

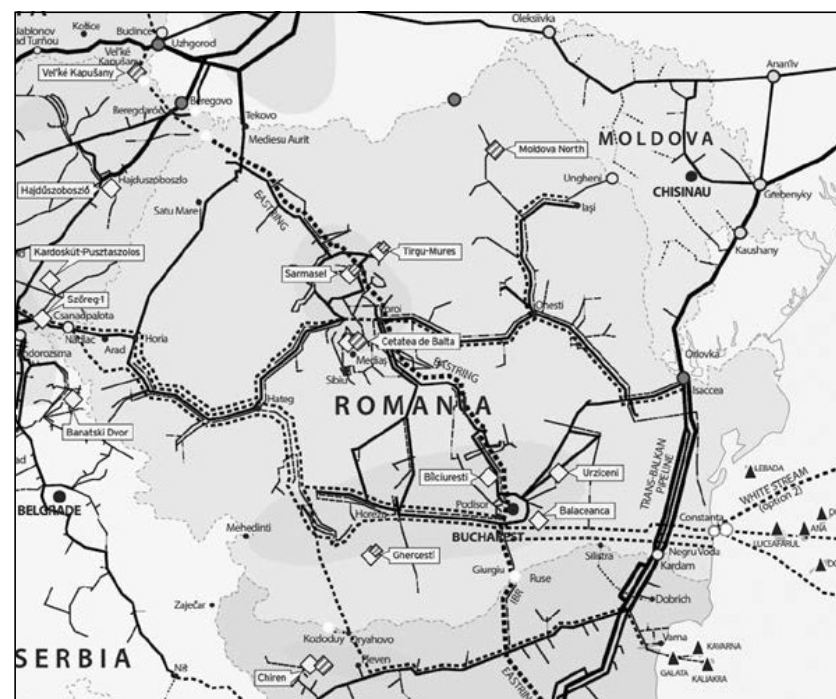
14. COUNTRY CASE STUDY: ROMANIA¹⁹⁵

Romania is unique among its neighbours in not depending unilaterally on Russia for gas supplies. The country is, in fact, major producer of oil and gas in the region. Still, it is a net importer of these hydrocarbons, making up the difference exclusively with imports from Russia (Pachiu, Dudau, & Mustaciosu, 2014). Romania does, however, differ from other states in the region, including in the setup of its domestic gas infrastructure, which makes it an “island of its own” in terms of gas distribution. The individuality of its situation stems from history. There was a mutual aversion between Moscow and Bucharest that persisted for much of the post-WWII communist period and is still palpable today, and it is reflected in the energy sector. Being pro-Russian is basically a sure ticket to defeat in the Romanian political scene. Among other things, the countries’ chilly relations impacted specific technology choices in the Romanian nuclear sector, and brought about a general reluctance on the part of the former Soviet Union to share its technologies with the Romanian state.

As noted above, Romania has always been an important country when it comes to hydrocarbons. But its major production fields in both oil and gas peaked in the 1970s and have been on the decline ever since. In 2013, Romania’s proven reserves for the preceding year were reported to total about 100 bcm of natural gas, the third-largest in the EU. In 2015, the annual domestic production of natural gas reached 10.9 bcm which, given annual consumption of 13.5 bcm, meant 3.5 bcm needed to be imported¹⁹⁶ (Natural Gas Europe, 2014b; Pachiu, Dudau, & Mustaciosu, 2014). In 2016, these numbers were

even more favourable for Romania, as the country produced 11.3 bcm and consumed only 0.3 bcm more, reducing the country’s already low import dependency (see below) (Pachiu & Mustaciosu, 2017). The share of natural gas in country’s total primary energy supply is roughly 30%. Domestic production is dominated by the state-owned company Romgaz, which also owns a majority of Romania’s underground storage facilities, which possess a total storage capacity of 3 bcm (KPMG, 2015).

FIGURE 24: Natural gas infrastructure in Romania



Source: (ENTSOG, 2016)

Gas is mostly used in Romania to generate power, for industrial purposes, and for household heating (International Energy Agency, 2012). There are two major gas producers in the country – the state-owned company Romgaz, with a 51% share of the domestic market,

¹⁹⁵This case study is based on the previously published text written by the author (Jirušek, et al., 2015, pp. 562–577).

¹⁹⁶In 2015, the price of Russian gas was allegedly around 430 USD/tcm (Radio Free Europe, Radio Liberty, 2015)

and privately-owned OMV Petrom¹⁹⁷, primarily an oil company that produces gas as a by-product of its oil-related activities, serving 46 % of market needs. In addition, there are some independent producers, but their share is fairly negligible (up to 3 % in total) (Pachiu, Dudau, & Mustaciosu, 2014).

