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## Southeastern Europe

*The countries of Southeastern Europe--including Romania, Bulgaria, and Moldova--occupy a strategic location on the west side of the Black Sea, exporting electricity through much of the Balkan Peninsula and transporting Russian natural gas to Western Europe and Turkey. Southeastern Europe also is a potentially significant transit region for Caspian oil exports to Europe.*

*Note: Information contained in this report is the best available as of March 2004 and is subject to change.*



### GENERAL BACKGROUND

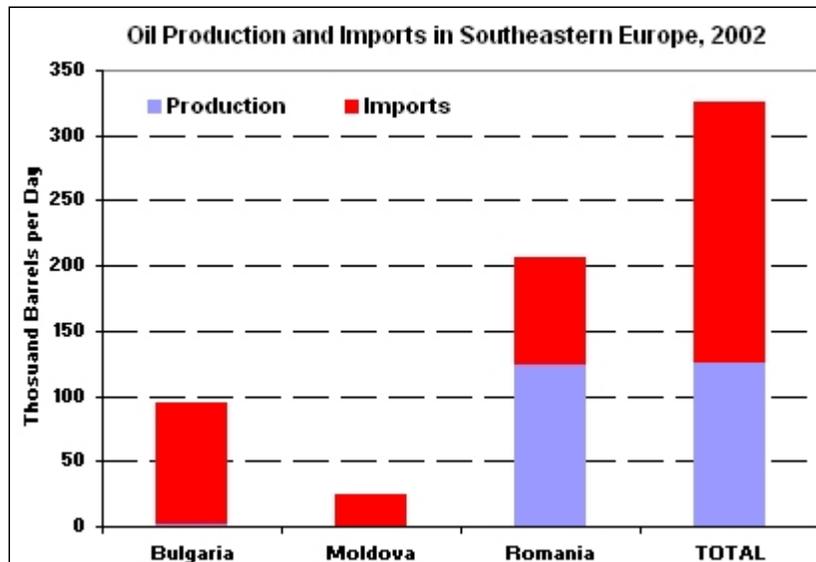
The countries of Southeastern Europe--defined here to include Romania, Bulgaria, and Moldova--share a common history in addition to their geographical location. Since the Eastern European revolutions of 1989 and the fall of the Soviet Union in 1991, the three countries have been independent democracies, but each has had significant problems in transitioning from a centrally-planned economic system to a market-based economy. While Bulgaria and Romania avoided the warfare and bloodshed that devastated the [Balkans region](#) in the 1990s, they were both significantly affected by the economic embargo placed on [Yugoslavia](#), suffering several billion dollars' worth of losses due to

disrupted trade, transport, and investment.

Moldova, although relatively less affected economically by the wars in the former Yugoslavia, suffered through a civil war of its own in the 1990s. Fighting broke out shortly after the country received its independence, paralyzing the country's already stagnant economy. [Russian](#) settlers and Moldovans on the industrialized left bank of the Dnistr River set up the secessionist Trans-Dnistrian Republic as the conflict stalemated. Moldova's economy has crept along as fighting has subsided, but remains unresolved.

Romania and Bulgaria are expected to join the North Atlantic Treaty Organization (NATO) in May 2004, and aspire to European Union ascension in 2007. Preparation for integration with Europe is

integral to economic policy making in the region; both countries are currently working with the International Monetary Fund (IMF) and other international donor institutions to bolster their economies. In Bulgaria, persistent fiscal deficits will need to be resolved before integration, while Romania struggles with both high inflation (15.3% in 2003) and difficult structural reform. Romania and Bulgaria have posted solid gross domestic product (GDP) growth rates recent years, reaching 4.6% in Romania and 4.4% in Bulgaria in 2003. Romania hopes to be dubbed a "functioning market economy" in 2004 by the IMF, a prerequisite to EU ascension. Moldova's regional economic integration has been stalled as the country's civil conflict remains unresolved. However, some privatization has occurred since independence, and U.S., Russian and Spanish firms all hold significant assets in Moldova.



