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CHALLENGES FOR DEMOCRACY IN POST COMMUNIST EU COUNTRIES AS A CONSEQUENCE OF PRIVATIZATION OF STATE ENTERPRISES

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Abstract. The attempt has been made in this paper to show the possibility that the totalitarian states may influence the democracy in other countries through the economic means. The analysis shows that enterprises from the totalitarian states, usually state owned but even if partly private, are always state-controlled. They pursue the political goals of the state, which are different than the goals of commercial enterprises acting in market economies. By pursuing the goals of the state, they receive the economic public support to accomplish their mission. Competing on the international market, they always win against the companies from the democratic states of market economies for the "state aid" is not available due to international and national regulations. The analysis is limited to the energy sector.

The analysis is conducted in two spheres. The first is the possibility to take control by Russia over the energy supplies to Europe. The analysis shows that no cost criteria are taken into consideration in order to hurt economically and politically the post communist countries. The second is international investment expansion by China and other totalitarian states. It is demonstrated that its political system makes China more competitive as an investor in undeveloped countries ruled by different kinds of patrimonial regimes.

These asymmetric conditions of competition put the democratic market economies in unfavorable position ending up with withdrawal.

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Reikšminiai žodžiai: valstybės kontroliuojamos įmonės, asimetrinė konkurencija, paveldimi režimai.

Introduction

In the contemporary world within the global economy international corporations are privately or state owned. Both are big and growing units and their income often overgrows the national income of the small and medium sized rich developed countries not speaking of newly developed rather still poor small countries like post communist new members of European Union. They operate being treated equally by the law. The European Union' regulations are emphasising the equal standing of state and private enterprises, provided they comply with the "state aid" regulations which considers that the state is not supposed to provide an enterprise any kind of subsidies. The members of the International Monetary Found are obliged to mutually open their markets to the movement of capital. That means that any member country of IMF can invest or buy the foreign enterprise of any other member. Russia, for example, is also the member of IMF so its capital may enter any country member of IMF including members of European Union where the "state aid" is strictly forbidden and the members of WTO where state aid is in principle not allowed as well. Russia is not a member of the latter and there is no institution to control the aid the state might give to its enterprises. So the state controlled and state supported Russian enterprises can act easily not on equal terms on international capital market .

It is possible to show that the totalitarian states (i.e. Russia) may influence the democracy through economic means in any country but the neighboring post communist states are specially prone to that influence. The method chosen by Russian capital is basically to buy the real estate located in these countries. But symptomatic phenomenon was the purchase of the well known and opinion forming daily newspaper in Great Britain by a Russian oligarch.

In this paper the analysis of this kind of acquisitions is limited to energy utilities. It is important property because it is a natural monopoly within the sector which is considered as strategic both in market economies and totalitarian states. Both acknowledge the importance of energy safety for their own countries. But they differ in their respected values. In democratically ruled market economies the basic values (supported by law) are respect of private property rights, the equal conditions for economic activity for all entrepreneurs, the profit of the owners of capital as a final goal of economic activity. In a totalitarian state there is no respect to private property rights, and the aim of economic activity at the last instance is subject of state decision by means of state support. The aim of a decision maker is to achieve the imperial status of the national state and the citizens or rather population generally support this policy.

When identifying the risks of international economic relations, we intend to draw attention to the phenomenon of uneven, though not unequal, terms of competition for energy resources and its transmission on the global market.

Business activities taking place within the theoretical conditions of "pure free competition" are regulated by a system of enforceable legal standards. For the free competition model, these standards include such basic and unconditionally enforceable norms like property rights and observance of contracts. Another group of norms includes standards of the existing ethical system, enforceable through social sanctions.

State interventionism interferes with this system of norms and creates unequal competition conditions. (By principle, already the Rome Treaty and further the European Union legislation considered that state aid was forbidden).

The discussion would be concentrated on two types of uneven competition existing on the global market, within the key sector nowadays and that means energy sector. First in the discussion the problem of opportunities for access to ownership on the capital market will be observed[1] as a method to achieve control of energy networks of the target countries. The enterprises which compete for that access will be referred to in this discussion as private-state-political establishments (PSP's), originating from practically state-controlled economies (such as Russia or China)[2]. Strictly capitalist enterprises originating from market economies, which are neither controlled nor subsidized by the State will be referred to as a private property enterprises (PPE's)

The second problem concerns unequal possibilities of access to energy resources, which are located in developing countries controlled by authoritarian political regimes for market economy enterprises and PSP's. These regimes control their resources and largely prefer to deal with similar political regimes like China or Russia.

