

## **“But it is our duty!” Exploring Gazprom’s reluctance to Russian gas sector reform**

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Reform of the Russian domestic natural gas sector has been discussed for several decades but has not been carried out. The state-controlled energy company Gazprom holds a dominant position in the domestic market, supplying the population with gas, carrying out societal functions, and in return getting privileges from the state. Recently, however, independent gas producers have increased their market shares, and are lobbying for liberalization. While Gazprom might gain from reform, it continues to warn against the dangers of altering the gas market structure too abruptly. Analyzing Gazprom’s reasoning through an ideational analytical lens, this article finds that Gazprom’s reluctance to change can be explained not only by its interests, but also by norms and beliefs. Reform studies should take note of Gazprom’s idea of “keeping the country together,” not least because the company has a sounding board in the President, who makes the final decisions.

**Keywords:** Russia; natural gas; energy; reform; Gazprom

The staff of Gazprom has been trained and culturally shaped for decades.  
—Interviewee 1, 2016

### **Introduction**

Gazprom is a Russian state-controlled, vertically integrated company that conducts production, transport, and export of natural gas. In addition, the company plays a major socio-political role as the main supplier to Russian households and industry, also providing other services that in many Western countries are the responsibility of the state (Mitrova 2014, 19). In return, Gazprom receives privileges, such as a monopoly on the export of pipeline gas, and low taxes (Stern 2005; Kryukov and Moe 2013).

Following decades of domestic market dominance, Gazprom is increasingly being challenged by other gas producers, particularly Novatek and Rosneft. These gas producers, often referred

to as “independents,” have been lobbying for liberalization of the domestic gas market and de-monopolization of gas exports (Kardaś 2017, 64). This has reignited the debate on structural reform of the Russian gas sector, which has been on and off the agenda in the Russian public and academic literature since the 1990s (Stern 2005, 184; Henderson and Moe 2017, 454).

The changes that the independents urge the Kremlin to adopt represent a significant departure from the current institutional set-up of the sector, potentially implying a break-up of Gazprom. Ever since its creation, Gazprom has argued that splitting up the gas sector structure implies major risk for the country, as it could jeopardize the security of supply, a matter of utmost political and social importance—not least during the “winter peak” of the geographically vast and cold-climate state (Henderson and Moe 2017, 12). In this narrative, reform could in a worst-case scenario represent a threat not only to Gazprom but also to national integration, as subsidized natural gas is used to maintain the popular support of the political regime (Overland and Kutschera 2011, 327).

Gazprom’s reluctance to reform can readily be interpreted as pure self-interest, as the company has benefited greatly from the old system. However, market changes have already taken place, and are unlikely to be reversed. The export monopoly has been broken for liquified natural gas (LNG), third-party access to pipelines has increasingly been granted to independents, and Gazprom’s market share has been substantially reduced (Henderson and Pirani 2014; Henderson 2015; Sidortsov 2014). In today’s commercial reality, Gazprom could stand to benefit from increased liberalization, entailing freedom to set its prices. If Gazprom were reasoning purely on the basis of commercial interests, it could seem logical for the company to embrace reform in a system where it arguably holds the strongest hand in terms of reserves, staff, experience, and markets.

Major economic, political, and vested interests are involved in the gas industry, and in the reform debate powerful actors mobilize on both sides. The actors’ interests, and how they play out, have become central topics in the Russian public debate and in scholarly studies. This article, however, explores an *ideational* explanation to Gazprom’s position in the reform debate. It assesses whether not only decision-makers’ interests but also ideas affect their response to domestic market changes. Ideas are here defined as cognitions—encompassing *norms* and *beliefs* or “mental models” (Jacobs 2015, 46). Could it be that Gazprom, in part at least, reasons and behaves on the basis of deeply ingrained norms and beliefs rather than strict consequence analysis? Drawing on research strategies proposed by Jacobs (2015), this article conducts an ideational analysis, assessing Gazprom’s ideas, the origin of these ideas, and the possible causal link between ideas and behavior.

This study combines perspectives from institutional theory, applying Scott’s definition of institutions as the “the regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott 2014, 56). This article assumes that all these three ways of interpreting human behavior—actions based on *consequences*, *norms*, or *beliefs*, applied consciously or unconsciously—are relevant in analysis of decision-making in Gazprom. As consequence-oriented accounts dominate Russian energy research, this article aims to provide nuances by emphasizing the two latter elements, which, according to the above definition, are ideational.

If ideas affect outcomes, taking them into account is important, both in a real-world and in an academic perspective. The organization of the Russian domestic gas market is, for example, closely linked to the country’s export policy (Henderson and Moe 2017, 463). If exports were

liberalized, several Russian companies would be allowed to supply gas, significantly altering the current dynamics of the gas trade. Understanding the dynamics of Russia's domestic gas sector is therefore relevant for policymakers and other gas-market players abroad.

