



RUSSIAN GAS AND THE FI- NANCING OF SEPARATISM IN MOLDOVA

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ECONOMY

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INTRODUCTION

Over the last 200 years, the main part of the territory that today constitutes the Republic of Moldova switched sovereignties six times between the Russian Empire, the USSR, the Ottoman Empire and Romania, which explains why Russia treats it as a less loyal territory, compared to Ukraine or Belarus. With the last change in 1991, the Republic of Moldova proclaimed its independence and, on March 2, 1992, gained official recognition by the UN, in the borders of the former Moldavian Soviet Socialist Republic, including the Transnistrian region, inhabited by a more pro-Russian population as compared to the rest of the country. On the day of official recognition of the Republic of Moldova within UN, a military conflict sprang in the Transnistrian region, initially involving police forces and civilians and later the regular army. The Russian Army stationed in Transnistria (the former Soviet 14th Guards Army) supported the Transnistrian side, first unofficially then officially, which determined the outcome of the war. The war ended by a cease fire agreement signed between Presidents of the Russian Federation and the Republic of Moldova—Boris Yeltsyn and Mircea Snegur, reconfirming the direct involvement of Russia in the Transnistrian conflict.¹

Since 1991, the goal of Russian policy towards Moldova was to prevent Moldova from fleeing the Rus-

sian sphere of influence, and especially to maintain the Russian military base in Tiraspol and prevent Moldova's adherence to NATO. Transnistrian authorities served as proxies for Russia in pursuit of its foreign policy objectives, Russia's control over Transnistria being juridically recognized by the European Court for Human Rights.² However, maintaining the "statehood" of Transnistria required major financial support, and the energy sector played a crucial role in Russia's financing of separatism in the Republic of Moldova.

During Soviet times, the energy infrastructure was constructed in such a way that the energy system in the former Moldovan Soviet Socialist Republic was dependent on critical infrastructure placed in the Transnistrian region:

the largest power plant—Moldovan State Regional Power Station (aka Kuchurgan Power Station, also known under the Russian acronym MGRES), with total installed capacity over 2.5 GWsix out of seven interconnection points between Moldova and Ukraine on high-voltage (330 kV) lines, four of these lines being tied up in a transformer substation on the territory of MGRESfour out of five entry points on gas transmission pipelines of regional importance, including all three entry points on the Trans-Balkan pipeline systemthe main gas compressor station on the Trans-Balkan pipeline system between

1 For more details on historical background and evolution of transnistrian war see Christopher Borgen, "Thawing a Frozen Conflict: Legal Aspects of the Separatist Crisis in Moldova: A Report from the Association of the Bar of the City of New York," Record of the Association of the Bar of the City of New York, Vol. 61, 2006, pp. 13-24.

2 "Case Ilaşcu and others vs Moldova and Russia. (Application no. 48787/99)", European Court of Human Rights (website), July 8, 2004, <http://hudoc.echr.coe.int/eng?i=001-61886>.

Ukraine and Bulgaria, located near Tiraspol (the administrative center of Transnistrian region)

Thus, by 1992, the energy security of the Republic of Moldova almost entirely depended on Russia and its proxy regime in the Transnistrian region. Less than 10 percent of the country's needs could be covered by electricity generation located outside the Transnistrian region. Import of electricity from Ukraine could not avoid high-voltage lines and transformation stations located in the breakaway region. Moreover, even the limited amount of generation controlled by constitutional authorities was mainly based on natural gas as fuel, while Gazprom was the only gas supplier and physical continuity of gas supply depended on infrastructural elements located in the Transnistrian region.

Since then, Russia has taken advantage of its energy leverage in relation to Moldova several times, generating crises, some of them politically reasoned. Thus, electricity supply to the main part of Moldova was limited or even halted in 1998,³ 2004,⁴ and 2005,⁵ while natural gas supply was interrupted in 2000.⁶

HOW GAZPROM TOOK CONTROL OF MOLDOVA'S GAS INFRASTRUCTURE

The gas price has long been used by Russia as a political tool in promoting its foreign policy in the countries largely dependent on Russian gas. The former Soviet countries are particularly vulnerable due to poverty, corruption, and weak regulation of the energy market. The Kremlin administration exploited these weaknesses to gain control of gas supply systems via Gazprom, as it happened in countries like Moldova (1995), Armenia (1997), and Belarus (2007), and only partly succeeded in other countries.⁷ The energy sector has always been a copious source of illegal enrichment for corrupt politicians. In the case of Moldova, during 1994–1998 the gas supply complex was twice exposed to hostile takeovers. Following a series of actions such as artificial debt

swelling and undervaluation of assets, undertaken in conspiracy with Moldovan government officials, Gazprom gained control over companies that owned critical gas transmission and distribution infrastructure.

