

Russia's energy ultimatum to Moldova

Agata Wierzbowska-Miazga

On 11-12 September, the Moldovan Prime Minister Vlad Filat met Russia's Prime Minister Dmitri Medvedev and President Vladimir Putin. The main topic of conversation was the supply of Russian gas to Moldova. For the first time, Russia publicly gave Moldova an ultimatum: the Russian energy minister Aleksandr Novak said that talks on the conditions of gas supply will only be possible after Moldova revokes the protocol adopting the principles of the EU's Third Energy Package, which it has signed as a member of the European Energy Community. Moldova is seeking a 30% reduction in gas prices; at the moment it has to pay US\$392 per 1000 m³ of gas, one of the highest rates among Gazprom's customers. It also wants to be free of Transnistria's gas debt (US\$3.5 billion).

Commentary

- The talks on the details of the gas contract have been moved from the Gazprom level to the government level, in line with the new regulations for negotiating international contracts. These were introduced last week thanks to the decree signed by Vladimir Putin on protecting Russia's interests during Russian companies' foreign trade activities, a move taken in response to the European Commission (EC)'s antitrust proceedings against Gazprom.
- In the short term, the Russian ultimatum aims to protect the interests of Gazprom, which owns the controlling share package in Moldavagaz. The introduction of the Third Energy Package, planned for 2015, would reduce or even completely remove Gazprom's control of the Moldovan company. Retaining the *status quo* is especially important for Moscow, because of the transit of Russian gas through Moldova to Romania and Turkey (which amounts to about 20 billion m³ per year, or about 16% of Russia's gas exports).
- However, Russia's main goal is to change Moldova's political orientation from West to East. An exit from the Energy Community would prevent Moldova from concluding its negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) and Association Agreement with the EU, which were launched in March 2012. This would fit with Russia's strategy of blocking or reducing Moldova's possibility of moving closer to the EU, and of incorporating it into Moscow's proposed forms of integration, primarily the Customs

Union.

- Moldova says it will not give up its cooperation with the EU. It can count on Brussels' support, too; after Filat's return from Russia, the Commission's President José Manuel Barroso declared that the EU was ready to sign the Association Agreement as soon as 2013. For its part, Russia seems determined not to give up on the conditions it has set. However, it is unlikely that Moscow will decide to interrupt gas supplies to Moldova any time in the next few months; that would mean cutting off Transnistria, Romania and Turkey as well. We may therefore expect that the two countries' gas relations will continue the stalemate in their negotiations; the previous gas contract, which expired in 2011, will once again be renewed for short periods at the current rates, with Moldova possibly having to make smaller concessions. The risk of the crisis worsening will rise together with the likelihood of progress in Moldova's integration with the EU.