

Moldova: contract with Gazprom threatens the 3rd energy package

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On 29 October, Chişinău signed a five-year contract with Russia's Gazprom for the supply of natural gas. Deputy Prime Minister Andrei Spînu, whose responsibilities include energy security issues, stated that the document (valid as of 1 November 2021) predicts that Gazprom will provide Moldova with 3 billion m³ of gas annually, at a price determined every month in relation to the "gas exchange prices". Mr Spînu claims that in November this should be around \$450 per 1,000 m³. He claims that no political conditions were imposed on Moldova and that negotiations were limited to commercial issues only. In parallel with the gas contract, Moldova signed a "protocol of negotiations" with Gazprom which included the commitment to conduct an audit at MoldovaGaz (the gas network operator) by 1 May 2022 to determine the actual amount of Moldova's debt (excluding Transnistria) owed to Gazprom, and to conclude an agreement to repay it within the next five years. In doing so, Moldova pledged "not to carry out a forced reorganisation" of MoldovaGaz until this debt is settled. Moldova will also work out an intergovernmental agreement with Russia on cooperation in the energy sector.

Commentary

- The signing of the contract with Gazprom marks the end of the energy crisis that began in Moldova when the existing gas supply contract expired on 30 September 2021 (it had been concluded in December 2020). The key problem hindering the signing of the new agreement has been the rising prices of gas on European exchanges. While in 2020 Moldova paid an average of \$148.9 for 1,000 m³ of gas, in September 2021 Gazprom was already demanding \$550, and in October \$790. As a result of protracted talks, in late September Gazprom agreed to extend the existing contract for one month, but simultaneously reduced the volume of gas transported to Moldova by a third, leading to shortages and posing the threat of gas network pressure reduction system failure. On 22 October, the authorities were forced to impose a state of emergency in the energy sector, and three days later Chişinău signed its first-ever contract for gas supplies from non-Russian sources – this includes a trial 1 million m³ from the Polish company PGNiG. In the following days, six more tenders were held for gas from the EU and Ukraine (for a total of around 17 million m³). In addition to this, on 28 October Ukraine lent Moldova 15 million m³ to maintain pressure in the country's gas system, one day after the EU had offered Chişinău €60 million, in part for the purchase of the required gas. Supplies from Poland and Ukraine (among others) were treated by the Moldovan government as a way

of strengthening their negotiating position with Gazprom, showing the possibility of alternative suppliers to meet the country's needs.

- The provisions in the negotiation protocol blocking the “forced reorganisation” of MoldovaGaz until Moldova settles its debt with Gazprom de facto defer Moldova’s implementation of the EU’s so-called Third Energy Package by at least another few years. This was undoubtedly one of Russia’s main objectives and achieving it ultimately made it possible for the contract to be signed. As part of the Third Energy Package, Moldova undertook back in 2011 to unbundle MoldovaGaz – whose main shareholder is, in fact, Gazprom, which controls 63.4% of its shares – into three separate companies dealing with the purchase, transmission and distribution of gas in the country. Russia, not wishing to lose its influence in the Moldovan energy sector, has consistently opposed these measures. Although the Energy Community is pressing Chişinău to fulfil its obligations under the Third Package as soon as possible, Brussels does seem to understand the specific situation of the Moldovan government. For this reason, it has already agreed several times to postpone the unbundling deadline (originally it was scheduled for 2016, then for 2020, and finally for February 2021). The final amount of Moldova’s debt (without taking into account the much larger debt of the separatist Transnistria, which is not covered by the concluded contract) is to be determined only by an independent audit, but Gazprom should not be expected to accept a sum significantly lower than \$700–720 million (which is the company’s own estimate). Settling such high debts will pose a serious challenge for Chişinău (even over a period of five years) and, if unsuccessful, will enable Moscow to continue to block the unbundling of MoldovaGaz. The concept of “debt settlement” itself is, however, imprecise and may mean both the restructuring and payment of debts and also covering them in a non-financial form (by transfer of the Moldovan state’s stake in MoldovaGaz to Gazprom or the fulfilment of certain political conditions, among others). Furthermore, it should not be excluded that possible disputes over the amount could be used by Russia as a pretext to terminate the contract.
- The price formula negotiated by Moldova is likely to be relatively less favourable than the one in place in recent years. Although the Moldovan government is counting on a gradual fall in gas prices on the exchanges (which will be reflected in the rates supplied to the country under the new agreement), according to the Russian news agency TASS, the cost of 1,000 m³ of gas for Moldova could reach as much as \$500–600 if exchange prices remain high (for comparison, in 2020 the average was around \$150 per 1,000 m³). It will certainly be necessary to raise tariffs for end users, which will undoubtedly exert a negative impact on the popularity of the pro-Western forces leading the country.