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On 4<sup>th</sup> December, 2014, the Russian International Affairs Council (RIAC) together with the Crisis Management Initiative - Martti Ahtisaari Centre (CMI) organized a round table discussion on “**Russia and the EU – Looking for Ways of Cooperation in the Common Neighbourhood: the case of the Republic of Moldova and Transdniestria**”. At the meeting a group of experts from Chisinau, Tiraspol, Moscow and the EU (one from each side) presented papers with proposals for improving practical cooperation between the EU and Russia using the Republic of Moldova and Transdniestria as an example.

The authors of the papers are:

**Dmitry Danilov**, RIAC Expert, Head of the European Security Department, Institute of Europe, Russian Academy of Sciences (Moscow)

**Tatyana Lariusina**, Head of the Economic Policy Department, IDIS “Viitorul”, advisor on economic issues for the President of the Republic of Moldova in 1997-2001 (Chisinau)

**Yurii Ganin**, Vice-President of the Chamber of Commerce of Transdniestria (Tiraspol)

**Nicu Popescu**, Senior Analyst, of the European Union Institute for Security Studies (Paris)

## **The Republic of Moldova/Transdnistria: the dilemma of Russia ± EU**

*D. Danilov*

### **“From Lisbon to Vladivostok” there is just one step – via Ukraine.**

The Ukrainian conflict has become the most serious European crisis in relations between Russia and the West and institutional cooperation between the “two Europes”. “Ukraine” brought an end to the brief period of cooperative “reset”, blocking progress towards a Greater Europe and provoking a new deep polarisation in Europe which could end in a “new cold war” with possible military and political escalation. Cooperation institutions appear to be in a state of suspended animation or “life support”. The OSCE, Council of Europe, Russia-NATO Council, G8 (now back to its G7 format) and G20 are now little more than an arena for conflicts of interests, rather than a platform for cooperation (including on sensitive issues such as conflicts in the “post-Soviet space”).

Another radical shift has also occurred in Russia – NATO relations, one that appears to be long-term – from the strategic partnership of “Lisbon” to “Welsh” mutual deterrence. In this context, Russia is becoming particularly sensitive to NATO’s partnership programs, including those with Ukraine and Moldova.

Association agreements have been signed, including the DCFTA, between the EU and the Eastern Partnership countries, while on the other hand the EEU (Eurasian Economic Union) agreement comes into effect on January 1, 2015. The EU and Russia’s “Shared Neighbourhood” has been transformed from an area of rivalry into an area of direct geopolitical collision, with the front line passing through Ukraine. Russia and the West are trying to dig in at their borders and all attempts to “come to an agreement” are viewed in terms of minimising risks and losses, all sense of a return to “common spaces” now very remote indeed.

### **Crimea and Sevastopol.**

The West’s protest at the “annexation of the Crimea” and “Russian aggression” is not confined to the dilemma of what to do about the Crimea, but is rather viewed as confirmation (following the war in Georgia) of Russian imperialism, which has now clearly gone over to the offensive. The West’s failure to acknowledge that Russia has special interests in the post-Soviet

space means it can only view Russian policy in revanchist terms. However, any Western sanctions only aggravate the situation, forcing Russia to “take the hit” and intensify countermeasures.

Justifying the “Crimean” decision in terms of the restoration of historical justice inevitably suggests the project is not yet complete, and in practical terms that the Crimea should be viewed as a Russian model project (for other territories of the “Russian world” - Transdnistria, South-Eastern Ukraine, etc.). Moscow’s ability to “lower” such expectations is rather limited, since, firstly, they are its allies in the geopolitical arena; secondly, Moscow cannot betray its own interests, including in the eyes of its own citizens.

Moscow has demonstrated that it is prepared for tough geopolitical responses, in spite of the obvious costs associated with them. The Crimean scenario has radically changed the political model for all actors in the Transdnistrian settlement.

Already unpredictable, Russia is now even more likely to act unpredictably.