The main data sources for this article are qualitatively analyzed interviews with Russian gas sector representatives and observers, combined with document studies and participatory observation. By giving a voice to players on the "inside," the article complements existing studies, which tend to take an outside-in perspective on Gazprom.

### **Long wait for reform**

Following the break-up of the Soviet Union, the oil industry was privatized. However, the gas sector was not—so it escaped the "wild privatization" of the 1990s in Russia (Rutland 2015, 73). Gazprom, established as a state concern in 1988, was basically the Ministry of the Gas Industry (Mingazprom) with a new name and greater independence (Kryukov and Moe 1996, 115). From 1992, it became a joint-stock company, and its activities were expanded to include pipelines and export activities, which had been outside the gas ministry structure. Despite several attempts, large-scale reform has never been implemented and Gazprom has retained many of the institutional features from its Soviet past (Mitrova 2014, 31; Henderson and Moe 2017, 454).

While liberal elements in the Russian elite have continued to push for reform, arguing that the monopolistic structure of the gas sector is economically inefficient, support for large-scale deregulation has been limited (Henderson and Moe 2017, 454). A liberalization campaign was initiated by the Ministry of Economic Development in 2002. But then came a clear signal from President Putin in 2006 that Gazprom's strategic and geopolitical role was more important than commercial considerations (Mitrova 2014, 31–32). Instead of a reform of the gas sector, Gazprom's position was strengthened in 2006, when an amendment to the law on gas exports granted the company a formal monopoly on the export of gas (Kardaś 2017, 64; Kryukov and Moe 2013). The Russian gas market did not begin to resemble a "market" until the 2000s, when the gas price reached a level that let the producer earn a profit—or at least cover cost (Stern 2005, 58). In 2008, Gazprom's share of production was approximately 80%. By 2016, however, Gazprom was producing only 66% of the Russian gas, while the "independents" produced the remaining 34% (CDU-TEK 2017, quoted in Henderson and Moe 2017, 443–444). The two main competitors are Novatek, accounting for 8% of Russian production of gas (10.7% with its controlled companies and joint ventures), and Rosneft, accounting for 7.2% of Russian production (9.4% with its controlled companies and joint ventures) (Kardaś 2017, 14). As long as demand for gas in Europe was high and domestic sales were unprofitable, it was advantageous for Gazprom to let other gas producers serve parts of the domestic market (Lunden et al. 2013). However, with higher profitability domestically, combined with less demand from Europe because of the 2008–2009 financial crisis, independent producers increasingly became a threat to Gazprom (Henderson and Moe 2017, 445).

Since 2010, the independent producers have lobbied aggressively for removal of Gazprom's privileges, particularly its export monopoly (see Kardaś 2017, 60; Henderson and Pirani 2014). In 2013 came the first cracks in this monopoly, when it was decided that LNG from the Yamal Peninsula could be exported by other producers. However, some scholars hold that this was a one-off exception to the rule, and cannot be interpreted as liberalization as such (Sidortsov 2014).

As a pipeline gas supplier, Gazprom is responsible for providing, without interruptions and unconditionally, the prescribed volumes of gas, regardless of profitability (Nazarov 2015, 220). The independent producers have no such obligations. Gazprom argues that consequences of proposed reforms such as abolishing its export monopoly and re-allocating its transportation system could “destroy the unified technological chain, lead to higher gas prices for consumers, weaken the manageability of the gas industry and create uncertainty in the distribution of responsibility for gas supplies to socially sensitive sectors of gas consumption.”<sup>1</sup>

There have been plans to gradually increase the domestic gas price for industrial customers to the European netback level and implementing a subsequent liberalization of the gas market, but these aims have not been fully achieved (Nazarov 2015, 227). The independents have been able to offer contracts with prices between 3% and 10% lower than the regulated prices and the prices set by the responsible federal agency, and as a result, these producers have managed to take over some of Gazprom’s most profitable customers (Kardaś 2017). Although Henderson and Moe (2017, 446–447) point out that there is limited room for a greater domestic market share for the independents, as their reserves are relatively small, Gazprom certainly finds itself in a weakened position today.

The domestic gas market has become more profitable than before, but there is still much more to be earned from exports. In 2015 the average domestic price for gas sold by Gazprom in Russia was approximately \$59/1000 m<sup>3</sup>—against \$246/1000m<sup>3</sup> as the average export netback price for gas exported to Western Europe (Orlov 2017, 590). This can explain the controversy over Gazprom’s monopoly on the export of pipeline gas.

### **Materialist perspectives dominant**

Much of the scholarly literature on Russia’s domestic gas sector emphasizes the need for structural reform. Possible measures discussed include ending Gazprom’s export monopoly, improving third-party access to the pipeline system that Gazprom controls, liberalizing gas prices, and a potential unbundling of Gazprom (Ahrend and Tompson 2005; Grigoryev 2007; Åslund 2010; Henderson 2010; Tsyganova 2010; Lunden et al. 2013; Henderson and Moe 2016; Orlov 2017). The dominant market-based perspective is clearly illustrated in Ahrend and Tompson’s (2005) article, with the telling title, “The endless wait for Russian gas sector reform.” The authors argue that the lack of reform represents a threat to the long-term development of the Russian gas sector and to long-term national growth. They therefore underline the urgency of restructuring the natural gas sector, including unbundling of Gazprom (Ahrend and Tompson 2005, 802).