## OIL

The three countries of Southeastern Europe are all net oil importers, with most of their supply coming from Russia. Romania, with proven oil reserves of 956 million barrels--roughly comparable to net oil exporter, Denmark--is the largest oil producer in Central and Eastern Europe. However, Romania's oil production has fallen precipitously over the past few decades, from 252,000 barrels per day (bbl/d) in 1980 to 125,000 bbl/d in 2002, a decline of roughly 50%. Neither

Bulgaria nor Moldova hold or produce significant quantities of crude oil.

Romania also dominates Southeastern Europe's downstream petroleum industry, with ten of the region's eleven refineries. Romania's refining capacity far exceeds domestic demand for refined petroleum products, allowing the country to export a wide range of oil products and petrochemicals, such as lubricants, bitumen, and fertilizers. However, nearly all of Romania's refineries are running well under capacity because of a lack of crude oil supplies, and the majority remain state owned. Years of low investment have left the country's refining industry in poor health, requiring massive amounts of capital to modernize and improve efficiency.

Romania's state oil company, Petrom, is 93% state owned although Bucharest plans to sell roughly one-half of the company to private investors by June 2004. Several firms from around the region and the world are known to be bidding, including Russia's LUKoil, Hungary's MOL, U.S. Occidental Petroleum, Austria's OMV, Switzerland's Glencore, Greece's Hellenic Petroleum and Poland's PKN. With approximately 60,000 employees, Petrom is a major player in Romania's economy, making any sale of the company's assets potentially difficult (particularly this year, with presidential elections scheduled for November). Both the International Monetary Fund and the European Union are working with Romania to complete the privatization of Petrom by the end of summer 2004

## OIL TRANSIT

Sitting along the western shores of the Black Sea, a major thoroughfare for world oil exports, the countries of Southeastern Europe hope to grow as transit centers, carrying Russian and Caspian Sea Region oil to market in Europe. Several pipeline projects have been proposed or are being

developed, some of which are listed below.

### **The Albania-Macedonia-Bulgaria Oil Pipeline (AMBO)**

The AMBO pipeline project entails a proposed 570-mile, 750,000-barrel-per-day (bbl/d) pipeline connecting the Bulgarian Black Sea port of Burgas with the Albanian Adriatic port of Vlore. AMBO allows sea borne oil exports from Russia and the Caspian Sea region to flow overland between the Black Sea to the Adriatic, bypassing Turkey's increasingly congested Bosphorus and Dardanelles (see map). With oil exports from the Caspian Sea region projected to increase rapidly in the next decade, the AMBO pipeline proposal is one of several "Bosphorus bypass" oil pipeline proposals that are currently under consideration or in development.



A feasibility study for the AMBO project, funded by the U.S. government, was successfully completed in September 2002, with the Albanians approving the proposed route across their territory in December 2003. The project is estimated to cost \$1.2 billion, of which \$930 million will be provided by international donors such as the World Bank, the European Bank for Reconstruction and Development, the International Monetary Fund, the U.S. Export-Import Bank and the U.S. Overseas Private Investment Corporation. Construction is expected to begin in 2005, and to be completed by 2008. The AMBO Pipeline Corporation, based in New York, has been established with exclusive rights

to develop the project.

### **Burgas-Alexandroupolis Pipeline**

In January 1997, Bulgaria, Greece, and Russia agreed on a plan to build an oil pipeline linking the Bulgarian Black Sea port of Burgas with Alexandroupolis on the Mediterranean coast of Greece (see map). As originally conceived, the proposed 178-mile, underground pipeline would allow Russia to export oil via the Black Sea while bypassing the Bosphorus. However, the project has been stalled for several years by a wide range of technical and economic issues. Over the course of 2003, Bulgaria and Greece harmonized their positions on the pipeline project, and in November 2003 commissioned a new feasibility study to update the original research conducted in 1998. The two countries have signed a bilateral memorandum of cooperation on the project and are waiting for Russia to sign as well. The Russian government has publicly stated its support for the project, but has repeatedly delayed signing. Negotiations are reportedly being held up over tariff rates. Kazakhstan, whose oil production is expected to grow significantly over the next decade, has expressed interest in the projects as a potential export route for its crude oil exports as well.

