countries (Egypt)<sup>23</sup>. However, even longer lists of geoeconomic instruments cannot be exhaustive. Blackwill and Harris do not identify the construction of infrastructure as a separate category of tools for exerting geoeconomic

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<sup>16</sup> Keohane, Robert; Nye, Joseph. *Power and Interdependence*. Fourth Edition. Pearson, 2012, 10-11.

<sup>17</sup> Keohane, Robert; Nye, Joseph. *Power and Interdependence*. Fourth Edition. Pearson, 2012, 9.

<sup>18</sup> *Ibid*, 9.

<sup>19</sup> Fjäder, Christian O. *Interdependence as dependence: Economic security in the age of global Interconnectedness*. In Wigell, Mikael; Scholvin, Sören; Aaltola, Mika (ed.) *Geo-Economics and Power Politics in the 21st Century: The Revival of Economic Statecraft*. Abingdon, Oxon; New York, NY: Routledge, 2019, 30.

<sup>20</sup> Luttwak, Edvard, *The Theory and Practice of Geo-economics*. In *The International System after the Collapse of the East-West Order* edited by

Clesse, Armand; Cooper, Richard; Sakatomo, Yoshikazu, 227. Dordrecht: Martinus Nijhoff Publishers, 1994.

<sup>21</sup> *Ibid*, 227.

<sup>22</sup> Blackwill, Robert D.; Harris Jennifer M. *War by Other Means: Geoeconomics and Statecraft*. Cambridge, London: Harvard University Press, 2016, 49.

<sup>23</sup> *Ibid*, 90.

influence despite the geoeconomic relevance of this topic was stressed in other studies or analytical reports<sup>24</sup>.

The most problematic part of the notion of geoeconomics is that in many aspects it overlaps with elder concepts such as geopolitics and neomercantilism and therefore the lines between them are blurred. Therefore we would discuss similarities and differences for geoeconomics with geopolitics and neomercantilism to define the unique features of geoeconomic thinking and justify its usage as an independent analytical tool.

## 1.2. Geoeconomics vs geopolitics

The distinction between geopolitics and geoeconomics is somewhat blurred. It could perfectly be illustrated by research in the sphere of IPE of energy when studies with titles containing the words “geopolitics”<sup>25</sup> and “geoeconomics”<sup>26</sup> are often dedicated to the same problem and represent their finding in a similar fashion. It may possibly suggest that idea about the usage of these terms is more a matter of personal linguistic preferences rather than some serious theoretical choice between them.

However, in other studies which are focused more on the defining geoeconomics as such, the distinction is more properly elaborated. Originally Luttwak viewed geoeconomics as some new epoch in the evolution of international relations which would at least partially replace geopolitics<sup>27</sup>. A similar view on as we can find in the analytical materials of the World Economic Forum as well as in some other academic works<sup>28</sup>. Nevertheless, it has become obvious for the biggest part of the scholars that

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<sup>24</sup> Khanna, Parag. The Era of Infrastructure Alliances In Leonard, M. (ed.), *Connectivity Wars: Why Migration, Finance and Trade Are the Geo-economic Battlegrounds of the Future*. London: European Council on Foreign Relations, 2016, 103–108.

Collins, Gabriel; Mikulska, Anna. *Gas Geoeconomics in Europe: Using Strategic Investments to Promote Market Liberalization, Counterbalance Russian Revanchism, and Enhance European Energy Security*. James A. Baker III Institute for Public Policy of Rice University, Working Paper, 2018, retrieved at: <https://www.bakerinstitute.org/research/egas-geoeconomics-europe/>

<sup>25</sup> Ydreos, Mel et al. *Geopolitics and Natural Gas*. International Gas Union and Clingeldael International Energy Programme, 2012.

Fernandes Carla P., Rodrigues Teresa F. *Geopolitics of Energy and Energy Security*. Lisbon: Instituto de Defesa Nacional, 2017.

Högselius, Per. *Energy Geopolitics*. London and New York: Routledge, 2019.

<sup>26</sup> Bilgin, Mert. *Geo-Economics of European Gas Security: Trade, Geography and International Politics*. *Insight Turkey*, Vol. 12, No. 4 (Fall 2010), 185-209.

Lachininskiy, Stanislav. *Russia's Energy Policy in the Baltic Region: a Geoeconomic Approach*. *Baltic Region*, Vol.2 (2013), 12-21.

Collins, Gabriel; Mikulska, Anna. *Gas Geoeconomics in Europe: Using Strategic Investments to Promote Market Liberalization, Counterbalance Russian Revanchism, and Enhance European Energy Security*. James A. Baker III Institute for Public Policy of Rice University, Working Paper, 2018, retrieved at: <https://www.bakerinstitute.org/research/egas-geoeconomics-europe/>

Rosbach, Niklas. *Energy and the future of US primacy: the Geostrategic Consequences of the Shale Revolution* In Aaltola, Mika; Scholvin, Sören; Wigell, Mikael (ed.) *Geo-economics and power politics in the 21st century the revival of economic statecraft*, Routledge, 2019, 114-127.

<sup>27</sup> Luttwak, Edward. *From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce*. *The National Interest*, Vol. 20, (Summer 1990), 17-23.

<sup>28</sup> Roberts, Anthea; Moraes, Henrique Choer; Ferguson, Victor. *Toward a Geoeconomic Order in International Trade and Investment*. *Journal of International Economic Law*, Vol. 22, Iss. 4 (December 2019), 655–676.

geopolitics and geoeconomics may coexist. Wigell and Vihma try to sum up the distinction between the two terms and present them in a coherent theoretical framework which we would briefly present here<sup>29</sup>. They view both geopolitics and geoeconomics as logical types of some broader term which they name geostrategy. Also in parallel, they frame this distinction categorically as two types of power projection. The researchers contrast them by their basic operational features (means, visibility and logic) and their effects (threat perception, action-reaction force and behavioral tendency).

First, geopolitical power projection is characterized by overt usage of military means with the logic of confrontation. Traditional hard power considerations, security dilemmas, and arms races are fitting well into this category. On the other hand, geoeconomics as geostrategy precludes covert application of economic means with the goal of selective accommodation. Its visibility is covert which means that particular economic actions could be more concealed or presented in a manner where their status as coherent strategic behavior for attaining some goal is not so obvious. The main aim of geoeconomic power projection is not to confront directly another state but to weaken its internal unity and strategic support from other states. The main tool for achieving this is viewed in the wide deployment of selective accommodation which means the creation of particular preferences for the particular type of agents in order to prevent them from supporting other agents in the future. This logic also could easily be deployed toward states' diplomatic relations as well as toward societal consensus inside the country about views on a particular nation as a threat.

Second, Wigell and Vihma also differentiate geopolitical and geoeconomic geostrategies by the reaction of other political actors which they cause as the result of pursuing their measures. In the case of deploying geopolitical power projection to a particular country, its society naturally tries to unite against a visible substantial threat. In a similar way, by extending this on the international arena, a group of states with similar threat perceptions may be more willing to engage together in counterbalancing behavior against potential aggressors. However, that would be most probable when the distribution of power between the threatening state and these countries is favorable for their effective pursuing of this

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<sup>29</sup> Wigell, Mikael; Vihma, Antto. Geopolitics versus geoeconomics: the Case of Russia's Geostrategy and Its Effects on the EU. *International Affairs*, Vol. 92, Iss. 3 (May 2016), 605-627.

strategy. In other situations when the menace still overwhelms them even in case of forming an alliance, these states may be willing to cooperate and deploy bandwagoning strategy.

Contrary to this, the threat perception is more differentiated between different states or sectors of the economy inside a particular country due to the beneficiaries and losers of particular economic interconnections. Such centrifugal tendencies would produce unsuccessful efforts for deploying effective counterbalancing behavior which may eventually lead to buck-passing.

The results of the analysis are summed up in the Table 1.

**Table 1. Difference between geopolitics and geoeconomics<sup>30</sup>**

<b>Types of criteria</b>	<b>Criteria</b>	<b>Geopolitics</b>	<b>Geoeconomics</b>
<b>Operational (agent)</b>	Means	military	economic
	Visibility	overt	covert
	Logic	confrontation	selective accomodation
<b>Effects (target)</b>	Threat perception	high	low/medium
	Action-reaction force	centripetal	centrifugal
	Behaviourial tendency	counterbalancing/ bandwagoning	underbalancing

### 1.3. Geoeconomics and neomercantilism

The second problem which needs to be solved is to differentiate geoeconomics from some type of mercantilist thought. Luttwak was aware that the term he coined has a lot in common with mercantilism. Nevertheless, he distinguished two concepts purely in a historical way. In his opinion, the main goal of mercantilism was to maximize the amount of gold held by a particular country but the main value of gold was in its usage as means of financing costly wars. Therefore, Luttwak concluded, mercantilism, despite having some economic element, was predominantly political phenomenon. On the other hand, geoeconomics deals foremost with the economic aspect of international relations and its goal is not the maximization of the amount of gold per se but rather maximization of employment level in the country and enhancing national economic weight by developing high-skilled industries<sup>31</sup>.

<sup>30</sup> Wigell, Mikael; Vihma, Antto. Geopolitics versus geoeconomics: the Case of Russia's Geostrategy and Its Effects on the EU. *International Affairs*, Vol. 92, Iss. 3 (May 2016), 609.

<sup>31</sup> Luttwak, Edvard, *The Theory and Practice fo Geo-economics*. In *The International System after the Collapse of the East-West Order* edited by Clesse, Armand; Cooper, Richard; Sakatomo, Yoshikazu, 227. Dordrecht: Martinus Nijhoff Publishers, 1994.

Nevertheless, from the perspective of this study historical explanation remains insufficient because the term mercantilist is applied also in regard to contemporary developments many years after the end of the gold standard era (therefore we would use further the term “neomercantilism”). Also, as showed Jacob Viner in his classic essay, the economic consideration played in traditional mercantilist more important role which cannot be easily described as being purely determined by politics<sup>32</sup>. So Luttwak’s interpretation of distinction of geoeconomics and mercantilism as more economically and more politically/militarily determined is also implausible. We may conclude that in Luttwak’s original claim geoeconomics could hardly be separated from mercantilism and seems as excessive label for already existing phenomena.

Nevertheless, the further developments of empirical and theoretical geoeconomic research still illustrate the usefulness of applying this perspective as analytically independent. To begin with, from the verbalization of the basic definition of geoeconomics (usage of economic means for political ends) logically follows that it is an intentional concept. That means that fact whether particular measures belong to the scope of geoeconomics should not be defined by their correspondence with some inductively generated exclusive list of “all geoeconomic measures”. Instead of that, policies should be labeled as geoeconomic only concerning their purpose for which may serve often completely contradictory tools. Therefore, potential answer about the correspondence of geoeconomics and neomercantilism may be found in the claim that, despite many similarities between the term, geoeconomics is the concept with a broader scope which actually can include neomercantilism. Namely, neomercantilism along with neoliberalism could be conceptualized as types of geoeconomic strategies. Returning to the basic definition of geoeconomics as the deployment of economic means for strategic purposes, we may argue that protectionism and infant industry protection as well as pushing for free trade areas both could strengthen the state’s geoeconomic position.

This can be illustrated by the example of the report prepared by the analysts from the US Baker Institute for Public Policy. Its main purpose is in making policy proposals for attracting private US investments in the infrastructural development of Central Europe. One of the main means for

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<sup>32</sup> Viner, Jacob. Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries. *World Politics*, Vol. 1, No. 1 (Oct., 1948), 1-29.

achieving this goal is considering the further liberalizing of CEE markets to make private investments economically reasonable<sup>33</sup>. In this case, we see the policy proposals which are in their factual essence market-oriented but are serving to geoeconomic goals of limiting Russian influence<sup>34</sup>.

In a similar fashion but more academically oriented, Mikael Wigell made the comparison of geoeconomic behavior of different countries and defined different strategies that may be closer to neorealism as well as to idealism. In the focus of his attention, he put regional powers and basing on their cases identified four basic strategies: neomercantilism (Brazil), neo-imperialism (Russia), liberal institutionalism (Germany), and hegemony (EU)<sup>35</sup>. This typology demonstrates that the notion of geoeconomics potentially can be expanded and encompass a wider range of possible strategies which may be more or less strategically cooperative as well as have bigger or lesser willingness to sacrifice economic gains for political benefits.

#### **1.4. Insights for the research**

This study applies three basic insights from the literature on geoeconomics.

First, Nye and Keohane's distinction between the sensitivity and vulnerability helps to understand the dynamic of relations between Poland and Russia and why these two countries instead of cooperation in energy sphere turned to the support of competitive geoeconomical projects – Nord Stream and North-South Gas Corridor.