However, Gazprom plays a special role in Russia, due to its many societal obligations to the Russian state (Hedlund 2014; Mitrova 2014). Although Gazprom is a vast and complex organization (Stern 2005, 39; Gustafson and Galtsova 2016, 10), and decision-making processes in Russia are multi-faceted (Fortescue 2016, 427), the academic literature broadly supports the view of a personalist, top-down decision-making process (Baturu and Elkink 2015).

It is often claimed that President Vladimir Putin is personally involved in Gazprom’s strategic decisions and sometimes even makes decisions alone (Zygar and Panyushkin 2008: 96; Henderson and Stern 2014, 300; Skalamera 2018, 56). Orttung and Overland (2011, 75) argue

that Gazprom cannot be understood in strictly conventional economic terms, as the government uses the company's vast resources to subsidize the energy needs of Russian households and factories. Subsidized gas is used for heating and cooking; higher prices might lead to social unrest (Overland and Kutschera 2011). Intuitively, it may seem logical to expect authoritarian leaders to have the freedom to implement their desired policies to a larger degree than in a democratic state. However, as pointed out by Gel'man (2015, 6), the converse may in fact be true, as authoritarian regimes may be more dependent on avoiding two critical threats: popular upheaval—and losing the loyalty support of the elite.

Informal, or “extra-legal,” practices are furthermore widespread in Russia, providing “rules” of the game that all players must deal with (Ledeneva 2006, 2011). Therefore, Henderson and Moe (2017, 456) argue that the discussion of gas sector reform is not just related to policymakers or experts seeking optimal solutions for Russia, but rather a process dominated by actors with vested interests in the outcome. According to Henderson and Ferguson (2014, 27), Russian state-owned companies often are run for the benefit of company staff and their patrons in the state administration.

Thus, in studies of the Russian domestic gas market there appear to be three dominant perspectives, often combined: commercial, political, or vested interests. All three perspectives are *materialist*—i.e., based on the assumption that actors will seek to maximize utility. *Ideational* studies, dealing with the ideas, identity, and norms of the Russian gas sector, have been far less common (Ocelík and Osička 2014, 98).

### **Gazprom's ideas: “without Gazprom there is no Russia”**

Rutland (2015, 67) finds that energy plays a contradictory role in Russian national identity; the population is generally positive to Gazprom's role in Russia's emergence as an “energy superpower” but not proud of Russia's dependence on oil and gas. Oil and gas furthermore carry negative connotations for ordinary Russians, because of the industry's enrichment of a narrow and corrupt elite (Rutland 2015, 80). This negative view stands in contrast to Gazprom's own narrative of its importance to Russian society. Zygar and Panyushkin (2008, 106) note how people who worked in the company in the 1990s would talk about Gazprom as “the only thing that holds the country together.” This relates to the fact that during the economic crises of the 1990s, Gazprom kept supplying gas, even though large customer groups were not able to pay (Kryukov and Moe 2013, 377).

Freeland (2000, 75) argues that while the gas-players were among Russia's most successful capitalists in the 1990s, they were also among the most old fashioned. They upheld Soviet-era paternalistic traditions by selling gas at home at around one tenth of world prices and acquiescing in non-payment. The subsidized gas, used for heating, cooking, and electricity production, was thus the justification for the claim that, in the words of Gazprom's former leader, Rem Vyakhirev “We heat and feed all of Russia” (Freeland 2010, 75). He confidently upheld that, “No matter who is in power, they won't start dividing the pipelines or give them to some collective farm,” and that the system could not be disturbed, because “Without Gazprom, there is no Russia” (Freeland 2000, 76).

Tynkkynen (2016, 79) argues that, since Gazprom's position in the domestic gas market today is under threat, its decision-makers have begun to realize the need to improve the company's image and thus safeguard its position—for example, through corporate social responsibility programs and infrastructure construction. However, Tynkkynen (2016) does not clearly

explain the basis for his account of decision-makers' perceptions, nor the causal mechanism between domestic market changes and what he refers to as "imago-promoting."

In Western countries, the term "corporate social responsibility" (CSR) has gained ground since the 1990s, implying that corporations should take responsibility for society, and not simply focus on making money (Aguinis and Glavas 2012). In Russia, however, the term for CSR (*korporativnaya sotsial'naya otvetstvennost'*), has been linked to the role of industrial enterprises in the Soviet model (Loe et al. 2017). In Soviet times, large industrial enterprises were responsible not only for business, but also for all kinds of tasks in society, such as electricity supply, health care, education, and even public baths in regions or cities where they were the dominant employer (Stammler and Wilson, 2006, 17). While the break-up of the Soviet Union entailed a massive transformation of society, Gustafson points out that Russian society has remained deeply affected by its Soviet past, which has "put its imprint on people, on habits and thoughts, on language and on institutions" (2013, 8–9). The Soviet perspective on the exploitation of natural resources arguably reflected a normative view of the relations between state, society, and the gas industry. Subsidized gas was considered a basic good that the state should supply. Even today in Russia, guaranteed supply of gas is considered a basic right of the population (Mitrova 2014, 19).