### **Constanta-Omisalj-Trieste Pipeline**

Another regional oil pipeline proposal entails the development of a 760-mile line connecting the Romanian Black Sea Port of Constanta with the the Croatian Adriatic port of Omisalj, and later possibly on to the Italian city of Trieste. As conceived by the Romanians, the proposed crude oil

pipeline (also known as both the South-East European Line--SEEL, and the Contanta-Pancevo-Omisalj-Trieste pipeline--CPOT) would extend across Romania to the Serbian town of Pancevo (near Belgrade) where it would connect to an existing branch of the Adria pipeline which runs across Serbia and Montenegro, Bosnia and Herzegovina, and Croatia to the port of Omisalj (see map). A technical and economic study of this plan was commissioned in October 2003, and is expected to be completed by the end of 2004. The plan envisages initial throughput of 480,000 bbl/d by 2007, and up to 600,000-800,000 bbl/d by 2013 when the connection to Trieste could be completed. An alternative route for this project is a northern proposal, which would cross southern Hungary and central Slovenia instead of the Balkan states.

It is expected that whichever option is decided upon, the pipeline would be used mostly to provide oil to the countries along the route, and would incorporate existing connections between Constanta and regional refineries. However, given that petroleum demand in the countries along the two routes has exhibited little growth in the last ten years--particularly in Hungary, where demand has fallen by 13% since 1992--some observers are skeptical that refineries in the region really need a new oil supply pipeline.



## NATURAL GAS

As with oil, the countries of Southeastern Europe are all net natural gas importers, with supplies coming from Russia along the south bound Progress pipeline (see map). Bulgaria and Romania also transit significant quantities of Russian natural gas on to other countries, mostly in the Balkans and Central Europe. Moldova is also dependent on Russia for its gas supply, but the relationship with Russia has been complicated by sizeable debts as well as the civil conflict between Chisinau and Tiraspol.

### Moldova

Moldova has no natural gas resources, and is entirely dependent on Russia to meet its consumption, which totaled 72 billion cubic feet (Bcf) in 2001. The supply of Russia's natural gas to Moldova has been problematic in recent years, as delinquent debt has caused Russia's gas monopoly, Gazprom, to reduce supplies to some of its largest debtors, Moldova's heating and power plants. According to Moldovan President, Vladimir Voronin, Moscow has pledged to never cut the country's natural gas supply off entirely, as it has been willing to do with other delinquent customers in other countries. The debt issue remains unresolved, and Moscow has suggested that Moldova surrender its oil, gas and electricity assets to Russia in exchange for a debt write-off. So far, Chisinau has refused. The break-away republic of Trans-Dniester is supplied with Russian natural gas under a separate contract with Gazprom.

Gas distribution within the country has been interrupted by civil war and continued hostility between Chisinau and Tiraspol. The Progress pipeline runs through the southeastern part of the country, crossing Tiraspol, and in July 2003, Tiraspol cut off supply to two villages controlled by Chisinau. The issue is unresolved, with Tiraspol stating that its actions were tied to delinquent payments, while Chisinau claims the move was politically motivated.

### Romania

Romania is central and eastern Europe's largest producer of natural gas, extracting 505 Bcf in 2001. But Romania's production has fallen significantly--by almost 60% in 20 years. Consumption also

fell during this period, but at 696 Bcf in 2001, Romania's domestic demand is still the highest in the region. The country imports natural gas from Russia, delivered via the south-bound Progress pipeline.

With reserves of 3.6 trillion cubic feet (Tcf) and a sizeable domestic market, Romanian natural gas assets have proven to be attractive acquisitions for foreign investors. In December 2003, the Romanian government announced a tender offering 51% of two regional gas distributors, Distrigaz Nord and Distrigaz Sud. Bidders were Russia's Gazprom, Italy's Enel, Germany's Ruhrgas, and Gaz de France. Germany's Wintershall and Ruhrgas already own assets in Romania.

