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REPUBLIC OF MOLDOVA AND RUSSIAN GAS. LOVE TO DEATH?

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„When money speaks, nobody checks the grammar”.
By Alfred Newman

A new gas crisis

A new „Russian-Ukrainian gas war” during the New Year's Eve is finally over. It was the longest and amplest one. If three years ago the sides reached a compromise within four days, in this case they needed five times more time to do this. In consequence, a 10-year contract on gas supply to Ukraine and a transit agreement were signed. Both EU member states and non- EU members which depend on Russian gas supplies at a certain extent were involved in the Russian-Ukrainian confrontation. [1] I thought that previous developments would just repeat when the unfortunately traditional exchange of mutual accusations and claims such as “Your fingers will be cut should you refuse to give us your rings” has started. Or at least older refrains played in a new manner. But, it did not happen so.

The Republic of Moldova was also involved in the “gas friendship” between Russia and Ukraine, but Transnistria was concerned at a bigger extent (the centralised heating system was turned off in all cities and towns of the region and the natural gas supply to all villages and suburbs was turned off, too). In the context of these developments, the desire to warn about situation of this branch in Moldova in general and Transnistrian region in particular emerges involuntarily.

Let's see facts. Moldova is completely dependent on Russian natural gas. Romania like Moldova depends on Russian gas supplies and it could not help it much in emergency situations, should pipes at the entry of Moldova and at Ukraine's border with Romania be turned off. It is impossible in technical terms or gas pipes in the Iasi area have a maximum pressure of 14 atmospheres, while ours have 55 atmospheres. [2] Of course, Ukraine may help us, but developments in January proved that it does not help much.

NABUCCO – an alternative solution?

Where else could we find gas? From which pipe? There are talks about „NABUCCO”. Gentlemen from Moldovagaz welcome the possibility to diversify energy supplies. „Any diversification is great. Thus, this possibility will be welcome shall the NABUCO pipeline be built,” says Alexandr Gusev, director-general of Moldovagaz. [3]

On the other hand, it is clear that these are some far prospects. NABUCCO is planned to be a 3,300-kilometre-long natural gas pipeline. It will link Central Asia and EU members, above all Austria and Germany, and by pass Russia. The project capacity is 26-32 billion cubic metres a year. The first round of construction of the gas pipe NABUCCO will begin in 2010 and the second round by the end of 2014. The European Union hopes that by crossing Turkey, NABUCCO will reduce the dependence of European states on Russian gas and operational transit itineraries. But Turkey gets an object of negotiations. The country bids for accession to the EU, so that it may periodically say that it gives up the gas providing project. Turkish Prime Minister Recep Tayyip Erdogan was sceptical with the opportunity to build the gas pipeline NABUCCO, making public plans of his country to reconsider its attitude towards this project. According to Erdogan, Turkey may withdraw from the NABUCCO project if the energy chapter in the country's accession negotiations with EU remain blocked. „We will revise our position as well, should the energy chapter be blocked,” said Erdogan in comments to the „NABUCCO” issue. Russia does not oppose the construction of NABUCCO, if this pipeline will really pump gas. [4]

It is also worth noting that Russian gas is supplied to Turkey directly via the Blue Stream gas pipeline. I remember allegations in the late 1990s, when the Blue Stream was projected, that the gas route to Balkans via Ukraine and Moldova could lose importance." I was able to learn then the opinion of one of most competent persons in the area of "blue fuel", Mr. Petr Stepanov, who was director-general of Tiraspoltransgaz then and now heads the Transnistrian Ministry of Industry. In 1998, he told me: „Here is the heart of „Gazprom" which pumps natural gas to Balkans. The Blue Stream will not replace it." A decade later his words had been confirmed. The Blue Stream was working very well but it did not resolve the problem of ensuring the Balkans with natural gas via Turkey. It seems that it was not designed for this purpose.

The "gas war" revealed many facts. It was an operation including several moves which made clear who is who. Europeans realised that they are (of course, just nominally) induced in controversies between two giants, Naftogaz-Ukraine and Gazprom, but not between countries. The instable transit via Ucraina [5] is suddenly boosting the importance of the "North Stream". Perhaps, in these conditions, Europe will start building it more actively, allocate funds, etc. (But things are not so simple in reality or the „North Stream" will not help much the Southern Europe which suffered the most).