### **Norms and beliefs shaping behavior**

In a seminal account, Meyer and Rowan (1977, 341) argue that formal organizational structures "arise in a highly institutionalized context where conformity to institutionalized rules often conflicts sharply with efficiency criteria." The formal structure of many organizations in post-industrial society, they explain, dramatically reflects the *myths* of their institutional environments and not the demands of their work activities. Further, they hold, institutions inevitably involve *normative obligations* but often enter into societal life primarily as facts that the actors must take into account.

March and Olsen (1984, 1989, 1998) have argued that human behavior should not be interpreted solely in terms of interests—a *logic of consequentiality*, because people also act on the basis of *norms*, following a *logic of appropriateness*. March (1994, 57) describes the logic of appropriateness as "matching actions to situations by means of rules organized into identities." Instead of asking "what is in my interest," a person applying the logic of appropriateness will ask him- or herself questions like "What kind of situation is this?" "Who am I or what kind of organization is this?" and "How appropriate are different actions for me or this organization in this situation?" (March and Olsen 1989, 23). Instead of fear or the anticipation of consequences, affects such as *shame* and *honor* drive the logic of appropriateness (Scott 2014, 60). However, as these two logics are not mutually exclusive, it is difficult to test empirically whether a given behavior is driven by the one or the other (Goldmann 2005, 48). Taking *both* into account may foster a broader understanding of rationality than a view based purely on rational choice, where individuals are assumed to seek utility maximization. Other scholars point out that behavior may be generated unconsciously, as a result of habit or practice, rather than rule-following (Hopf 2002; Pouliot 2010, 13).

While the normative branches of institutional theory emphasize social obligation as a basis of compliance, the "cultural-cognitive" pillar implies that there are common beliefs and shared understandings that tend to be taken for granted within a given context (Scott 2014, 60). There is a wide array of theories about how individuals develop and uphold their beliefs—and how such beliefs change. For example, actors' beliefs may arise from lessons they draw from

particularly formative historical experiences or from exposure to ideas from others through professional socialization processes (Jacobs 2015, 42). When individuals form opinions, it has been argued that intuition comes first, and strategic reasoning second; arguments are thus developed post hoc (Haidt 2012, 367; see also Kahneman 2013). Individuals are prone to *confirmation bias*; they tend to stick to their beliefs even under changing circumstances and when exposed to new information (Nickerson 1998, 175).

North, Wallis, and Weingast (2009, 13) argue that social scientists often erroneously assume that the societies they live in are the historical norm. They classify the world's states as either "open access orders" or "natural states." The first encompasses mostly Western countries, the latter the rest of the world, including Russia. They argue that natural states have their own logic, which may appear to be corrupt according to the norms and values of open access orders, but that corruption is an inherent part of the operation of the social order (North, Wallis, and Weingast 2009, 269). Weingast (2011, 36) argues that economic reform in many non-Western states will not necessarily make people better off. This is because reform may dismantle the policies that create social order, which is described as "the very glue of societies" and necessary to avoid violent clashes. Measures that appear as *rational* in a Western market economy could in other words work contrary to its intentions in states with other kinds of institutional arrangements (Weingast 2011, 37; see also Fukuyama 2011 and Acemoglu and Robinson 2013).

An ideational explanation for Gazprom's reluctance to reform could on the basis of this theoretical foundation imply that decision-makers reason on the basis of their *norms* and *beliefs*, for example by references to "pride" and "honor." Gazprom's ideas are here theorized to result from their corporate identity, rooted in the institutional-cultural context into which company figures have been socialized. Given that Gazprom's decision-makers, both the management and other central figures, were born, raised, and educated in the Soviet Union, it may well be that they have maintained a way of reasoning they were socialized into at a young age—and not been sufficiently exposed to other ideas to challenge their norms and ideas. This, together with other differences between the Western and Russian institutional contexts, could imply that reform that seems like the only way ahead from an "outside" perspective may look different from the "inside."

### **Ideational analysis**

An ideational analysis is carried out to assess whether Gazprom's reluctance to reform in part can be explained by the ideas of its decision-makers, as defined in the introduction as norms and beliefs or mental models, rather than only their interests. Jacobs (2015, 43) conceptualizes an ideational explanation or theory as "a causal theory in which the content of a cognitive structure influences actors' responses to a choice situation, and in which that cognitive structure is not wholly endogenous to objective, material features of the choice situation being explained." This means that *ideas* affect responses to situations involving choice—here, how Gazprom responds to domestic gas market changes—and that these ideas do not result from "objective" features of the situation.