### Bulgaria

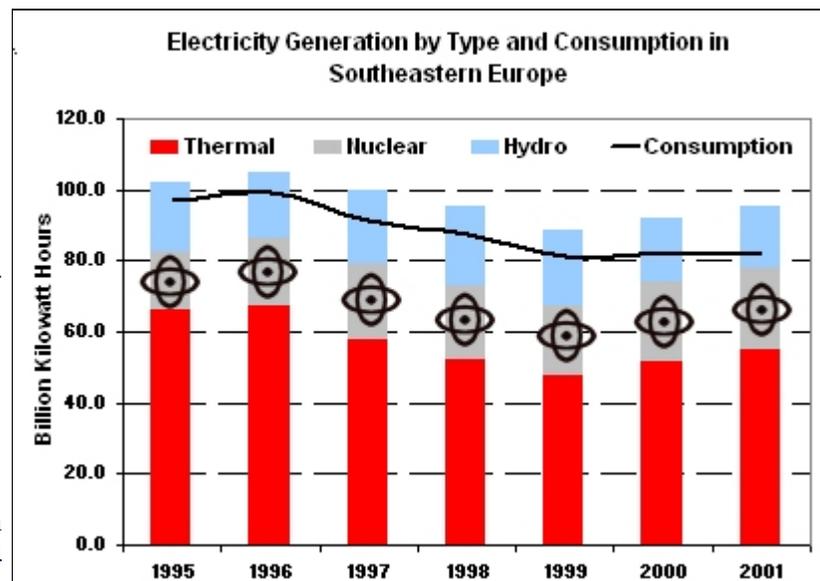
Bulgaria is dependent on imports for virtually all of its domestic gas consumption. In 2001, the country produced only 0.14 Bcf of natural gas, while consuming 205 Bcf. Bulgaria has signed a long-term gas supply agreement with Russia's Gazprom which expires in 2010. In October 2003, Bulgaria and Russia agreed in principle to extend the agreement for another 10-15 years.

The vast majority of Russia's natural gas piped southward to Bulgaria through the Progress pipeline is transit gas, moving on to other markets. In 2002, roughly 0.5 Tcf of Russian gas moved through Bulgaria en route to other European customers and the two countries expect that volume to grow to 0.66 Tcf by 2010, as Gazprom has pledged to invest in Bulgaria's natural gas infrastructure.

Bulgaria and Romania could also become a transit point for Iranian natural gas. In December 2002 a five-company consortium headed by Austria's OMV agreed to conduct a feasibility study for a pipeline running through Turkey, Bulgaria, Romania, Hungary, and on to Austria with a capacity of roughly 1.06 Tcf, distributing 0.36 Tcf en route and delivering 0.7 Tcf to Austria for regional distribution. The project has reportedly received the support of the European Commission, which could also provide financial support.

### ELECTRICITY

Two nuclear plants, one with four working reactors in Bulgaria and one with one working reactor in Romania, account for roughly one-fourth of all the electricity generated in Southeastern Europe. The Bulgarian facility--Kozloduy--has allowed the country to become a significant regional power exporter, supplying the Balkans and Turkey. But authorities from the European Union have expressed concern over Kozloduy, pressing Bulgaria to decommission the plant's reactors No. 3 and No. 4 by 2006, about five years ahead of schedule. Seeking a smooth entry into the European Union in 2007, the Bulgarian government agreed in October 2002 to close Kozloduy-3 and Kozloduy-4 on the condition that the European Commission provide monetary compensation. Later, however, the government's decision was overruled by two Bulgarian high courts, leaving the country's (and the region's) future fuel mix and EU ascension in question. Bulgaria has also approved the construction of a new nuclear plant at Belene, 25 miles west of Kozloduy. Several international firms have shown in



building the facility, but no timetable has been set yet.

Romania's one-reactor nuclear plant, Cernavoda, accounted for about 10% of electricity generation in 2001. Romania is working to develop a second reactor at the facility, and hopes to commission the new reactor by 2006. In October 2003, the Romanian government announced plans to overhaul the country's electricity sector following a series of blackouts in 2002. The government's plan aims to spend \$10.4 billion on developing new nuclear and hydroelectric generating facilities, as well as upgrading the country's transmission infrastructure. Hydroelectric power also plays a significant role in Romania, accounting for almost 30% of generation in 2001 (see graph).