How is set the gas price

Find below some annoying data on how is set the natural gas price. Europe pays for gas every quarter. It pays about 450 dollars per 1,000 cubic metres in the 1st quarter of 2009. It is known that this price is correlated with a lag-time of approximately 6 months. The price was maximal half a year ago; the oil was worth 150 dollars per barrel, compared with 50-30 dollars at present. Prices will fall for sure in the 2nd-4th quarters, so that according to estimates, the medium price for 2009 will be approximately 200 dollars per 1,000 cubic metres (if average oil prices will be 50-60 dollars).

The British Thermal Units (BTU) represents the heating volume needed to heat a field with 1 Fahrenheit degree (1 BTU= 252 Kkal = 1,055 Joule). A barrel of oil contains 5.825 million BTU. A cubic metre of gas is equivalent to 36,678.5 BTU.

Two simple formulas are generally applied on the U.S. gas market to establish the gas price in dependence of oil prices (USD per barrel). An oil barrel contains 5.825 million BTU, so that the highest price per 1 million BTU of gas is 1/6 of the price of a crude oil barrel. But this formula usually increases the gas price. The highest value is 1/10 of the price of a crude oil barrel. Thus, the gas price varies between 1/10 and 1/6 of the price of a crude oil barrel.

Formulas „10-to-1" and „6-to-1" are approximate enough, while the so-called "burner tip parity" formula has become very popular. This formula is based on the "competition of fuels" between gas and black oil. According to the "burner tip parity" formula, the price of 1 million BTU of gas = - 0.5 + 0,151.1 × price of crude oil barrel. The same approach is applied to establish the price of Russian gas on European market. Since the price of Russian gas is much less volatile than the price of U.S. gas, the formulas „10-to-1" and „6-to-1" as limits of price intervals do not make an essential pragmatic sense. Nor applying some seasonal factors makes any sense. The price of the "burner tip parity" reflects perfectly the price of Russian gas, but only for the last three years. The regressive analysis is a much more accurate method. According to the regressive analysis, the price of Russian gas may be set after the formula for 1 million BTU of gas = 1,576.2 + 0,100.9 × price per crude oil barrel.

According to the formula concerned, the gas price depends on the oil price for the current period. But the price will oscillate along with variations of oil price when this formula will be applied. As a rule, the gas price is calculated with a lag-time of 9 months and this temporises changes of gas prices in dependence of changes in the crude oil prices. In order to get a similar formula, the regression equation covers both the current petrol price and the oil price with a 9-month lag-time. This way, a more conservative formula for calculation of gas prices may be obtained: when the crude oil price increases or decreases, the gas price changes slower than the petrol price. The modified formula of the gas price is the following: price of 1 million BTU = 0,714 + 0,046 × price per crude oil barrel + 0,097.5 × price per crude oil barrel 9 months ago. The gas price may be calculated this way. The gas price will be 185 dollars, according to the last formula, even if the oil will cost 30 dollars (its price was stable in 9 months), and this must happen again.

Gas prices will be approximately 260 dollars, shall oil prices keep being about 45 dollars. Taking into consideration a 20-percent reduction for Ukraine by the end of the year, the price will be equivalent to 210 dollars per 1,000 cubic metres after nine months. Gas prices are estimated to be 200-250 dollars by the end of the year. Gas prices have decreased from 500 dollars and they will keep falling. This fact was obvious before the conflict and „Gazprom" did not hide it. [6] Russia and Ukraine were expected long ago to introduce market relations in the area of gas prices and payments for transits. According to the 2007 agreement, the definitive introduction should be completed in 2011. An acute crisis was needed for this purpose. And it became the moment of truth.

Transnistria's debt for Russian gas – a lever against Moldova?

