12. COUNTRY CASE STUDY: MOLDOVA[165]

The Republic of Moldova did not emerge as a sovereign state until after the dissolution of the Soviet Union at the start of the 1990s, but it has a long prior history and, in medieval times, played a key role in the defence against the Ottoman Empire. The bulk of the country lies between the River Prut in the west and the Dniester River, which also serves as a natural border for the separatist region of Transnistria, a problematic region which leans toward Russia and has unilaterally declared independence. Its refusal to separate from the former Soviet Union at the time of its dissolution led eventually to a military clash between the region and the rest of Moldova in which Russian military troops took part. A ceasefire ended the conflict in 1992, but the region has remained troubled, impacting on the rest of the country to the present day in the energy sector and elsewhere (Upsala University, n.d.).[166] Within the energy sector itself, the situation is complicated by the country's strong infrastructural ties to Ukraine. Moldova's electricity transmission system is synchronized only with Ukraine's, and its gas pipeline system operates at pressures different from those in neighbouring countries.

A feature which is characteristic of most post-communist countries in the region, that of strong dependence on Russian energy sources, is very much true of Moldova. In the gas sector, this dependency means that practically all the gas consumed in the country comes from Russia. Moldova's natural gas consumption currently rests just above 1 bcm per year, with an additional amount of nearly 2 bcm consumed in the Transnistria region. Natural gas makes up about 60 % of the country's primary energy consumption, the majority of which is used for power generation and for heating (Energy Community Secretariat, 2015, pp. 129–152). Given its importance for these supply-sensitive sectors, natural gas is of strategic importance for Moldova.

By itself, Moldova produces no significant quantity of natural gas. It also lacks storage capacity and thus has no way to safeguard against disruptions in the gas supply.[167] Connections with neighbouring countries that could potentially provide gas from other sources are used almost entirely to transit gas further on to Europe. The exception is the Iasi-Ungeni gas interconnector, built between August 2013 and August 2014 to connect Moldova and Romania and put formally into service in 2015. It is capable of delivering gas at a price competitive with that charged by Gazprom,[168] but to have any real impact on the country's gas import portfolio[169], the interconnector must be extended further to reach the main centres of consumption. The final extension, reaching the capitol Chisinau, is expected to be ready in 2018.[170] However, since its inauguration in 2015, the project has made little progress. To comply with the so-called Third Liberalization Package, the Moldovan government established a new company, Vestmoldtransgaz, to operate the pipeline. When complete, the pipeline will serve up to 50 % of Moldova's gas imports, improving the country's energy security by allowing it to potentially get gas from sources other than Russia. Because of the differing pressure between the Moldovan and Romanian gas networks, however, for this to really happen will require the construction of a compression station along the pipeline extension (Info Market,

[165] This case study is based on the previously published text written by the author (Jirušek, et al., 2015, pp. 534–547).

[166] Russia still keeps its troops in the region as a peacekeeping contingent (Socor, 2013c).

[167] Moldova is entitled to use some gas stored in Ukrainian storages, however, it is not likely that Ukraine will make this gas available to Moldova if disruptions of Russian gas occur (Calus, 2014).

[168] The price is said to be USD 260/1000 bcm (Natural Gas Europe, 2015 h).

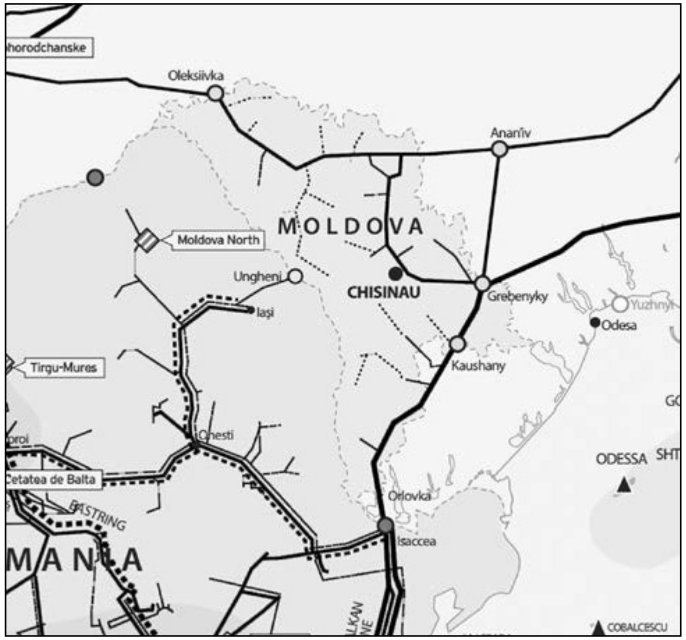
[169] Currently, around 1.1 mcm of natural gas is being delivered annually. After the extension to the country's capital, the estimated annual volume of imported gas is expected to be around 1.5 bcm (SEE News, 2016).