### **“Ukrainian” security risks for the Transdnistrian settlement.**

The Republic of Moldova/Transdnistria is now turning into a frontier in a large scale and still developing military and political conflict that has not only a regional, but also a Euro-Atlantic dimension. A non-military/military solution to Ukraine has now become a key issue. The future of South-Eastern Ukraine, and the Ukraine as a whole, the evolution of the military-political situation, the possibility of new military escalation, the political decisions involved in that – these factors aggravate the risks of instability and seriously reduce options for “autonomous” solutions for the Republic of Moldova/Transdnistria.

All these factors combine to aggravate internal problems and disputes in the conflict zone and decrease the chances of the parties achieving a political settlement of the conflict through reliance on external mediators and guarantors.

However, as the risks grow, the problem of how to manage them becomes more urgent. As with any crisis situation, the scale of responses varies from provoking a crisis to proactively looking for inclusive ways of overcoming it. As a result, finding positive scenarios does not just become an even more pressing task, but becomes an essential alternative to the likely

escalation of the conflict (instigated both by external circumstances and deliberate actions of one or other of the “powers”).

### **The Republic of Moldova-Transdnistria: internal and external space for interaction.**

Seen against the backdrop of the geopolitical dispute between Russia and the West, Transdnistria becomes a much more problematic sphere of interests and relations, and the space for interaction is more limited. For practical purposes, the Moldovan-Transdnistrian issue is mainly viewed not in terms of settlement, but through the prism of “major” interests both by external and internal players. Moldova has shifted even further to the periphery of the Russian political agenda. The relatively low stakes involved in the “Moldovan issue” compared with the priority given to Ukraine, Brussels’ and Chisinau’s unwillingness to view interaction with Russia in terms of a “Ukrainian dossier” (trilateral consultations on standardising trade and economic regimes), let alone including a “fifth element” into it (Transdnistria); and as a consequence, Moscow’s reluctance to raise the stakes on Moldova – this all attests to the fact that “pilot project” scenarios of Russia – EU cooperation over the Republic of Moldova/Transdnistria cannot be sustained in practical terms in the new geopolitical and regional situation.

Given the acute conflict of interests across the board, *the main common interest lies in reducing mutual damage and neutralising challenges related to instability and risks in the sphere of security.* This, in turn, means that the main responsibility for the “European concert” lies with its major actors, and there is virtually no possibility of the parties acting independently or a “1+1” initiative working. Meanwhile, any attempts by external players to achieve a resolution of the Republic of Moldova/Transdnistria in parallel with, let alone as part of a package deal on Ukraine, might not only change the status quo of the Transdnistrian settlement, but ruin it altogether.

However, even if the current positioning game on the Republic of Moldova/Transdnistria arena is justified (based on the principle of “do no harm”), in the future, Brussels’ and Moscow’s unwillingness or inability to achieve any rapprochement here clearly exacerbate the fault lines and undermine the prospect of a settlement. And if Russia

and the European Union are interested in minimising risks and damage, and even more in preventing an escalation of the Transdniestrian conflict, they must start shaping some kind of common “Moldovan-Transdniestrian” agenda.

### **The process and scope of any agreement**

The Ukrainian crisis thus clearly demonstrates that *the basic interest* is in agreeing on how to maintain internal stability and prevent an escalation of the conflict on the Dniester. Radical (revolutionary) solutions from the Russian side appear to have been exhausted, and Moscow will direct its main efforts on finding ways to overcome negative and destructive consequences of the crisis of the European system and the developing conflict between Kiev and the DNR (Donetsk People’s Republic)/LNR (Lugansk People’s Republic).

