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# Moldova signals that it may withdraw from implementing the Third Energy Package

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On 3 July, the Moldovan gas monopoly Moldovagaz revealed that it has signed a provisional agreement with Gazprom to extend its gas supply contract until the end of 2012. The old contract expired on 31 December 2011. Negotiations on a new agreement were suspended in October last year after Moldova committed itself, as part of the Energy Community, to implement the Third Energy Package.Gazprom deemed this move to be unacceptable, and one way it found to put pressure on Chisinau was to break off the talks. As a result, the gas contract was twice extended by a quarter. In recent days, the Moldovan government – under pressure from Russia – has appeared willing to abandon implementation of the third package in exchange for signing a new contract, lower gas prices, and a resolution to the problem of Moldovagaz's US$3.5 billion debt to Gazprom for the gas consumed in the separatist region of Transnistria.

## Commentary

- It seems that Moldova, which annually imports about 3 billion m³ of gas, will be unable to resist the pressure from Gazprom, and will most likely give up the implementation of the third package in exchange for a favourable gas pricing formula. In this case, Chisinau's adoption of Russian conditions would mean its effective resignation from the Energy Community, and create serious obstacles to the country's plans for European integration. Russia sees the expansion of the EU's gas market rules in its vicinity as a threat to its interests. Moreover, Moldova is an important country for the transit of Russian gas to Romania, Bulgaria and Turkey (which totalled 19 billion m³ last year).

- Moldova is trying to link the question of signing a new gas contract and withdrawing from the Third Energy Package to Gazprom's agreement to resolve the question of Moldovagaz's debt. This is the result of gas supplies to Transnistria, which for years has not paid for the raw material which has been formally supplied to it as part of the gas contract for Moldova, and which thus does not count as government debt. However, the protocol signed by the Moldovan government and Gazprom in December 2006 probably included government guarantees for Moldovagaz's debts. In view of the fact that the Russian company owns 50% plus one share in Moldovagaz, and manages 13.44% of the shares held by Transnistria (the remaining 35.33% stake is owned by the Moldovan government), we can assume that this is largely a debt of Gazprom to itself.

- The Moldovan government's proposal for addressing the gas debt consists of splitting off part of its infrastructure on the territory of Transnistria from Moldovagaz into a separate company and assigning the debt to it. However, Russia does not appear to have agreed to this proposal or the final resolution to the debt problem, because it serves as an additional guarantee to maintain Russian influence in Transnistria, and as an instrument of pressure on the Moldovan government.

- To strengthen its bargaining power with Gazprom, Moldova has announced that in autumn it will begin the construction of a pipeline which would allow gas imports from Romania (the Iasi-Ungheni interconnector). For now, however, this is merely a symbolic gesture that will not significantly affect the course of negotiations. Key talks on the gas question will take place during the talks between the Prime Ministers of both countries, Vlad Filat and Dmitri Medvedev, scheduled for September in Moscow.