Second, the overall scheme of comparing geopolitics and geoeconomics as two basic types of geostrategies presented by Vihma and Wigell is beneficial in conceptualizing and comparing the geoeconomic effects of mentioned infrastructural projects.

Third, Poland uses also some “traditional” neomercantilist geoeconomic instruments described by Luttwak such as import restrictions for Russian gas. It is employed as supportive measure for granting the market share for natural gas from priority destinations to diversify supplies. Nevertheless, it comes in contradiction with need to have a liberalized natural gas market as important precondition

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<sup>33</sup> Collins, Gabriel; Mikulska, Anna. Gas Geoeconomics in Europe: Using Strategic Investments to Promote Market Liberalization, Counterbalance Russian Revanchism, and Enhance European Energy Security. James A. Baker III Institute for Public Policy of Rice University, Working Paper, 2018, 6, retrieved at: <https://www.bakerinstitute.org/research/egas-geoeconomics-europe/>

<sup>34</sup> Ibid, 6.

<sup>35</sup> Wigell, M. Conceptualizing Regional Powers' Geoeconomic Strategies: Neo-imperialism, Neo-mercantilism, Hegemony, and Liberal Institutionalism. *Asia Europe Journal: Studies on Common Policy Challenges*, Vol. 14 (2016), 135–151.

for becoming a regional gas hub. The latter was proclaimed the second basic goal of developments in Polish energy sector after the refusal from Russian gas. In this regard the view on geoeconomics as something broader and encompassing both neomercantilism and neoliberalism appears useful. It provides better understanding of the discrepancies between security and market considerations which both may be used for attaining the same geoeconomic goal but in longer run could partially undermine each other.



# Chapter 2. Competing geoeconomic projects: Nordstream and North-South corridor

This chapter concentrates on structural features that created motivation for Poland to diversify its gas import.

## 2.1. Russian challenge: from Yamal contract to Nordstream

The basic factor which contributed to Poland's determination to diversify its gas import was problematic relations with Russia.

To begin with, traditionally Poland has relied heavily on coal for the functioning of its economy and has imported the gas for its need only via small pipelines from Ukraine. The basic gas pipeline between the countries is Yamal-Europe which provides annual transporting capacity of 32.9 bcm and was built in 1994-2006<sup>36</sup>. In 1997 a contract was signed which precluded gas supplies to Poland for 25 years. Later it was called “the contract of the century”. Under its condition Poland should import annually 10 bcm<sup>37</sup> of natural gas 85% of which is transported under the so-called “take or pay” provision which obliged Poland to buy the transported gas regardless of its current needs which guaranteed the profit for the supplier<sup>38</sup>. Revision of the contract in 2010 with the involvement of the European Commission has not changed the situation radically<sup>39</sup>. In 2015 PGNiG started a lawsuit against Gazprom in Stockholm arbitration accusing Russia of setting economically unreasonably high prices. At the end of March 2020, the Polish state-owned company finally won the dispute by obtaining an arbitration decision that obliges Gazprom to pay 1.5 bn euro in damages<sup>40</sup>.

The situation with Gazprom's activities on Central European markets attracted the attention of EU authorities. DG COMP started its proceedings against Gazprom in 2012 and issued a Statement of

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<sup>36</sup> Szul, R. Geopolitics of Natural Gas Supply in Europe - Poland Between the EU and Russia. *European Spatial Research and Policy*, Vol. 18, Iss. 2 (2011), 57.

<sup>37</sup> Chlopinska Ewelina; Gućma, Maciej. The impact of a liquefied natural gas terminal on the gas distribution and bunkering network in Poland, *Scientific Journals of the Maritime University of Szczecin*, Vol. 53, Iss. 125 (2018), 155.

<sup>38</sup> Brown, Heather. Post-Communist Poland and the European Union: Energy Policy and Relations with The Polish Review, Vol. 61, No. 3 (2016), 90.

<sup>39</sup> Gira, Vytautas S. The Polish-Russian Deal on Natural Gas Supply: The Incapacity of the EU Energy Policy, *Eastern Pulse: Analytical Newsletter*, Vol 6, Iss. 34 (2010), retrieved at: [http://www.eesc.lt/uploads/news/id360/Eastern%20Pulse%206%20\(34\).pdf](http://www.eesc.lt/uploads/news/id360/Eastern%20Pulse%206%20(34).pdf)

<sup>40</sup> PGNiG. Victory for PGNiG: the Arbitral Tribunal in Stockholm rules to lower the price of the gas sold by Gazprom to PGNiG, 30.03.2020, retrieved at: <http://en.pgnig.pl/news/-/news-list/id/victory-for-pgnig-the-arbitral-tribunal-in-stockholm-rules-to-lower-the-price-of-the-gas-sold-by-gazprom-to-pgnig/newsGroupId/1910852?changeYear=2020&currentPage=2>

Objections in 2015. Russian exporter was accused of imposing territorial restriction for reselling gas, unfair pricing policy and usage of gas supplies as an argument for expanding its own control over the Yamal-Europe pipeline<sup>41</sup>. In May 2018 Commission issued the decision which imposed a lot of binding obligations on Russian gas exporter. Nevertheless, this Commission decision has not imposed any fee on the Russian company<sup>42</sup>.

**Map 1. Main gas pipelines in Eastern and Central Europe<sup>43</sup>**



After the brief gas supply interruption in 2004, the oil crisis with Belarus in 2006 and lack of progress in expanding Yamal-Europe pipeline (Yamal II), the route to Poland got problematic for Russia. Gazprom started the project of Nord Stream Pipeline which, laying on the bottom of the Baltic sea, was aimed at connecting the Russian gas transport system with the German market (Map 1). Therefore it was aiming to transform Russian dependence on Polish route in supplies to Germany from vulnerability (absence of alternatives) toward sensitivity (ability to choose the route). The building of the first two lines of the Nordstream with an overall annual capacity of 55 bcm was completed in 2010-2012. In 2015 Gazprom issued a decision about the construction of pipeline Nord Stream II that

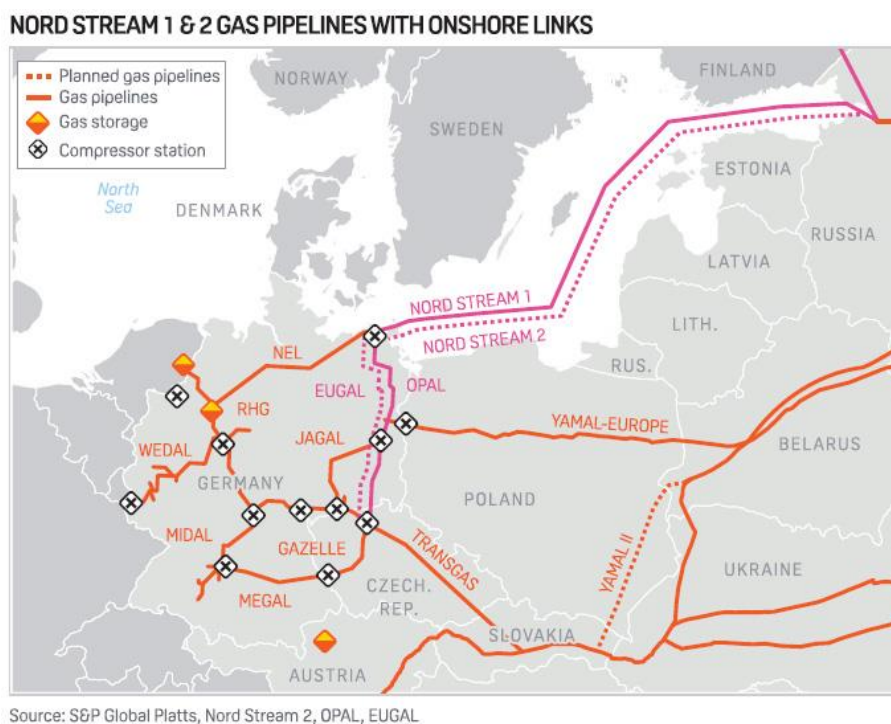
<sup>41</sup> Stern, Jonathan; Yafimava, Katja. The EU Competition investigation of Gazprom’s sales in central and eastern Europe: a detailed analysis of the commitments and the way forward, Oxford Institute of Energy Studies, OEIS Paper: NG 121, (July 2017), 2-3, DOI: <https://doi.org/10.26889/9781784670870>

<sup>42</sup> European Commission. Antitrust: Commission imposes binding obligations on Gazprom to enable free flow of gas at competitive prices in Central and Eastern European gas markets, 24.05.2018, retrieved at: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_18\\_3921](https://ec.europa.eu/commission/presscorner/detail/en/IP_18_3921)

<sup>43</sup> Loskot-Strachota, Agata. The case against Nord Stream 2, EnergyPost, 23.11.2015, retrieved at: <https://energypost.eu/case-nord-stream-2/>

should double the project's capacity up to 110 bcm per year. That move would allow Moscow to weaken further its dependence on transit countries, including Ukraine. Nord Stream project is supported by two onshore pipelines that span from the German shore of the Baltic sea toward the German-Czech border allowing to transport Russia gas further for Central European markets (Map 2). The first of them, OPAL with an annual capacity of 36 bcm, was built in 2010-2011. Second, EUGAL with a capacity of 55 bcm has been built since mid-2018 and is expected to be completed till the end of 2020.

**Map 2. Nord Stream project and supplementary pipelines<sup>44</sup>**



The German position on this issue have stressed that it is a purely economic project without any political implications<sup>45</sup>. This argument was backed by absence of state funding for the projects when Gazprom partners were private companies<sup>46</sup>. The interest of Germany in the project is clear: Germany would not only strengthen its energy security by direct supplies from Russia but could potentially become the gas hub able to export to neighboring countries. This situation is the perfect illustration of low threat perception effect of geoeconomic measures when selective benefits provided

<sup>44</sup> OilPrice. Oil&Gas Insider: Distinctive Intelligence, 24.04.2019, retrieved at: <https://oilprice.com/reports/view/Oil-Gas-Insider-24042019/vU5HdmKVLb>

<sup>45</sup> Gustafson, Thane. *The Bridge: Natural Gas in a Redivided Europe*, Cambridge and London: Harvard University Press, 2020, 380.

<sup>46</sup> Nord Stream. Who We Are, retrieved at: <https://www.nord-stream.com/about-us/>

buy them cause formation of contradicting interests between potential allies which prevents elaboration of their common position.

The Polish reaction to the discussed pipeline was very negative. The geoeconomic nature of the project was obvious. The increase of infrastructural capacities bypassing Poland would only strengthen Gazprom's bargaining positions in gas relations with Poland by giving Russians the ability to cut supplies via Yamal-Europe route without bringing considerable harm to Western Europe. Therefore it could weaken the possible international support for Poland as well as other transit countries in the situation of energy conflicts. From that reason, the weakening of Russia's dependence on its traditional transit routes in the same way increased the level of Poland's vulnerability toward gas import predominantly from one source. At that time Polish Minister of Defense called this project new a Molotov-Ribbentrop Pact reminding on splitting the Polish Republic between the Soviet Union and Nazi Germany at the beginning of Second World War<sup>47</sup>.

Critical stances of Polish officials towards Nord Stream projects were supported by their actions. First, the Polish government rejects any proposals for the construction of a connection between OPAL pipeline and Szczecin which would create the possibility for Germany to export Russian gas from Nord Stream to Poland.

Second, Poland together with three Baltic states proposed an alternative project called Amber which should reach Germany not by sea bottom but thorough the territory of Baltic states and northern Poland. They claimed that this variant would be more ecologically-friendly as well as bypass Belarus minimizing the possible negative impact of tensions between the two countries on the gas supply<sup>48</sup>. The EU Commission even provided EU financing for the project's feasibility study but, despite these preliminary activities, the proposal failed.

Third, in December 2016 PGNIG started a lawsuit about the decision of European Commission about the exemption for Gazprom for increasing its share in OPAL's capacities from 50%

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<sup>47</sup> Brown, Heather. Post-Communist Poland and the European Union: Energy Policy and Relations with The Polish Review, Vol. 61, No. 3 (2016), 92.