To avoid intensifying the geopolitical split or the regionalisation of the Ukrainian crisis, it must be stopped from spreading to the Republic of Moldova/Transdniestria. Although Moldova has slipped down the Russian political agenda, the question of “what should we do with Transdniestria” has become even more pressing. Brussels must assume that Moscow, given the Ukrainian events, is not interested in pushing for Transdniestrian independence. The strengthening of direct relations between Russia and Transdniestria is a forced response to the Moldova – EU association, rather than an attempt to achieve the breakaway of Transdniestria. Moscow must assume that Brussels/Chisinau is hardly likely to persuade Transdniestria to catch the departing Chisinau – Brussels train. So the situation is clearly becoming more transparent, and if Moscow and Brussels do not want an aggravation of the conflict on the Moldovan border, they must agree on measures to prevent the collapse of the political-economic space of the Republic of Moldova/Transdniestria. However, the issue here is not the ambitious task of finding a formula of harmonisation based on the example of the Republic of Moldova/Transdniestria, but rather a pragmatic compromise – creating linkages,, common ground and platforms for interaction along the fault line in order to neutralise the increasing tensions there, including the prospect of an uncontrolled escalation of the conflict. This kind of pragmatic approach would allow a reduction in the pressure of geopolitical motives, and actions to be based on the current situation. Setting an objective of identifying and agreeing

compromises would have allowed the political and ideological conflict to be recast in terms of finding a set of political and technical solution.

Securing the principles of settlement agreed at an earlier stage is obviously key, since any erosion of those principles following any aggravation of the conflict and uncertainty could have irreparable and even incendiary consequences. Internal conflict has intensified (criminal proceedings brought within Moldova against officials of Transdnistria, border-related problems, socioeconomic clashes, etc.), and the efforts of guarantors/mediators should be directed not at the blame game, but instead at neutralising conflictogenic issues as quickly as possible. It is extremely important to use the 5+2 format to do this and achieve new pragmatic agreements since it would be difficult to restore it after a long period of freezing. Using pragmatic dialogue to return to the 5+2 platform would have allowed the Transdnistrian settlement to be kept separate from “Ukrainian” risks. Moscow and Brussels should try to avoid any situation arising where any escalation in the situation in Ukraine might influence the Transdnistrian settlement and relations between its internal and external participants. Moscow and Brussels should at least prevent a situation from arising in which their conflicts of interest over the Ukrainian crisis, leads to increasing tension in the negotiation space between the two banks of the Dniester. Preserving the 5+2 format remains a common reference point: no-one is interested in it returning to stagnation, and any erosion of the negotiating and consulting space between Russia and the EU/the West will only reduce the prospect of change.

The increased political demand for moving on from sanctions or even simply finding a pretext to do so is motivation for Russia and the EU. Additional opportunities for reaching compromises are offered by the “Helsinki + 40” process, within which external players/mediators in the Transdnistrian settlement could attempt to combine efforts aimed at strengthening common European trends and cooperation through the OSCE), on the OSCE platform and also to find resolutions for the Republic of Moldova/Transdnistria, including coordinated efforts aimed at potentially involving the OSCE as a mediator that is not directly involved in the multi-tier and multifaceted conflict of interests of the other participants in the 5+2 format. The Declaration of the OSCE Council of Ministers of Foreign Affairs in Basel on

December 4, 2014, is an important signal and a step in this direction, as well as the agreement at the beginning of 2015 to approve the schedule of official consultations for the whole year.

## **Political and economic aspects of the Republic of Moldova's trade relations with the EU and the Russian Federation**

*T.Lariushin*

The dramatic events of 2014 revealed deep differences in how Russia and the EU perceive common problems, especially those related to building up relationships with former Soviet republics such as Ukraine, Moldova and Georgia. While the EU builds up its relationship with these countries on a consensual basis under the Neighbourhood Policy, Russia, competing with the West for spheres of influence, views the CIS countries as its “zone of specific interests”, pursuing a policy of contesting sovereignty and creating a ring of buffer states in the interests of its own security.