As noted, Romania is relatively well-secured as far as any potential unilateral dependency on gas supplies, since it is currently one of the least dependent countries in the EU in terms of energy imports. The country began to import gas from Russia at the time the Soviets started exporting gas westwards via the Orenburg – Western Soviet Border gas pipeline. Gas transport is accomplished using three parallel pipelines commissioned in 1974, 1986 and 1996, entering Romania at the Issacea entry point. Currently 15–24 % (5–6 bcm) of gas consumption is imported from Russia¹⁹⁸, accounting for 100 % of Romanian gas imports. The pipeline entering Romania at Medeiesu-Aurit is used mainly for gas imports, while the others are used primarily for transit (Transgaz, n.d.a; Gazprom Export; Transgaz, 2013). Romania serves as a transit country for Bulgaria, Macedonia, Turkey and Greece.

The numbers cited above make clear that Romania must expand its gas reserves, else gas import dependency will rise substantially in the near future. When the Nabucco Pipeline Project was cancelled in 2013 and the South Stream Project abandoned at the end of 2014, import options became limited to the following: First, Romania could import more gas from Russia using an existing route. Second, it could utilize the recently built interconnector from Hungary to get gas from the Central European Gas Hub in Baumgarten an der March, Austria. Third, it could wait until the so-called Southern Gas Corridor is built, including interconnectors through Greece and Bulgaria.¹⁹⁹ But this

¹⁹⁷ Romgaz is 70 % owned by the Romanian state, while the government holds only 20.64 % of Petrom (Rebegea, 2014).

¹⁹⁸ However, in 2013 Gazprom sold only 1.19 bcm and the amount has declined to 0,18 in 2015 (Gazprom Export, n.d.e).

¹⁹⁹ This route in combination with LNG facilities would be probably suitable also if gas fields in the Eastern Mediterranean are developed. The problem here is the troubled nature of the region and the mutual conflicts that arise therein, as well as the economic viability of such an endeavour (Dudau, 2014, pp. 8–9).

scenario is unlikely to happen before 2020 and is dependent upon investments of tens of billions of USD and the development of Caspian resources (Natural Gas Europe, 2014c). Fourth, it could carry on with efforts to build its own LNG regasification facility to import gas from overseas, most probably as a part of the Azerbaijan – Georgia – Romania Interconnector, often referred to as AGRI. This could, however, require five or more years (including construction of the Constanța LNG terminal) before it reaches the operational stage (AGRI, n.d.; Dudau, 2014; Natural Gas Europe, 2014b).

Thanks to structural changes in the Romanian economy, though, and declining demand in power generation²⁰⁰, gas imports have been on the decline overall, one which has been especially steep since 2006 (U.S. Energy Information Administration, 2014). Furthermore, future prospects seem to be quite positive for the Romanian gas sector, with plans calling for expanding domestic production (aimed at offshore sources in the Black Sea²⁰¹) and the implementation of methods that would enhance the productivity of old wells. The effort has already been paying off—Petrom has managed to stabilize the production rate and even recorded a slight increase in production (Dudau, 2014). Aside from its conventional sources, Romania also possesses promising shale gas fields²⁰². According to the U.S. Energy Information Administration (2013), technically recoverable shale gas deposits amount to more than 1.5 trillion cubic meters, which would constitute a substantial addition

²⁰⁰ The trend towards declining gas demand in power generation accelerated in 2007 with the commissioning of a new reactor at the Cernavoda NPP and with the advent of renewables. However, it is possible that the need for gas-fired power plants able to meet the changing load in the grid related to the higher use of renewables will rise in the future.

²⁰¹ With regard to Black Sea resources, it is noteworthy that the annexation of Crimea means a substantial change to the ownership of underwater resources in the continental shelf. This applies to gas plays among other sources, as most lie in the Eastern section of the sea. Romania, for its part, will likely need to decide whether to recognize the annexation of Crimea or not if it is, to reach deals related to natural resources (Interviewee 10, 2015; Interviewee 13, 2015).

²⁰² However, probably the most promising recent find is the Caragele field, located in the south-eastern part of the country. The field holds up to 27 bcm of natural gas and is expected to start production by 2019 (Reuters, 2017b).

to overall gas reserves. However, although Romania has gone quite far with shale gas development, economics and some public controversy are still preventing this source from being added to the country's gas portfolio²⁰³. In February 2015, the U.S. energy giant Chevron gave up its shale gas exploration plans in Romania because of a lack of economic viability (Marinas & Pomeroy, 2015). Apart from this US major, more than ten other corporations remain active in terms of shale gas exploration (Natural Gas Europe, 2013d).