<sup>48</sup> Szul, R. Geopolitics of Natural Gas Supply in Europe - Poland Between the EU and Russia. European Spatial Research and Policy, Vol. 18, Iss. 2 (2011), 61; Heinrich, Andreas. Securitisation in the Gas Sector: Energy Security Debates Concerning the Example of the Nord Stream Pipeline In Szulecki, Kacper (ed.) Energy Security in Europe: Divergent Perception and Policy Challenges, Palgrave Macmillan, 2018, 67.

to 80%. That move enabled the possibility to transport additionally more than 9 bcm via this route at the expense of Ukrainian and Belarus transits. In September 2019 Court of Justice of EU annulled the decision about enlarging Gazprom's share in OPAL's capacities due to the breaking of the principle of energy solidarity from the Lisbon Treaty by having not examined the role of this decision for the energy security of Poland<sup>49</sup>. In December 2019 Germany appealed against this ruling<sup>50</sup>. However, the whole project of Nord Stream is in trouble after the US imposed the sanctions against it in December 2019<sup>51</sup> and insisted about expanding them in May 2020<sup>52</sup>.

## 2.2. North-South Gas corridor – between EU, Trinarium and US

The infrastructure built during the Cold War period reflected the strategic interests of USSR and connected spaces in east-west direction but with few interconnections with each other. Nevertheless, energy considerations played a weak role in regional policy platforms like Visegrad 4 (V4) (Czech Republic, Hungary, Poland, Slovakia). The 2009 gas crisis facilitated cooperation and led to the strengthening of V4 energy agenda. In June 2009 “V4 energy infrastructure group” was established which later changed its name to High Level group for Energy Security. Its basic task was defining the priority projects for improving the interconnections between V4 countries<sup>53</sup>. On V4 summit in Budapest in February 2010 with involvement of representative of seven countries outside the group a declaration was signed which proclaimed the need to build regional infrastructure in the north-south axis and at first included specific lists of projects<sup>54</sup>. Member states intended to connect Baltic Sea with Adriatic and Aegean Seas and included a lot of proposals of potential interconnections and liquid natural gas (LNG) terminals. These proposals could be considered as the birth of the idea of North-South Gas Corridor (NSGC) (Map 3). At that time this NSGC vision was supported in Brussels where Commission set up High Level Group for North South Interconnections which later contributed to the

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<sup>49</sup> General Court of the European Union. Press Release # 107/19, 10.09.2019, retrieved at: <https://curia.europa.eu/jcms/upload/docs/application/pdf/2019-09/cp190107en.pdf>

<sup>50</sup> Reed Smith Client Alerts. The OPAL Pipeline Court Ruling and Germany's Legal Challenge, 18.02.2020, retrieved at: <https://www.reedsmith.com/en/perspectives/2020/02/the-opal-pipeline-court-ruling-and-germanys-legal-challenge>

<sup>51</sup> Nord Stream 2: Trump approves sanctions on Russia gas pipeline, 21.12.2019, retrieved at: <https://www.bbc.com/news/world-europe-50875935>

<sup>52</sup> Flatley, Daniel. Senators to Back Expanding Nord Stream 2 Sanctions to Insurers, 3.06.2020, retrieved at: <https://www.bnnbloomberg.ca/senators-to-back-expanding-nord-stream-2-sanctions-to-insurers-1.1445089>

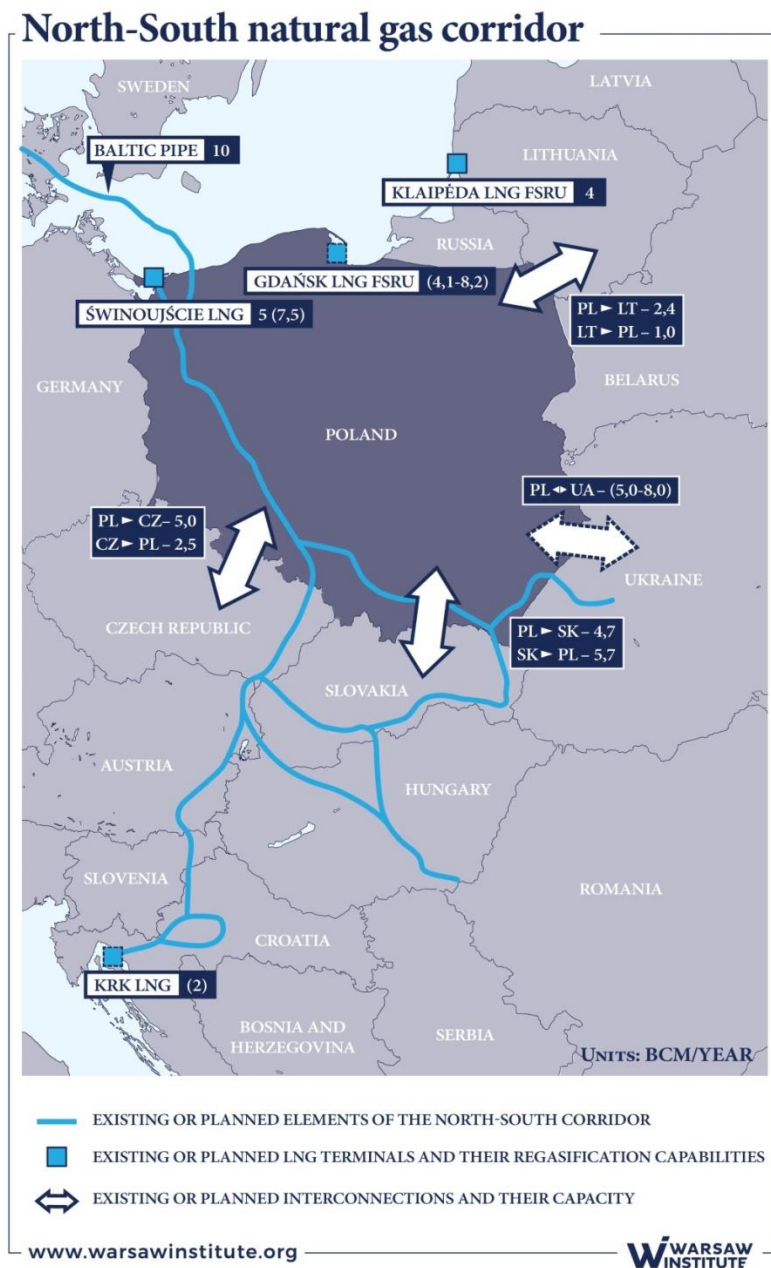
<sup>53</sup> Daborowski, Tomasz. Visegrad Gas Market Integration – Brief History and Reality Check. *International Issues & Slovak Foreign Policy Affairs*, Vol. 23, No. 3-4 (2014), 15.

<sup>54</sup> *Ibid*, 15-16.



making of list of potential infrastructural arrangements<sup>55</sup>. The main idea was to use LNG as an alternative to Russian gas by building import terminals and connect them with national pipeline systems allowing export even in those countries which do not have connections with the sea.

**Map 3. North-South Gas Corridor<sup>56</sup>**



At the same time the infrastructural development was considered as the priority for the further development of EU gas markets with special supranational institutional arrangements created to facilitate this process. In 2011 10-year plan Trans-European Network for Energy (TEN-E) was

<sup>55</sup> Ibid, 17.

<sup>56</sup> Zaniewicz, Maciej. New Gas Pipeline Geopolitics in Central and Eastern Europe, Warsaw Institute, 21.12.2019, retrieved at: <https://warsawinstitute.org/new-gas-pipeline-geopolitics-in-central-and-eastern-europe/>

adopted which defined the vision for the development of infrastructure for the next decade<sup>57</sup>. For the definition of short-time priorities in its implementation Commission publishes since 2013 the list of Projects of Common Interests (PCI). They include the most important infrastructural objects which could improve the functioning of European markets and therefore are able to obtain EU financing for their development. The list is renewed every two years. Commission has already adopted four such lists – in 2013, 2015, 2017<sup>58</sup> and 2019<sup>59</sup>. The preliminary variants for the final list of projects are selected by high-level groups which are the forums for meeting of energy ministers of neighboring countries. There are four such high level groups: Baltic Energy market interconnection plan (BEMIP), Central and South-Eastern Europe energy connectivity (CESEC), North Seas Energy Cooperation (NSEC) and South-West Europe<sup>60</sup>. EU funding usually only provides additional sources of financing (public or private) and normally accounts for 30-50% of overall projects' budget. The main sources of funding are Connecting Europe Facility, European Regional Development Fund, and the European Energy Recovery Programme. Regarding East-Central Europe and Balkan Peninsula, EU has spent nearly 2.5 bln in 2014-2020 for different construction stages of pipelines, LNG terminals and other related infrastructure<sup>61</sup>. The three key elements of NSGC were LNG terminals which were later constructed with the help of EU funding. They are: LNG terminal in Polish Swinoujscie operational since the middle of 2016, floating storage regasification unit (FSRU) in Lithuanian Klaipeda, working since 2014, and Croatian LNG terminal on Krk Island expected to be fully completed until the beginning of 2021.

LNG export to Europe do not only allow to weaken Russian energy leverage over the largest part of the region but makes also economic sense for importers and exporters which can explain its expansion. EU is after Japan the second-largest importer of LNG in the world<sup>62</sup>. In 2019 EU imported

<sup>57</sup> European Commission. Trans-European Networks for Energy - [https://ec.europa.eu/energy/topics/infrastructure/trans-european-networks-energy\\_en](https://ec.europa.eu/energy/topics/infrastructure/trans-european-networks-energy_en)

<sup>58</sup> European Commission. Key Cross Border Infrastructure Projects - [https://ec.europa.eu/energy/topics/infrastructure/projects-common-interest/key-cross-border-infrastructure-projects\\_en](https://ec.europa.eu/energy/topics/infrastructure/projects-common-interest/key-cross-border-infrastructure-projects_en)

<sup>59</sup> Press Corner of European Commission. Commission publishes 4th list of Projects of Common Interest – making energy infrastructure fit for the energy union, 31.10.2019 - [https://ec.europa.eu/info/news/commission-publishes-4th-list-projects-common-interest-making-energy-infrastructure-fit-energy-union-2019-oct-31\\_en](https://ec.europa.eu/info/news/commission-publishes-4th-list-projects-common-interest-making-energy-infrastructure-fit-energy-union-2019-oct-31_en)

<sup>60</sup> European Commission. High Level Groups - [https://ec.europa.eu/energy/topics/infrastructure/high-level-groups\\_en](https://ec.europa.eu/energy/topics/infrastructure/high-level-groups_en)

<sup>61</sup> Virag, Fanni. The Three Seas Initiative: The way forward, Atlantic Council, 7.02.2018, retrieved at: <https://www.atlanticcouncil.org/blogs/energysource/the-three-seas-initiative-the-way-forward/>

<sup>62</sup> Directorate General for Energy of European Commission, Market Observatory for Energy. Quarterly Report on European Gas Markets, Vol. 9, Iss. 4, fourth quarter of 2016, 11 retrieved at: [https://ec.europa.eu/energy/sites/ener/files/documents/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q4\\_2016.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q4_2016.pdf)

108 billion cubic meters, a 75% increase of the previous year (on 48 bcm)<sup>63</sup>. The possibility for future growth still exists - EU's overall import capacity was 150 bcm with plans to add 15 bcm to 2021 (European Commission 2018). Converging of European prices with East Asian create more willingness for exporters to fight for the share on this market. After the Fukushima disaster in Japan in 2011 and temporary stop in functioning of country's nuclear industry, Japan's demand for gas increased rapidly and pushed up the price of LNG. This made East Asia the most lucrative market for the exporters<sup>64</sup> leaving Europe in the role of market of last resort<sup>65</sup>. Nevertheless, since 2015 Japan steadily began to relaunch its nuclear facilities which contributed to the fall of country's demand and, consequently, to the price convergence<sup>66</sup>.

In addition to demand increase and price convergence with Asia, another basic factor which changed the situation on European LNG markets was the shale gas revolution in the USA. The invention of the new technology of hydraulic fracturing allowed the US to expand its gas and oil production and provide also larger amounts of gas for sale on the world markets<sup>67</sup>. After lifting the ban on crude oil export in 2015<sup>68</sup>, US made a substantial move to increase its oil and gas export. It influenced European market also in an indirect way in cases some US deliveries won the competition for Asian markets and created incentive for Qatar to redirect some of its cargos to Europe (Kim and Blank 2015, P.95). US share in European LNG import is growing very fast – from 0.6% in 2016<sup>69</sup> to 16% in 2019<sup>70</sup>. During their meeting in July 2018, the President of European Commission Jean-Claude Juncker made the public promise to US President Donald Trump to build new LNG terminals which

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<sup>63</sup> Directorate General for Energy of European Commission, Market Observatory for Energy. Quarterly Report on European Gas Markets with focus on the impact of global LNG markets on EU gas imports, Vol. 12, Iss. 4, fourth quarter of 2019, 17, retrieved at: [https://ec.europa.eu/energy/sites/ener/files/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q4\\_2019\\_final.pdf](https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q4_2019_final.pdf)

<sup>64</sup> Corbeau, Anne-Sophie. Global LNG Market Outlook and Repercussions for Europe. In Hafner, Manfred; Tagliapietra, Simone (eds). The European Gas Markets: Challenges and Opportunities. Palgrave Macmillan, 2017, 152.