In the case of Moldova, which is essentially a periphery of the European Union and the Russian Federation, this difference in approach has been manifested as totally different possibilities, both in terms of the settlement of the Transdnistrian problem and in terms of modernisation of its economy. As the poorest country in Europe and an exporter of labour, Moldova badly needs stability and change to the economic growth model. In spite of the rhetoric about the “geopolitical choice between the East and the West”, numerous studies and public opinion polls over the last decade show that the major threat facing Moldova is poverty. The current model of economic growth based on private consumption was already outdated in the middle of the last decade. There is now a solid demand within the country for reforms for development, overcoming poverty and inequality.

In response to this demand, both the Russian Federation and the EU offered Moldova their support in implementing such reforms almost simultaneously (2003-2004). Russia's proposals, known as the “Kozak Plan” were entirely aligned with Russian national interests and de facto fixed the then political *status quo* with promises of cheap gas prices and access to Russian export markets.

For its part, the European Union offered Moldova its own clear-cut and easy-to-understand plan of modernisation through political association and economic integration, supported by significant technical and financial assistance for its implementation. During the process of harmonising Moldova's legal framework with that of the EU and using tools such as



the CEFTA and the Eastern Partnership, Brussels prepared Chisinau for conversion to new trading rules, by becoming one of its major development partners, supporting the reforms with significant technical and financial assistance (over Euro 525 million, 2007-13), financing one third of 246 projects (as of September 1, 2013). This process was documented in the Association Agreement (AA) and the Deep and Comprehensive Free Trade Area Agreement (DCFTA) with the EU, which came into effect on September 1, 2014.

The reforms set out in these agreements are intended to contribute to the modernisation of the economy under the National Development Strategy “Moldova – 2020” and the National Action Plan of the Republic of Moldova/EU for 2015-17, Chisinau’s principle documents of its economic policy aimed at replacing “growth without development” with an economic model in which the main drivers are manufacturing, investment and export.

The government’s mandate to implement this strategy was actually confirmed by the Parliamentary elections on November 30, 2014. The elections showed that Moldova remained on course towards European integration and a transition to the stage of implementing reforms in coordination with the European Union.

Moscow and Brussels issued entirely opposing statements about the results of the elections. Moscow’s position was communicated by the leader of the pro-Russian Socialist Party, Igor Dodon, who stated that he would demand that the new Parliament denounce the Agreement with the EU and that Moldova join the Customs Union, which “would open the way to the restoration of the country’s territorial integrity through federalisation”.

The European Union welcomed the parliamentary elections in Moldova, stating that it expects “rapid formation of an inclusive and responsible government and that it is ready to provide assistance with implementation of reforms in the framework of association with the EU and economic integration”. Brussels is also ready to continue cooperation with the future government of Moldova “on the issue of a Transdnistrian settlement based on the principles of sovereignty and territorial integrity of the Republic of Moldova by granting special status to Transdnistria”. The first meeting of the Republic of Moldova – EU Association Council, scheduled for January 19, 2015, was postponed to a later date because the process of the formation of the new government has not been completed.

At this stage, Brussel's priority in its relations with Chisinau are achieving reforms that are as close as possible to people. The benefits from "reforms for people" must be perceived as quickly as possible by the general population and the business community. The EU is also tightening its requirements for the transparency of the decision-making process and accountability of the government to the public. These efforts must ensure reliable communication with civil society and business circles in order to mobilise the widest possible support for the process of transformation.

The new government has to deal with a difficult stage of reform implementation in the absence of a national consensus within society and little prospect of support for these reforms increasing. As experience shows (I. Sturza, 1998-99), in Moldova, even the most carefully designed reforms are doomed to failure unless they are understood and supported by the population. As a rule, politicians do not like to implement these reforms, since they have to pay for institutional and structural reforms with a drop in ratings and growing unpopularity. Moreover, the new government has limited reserves in the form of leaders with the capacity to implement reforms of such complexity. Yuri Leanca may not receive sufficient support from Brussels, given the split in the society and the deep conflicts of interests between the tycoons leading the ruling alliance.