1. Access to Energy Networks

We will discuss on the example of possibilities of acquisitions by Russian enterprises of energy networks in the European Union Member States. For that we have to consider a competitive situation between Russian PSP's and companies operating under competitive market principles- PPE'S - where the State support is being forbidden.

On the one hand, we have Russia with its legal protection of access to ownership of Russian natural resources and transmission networks (pipeline). The State protects its status of the dominant owner from foreign capital but also from private domestic capital – because private Russian capital might soon obtained by the foreign owner.[3] Russian PSP's exploring the national resources enjoy unlimited economic support of the State in implementation of the long-term strategic goal of State authorities.

On the other hand, we have European Union states. Their economies are based on legislation guaranteeing free flow of capital, meaning that there is no legal protection against acquisitions of market shares of those enterprises by, for example, Russian corporations.

In my opinion, equal treatment of "private-state -political" Russian enterprises (which might soon be followed by similar Chinese undertakings) on the EU competitive market, the application of the same

1 The stock market and direct investments.

2 The possibility of control is based on the ability to give orders but also to create the economic conditions for their implementation.

3 For example the Russian authorities successfully blocked the attempt to break the monopoly of "*Transnieft*" to transport oil by the pipelines. Transmission remained under state control, which is a crucial instrument for the impact on private parties. That opened the stage of the consolidation of the oil industry under the lead of the State. For the main contractor of this task group has been designated a state "*Rosnieft*" due to political affiliation and personal environment of the presidential administration.

principles and provision of the same rights to these and to local private enterprises is both a threat for energy security and may have a negative impact on political independence of the European Community and its Member States.[4] PSP corporations will always succeed in any tender (bid) or price negotiations because they have no limit of resources.[5] What they have is the goal formulated by their state and they would get every financial means to achieve that goal. As a consequence of seizing energy transmission networks, Russia might gain the possibilities to influence the actions of host countries.

The "battle" fought by Russian PSP's for buying shares of existing European transmission energy networks or to build new ones is spectacular. A main example of construction opportunity is the so-called Nord Stream project. Nord Stream's costs keep growing each consecutive year.[6] Had Russia been only interested in increasing exports of gas to EU Member States, it would have simply decided, together with Byelorussians and Poles, to build the second *Yamal* Gas Pipeline, which would have been much cheaper.[7]

A good example in the oil sector is the purchase by *Lukoil* of Russia of a fuel station chain in Poland owned by BP. Apart from market price BP had been promised access to Russian oil fields for that deal. It never got this access in the promised form. But *Lukoil's* competition may contribute not only to the sound competition on the Polish market but to the unequal one. *Lukoil* can have cheaper oil and petrol transferred from Russia, with no export tax charged. This tax is being paid by exporters dealing with Polish refineries.

In addition, as early as now in 2008 Russia suggests that it is not economically viable to renovate the *Druzhba* Oil Pipeline. As a result, Poland would have to import oil via sea, which will definitely be much more expensive; therefore Polish drivers will have the only choice – *Lukoil* pump station. *Lukoil* is able to secure supplies of its own oil, which are cheaper than imported internally within the holding. *Lukoil* is not only present on the Polish market but is also winning strongholds in Western Europe. Together with *Erg* of Italy, it established a company which will become the owner of two *Isab* group refineries and a power plant in Priolo, Italy. Other *Lukoil's* refineries are in Ukraine, Romania and Bulgaria. Now the corporation is seeking fuel stations in the Balkans.[8]