Actors' own verbal expressions tend to be biased representations of their ideas, as people often have an interest in hiding their true motivations (Jacobs 2015, 46). Therefore, it is essential to give careful consideration to the strategic interest underlying what they say. When looking for signs of "identity"-shaping norms and beliefs that are taken for granted in a society, one may, in addition to asking about these ideational factors, search for indications in

statements that do not deal with identity, where norms and beliefs are unconsciously and implicitly implied (Hecló 2008).

To test the viability of an ideational explanation to Gazprom's reluctance to reform, a combination of empirical tests is applied, drawing on guidelines from Jacobs (2015, 41–73):

*First*, the likelihood of an ideational explanation will be considered stronger if findings are in accordance with what is theorized as observable implications of an ideational explanation. In this study, this means if Gazprom behaves counter to what would be expected if it were acting solely according to its interests—and in line with its expressed norms and beliefs.

*Second*, the likelihood that behavior is affected by ideas rather than interests is higher if the ideas presented were antecedent to the choice situation. Do ideas remain the same even if material conditions change? In this study, this would mean that the arguments Gazprom uses today are the same as before the domestic market changes took place.

*Third*, there should be evidence that the objects of study have been exposed to the theorized ideas, making it more likely that they were socialized into internalizing them. In this study, this would mean that the actors are part of a Russian institutional-cultural context where these ideas were developed and spread.

### **Identifying Gazprom's ideas**

A Russian economist specializing in the oil and gas sector (Interviewee 1, 2016) argues that to understand Gazprom, one must first consider the company's place in the Russian economy, and its role in the regions. "Only after that can you add the market perspective." He points out that some of the leading foreign experts on the Russian gas sector never analyze Gazprom from the inside. "They only look at fields, reserves and so on, but Gazprom is far more complex." In his view, path dependence is crucial; the logic of Gazprom's behavior is rooted in its origin. "The staff of Gazprom has been trained and culturally shaped for decades," he observed (Interviewee 1, 2016). If so, what could this alleged *cultural shaping* consist of?

Russia's former Minister of Energy, Igor Yusufov (Interviewee 1, 2017), was a member of Gazprom's Board of Directors from 2003 to 2013. When asked about Gazprom's corporate culture and reasoning about reform, he related the following story to illustrate Gazprom's risk assessment:

Let's say that Gazprom's tasks were divided between three different companies. They would then be instructed: 'OK, you first company, produce gas—you second company can transport gas—and you, third company—you sell gas. Now get to work!'

The consequences of such a division of tasks (which Gazprom today conducts alone), he described as follows:



But then the people sit there, the apartment is cold, there is no heating, and for the businesses there is no power ... What happened? Well, this first company did not fulfill its new role, and the second and third companies didn't fulfill their new roles either. Today all these tasks are done by Gazprom—they organize the different functions internally, and in a very good manner. They have never broken their obligations, and the process remains under control. *That* is responsibility.

**[new para]**Yusufov explained that Gazprom's customers do not always pay on time, they accumulate debts to the company—yet he cannot remember one single incident in which Gazprom failed to deliver gas as per its obligations. “This implies a huge financial risk for Gazprom, a risk that no other company can allow itself to take,” he concluded. When asked if it is not unfair that Gazprom has these obligations—which other companies are not saddled with—he responded instantly, before the question was finalized: “But it is our *duty*! Gazprom is obliged to do that. It is the company's obligation to deliver gas to everyone.”

He also accounted for the decision-making structure in Gazprom, explaining that Gazprom is divided into different parts and may seem to be a huge, disorganized machine, but that in reality it works like the mechanism of a clock. “There is no doubt among anyone, from the regional manager to the individual worker, about what their role is. Every one of them knows what their competence is and what kinds of decisions they are entitled to make.”

Another senior Russian gas industry representative (Interviewee 2, 2017), nodded eagerly when asked if Gazprom's opposition to reform were driven by certain ideas or norms. He then set about describing what he sees as a core difference between the oil and gas sector:

There is a strong sense of responsibility, morally, in Gazprom. The sense of being responsible for others sits strongly in many souls. This is a heritage from Soviet times. You do not work only to make money, but because it is something society needs. In Gazprom, you don't have cowboy capitalism, like in the oil industry.

**[new para]**The network of pipelines that unite Russia is what makes Gazprom a conservative company, he stressed (Interviewee 2, 2017). “Experiments with a system which is the cornerstone of the country are dangerous” he said—but added that this is no excuse for being *too* conservative. He then went on to explain that the main difference between Gazprom and other big energy companies is their role as a supplier of last resort, and declared that “Gazprom keeps the economy going” (Interviewee 2, 2017). This, he says, became very clear in January 2006, when there was a terrible cold spell.

It was a real challenge for the Russian economy. Gazprom stepped up production and used all its reserves. It made a record of deliveries. Taking this responsibility saved not only the economy, but also the lives of many Russians.