[170] The existing portion is 43 km long, cost around €26 million, and was partly financed by the European Union. To complete the entire project, providing Moldova with a supply of up to 1.5 bcm/year, another 100 km plus remains to be built. Chances are, however, that Gazprom will try fend off non-Russian gas, at least until the rules of the Third Liberalization Package are implemented (Interviewee 24, 2015; Interviewee 25, 2015).

2015; Interviewee 21, 2015). Meantime, the legislative framework for the new pipeline is yet to be sorted out. One potential obstacle may be MoldovaGaz, which is unlikely to cede its positions to the new company when it becomes able to reach major consumers (Surugiu, 2011; Suruceanu, 2012; Zadnipru, 2011).

Over the last decade, the prices charged by Gazprom have risen from what was a fraction of the typical European price (USD 60/tcm) to proper European levels of USD 368/tcm (Calus, 2013; Radio Free Europe, Radio Liberty, 2015). This steep rise seems to have been accelerated by the worsening mutual relations between Moldova and Russia (Interviewee 22, 2015; Interviewee 23, 2015), which began with the rejection by then-Moldovan President Voronin in 2003 of the so-called Kozak Memorandum, intended by Moscow to de-escalate tensions in the dispute between Moldova and Transnistria (Calus, 2013; Interviewee 22, 2015; Interviewee 23, 2015).

FIGURE 22: Natural gas infrastructure in Moldova



Source: (ENTSOG, 2016)

Currently, the Moldovan natural gas sector is dominated by the company noted above, MoldovaGaz, which is formally in charge of natural gas management throughout the country, including transmission, distribution,[171] and marketing. Two subsidiaries have been established and placed in charge of the transmission system: Moldovatransgas on the right bank of the Dniester, and Tirspoltransgas in Transnistria. MoldovaGaz's shareholder structure is as follows: Gazprom has a 50 % stake,[172] the Government of the Republic of Moldova holds 35.33 %, and Tiraspoltransgas, from the autonomous region of Transnistria, holds a 13.44 % stake. This setup basically gives Gazprom control over the entire Moldovan gas sector. As such, it violates the unbundling principle and places Moldova in noncompliance with the EU's Internal energy market rules.[173] To complicate matters further, the country's largest power plant, Kuchurgan, with a capacity of more than 2500 MW of electricity, lies in the Transnistria region. This gas-fired power plant is owned by the Russian company Inter RAO UES, which acquired it in 2004 (Calus, 2014), and it lies directly on the main pipeline bringing gas into Moldova. The problem is that Transnistria, although recognized formally by Russia, does not pay for the gas supplied; rather, under the original supply contract, which has been extended each year since its planned expiry date in 2011, it is the government in Chisinau which is liable for the debt. That debt has reached about USD 3–4 billion; the debt of Moldova itself stands at around USD 400 million. In 2012, Russian Deputy Prime Minister Dmitry Rogozin said that as long as Chisinau refuses to recognize Transnistria, it will be liable for its debts (Natural Gas Europe, 2014e; RBC.ru, 2012).

[171] Apart from Moldovagaz, there are 11 more independent companies active in distribution, but these have only a 2 % share of the market altogether (Energy Community Secretariat, 2015, pp. 129–152).

[172] In fact, Gazprom holds 50 % + 1 share according to Moldova-based energy experts and employees of the Ministry of Economy (Interviewee 24, 2015; Interviewee 25, 2015).

[173] And Moldova is failing to comply with the other requirements as well (Energy Community Secretariat, 2015, pp. 136–137). Recently, news emerged about the government's restored effort to unbundle Moldovagaz (Murphy, 2017a).

The debt issue was one of the main reasons for somewhat poor relations between Russia and Moldova. However, the situation changed after new pro-Russian president, Igor Dodon, was elected in November 2016. Shortly after the election, in January 2017, Dodon recognized the Transnistrian debt, worth around USD 6 billion, as part of the debt of mainland Transinistria that up to that time had been around USD 500 million. With that move, Moldova's officially recognized debt to Gazprom rose from 0.5 billion to 6.5 billion dollars (Vlas, 2017). Apparently, though, it would be wrong to assume that a smooth settlement of the debt was in sight—even after Dodon's statement, rows over unpaid bills continued. In March 2017, Gazprom filed suit against MoldovaGaz in the Russian arbitration courts for over USD 768.6 million of natural gas supplied in 2014. Such a dispute is no novelty: Gazprom sued Moldovagaz for unpaid debts in 2012 and 2013, as well. In both cases, Gazprom walked out of the courtroom victorious. Additionally, in May Dodon stated that Moldova would not pay the Transnistrian debt, in what was probably an attempt to assume a firmer stance as part of an effort to restore relations with Russia.[174] Dodon also noted that a consensual solution must be found, suggesting future cancellation of the debt and also lowering the price Moldova pays for Russian deliveries (Murphy, 2017b; 112.ua, 2017).