The European Commission has no legal grounds to object these acquisitions. The same rules of mergers and acquisitions of private enterprises in the European Union apply to mergers and acquisitions with the participation of non-EU companies, provided that the given states have entered into an agreement with the International Monetary Fund. The IMF has signed a membership agreement with Russia. In my opinion, accepting non-market states under this agreement to institutions implementing and expecting compliance with market principles from members is a strategic mistake.. The philosophy of the Fund's authorities was based on the assumption that poor countries with no market economy institutions willing to take out credits will respond to effective pressure imposed on them in regard of implementing such system. However, there are several groups of states that do not have to take out any credits. On the contrary, their accumulation enables them to make direct foreign investments. These states are keen on becoming members of the IMF because this would authorize them to make foreign investments in IMF member states. This is what happened to Russia, which introduced ostensible privatization, ostensible democracy and ostensible market economy in strategic sectors. In fact, Russia is a totalitarian state, capable of using its PSP enterprises for activities on the global market aimed at achieving its long-term political goals,[9] namely reaching political domination through economic domination expressed through control over strategic networks. The Russian State has multiple tools enabling it to influence enterprises. First, these include political dependency of formal private owners (possibility of incarceration or even death). Secondly, state authorities control oil and gas pipeline systems via *Transneft* and *Gazprom*[10] as state-owned enterprises, deciding via both these mo-

4 The good illustration of that trend is the approach - „not make Russia angry" - examples of that where in case of Chechenya and in case of Poland – starting from the prohibitions on the import of Polish products ending up with North Baltic gas pipeline.

5 *Polityka*, july 2008.

6 It is known now that the investment will absorb at least 7.5 billion Euro.

7 Łakoma, A. Policy win with the economy. *„Rzeczpospolita*" 26 May 2008 .

8 For take-overs the group wants to spend as much as 10 billions Euro. After Lukoil in Europe, *Polityka*, no 27/2008.

9 Wyciszkiewicz, E (ed): „Geopolitics of pipelines", Warsaw 2008, p. 7 states „Putin claimed, inter alia: „energy is the main driving force behind global economic development. This has always been and will remain so long". It was not the first signal of Russia's state authorities reluctance to reduction of her influence.

10 Gazprom became the main shareholder (47 percent) of the second – largest Russian energy company TGK-1. the company has power heat plants and powewer plants in the north-west Russia. Gazprom wans to beome the majority shareholder biggest Russian Energy Companies in the end of 2009. After the acquisition of the entire system it will monitor the whole Russian energy system / *Rzeczpospolita*, 12-13 July 2008.

nopolies on granting access to infrastructures, tariffs, etc. Thirdly, the authorities use the tax system, particularly the extraction tax and export duty, currently affecting the most efficient companies (notwithstanding global prices of oil, Russian companies pay to the State budget the entire difference between the market price, ranging around 60 to 70 USD in 2007, and the statutory level of 25 USD). Fourthly, state authorities maintain regulated (low) prices for internal buyers, thus directly influencing revenues of enterprises which are legally obligated to sell a specific production volume on the domestic market. Fifthly, the authorities decide on granting licenses for field's exploitation and have significant powers to cancel these licenses on the basis of unclear criteria.[11]

Russia is attracting European partners through offering its fields in exchange for the market.[12] However, this offering is misleading. Russian corporations hold a very important asset which may facilitate their investments in largest EU Member States. This asset consists of oil and gas fields. *Gazprom* or *Lukoil* is able to offer access to exploitation in exchange for shares in European companies. *Gazprom* is particularly effective in implementing such policies. Recently, while entering into new long-term export agreements with West European companies, the holding managed to convince its partners' boards to allow direct sales of small volumes of gas to individual buyers in their respective states, without any yet evident chance to gain any major share in these states' markets. This, however, should be considered a stronghold for further expansion.

For *E.ON* or *ENI*, the very perspective of holding shares in Russian fields is so attractive that they are ready to engage in very expensive joint investments with *Gazprom*, even if those are disadvantageous for or criticized by other EU Member States.