**[new para]**Informal conversations with other Russian respondents showed that Gazprom's risk argument is broadly applied. As Interviewee 3 (2017) emphasized, today's system actually works, so “Why fix something that works relatively well ... if that implies the risk of it breaking down completely?”

However, other respondents told a different story: “You should not listen to propaganda from Gazprom; follow the money” said a foreign industry expert (Interviewee 4, 2017) in Moscow, who had worked in Russia for more than 20 years. He did not feel that the research questions presented to him about Gazprom’s norms or beliefs were relevant for explaining the company’s response to proposals for reforming the Russian gas sector.

“When they talk about stability, it is framed as if the world will come to an end if changes are made,” he said, when asked about Gazprom’s attitude to reform. “But I would not put too much emphasis on what they say about stability, because stability in practice means stagnation [...] Gazprom loves to talk about how they keep the Russians warm,” he continued. But he did not believe that this was genuine and rejected it as PR.

Head of Research at Vygon Consulting, Maria Belova (Interviewee 5, 2017), expressed similar skepticism concerning the idea that Gazprom’s normative commitments or beliefs guide its behavior: “Propaganda!” she abruptly declared, when asked whether *ideas* and not *interests* could explain Gazprom’s reluctance to reform. Arguments about Gazprom’s identity are, in her opinion, ideas that the company is primarily trying to sell to the Russian population: “They have a social burden, and that’s it,” she said.

The remarks of these two experts exemplify the distrust in Gazprom, a distrust that is voiced loudly in the West (Lucas 2008), but also in Russia (see, e.g., Rutland 2015) Their immediate responses, however, also serve to illustrate that Gazprom’s narrative of its own crucial importance to society is an ingrained part of the Russian reform discourse. These experts may not accept Gazprom’s storyline, but they know it well.

Belova (Interviewee 5, 2017) pointed at a complex process whereby the president makes decisions through the Ministry of Energy. The Ministry does not have decision-making power, but there are many mid-level players participating in the process: “The core question is whether export volumes will go up or down if exports are liberalized and Gazprom un-bundled. Will exports from Novatek and Rosneft yield more or less exports? That’s what has to be discussed and calculated” Belova said.

Despite these respondents’ rejection of “norms” or “beliefs” in explaining Gazprom’s position, the norm-based logic of appropriateness, as formulated by March and Olsen (1989) does in many ways chime with respondents’ accounts of Gazprom’s way of reasoning. For example, the industry expert who warned about heeding Gazprom’s “propaganda (Interviewee 4, 2017),” at a later point in the interview argued that many analysts in the West simply do not understand how things work in Russia. He added that, when he arrived in the country as a trade economist, the first thing he discovered was that everything he had learned was turned upside-down there:

I quickly realized that following simplistic commercial logic would often get you into trouble in Russia. First and foremost, you have to understand that this is a top-down country, while in the West you think bottom-up. In the Russian system, the President sits at the very top—and the large companies are given various different tasks. The main task of Gazprom is to make sure that gas exports and pipelines function. Gazprom, with its head, Aleksei Miller, is a *bureaucracy implementor*. (Interviewee 4, 2017)

According to a Russian gas-industry representative (Interviewee 6, 2016), all major decision-making in Gazprom is done by the President. He sketched a hierarchy with the President on the top, and with Gazprom, Rosneft, and Novatek below. “Gazprom was very important during Vladimir Putin’s first years in power, but now the company is losing influence and plays a less important role in the eyes of the President,” he added, also arguing that Westerners tend to get it all wrong:

People in foreign companies may understand theoretically how things function in Russia, but mentally they apply their own “ordinary” business strategy, thinking in terms of profits and cost reductions ... but that’s not how things work here. (Interviewee 6, 2016).

**[no new para]**When asked about the role of the Ministry of Energy in the reform process, he responded: “Look at their web-site. They work closely with oil and power generation, but they are cautious about the gas sector. They understand things clearly.” (Interviewee 6, 2016).

Another respondent, working in the supplier industry with Gazprom as a customer (Interviewee 7, 2016), argued that the system is so constructed that people are “puppets on a string.” Staff members are part of a system whereby any deviation has consequences. “You have to do as you are told. If you can reach a higher level, then you can get a piece of the cake. It is thus not a question of ‘right’ or ‘wrong’—it is just the way it is—and this system extends all the way to the top of society.”

If these respondents are correct, that also means that Gazprom has a role to which certain rules, formal or informal, do apply. Recalling March and Olsen (1989, 23), actors applying the logic of appropriateness will ask themselves questions like “What kind of situation is this?” “Who am I or what kind of organization is this?” and “How appropriate are various courses of action for me or for the organization in this situation?” The logic of appropriateness is thus likely to be the type of reasoning employed by a bureaucracy implementor, but also by insiders expected to comply with informal practices.