The trans-Balkan pipeline that crosses Ukraine and Moldova (including the breakaway Transnistrian region) has been used by Gazprom to supply about 20–25 bcm of gas annually to Balkan countries. The gas transit was one of—if not the only—negotiating tools for Moldova in relation to Gazprom. However, the corruptibility and lack of vision of Moldovan political elites allowed the Russian holding to acquire, at derisory prices, the majority stake in Moldova's gas transmission system (1995) and distribution pipelines (1998) via debt-to-equity swaps. Prior to the acquisition, Gazprom had used its dominant position as a sole gas supplier to impose discriminatory conditions on the Moldovan side, thus artificially increasing the gas debt, as thoroughly analyzed in our 2007 research.⁸ Beginning in 1994, Gazprom increased the gas price for Moldova from USD 38.5 to USD 80 for one thousand cubic meters. During that period, Gazprom supplied gas on the European market at an average price of USD 72.8,⁹ although the share of transportation costs in the final price for EU countries was higher than for Moldova. At the same time, Gazprom supplied gas to the neighbouring Ukraine at a price of USD 50, which remained unchanged until 2005¹⁰ for political reasons, aimed at retaining Ukraine in Russia's sphere of influence. Besides the abusive price increase for Moldova, Gazprom requested advanced payments and imposed a fine of 0.35 percent per day on the amounts due (equivalent to 127.8 percent per annum in hard currency), which was seventeen times more than for other countries of the former USSR. Moldova's debt was further increased by the fact that the Transnistrian separatist region stopped paying for gas consumption after the 1992 Transnistrian conflict, when the separatists were backed by the Russian 14th Guards Army. Consequently, in 1994 alone, Moldova's gas debt increased from USD 22 million to USD 291 million, including USD 100 million in fines and USD 91 million of debt from the separatist region. Moldova was under threat to remain without gas supply due to the immense debt. In order to avoid this, in 1995 the government agreed to cede in favor of Gazprom a 50 percent+ 1

3 <https://www.mold-street.com/?go=news&n=8275>

4 <https://www.rbc.ru/politics/05/08/2004/5703b64e9a7947783a5a599c>

5 https://www.ng.ru/cis/2005-11-11/5_endoftheworld.html

6 <https://www.vedomosti.ru/newspaper/articles/2000/03/03/moldova-sdalas>

7 Gazprom profile by Steve Thomas, May 2006, PSIRU, Greenwich University, https://www.epsu.org/sites/default/files/article/files/Gazprom_profile_May.pdf.

8 IDIS Viitorul, "The gas industry in Moldova: The burden of ignorance and the cost of errors", 2007, <https://bit.ly/371L3L5>

9 М.М. Судо, Э.Р. Казанкова, "Энергетические ресурсы. Нефть и природный газ. Век уходящий", 1998

10 Slovoidilo.ua, "Как менялась цена российского газа для Украины на протяжении 24 лет?", 2016, <https://bit.ly/2S8IPiP>

share of the newly formed company Gazsnabtranzit, in whose capital the transportation pipelines were transmitted. The transaction was made both with deviations from the legal norm and to the detriment of the public interest, and as a result Moldova was prejudiced with over USD 416 million for the benefit of the Russian concern.¹¹

The government of Moldova admitted similar abuses in 1998 at the founding of JSC Moldovagaz, in which Gazprom received a 50 percent share.¹² The equity of the newly created enterprise was determined on the basis of the so-called preliminary estimate of both transmission and distribution pipelines. In 1999, the assets of the gas complex were to be revalued in order to rectify the ownership quotas in the share capital of Moldovagaz, with the corresponding correction of the gas debt. However, this provision has not been executed by the government. The share capital and the gas liabilities remained the same. These and other frauds were investigated in 2000–2001 by the Moldovan Court of Accounts (Supreme Audit Institution in Moldova) at the request of the Parliament. However, following Parliamentary elections on February 25, 2001, the pro-Russian Party of Communists of the Republic of Moldova (PCRM) took over power,¹³ and already in March 2001 the team leader of auditing team, Mr. Tudor Șoitu, was ordered to finalize the investigation ahead of schedule.¹⁴ Despite the report containing pertinent proofs of frauds committed by high-level government officials and management of gas companies in favor of Gazprom, it has not been heard in the Parliament. Moreover, Mr. Șoitu was placed under accusation by the Prosecutor's office and fired from the Court of Accounts. The data and confirmative documents that constituted the base for the report were partially published later, within policy papers produced by IDIS "Viitorul" think tank in 2007,¹⁵ 2017¹⁶ and in Watchdog.md in 2019.¹⁷