But let's be back to Moldova. And we will give again some dry data. According to official accounts, Transnistria's debts for natural gas, including penalties accounted for 1,482,200,000 dollars on January 1, 2008, 1,558,100,000 dollars (including penalties) on April 1, 2008 and 1,602,200,000 dollars (including penalties) on June 1, 2008. [7]

The Transnistrian media reported a new amount of debts at the end of 2008 – about 1.8 billion dollars. It means the debt is growing and will not decrease. [8] Mr. Stepanov, whom I have quoted above, has recently said that Transnistria's debts will keep growing in 2009 and the debt towards Gazprom could reach approximately 350 million dollars this year, given the current fuel prices. Mr. Petr Stepanov, being a reasonable person, a professional, has explained the situation very clear, saying "one day Transnistria will be asked to honour at least the current payments." Then why do Russians allow Transnistrians to gather so big debts in such a progression?! Who will finally pay them?! "In order to recover debts from Ukrainians (Ukraine owed 2.5 billion dollars before December 30, 2008), "Gazprom" decides to stake everything. But a question appears here: is the Transnistria's galloping debt a manifestation of one of most aggregated projects born by Putin's diplomacy in the post-Soviet area that means of geopolitics of gas?

As regards this issue, Moldovan authorities either keep silence or utter; Transnistrian authorities state, adding sometimes a dose of mockery that the debt is not theirs but of the enterprise „Moldovagaz", of Moldova as state, and the higher the debt of Transnistria will be, the quicker it will be recognised. Indeed, some high-ranking dignitaries of the Republic of Moldova state that all Transnistria's debts for gas consumption will be transferred to the presumptively unitary state after the reintegration. But how could one administrate such a reintegrated country, with a creditor which was quite violent in relations relating to gas policies? The scenario is very clear.

Debts for gas are an element of pressing Transnistria as well, which is anyway dependent on the biggest country in the world. Nobody reminds their debt and when it happens to recall it they are not serious. Transnistrian minister of industry has openly stated at the beginning of this year: „Transnistria will get ready to be a credible partner of „Gazprom". [9] Nice words, but it seems that nobody takes them seriously.

„Moldovagaz" role in the play

Let's discuss „Moldovagaz" now. Here you find information in brief. In 1999, the Privatisation Department of Moldova and „Gazprom" signed a contract on opening the joint stock society „Moldovagaz". The capital of the joint stock society was 290.5 million dollars then, being made of the capital and patrimony of the „Moldovagaz" Concern and contributions worth 78 million dollars by enterprises from eastern rayons of the Republic of Moldova (RMN). „Gazprom" became owner of majority of shares of "Moldovagaz" SA, 50 percent plus one share. The fact that Russians got the majority of „Moldovagaz" SA shares means a principled change of the Russian company's role as supplier. Henceforth, „Gazprom" was both supplying natural gas to Moldova and became the direct seller of this product in our country. The company assumed all responsibility for the state of things in the area. On the other hand, the participation of Transnistrian enterprises in opening „Moldovagaz" SA required the reunification of the entire gas complex of the Republic of Moldova. Even more, the Russian enterprise „Gazprom", major owner of „Moldovagaz" SA, was supposed to participate directly in its developing, ceasing to calculate fines and pecuniary sanctions. In its turn, Moldova was becoming completely dependent on „Gazprom".

Nowadays, „Moldovagaz" SA has 1,706 shareholders which own 13,328,832 shares. The largest shareholders of „Moldovagaz" SA are: the close-type joint stock society „Gazprom" (6,654,540 shares or 50 percent plus one share), the Ministry of Industry and Infrastructure of Moldova, formerly the Privatisation Department (4,708,806 shares or 35.33 percent) and the Transnistrian Ministry of Industry, formerly the patrimony management committee of Transnistria (1,791,306 shares or 13.44 percent).

The company has a Board of Observers which depends on „Gazprom" directly. A „Gazprom" representative necessarily heads the Board of Observers. As a rule, sittings of the Board of Observers focus on totals of the company work for one year and the budget for next year. According to the statute of „Moldovagaz" SA, the Board of Observers of the company included 6 persons: 3 representatives of „Gazprom", 2 representatives of related ministries of Moldova and one representative of the patrimony management authority of Transnistria. They are elected by the general assembly of shareholders for one year. Since 2005, when Transnistria empowered „Gazprom" to manage (vote) through its shares, the new Board of Observers has included 4 representatives of „Gazprom" and 2 of Moldova.