The European Parliament has only recently recognized the problem and passed a resolution on that matter,[13] where in clause 6 it "regrets the marginal role played by the EU in this project, in particular that of the Commission..." while in clause 7 it takes note of the opposition expressed by certain Member States to the pipeline project planned for the Baltic Sea area, which is a common asset of the states bordering the Baltic Sea, not a matter of bilateral relations between states. In clause 13 of the same Resolution, the European Parliament "emphasizes that the reciprocity principle must be fully respected as regards investment if the interdependence between the EU and Russia is to develop into a partnership; notes that third countries benefit to a great extent from Europe's open market, but also that European investors in Russia are not accorded similar advantages". Russian enterprises operate in such institutional environment in which state authorities declare that central planning should form a major corporate governance instrument while the State should be authorized to intervene regardless of ownership rights structure whenever its safety is at risk. At a session of the Safety Board of Russian Federation in 2005, Putin presented a concept of Russia as an „energy superpower", *Gazprom* as the „key component of the national energy safety system"[14], and, equally importantly, as a „powerful economic and political instrument of Russia's global impact". Purchase of energy assets by foreign companies is acceptable in Russia,[15] provided that it does not lead to a possibility of seizing control over strategic plans of Russian companies;[16] these companies' strategic planning constitutes a natural continuation of the State's policy and should therefore not be controlled by foreign capital because this would constitute a threat to national safety.

Therefore, attempts at buying out strategic components of national energy infrastructures of European market economies by the theoretically private Russian capital, which is practically subordinate to state authorities' decisions[17], is so alarming. The

11 Ernest Wyciszkiewicz (ed.), op. cit., p. 43-44.

12 Pricewaterhouse Coopers Report: Equity transactions in the energy sector 2007". This report shows that the strong concentration of firms in energy sectors networks, and Russia. United Energy System of Russia (RAO-UES) took Vladimirenergo (OAO) and the Federal Grid (Co OAO), and Gazprom took over Msenergo (OAO). The second, worth metioning trend shown in this report is the purchase of minority stakes in the Russian company OGK by the German and Italian investors (E.ON AG and ENEL SpA).

13 European Parliament resolution of 8 July 2008 on the impact of planned construction of Baltic gas pipeline linking Russia and Germany on the environment of the Baltic Sea. This resolution was taken at the request of the Committee on Petitions, chaired by MEP Marcin Libicki (petition number 0614/2007 and 0952/2007).

14 Wyciszkiewicz, E. (ed): op.cit.

15 In 2008 the Russian Parliament passed a list of 42 strategic sectors in which the State must have control shares.

16 "Two powerful shareholders of BP PLC and a group of Russian oligarchs fighting for control over this are joint venture. In 2003, when the expected TNK-BP, BP group and its partners in the consortium led by Mikhail Fridman (AAR), Leonid Blawatnik (Access Industries) and Viktor Wekselberg (Renova) negotiated the division of power on the executive board such that none of the parties could impose its will. The system limited authority of the Director-General, but also other then the State Russian shareholders. The decisions of Director-General are sabotaged by the Russian shareholders – the members of managing Board. The Kreml, it is easy to see, wants that the State company such as *Gazprom* took over control on the enterprise leasing BP the role the position of minority partner". According to information of daily newspaper *Dziennik* 25 July 2008.

17 Wingas is a sixth energy German company in ranking by the volume of turnover, but interesting from the Polish point of view. This is joint-venture between the German company *Wintershall*