GAS DEBT AND THE FINANCING OF SEPARATISM

The supply of Russian gas to both Moldova and the self-proclaimed Transnistria has been carried out under contracts signed by Gazprom with entities registered in Moldova and officially recognized (initially it was Gazsnabtranzit, afterwards—Moldovagaz). Under such a contractual scheme, the gas debt of the separatist region is accumulated by the Moldovan side.¹⁸ This was possible due to the fact that Transnistria's gas infrastructure was included in the capital of the Moldovan gas supplier under the pretext of paying the gas debt. Thus, Gazprom supplies gas to Moldovagaz, while the latter supplies gas to Moldovan consumers and to Tiraspol-Transgaz from Transnistria. De jure Tiraspol-Transgaz is a subsidiary of Moldovagaz, but de facto its assets were nationalized by the separatist authorities.¹⁹ Currently the outstanding amount owed by Moldovagaz to Gazprom at the end of 2019 totalled USD 7860.6 million²⁰ (including USD 1201.2 million to its subsidiary Factoring-Finans).²¹

Tiraspol-Transgaz resells the gas at subsidized tariffs to local Transnistrian households and enterprises, including to MGRES (Молдавская ГРЭС) power plant that supplies Moldova with electricity. The obtained revenue is accumulated on the so-called special gas account and is transferred directly to the separatist budget as loans from Tiraspol-Transgaz. Between 2007 and 2016, the separatist region received a USD 6 billion "gas subsidy," out of which USD 1.3 billion was converted into budgetary funds. In this way the self-proclaimed Transnistrian authorities covered 35.3 percent of the total budgetary expenditures for the respective ten-year period.²² The amount of "gas subsidy" generously provided by Gazprom is equivalent to 48 percent of the self-proclaimed Transnistria's GDP for that period. These findings point out that the unconstitutional regime in Tiraspol would not be sustainable without the permanent support of the Russian Federation. Given the subsidized tariffs, many people in Transnistria are unwilling to rejoin Moldova because they would have to pay more for gas consumption.²³

11 IDIS Viitorul (2007), *Supra* note 8 at page 10

12 IDIS Viitorul (2007), *Supra* note 8, §2.6

13 <http://www.e-democracy.md/elections/parliamentary/2001/>

14 https://www.watchdog.md/wp-content/uploads/2019/09/Studiu-Moldovagaz-09-2019_compressed-1-1.pdf

15 IDIS Viitorul (2007), *Supra* note 8

16 IDIS Viitorul, "Energy and politics: the price for impunity in Moldova", Apr 2017, <https://bit.ly/2Nss3Yh>

17 Community Watchdog.MD, "Moldovagaz - 20 years of massive fraud under the protection of shareholders and state institutions", Sept 2019, <https://bit.ly/37M7z5P>

18 IDIS Viitorul (2017), *Supra* note 16 at chapter 3

19 Order no. 723 from Oct 13, 2005, of the self-proclaimed President of Transnistria, <https://bit.ly/2YgkDgO>

20 Gazprom financial report for Q4/2019 at page 83, <https://www.gazprom.ru/f/posts/77/885487/gazprom-ifrs-2019-12m-ru.pdf>

21 Gazprom financial report for Q4/2005 at page 47, http://www.gazprom.ru/f/posts/91/747099/repiv_2005.doc

22 IDIS Viitorul (2017), *Supra* note 16 at page 15.

23 ECHR, case *Ilascu v. Moldova and Russia*, Annex: Witness Y, §261, <http://hudoc.echr.coe.int/eng?i=001-61886>

The largest gas consumer in Transnistria is MGRES power plant (generation capacity of 2520 MW), controlled by Russian energy holding Inter RAO UES. MGRES generates electricity from gas provided by Tiraspol-Transgaz and supplies 80 percent of Moldova's electricity consumption. Using Moldova's dependence on Russian gas, including for electricity generation, the Russian Federation has imposed a contractual scheme whereby Moldovan consumers are forced to finance separatism in their own country by purchasing energy from MGRES located in Transnistria and accumulating gas debts.