Gazprom's presence in Moldova dates back to the first half of the 1990s. MoldovaGaz began to accumulate debt at a time when Gazprom was charging unusually high fine amounts for late payments. Since the company (in fact, the government) was unable to repay the debt, Gazprom was given shares in the company as compensation. Gazprom's strong anchorage in Moldova and the strong Russian influence elsewhere in the country also influences the unbundling procedure. Consultations conducted in the country revealed that Moldova favours unbundling only on paper; unofficially, strong lobbying opposition is slowing down the entire process (Interviewee 22, 2015; Interviewee 23, 2015; Interviewee 24, 2015; Interviewee 25, 2015). The majority share Gazprom and entities friendly to it hold in MoldovaGaz, combined with the country's unilateral dependency on Russian gas, its corrupted elites, and the fact that the majority of Moldova's electricity is produced in the Russia-leaning Transnistria region makes for a tool able to exert strong pressure on the country's gas sector. With the election of pro-Russian President Dodon, it is likely that the cleavage between pro-European and pro-Russian forces will grow even deeper.

This complicated reality has been illustrated numerous times. Since it remains an important transit country for gas exports to the south, for example, Moldova tried to increase transit fees but was strongly dissuaded from doing so by the Russian side (Interviewee 21, 2015; Interviewee 22, 2015; Interviewee 23, 2015; Interviewee 25, 2015). But perhaps the finest example is the current state of Moldovan gas import contracts. The original long-term contract expired in 2011; since then, it has been prolonged only on a year-by-year basis until 2016.[175] This was attributable to Gazprom's reluctance to sign a new deal because of Chisinau's willingness to implement the Third Energy Package[176] and its related membership in the Energy Community. In December 2016, however, the supply contract was prolonged until the end of 2019 (Vlas, 2016). This was a surprising event, suspiciously correlating with the election of pro-Russian President Dodon who, as noted above, recognized the Transnistrian debt only a month later. Still, the Third Energy Package is undesirable from Gazprom's standpoint since its traditional business model would be impacted by, among other consequences, the division of MoldovaGaz. The uncertainty inherent in the current gas supply arrangement surely places Chisinau under pressure, especially taking into account the current situation in neighbouring Ukraine (Calus, 2014; Gazprom, 2014 c; Interviewee 22, 2015; Interviewee 23, 2015).

[174] Still, Dodon remains more pro-Russian, as he has frequently criticized the Moldova's relations with the EU. He also holds a substantially friendlier line towards Russia than the current Moldovan government (112.ua, 2017; (Vitu, 2017; Radio Free Europe – Radio Liberty, 2017).

[175] Ironically, since the gas price is calculated according to the European formula, it is actually more favourable to Moldova in terms of price than the original long-term contract (Vlas, 2016).

[176] The full implementation is planned to be finished by 2020 (Calus, 2013).

12.1 Reflection on the indicators

Active support by Russian state representatives for the country's state-owned energy enterprises and their activities abroad
Russian Deputy Prime Minister Dmitry Rogozin explicitly coupled Moldova's gas debt to settling the dispute over the status of Transnistria between Chisinau and Tiraspol. He also personally discouraged Moldova from increasing transit fees, warning it might have serious consequences (Interviewee 21, 2015; Interviewee 22, 2015; Interviewee 23, 2015; Interviewee 24, 2015). During a visit to Moldova in September 2013, Rogozin said, "*Take care not to freeze in the winter and get lost in the vortex of European integration you are caught in*" (Molnar, 2013), probably speaking to Moldova's accession to the Energy Community. Such a statement could easily be taken as a tacit threat.

As a foreign supplier, Russia rewards certain behaviours and links energy prices and deals to the client state's foreign policy orientation
Moldova's leanings toward the European Union were tied to Gazprom's reluctance to sign a new long-term gas contract. A steep hike in gas prices has been correlated with the worsening of mutual relations between the two countries triggered by the failure to sign the Kozak Memorandum in 2003 (Interviewee 22, 2015; Interviewee 23, 2015).

Despite Gazprom's previously noted reluctance to sign a new long-term supply deal, a surprising extension of the current deal until the end of 2019 was announced late in 2016. This took place shortly before the new pro-Russian President Dodon announced that Moldova would include the Transnistrian gas debt in with the debt of mainland Transnistria, revealing a correlation between the new president's stance and the nature of the new supply contract. The era of Moldova's pro-Western foreign policy orientation, especially since the signing of the Association Agreement with the EU, is also correlated with a number of other economic sanctions Russia has imposed on Moldovan exports, the workforce, etc. (Calus, 2014).

