

# East-West Strategic Corridor: the Case of the Republic of Moldova

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The East-West strategic corridor encompasses a territory that could largely be defined as „ex-Soviet space“. It is obvious that the East-West strategic corridor can become functional only if the states on whose territory it passes will be predictable, stable and sovereign. Until the collapse of the Soviet Union in 1991, on this space there was an authoritarian political regime that promoted policies aiming the creation of „Soviet people“. The „Soviet people“ were to become a homogeneous mass. The Soviet economic system was a hyper centralized administrative-command system. The union center unilaterally decided on the location of various economic objects and subjects. This was also valid for the infrastructure of the energy sector (i.e. gas pipeline system).

### **The main causes of the vulnerability of Republic of Moldova’s state-building project**

The Republic of Moldova emerged as an independent state because, in legal terms, Soviet Union was a federal state consisting from federation subjects - “national” Union republics. Even though Soviet Union had a single citizenship, it also recorded its citizens in terms of ethnicity. At the same time, the “Soviet federation” had a quite non uniform internal structure, based on the ethnic criteria, with various levels of subordination. Besides “Union republics”, there were also “autonomous republics”, “autonomous regions” and “autonomous districts”. Moreover, the internal borders between Union republics did not coincide with the borders of the ethnically

homogenous areas (this fact was later used to cause regional conflicts during the collapse of the Soviet Union and in present continues to create problems in the relations of the newly independent states).

The Republic of Moldova is a successor of Moldavian Soviet Socialist Republic (MSSR), which was created after the annexation of Bessarabia by Soviet Union in June 1940. In order to justify its territorial claims on Bessarabia, the union center promoted the idea of a *Moldovan nation*, distinct from Romanians. On October 12, 1921 in Harkiv (then the capital of Ukrainian Soviet Socialist Republic), following indication from union center, was established Moldovan Autonomous Soviet Socialist Republic (MASSR), component of Ukrainian SSR. Soviet Union claimed that in MASSR / Transnistria “flourished a part of the Moldovan socialist nations”, while in Bessarabia, which was part of the Romania, “the other part of Moldovan nation groaned under the occupation of Romanian bourgeois-landlords”. The maps published in Soviet Union, showed the western border with Romania not on Nistru river, but the Prut river. The Soviet regime didn’t hide at all its plans to use MAASR as a bridgehead for the expansion of Soviet ideology in Romania, especially in Bessarabia.

After the annexation of Bessarabia on June 28, 1940, the Soviet regime could have limited itself to “restore the territorial integrity of MAASR component of Ukrainian SSR”. Such a scenario was not improbable at all since in its ultimatum notes to Romania Soviet Union affirmed that Bessarabia was mainly populated by ethnic

Ukrainians. However, the union center decided otherwise and on August 2, 1940, in Moscow, was adopted the Law on the establishment of Moldavian Soviet Socialist Republic component of Union of Soviet Socialist Republics. The borders of the new republic were established in an arbitrary manner only on November 4, 1940. As a result, the territory of Moldavian SSR was reduced by about 36% (compared to the territory of MAASR comprising left bank of Nistru and Bessarabia). Moldavian SSR was left without access to the Black Sea.

At the time when the Republic of Moldova proclaimed its independence its territory did not identified with any past state and there was no tradition of statehood in the collective memory of population. At the same time, the majority of native population was imposed with an artificial ethnical identity, based on *Romanophobia* and *Moldovenism*. After 1940, in the MSSR were terminated social segments without which it is impossible to build a functioning state - intellectuals, civil servants, activists of various political parties, businessmen, etc. The native population was concentrated in rural areas (about 83% of Moldovans), while Chisinau and other cities were deeply Russified. In the final years of the Soviet Union, about 35% of MSSR population, which were ethnic minorities, categorically opposed the idea of Moldova's transformation into an independent state. As a result, the state-building process faced serious internal resistance.

## The issue of energy security of the Republic of Moldova

Since the East-West Corridor implies alternative routes for the transportation of natural gas, it is necessary to analyze the issue of energy security of the Republic of Moldova in terms of ensuring reliable supply at a reasonable price to consumers in the country.

The energy sector of the Republic of Moldova relies on imported energy. Moreover, being geographically located on the south-western outskirts of the former Soviet Union, Moldova is totally dependent on natural gas supply from a single source - Russian Federation. After the proclamation of independence there were expectations regarding the existence in the south of the Republic of Moldova of oil and natural gas deposits. However, the potential of these deposits is extremely small compared to the required volume and has no impact on the energy security of the state. It is obvious that relying on its own forces the Republic of Moldova cannot change the situation regarding Russian monopoly on the import of natural gas to Moldova. Solving this problem requires huge financial resources and can only be addressed in a regional context. The promotion of such solutions requires also a long-term political will, independent of Russian Federation's pressure. The Republic of Moldova didn't even make the effort to look for opportunities to associate to different future projects with the participation of Ukraine and Romania, which would allow access to other sources of natural gas. Although the idea of interconnection of gas pipeline networks of the

Republic of Moldova and Romania appeared almost simultaneously with the independence, and especially after the armed conflict in Transnistrian region when Chisinau remained disconnected for a while from any gas sources (summer of 1992), the governments in Chisinau and Bucharest were not consistent enough to implement this intention (the construction of Iasi-Ungheni gas pipeline interconnector began on August 27, 2013).

After declaring its independence, the Republic of Moldova inherited a relatively well developed network of gas pipelines and gas distribution network. At that moment, the Republic of Moldova had a distribution network of 2546 km and was crossed by two systems of main gas pipelines with a length of 580.8 km. Despite economic difficulties of the time, the development of this network continued. Therefore the internal gas pipelines of low medium and high pressure reached in 1995 the length of about 4100 km. From 2000 to 2007 there were built more than 8000 km of internal gas pipelines with different pressure worth about 100 million USD, with the financial support from the state. These networks are owned by the state.