process began almost immediately after the collapse of the USSR. The European Union energy market, on the other hand, is open for external investors. They must be granted access on the same conditions as investors from EU Member States. "Nobody can be discriminated against only because they are from Russia", says Ferran Tarradellas Espuny, spokesman of the EC. However, we may refuse their investment, for example for environmental reasons, or the investor's failure to comply with administrative requirements. But these requirements must be identical for everyone."[18] According to current rules of competition, the European Commission itself may refuse consent to investment if such investment is considered in breach of these rules. The aforementioned asymmetry has only been noticed recently by the European Commission, forwarding an initiative regarding development of a new „energy package".[19] By principle, this package would prevent third country companies from investing in energy transmission in the territory of the EU. However, this new principle would only apply to transmission networks in the power sector. Supplies and distribution to end users would remain open without restrictions. The new package of regulations is yet to be discussed by the Member States but it already gives rise to serious controversy. Some Member States have taken notice of the above mentioned threats and have introduced a strategic sector / strategic enterprise status through legislation for selected enterprises and branches (sometimes corresponding to each other), which cannot be privatized. This was specifically implemented by France and by Poland, although as usual only partially. At the same time, Russian PNP enterprises subordinated to Russia's national interest are not only preparing construction of Nord Stream for gas. *Gazprom* has proven enormously successful in the south of Europe as well. Hungary and Bulgaria are going to accede to a program of building a gigantic pipeline across the Black Sea, which will worsen EU's dependency on Russian gas supplies.[20] In this way, the Russians have succeeded in blocking the *Nabucco* gas pipeline project preferred by the EU, which was supposed to deliver Asian gas of non-Russian origin to Europe. In the oil sector, preparations are in progress to construct an oil pipeline bypassing the *Druzhba* pipeline that crosses Belarus[21] and Poland (which means that Poland is forced to import expensive oil via sea and lose its potential profits from oil transportation service to Germany). The conclusions are generally rather pessimistic. If we observe the actual processes, we can clearly see that the European Union acts as a bureaucratic body that fails to formulate the Union's overall interests which would correspond to national interests of third party states (in this case – of Russia). The European Commission is considering, submitting a proposal for discussion by Member States, and the process may take years before it is realized,[22] because national interests of the individual Member States may vary. In addition, each Member State's authorities may be more receptive to lobbying for the Northern gas pipeline where Chancellor Schroeder was offered the position of President, and we might anticipate the same in case of Hungary.[23] The time pressure is growing stronger because this interest group who first succeeds in building the gas pipeline will become the exclusive supplier of gas to Europe from this direction. According to *Gazprom's* representative, "Today, natural gas supplies constitute a part of Russia's foreign policy. Tomorrow, they will become a part of Russia's military force".[24] Both new pipelines will enable limiting or even cutting down the supplies to each former Soviet block state without risking a decline of export to other countries. Through redirecting a major part of its current supplies to Ukraine to old Europe, Russia is going to significantly increase its revenues because it is paid less for the gas by Ukraine than by Western Europe. Thus, the cost of building the above mentioned two gas pipelines will be covered in less than two years. Europe is convinced that it will be properly secured in terms of resource

(65 %) and Russian *Gazprom* (35 %). This company is responisble for sales of Russian gas, its corporation and storage in Germany. The second separate company VNG has been set up for sales the Russian gas to all countries of the former *COMECON*. In this joint-venture Gazprom and Wintershall have 50 % shares. This way Russia fully controls the sales of its gas directly to the former *COMECON* countries. This eliminates the possibility of uncontrolled by Russia import of gas by Poland from its nearest western neighbour - Germany. That's miposes on Poland effors to imprt gas From Nowegia or liquid gas which are the costly solutions. Krystyna Bobińska, *The market witin infrastructure. Infrastrukture on the market* , Warsaw 2000, p. 87.

18 Walewska, D., Słojewska, A., Łakoma, A. „The Russian companies have billion but the Union does not look favorably on them." *Rzeczpospolita*, 1 november 2007 .

19 European Commission 19 September 2007. published so called "third energy package" which contains several documents among them that concerned with energy security where it is underlined the necessity of energy independence.

20 *South Stream* pipeline will by Bulgaria, Serbia and further to Italy, providing 30 billion m3 of gas per year.

21 The above pipeline is a to supply 50 millions tons of crude annually from Siberian deposits to the port of Primorsk than by tankers and then by pipeline again to customers in Europe and the USA.

22 Due to decision-making process for a property of gas pipeline in the European Union.

23 Romano Prodi the Italian politician refused that kind of proposal.

24 Pytel, G.Gas is still dangerous weapons. *Rzeczpospolita*, 23 July 2008.

supplies. However, the price Europe will have to pay for that will be economic dependence for whole of European loss of potential income for states bordering the Baltic Sea, loss of Ukraine as potential independent democratic country, and extensive political dependency.

2. Political Competition for Energy Resources

Today, competition for energy resources exists in areas where they were not exploited because exploitation was not viable due to low energy prices. Such yet unexploited fields (notwithstanding the fight for deposits surrounding the North Pole) exist in poorly developed countries, as the fields in well-developed countries have specific owners.[25] Fields available for exploitation are typically located in states governed by so-called neo-patrimonial regimes.[26]