Abuse of infrastructure (e.g. pipelines) and differential pricing to exert pressure on the client state
Misuse of infrastructure is evident in more than one regard. The gas used in Transnistria's Kuchurgan power plant is charged not to the plant operator, but to the government in Chisinau, and the same is true with regard to the debt owed.

Efforts to take control of the energy resources, transit routes and distribution networks of the client state; Efforts to gain a dominant market position in the client country; Attempts to control the entire supply chain (regardless of commercial rationale)
Gazprom has succeeded in acquiring control over Moldova's gas sector, leveraging its position and the influence of Russian-leaning elites to assume a majority stake in MoldovaGaz. Although this may be seen to have come about purely a matter of business, Gazprom in fact charged unrealistically high fine amounts in the 1990s. This then later allowed it to exchange unpaid debt for shares, something which at the very least is a violation of the principles of fair trade.

Disruption (by various means) of alternative supply routes/sources of supply
The issue of slowly progressing gas supply diversification through the Iasi-Ungeni interconnector is one element in the bigger picture of Gazprom's efforts to protect its dominance over Moldova's energy market. Via its majority stake in MoldovaGaz, Gazprom essentially controls the entire Moldovan gas sector, and the implementation of the Third Liberalization Package, which requires the decoupling of transmission, production, and sales, was postponed until 2020 partly as the result of direct pressure exerted by Russian officials (EurActiv.com, 2012a), and as a result of Gazprom's reluctance to sign a new long-term gas import agreement. The newly established TSO Vestmoldtransgaz, in charge of operating the interconnector, will therefore probably encounter some obstacles in its effort to get non-Russian gas to the marketplace.[177] One

[177] This assumption actually proved to be correct right from the start when the Iasi-Ungheni pipeline was inaugurated in August 2014. The rather sluggish activity

such obstacle might be in the form of pressure exerted on consumers who would like to change gas suppliers. It is likely that MoldovaGaz might use debts that many consumers, including industrial consumers, have tallied so far to prevent them from switching (Mihalache, 2014).

Efforts to eliminate competitive suppliers

Given Gazprom's majority ownership of MoldovaGaz and the latter's oversight over supply, transmission, and distribution, it is likely that MoldovaGaz will erect roadblocks against introducing non-Russian gas in the network once the Iasi-Ungeni pipeline is built.

This issue is very much tied to the implementation of Third Energy Package rules, under which Moldova has already established a new transmission system operator (TSO), Vestmoldtransgaz, to manage supplies through the newly built Iasi-Ungheni pipeline. Gazprom has shown its opposition to the implementation of these rules in Moldova several times in the past. Also Russia expressed its resistance against Moldova's pro-Europe drive through its envoy in Moldova or deputy PM Rogozin (Tanas, 2013).

Preference for long-term bilateral agreements and "take-or-pay" contracts

In contrast to its stance in other countries, Gazprom is not promoting standard long-term contracts in Moldova; in fact, no formal long-term contract has been signed since the previous contract expired in 2011. Gazprom has refused to do so in reaction to Moldova's strengthening relations with the EU, and this points to the fact that gas supplies are being misused as leverage in this case. This assumption further strengthens the correlation between the stance of Moldova's new president on the Transnistrian debt and the surprising extension of the original year-long supply deal.

of MoldovaGaz – a company controlled by Gazprom – was preventing the gas flow at that time (Barbarosie, Coalson, & Jozwiak, 2014).

Diminishing the importance and influence of multilateral regimes such as the EU; Acting against liberalization

It would clearly not be desirable from Gazprom's standpoint for the Third Liberalization Package and ultimately the rules of the EU's Internal energy market to be implemented in Moldova. That the country has committed itself to do so is seen as the main reason why negotiations on a new standard gas import deal have been stalled since the original one expired. Similarly, the postponement of implementing the third package is seen to be the result of pressure exerted on Moldova by Gazprom, with the issue of potential gas price cuts openly coupled by Russia to not implementing the internal market rules (EurActiv, 2012).

Economically irrational steps taken to maintain a particular position in the client state's market

Gazprom is charging the government in Chisinau for debts owed by the power plant in Transnistria. This is not strictly speaking in defiance of economic logic, but it is unreasonable—the move clearly creates a basis for dispute and heightens tensions between Moldova and the Transnistria region.

The fact that Gazprom refuses to sign a new long-term contract runs counter to economic logic (in view of the regional context and the fact that gas prices are now being calculated according to the European formula, which is less favourable for Gazprom) and counter to Gazprom's traditional gas trading logic, as well.