Although Gazprom mentions in all its financial reports that Transnistria does not pay for gas consumption and it leads to the increase of Moldova's gas debt, gas supply to the region still continues.²⁴ From an economic point of view, the supply of gas without recovery of value is in fact a subsidy. In other words, Gazprom's activity in Moldova does not have an economic purpose, because it would never recover the gas debt from Moldovagaz, whose assets are below 20 percent of the total gas debt. In fact, Gazprom and senior Moldovan officials compel Moldovagaz to legalize the financing of the unconstitutional regime in Transnistria by supplying gas "on credit" and passing the debt to Moldovagaz. Moreover, according to contract provisions, Moldovagaz cannot interrupt the gas supply to the Transnistrian region without the written agreement of Gazprom.²⁵ It is probably the only case in history when legalization services of financing the separatism are not paid, but are provided in exchange for debt accumulation.

Even if Gazprom takes over all Moldovagaz assets to recover the debt, we estimate their value at almost USD 1.4 billion, which is under 20 percent of total gas debt.²⁶ Therefore Gazprom's activity in Moldova has nothing in common with genuine economic interests, but rather serves as a tool to promote the strategic agenda of the Kremlin administration in Moldova. This geopolitical agenda can be summarized as follows: strengthening Russian influence in Moldova by financing separatism and maintaining the role of mediator of the Transnistrian conflict in its own interest.

Russian "gas subsidy" converted into benefits for Russian businesses

24 Gazprom financial report for Q1/2020 at page 55, <https://www.gazprom.ru/f/posts/05/118974/gazprom-emitent-report-1q-2020.pdf>

25 Rise.md, (2016) „Confidential contract: Gazprom empire in Moldova”, Agreement no. 1 to the Contract of gas supply no. 1GM-07-11, §2.8, <https://www.rise.md/contract-confidential-imperiul-gazprom-in-moldova/>

26 IDIS Viitorul (2017), Supra note 16, chapter 4.

Since the 1990s, consumers in the Transnistrian region have benefited from heavily subsidized gas prices. The main beneficiaries were the large industrial enterprises—MGRES and the Moldovan metallurgical plant, also known under its Russian acronym MMZ. These companies consume a lot of energy and gas, and have been, or continue to be, controlled by Russian capital. Subsidized gas and energy tariffs provided them with significant competitive advantages compared to other companies in the region. At the same time, they exported the production at market prices, collecting strong currency. Respectively, the subsidies obtained by these factories through Russian gas were converted into real income.

The MGRES power plant is 100 percent owned by the Russian concern Inter RAO UES. As mentioned, the power plant is the main consumer of gas in the separatist region, using it as a basic source for electricity production.²⁷ MGRES benefited from a subsidized tariff that covered between 28 percent and 68 percent of the real cost of gas. Based on the financial reports of Inter RAO UES, during 2008–2015, the Russian investors obtained a profit of USD 291.8 million only through MGRES.²⁸

The separatist authorities have established subsidized tariffs for the MMZ metallurgical plant as well, through secret decisions. In the period 2005–2015 MMZ was part of the MetalloInvest holding controlled by the Russian oligarch Alisher Usmanov. The plant paid only 11.5 percent of the real gas price and was sometimes generally exempt from paying for gas. In the period 2007–2015, the plant reported sales of over USD 2.3 billion according to the data published by the so-called central bank of Transnistria. However, the real market prices for metallurgical production in Ukraine were 65–85 percent higher. We assume that this margin is explained by the fact that MMZ sold its production through traders affiliated to the Metalloinvest group, where the group accumulated most of its profits. Based on this assumption, we estimated that in the period 2007–2015, the profit related to MMZ production, accumulated by Metalloinvest traders, amounted to over USD 1.5 billion.