These regimes enforce their political powers for the benefit of a patron network composed of supporters of the given country's leaders. Sometimes, as in the case of Mobutu Sese dictator of Zaire, that the neo-patrimonial regimes generate conduct which is described by Evans (1989)[27] as "predatory" – a person can appropriate the major part of public resources. In other cases we only have to deal with lobbing (rent-seeking) or the use of the public sector for the allocation of property rights, which will serve the interests of the group – family, tribe, clan, region or ethnic group. As Jonathan Steele (2002)[28] indicates, neo-patrimonial regime, usually represented by the office of President, coexists with bureaucracy often created in colonial era. The existence of this bureaucracy often threatens neo-patrimonial network of beneficiaries is usually on their competitor in the mobilization of resources. This dual nature of African state causes that the aid programs introduce in of XX century. This stabilization programs and help for structural adjustment did not produce the expected effects and sometime also have contributed to the deterioration of the situation. International lender required a reduction in the scope of the State through the implementation of ultra – liberal adjustment programs, but having the real political strength regimes used the neo-patrimonial conditions to justify cutting in the modern state at the same time protecting its own profits even expanding its scope. Twenty years of such a policy has brought a radical decline in investment in basic infrastructure as roads and public health, the benefit was similarly limited for basic education and agriculture. At the same time the "cost of sovereignty", that is, expenditure on the armed forces, diplomatic services and jobs in the office of the President dramatically increased (in Kenya, for example, the number rose from 18,213 persons in 1971 to 43,230 persons in 1990) This was not, of course, the intentions the lenders the organizers of bilateral help, but none was able to define the conditions for such aid to prevent this. For this situation the population of these poor countries blamed the western helpers. In fact, a slight liberalization can be worse than its total lack. These regimes tend to be extremely cruel towards opponents in their own countries. Ownership rights to natural resources in such countries are vested in leaders currently in power.

At the beginning, former colonizer states investing in these countries (the USA were the primary investor in Latin America and Europe in Africa, accordingly) were offered highly advantageous "business environment conditions" by local authorities (meaning the entire group of aspects of legal and institutional environment for the functioning of the given investment in the host country, namely taxes, environmental conditions, resources exploitation period, prices of exploitation permits, labor laws – the less restrictive they were, the better for an international corporation striving to maximize its profits). [29] For years on end, investors would support the so-called puppet governments, mainly various dictators. These acted as puppets in the hands of foreigners financing them while ruthlessly pursuing their citizens' obedience.

The present situation of corporations originating from well-developed democracies and market economies is no more advantageous for these corporations, although they have not always been excluded from these economic activities.

There are several reasons for aversion shown by authorities of certain Latin countries towards the Americans. Certainly, these countries have learned that the presence of American corporation has not had an especially positive impact on improvement of all citizens' living standards.[30] The clearly anti-Ame-

25 Large corporations may have their strategic goals set for longer time horizon than the young representative democracies which set goals for election period.

26 Quoted after Brzeziński, Z. *Second Chance*, Warsaw 2008, p. 174.

27 Brzezinski: op. cit., p. 182

28 Steele, J. Nation Building in East Timor, *World Policy Journal*, 2002/19(2), p. 76-87.

29 For years, the role of U.S. in the hemisphere western doctrine set down by President James Monroe in 1823, according to which Latin America was to remain the exclusive zone of influence of the United States. And Russia, according to the Jalta contract, have had such a zone in Eastern Europe and in the Caucasus. After taking over power in Cuba by Fidel Castro, the U.S. did everything that the Cuban scenario is not repeated in any other country in Latin America.

30 Corporations have no such responsibilities.

rican diplomacy of Fidel Castro has met favorable conditions where the United States and frequently also some West European states are still perceived as imperial countries.

"Anti-Western approach (...) of these regimes derives to a lesser extent from ideological or religious differences, but to a larger extent from historical experience. Western, or European domination is still vividly remembered by hundreds of millions of Asian and African peoples, as well as some of Latin America inhabitants", Brzeziński[31] claims. To slightly correct Brzeziński's political correctness, we should say that Latin America directs its hostility towards the United States. We must clearly emphasize that the US guaranteed enormous profits to its own international corporations in Latin America, completely disregarding the scale of local peoples' exploitation, which the Author disregards, saying that "memories can be blurred or even contrary to reality but they still constitute a part of historical tradition which has a major impact on the new self-awareness". Apart from India and Africa, which underwent direct colonization, these include Venezuela, Argentina, Peru, Bolivia and other Latin American states, which are afraid of the USA, Africa – which is afraid of Western Europe, and China, which is historically attacked from all sides.

