

# [A case study of a dying monopoly](https://assignbuster.com/a-case-study-of-a-dying-monopoly/)

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## Abstract

Gazprom is an international powerhouse long credited with maintaining a Russian monopoly in the energy sector. This essay examines the impact of modern economics on the once mighty business in order to assess their future potential. Examining the inception, modern operation and potential for the Gazprom monopoly will benefit the effort to chart a successful business strategy going into the next era. The evidence presented demonstrates that Gazprom is experiencing issues on multiple fronts, causing a significant reduction in revenue and influence. This study will be of value to any future assessment of the mega energy companies and their efforts to sustain market share in the modern market.

1. Introduction

Gazprom, a mega energy company created during the Soviet era, long credited with conducting a Russian monopoly has begun to see support diminish (Lunden, Fjaerfoft, Overland, Prachakova 2013). This essay will examine the impact of the company’s current operations on their perceived monopoly in the international market. Beginning with a brief overview of past practice, this essay will establish a foundation for Gazprom operations. Next will be an analysis of modern day policy and influences that have served to impact the Gazprom market presence. Combining the first sections of this essay will enable a credible assessment as to the current condition of Gazprom as well as their position in the evolving market.

In the end, this essay will examine past practice, modern policy and future potential with the stated goal of accurately predicting Gazprom’s path.

2. Past Practice

Gazprom became an official entity in 1989 during the Soviet Era, taking elements from the state run Ministry of Gas in order to form the State Gas Concern Gazprom (Kupchinsky 2013). Under theleadershipof Viktor Chernomyrdin, the creation was still strictly controlled by the Soviet State machine. During the early nineteen ninties this company was transformed into the RAO Gazprom and then later in 1998 became the OAO Gazprom (Ibid). The Russian state is the owner of fifty one per cent of the stocks and holds sway over the policies and direction of the company, strictly controlling the direction of development. The largest Russian production of gas, Gazprom owns and operates the entirety of the Russian gas-pipeline infrastructure (Kupchinsky 2013). This allows the company to exert a tremendous amount of influence on every level of the supply partnership, both upstream and downstream. The operation of such a scope of control over one industry, by one company is not conducive to continued growth (Tsygankova 2012). To this end, there is mandatory Russian stipulations that force Gazprom to share their pipline with other providers, in an attempt to provide a balanced and inclusive business format. Studies suggest that this practice of resource sharing is heavily dominated by the Gazprom Company denying many legitimate requests (Kupchinsky 2013). This argument highlights the difficulty internal competition has faced in the Gazprom monopoly. The unrestricted use of resources allowed Gazprom to leverage their initial state sanctioned domination of the regional oil industry into a full-fledged monopoly following the transition to the Russian state (Kupchinsky 2013). The Kremlin disputes the existence of a monopoly and it is common for the government to make use of Gazprom as a weapon of sorts (Macey 2013). This fact has spawned the modern opposition to any benefit to the company. The combination of political leverage, infrastructure control and raw power has allowed the company to monopolize the Russian Market (Tsygankova 2012). The continued operation of this monopoly has been a benefit as a stabilizing force in Russian development (Macey 2013). Others argue that this single power has inhibited true development and has instead crippled the entire regional industry (Kupchinsky 2013).

3. ModernEnvironment

Tucker (2013) argues that the emergence of unconventional energy sources is weakening the hold that Gazprom has had over their traditional consumers. This view illustrates the move away from the few energy mega suppliers, towards a more regionally sufficient international world. Others cite the lack of adaptability in the decline of Gazprom’s market presence (Krauthamer, Caloianu, Tsintsadze and Boissevain 2012). This speaks more to the out dated mode of management and innovation as factors for the weakness perceived in the modern Gazprom establishment. Areas such as Shale Gas are increasing the capacity of countries including China and the United States to offset the power of the Russian company (Cohen 2012). The increase in alternatives hastens the break up in the Gazprom monopoly in a very real manner. Others give Gazprom the opportunity to avail themselves of emergingtechnologyto extend their current position in the market (Krauthamer et al 2012).

Competition both at home and abroad are another factor that is causing Gazprom to be perceived as weak (Locatelli 2013). The basic competitive nature of the Russian economy has emerged as regional competitors appear, taking critical consumer resources away from Gazprom. However, others cite the political needs of the government to encourage innovation, as the primary reason behind Gazproms decline (Ibid). An example of the regional issues is illustrated in the fact that rival Russian gas producers have begun to actively take market share away from Gazprom (Lunden, Fjaertoft, Overland and Prachakova 2013). Unheard of less than a decade ago, this action from within Russia is a symptom of the decay of the Gazprom model. International issues are credited with further weakening the company assets in the form of antitrust suits brought by the European Commission (Kupchinsky 2013). With active legal ramifications, the day to day business has been adversely impacted, making the necessary adaptations to the international market hard to maintain. A conclusion of guilt in the antitrust case would bring about a serious change to the entire European Union’s competitive marketplace, further fracturing the Gazprom monopoly (Sartori 2012).

Swinn (2013) argues that the primary attacks on the Gazprom monopoly are due to the recognition of alternatives to producing profit in the energy sector. The need to increase the amount of revenue in the region is said to require a recalibration of former institutions. Others cite politics as the element that is considered a primary component of the dissolution of Gazprom (Shadrina and Bradshaw 2013). In a further blow to the once iron clad Gazprom monopoly the Russian government has reached out to other nations in order to enhance energy cooperation which in turn is aimed at improving and reducing cost. Alongside these external political concerns, still others argue that it is the current trend of institutional reform inside of Russia that is Gazprom’s largest antagonist (Belyi 2103). In every case, it the consensus that change and transition is needed in order to meet the requirements of the next generation.

4. Future Implications

The overall position of perceived deterioration within the Gazprom model is evident from the emerging pattern of regulatory, consumer, market and regional competition (Adam and Alexander 2013). Many separate issues confront the company, with a majority of the evidence seeking the fundamental dissolution of the Gazprom entity. There is no single factor that can be credited with weakening the company to the state that it is currently (Anni 2013). It is the combination of multiple factors that range from internal regional concerns, to widespread technological advances that are serving to outdate their current business model.

5. Conclusion

Mega energy concerns are swiftly becoming icons of a past age. Gazprom, once a state run entity turned international powerhouse has been impacted by the evolution of technology and lack of internal adaptation. Despite their well-developed supply chain, both upstream and downstream, the inability to adapt to the needs of the modern market are allowing competitors to close the distance between them. Factors that include new forms of energy that Gazprom is unprepared to dominate, to political change, to emerging internal and external competitors that are actively undermining their market share have eroded the perceived invulnerable monopoly once held by the company. In the end, as with all things, the market is calling for a transition to a more efficient business model in order to sustain operations. As Gazprom is demonstrating, the decline of mega monopolies allows competitors the potential to guide the next generation of Russian energy.

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