<sup>65</sup> Ibid, 147.

<sup>66</sup> Ibid, 151-152.

<sup>67</sup> Leal-Arcas, Rafael. Natural Gas, US Shale Dynamics and Energy Security: A View from the European Union. In Raszewski, Slawomir (ed.) The International Political Economy of Oil and Gas. Palgrave MacMillan, 2018, 75.

<sup>68</sup> BBC. US spending bill lifts 40-year ban on crude oil exports, 18.12.2015, retrieved at: <https://www.bbc.com/news/business-35136831>

<sup>69</sup> Directorate General for Energy of European Commission, Market Observatory for Energy. Quarterly Report on European Gas Markets, Vol. 9, Iss. 4, fourth quarter of 2016, 12, retrieved at: [https://ec.europa.eu/energy/sites/ener/files/documents/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q4\\_2016.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q4_2016.pdf)

<sup>70</sup> Directorate General for Energy of European Commission, Market Observatory for Energy. Quarterly Report on European Gas Markets with focus on the impact of global LNG markets on EU gas imports, Vol. 12, Iss. 4, fourth quarter of 2019, 18, retrieved at: [https://ec.europa.eu/energy/sites/ener/files/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q4\\_2019\\_final.pdf](https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q4_2019_final.pdf)



would increase the European capacity to absorb more LNG import<sup>71</sup>. However, it was more indication an intent due to the lack of formal powers.

All tendencies described above – acceleration of regional cooperation in Central Europe, EU efforts to find the common ground with US and active US involvement have found its manifestation in another project of regional cooperation – Three Seas Initiative (3SI) or Trimarium. It includes twelve EU countries from East-Central Europe located between Adriatic, Black and Baltic Seas<sup>72</sup>. Its establishment was proclaimed in 2015 on the meeting of Polish President Andrzej Duda and Croatian President Kolinda Grabar-Kitarovic. Trimarium was envisioned like the project of finding additional funding for infrastructural programs and coordinating their implementation. 3SI presidential summits are held once a year and were already hosted by Croatia, Poland, Romania and Slovenia<sup>73</sup>. In 2018 in Romania the list of 48 priority infrastructure projects was agreed. Later, in May 2019 Investment Fund of the Three Seas Initiative was officially created. Its planned operational scope of financing is 5 billion euro<sup>74</sup>.

Brussels and Berlin were very suspicious of the initiative and ignored the first two 3SI summits. Trimarium was interpreted by many commentators as pro-American<sup>75</sup> and anti-German alliance<sup>76</sup>. Also, due to the conflicting relations of Poland with Brussels after the win of Law and Justice party on 2015 were fears that Poland is building alternative to the EU block (Trimarium was sometimes confused with Intermarium – Polish interwar geopolitical concept but they have different purposes and are basically different in its meaning<sup>77</sup>). On the other side, US used the opportunity to take a role in the development for the initiative to use its as platform for lobbying for LNG deliveries. In 2017 US President Donald Trump in the framework of his trip to Poland visited Warsaw 3SI summit where he

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<sup>71</sup> Press Corner of European Commission. EU-U.S. Joint Statement of 25 July: European Union imports of U.S. Liquefied Natural Gas (LNG) are on the rise, 9.08.2018 - [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_18\\_4920](https://ec.europa.eu/commission/presscorner/detail/en/IP_18_4920)

<sup>72</sup> They are: Austria, Bulgaria, Estonia, Croatia, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia, the Czech Republic and Hungary.

<sup>73</sup> Republic of Estonia, Ministry of Foreign Affairs. Three Seas Initiative (3S), retrieved at: <https://vm.ee/en/three-seas-initiative-3si>

<sup>74</sup> CEEP. Three Seas Initiative Investment Fund established, 29.08.2019, retrieved at: <https://www.ceep.be/three-seas-initiative-investment-fund-established/>

<sup>75</sup> Gotev, Georgi; Brzozowski, Alexandra. The Brief – Three Seas, Two Leaders, Euractiv, 17.09.2018, retrieved at: <https://www.euractiv.com/section/politics/news/the-brief-three-seas-two-leaders/>

Stolton, Samuel. Juncker: We are not “under the rule” of English, Euractiv, 18.09.2018, retrieved at: <https://www.euractiv.com/section/english-language/news/juncker-we-are-not-under-the-rule-of-english/>

<sup>76</sup> Shoter, James. Three Seas Seeks to Turn Tide on East-West Divide, Financial Times, 22.11.2018, retrieved at: <https://www.ft.com/content/2e328cba-c8be-11e8-86e6-19f5b7134d1c>

<sup>77</sup> Masson, Francis. The Three-Seas-Initiative: European Regionalism of Supranational Nature, Nouvelle Europe, 20.03.2018, retrieved at: <http://www.nouvelle-europe.eu/en/three-seas-initiative-european-regionalism-supranational-nature>

spoke about American LNG<sup>78</sup> as well as criticized heavily Nord Stream project<sup>79</sup>. On 2018 Romanian summit US Energy Secretary Rick Perry proclaimed the establishment of new “Partnership of Transatlantic Energy Cooperation”<sup>80</sup>. In February 2020 during his speech on Munich Security Conference US Secretary of the State Michael Pompeo announced the commitment to allocate 1 billion dollars for the infrastructural development in framework of 3SI.

Soon it became obvious from official statements that 3SI members are not viewing its goals as contradictory to the broader EU infrastructural development. Therefore EU and Germany changed their strategy toward this initiative. That is why the next two 3SI summits were visited by President of the Commission Jean-Claude Juncker as well as German officials (Foreign Affairs Minister Heiko Maas in 2018 and President Frank-Walter Steinmeier in 2019). Maas even proclaimed Germany’s willingness to become the member of the initiative<sup>81</sup>.

### 2.3. Debating geoeconomic competitiveness

We see that NSGC provides geoeconomic alternative to Nordstream project<sup>82</sup>. Nordstream fulfills a political role by asymmetrically decreasing Gazprom’s dependence on transit countries without limiting their dependence on Russia. It has the potential for stopping or seriously limiting transit via Yamal-Europe pipeline and Ukrainian direction which would cause the loss of revenues for the transit for Poland, Belarus and Ukraine. Also, it tries to create divergent economic interests in different EU member states and divide European position toward Russian gas between the West and East. On the other hand, NSGC represents an effort of common stand against possible politically motivated disruption by strengthening the connection between different national gas transporting systems. By connecting newly constructed or currently built LNG terminals with gas transporting system of countries which do not have access to the sea it provides alternative to the Russian gas which at least

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<sup>78</sup> Gotev, Georgi; Brzozowski, Alexandra. The Brief – Three Seas, Two Leaders, Euractiv, 17.09.2018, retrieved at: <https://www.euractiv.com/section/politics/news/the-brief-three-seas-two-leaders/>

<sup>79</sup> Hasselbach, Christoph; Romaniec, Rosalia. Berlin takes a new approach to the Three Seas Initiative. 5.06.2019, retrieved at: <https://www.dw.com/en/berlin-takes-a-new-approach-to-the-three-seas-initiative/a-49076663>

<sup>80</sup> Wemer, David. The Three Seas Initiative explained, 11.02.2019, retrieved at: <https://www.atlanticcouncil.org/blogs/new-atlanticist/the-three-seas-initiative-explained-2/>

<sup>81</sup> Hasselbach, Christoph; Romaniec, Rosalia. Berlin takes a new approach to the Three Seas Initiative. 5.06.2019, retrieved at: <https://www.dw.com/en/berlin-takes-a-new-approach-to-the-three-seas-initiative/a-49076663>

<sup>82</sup> It actually competes also with another Russian pipeline – Southstream bypassing Ukraine through the bottom of Black sea, but this aspect lays outside the scope of this study.

may strengthen bargaining position of these countries. As an example for this may serve the 20% discount from Gazprom to Lithuania after starting the operation of Klaipeda FRSU. This shows that Wigell and Vihma have underestimated the balancing potential of geoeconomic measures having stressed only their successful role in weakening such type of counter-behavior. What is also important, US as the external toward EU actor is economically interested in increasing its LNG supplies to the European market.

However, before moving further to focused analysis of Polish geoeconomic agency in energy affairs, it is worth raising some critical objections against framing Nordstream and NSGC as geoeconomic competitors as our basic contextual insight of this study . We are doing this not because we are considering this antithesis as false but because the situation is somehow more complex and nuanced which nevertheless does not negate our main interpretation.

First objections is that discussed projects may be seen as not competing but rather complementary. We would discuss the peculiarities of differences in gas pricing in different EU countries in section 3.3. but Germany is unlikely massively to buy US LNG to make it basic source of gas deliveries as well as Poland would in any case refuse to transport Nord Stream gas, despite motivation of two countries is different (economic in Germany and political in Poland). In similar vein, even countries with suspicious position toward Russia, as Lithuania, buy both the Russian import and LNG. It is also worth to notice that participation in Three Seas Initiative summits does not envision automatically that country would choose exactly the American LNG. For example, plans to import LNG from Croatian terminal but this LNG would most probably be from Qatar<sup>83</sup>. Polish example of fully refusing Russian natural gas in this case is rather unique but it only increases Poland's stake in this geoeconomic game. In addition to this, the analytical perspective should take into account that the gathering of twelve countries by its essence should have a big variety of diverse interests. Each state has its own motivation for participating in common summits which makes hard to label their unified position in competitive terms as anti-Russian.

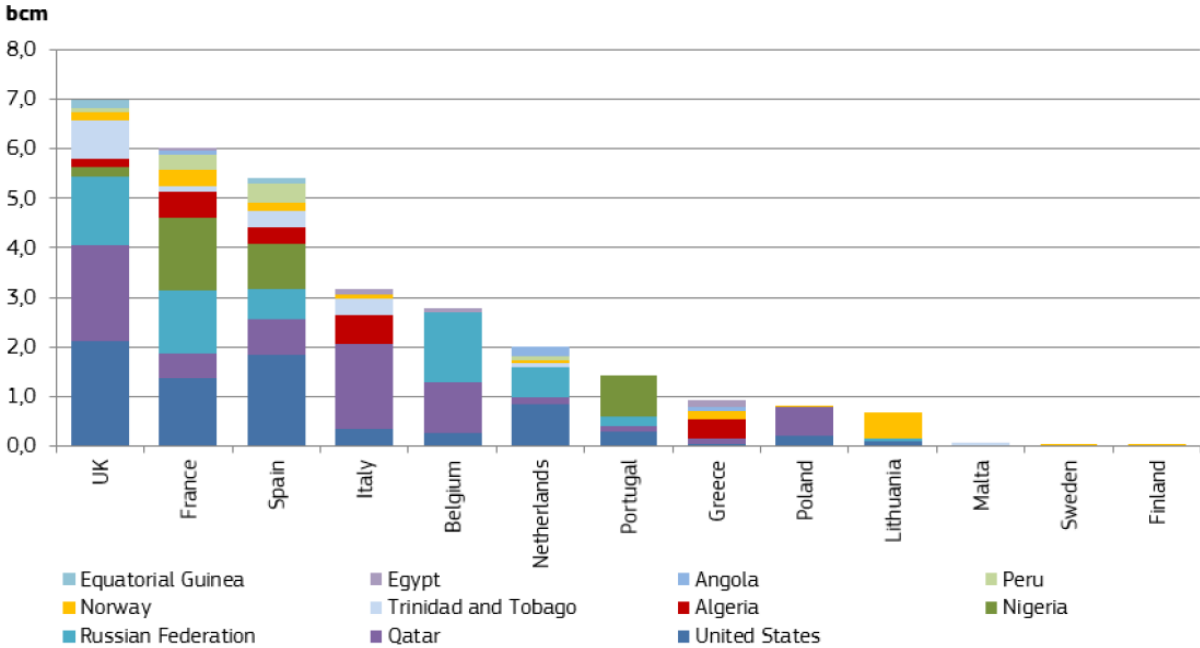
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<sup>83</sup> Budapest Business Journal. Hungary could buy LNG from Qatar from 2021, 22.10.2019, retrieved at: [https://bbj.hu/energy-environment/hungary-could-buy-lng-from-qatar-from-2021\\_173065](https://bbj.hu/energy-environment/hungary-could-buy-lng-from-qatar-from-2021_173065)

Nevertheless, it is worth to argue that such ambiguity toward Russia could be seen as an covert (in terms of Wigell and Vihma) effect of geoeconomic. Moreover, the nature of geoeconomic measures does preclude simultaneous influences in close geographical areas – but this coexistence as such is still the manifestation of two basic competing interests shared by different countries.