On the other hand, neo-patrimonial regimes are afraid that corporations from these countries would be willing to replace the dictator with their own political and economic systems, as a consequence of which the present leaders would lose their position. It is, however, clearly visible from the economic perspective that corporations operating in market economies are joint stock companies that work for the shareholders' interest, subjected to external "business ethics" pressure, which directly sets the limits of remuneration (or bribery) to local rulers who would arbitrarily establish the so-called "legal conditions for a foreign corporation's activity". Chinese or Russian private-national-political corporations encounter no problems here – remunerating officials for positive decisions in the history of the Chinese and Russian civilizations was an inherent part of their political systems. Today, these countries are not conceived by poorly developed societies as colonizers, but rather as partner countries on their way out of economic regression.

Russia and China take political advantage of the existing circumstances through proposing development support to neo-patrimonial regimes according to their own "model", which in China is directed towards gradual combating of poverty and in Russia towards achievement of imperial goals with gradual improvement of living standard (at the same time, both these reference countries accept existence of major property inequalities. Russian and Chinese governments would convince neo-patrimonial rulers that they know the way out of backwardness because they quickly eliminate such backwardness in their own countries. Such support begins with Russia and China proposing investments in energy resource deposits held by target nations. When Hugo Chavez, the president of Venezuela, evicts Western exploration corporations from his country,[32] the latter will immediately be substituted by Chinese companies and Russian diplomacy. It is not only in Venezuela, they already control nearly half the oil sector in Colombia, Peru and Ecuador. China is no less effective to build its influence, but more discreet than the U.S. There are numerous examples of such activities. Thus, for example, investing in 15 oilfields Venezuela, in the state Anzoatequi and Orinoko deposits in the delta, the extraction in which is estimated at 3 million tons per year. Large money earmarked for expansion of railway network and Venezuelan refineries. Total sum invested in this country is about 400 million USD. And this is just the beginning. Approximately half of foreign investment of Chinese companies will be located in the nearest five years. The value of these investments exceeded 100 billion USD. In Argentina, the Chinese are planning to participate in the construction of strategic gas pipeline with a 17 billion m^3 per day capacity and values of about 5 billion USD. Gas pipeline is to be part of the vast network that connects southern and northern edge of the continent crossing the Amazon jungle. In Ecuador, the Chinese energy giants *Sinopec* and *CNPC* have a 40 percent of the oil pipeline leading to the Pacific coast and the oil companies control the five fields, which extract 267.5 million barrels of oil per year (about 25 percent of the annual extraction of Algeria). China also wants to invest 1.5 billion dollars in Bolivian gas sector, to develop the actions in Colombia, where jointly with India energy firm *ONGC Videsh* Sinopec bought a 50 percent shareholding in mining *Ominex* of Columbia. *CNPC* group in Peru has 50 percent shares in the Argentine energy company *Petrol Plus Norte*.[33]

Chinese and Russian PNP enterprises are now primarily investing in energy materials fields and transportation networks but their interests go beyond oil and gas – other precious resources are still within their range of interest.

31 Brzeziński, Z.: op.cit. p.175.

32 Białobok, P.: Chinese colonies in the Andes. *Wprost*, no 27 2007.

33 Białobok, ibid.

China is also an attractive partner for African leaders because it has enormous money[34] which it willingly invests in exploitation industry of ample oil economies (such as Sudan or Nigeria). However, Russian PNPs operate more proactively in Africa than in Latin America. Gazprom is going to extract gas and oil in Libya. It is also interested in building a gas pipeline from Libya to Sicily. Libya accepted that proposal in exchange for redemption of USD 4.6bn debt by Russia (no private company could probably afford such a bribe). If Russia intends to surround Europe with a 'gas curtain', it should really hurry because its oil resources are not largest in the world – they are comparable to Brazil's and Venezuela's resources, nearly four times smaller than the resources of Saudi Arabia, and slightly smaller than the resources of each of the following countries: Iraq, Kuwait, Iran, or the United Arab Emirates. Only Europe sees Russia as a tycoon in terms of its geographical location. Europe is also not visible in the race for "third country" resources.