According to agreements, a candidate appointed by „Gazprom" is traditionally elected chairperson of the „Moldovagaz" SA Board of Observers and a candidate nominated by Moldovan Government heads the Board of Directors of „Moldovagaz". „Gazprom", the major shareholder, holds the right to administrate and delegate more competences to the company administration via the Board of Observers in case of inefficient activity of „Moldovagaz". In 2003 „Moldovagaz" SA raised a net profit worth over 10 million dollars for the first time in the past years.

In late November 2005, the Supreme Soviet of Transnistria decided to quit „Moldovagaz" SA and hand over half of its shares in this enterprise to „Gazprom". Transnistrian minister of industry Anatoli Blascu said then that the region had handed over half of its shares in „Moldovagaz" to „Gazprom", in order to pay off its current debts for natural gas consumption. Tiraspol had plans to hand other another half of shares in „Moldovagaz" SA to „Gazprom", too, and to create the Russian-Transnistrian enterprise „Tiraspoltransgaz-Transnistria" on the basis of that share, and the new company should cooperate with „Gazprom" directly, starting early 2006. In January 2006, the Moldovan Government and „Gazprom" coordinated the issue relating to transmission of „Moldovagaz" SA assets based in Transnistria to the Russian gas holding in order to administrate them. This decision was made to optimise sales of Russian natural gas in Transnistria. Conditions on which basis the Transnistrian assets of „Moldovagaz" were transmitted to the „Gazprom" administration were not disclosed.
It is clear that „Gazprom" is half a state company just at official level. During the 8-year presidential rule of Putin the involvement of the Russian state in the most profitable areas has become extremely palpable. Big companies are headed by high-ranking dignitaries. Acting Russian President Dmitri Medvedev, when he was first deputy prime minister was cumulating this post with the office of manager-general of the Russian gas holding. One could suppose that „Gazprom" will not like the situation related to Transnistria's debt, as "it has moved to the field of lost objects long ago, given the actions of the Tiraspol administration." Before the last gas war, Transnistrian authorities did not believe a priori that Russia could press so much friends/comrades/ supporters in geopolitical battles it holds. It seems that this wrong opinion is disappearing. Arguments such as the faulty management in the 1990s, the money was stolen will not be taken into account. Until now, the situation (not only in Transnistria) was like when one was reporting certain issues someone was receiving something, while nothing was done in reality regarding payments.

Conclusions

Let's make some totals. The Russian establishment could stake on the force capable to propose more interesting and realistic conditions for reimbursement of debts, especially now, prior to the parliamentary elections, should it really want to control Moldova. There are specialists who know how to reimburse debts, but their services are not mediated too much, even if they are requested. It seems that Moldova is not very important to the Russian Federation. And now the world crisis signalled by all has occurred. Russia does not care about Moldova for sure. No matter who will rule Moldova after the 2009 elections, it will face the "cudgel of Russian gas" for sure in the event of possible divergences with Moscow. As regards „Gazprom", it could choose as slogan the prediction about own post-mortem glory made by Saint Therese of Lisieux: „ I know that the whole world will love me"…

But no matter if it wants or not …
And we are not an exception.

Recommendations:

- The Republic of Moldova is part of a big European energy body. And the gas transportation area is not the only one. The situation of the energy sector is pretty predictable and stable, should eventual risks be monitored, analysed right and anticipated.
- The clear delimitation: who, to whom and what for is indebted. Establishing and making clear officially: how and why the debt appeared and who is to blame for.
- The maximum separation of issues relating to energy security from the political issues.
- The cause, not the consequence of debts for gas consumption shall be treated.
- Finding of alternative energy sources. Conduct of in-depth and systematic activities in this area.
- A deeper participation of Moldova in the European energy security area.
- The attraction of funds in the energy sector to maintain and sustain not only the development of gas supply. Sustain and motivate energy specialists.

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ADEPT is an independent centre of analysis and consultation on the decision-making, political, electoral and socio-economic processes in the Republic of Moldova and in the wider region.

ADEPT's mission is to promote the democratic values and support citizen active participation in public affairs.

Strategic Objectives

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- Promote and consolidate the democratic institutions and procedures;
- Encourage and facilitate citizen participation in the decision-making and governance processes.