The second objection is that interpreting rivalry between two discussed geoeconomic projects in terms “LNG vs pipelines” is partially misleading: it is accurate for Poland (Swinoujscie LNG terminal vs Yamal-Europe pipeline – see section 3.1) but could not be viewed as the overall description of geoeconomic rivalry for European energy market between US and Russia because the latter also actively uses LNG deliveries (Figure 1).

**Figure 1. LNG imports in the EU member states from different sources in the fourth quarter of 2019<sup>84</sup>**



Source: Commission calculations based on tanker movements reported by Thomson Reuters  
 Imports coming from other EU Member States (re-exports) are excluded  
 \*Other\* includes Angola, Brazil, the Dominican Republic, Egypt, Equatorial Guinea, Oman, Singapore, the United Arab Emirates and Yemen

After being faced with competition from LNG exporters Russia also started to develop its own LNG strategy on international markets which also can contribute to the goal of bypassing existing transit countries by other routes. Since 2013 Russia liberalized LNG export and new private companies like Novatek strongly contributed to the development of LNG facilities. Russia developed two

<sup>84</sup> Directorate General for Energy of European Commission, Market Observatory for Energy. Quarterly Report on European Gas Markets with focus on the impact of global LNG markets on EU gas imports, Vol. 12, Iss. 4, (4<sup>th</sup> quarter of 2019), 19, retrieved at: [https://ec.europa.eu/energy/sites/ener/files/quarterly\\_report\\_on\\_european\\_gas\\_markets\\_q4\\_2019\\_final.pdf](https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q4_2019_final.pdf)

liquefaction facilities on its Baltic Sea shore - in Vyborg and Vysotsk. In addition, massive Baltic LNG project is planned in Ust-Luga with capacity to process 45 bcm of natural gas which is expected to start gradually its operation in 2023-2024<sup>85</sup>. These efforts bring results: in 2019 Russia become second largest after Qatar LNG exporter for Europe (20% of LNG import) selling more than US (16%)<sup>86</sup>. Figure 1 provides a dissent understanding of geographical variety of Russian LNG deliveries.

Germany also considers to develop its own LNG terminals but make this not for political considerations of but for ecological trying to limit the usage of CO<sub>2</sub>-intensive fuel in maritime shipping by LNG and implement therefore norms of international law<sup>87</sup>. Four projects are already planned: in Brunsbüttel (10 bcm of natural gas annually), Stade (4 bcm), Rostock (between 0.3-0.7 bcm) and FRSU in Wilhelmshaven (8 bcm)<sup>88</sup>.

Even if dichotomy “pipeline vs LNG” is true predominantly for Poland even taking into account LNG deliveries from Russia still do not changes the basic picture - closer energy cooperation between Russia and Western Europe on one hand and rise of strategic cooperation between US and East-Central Europe on the other. It only adds one extra LNG dimension to it which repeats the basic pattern of regional energy alliances.

To conclude, both of Nordstream and NSGC are political projects aimed in covert manner at attaining particular goals – bypassing troublesome transit countries or diversifying supplies for weakening monopolistic pressure. However, their competitive geoeconomic coexistence may paradoxically lead to the overall depolitization of gas issues and putting them in purely market framework. In such way they would reach the same depolitized condition but in cooperation with different exporters.

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<sup>85</sup> NS Energy. Balic LNG Project, retrieved at: <https://www.nsenegybusiness.com/projects/baltic-lng-project/>

<sup>86</sup> Ibid, 18.

<sup>87</sup> O'Donnell, Thomas. Germany's Real LNG Strategy, Berlin Policy Journal, 28.06.2018, retrieved at: <https://berlinpolicyjournal.com/germanys-real-lng-strategy/>

<sup>88</sup> Eurasian Ventures. Liquefied Natural Gas In Germany, 15.10.2019, retrieved at: <https://eurasianventures.com/liquefied-natural-gas-in-germany/>

## Chapter 3. Explaining Polish diversification

This chapter addresses directly the issue of Poland's energy diversification from three main aspects: the new infrastructural complexes on the Baltic sea, improving onshore trans-border interconnections with neighboring countries and market prerequisites for Poland to become a regional gas hub in the future in the context of LNG pricing environment in Europe.

### 3.1. "Northern Gateway"

The main objective of Polish gas diversification is to develop alternative routes for obtaining natural gas deliveries. Three basic projects play the crucial role in this regard which are sometimes referred together as "Northern Gate"<sup>89</sup> – already constructed LNG import terminal in Swinoujscie, planned floating regasification storage unit (FRSU) in Gdansk and Baltic pipe under construction.

The idea about building the LNG terminal first appeared on the agenda in governmental discussions in 2006. The terminal was constructed in 2011-2015 and named after President Kaczynski. The original regasification capacity of the terminal accounted for 5 bcm per annum. In April 2019 Polskie LNG concluded the contract on terminal's capacity expansion to 7.5 bcm per annum. Poland should obtain 128 million euro of EU funding which approximately would cover two-thirds of the whole project cost<sup>90</sup>. In October 2019 the conditions of deliveries were agreed with the main technical supplier<sup>91</sup> and in February 2020 the contract with main providers of technical work was signed<sup>92</sup>.

The commercial preparation for providing needed deliveries under long-term contracts for the terminal started long before the completion of the project. In 2009 a contract was signed with Qatargas on LNG deliveries in an amount of 1.5 bcm per annum, after the regasification. It is valid until 2034. Nevertheless, later the companies made changes in the agreement increasing the amount of delivered

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<sup>89</sup> Ramboll. Benefits of Natural Gas for Poland - Needs for the Development of a Gas Hub, March 2018, 20, retrieved at: [https://ramboll.com/-/media/files/rgr/documents/markets/energy/pqr/ramboll\\_-\\_benefits\\_of\\_natural\\_gas\\_for\\_poland\\_-\\_main\\_report.pdf?la=en](https://ramboll.com/-/media/files/rgr/documents/markets/energy/pqr/ramboll_-_benefits_of_natural_gas_for_poland_-_main_report.pdf?la=en)

<sup>90</sup> Polish LNG Platform. Grant Agreement for Expansion of the LNG Terminal in Swinoujscie Signed, 26.04.2019, retrieved at: <http://polishlngplatform.eu/news/2019/04/26/grant-agreement-for-expansion-of-the-lng-terminal-in-%C5%9Bwinouj%C5%9Bcie-signed/>

<sup>91</sup> Polish LNG Platform. Contract for the Purchase of Key Equipment for the Expansion Program of the LNG Terminal in Swinoujscie Signed, 10.10.2019, retrieved at: <http://polishlngplatform.eu/news/2019/10/10/contract-for-the-purchase-of-key-equipment-for-the-expansion-program-of-the-lng-terminal-in-%C5%9Bwinouj%C5%9Bcie-signed/>

<sup>92</sup> Polish LNG Platform. Polskie LNG Inks Deal for Polish Terminal Expansion, 25.02.2010, retrieved at: <http://polishlngplatform.eu/news/2020/02/25/polskie-lng-inks-deal-for-polish-terminal-expansion/>

gas to 2.7 bcm after the regasification with the perspective to reach a new annual amount beginning from 2020<sup>93</sup>.

In November 2017 a first medium-term agreement was concluded with British company Centrica on deliveries of nine cargoes from US until 2022<sup>94</sup>. In June 2017 the Swinoujscie terminal received its first cargo from the US provided by company Cheniere as a result of the operation on the spot market. In June 2018 PGNiG signed also contracts with three American commercial firms. The first deal was concluded for 20 years with two subsidiaries of Venture Global Venture (Global Calcasieu Pass LNG - from 2022; Venture Global Plaquemines LNFG - from 2023) which would import to Poland 2.7 bcm after the regasification. The second one was reached with Cheniere which guaranteed 1.95 bcm annually in the timeframe 2023-2042. The third one agreement for 20 years was signed with Port Arthur LNG which is a subsidiary of Sempra Energy and which precluded the annual import of 2.7 bcm per year<sup>95</sup>.

In order to be more competitive on the small-scale LNG market (transporting LNG in tracks to endusers without pipelines) PGNiG also strengthened its position abroad. In 2019 the company won the tender for capacity usage of LNG reloading station near Klaipeda FSRU in Lithuania for five years. The contract was signed in October 2019<sup>96</sup> and became effective since April 2020<sup>97</sup>.

Apart from the extension of Swinoujscie LNG terminal in the agenda of the Polish government appeared another tool for increasing the country's technical ability to import larger amounts of LNG. This additional project is a floating storage regasification unit (FSRU) in Gdansk with an annual capacity of 4.5 bcm. In 2019 it was mentioned in the 4th list of Projects of Common Interests<sup>98</sup>. Piotr Naimski, Government Plenipotentiary for Strategic Energy Infrastructure, informed the public that the

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<sup>93</sup> PGNiG. PGNiG and Qatargas sign a new supplementary agreement to the LNG supplies contract, 21.10.2015, retrieved at: <http://en.pgnig.pl/news/-/news-list/id/pgnig-and-qatargas-sign-a-new-supplementary-agreement-to-the-lng-supplies-contract/newsGroupId/1910852?changeYear=2015&currentPage=1>

<sup>94</sup> PGNiG. PGNiG signed a 5-year contract for LNG with Centrica, 21.11.2017, retrieved at: <http://en.pgnig.pl/news/-/news-list/id/pgnig-signed-a-5-year-contract-for-lng-with-centrica/newsGroupId/1910852>

<sup>95</sup> Euro-Petrole.PGNiG: another long-term contract for the American LNG signed, 20.12.2018, retrieved at: <https://www.euro-petrole.com/pgnig-another-long-term-contract-for-the-american-lng-signed-n-i-18000>

<sup>96</sup> Polish LNG Platform. PGNiG Enters Small-Scale LNG Market in Lithuania, 29.11.2019, retrieved at: <http://polishlngplatform.eu/news/2019/11/29/pgnig-wchodzi-na-rynek-small-scale-lng-na-litwie/>

<sup>97</sup> PGNiG. PGNiG starts operations in Lithuania, 01.04.2020, retrieved at: <http://en.pgnig.pl/news/-/news-list/id/pgnig-starts-operations-in-lithuania/newsGroupId/1910852?changeYear=2020&currentPage=2>

<sup>98</sup> European Commission. Annex to Commission Delegated Regulation amending Regulation (EU) # 347/2013 of the European Parliament and of the Council as regards the Union list of projects of common interest, 31.10.2019, 7, project # 6.27, retrieved at: [https://ec.europa.eu/energy/sites/ener/files/c\\_2019\\_7772\\_1\\_annex.pdf](https://ec.europa.eu/energy/sites/ener/files/c_2019_7772_1_annex.pdf)



project is planned to be realized until 2025. However, many details concerning the intermediary stages of the project's implementation are still unknown. Nevertheless, some private companies have already expressed interest in using FSRU's capacities: in the words of Gaz-System's<sup>99</sup> representative in Brussels, some unnamed American company already had talks with Poles on the issue<sup>100</sup>.

The third crucial element of Polish diversification plan is a Baltic pipe - a planned infrastructural project which would connect Poland with Denmark and Norway by providing an expected annual capacity of 10 bcm. There had been two previous attempts at implementing this project in 2001 and 2007 but both times they were unsuccessful because of unfavorable market situations or hurdles with obtaining EU financing due to the formal conditions<sup>101</sup>. Since its return to power, the Law and Justice Party again pushed for this idea. In June 2017 Beata Szydło and Danish Prime Minister Lars Løkke Rasmussen signed a memorandum on cooperation in enabling the building of the pipeline which jumpstarted the new series of activities related to the project<sup>102</sup>. In January 2018 and July 2019 EU member states accepted EU support for the funding. In April 2019 Director of EU Commission's Innovation and Networks Executive Agency (INEA) and CEO of Gaz-System signed a contract on the allocation of 215 million euro from the program Connecting Europe Facilities for the project<sup>103</sup>. An amount of 51.4 million euro had been spent on preliminary preparation actions including the project's feasibility study<sup>104</sup>. Denmark (October 2019), Poland (April 2020) and Sweden (May 2020)<sup>105</sup> issued all the needed permits for the project's implementation and at the end of April 2020 Gaz-System signed an executive contract on construction with Italian Saipem Limited<sup>106</sup>.