Resources in these countries, although smaller than OPEC resources in capital and political relationship with the United States have a certain significant share in the world's energy resources. The race to them is dominated by two countries with private-national-political enterprises discussed in the present paper, namely Russia and China. Europe is not prominent in this race, which has already been shown at the beginning, for political reasons. The so-called patrimonial, or predatory regimes prefer to discuss matters with other countries of similar political culture.

The above observations draw a very pessimistic long-term perspective for Europe. For countries with direct borders with Russia, which used to be Russian subordinates before 1990s and which are still considered part of its influence zone by Russia, the existing political and economic situation is clearly disadvantageous.

Europe as a whole depends on supplies of energy materials. Still, it seems to passively rely on promised Russian supplies. Short-term profit account is an argument supporting such policy. However, although America imports oil from the Middle East by tankers gasoline is much cheaper there than in Europe. This questions the presented short-term European calculations.

As a consequence of the above-specified policy, Europe is absent or marginal on the global market as a player seeking unexploited fields.

34 China's foreign exchange reserves have surfaced ceiling trillion dollars. Only in 2005, China received a positive balance in foreign trade of 100 billions dollars. *World Economic Report*, 2007

Assessment of the current situation indicates that Russia is slowly achieving its political goals using the Energy charter. The system of gas and oil pipelines as designed or inspired by Russia stands a chance of faster completion than other competitive concepts. This system gives an opportunity of separating former Russian satellites from energy materials supplies from Russia. However, it seriously strengthens the remaining European states' dependency on deliveries of these materials from Russia. Through such dependency, it may affect directions of "old EU" Member States' policies. They will therefore be even less supportive of attempts by a large group of countries bordering the Baltic Sea and by Ukraine to cut short their dependency on Russia through the so-called joint European energy policy.

Any aspect of safety, including energy safety of an independent state, should not be considered only in the perspective of return on investment. This is also the cost of existence of the State. Considering such criteria as the basis of policies of a group of States bordering the Baltic Sea, members of the European Union and Ukraine, provided that it clearly strives for independence, should not be politically and economically powerless within the European Union and Poland as its member. We need a vision and determination in choosing investment priorities with long-term perspective. This perspective should be equally long-ranged as that of states controlling decisions of private-national-political enterprises.

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IŠŠŪKIAI DEMOKRATIJAI POKOMUNISTINĖSE ES ŠALYSE (IŠPIRKUS VALSTYBĖS KONTROLIUOJAMŲ NEDEMOKRATINIŲ ŠALIŲ ĮMONES)

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Santrauka. Šiame straipsnyje siekiama atskleisti kaip totalitarinės valstybės per ekonomines priemones gali daryti įtaką demokratijai kitose šalyse. Analizė rodo, kad totalitarinių valstybių įmonės, netgi privačios, paprastai yra valstybės konroliuojamos. Jos siekia valstybės politinių tikslų, nors rinkos ekonomikos sąlygomis komercinių įmonių tikslai yra kitokie. Siekiant valstybės tikslų, šios įmonės gauna ekonominę paramą savo misijai atlikti. Konkuruodamos tarptautinėje rinkoje su demokratinių valstybių įmonėmis totalitarinių valstybių įmonės visada laimi, nors rinkos ekonomikos sąlygomis pagal tarptautinius ir nacionalinius teisės aktus valstybės pagalba negali būti suteikta. Šio reiškinio analizė atliekama remiantis energetikos sektoriumi.

Tyrimas atliekamas dviem kryptymis. Pirma – Rusijos energijos tiekimo į Europą kontrolės galimybės. Tyrimas parodė, kad išlaidų ir naudos kriterijus tiekiant elektros energiją nėra svarbiausias motyvas. Svarbūs veiksniai yra ekonominė ir politinė žala pokomunisinių šalių ekonomikoms. Antra tyrimų kryptis – Kinijos ir kitų totalitarinių valstybių užsienio investicijų plėtros analizė. Ji parodė, kad Kinijos politinė sistema daro šalį konkurencingesne investuotoja į besivystančias panašių politinių režimų šalis dėl konkurencijos sąlygų iškreipimo. Konkurencijos sąlygų asimetrija daro demokratinių rinkos ekonomikos šalių pozicijas nepalankias ir nepajėgia kokuruoti.

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