

Moldova: reduction of Russian influence in the gas sector

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The first half of September saw two developments in Moldova which have limited Gazprom's influence in the country. On 3 September, Moldova's president Maia Sandu announced the completion of the external audit of the so-called historic debt which Moldovagaz (the Moldovan gas network operator) owes to the Russian company. As Gazprom has maintained for years, the Moldovan side owes it around \$709 million. This debt is independent of the so-called Transnistrian gas debt of around \$8 billion. However, according to the auditors' findings the company's total liabilities to the Russian side amount to just \$8.6 million. This information was repeated at a press conference held on 6 September by Moldovan energy minister Victor Parlicov, who explained that almost \$280 million of the total debt Gazprom claims has not confirmed by the documentation, while around \$400 million of it is unenforceable as the relevant arbitration decisions have expired. The auditors also stated that Moldova could formulate a counterclaim against Gazprom for a sum of around \$160 million due to the Russian company's failure to pay transit fees, which have been going to the Transnistrian company Tiraspoltransgaz instead of Moldovagaz over recent years.

On 6 September, Gazprom firmly rejected the results of the audit and announced that it would "defend its rights with all available means". The corporation also pointed out that the companies conducting the audit had not been approved by it, and that the report they submitted had not received approval from Moldovagaz's supervisory board. Gazprom's position was also supported by the Russian foreign ministry, which on 7 September called on Moldova to "fulfil its obligations [to Gazprom]" and "refrain from politicising bilateral problems, including those involving the energy sector". On the same day, the US embassy in Chişinău welcomed the results of the audit, while declaring its continued support for Moldova's energy diversification process.

Moldova pledged to audit its alleged 'debt' to Gazprom back in October 2021 during negotiations for a new five-year gas supply contract with Russia. At that time it promised to hold an audit at Moldovagaz (63% of which is controlled by Gazprom) by 1 May 2022. Back then the Russian company estimated the debt owed it at around \$700 million. Although representatives of the government in Chişinău had serious doubts about the legitimacy of the Russian demands, they were forced to accept them as this issue was one of the conditions needed to conclude the gas contract and ensure that supplies from Russia would continue. The outbreak of the Russian-Ukrainian war and the protracted administrative procedure prevented the audit from starting on time; as a result, it was only in August 2022 that the government in Chişinău was able to sign an audit contract with two European

companies, Norway's Wikborg Rein Advokatfirma A.S. and the UK-based Forensic Risk Alliance & Co.

Commentary

- The public announcement of the audit's results and the subsequent dismissal of most of the Russian company's claims by the pro-Western government in Chişinău is another sign of Moldova's growing assertiveness towards Russia in recent months. This is in line with a series of measures it has taken since 2021 to limit Russia's influence in the Moldovan gas sector, where until recently Gazprom had a monopoly position. Thanks to the policies of the pro-Western Action and Solidarity Party (PAS) government, which has been in power in Chişinău since August 2021, Moldova has managed to diversify its gas supply to a considerable extent, and since December 2022 the country has been effectively independent of Russian imports. The gas consumed by right-bank Moldova (i.e. excluding the separatist Transnistria) now comes entirely from non-Russian sources, and is purchased by the wholly-owned Moldovan state-owned company Energocom, which also manages the accumulated gas reserves it has stored in underground storage facilities in Romania and Ukraine. As of mid-August this year, these amounted to around 400 mcm, which corresponds to almost half of right-bank Moldova's annual consumption. At the same time, the gas which still reaches Moldova from the Russian company goes entirely to Transnistria, and meets the region's needs without generating any costs for the Moldovan state.
- Another illustration of Moldova's growing assertiveness in the gas sector was the announcement by its energy ministry on 4 September – almost simultaneously with the results of the audit – that it was handing control of the Moldovan gas distribution and transmission network (located on the right bank of the Dniester, that is, without Transnistria) to the Moldovan company Vestmoldtransgaz, in which Romania's Transgaz has a majority stake. To make this possible, Vestmoldtransgaz has signed a network lease agreement with Moldovatransgaz, although the agreement still has to be approved by the Moldovan energy market regulator. Previously, Gazprom-linked Moldovagaz was the operator, while Vestmoldtransgaz has until now been responsible for the interconnector (commissioned in 2021) connecting the Romanian city of Iaşi with the Moldovan town of Ungheni and continuing on to Chişinău. The removal of Moldovagaz's control of the national pipelines is linked to Moldova's implementation of the so-called EU Third Energy Package. As part of this, the Moldovan government committed back in 2011 to separating the functions of supplier from the functions of transmission and distribution (the so-called unbundling process), which until now had been concentrated in the hands of Moldovagaz. Russia has steadfastly opposed these measures for years, out of a desire to retain its influence in the Moldovan energy sector.
- Chişinău's policy of gas supply diversification is a direct result of the actions taken by Russia, which has consistently used Moldova's previous dependence on Russian gas to exert political and economic pressure on the country. In October last year, Gazprom decided for political reasons to reduce the volume of gas it was sending to Moldova. Despite its contractual obligations, the company reduced its daily deliveries to a level of 5.7 mcm, which accounted for around 70%, 50% and 43% of the volumes contracted for October, November and December respectively. The decision was expected to deal a

blow to the Moldovan economy and indirectly affect the mood of the local electorate, as the cut in supplies led first to a reduction (in October) and then a complete halt (from 1 November) of electricity transmission from Transnistria (a Kremlin-sponsored separatist region of Moldova where Russian troops have been present illegally since the early 1990s) to the rest of the country. The Moldovan GRES power station located in this region has been supplying as much as 80% of Moldova's electricity needs since October 2022, when Ukraine stopped exporting electricity. This situation led to power shortages in Moldova, and forced Chişinău to purchase energy from Romania at much higher prices than before, although supplies from Transnistria were successfully restored in December 2022.

- Despite Gazprom's protests and Moscow's suggestions that it might retaliate against Chişinău, the Kremlin currently has a very limited range of options to exert economic and energy pressure on Moldova and force it to settle its alleged 'debt'. It could halt the supply of Russian gas to Moldova, although that would not pose a direct problem for the latter's economy as it no longer uses the gas it imports from the country. However, it would halt (or severely reduce) the production of electricity by the Transnistrian-based Moldovan GRES power plant; that would result in an electricity crisis in Moldova and force the country to purchase much more expensive energy from Romania. It could also lead to cascading 'blackouts' during peak consumption periods, as the current infrastructure does not allow right-bank Moldova to be supplied 100% by Romanian supplies. However, the scenario of Russia cutting off gas supplies to Transnistria, while possible, seems unlikely. While right-bank Moldova would suffer the problems mentioned above, in Transnistria it would cause a large-scale economic and humanitarian disaster. Deprived of supplies, the region would not only be forced to halt industrial production, but would also lose one of its key sources of budget revenue, namely the money it makes from the sale of free Russian gas to local businesses and the general population. It would also make it impossible to provide heating for Transnistrian towns during the winter season. In view of the strategic importance of keeping Russian-controlled Transnistria 'alive', it therefore seems that Gazprom would prefer to take legal action against Moldova in an arbitration court rather than interrupt the supplies.