

Building the Single EU Gas Market in
Hungary, Lithuania and Romania:
Domestic Interests and the Dynamics of
Europeanisation

By
Vija Pakalkaitė

Submitted to
Central European University
Doctoral School of Political Science, Public Policy and International Relations

In Partial Fulfillment of the Requirements for the Degree of Doctor of
Philosophy

Supervisor: Prof. Nick Sitter

Budapest, Hungary
April 2017

Word count: 88,787

Copyright Notice

I hereby declare that this work contains no materials accepted for any other degree in any other institution. This thesis contains no materials previously written and/or published by another person, except where appropriate acknowledgment is made in the form of bibliographical reference.

Vija Pakalkaitė

ABSTRACT

This thesis is about building EU single gas market in 2002-2010 Hungary, 2008-2016 Lithuania, 2008-2016 Romania and 2010-2016 Hungary. Their natural gas sectors represent four different outcomes of integration according to EU policies, which is defined as market liberalisation and cross-border interconnectivity combined. From 2002 to 2010 Hungary gradually liberalised its natural gas market according to the First (1998) and Second (2003) Natural Gas Directives and embarked on building cross-border interconnectors, but from 2010 retrenched in liberalisation of household consumers. After decades of persistent *status quo*, Lithuania changed its natural gas market in a matter of several years from 2009 in a dual reform: it implemented the ownership unbundling option envisaged in the Third Natural Gas Directive of 2009 and built an LNG terminal following the Security of Supply Regulation of 2010. In 2008-2016 Romania, however, the *status quo* continued almost through the most of the research period: EU internal market directives and cross-border interconnectivity projects were implemented late.

These cases explain why and how the EU agenda to create single natural gas market gives very heterogeneous outcomes across member states. The principal explanatory approach used in this thesis is the interplay between domestic interests and the policies of the European Commission and the EU, which merges the Europeanisation framework by Knill and Lehmkuhl (2002) with political/economics interests. The thesis claims that EU instruments related to the natural gas sector and the Commission impose structural limitations and freedoms, in other words, change opportunity structures, that affect the behaviour of the domestic actors. EU policies affect power distribution between political and sectorial domestic actors and shifts the gas sector towards reforms if the initial balance of power is in equilibrium. Pro-integration actors within the domestic structure proactively use changes in opportunity structures. However, in cases of dominance of particular interest on the domestic level that diverge from

EU policies, EU policies will have an effect only in as much as non-compliance would be costly to the anti-integration domestic actors.

To understand why these countries chose so different paths, this thesis uses a combination of congruence and process tracing methods. It uses two causal process tracing mechanisms, a mechanism of ‘EU opportunism’ in the cases characterised by balanced and a mechanism of ‘EU leverage’ in the cases characterised by dominant interest structures. Elite and expert interviews with 48 people were conducted and a procedure of right to access information from the Commission was used. The first mechanism was identified in Hungary from 2002 to 2010 and Lithuania from the 2008 general election to 2016. Within the identified mechanism, the domestic interplay of interest differed: in Hungary the push to deregulate and interconnect the gas sector strongly came from the sectorial actors, whereas in Lithuania from executive politicians. The second mechanism was found in 2008-2016 Romania and 2010-2016 Hungary. Within this mechanism, interplay of different interests resulted that household segment liberalisation and cross border interconnectivity stalled in Romania, but in Hungary the cross-border interconnectivity continued despite the retrenchment in the household segment liberalisation.

