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Shopping in Europe: Gazprom Expands Southward, Welcomed by Croatian President

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Russia's economic expansion strategy beyond its borders has stayed the same over the years. Champions of the Kremlin, such as Gazprom, Rosneft and Sberbank, acquire a dominant state-owned asset in their respective sector or procure a substantial contract with local state-owned counterparts as the foundation for the target country's economic rapprochement with Russia. After the initial deal, marked by notable leeway in terms given by the Russian side, fellow Russian investors, both public and private, rush in.

Although this approach yielded satisfactory results throughout Eastern Europe, from Ukraine to Greece, to Serbia and Bosnia, it failed more than once in the Southeastern Adriatic country of Croatia. Struggling with economic recovery ever since the global financial crisis hit the region four years ago, the country of 4 million has suffered steeply declining levels of foreign direct investment and negative GDP growth. However, as of last week, there are

clear signals that Russian investors are welcome to Croatia, as economic hardship as well as political change brought about a widening of perspective in terms of who the country's desirable economic and political partners are.

Last week, the CEO of Gazprom, Alexei Miller, and his deputy and Gazprom Export's CEO Alexander Medvedev visited Zagreb, Croatia's capital, for the signing of a South Stream connector pipeline with Croatia's gas utility operator Plinacro. Yet Miller and Medvedev's visit had all the features of a high-level visit of political and economic rapprochement. Miller and Medvedev held talks with Croatia's Minister of Economy Ivan Vrdoljak and Foreign Affairs Minister Vesna Pusic, as well as President of Croatia Ivo Josipovic. The messages from these meetings were clear: Gazprom hopes to ambitiously expand its supply of natural gas to Croatia's market by both winning over supply contracts for Croatian SOE's and building gas-powered electric power plants.

Welcoming Russian investors — a major shift in Croatia's economic foreign policy — is not only a change prompted by dire need under the burden of a widening budget deficit, but also makes economic and political sense. Set to enter the EU on July 1, 2013, Croatia's foreign relations have been vetted and will fall within the context of EU foreign policy — a foreign policy that seeks to prevent political rapprochement with Russia at the expense of the EU's influence (as was the case in Serbia) but fully endorses mutually advantageous economic cooperation like the recently established links with Gazprom. The economic rapprochement with Gazprom and other Russian investors that will likely follow suit does not have the negative political implications that might have existed previously.

Furthermore, concerns over issues of cooperation with Russian investors that still persist among some of Croatia's policymakers are unfounded. The leading advocate of Croatia's EU entry by July 1, Germany, has been a major hub for Russian investors Europe-wide. As a CDU member of Bundestag who also happened to be Chancellor Merkel's close ally told me when talking about this topic, pragmatism prevails in German policy toward Russia as economic links are superposed to political ones in many cases, both foreign and domestic. Furthermore, Germany's support for Croatia's entry by the set date is, at the moment, largely irreversible, so the benefits of a boost in foreign direct investment and increased capital inflow from Russia would serve Croatia's future well as declining economic indicators raise questions of another economic basket case EU entrant.

A similar pragmatism is reflected in the Croatian president's endorsement of cooperation with Russian investors. Although it is said that Gazprom management's visit to Croatia was done at their own initiative, their full reception by both heads of Croatia's foreign policy, the president and the minister of foreign affairs implies a more pragmatic approach for the future that will certainly bring benefits to both sides.

"We see Russia as an important partner in Croatia's future economic development. Gazprom, as well as other premier Russian investors' interest in Croatia, is fully welcomed. Their resources and strategic importance, but equally so their knowledge and vast experience in the sectors of energy and finance, are appreciated,"President Josipovic said while commenting on the topic for The Moscow Times."As Croatia makes its final steps toward EU membership, it must also look east and north for future economic cooperation and growth and in these efforts, Russia stands in high regard."It is exactly this clear line of pragmatism

that is in Croatia's best interest, and it was exemplified by full cooperation with both Gazprom's emissaries as well as competing Qatari investors that are contemplating an LNG terminal in the northern coastal parts of Croatia.

Still, Gazprom's market entry experiences will be of much greater importance to Croatia in terms of the signals they will send to other Russian investors than the size of the initial pipeline contract. What other Croatian assets might prove to be of interest to prospective Russian investors? Besides planned power plants, the announced tenders for offshore drilling sites (as mentioned in the "Christmas Shopping in Europe: Russian Investors and European Privatizations" blog entry) will be an interesting investment for Gazprom. In this, Gazprom has also exemplified a notable sensitivity for local context by registering a local representative for these tenders rather than applying through its Serbian subsidiary, Gazprom Neft NIS. Other topics of interest will include tourism asset privatization processes set to continue in 2013, as well as energy sector privatizations — a foundation of the current Croatian government's economic recovery strategy. Finally, it is rumored that the government's half of Croatia's oil and gas state champion INA, the ownership of which is currently disputed with Hungarian MOL, might go up for sale, an asset that has all the features of Gazprom's favorite investment target. As the window for investment without scrutiny from EU competition bodies narrows with Croatia's EU entry in six months, a rush of investors from the north might come soon and — in the words of a high-ranking government official responsible for the upcoming privatization processes — investors will be welcomed without discrimination in terms of their capital's geographic heritage.

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