A Russian consultant (Interviewee 8, 2016) who has worked closely with Gazprom described what he perceived as the dual thinking in the company: “On the one hand they need to create a positive image for the President, on the other hand for the Russian population.” Gazprom is known for its slogan of representing Russia’s common “national treasure” (*nasional’noye dostoyanie*) from a publicity campaign in 2010 (Rutland 2015, 73)—which this interviewee linked to its need to respond to society in terms of perceptions and expectations. In addition, he argued that there is an element of sociology and psychology involved:

Like the Emperor of Rome, they want to make a show for the people. They want to be seen as the leaders in society. They want to appear as a company which provides wealth, positive feelings, safety and power to society. In a way, their self-identity is more important to them than money. (Interviewee 8, 2016)

**[new para]**These “positive feelings” could be illustrated by the first lines in a Gazprom song written by Vladimir Tumayev, director of the Gazprom subsidiary Spetsgazavotrans.<sup>2</sup>

Don’t bother trying, you’ll never find a surer friend than Gazprom. We provide people with warmth and light, for office and for home. We should always keep

in mind, from dawn to sundown, that our work is always needed, working day or holiday.

**[no new para]**The words might appear as parodic, but when viewed in conjunction with the description of Gazprom’s alleged self-image, they fit in.

Vladimir Drebentsov (interviewed in 2017), Head of Russia and CIS Economics in the oil company BP in Moscow, with a long career in the Russian energy sector, explained that Gazprom wants to be allowed to sell gas at unregulated prices, as the independents have been allowed to do. In Drebentsov’s words, this is how the debate between Gazprom and the independents go:

Then the independents say “No way until gas exports are liberalized. If you get to sell freely you’ll be able to undercut us because you have access to export revenues.” But then Gazprom says: “Well, you don’t have social responsibilities, you don’t guarantee supply as we do,” to which the independent producers say: “Yeah? We’ll take that challenge! Just give us access to storage. *You pride yourself on covering the winter peak.* But for the winter peak, you need storage. Give us access to your storage!”

**[no new para]**When asked explicitly, he clearly rejected that “norms” or “beliefs” affected Gazprom’s behavior. However, his account above arguably shows that he indirectly alluded to a normative mode of reasoning in Gazprom’s thinking by referring to Gazprom’s “pride” in covering the “winter peak.”

### **Conditions have changed, but not ideas**

Gazprom fulfills a role as a supplier of last resort, and it today continues to supply gas to remote regions and “social” customers also when not being paid. As the statement by the former member of Gazprom’s board of directors Yusufov indicates—“But it is our duty”—can reflect a *taken-for granted* belief that Gazprom has “always” fulfilled such a role, unquestioningly. His attitude seems to be “That’s just the way it is.” Furthermore, if people or organizations play a certain role, if they know what is expected of them, and they feel their actions are “obligatory” rather than a matter of choice, then it may be argued that they are acting on the basis of a logic of appropriateness.

The interview data show that one of the Gazprom “insiders” speaks of the gas sector as being more “moral” than the oil sector, arguing that feelings of responsibility for others “sit deeply in many souls.” Gazprom, according to several respondents, keeps the economy going by supplying gas—always complying with its obligations—and they are convinced that other companies would not be able to fulfill the role that Gazprom plays.

Are these expressed ideational commitments genuine? Two of the energy experts quoted above clearly do not believe this: they hold that what Gazprom proclaims is “propaganda” or PR. What could make Gazprom’s expressed views somehow more trustworthy is that the ideas expressed by respondents today are not only in line with, but are practically identical to, the arguments applied in the 1990s—they are not something developed in response to the current situation. As argued by Jacobs (2015, 57), it takes a long time to change cognitive

commitments, even if new information is provided. We see that the exogenous conditions have changed, but Gazprom's argumentation remains the same.

A similar argument could be made about Gazprom's reluctance to adapt to market changes in Gazprom's core export market within the EU. Here, Gazprom has maintained its rhetoric about why long-term contracts should be maintained instead of shifting to hub-based pricing mechanisms (Bousenna and Locatelli 2017). To this, Nazarov (2015, 238) has remarked that responding "appropriately" to market changes requires that Gazprom "changes its mental model of the world gas market from the current, archaic one." While this example is anecdotal, his remark can indicate that also he believes that that ideas rather than material interest are what affect Gazprom's behavior. Disapproval of Gazprom's logic of reasoning does not change the situation: one may argue that Gazprom's decision-makers "should" think differently—but if they don't, they don't.

Readers may rightly be suspicious of terms such as "moral" being used to describe the reasoning of actors in one of the world's largest energy companies—particularly in a country where corruption is endemic, and where extra-legal practices and the scale of "informal taxes" are higher than in most other countries (Gaddy and Ickes 2005, 565). Yet, also this system has its logic and its rules (North, Wallis, and Weingast 2009, 269). There need furthermore not necessarily be a contradiction between vested interests and acting on a sense of moral obligation; this depends on where loyalty lies.

