

Gazprom cuts supplies to Moldova and threatens to cancel contract

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Since 1 October, Gazprom – the sole supplier of gas to Moldova – has reduced the volume of gas it sends to that country (including Transnistria) from 8.06 mcum per day to 5.7 mcum, a drop of 30%. The Russian company claims that it reduced the flows because of the actions of Ukraine, which refuses to allow larger volumes of gas to pass through the Sochranivka station (in Rostov oblast). This justification was deemed implausible by Moldova's deputy prime minister and infrastructure minister Andrei Spînu, who threatened to impose penalties on Gazprom if it did not comply with the contract. On 6 October the speaker of the Moldovan parliament, Igor Grosu, also said his country could resort to arbitration. Moldova receives its gas under a five-year contract with Gazprom concluded by Moldovagaz (the Moldovan operator) and the government in Chişinău. The document was signed in October 2021, and it commits the Russian company to supply a total of 3.3 billion m³ per year.

Commentary

- Gazprom's blaming Ukraine is groundless. The operator of the Ukrainian transit gas pipeline system (OGTSU) did indeed stop receiving crude pumped to Ukraine via the Sochranivka station, but that took place back in May. OGTSU explains that this decision was necessary because it has not been able to monitor the gas infrastructure connected to Sochranivka, which is located on the Ukrainian side, because the station is located in the Luhansk oblast, which is currently occupied by Russia. At the same time, the operator suggested that Russia could use an alternative route via the point at Sudja (in Kursk oblast, near the Ukrainian town of Sumy), which is not adjacent to the occupied territories.
- It is clear that the decision to reduce the volume of gas supplied to Moldova is political in nature, and represents an attempt to put pressure on the pro-Western government in Chişinău. Although at present the reduction in supplies is not immediately apparent (thanks to the austerity programmes introduced so far, Moldova is currently consuming less than 6 mcum of gas a day), the situation will worsen as winter arrives, during which gas consumption will rise to 12–15 mcum a day. If Russia continues to supply Moldova with only 70% of the agreed gas volumes over the coming months, then Moldova will receive only 7.8 and 9 mcum of this fuel in November and December. In the short term, the Moldovan state will use the gas it has previously bought, which is stored in tanks in Ukraine and Romania (currently amounting to about 50 mcum). However, in the longer

term it will be forced to purchase gas on the spot market, which will lead to higher prices.

- The decision to reduce supplies as of 1 October was probably also meant to limit the effects of the start this month of the winter tariff mechanism, on the basis of which the price of the gas Gazprom sells to Moldova is determined. This mechanism has a positive influence on the prices paid by Moldovan consumers. According to the current contract, in the summer months (Q2 and Q3) 70% of the price depends on gas rates on the Dutch TTF exchange, and 30% is determined by the cost of oil products (the Platts quotations). In the winter months (Q4 and Q1), the formula is reversed (that is, 70% of the price is determined by the rates for oil products, and 30% by the gas's exchange value). The change in the price formula will sharply cut the price of gas from c. US\$1900 to just over US\$1000 per 1000 m³.
- In the near future, Gazprom may decide to further reduce supplies to Moldova, or even halt them completely. In a statement explaining their reasons for the current reduction, Gazprom reserved the right to take such action at any time, and recalled that Moldova has so far failed to meet its obligation under the contract to audit Moldovagaz's debt, or to sign an agreement to settle it (the contract stated that this should have been done by 1 May this year). Gazprom claims that the Moldovan operator owes it about US\$700 million. At the same time Russian company stated that Chisinau is regularly late in paying off its current debts. According to the contract, Moldovagaz must make an advance payment for the gas sold in any given month by the 20th; this poses serious difficulties for the Moldovan company, as its consumers pay for the fuel only a month later. In September this year, Moldovagaz was only able to make its advance payment on the 30th of the month. Gazprom has warned that if that happens again, it may cease its deliveries to Moldova after 20 October. At the same time, the company has declared that any changes to the contract (including those relating to payment terms) from October will require a new annex to be drawn up.
- Moldova's gas situation has been aggravated by Ukraine's decision to suspend its exports of electricity as of 11 October. The Moldovan state, which has only two gas- or oil-fired combined heat & power plants on the territory it controls (i.e. outside Transnistria), is 80% dependent on external sources of electricity. About 30% of the energy it has been lacking so far has been imported from Ukraine (primarily from Enerhoatom), while the remaining 70% has been supplied to Moldova from the Transnistrian power plant. Since 11 October, all of the missing energy has been imported from Moldova's GRES. The Moldovan state has to supply the power plant with 0.9 mcm of gas per day for it to generate the additional power. It seems likely that this gas has been coming from the above-mentioned storage facilities located in Romania and Ukraine, although there have not been any official reports to that effect. On 11 October, in connection with the transfer of some Moldovan gas to the Transnistrian power plant, the main combined heat & power plant in the Moldovan capital (CET-1) started running off fuel oil.