The so-called gas subsidy and respectively the subsidized electricity price in self-proclaimed Transnistria continue to be exploited by Russian cryptocurrency businesses as well. Igor Chaika, the son of the Russian ex-Prosecutor General, not only expressed openly his interest to invest in mining farms in Transnistria,²⁹ but also his

27 MGRES technical indicators for 2019, <https://bit.ly/2BtiV2t>

28 IDIS Viitorul (2017) Supra note 16, §2.4.1

29 Kommersant.ru, "Приднестровье примаивает инвесторов", Feb 2018, <https://bit.ly/2UYnoSO>

organization Delovaya Rossiya (Business Russia) helped the separatist government to develop the legislation on blockchain technology.³⁰ At least a part of the mining equipment was supplied through Moldovan customs. In December 2018 the separatist authorities announced their plans to increase the output capacity of MGRES power plant by 100 MW by supplying energy to the mining farms.³¹

CRYPTOCURRENCY AND RUSSIAN SUBVERSIVE OPERATIONS OVERSEAS

Cryptocurrency has been used by Russian hackers for various cyber attacks in recent years as a part of the “hybrid warfare,” following the rise of the political tension between Russia and Western countries after the annexation of Crimea. Cryptocurrency transactions are difficult to trace and this fact allowed the perpetrators to hide their identity and the source of funds, in order to circumvent the sanctions or the Know-Your-Client (KYC) procedures applied by commercial banks. The GRU-linked hackers used cryptocurrency to attack the German parliament in 2015,³² and the US Democratic National Committee (DNC) in 2016.³³ Cryptocurrency-funded cyber operations also targeted FIFA, WADA (World Anti-Doping Agency), and the Court of Arbitration for Sport in 2016.³⁴

Hard-to-trace cryptocurrency became a common tool in Russian subversive operations. In October 2017 Russian president Vladimir Putin even issued five presidential orders on the legal framework for digital currencies and mining.³⁵ Shortly after that, a spike in cryptocurrency mining activities has been observed in several pro-Russian breakaway regions. Besides Transnistria, the mining of virtual currency has also expanded to Don-

bass³⁶ and Abkhazia,³⁷ with the aim of creating a virtual trading platform in Crimea and providing services to the unrecognized pro-Russian territories.³⁸ Moreover, according to Ukraine’s Deputy Prosecutor General Anatoliy Matios, cryptocurrency mined in Ukraine has been used to buy military equipment, weapons, and ammunition for the separatist groups fighting in the regions of Donetsk and Luhansk.³⁹ Given that, the trace of the cryptocurrency mined in the pro-Russian breakaway regions becomes necessary to prevent and expose the subversive operations conducted by the Kremlin in its attempt to achieve political goals in other countries.

RUSSIAN GAS “SUBSIDY” STIMULATING CORRUPTION OF MOLDOVAN POLITICAL ELITES

Although Moldova was ruled by parties of different geopolitical orientations, since its incorporation in 1998, Moldovagaz remained a dangerous territory for control bodies. Throughout this period, Gazprom along with Moldovan decision-makers tolerated and even facilitated fraudulent schemes in the energy sector to the detriment of the national interests of Moldova.⁴⁰ At the same time, investigations of alleged fraud in the gas sector turned against their initiators and none of them finalized with proper prosecution of decision makers from Moldovagaz or Moldovan officials. Moreover, despite catastrophic dynamics in Moldovagaz’s financial situation, two of its top officials were decorated with the Glory of Work presidential award: Mr. Alexandr Gusev, President of the Administration Council (2012)⁴¹ and Mr. Iacov Cazacu, Vice President of the Administration Council (2017).⁴² This suggests that some of the illicit proceeds

36 BBC, ““Морячок” из ДНР купил биржу криптовалют и начал охоту на сокровища Винника”, Dec 2018, <https://www.bbc.com/russian/features-46444479>

37 Abkhazia signed a memorandum of cooperation with the Russian Association of Crypto Industry and Blockchain (RACIB), Bitfeed.ru, “Абхазия разрабатывает нормативную базу для регулирования майнинга”, Dec 2018, <https://bit.ly/2UZ92Rl>

38 Supra note 36

39 Politico.eu, “How Ukraine became the Wild East of cryptocurrencies”, Mar 2018, <https://politi.co/3fiZEPm>

40 Community Watchdog.MD, “Moldovagaz - 20 years of massive fraud under the protection of shareholders and state institutions”, Sept 2019, <https://bit.ly/37M7z5P>