The system of informal practices and way of thinking has deep roots in Russian society. People on the "inside" know things that they cannot say out loud (Ledeneva 2011). The lack of open sources makes this difficult to account for in academic studies, not least those undertaken by foreigners who are "outsiders." However, given that understanding informal practices and the norms related to them are an essential prerequisite to an understanding of how the Russian gas sector works, there is a risk of fundamental misinterpretation if it is not even considered.

The strongest indicator that Gazprom acts on the basis of ideas would be if the company behaves in accordance with expressed norms and beliefs, not doing what is in its apparent self-interest, and if other materialist explanations can be ruled out (Jacobs 2015, 60). The analysis has shown that Gazprom does not seem to believe that reform would have positive outcomes. That makes it rational, from a consequence-oriented, materialist way of reasoning, to resist reform. Avoiding risk and maintaining stability—these are rational goals. The risk-argument may thus be more logical than what is apparent from the outside. Henderson and Moe (2017, 255) note that the physical integration of the gas sector made it difficult to carry out reform at an earlier stage, leading them to contend that Gazprom's core arguments indeed had "considerable merit." Changing one part of the system would undoubtedly have major consequences for other parts of this highly complex system.

However, as argued initially, given the domestic market changes that have taken place, and the possibility that Gazprom may stand to gain from reform, as it is firmly placed to continue to dominate the sector, it may no longer be in the company's interest to maintain these arguments.

## Conclusions

Structural reform of Russia's domestic gas sector has been promoted by the national liberal elite and scholars as the only rational way ahead for Russia, as large efficiency gains can be envisaged. Gazprom might also stand to benefit from reform, if the company could operate as a profit-maximizing entity and compete freely on price. However, Gazprom continues to warn about the risks of altering the current structure of the gas market. If theoretical proposals based on economic theory are unlikely to function in real-life Russia, and the risks of reform outweigh the potential gains, Gazprom's argument should be carefully considered. As discussed initially, altering the institutional set-up of the Russian gas sector could have unintended negative consequences. The risk argument explains the attitude: why fix something that works, risking a breakdown of the whole system?

To add further nuance, this article has presented an ideational analysis, exploring whether Gazprom reasons and perhaps also behaves on the basis of deeply ingrained norms and beliefs rather than solely "cold" calculations of consequences. The narrative of Gazprom as a "reliable" company that feels its responsibility for stability and social welfare and "keeping the country together" has not played a major role in the academic debate about domestic gas sector reform. Despite critical voices that reject such argumentation as "propaganda," this article finds that the ideas promoted by Gazprom may reflect a genuine commitment and in part explain its attitude toward reform.

Russian gas sector representatives interviewed for this study used terms such as "duty," "responsibility," and "moral," and referred to the current system as "the cornerstone of the country." They explained how Gazprom's role as a gas supplier of last resort "keeps the economy going." The risk of reform runs like a red thread through Gazprom's argumentation, which on the one hand is supported by interest-based arguments regarding technological integration. On the other, the risk argument explicitly or implicitly alludes to a norm-based way of reasoning that other companies lack.

Actors' own accounts tend to be biased indicators of their ideas, as people often have a strategic interest in hiding their deeper motivations (Jacobs 2015). In contrast, individuals in corporations are socialized into a context where certain norms and beliefs prevail—and social psychology research finds that individuals are inclined to stick to their "old" beliefs even when external conditions change.

The ideas expressed by gas sector figures interviewed for this study are not new constructions tailored to the ongoing reform debate and the focus on greater competition from independent gas producers. On the contrary: ideas like "keeping the country together," "keeping the country warm," and "keeping the economy going" have been repeated and polished throughout the history of Gazprom. These ideas may be interpreted as part of Gazprom's corporate myths, as described by Meyer and Rowan (1977) in line with March and Olsen's (1989) account of the logic of appropriateness.

The ideas Gazprom voices today, its norms and beliefs, could possibly make more sense if we see the company's logic of reasoning as a result of thinking like a *ministry*—a "bureaucracy implementor" rather than a commercial entity. The role and identity of a ministry is arguably usually related to rule-following and complying with expectations.

The evidence put forward here is far from sufficient to conclude that Gazprom's reluctance to reform is due to ideas and not interests. However, the findings strengthen the case for an ideational explanation. If Gazprom were reasoning on the basis of commercial interests, it would be logical to expect the company to embrace reform in a system where it arguably holds the strongest hand in terms of reserves, staff, experience, and markets.

Despite Gazprom's reluctance, processes of change and pilot projects to test new market models are in progress, and interviews conducted for this article show that there seems to be a growing realization that gas sector reform is forthcoming. The ideas presented in this article may, however, not only be those of Gazprom. They may also be the ideas of Russia's president—and only when he is convinced will reform be carried out.

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## Notes

1. <http://www.assoneft.ru/activities/press-centre/tek/2546/>
2. [https://www.youtube.com/watch?v=xGbI87tyr\\_4](https://www.youtube.com/watch?v=xGbI87tyr_4)

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