Moldova generates and consumes very little electricity and obtains most of its power from domestic thermal plants and regional imports. The World Bank is working in Moldova to enhance the safety of the country's electricity facilities and to provide power and heat to social facilities such as schools and hospitals. Moldova's electricity sector is partially privatized, with Spain's Union Fenosa holding two Moldovan power companies. In December 2003 the state announced a tender for "75% plus one" shares in two more state-owned electric companies. Bids will be accepted until April, 2004.

<b>OIL</b>	<i>million barrels</i>	<i>1,000 barrels per day</i>		
	<b>1/1/2004 PROVEN RESERVES</b>	<b>2002E PRODUCTION</b>	<b>2002E CONSUMPTION</b>	<b>2002E NET IMPORTS</b>
Bulgaria	15	1	89	88
Moldova	0	0	24	24
Romania	956	124	207	83
<b>Total</b>	<b>971</b>	<b>125</b>	<b>320</b>	<b>195</b>
<b>NATURAL GAS</b>	<i>trillion cubic feet</i>	<i>billion cubic feet per year</i>		
	<b>1/1/2004 PROVEN RESERVES</b>	<b>2001E PRODUCTION</b>	<b>2001E CONSUMPTION</b>	<b>2001E IMPORTS</b>
Bulgaria	.210	0.14	205	205
Moldova	0	0	72	72
Romania	3.6	505	696	191
<b>Total</b>	<b>3.8</b>	<b>505</b>	<b>973</b>	<b>468</b>
<b>COAL 2001</b>	<i>million short tons</i>			
	<b>RECOVERABLE RESERVES</b>	<b>PRODUCTION</b>	<b>CONSUMPTION</b>	<b>IMPORTS</b>
Bulgaria	2,988	31.5	35.2	3.7
Moldova	0	0	0.2	0.2
Romania	1,606	33.1	36.4	3.3
<b>Total</b>	<b>4,594</b>	<b>64.6</b>	<b>71.8</b>	<b>7.2</b>

ELECTRICITY 2001	<i>gigawatts</i>	<i>billion kilowatthours</i>	
	<u>INSTALLED CAPACITY</u>	<u>GENERATION</u>	<u>CONSUMPTION</u>
Bulgaria	11.9	41.4	32.5
Moldova	1	3.4	3.2
Romania	22.6	50.9	46.1
<b>Total</b>	<b>35.5</b>	<b>95.7</b>	<b>81.8</b>

*Sources for this report include: Agence France Presse, Associated Press, BBC Monitoring International Reports, Central Asia & Caucasus Business Report, Caspian News Agency, Caspian Business Report, CIA World Factbook, The Economist, The Financial Times, Global Insight, Hart's European Fuel News, Interfax News Agency, The International Herald Tribune, International Petroleum Finance, ITAR-TASS News Agency, Mining & Metals Report, The Moscow Times, Oil and Gas Journal, Petroleum Economist, Petroleum Report, Platt's International Coal Report, Platt's Oilgram News, PR Newswire, Project Finance, Radio Free Europe/Radio Liberty, Reuters, Russian Economic News, The Russian Oil & Gas Report, Turkish Daily News, US Department of Energy, US Energy Information Administration, US Department of State, and World Research Center.*

## LINKS

For more information from EIA on Southeastern Europe, please see:

[EIA: Country Information on Bulgaria](#)

[EIA: Country Information on Moldova](#)

[EIA: Country Information on Romania](#)

Links to other US government sites:

[US Agency for International Development](#)

[CIA World Factbook](#)

[US Department of Commerce, Business Information Service for the Newly Independent States \(BISNIS\): Moldova](#)

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[US Department of Commerce, Trade Compliance Center: Market Access Information](#)

[Library of Congress Country Study on Romania](#)

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[Radio Free Europe/Radio Liberty](#)

[Radio Free Europe/Radio Liberty: Energy Politics in the Caspian and Russia](#)

[US Department of Energy, Fossil Energy Overview of Romania](#)

[US State Department: Background Notes](#)

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