



BULLETIN

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The Romania-Moldova Gas Pipeline: Does a Connection to the EU Mean a Disconnect from Russia?

Anita Sobják

The Iasi-Ungheni gas interconnector, the construction of which began in late August, is expected to improve Moldova's energy security, bring commercial benefits to both Moldova and Romania, and contribute to the physical integration of the European gas market. The real raison d'être of the new pipeline is, however, rather geopolitical in nature. Though far from becoming a game-changer, it can still constitute a moderate step towards reducing Russian influence in Moldova and the region. This is why Central European countries should not fall short of backing Moldova in its efforts to complete the project and in re-assuming its obligations as an Energy Community member.

State of Play of Moldova's Energy Security. The country is a net energy importer, with only 3% of its energy demand met by domestic sources. Natural gas makes up almost 65% of the total primary energy supply. The yearly gas consumption is 3-3.5 bcm, out of which only 1 bcm is consumed by Chisinau-administered territory (with the rest by the Transnistrian breakaway region). All this comes from a single supplier, Gazprom, at a price close to \$400 for 1,000 cubic metres. Russia is demanding that in exchange for a new gas contract involving price reductions Moldova quit the Energy Community, which it joined in 2010. Membership implies market liberalisation through 2015 as part of the implementation of the *acquis* under the Energy Community Treaty as well as relevant EU *acquis communautaire*. Yet, in December 2012 the Moldovan government postponed fulfilment of this obligation until 2020 under pressure from Gazprom during negotiations on the new contract. This proved to be an unnecessary concession since the talks eventually concluded without any price reductions.

The Complexity of Russian Influence. This high Russian leverage on Moldova is explained by a combination of factors. Gazprom is not the sole gas supplier for the country, it also holds 50% of MoldovaGaz, the joint venture company that owns the gas system in Moldova (only 36.6% of the shares are in the hands of the Moldovan government, while 13.4% are owned by the Transnistria region authorities). Moreover, Russia claims the Chisinau administration holds the liability for the approximately \$4 billion debt the Transnistrian consumers have accumulated for gas deliveries from Gazprom. Given these factors and despite Moldova's strategic location on the export route for Russian gas (16 bcm of Russian gas transits each year through Moldova towards southeastern Europe), Moldova's negotiating position vis-à-vis Gazprom remains very poor.

This allows Russia to place its Moldova energy policy in the service of its geopolitical aims to maintain its sphere of influence in the post-Soviet states. Signing a new gas transit and delivery contract is not only a means of countering Moldova's integration efforts with the EU energy market but also a carrot to draw Moldova into the Eurasian Union.

The Iasi-Ungheni Interconnector and Potential Sources. The total cost of the interconnector amounts to €28 million. Out of this, the EU will provide €7 million via Joint Operational Programme Romania-Ukraine-Republic of Moldova, which supports cross-border activities in the context of European Neighbourhood Policy. Romania will assist Moldova with €9 million and invest a further €12 million in construction on its own territory. The interconnector will have a length of 43.3 km and maximum annual capacity of 1.5 bcm. Yet, in order to function at full capacity, a gas compressor station that would ensure adequate pressure in the pipeline needs to be built. Next, the pipeline will need

a 130 km extension between Ungheni and Chisinau. As such, the project overall is not expected to be finalised before 2017 at the earliest, and financing for it has not been guaranteed.

Another major question is supply. Potential sources include the LNG increasingly imported to Europe, as well as shale gas that could be tapped in the region. Romania and Poland are the closest potential suppliers assumed to hold vast shale gas reserves. The Azerbaijan-Georgia-Romania Interconnector (AGRI) could also be a convenient LNG supply route, yet this project will not be completed earlier than in 8-10 years, if at all.

Obviously, the best option would be to import domestically produced Romanian gas. But the Romanian market is still highly regulated and external trade just received the green light when an export ban was lifted in July. Since the price of domestic gas can be even three times lower than imported gas, exporting creates conflicts for large industrial consumers. Supposedly under pressure from industry, the two gas producers, Romgaz and OMV Petrom, made commitments to the government they would not export gas until after 2015 when the market liberalisation period for industrial consumers ends.

Thus, rather than export conventional reserves, Romania could look to shale gas to produce exports once exploration begins on land or from the estimated 42-82 bcm of offshore reserves in the Black Sea continental shelf. None of these options stands a chance of becoming reality earlier than 2018.

New Gas Supplies or Something More? The primary scope of the new pipeline is to improve Moldova's energy security, yet the geopolitical rationale of reducing Russia's influence overall is also not negligible. Providing an alternative gas supply route will considerably diminish Russian blackmail and could result in better terms for gas imports and transit rates. The interconnector with the EU gas market, coupled with reduced Russian influence, could facilitate Moldovan integration into the European energy market, giving impetus to the country to update secondary legislation in accordance with the EU acquis.

For Romania, the failure of plans for the Nabucco West in June meant the Iasi-Ungheni pipeline has gained in value. In re-orienting its energy policy, Romania's foremost priorities are now to speed construction of the interconnector grid with neighbouring countries along with quick market liberalisation to attract foreign investors.

As such, even if the new pipeline has only marginal significance for Romania's energy security, it is expected to bring commercial benefits and help Romania open up its highly introverted gas market. It would be the first physical export route before reverse flow is enabled on the Hungary-Romania interconnector and before construction is finished on the Bulgaria-Romania interconnector, planned for 2014. Moreover, not only Moldova's gas demand can be served via the Iasi-Ungheni pipeline but also that of Ukraine, which is seeking to diversify its gas imports. Apart from exporting internally produced gas, Romania may also profit from transit fees on gas transported from other sources on the European market to Moldova or Ukraine.

Recommendations for the EU and Poland. If the Iasi-Ungheni Interconnector will primarily serve the economic and, perhaps, the geopolitical interests of Moldova and Romania, its completion would not be without significance from the EU's perspective. The mere fact that Moldova would be physically connected to the EU gas system is meaningful to the integration of the European market and can become a bonus for the Energy Community in its relations with Russia. In order to embrace this opportunity, members of the Energy Community—particularly the Central European states such as Poland—should exercise pressure in common on Moldova and offer support for it to re-engage in transposing EU legislation at the national level.

Poland, in spite of a lack of direct commercial interest in the new project, should back it for political considerations. In bilateral terms, it is recommended that training in best practices be made available to Moldova, on both the institutional and corporate levels. Multilaterally, a suitable cooperation platform would be the Agency for the Cooperation of Energy Regulators (ACER), which the Moldovan agency joined in 2011. Furthermore, the South-South East Gas Regional Initiative coordinated by ACER could be extended to Moldova.