41 <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=344965>

42 Presidential decree 362 from Sept 03, 2017, https://www.legis.md/cautare/getResults?doc_id=100273&lang=ru

30 Novostipmr.com, “Начало большого пути. [...]”, Dec 2017, <https://bit.ly/3didSPC>

31 Anticoruptie.md, “The cryptorepublic”, Apr 2019, <https://bit.ly/2YhYjUc>

32 Netzpolitik, “Digital Attack on German Parliament”, Jun 2015, <https://bit.ly/3155DT7>

33 Mueller indictment from Jul 13, 2018, <https://bit.ly/2NPPpGf>

34 Indictment of the Western District of Pennsylvania, § 21 and 22, <https://bit.ly/30hnE1t>

35 Kremlin press release from Oct 21, 2017, <http://kremlin.ru/acts/assignments/orders/55899>

from these schemes were used to bribe Moldovan politicians. Thus, each of the parties pursues its own interest: Moldovan political decision-makers aim for personal enrichment from corruption schemes, while Gazprom executes the Kremlin's agenda on financing separatism and increasing Moldova's dependence on the Russian Federation.

As mentioned above, the Court of Accounts' attempt to verify the activity of Moldovagaz in 2001 resulted in an open criminal investigation against the head of the audit team, Tudor Soitu.⁴³ However, the situation did not change even after the so-called pro-European coalition came to power in 2009. In 2012, the National Energy Regulation Authority (ANRE) issued four inspection reports on procurement irregularities at Moldovagaz's subsidiary. Frauds worth MDL 243 million (approximately USD 20 million at that time) were found in the purchase of goods at prices that exceeded 3–4 times the market price. This time the control ended with the assassination attempt on one of ANRE directors⁴⁴ just two weeks after the first inspection report was issued. Despite its odiousity—the explosion of a grenade under the car of a senior official, appointed by Parliament—this assassination attempt remains uninvestigated until present.

In 2014, following a conspiracy between Moldovan oligarch Vladimir Plahotniuc and self-proclaimed Transnistrian President Yevgheny Shevchuk, the electricity produced by MGRES (owned by Russian Inter RAO UES) was supplied to Moldova through an intermediary company, Energokapital. The electricity was supplied at the same price as previously, while the internal gas tariffs for electricity generation in self-proclaimed Transnistria were decreased by 15 percent.⁴⁵ The illicit margin was syphoned off via Energokapital, whose beneficiaries are hidden behind a Scottish limited partnerships.⁴⁶ An investigation conducted by the Blacksea.eu revealed that Energokapital has a complex series of off-shore owners connected to the “theft” of a billion dollars from three Moldovan banks. Undoubtedly the energy supply scheme via Energokapital was coordinated at the highest levels in Gazprom and the Russian government, given the visit of the Deputy Prime Minister Andrian Candu to

Moscow in September 2014,⁴⁷ just two weeks before the incorporation of Energokapital.⁴⁸ Moreover, in 2016 civil society watchdogs publicly presented⁴⁹ copies of payment orders for transfer of dividends by Energokapital to its offshore mother company worth over USD 19 million⁵⁰ and solicited the Prosecutor's office to verify whether these were made in compliance with anti-money laundering legislation. Instead of investigating the facts, after just 2 weeks, the Prosecutor's office issued a press release claiming that “experts did not present any documents that would confirm the illegalities.”⁵¹

In March 2019 Moldova's Prime Minister Pavel Filip secretly sent a letter to his Ukrainian counterpart, in which he called for the removal of the Transnistrian metallurgical plant MMZ from the sanctions list and the termination of the antidumping investigation against MMZ.⁵² Why would the Moldovan prime minister lobby for the metallurgical plant located in the separatist region? The reason is obvious if we follow the money. MMZ is the main customer of the state-owned company Metalferos, which has a monopoly on the collection and export of scrap metal from Moldova.⁵³ In 2015–2019, the payments from MMZ to Metalferos amounted to at least USD 127 million, a part of which was embezzled to offshore companies directly controlled by Moldovan oligarch Vladimir Plahotniuc,⁵⁴ the former leader of the Democratic Party to which Pavel Filip belongs. The Prosecutor's office started the investigations at Metalferos only after Plahotniuc left the country.⁵⁵ In exchange for insignificant personal benefits and acting to the detriment of national interests, Moldovan political elites ensured the temporary registration of MMZ in Moldova and allowed its exports to be made through Moldovan customs⁵⁶ and the state-