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<sup>99</sup> Gaz-System – operator of Poland's gas transporting system which was unbundled from PGNiG in 2004 in fulfilling of norms of EU energy legislation.

<sup>100</sup> Favasuli, Silvia. Poland's Gaz System in Talks with US LNG Producer to Supply New FSRU Project, 23.09.2019, retrieved at: <https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/092319-polands-gaz-system-in-talks-with-us-lng-producer-to-supply-new-fsru-project>

<sup>101</sup> Ciesielska-Klikowska, Joanna. Poland Economy Briefing: Start of Construction of the Baltic Gas Pipeline. China-CEE Institute, Vol. 29, No 2 (May 2020), 1.

<sup>102</sup> Ibid, 2.

<sup>103</sup> European Commission. €215 million of CEF Energy Funding for the Baltic Pipe Connecting the Danish and Polish Gas Transmission Systems, 15.04.2019, retrieved at: <https://ec.europa.eu/inea/en/news-events/newsroom/%E2%82%AC215-million-cef-energy-funding-baltic-pipe-connecting-danish-and-polish-gas>

<sup>104</sup> Baltic Pipe Project. Financial support from the EU, retrieved at: <https://www.baltic-pipe.eu/about/financial-support-eu/>

<sup>105</sup> Baltic Pipe Project. Gaz-System Holds All Construction Permits for Baltic Pipe Project, 11.05.2020, retrieved at: <https://www.baltic-pipe.eu/gaz-system-holds-all-construction-permits-for-baltic-pipe-project/>

<sup>106</sup> Baltic Pipe Project. Gaz-System selected pipelay contractor for Baltic Pipe offshore, 4.05.2020, retrieved at: <https://www.baltic-pipe.eu/gaz-system-selected-pipelay-contractor-for-baltic-pipe-offshore/>



## Map 4. Baltic pipe<sup>107</sup>



Nearly one-third of the Baltic pipe capacity could potentially transport gas which already belongs to the PGNiG. The Norwegian subsidiary of Polish state-owned company was established in 2007<sup>108</sup>. As of January 2020, PGNIG has a stake in 29 gas fields on Norwegian continental shelf in North Sea, Norwegian Sea, and the Barents Sea<sup>109</sup>.

It is worth noting that Baltic pipe is viewed not only additional maximizer of Poland's import capacity (which would be true in case of the favorable world energy market situation) but also as reserve variant in the case when Asia prices would be substantially higher than European ones again due to high Chinese demand or another factor. In this scenario, Baltic pipe capacity would substitute LNG deliveries to the needed extent still providing an alternative to Russian import<sup>110</sup>.

To conclude, all three main elements of the Northern gate – Swiniujscie LNG terminal, FRSU in Gdansk, Baltic pipe – should provide in overall 22 bcm of gas transporting capacity. These infrastructural complexes are a big game-changer for Poland which annual gas consumption in 2018 accounted of 19.7 bcm of natural gas<sup>111</sup> where internal production was only 5.6 bcm<sup>112</sup>. Therefore the country has the potential of becoming a gas hub and sell gas for export. However, having an excessive capacity for LNG import could not be automatically translated in the ability to export it to the

<sup>107</sup> Baltic Pipe Project, retrieved at: [https://www.baltic-pipe.eu/?attachment\\_id=7880](https://www.baltic-pipe.eu/?attachment_id=7880)

<sup>108</sup> PGNiG Upstream Norway. About Us, retrieved at: <http://norway.pgnig.pl/about-us>

<sup>109</sup> PGNiG. PGNIG Licenses 01.2020 -

[http://norway.pgnig.pl/documents/2187025/2188084/PGNIG\\_Licenses\\_01.2020.pdf/bf519227-24e8-4697-abd2-efdea0fdb0cb](http://norway.pgnig.pl/documents/2187025/2188084/PGNIG_Licenses_01.2020.pdf/bf519227-24e8-4697-abd2-efdea0fdb0cb)

<sup>110</sup> Jakobik, Wojciech. The Second Polish Own Gas Terminal, 8.05.2019, retrieved at: <https://biznesalert.com/fsru-lng-terminal-gdansk-gazterm-2019/>

<sup>111</sup> Statista. Natural gas consumption in Poland from 2005 to 2018 (in billion cubic meters), retrieved at: <https://www.statista.com/statistics/703670/natural-gas-consumption-poland/>

<sup>112</sup> Ceic Data. Poland Natural Gas Production: OPEC: Marketed Production, retrieved at: <https://www.ceicdata.com/en/indicator/poland/natural-gas-production-opec-marketed-production>

neighbors. The usually low utilization rate of LNG terminals in Europe (f.e. 33% in 2018<sup>113</sup>) clearly demonstrates that demand in the region could be lower than opportunities provided by all types of gas transportation infrastructure. To become a hub, the country needs successful diplomatic efforts as well as abilities to have good infrastructural connections with its neighbors. Both of these issues would be covered in the next section.

### 3.2. Trans-border Interconnectors

The Polish gas-transporting system had a weak connection with neighboring countries during most of its existence. Only at the beginning of the current century did the situation slowly begin to change: in 2001 the interconnector with Germany was opened and ten years later another one with Czech Republic<sup>114</sup>. They both together provided import capacity of 2 bcm of natural gas<sup>115</sup>. As a reaction to the 2009 Russian–Ukrainian gas conflict, the Polish government started a massive infrastructure development program with a total budget of 2 billion euro<sup>116</sup>. In the next five years Gaz-System have built in Poland 1200 km of pipelines. The expenditure of the improvements was around 1.5 billion euro and nearly one third of the whole sum was co-sponsored by the EU<sup>117</sup>. The second round of improvements is expected to be made until 2023 and encompass nearly 2000 km of pipelines<sup>118</sup>. Let's review more in detail the infrastructural connections and gas relations of Poland with its six neighbors (excluding Russian Kalinigrad region). They are Belarus, Lithuania, Germany, Czech Republic, Slovakia, Ukraine.

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<sup>113</sup> Broggy, Guy. LNG demand: buyers' strategies in Europe, 2020-2030, 26.06.2019, retrieved at: <https://informaconnect.com/lng-demand-buyers-strategies-in-europe-2020-2030/>

<sup>114</sup> Daborowski, Tomasz. Polish preparations to embrace global gas revolution: A reality check. In Liuhto, Kari (ed.) *Natural Gas Revolution and the Baltic Sea Region*. BSR Policy Briefing, 1/2015, 91, retrieved at: [http://www.centrumbalticum.org/files/1910/BSR\\_policy\\_briefing\\_1\\_2015.pdf](http://www.centrumbalticum.org/files/1910/BSR_policy_briefing_1_2015.pdf)

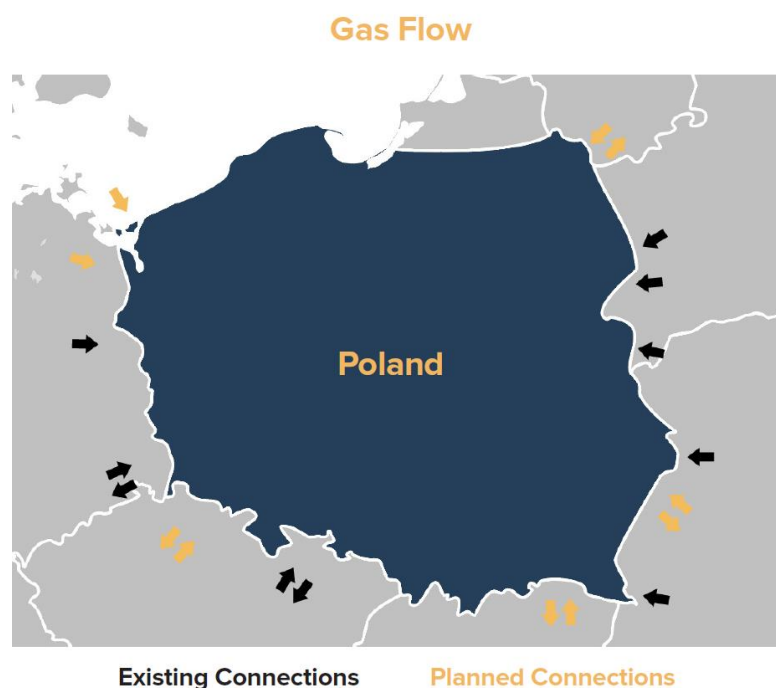
<sup>115</sup> Gawlikowska-Fyk, Aleksandra. Poland: Coping with the Challenges of Decarbonization and Diversification. In Godzimirski, Jakub M. (ed.) *New Political Economy of Energy in Europe: Power to Project, Power to Adapt*. Palgrave Macmillan, 2019, 201.

<sup>116</sup> Daborowski, Tomasz. Polish preparations to embrace global gas revolution: A reality check. In Liuhto, Kari (ed.) *Natural Gas Revolution and the Baltic Sea Region*. BSR Policy Briefing, 1/2015, 91-92, retrieved at: [http://www.centrumbalticum.org/files/1910/BSR\\_policy\\_briefing\\_1\\_2015.pdf](http://www.centrumbalticum.org/files/1910/BSR_policy_briefing_1_2015.pdf)

<sup>117</sup> Daborowski, Tomasz. Polish preparations to embrace global gas revolution: A reality check. In Liuhto, Kari (ed.) *Natural Gas Revolution and the Baltic Sea Region*. BSR Policy Briefing, 1/2015, 92, retrieved at: [http://www.centrumbalticum.org/files/1910/BSR\\_policy\\_briefing\\_1\\_2015.pdf](http://www.centrumbalticum.org/files/1910/BSR_policy_briefing_1_2015.pdf)

<sup>118</sup> Ibid, 92.

## Map 5. Poland's trans-border interconnections<sup>119</sup>



Despite sharing together massive international exporting pipeline Poland and Belarus have low intensity relations in gas sphere. Since 2011 Gazprom owns gas transporting system of Belarus which made it tightly dependent on Russians. However, since May 2020 US is supplying Belarus with oil via Polish territory<sup>120</sup>. Some Polish analysts are discussing the possibility of transporting US LNG toward Belarus but they are also aware Lithuanian LNG terminal in Klaipeda is here a strong competitor<sup>121</sup>.

Interconnection with Lithuania (GIPL) (Map 6) could potentially provide 2.3 bcm to Lithuania and 1 bcm to Poland. Preparatory work for the project started in 2009. The pipeline appeared in four editions of the PCI list but all needed documentation and permits were obtained only in 2019. Since the beginning of 2020 construction started and is expected to be completed until the end of 2021<sup>122</sup>. It would have a wider strategic impact. The pipeline Balticconnector (Map 6) which connects Estonia with Finland started its operation at the beginning of 2020. After the completion of GIPL,

<sup>119</sup> Center for European Policy Analysis. Thinking Outside of the Russian Box: A way ahead for Poland's gas sector. Energy Intelligence Brief No. 2 (May 2016), 4, retrieved at: [https://cepa.ecms.pl/files/?id\\_plik=2432](https://cepa.ecms.pl/files/?id_plik=2432)

<sup>120</sup> Pompeo, Michael. First Shipment of U.S. Oil to Belarus, 15.05.2020, retrieved at: <https://www.state.gov/first-shipment-of-u-s-oil-to-belarus/>

<sup>121</sup> Jacobic, Wojciech. Will Belarus use the Yamal gas pipeline to import gas via Poland? 8.05.2020, retrieved at: <https://biznesalert.com/belarus-yamal-gas-pipeline-poland-energy/>

<sup>122</sup> Ambergrid. Gas Interconnection Poland–Lithuania (GIPL), 5.05.2010, retrieved at: <https://www.ambergrid.lt/en/projects/gas-interconnection-poland-lithuania-gipl>

infrastructural isolation of three Baltic states and Finland from the rest of the EU in terms of onshore pipelines would be eliminated and they would be better integrated in European gas network system.