ACKNOWLEDGEMENTS

It is impossible to mention and thank everyone without whom I would not be where I am today. I express my gratitude to my supervisory panel Professors Nick Sitter, Andreas Goldthau¹ and Marie-Pierre Granger at Central European University (CEU), and also Robin Bellers from the CEU Academic Writing Centre (AWC) for accompanying me on my way to this PhD. I also thank Katja Yafimava, Howard Rogers and Jonathan Stern from the Oxford Institute for Energy Studies for creating opportunities for me to learn from the best and for providing valuable comments on my writing. Professors Ingo Rohlfing (the University of Cologne) and Derek Beach (University of Aarhus) helped me to understand the political science methods. I thank Barbara Breitschopf and Jakob Wachsmuth from Fraunhofer-Institut für System-und Innovationsforschung, Andrea Kirchknopf from CEU AWC and CEU Professor Erin Jenne for the invaluable support in the final stages. I would also very much like to thank my interview partners, many of whom I do not reveal to protect their confidentiality, and Nottingham Trent University Professor Robert Ackrill. I separately express my gratitude to the CEU Library personnel for adjusting to my research needs and Adriaan Bredekamp for language corrections.

I feel very grateful to my mom Rasa Pakalkienė and grandmother Birutė Neverauskaitė for their unconditional support. My partner Andreas Huber lived throughout the most difficult stages of my PhD together with me. I hope I will be able to return the endless support to him. I thank my dear friends that I met in Budapest, Aušra Gedminaitė, Igor Gavrič, Shota Gvaramadze, Evgenia Ivanova and Alena Ivanova for helping me with the studies and, not less important, for being true friends. I also thank Joshua Posaner, Olga Löblová, Živilė Stubrytė, Sabina Karmazinaitė, Hana Holla and Barbara Ochotnicka. The family of Minea in Bucharest nearly adopted me during my research in Romania, and I will never forget their warm hearts.

¹ Now at Royal Holloway University of London.

CONTENTS

CONTENTS.....	iv
Abbreviations	vi
Introduction.....	1
1 The dynamics of Europeanisation	13
1.1 Policy diffusion: the small role of the EU	14
1.2 Political economy: winners and losers of reforms.....	17
1.3 Classical EU integration theories	20
1.4 Europeanisation and differentiated integration	23
1.5 Merging Europeanisation with political/economic interests	32
2 EU instruments as opportunity structures in gas politics	37
2.1 Market liberalisation	39
2.2 Cross-border diversification.....	52
2.3 Political, sectorial and EU-level actors and EU opportunities.....	56
3 Congruence and process tracing methods and case selection.....	67
3.1 Interests and power positions of actors	68
3.2 Process-tracing the effects of interest structures	75
3.3 ‘EU opportunism’ mechanism.....	80
3.4 ‘EU leverage’ mechanism.....	84
3.5 Selection of four non-chronological cases.....	87
3.6 Research data	93
4 Hungary 2002-2010: towards the ‘traces of genuine competition’	96
4.1 The sector driven interest structure	97
4.2 Push to deregulate gas prices.....	110
4.3 Changing focus to cross-border diversification.....	121
5 Lithuania’s Strategic Approach Towards EU Energy Policy Tools	126
5.1 Fluid Interest structure in 2008-2016.....	126
5.2 Opposition ‘in Government’ in 2006-2008	137
5.3 Turnaround in Lithuanian gas policies in 2008-2009.....	140
5.4 Moving to the International Level.....	151
5.5 Power redistribution and the locked-in reform.....	159
6 Romania and the Commission playing a ‘Cat and Mouse’ game	164
6.1 Consensus in the interest structure	164
6.2 The Commission vs. Romania.....	182
6.3 Infringement procedures and financial conditionality.....	190
6.4 Moving towards gas sector integration	200
7 Post-2010 Hungary: diversification vs. retail liberalisation	206

7.1	Shifting balance of power after the 2010 election	206
7.2	Retrenchment in liberalisation of household consumers	214
7.3	Infringement procedure for incorrect transposition	228
7.4	Continued diversification of gas supply routes	231
8	Coupling and decoupling of internal market and cross-border diversification	240
8.1	Political agendas influencing NRAs and sectorial interests	240
8.2	Proactivity or reactivity of domestic actor coalitions.....	248
8.3	‘EU opportunism’ in 2002-2010 Hungary and 2008-2016 Lithuania.....	251
8.4	‘EU leverage’ in 2008-2016 Romania and 2010-2016 Hungary	266
	Conclusion	275
	Annexes	282
	References.....	285