47 Ministry of Economy press release, Sept 2014, <https://bit.ly/2V4iQtb>

48 Energokapital incorporation agreement, Oct 2014, <https://bit.ly/310nxlj>

49 <https://www.ipn.md/en/economie/77740>

50 <https://sergiutofilat.files.wordpress.com/2016/08/plati-energokapital.pdf>

51 <http://procuratura.md/md/newslst/1211/1/6723/>

52 Rise.md, “Rescuers of the Transnistrian metallurgic plant: Filip and Poroshenko have helped Transnistria earn millions”, May 2019, <https://bit.ly/39Whff7>

53 Newsmaker.md, “Люди бьются за металл. Кому выгодна продажа Metalferos и сколько денег там украли”, Jan 2020, <https://bit.ly/3fxcZE2>

54 Zdg.md, “Дело Metalferos: Эпизод с Владимиром Плахотнюком”, Aug 2020, <https://bit.ly/33sQZYv>

55 Tv8.md, “В ходе обысков на предприятии Metalferos задержано 7 человек”, Dec 2020, <https://bit.ly/2Prjgq4>

56 Commission Regulation (EC) No 112/2009 at (48) and (109), <https://bit.ly/39Y169i>

43 ECHR, case 18835/08 Tudor Soitu vs Moldova, <http://hudoc.echr.coe.int/eng?i=001-191880>

44 ANRE press release, Apr 2012, <https://bit.ly/2YZpxOy>

45 Press release of self-proclaimed Transnistria Government, Jul 2016, <http://gov-pmr.org/item/7269>

46 Blacksea.eu, Bird, M. and Cotrut, A., “Moldovan energy intermediary company linked to “billion-dollar bank theft” scandal”, Mar 2016, <https://bit.ly/2NhyzAK>

owned Railway company.

The large-scale corruption in the energy sector poses a real threat to economic and energy security, and even the territorial integrity of Moldova. Even today the Moldovan government continues to support the large energy-consuming enterprises in Transnistria, despite the fact that it leads to the increase of the gas debt. In March 2020 the Commission of Emergency Situations canceled the energy procurement tender and the state-owned trader Energocom signed a new agreement with MGRES power plant from Transnistria.⁵⁷

HOW TO TAKE A COUNTRY HOSTAGE FOR USD 1 BILLION IN 27 YEARS

As mentioned above, by the end of 2019 the total debt of Moldovagaz to Gazprom and its subsidiary Factoring Finans Ltd amounted to USD 8 billion, including about USD 7.5 billion related to gas supplied to the Transnistrian region. These figures are based on contract prices of gas, however the cost of natural gas supplied by Gazprom in the Transnistrian region via Moldovagaz is much lower than the invoiced amounts. According to Gazprom's officials, in 2016 the average cost for natural gas extraction was around USD 20 per one thousand cubic meters, including taxes.⁵⁸ Before switching to the "European price formula" in 2006, Gazprom supplied natural gas to Ukraine at USD 50 for the same amount,⁵⁹ which included the cost of transmission services to the border.

Between 2007 and 2016, the average gas consumption in the Transnistrian region was 1.8 billion cubic meters per year. Taking into consideration the cost of transit services on Ukrainian territory, one thousand cubic meters of natural gas delivered to the Ukrainian-Moldovan border (Transnistrian segment) cost Gazprom approximately USD 65 per one thousand cubic meters. Thus, the total costs incurred by Gazprom with financing the Transnistrian separatism over twenty-seven years are slightly more than USD 3 billion. In the mean time, at least around USD 2 billion have been recovered by just two Russian corporations (Metalloinvest and Inter RAO) by

benefiting from subsidized gas prices in the Transnistrian region. Thus, the bottomline costs for Russia with maintaining Transnistria as its main instrument of influence in Moldova was at most USD 1 billion—not too expensive for twenty-seven years of influence in a European country of 3 million people.

Thus, by exercising its monopolistic position as a natural anti-dumping gas supplier to Moldova and by loyalizing corrupt political elites from Chişinău, Gazprom served as the main instrument of financing the Russian foreign policy agenda in Moldova.