**Map 6. Pipelines in Baltic region<sup>123</sup>**



Apart from already built small interconnector with Czech Republic (Stork II), an additional interconnector (STORK II) is planned with an annual capacity of 6.5 bcm in Polish direction and 5 bcm in Czech. In June 2015 Gaz-System signed the agreement with INEA and Czech transmission system operator about the funding of half of the cost of project's preparatory studies<sup>124</sup>. But then the process was suddenly slowed down when the project missed the deadline for obtaining needed EU financing in November 2016 and was postponed. Possible sticking point was the construction of EUGAL pipeline from the German Baltic shore till the Czech border as the onshore extension of the

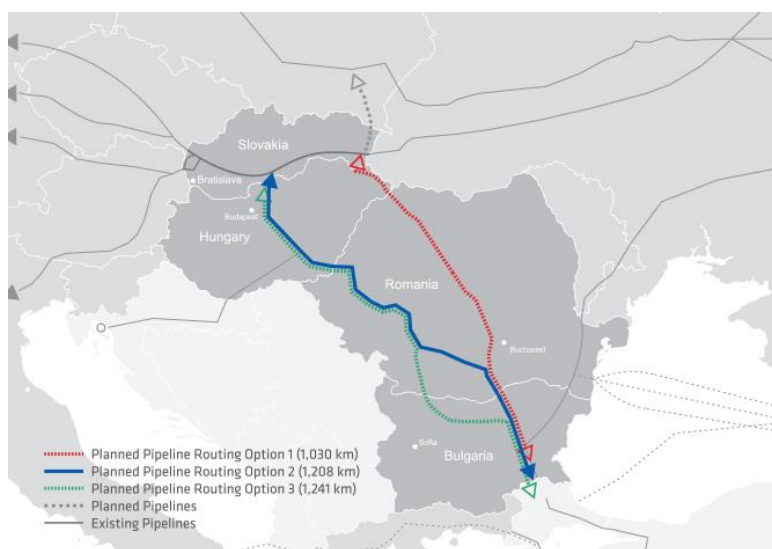
<sup>123</sup> Henderson, B. Henry. MAN Compressors For Balticconnector Project, Gas Compression Magazine, 25.04.2019, retrieved at: <https://gascompressionmagazine.com/2019/04/25/man-compressors-for-balticconnector-project/>

<sup>124</sup> Gaz-System. Preparatory Studies for the Poland-Czech Republic Interconnection Project [Known as Stork II] Were Granted Financial Assistance OF The European Union, 03.06.2015, retrieved at: <https://en.gaz-system.pl/centrum-prasowe/aktualnosci/informacja/artykul/202088/>

Nord Stream 2. Poland was possibly suspicious that interconnector may be used as an additional way of transporting Russian gas to the country<sup>125</sup>. Only in February 2019, Gaz-System signed the contract on construction of the Kedzierzyn gas compressor station which is the key object in the Polish part of the project<sup>126</sup>.

Similar to Czech case, the planned interconnector with Slovakia is also bi-directional and able to transport 4.3 bcm per year to Poland and 4.3 bcm to its neighbor. The construction of the Slovak part of the pipeline started in September 2018 and Poles began to build their section in September 2019. The grant from Connecting Europe Facility in the amount of 107.7 million euro was disbursed to the project in February 2017 covering 40% of the overall expenditure<sup>127</sup>. However, in the future Slovakia would have an alternative option for diversifying its supplies. The pipeline Eastring (Map 7) linking Turkish border with Slovakia through the whole territory of Balkan Peninsula is planned to be complete in 2025. Its would provide 20 bcm of natural gas of annual capacity in 2025 and 40 bcm in 2030 after its planned extension. Therefore the share of Slovakian gas import to which Poland may pretend would be decreased in the near future.

**Map 7. Eastring pipeline<sup>128</sup>**



<sup>125</sup> IntelliNews. Czech-Polish Gas Link Stork II Misses EU Funding Deadline, 28.11.2016, retrieved at: <https://www.intellinews.com/czech-polish-gas-link-stork-ii-misses-eu-funding-deadline-111054/>

<sup>126</sup> Gaz-System. The Polish-Czech Interconnector, retrieved at: <https://en.gaz-system.pl/our-investments/integration-with-european-gas-transmission-system/the-polish-czech-interconnector/>

<sup>127</sup> European Commission. Construction of the Poland-Slovakia Gas Interconnector is Well Under Way Thanks to EU Funding, 6.09.2019, retrieved at: <https://ec.europa.eu/inea/en/news-events/newsroom/construction-poland-slovakia-gas-interconnector-well-under-way-thanks-to-eu>

<sup>128</sup> Eastring Routing, retrieved at: <https://www.eastring.eu/page.php?page=routing>

Poland has already two interconnectors with Ukraine (Drozdovice and Hermanovychi). The new planned interconnector between countries<sup>129</sup> should provide additional capacities in amount of 5 bcm annually. Originally it was planned to end it till 2019. As of 2020, the completion of construction work is expected by the end of 2021.

The Ukrainian market represents the biggest opportunity for Polish export. In September 2019, with the involvement of Polish President, Ukrainian President Volodymyr Zelensky and US Energy Secretary Rick Perry signed a three-party memorandum which envisioned import of US LNG from the Swinoujscie to Ukraine<sup>130</sup>. The first deliveries started two months after the event in November 2019<sup>131</sup>. In January 2020 CEO of Ukrainian gas newly unbundled gas system transmission operator, Serhiy Makohon wrote in his social media that Ukraine is prepared to import 6 bcm of by direct supplies and 3 bcm by virtual reverse (which means reselling of transported to Poland gas via Ukrainian direction back to Ukraine without making two times its unnecessary physical trans-border transportation)<sup>132</sup>. At the end of May, the Ukrainian government officially approved the memorandum with US company Louisiana Natural Gas Exports about possible transport of LNG but details were not shared with the public<sup>133</sup>.

The basic summary of described developments with Poland's transborder interconnectors could be as follows. In the west, Poland is reluctant to buy Russian gas from Germany even in the case when it may have a lower price than gas obtained under the conditions of the Yamal contract. For a similar reason, Poland is suspicious of Czech Republic slowly developing an interconnector with this country. Another southern neighbor, Slovakia, is likely to obtain deliveries from the Balkan peninsula which would strongly limit possible room for the deliveries from Poland. In the north-east, Lithuania has already its own LNG terminal and Belarus is too strongly aligned with Russia having had, at least in the

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<sup>129</sup> Energy Community. Gas\_14 / Gas interconnection Poland – Ukraine, retrieved at: <https://energy-community.org/regionalinitiatives/infrastructure/PLIMA/Gas14.html>

<sup>130</sup> US Department of Energy, Office of International Affairs. Memorandum of Cooperation Among The Republic of Poland, Ukraine and The United States of America On Enhancing Regional Security of Natural Gas Supply, 31.08.2019, retrieved at: <https://www.energy.gov/ia/articles/memorandum-cooperation-among-republic-poland-ukraine-and-united-states-america-enhancing>

<sup>131</sup> Istrate, Dominic. First LNG shipments for Ukraine arrive in Poland, 21.11.2019, retrieved at: <https://emerging-europe.com/news/first-lng-shipments-for-ukraine-arrive-in-poland/>

<sup>132</sup> KosatkaMedia. Makohon does not support the construction of the Poland-Ukraine Interconnector, 16.01.2020, retrieved at: <https://kosatka.media/en/category/gaz/news/makohon-ne-podderzhivaet-stroitelstvo-interkonnektora-polsha-ukraina>

<sup>133</sup> Ukraine Open for Business. Ukrainian Government Approves Memo with U.S. Company on Possible LNG Shipments, 27.05. 2020, retrieved at: <https://open4business.com.ua/ukrainian-government-approves-memo-with-u-s-company-on-possible-lng-shipments/>



past, no incentive to diversify supplies. Only Ukraine in the east could be seen now as a viable destination for Polish export. But due to the size of its market and its import demand Ukrainian direction provide enough opportunities for the utilization of the basic amount of Poland's gas surpluses provided by the newly built infrastructure.

### 3.3. The gas prices and internal market factor

The question of US LNG competitiveness in Europe against Russian gas is one of the most disputed and ambiguous questions related to international energy affairs in Europe. Russian top-officials usually proclaim that US LNG is 30% more expensive than Russian pipeline gas. Such statements were made by Putin<sup>134</sup>, Medvedev<sup>135</sup>, and Energy Minister Novak<sup>136</sup>. On the opposite, Polish officials have underscored that every alternative they have is cheaper than importing Russian gas to Poland. Vice president of PGNiG Maciej Wozniak has explained this difference by the fact that, in his interpretation, Kremlin sells gas to Germany at competitive prices while in Poland gas export is instrumentalized for political pressure which makes prices much higher<sup>137</sup>.

A few basic thoughts could be added to contextualize and explain these discussions.

First, the basic point is that the LNG market is very liquid and fragmented and we cannot operate with such terms as the one unified price of American LNG for the whole European continent. Even the deliveries in one country in different periods could substantially differ in terms of the price due to the period of the year or current situation with oil pricing. That could be perfectly illustrated by the case of Poland. In the first half of 2019 Poland received four cargoes from US and the prices for 1 000 cm on each of them differentiated substantially: 297.3\$, 148\$, 253.9\$, 115.8\$<sup>138</sup>. However, the pricing and profit margin are not indicated there as well as data of their arrival to the endpoint which makes comparison harder. An additional factor is that Poland as producing gas on its own may mix obtained LNG with local gas, therefore, reducing the potential price difference.

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<sup>134</sup> Interfax. Putin Poobeshchal Borot'sya za "Severnij potok-2", 18.05.2018, retrived at: <https://www.interfax.ru/business/613330>

<sup>135</sup> Interfax. Medvedev Ocenil Stoimost' Amerikanskogo SPG dlya Evropy po Sravneniyu s Rossijskim, 19.10.2018, retrieved at: <https://www.interfax.ru/russia/634220>

<sup>136</sup> Temizer, Murat. US LNG price up to 40% higher than Russian Gas: Novak, 27.05.2018, retrieved at: <https://www.aa.com.tr/en/energy/energy-diplomacy/us-lng-price-up-to-40-higher-than-russian-gas-novak/20225>

<sup>137</sup> Wozniak, Maciej. Has the Russian Ambassador Been Mislead? PGNiG on Gazprom's Gas Price and LNG, 8.08.2019, retrieved at: <https://biznesalert.com/russia-ambassador-poland-pgnig-wozniak-gas-price-lng/>

<sup>138</sup> US Department of Energy.LNG Annual Report – 2019, xlsx-annex, retrieved at: <https://www.energy.gov/fe/downloads/lng-annual-report-2019>

The official information about Poland's annual payment for the oil-linked Yamal contract is also hard to find. Due to the data gathered by Radio Freedom in 2013, Poland paid one of the highest prices in Europe exceeding those paid by Western European countries. In 2015 Poland paid 379 USD per 1 000 cm<sup>139</sup> and in June 2019 Polish analyst Bartłomiej Sawicki reported the price of Russian gas for Poland is nearly 300 USD due to the low oil prices<sup>140</sup>. Nevertheless, Poland still have much higher gas prices on its market than, for example, Germany. Researcher of Baker Institute of Public Policy Anna Mikulska evaluated the price differences between Poland and Germany on the following level: 2010 – 62.5\$ per 1000 cm, 2013 – 48\$, 2014 – 54\$<sup>141</sup>. Even after the fall of oil prices in 2017 the difference still persisted, however, accounting only 7 \$ per 1000 cm<sup>142</sup>.

Second, in a similar vein the price volatility causes the different price differences between US LNG and Russian gas export which The data gathered by Mikulska (Table 2) presents retrospectively the price difference between US Henry Hub and Gazprom annual average export price ( which may be very different to different countries). Table 2 clearly shows that US LNG may have some prospects in competition for EU markets, especially concerning the full estimated price of its delivery in 2016 was varying in the range of 24.7 – 95.3 \$ for 1 000 cm<sup>143</sup>.

**Table 2. Comparison of Gazprom and Henry Hub prices<sup>144</sup>**

Years	2002-2009	2010	2012	2013	2014	2017
<b>Gazprom: average annual price per 1 000 cm</b>	480.2	324.9	480.2	413.1	363.7	191.7
<b>Henry Hub: average annual price per 1 000 cm</b>	220.3	154.3	97.1	131.7	154.3	105.6

On the other hand, prognostic research undertaken by Corbeau and Yermakov put the final outcome of the possible US-Russian gas competition in dependence on the developments on the oil market. Due to their estimation, in low price environment up to 40\$/ bl (barrel) Russian gas

<sup>139</sup> Nowak, Zuzanna; Godzimirski Jacub; Cwiek-Karpowicz, Jaroslaw. Russia's Grand Gas Strategy – the power to dominate Europe? 25.03.2015, retrieved at: <https://energypost.eu/russias-grand-gas-strategy-power-dominate-europe/>

<sup>140</sup> Sawicki, Bartłomiej. Americans reveal the LNG price for Poland, 28.06.2019, retrieved at: <https://biznesalert.com/poland-pgnig-lng-usa-price/>

<sup>141</sup> Mikulska, Anna. Try Harder, Gazprom. Why Poland Could Choose LNG. CEEP Report, no 1 (56), 2019 (Q1), 6, retrieved at: <https://www.ceep.be/www/wp-content/uploads/2019/04/CEEP-REPORT-Q1-2019-OK.pdf>

<sup>142</sup> Ibid, 6.