A very serious impact on the energy security of the Republic of Moldova was the way in which the assets inherited from Soviet times - gas transportation and distribution network - was used in establishing *Moldova Gaz SA* company. The changes in the gas sector of the Republic of Moldova took place with obvious violations of the legislation, and in the opinion of several

experts<sup>1</sup>, have seriously damaged the energy security of the Republic of Moldova.

On May 18, 1994, by presidential Decree, was established state company *Moldova Gaz*, comprising 51 gas distribution enterprises. On October 7, 1994 the Government approved the Decision no. 749 according to which *Gazprom* was to hold in the company that had to be established a share of no less than 51% of the statutory capital.

Loss of control over its own gas pipeline system was legalized by the approval of Parliament of the Republic of Moldova in 1998 of the reorganization of the state company *Moldova Gaz* in *Moldova Gaz Joint Stock Company*<sup>2</sup>. Through the merger of state company *Moldova Gaz* with joint Moldo-Russian company *Aprogaztranzit* (the new name of *Gazsnabtranzit*) with a statutory capital of 290,6 mln USD, including 78,1 mln USD worth of property on the territory of Transnistrian region. 50% + 1 share was to be held by *Gazprom*, 35.53% - by the Government of the Republic of Moldova, 13.44% - by *Tiraspolitransgaz* and 1.23% - by individual shareholders. Decision no. 1068 from October 21, 1998 compelled the Department of Privatization and Administration of State Property to carry out

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<sup>1</sup><http://www.investigatii.md/index.php?art=256&cat=6&editie=>

<sup>2</sup> Information about the activity of *Moldova Gaz* can be found on the website of the institution: <http://www.moldovagaz.md/menu/ru/about-company/transportation>). However, the presented information does not reflect the real problems faced by Moldova in this sector.

in 1999, through an international audit company, the revaluation of the assets and rectification of statutory capital and the founders' share, as well as the gas debt to the suppliers. For reasons unclear, the revaluation didn't take place. Under the conditions of the Contract that established *Moldova Gaz JSC*, *Gazprom* was to pay the debts of the Republic of Moldova for the gas consumed amounting to the value of its 50% quota in the company. However, this also didn't happen. In addition, in 2006 all the shares belonging to Tiraspolitransgaz (13.44%) were submitted under administration of *Gazprom*, which currently controls about 64.44% of *Moldova Gaz JSC*.

The unresolved conflict in the eastern districts of the Republic of Moldova has a particularly serious impact on energy security of the state. As a result of the conflict, the Republic of Moldova does not control the situation on the left bank of river Nistru (Transnistrian region). Since 2006 Russian Federation is allowing deliberately the population and businesses in Transnistrian region to pay tariffs 5 to 7 times lower than the real cost of the gas consumed. Furthermore the money collected from the population and businesses are accumulated on a special bank account used to cover the budget deficit of the anti-constitutional regime in Transnistria, while the debt for the gas consumed is written on *Moldova Gaz*. In this respect, the situation of the Cuciurgan Power Station, which is licensed by National Energy Regulatory Agency of Moldova to

export electric energy<sup>3</sup>, speaks for itself. The electricity produced on gas at this company (illegally privatized in 2005 by Inter RAO UES<sup>4</sup> from Russian Federation), generates a debt to *Gazprom*, which has to be paid by *Moldova Gaz*.

*Gazprom* tolerates the lack of payments from the authorities in Transnistria of the gas consumed. At the same time, *Gazprom* repeatedly attempted to make *Moldova Gaz JSC* - its daughter company - to pay for the debts accumulated by Transnistrian region for the gas consumed. In November 2009 and February 2010 *Gazprom* addressed the International Commercial Arbitration Court of the Chamber of Commerce and Industry of the Russian Federation with a request to recover from *Moldova Gaz JSC* the debt for gas supplied in the fourth quarter of 2006 amounting to about 80 mln USD and respectively year 2007 amounting to 288 mln USD.

In 2013, the debt of Transnistrian region to *Gazprom* was announced to be about 4.5 bln USD. The fact is that these figures cannot be regarded as debts between two economic agents (*Gazprom* and *Moldova Gaz JSC*), instead it is about Russian Federation openly supporting the anti-constitutional regime in Transnistrian region, which is economically bankrupt. Even more serious is the fact none of Moldovan governments was able to come up with realistic

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<sup>3</sup><http://anre.md/upl/file/licente/Titularii%20de%20licente%20ce%20activeaza%20in%20sectorul%20energiei%20electrice.pdf>

<sup>4</sup> <http://www.interrao.ru>

solutions in order to prevent this threatening situation for Moldovan state.

energy policy making, including through such mechanism as the East-West strategic corridor.

#### Conclusions:

1. The Republic of Moldova is a weak state, with a part of its national territory (Transnistrian region) illegally occupied by the Russian Federation;
2. At the moment the Republic of Moldova is not capable to ensure its energy security, nor has the capacities to participate as an independent actor in regional energy projects;
3. Moldova - EU Partnership is the only solution for strengthening the rule of law, fighting corruption and ensuring sustainable economic growth of the country.
4. If Ukraine will sign the Association Agreement at the Eastern Partnership Summit in Vilnius and the Republic of Moldova will sign and ratify the Association Agreement in 2014, there will be preconditions for the settlement of the Transnistrian conflict by embedding step-by-step the region on the left bank of Nistru in the socio-economic and political space of the Republic of Moldova;
5. Only when the European path of the Republic of Moldova will become irreversible, the country may become a sufficiently independent and predictable actor, able to participate in regional