This malign influence can only be countered by consolidating Moldova's energy security and eliminating dependency on critical energy infrastructure controlled by Russia via its Transnistrian proxies. However, little has been done in this respect since 1991, despite the fact that the need for diversification has been acknowledged and even included in all energy strategies. Thus, the Energy Strategy until 2010 adopted in 2000⁶⁰ mentions diversification of energy supply sources and routes five times, while the Energy Strategy till 2020 adopted in 2007⁶¹ mentions it six times and the Energy strategy till 2030 adopted in 2013⁶² refers to it nine times. De facto, despite strong political and financial support provided by the European Union and other international development partners, no major progress has been achieved until the second half of 2019!

In terms of natural gas supply diversification, the largely publicized Iaşi-Ungheni interconnector started in 2014 still cannot be operated at its full capacity. Moreover, even after finalization of all works around this interconnection route, its capacity (1.5 bcm per annum) won't be sufficient to cover the winter peak consumption in Moldova even except Transnistrian region. Also, the southern part of Moldova would still remain fully dependent on the traditional natural gas supply route—the Trans-Balkan pipeline system—where the flow of gas could be disrupted by Transnistrian authorities. In the mean time, Gazprom has finalized the Turkish Stream project and is able to supply natural gas to Turkey and other Balkan countries bypassing the Ukrainian and Moldovan part of the Trans-Balkan pipeline. The breakthrough in terms of natural gas supply options for Moldova has been achieved only in the second half of 2019, and mainly due to external factors. Uncertainties around the gas transit contract through Ukraine after 2019 forced Gazprom to look for alterna-

57 TV8.md, "Контракт на поставку энергии с Молдавской ГРЭС продлен до 30 июня", March 2020, <https://ru.tv8.md/2020/03/31/kontrakt-na-postavku-energii-s-moldavskoj-gres-prodlen-do-30-ijunya/>
58 Vedomosti.ru (2016), "Газпром назвал текущую себестоимость добычи газа", <https://bit.ly/2BtkCgl>
59 Supra note 10

60 https://www.legis.md/cautare/getResults?doc_id=73726&lang=ru
61 <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=325108&lang=2>
62 <http://lex.justice.md/ru/346670/>

tive scenarios for supplying gas to the Balkans. The only feasible emergency alternative was to upgrade the Trans-Balkan pipeline system to be able to operate in reverse mode, which would enable Gazprom to supply gas to Bulgaria, Macedonia, Romania, and Moldova via Turkey. Thus, in just about six months, this project of strategic importance was implemented. It is worth mentioning that civil society experts signalled the strategic importance of the reverse flow on the Trans-Balkan pipeline system and its priority compared to the Iași-Ungheni interconnector since at least 2014.⁶³

The implications of the Trans-Balkan reverse flow for Moldova cannot be overestimated as it also reverses the balance of power between Moldovan constitutional authorities and the Transnistrian proxies of Russia in the gas sector: presently, should Moldovagaz solicit Gazprom to supply natural gas to Moldova's southern border (instead of the eastern, as previously) the Russian supplier would have to comply with it. In this case, if Transnistrian authorities maintain the practice of nonpayment, the supply of natural gas to the secessionist region could be physically limited or even completely interrupted at Căușeni measurement station. The main risks associated with this scenario is on the electricity side: not only would it leave Moldova without its largest source of electricity, which is MGRES fueled by natural gas, but it is also highly likely that Transnistrian authorities would respond by shutting down high-voltage (330 kV) lines that would become critical for importing electricity from Ukraine thus leaving the entire country dependent on a single high-voltage line. Therefore, the next and the last logical step on the path of eliminating the risk of energy blackmail on behalf of Russian proxies in Transnistria is securing the electricity supply by interconnecting with the Romanian electricity transmission system in an asynchronous mode.

Similar to "diversification" efforts on the gas side, construction of electricity interconnections with Romania are being long delayed. Civil society experts have already lost track of all technical and feasibility studies commissioned in the last more than ten years around interconnection options. So far, despite about 250 million euros allocated for these purposes by international partners (World Bank, European Investment Bank, European Bank for Reconstruction and Development), including a 40 million euro grant from the European Union, construction has not even been started. The only plausible explanation is that the entire process is being sabotaged by

Russian agents of influence among Moldovan decision makers.

In conclusion, consolidation of Moldova's energy security by diversification of energy supply options and integration into European energy markets is not only vital for countering Russian malign influence in Moldova, but also key to solving the Transnistrian conflict, which affects regional security.

63 <http://www.vedomosti.md/news/viktor-parlikov-gazoprovod-yassy-ungeny-sam-po-sebe-ne-imeet>