<sup>143</sup> Bordoff, Jason; Losz Akos. If You Build It, Will They Come? The Competitiveness of US LNG in Overseas Markets. Columbia SIPA, Center on Global Energy Policy, November 2016, 9, retrieved at: <https://energypolicy.columbia.edu/sites/default/files/Competitiveness%20of%20US%20LNG%20in%20Overseas%20Markets.pdf>

<sup>144</sup> Mikulska, Anna. Try Harder, Gazprom. Why Poland Could Choose LNG. CEEP Report, no 1 (56), 2019 (Q1), 6, retrieved at: <https://www.ceep.be/www/wp-content/uploads/2019/04/CEEP-REPORT-Q1-2019-OK.pdf>



would have the competitive advantage and in high price environment from 40\$/bbl US LNG would have lower price<sup>145</sup>.

Third, some analysts are extremely critical of Polish energy policies, in general, they criticized the predominance of cargoes delivered based on long-term contracts over spot cargoes in Swinoujście as breaking the market logic<sup>146</sup>. It is easy to agree in part that the cheapest LNG is available on spot markets. But the supply there is dependent on price fluctuations with the possibility of the situation when no “free” cargo would be available for European destination due to the potentially higher prices in other regions. For that reason, it is reasonable to have the portfolio of long-term contracts that would guarantee the basic terminal utilization but cost more than spot cargoes. In this view partial usage of the LNG market’s opportunities for the lower price is balanced with security consideration and needs to provide the needed financial return on constructed infrastructure.

Fourth, Poland could not be regarded as belonging to the leading group of EU countries in the liberalizing gas market which should not leave high prices of contracts with Russians as the only one reason for higher gas prices in Poland.

Polish ruling elite plans to transform country into regional gas distribution hubs which was many times communicated by Polish officials including President Andrzej Duda<sup>147</sup>. The liberalized gas market is seen as the most important prerequisites for becoming a regional gas hub – platform where gas is traded in a flexible way and distributed in the neighboring geographical areas. One of the policy reports dedicated to Polish hub ambitions puts it in such a manner: “*Hubs have many independent buyers and sellers, open access to transport facilities, trading liquidity, and clear and transparent price and volume reporting. A healthy market must have liberalised commercial, industrial and residential sector participants, who through choice can*

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<sup>145</sup> Corbeau, Anna-Sophie; Yermakov, Vitaly. Will There Be a Price War Between Russian Pipeline Gas and US LNG in Europe? King Abdullah Petroleum Studies and Research Center, July 2016, 3, retrieved at: [https://www.europeangashub.com/wp-content/uploads/attach\\_664.pdf](https://www.europeangashub.com/wp-content/uploads/attach_664.pdf)

<sup>146</sup> Peters, Wolfgang. Poland, a “Failed State” in Gas Trading: Poland’s Deliberate Obstruction of European Traded Gas Market Integration and Its Misguided Quest for Diversity Hinging on “Ideological Physicality”. The Gas Value Chain Company, June 2018, 42-43, retrieved at: <http://gasvaluechain.com/cms/wp-content/uploads/2018/07/GVC-Market-Study-Poland-06-18.pdf>

<sup>147</sup> Radio Poland. Poland aims to become regional energy hub: president, 21.08.2018, retrieved at: <http://archiwum.thenews.pl/1/12/Artykul/378594.Poland-aims-to-become-regional-energy-hub-president>  
Duda: Poland will be the energy hub for Central and Eastern Europe, Remix, 12.12.2019, retrieved at: <https://rmx.news/article/article/duda-poland-will-be-the-energy-hub-for-central-and-eastern-europe>

*chase competitive price and supply conditions*<sup>148</sup>. And what important, “*a market with a single trader cannot be a hub: It fails to attract traders and thus fails to create the otherwise expected positive spill over effects of a hub. A liberalised market sets a competitive environment between suppliers as the endconsumers demand competitive prices*”<sup>149</sup>.

After its accession to the EU, Poland made substantial progress in liberalizing its gas market which includes changes in tariff system, implementation of European Network Codes (especially concerning gas exchanges on interconnection points with other countries), and introduction of the spot-market pricing on Polish energy trading platform PolPx<sup>150</sup>. Notwithstanding, as official Commission reports note, these changes are insufficient. The domination of PGNiG, even if it is formally divided into different subsidiaries, is still defining the Polish market. The progress in the liberalization of gas prices for ordinary households was slow which caused in 2013 the reaction of the European Commission by launching the infringement procedure to the EU Court of Justice<sup>151</sup>.

Nevertheless, the basic challenge for the effective functioning of Polish gas hub in the future are a lot of ramifications which decrease the willingness of new actors to enter the Polish market. It is worth to concentrate on two basic of them which are officially interpreted as energy security measures.

The first hurdle is supply diversification obligation which was passed in 2001 and provided that suppliers cannot obtain their gas from one source when it exceeds some fixed required percentage. Since 2001 it was 88%, later it was lowered to 59%. The peculiarity of this norm was in that fact that the notion of import was defined basing on the home country of initial gas deliveries. Under such conditions the gas from Germany which previously was bought from Russians was interpreted as the import of Russian gas. That predominantly excluded the possibility to enter the market for smaller suppliers willing to import the cheaper gas from Germany by virtual reverse from Yamal pipeline. On the other hand, PGNiG as the main gas producer in the country is able to balance Russian gas with internally produced one and therefore easily complies with this requirement. From that reason

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<sup>148</sup> Ramboll. Benefits of Natural Gas for Poland - Needs for the Development of a Gas Hub, March 2018, 26, retrieved at: [https://ramboll.com/-/media/files/rgr/documents/markets/energy/pqr/ramboll\\_-\\_benefits\\_of\\_natural\\_gas\\_for\\_poland\\_-\\_main\\_report.pdf?la=en](https://ramboll.com/-/media/files/rgr/documents/markets/energy/pqr/ramboll_-_benefits_of_natural_gas_for_poland_-_main_report.pdf?la=en)

<sup>149</sup> Ibid., 26.

<sup>150</sup> Daborowski, Tomasz. Polish preparations to embrace global gas revolution: A reality check. In Liuhto, Kari (ed.) Natural Gas Revolution and the Baltic Sea Region. BSR Policy Briefing, 1/2015, 90, retrieved at: [http://www.centrumbalticum.org/files/1910/BSR\\_policy\\_briefing\\_1\\_2015.pdf](http://www.centrumbalticum.org/files/1910/BSR_policy_briefing_1_2015.pdf)

<sup>151</sup> Press Corner of European Commission. Internal gas market: the Commission takes Poland to Court over regulated gas prices for business consumers, 20.06.2013, retrieved at: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_13\\_580](https://ec.europa.eu/commission/presscorner/detail/en/IP_13_580)

diversification obligation was seen not only as the tool for enhancing energy security but also as an instrument for preserving PGNiG influence on internal gas market.

The similar interpretation is also valid about the second obstacle, security of supply obligation, or gas storage obligation which was adopted in 2016. It creates the rule under which all market players which annually supply more than 100 mcm of natural gas need to create own stock reserves which can cover their usual supply for 40 days. This rule helps to defend customers in the situation of possible supply disruption. However, due to that fact that all storage facilities are owned by PGNiG and are offered on high prices, it also kills an incentive to compete or stimulates the deliveries under the fixed threshold<sup>152</sup>.

The contradictions between these security measures and broad policy goals about becoming regional gas hub were recognized by Polish<sup>153</sup> as well as by foreign analysts<sup>154</sup>. The Polish perspective is based on the belief that after the termination of Yamal contract Poland would succeed in removing all the obstacles for the existence of liberalized Polish market and will be successful in depolitized international energy trading<sup>155</sup>.

To conclude, the tensions between controlling the gas flows in the mercantilist way and ambitions to become a gas hub on the free-trade regional market will be the main challenge for Polish governments in the post-2022 period. Nevertheless, the Polish strategy still has a chance for success. For that positive outcome it should wisely combine the mercantilist and liberal elements due the tactic need of particular timeframes in order to achieve its long-term geoeconomic goal of transforming its gas importing vulnerability into the instrument of increasing its role in the regional economy.

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<sup>152</sup> Daborowski, Tomasz. Polish preparations to embrace global gas revolution: A reality check. *In* Liuhto, Kari (ed.) *Natural Gas Revolution and the Baltic Sea Region*. BSR Policy Briefing, 1/2015, 91, retrieved at: [http://www.centrumbalticum.org/files/1910/BSR\\_policy\\_briefing\\_1\\_2015.pdf](http://www.centrumbalticum.org/files/1910/BSR_policy_briefing_1_2015.pdf)

<sup>153</sup> Musialek, Pawel. Three Seas Gas Initiative. Is it possible? *The Warsaw Institute Review*, 4.12.2019, retrieved at: <https://warsawinstitute.org/three-seas-gas-initiative-possible/>

<sup>154</sup> Peters, Wolfgang. Poland, a “Failed State” in Gas Trading: Poland’s Deliberate Obstruction of European Traded Gas Market Integration and Its Misguided Quest for Diversity Hinging on “Ideological Physicality”. *The Gas Value Chain Company*, June 2018, 60-61, retrieved at: <http://gasvaluechain.com/cms/wp-content/uploads/2018/07/GVC-Market-Study-Poland-06-18.pdf>

<sup>155</sup> Musialek, Pawel. Three Seas Gas Initiative. Is it possible? *The Warsaw Institute Review*, 4.12.2019, retrieved at: <https://warsawinstitute.org/three-seas-gas-initiative-possible/>

## Conclusion

The basic goal of this study was to explore the geoeconomic effects of Poland's diversification of gas import in the context of broader regional political developments. This study made an effort to trace it from the geoeconomic perspective which is its basic academic contribution.

Two interrelated main arguments were raised during the process of research. First, the core aims of Poland's national geoeconomic strategy were fully refusing to import gas from Russia by building excessive gas transporting infrastructure and become a regional gas hub by selling the surpluses provided by that infrastructure to its neighbors. Poland successfully used the opportunities provided by securitization of EU energy policies, strengthening of sub-regional infrastructural cooperation in East-Central Europe, and assertive promotion of US export by Trump's administration. Nevertheless, these processes did not simply form the structure for Polish action because the development of each from these tendencies was accelerated also by active Polish involvement. This makes Poland the actor which in any case should not be left without attention in great powers games for the Central European region.

The second thought is that both goals, security and becoming a hub, in the long run, appear contradictory which may leave Poland in a middle-term perspective in less advantageous market position than it expected. The Polish gas market remains heavily regulated and to a great extent, this lack of liberalization was legitimized by the need for more state control for enhancing energy security. The question of whether the expiration of the Yamal contract would lead to the liberalization of Poland's energy policies in a desecuritized environment remains open.

This research provide also insights for future scholarly work. First, the junction between internal market design and energy security policies needs to be further researched and theorized especially in the context of the European Union. Exploring infrastructural logistics and tracing the alliance formation in the international arena is not enough for determining the future distribution of market power between different countries in the context of ever-closer integration between different

national markets. In this regard market liberalization and adaptation to new economic realities may also serve the geoeconomic purpose of expanding country's influence on international arena.

Second, the research on Poland in the framework of geoeconomics could be expanded to other spheres in order to present the coherent picture of Polish geoeconomic behavior. This study has its natural limits concentrating only on gas issues. Nevertheless, energy is only one side of the complex interplay between different countries in the international arena. The cooperation between Poland and the US is active also in the military sphere<sup>156</sup>. Neomercantilist measures are pursued by the Polish government also in other economic spheres, as current restrictions on non-EU corporate takeovers<sup>157</sup>. Therefore the coherent geoeconomic strategy of Poland still needs to be researched further by taking into account its multi-dimensional complexity.

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<sup>156</sup> Kochis, Daniel. A Framework for Advancing U.S.–Polish Relations During President Duda's Visit, Heritage Foundation, 11.06.2019, retrieved at: <https://www.heritage.org/europe/report/framework-advancing-us-polish-relations-during-president-dudas-visit>

<sup>157</sup> Reuters. Poland adopts rules to prevent takeovers by non-EU investors, 20.05.2020, retrieved at: <https://www.reuters.com/article/health-coronavirus-poland-companies/poland-adopts-rules-to-prevent-takeovers-by-non-eu-investors-idUSL8N2D243B>

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