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Integrating Ukraine and Moldova in EU's energy security plans

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Vulnerability in the EU's internal energy market has been made starker since the Russia-Ukraine crisis, highlighting specifically the importance of upstream energy linkages. March this year saw the European Council calling for a comprehensive plan to reduce the EU's energy dependence. The European Commission responded to this call with a communication on Energy Security published on 28 May, in time for another European Council at the end of June, at which a decision is anticipated.

The Commission's document includes a specific reference to Moldova and Ukraine: "The Union should work closely with its neighbours and partners within the Energy Community, notably Ukraine and Moldova, to improve energy security". Unfortunately this isolated reference is not accompanied by specific measures, even though their location as crucial energy gateways to Europe requires special attention and support. It is thus worthwhile to look at how the EU could take concrete steps towards transforming the political objectives assumed by the Council and the Commission into concrete policies.

Only some 4-5% of Moldova's energy consumption is covered by internal sources. The rest is imported from Russia (gas) as well as Ukraine and Romania (electricity). Moldova imports 1.5 bcm (billion cubic meters) of natural gas per year (not counting the separatist Transnistria region). Unlike Ukraine, it lacks gas deposits and its role as a transit country is limited. Moldova and Ukraine have committed to implementing the EU's Third Energy package, which is a condition of the Deep and Comprehensive Free Trade Agreements (DCFTA), element of their AAs. They are also members of the European Energy Community. Both states will become more integrated into the EU economic space, including the EU energy market. Their commitment to implement energy directives, which represent a test even for EU Member States, should be reciprocated by the Union with concrete support in the energy area. Energy is a key issue for both the new president in Kiev and the pro-European coalition in Chisinau, which will face parliamentary elections in November. The prospect of another winter exposed to Russian blackmail represents a powerful propaganda tool, openly used by the pro-Eurasian Union parties in Moldova and by the pro-Russian autonomous region of Gagauzia which promises cheaper gas to its people by claiming to have struck a special deal with Russia, over the heads of Chisinau.

One way to help the two countries would be to cover them in the Connecting Europe Facility. This programme was the EU's response to the delays and the incoherent manner in which Member States were implementing projects to interconnect their energy markets. €5.8 Billion was put aside for these so called Projects of Common Interest (PCI), a list of which was published by the Commission in October 2013. Each Member State promoted projects in this list, with the final list including 248 projects. However, the total estimated budget necessary to complete all the projects is more than €150 billion, signalling that prioritisation is necessary.

The Commission communication points to 33 projects (27 in gas and six in electricity) that "have been identified as critical for EU's energy security in the short and medium terms". Most of these focus on distributing gas from the South corridor and helping Eastern members look for an alternative supply (mostly Liquefied Natural Gas). The European Council should enforce this prioritisation.

However, the list includes only one project that interconnects a Member State with an EaP country – the reverse flow connection between Romania and Ukraine. Although necessary, this project is a novelty for most experts in the region and has no political backup in Bucharest. On the other hand, the list ignores two areas in which both the EU and Romania invested in the last few years: exploring the Black Sea potential and the interconnection with Moldova.

The annexation of Crimea by Russia gave Moscow access to the unexplored resources in the Black Sea. Some studies conclude that these waters have a similar potential to North Sea resources. The Black Sea had been considered even by the Yanukovych government as the main chance for Ukraine to loosen Russia's grip on its energy security. In 2012 an agreement was signed with ExxonMobil to start exploration in the Black Sea. In September 2013 another agreement was announced by Kiev between the Ukrainian company Nadra Ukrayny and an international consortium composed of Shell and Petrom (Romanian oil company, owned by the Austrian OMV) to explore the Black Sea's Skifska sector. The estimation was for 8-10 bcm per year (around 20% of Ukraine's current gas consumption).

This door is now closed, representing a setback to Ukraine's energy diversification plans. Moscow's claim to the marine area will not be recognised by most of the international community but the area will be effectively controlled by Russia, which has no incentive to explore its gas potential. The new Russian exclusive economic zone now borders the EU (Romania).

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Petrom and ExxonMobil announced the discovery of a gas deposit of around 80 bcm in Romanian waters, which should come online in 2018-2019. This discovery alone has the potential to cover Romania's and Moldova's consumption and to alleviate Ukraine's situation. It is important to have the infrastructure projects in place until 2018 to allow access to Romania's network, and between the two Eastern Partnership countries. Romania and the EU should promote these projects on the priority list.

The Commission communication makes a vital recommendation to prioritise the projects which diversify supply sources (TAP pipeline and its connections to Greece and Bulgaria, LNG terminals in Poland, Lithuania and Croatia). But a political decision should be made to open the PCI list to projects that include Ukraine and Moldova. In another example, the EU previously played an important role in influencing Slovakia to provide gas to Ukraine; however, the current pipeline linking Slovakia with Ukraine needs an upgrade. It would be beneficial in the long run to place this project on the main PCI list, as well as on the priority list. The political will of the EU would then be linked to its financial instruments.

Romania is currently building an interconnector with Moldova with finance coming from a different EU programme (the trilateral Romania-Ukraine-Moldova cross-border cooperation). This pipeline will be finished in August and may provide up to 10% of Moldova's gas consumption. Critical decisions are expected from the Moldovan government in setting up the necessary legislation that could open the internal pipelines (owned by a local Gazprom subsidiary) for Romanian gas. However, 10% is hardly enough to make Moldova truly independent. The Romanian project should be followed by a compression station and another pipeline to Chisinau (thus being able to cover 60-80% of Moldova's consumption).

This new pipeline would cost approx. €70 million and the Moldovan government has already expressed its intention to contract a loan from EBRD or EIB to pay for it. The Connecting Europe Facility offers Member States guarantees for such loans from the European developments banks. The Moldovan pipeline is seen as vital for the country's energy security and will have an interconnection with Romania in August 2014. In addition it has the potential gas supply from the Black Sea for support (or from shale gas, which is also currently explored in Romania). With this in mind, a political decision should be made to open the PCI list for this project and to co-finance / guarantee the loan intended by Chisinau.

Another key point for the two associated countries is the EU competition investigation against Gazprom. In September 2012, the European Commission launched its anti-trust investigation against the Russian energy giant. Although announced as "a matter of priority" in the Commission's press release at the time, the finalisation of the case is still pending. DG Competition has a good track record in dealing with powerful players, including powerful European energy companies. A common and competitive market in this sector is inconceivable without taming the biggest abuser of competition laws. The investigation was initiated by Lithuanian complaints, but was quickly extended to other Member States from the East. It targets Gazprom's core business model: dividing gas markets, forbidding third party access to pipelines, and preventing resale. All these practices are traditionally used by Gazprom in Moldova and Ukraine. EU Energy Commissioner, Günther Oettinger, promised solidarity with Moldova when Russia threatened Chisinau with gas cuts last winter. Such major political statements should be followed by actions. Given Moldova's commitment to enforce the third energy package (thus forcing the Moldovan gas national company – owned by Gazprom – to open the market), it should also benefit from the EU law enforcement mechanisms. A decision of DG Competition against Gazprom should also be applicable to Gazprom practices in Moldova and Ukraine. In the case of Ukraine, regulating Gazprom practices at EU level could allow the Slovak government to supply energy to Ukraine without jeopardising its special deals with Gazprom (Slovakia would simply enforce the EU ruling).

All the recommendations included in this commentary represent small steps, which could be taken by the European Council and Commission to prove their solidarity with two countries looking for shelter ahead of the storm. These non-ground-breaking steps just prolong already available instruments and are in line with decisions announced by the EU. Not a long way to go, for a big change.

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