VULNERABILITY OF ENERGY SECURITY IN EASTERN EUROPE AND TESTING OF COMMITMENTS REGARDING THE 3RD ENERGY PACKAGE (THE CASE OF THE REPUBLIC OF MOLDOVA AND UKRAINE)

The Republic of Moldova and Ukraine are in a period of intense talks with Gazprom in order to obtain new gas procurement conditions that would be closer to the reality of natural gas markets. Chisinau authorities still fail, in the second quarter of 2012, to purchase natural gas from the Russian Federation at a lower price under a new contract even though it had to happen from January 1, 2012 once the contract signed in 2006 expired on December 31, 2011.

As for Ukraine, the talks have the same purpose: reduce the purchase price but this can be done by signing an additional agreement to the contract signed with the Open Joint Stock Company Gazprom in 2009 for a period of 10 years. Although Ukraine committed itself under this contract to buy a constant amount of natural gas - 52 billion cubic meters per year, the new authorities in Kiev have another view of the contract in force and make efforts to reduce Russian gas consumption - a fact that tenses negotiations with Gazprom. Is this a negative signal about the energy security in Eastern Europe or are these the first consequences of Moldova and Ukraine’s commitments made to the EU regarding the third energy package?
Despite the fact that neither the efforts of the Republic of Moldova nor those of Ukraine have plausible results, it is interesting to look at the way the problem was addressed by both countries, during the first 3 months of 2012 that actually have the same purpose: reduce the natural gas purchase price. In this process Moldova’s efforts have been focused more on the dialogue with the Open Joint Stock Company Gazprom in order to identify a solution concerning the third energy package implementation and respect the ownership rights of the only gas supplier. Meanwhile, Ukraine’s efforts have focused more on the dialogue with external partners, potential gas suppliers in order to reduce dependence on imported natural gas from Gazprom. Initially these approaches appear to have different accents towards the realities and priorities for each country. Ukraine covering 25% of its natural gas needs from its own resources and importing gas not only from Russia but also from Turkmkenistan, attempts to identify some other natural gas suppliers while the Republic of Moldova, importing 100% of natural gas from Russia, continues its bilateral dialogue with the aim of signing a new contract to purchase gas. Certainly, while making the statements above, one should not neglect the influence of the gas supplier interests that, in both cases, expresses strategic aspirations of energy influence expansion, aspirations healthy enough for a producer that wants to have a market as large as possible.

The big “problem” is that it is all about Ukraine and Moldova, countries through which large quantities of Russian gas are transited to many of Open Joint Stock Company Gazprom’s European customers. Specifically 80% of the gas volumes delivered to European consumers pass through Ukraine and of these about 17 to 20 billion cubic meters pass through Moldova. So these rules must be observed here once these transit countries promote the same principles of the European energy market. What is actually happening is that instead of a trilateral dialogue within which should be discussed mutually beneficial solutions for the supplier, carrier (transit country) and the beneficiary, Gazprom makes use of other ways of solving the problem. In the case of Ukraine, it overtly insists on obtaining control over the company Naftogaz. This goal seems to be even more difficult to achieve once the Ukrainian government has already adopted a bill according to which the monopolistic gas company in Ukraine, Naftogaz will be divided into two different companies, a transport company and a production one and the same draft law proposes a ban on leasing or privatization of the gas transport system. In fact, the separation of production, transport and distribution system are the main measures to be implemented once Ukraine and Moldova signed on October 6, 2011 the agreement of implementing the third energy package as a member of the European Energy Community to provide third parties access to transport and distribution networks.
In the case of Moldova implementation of the third energy package is more difficult. First there is a historical problem, that of the debts, even if the new official in Tiraspol previously said that Transnistria recognizes the debts for natural gas to Gazprom and seeks solutions for this. On the other hand the political substrate of the problem, whose solving entails a more consistent trilateral dialogue, can not be neglected.

Another barrier is the ownership of the natural gas system in the Republic of Moldova, the Open Joint Stock Company Gazprom being the controlling shareholder of the monopolist gas company SA Moldovagaz. Accordingly, the adoption of the Ukrainian example seems more difficult, requiring the direct participation of Gazprom in talks which, from the beginning, involves illusory positive results if what is actually discussed is creating conditions for access of competitors to this market.

After all, these issues had to be clarified prior to the decision to implement the third energy package. Thus it would not have been an additional reason for Gazprom to make the process of negotiating a new contract conditional on new provisions for a period of 4-5 years, a thing the government officials have confirmed many times. Regardless of the various options that would be appropriate for the Republic of Moldova concerning the implementation of the third energy package, the final solution can be only one of the two, either are implemented the principles of the liberalized European energy market with nondiscriminatory rules or are further tolerated regulations imposed by the east under which the Republic of Moldova must comply with conditions imposed by the sole supplier of natural gas.

This is where things get a different shape. It is well known that once you choose to sell the product in a certain market you have to conform to the rules established in those markets, a fact that Gazprom does not seem to accept. The lack of flexibility in negotiating contracts was criticized long, being an important topic of discussion among experts in the field. Meanwhile, in the last 7 years there has been an enormous progress in developing new technologies for production and supply of natural gas such as shale and liquefied gases. Namely, this development led to substantial changes in terms of operation rules of the European energy market that will be very obvious in the next 4-6 years. Therefore the availability and price of these gases will be a real threat to Gazprom’s product which might record significant declines in case of a conservative external energy policy.

One of the most striking signals, in the context of the above mentioned, may be that of Lithuania, if it manages to complete the project initiated by the agreement with a Norwegian company. The growing price and total dependence on Russian natural gas have determined it to develop a new project that by the end of 2014 will allow natural gas supplies by sea by renting a
floating platform from the Norwegian company Hoegh LNG to import liquefied natural gas. Starting such a project by the Republic of Moldova is difficult both for financial and technical reasons in the situation when neighboring countries such as Ukraine and Romania have expressed their interest in such projects as well. The Republic of Moldova Government launched in autumn 2011 talks with Azerbaijan to see in what formula the Republic of Moldova may participate in the AGRI project (Azerbaijan - Georgia - Romania Interconnector) regarding the transport of Azerbaijani gas to Europe. In the case of the Republic of Moldova, apart from regulatory, legal and economic barriers that make conditions of participation in such a project together with Romania, there are also technical barriers to be removed. They consist in the absence of reversible interconnection between national gas pipelines system and the Romanian one, Ungheni-Iasi, one of the priorities of government for more than eight years that has not yet been achieved.

Generalizing the reasons that make difficult the solving of energy problems at the border of Eastern Europe, both the Republic of Moldova and Ukraine, on short and medium term, can not avoid the consequences of the energy policy exercised throughout the period after the collapse of former Soviet empire. The fact of not imposing rules at the right time, and the lack of consistency and dignity in relations with partners in the energy sector have led to both physical and economic dependence on a single natural gas supplier. This dependence continues to be a real constraint in the negotiation process for countries like the Republic of Moldova when current contract terms are hard to be accepted once the economic capacity to cope with the set terms is below the financial ability of consumers. Therefore, in order to establish new rules, equitable, economically based and mutually beneficial for purchasing natural gas from the Open Joint Stock Company Gazprom what is needed is to strengthen efforts in the negotiation process with the active participation of the European Energy Community as an organization whose mission includes also, since 2010, the Eastern Europe.