

Moldova: a looming energy crisis

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Since Moldova has not met its contractual obligations, Gazprom may stop gas supplies to the country as of 1 May. In the agreement concluded at the end of October 2021, the Moldovan government committed to conducting an audit in Moldovagaz (the gas operator) with regard to its debts, and to signing an agreement to pay them off. Gazprom claims that the Moldovan gas operator owes it approximately US\$700,000. According to Andrei Spînu, the minister of infrastructure and regional development, Russia's invasion of Ukraine has made it impossible for Moldova to hold a tender in order to appoint an auditor, and the Moldovan government asked Gazprom to postpone the deadline for the audit. On 31 March the head of Moldovagaz, Vadim Cioban, announced that the company had requested an additional 10-12 months to complete the process, although Gazprom has not yet taken a decision regarding this issue. Cioban also added that on the basis of the agreement in force, the price of Russian gas would reach US\$1160-1170 per 1000 m³ in April (twice as much as the March figure). He explained that the spike in the price was due to the change in the price formula, a switch from the winter (in force in the fourth and first quarters of the year) to the summer one (used in the second and third quarters) which had been allowed for in the agreement. In the winter months 70% of the gas price depends on costs of oil-based products (the Platts rate) and 30% is based on gas rates on the TTF Dutch gas trading exchange. In the summer months the formula is reversed (70% of the gas price is based on the gas price and 30% depends on prices of oil-based products).

The rising prices are increasingly affecting Moldovans: in February inflation stood at 18.5% (compared to 16.6% in January). Over the last six months gas prices for households have risen from 4.5 Moldovan lei to over 15 lei (nearly 250%). Prices of petrol, diesel and LPG have also risen, which have in turn affected the costs of food and services. Furthermore, the price rises are being driven by a drop in imports from Ukraine and Russia due to the ongoing war.

Commentary

- If Gazprom stops gas supplies to Moldova, in the short term the country will have to purchase gas from another supplier, which the existing infrastructure does make possible. In October 2021, Moldova bought gas from sources (PGNiG) other than Russian for the first time in its history. There are four ways to supply gas to the country. The first one is the pipeline currently being used which runs from Russia through Ukraine & separatist Transnistria to the right bank of Moldova. Gas can also be supplied via Romania thanks to the reverse flow of the Trans-Balkan Pipeline (launched in 2020), or the Iași-Ungheni-Chișinău interconnector (in operation since October 2021). However,

with the latter pipeline (which connects Romania and Moldova) it may be challenging to deliver gas to southern parts of Moldova. It may be equally impossible to supply gas through it to separatist Transnistria (certainly not in sufficient amounts). Finally, certain amount of gas can be supplied through Ukraine (for example via Alexeevca, located close to the northern border of Moldova).

- Should Moldova decide to buy gas outside its agreement with Gazprom (through the gas exchange), the key problems it would face are its high price and the necessity to pay for it in advance. Gas prices on the TTF Dutch gas trading exchange have been very volatile recently: whereas on 5 April gas cost US\$1262.50 per 1000 m³, on 8 March its price exceeded US\$3800. Moldova, being one of Europe's poorest countries, has been struggling with a public finance crisis (compounded by the presence of approximately 100,000 refugees from Ukraine) and is not able to handle such important financial obligations alone. For this reason, Moldova has been in negotiations with the European Bank for Reconstruction and Development to obtain a loan of approximately €300 million which, if needed, would be used to finance gas purchases. Furthermore, in April the EU offered its support to Moldova, having decided on macro-financial assistance worth €150 million euros for 2022-4 in the form of low-interest loans and grants and additional €53 million in the form of a budget support programme to help the Republic of Moldova cope with the multiple repercussions of the Russian military aggression against Ukraine. The Moldovan government is also planning to stockpile fuel thus purchased in storage facilities outside the country, for example in Romania or Ukraine (Moldova does not have its own gas storage facilities).
- Moldova's problem with gas supplies is directly linked with the issue of securing electricity supplies. Its main electricity supplier is the Moldavskaya GRES power plant, which is owned by the Russian company Inter RAO UES and located in separatist Transnistria. The power plant produces 80% of the electricity used in Moldova, and its supplies are based on annual contracts. The present contract was due to expire at the end of the previous month, but on 9 March the power plant agreed to extend it to 30 April. Should electricity supplies from Russia stop (and Transnistria sources its gas from Russia practically free of charge), the power plant will likely largely limit or stop the production of electricity entirely, since it will not wish to buy gas at market prices. The extension of the contract and the stability of gas supplies to Moldova are thus contingent on gas supplies from Russia. In a critical situation Moldova may import electricity from alternative sources, that is, from Ukraine or (at least partially) Romania. The latter option recently became possible thanks to the synchronisation on 16 March of the Moldovan and Ukrainian energy and electricity grids with the EU ENTSO-E). However, the energy thus produced will be clearly more expensive. Whereas at present Moldova buys it from Moldavskaya GRES at US\$53.5 per MW, in March it cost approximately US\$200 per MWT in Romania, and US\$75 in Ukraine. Additional problems with gas imports from Ukraine or Romania may be posed by the fact that the main energy & electricity hub in Moldova is located at the Moldavskaya GRES power plant, and is controlled by the Russian company.
- The rising prices of energy and fuel, coupled with a high inflation rate and increasingly expensive foodstuffs, constitute a growing burden for Moldovans, and are contributing to faltering support for the pro-Western government of the Party of Action and Solidarity.

According to a survey published on 28 March by iData, the party, which won 53% of the vote in the July 2021 elections, is now supported by just 23.3% of voters, whereas the rival pro-Russian socialists and communists are supported by 19.6% of voters. Until now the increases in prices have been partly mitigated by the programme of subsidies introduced back in November 2021. However, on 1 April the programme was stopped, which will affect the financial situation of Moldovan society. If gas supplies from Russia are halted (making it necessary to buy gas at gas exchange prices) and high gas prices resulting from the new price formula are maintained, further price rises should be expected. Electricity prices for end-users will depend on the new contract with Moldavskaya GRES (which will probably be less beneficial than the current one) or a possible change in the electricity supplier. However the situation is resolved, electricity prices for end-users have already risen by 20-45% as of 1 April.