The regime under which gas has been supplied to Romania is unique as well. The country did not wish to sign a long-term contract with Gazprom since it was able to cover its own needs in all but the cold days of winter. Because of this, the conditions under which Russian gas is imported are entirely different from those that prevail with most of other states in the region. Romania does not buy Russian gas directly from Gazprom, but from intermediaries that hold long-term contracts with Gazprom²⁰⁴. These are: Wintershall Erdgas Handelshaus Zug AG (WIEE), in which Gazprom has a majority stake, and Imex Oil Ltd, controlled by Russian-owned Conef Energy (Semykoz, 2011). Both companies have long-term contracts valid until 2030. This situation has its pros and cons. Thanks to this setup, the intermediaries provide a certain buffer between Gazprom and Romania, leaving less room for the supply of gas to become politicized. According to consultations conducted by the author in Bucharest in March 2015, thanks to historical circumstances, to the fairly low and irregular demand for Russian supplies, and to Romania's unwillingness to sign a long-term contract, Gazprom has had very little opportunity to get involved directly in the Romanian gas sector, and its efforts to do so have been limited (Interviewee 10, 2015; Interviewee 13, 2015; Interviewee 26, 2015;

²⁰³ Although the country did not impose a comprehensive ban on fracking, it did impose a moratorium on extraction that expired in March 2013. The technology and opaque methods by which Chevron acquired its concession sparked some public controversy. The situation was unusual; public opposition is not high in Romania, and there were accusations that Gazprom financed these protests (Interviewee 10, 2015; Interviewee 13, 2015; Higgins, 2014).

²⁰⁴ Actual physical delivery has been undertaken by several smaller companies (KPMG, 2015).

Interviewee 27, 2015). On the other hand, the use of intermediaries and the lack of a long-term contract have forced Romania to pay prices that are among the highest paid by Gazprom's European customers. It also increases the degree of nontransparency to the scheme.

Potential gas exports from Romania to neighbouring countries have come up against several major obstacles. First, Romania's pipeline system functions using lower pressure than those of neighbouring states. To enable exports, compressor stations would need to be built, and to date, the only exit points constructed have been for transit purposes.²⁰⁵ Just recently the Arad-Szeged interconnector has been built, but it allows the gas to be shipped only from Hungary to Romania; reverse flow is yet to be implemented,²⁰⁶ and the reason is the lower pressure in the Romanian network versus the Hungarian. When finished, in 2019, the interconnector should be able to ship up to 4.4 bcm to Hungary (Interviewee 27, 2015; Interviewee 28, 2015; Interviewee 29, 2015). Similar pressure-related issues need to be resolved in the case of the Giurgiu-Ruse interconnector to Bulgaria and the Iasi-Ungeni interconnector to Moldova²⁰⁷. The Mokrins-Arad interconnector between Serbia and Romania is still in the conceptual stage, and a possible interconnector to Ukraine is currently not among the state's priorities (Interviewee 10, 2015; Natural Gas Europe, 2014b).²⁰⁸ Second, gas exports are being further complicated by the government's reluctance

²⁰⁵ Despite the aforementioned conditions preventing physical gas flow, some gas exports are being realized through swaps and virtual exports (Pachiu, Dudau, & Mustaciosu, 2014).

²⁰⁶ This very interconnector can be used to supply Romania with Russian gas or hub-traded gas from the Central European Gas Hub in Baumgarten an der March. Such an option would probably suit Romania given the irregularity of its need for additional supplies (see above). The annual capacity of the interconnector is 5 bcm, which would currently cover the margin between domestic production and peak winter demand (Pipeline & Gas Journal, 2013b).

²⁰⁷ Despite being a significant contribution to the energy security of Moldova, the majority of the costs so far – €26.4 million – were covered by Romania and the European Union (Mihalache, 2014).

²⁰⁸ There have been also plans to import LNG from Azerbaijan through the regasification LNG station in Constanta, but the project is stalled at the moment. See above. (Pachiu, Dudau, & Mustaciosu, 2014).

in this regard (Natural Gas Europe, 2012b). Building interconnectors to neighbours would mean levelling the gas price²⁰⁹ and probably an increase in prices for domestic Romanian consumers, as Romanian gas would be exported to lucrative markets. Given that domestic gas companies have been de facto forced by law to sell their gas to domestic customers at a lower price²¹⁰ than they could charge customers abroad, the opportunity to sell to those foreign customers is understandably appealing to them. Such an outcome, however, is not so attractive for the government. The limited amount of gas extracted in Romania and legislation binding gas companies to prioritize domestic customers would ultimately mean a greater need for imported (most probably Russian) gas. As the Russian gas that is being bought through intermediaries is priced at what is called a “European level”, it is significantly more expensive than the current, still partly regulated, price charged by domestic producers, which is around USD 160/tcm (Pachiu, Dudau, & Mustaciosu, 2014). This, combined with continuing liberalization, might mean a certain price shock for domestic consumers (Dudau, 2015). Slow progress in building interconnectors might therefore be attributable to the government’s reluctance, in an effort to avoid this shock and the subsequent wrath of voters (Interviewee 10, 2015; Interviewee 13, 2015). Third, as noted, it is current domestic law that binds domestic producers to give priority to Romanian consumers. Although rooted in the tight margin between domestic need and overall production capacity, this provision has already caught the attention of the European Commission, which has started an infringement proceeding against Romania (European Commission, 2014d).²¹¹

²⁰⁹The domestic gas market is still not completely deregulated. The Romanian gas market is deregulated at only about the 60% level, with household prices to be regulated by 2021 (Reuters, 2014a; Pachiu, Dudau, & Mustaciosu, 2014).

²¹⁰Prices for industrial customers were fully deregulated only in 2014, while household prices will remain regulated up to a certain point until 2018 (Pachiu, Dudau, & Mustaciosu, 2014).

²¹¹This framework also enumerates priority customers. In the event of supply curtailments, it is industrial facilities, not households, that would be first to be cut off from the grid. Another thing that may play a role in potential supply disruptions is the fact that some Russian-owned facilities on Romanian soil would then be among the first to have their supplies cut off (Interviewee 10, 2015).

14.1 Reflections on the indicators

Active support by Russian state representatives for the country’s state-owned energy enterprises and their activities abroad

Because of the countries’ chilly relations, the unique situation of the Romanian gas sector, and the indirect nature of the relation to Gazprom mediated as it is by third parties, Russian officials have made no significant contacts nor provided any significant backing. Romania was considered Plan B for the South Stream route in place of Bulgaria, but its willingness to take part in the Russian project may be ascribed to the country’s pragmatic efforts to get involved in all major projects in the region and keep mutual relations with Russia on a purely commercial footing (Novinite, 2009). Gazprom, for its part, viewed Romania’s potential involvement as the price that must be paid to exert pressure on Bulgaria. Any prospective violation of Internal energy market rules with the South Stream Project had little impact on Romania, since the project never came close to realization or even the signing of an agreement to place a section of the South Stream Pipeline in the country. Its willingness to serve as a transit country in the South Stream Project was thus never assigned of its turning away from the European Union (Interviewee 10, 2015).

As a foreign supplier, Russia rewards certain behaviours and links energy prices and deals to the client state’s foreign policy orientation

In autumn 2014, Russian gas supplies dropped by 10%. Romania’s energy minister, Razvan Nicolaescu, accused Russia of “playing games” on the gas market, linking the situation to similar scenarios in Poland, Slovakia and Austria. These supply curtailments, along with the statement of Alexei Miller that companies providing reverse supplies to Ukraine could face supply cuts, were perceived as an effort to halt reverse supplies to Ukraine (Румыния сообщила о сокращении поставок российского газа на 10%, 2014). Despite the technical inability to reverse gas supplies from Romania to Ukraine, the country perceived this as a signal.²¹² Romania is generally anti-Russian, although

²¹²However, there is still a possibility that Romanian gas will eventually be exported to Ukraine, as Ukraine itself has shown interest in such a deal (World Bulletin, 2015).

during the most recent gas disputes, it has maintained a fairly pragmatic stance (Interviewee 10, 2015).

Abuse of infrastructure (e.g. pipelines) and differential pricing to exert pressure on the client state

Romania buys Russian gas through intermediaries, who serve as a kind of buffer, leaving less room for the politicization of supply. Such a relationship, however, also leaves less room for negotiating gas prices and discounts, with the result that Romania pays relatively high prices per tcm of natural gas. On the other hand, the need for gas imports has been constantly declining in recent years.

Because of the lower pressure under which the Romanian gas infrastructure operates, it is in essence an “island” of its own. It is also currently impossible for the country to physically revert gas supplies to Ukraine. Still, the statement noted above from Alexei Miller and subsequent supply cuts of about 10 % were taken seriously, even though they were characterized as being purely technical in nature.

Efforts to take control of the energy resources, transit routes and distribution networks of the client state; Attempts to control the entire supply chain (regardless of commercial rationale)

The rather unfriendly character of mutual contracts and the dissimilar infrastructure set up in the country prompted Gazprom to give up efforts at major involvement in Romania’s gas sector. The company’s presence is currently limited to its influence via Wintershall, where it operates the Sighisoara gas field with Romgaz (Wintershall, 2007); otherwise, it is active in the country only via the intermediaries who bring in gas from Russia.

Disruption (by various means) of alternative supply routes/sources of supply; Efforts to gain a dominant market position in the client country

Gazprom’s opposition to growing interconnectivity in the region has been focused largely on non-EU members (see the case study of Moldova). Romania has the advantage of being both a member of the EU and needing imports of only relatively modest amounts of Russian gas.

Efforts to eliminate competitive suppliers

This question is irrelevant here: there have been no competing suppliers, and overall gas consumption as well as imports of Russian gas have been in decline. The prospects for increased domestic production also diminish the chances that a new player will emerge on the market. The interconnectors that would enable gas supplies to come from different sources are progressing only slowly, with no significant impact so far on the gas supply. Romania is also a member of the European Union, and this makes any potential effort to squeeze competitors out of the marketplace complicated, if not impossible.

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

Technically speaking, Romania does not have a long-term contract with Russia. Its relations with the Russian gas giant are indirect, as intermediaries stand between Gazprom and Romania. These intermediaries, WIEE and Imex Oil Ltd., have a long-term contract with Gazprom valid until 2030. WIEE is controlled by Gazprom and Imex Oil by another Russian company, Conef Energy. The nature of the contracts used for short-term supplies when domestic supply cannot meet demand determines the price, which is set at the “European level”—around USD 430/tcm (Radio Free Europe, Radio Liberty, 2015). Given that the price is already relatively high, and that Gazprom has no direct relationship with Romania, this situation leaves little room for bargaining or even politicizing gas supplies. It does, however, leave room for corruption or other non-standard practices based on the non-transparency of the relationship.

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

Romania has been a member of the European Union since 2007, and the country has been undergoing liberalization since the early 2000s. The gas market has attained a relatively high level of liberalization, with production, transport, distribution, and retail all separated to comply with the rules of the Internal energy market. Gas transit is handled by Transgaz, a partially privatized company in which the Romanian state

owns a 58.5% majority stake (Transgaz, n.d.b). The gas market is thus set up in a way that prevents Gazprom from implementing its traditional policy (see the pertinent chapter on important factors and infrastructural projects), although various signs and rhetoric may remind of the policy from time to time. One instance was in autumn 2014, when Gazprom CEO Alexei Miller made indirect threats to countries providing reverse gas supplies to Ukraine, and gas supplies to Romania were cut by 10% (see above) (Румыния сообщила о сокращении поставок российского газа на 10%, 2014).²¹³

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

No such behaviour was found.

²¹³This case has been a bit fuzzy though, as it involves members and non-members of the European Union/Internal energy market.

15. COUNTRY CASE STUDY: SLOVENIA

Slovenia was the first successor state to emerge after the dissolution of former Yugoslavia in 1991. The country progressed through the transformation process well, and it is now the most economically successful of all the states of the former Yugoslav federation. Slovenia is also well established within major western international structures, including NATO and the European Union.

The first deliveries of natural gas began to flow into the country in 1978 via a spur line leading off the Trans Austria Gas Pipeline (TAG) (Gas Connect Austria, n.d.), with Russia as the source. Slovenia was thus something of an exception. Unlike the rest of former Yugoslavia, it was supplied not through the pipeline from Hungary but via Austria at the Murfeld Ceršak entry point (ENTSOG, 2016). The pipeline through Austria, which feeds the SOL pipeline to Slovenia, was put into operation in 1978 and delivered the first cubic metres of gas to Croatia at the Rogatec entry/exit point (Gas Connect Austria, n.d.). In 1992, soon after Slovenia seceded from Yugoslavia, an interconnection from Italy was built at Šempeter, allowing Slovenia to get gas from the Italian grid, including Algerian gas. In 2001, the Austrian gas grid was added, as well (Cimerman, 2009; Plinovodi, n.d.). Surprisingly, the country has no connection to Hungary and completely lacks gas storage facilities (European Commission, 2014c, p. 203). To make up for its lack of domestic storage capability, Slovenia uses capacity located abroad (Interviewee 30, 2016; Interviewee 32, 2016). Recent investments in the gas grid have expanded the capacity of entry points, and Slovenia is now able to supply gas to Italy through the Šempeter entry/exit point. The interconnection between the two countries has thus become bidirectional, enabling Slovenia to supply Italy and markets further on with gas from its grid (Plinovodi, 2015).

The country's current situation is vastly different from its original circumstances, when gas was imported solely from Russia, and this may be seen as a reflection of the country's successful transition. As of