In summer 2015, a new spike in political instability is expected (Gagauzia, Balti, Taraclia), when local elections in Moldova take place. In addition, external risks in the region continue to gain momentum – trade sanctions and the Ukrainian crisis are exacerbated by economic problems in the Russian Federation. The devaluation of the Russian rouble and the slowdown in economic growth in the Russian Federation is already affecting the Republic of Moldova through money transfer channels and the decline in demand for its workforce. The weakening of the Russian currency has an especially negative effect on the economy of Transdnistria. In the new context, the logic of economic realities is shifting priorities in relations between the Republic of Moldova and Transdnistria from the problem of "geopolitical choice", and "competition of integration projects" towards a more pragmatic focus on the benefits of building capacity for cooperation through trade through constructive interaction between all interested parties. Given the worsening economic situation in the Russian Federation, a tactic

aimed at easing the burden of subsidising Tiraspol by bringing Transdniestrian companies closer to the EU could be seen as worthwhile, and this would create additional preconditions and incentives for Transdniestria to participate in the process of transition to a trade regime within the DCFTA.

This paper will not consider the entire complex of factors that form the negotiation agenda between Chisinau and Tiraspol but will focus only on certain results of the trade relations between the Republic of Moldova and the EU and Russia in recent years.

Firstly, as the geographical diversification of Moldovan exports expands, Russia's share of total Moldovan exports is permanently decreasing (by 6% during 2005-2013), though it still remains quite significant (26%, 2013). In parallel with the re-orientation of the foreign trade of the Republic of Moldova towards European markets, the role of the EU as a major trading partner of Moldova is strengthening as a result of the on-going liberalisation of trade relations between Moldova and the EU.

Secondly, following the ratification of the DCFTA with the EU, Moldova was faced with even stricter prohibitions on trade with Russia. In the middle of July, the Russian authorities banned the import of fruit and introduced restrictions on meat from Moldova. In the middle of August, Russia introduced import duties for certain types of Moldovan products, including vegetables, wheat and sugar, followed by a ban on meat imports from Moldova. One year earlier (September 2013), wine imports had been banned.

#### **Restrictions on Moldovan exports to Russia, 2013-14**

<b>Commodity</b>	<b>Type of Restriction</b>	<b>Effective Date</b>
Wine and wine products	Ban	September 2013
Meat and meat products, including, pork, beef, mutton and horsemeat	Ban and/or restrictions related to packaging	April 2014, then lifted. Introduced again in July 2014
Horticultural products	Ban	July 2014
Fresh fruit, including apples, plums, apricots, peaches	Ban	July 2014
19 agricultural products,	Import duties (7.8% replaces	September 2014

including wine, meat, vegetables, fruit, grain	zero rate)	
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In spite of the fact that the government of the Republic of Moldova adopted some measures aimed at mitigating the negative effects of the bans; and some agricultural producers affected have managed to find new sales markets for their products in the EU, CIS countries and in Turkey, it is expected that as of the end of 2014 Moldovan exports to Russia will decrease – agricultural products by approximately US\$ 120 million, and wine by approximately 35 million US dollars.

**Exports of the Republic of Moldova to the Russian Federation  
and to other countries in 2005 and 2013**

<b>Exports, %</b>	<b>2005</b>	<b>2013</b>
<b>To other countries</b>	<b>68</b>	<b>74</b>
<b>to the Russian Federation,</b>	<b>32</b>	<b>26</b>
including fruit, vegetables, preserves	2	5
Wine and wine-making materials	19	1
other commodities	11	20

Source: National Bank of Moldova

**Moldovan exports to the Russian Federation by commodity, 2005 and 2013**

<b>Commodities, %</b>	<b>2005</b>	<b>2013</b>
<b>Wine and wine-making materials</b>	<b>60</b>	<b>5</b>
<b>Agricultural goods, including:</b>	<b>5</b>	<b>18</b>
Apples	27	38
Preserves	60	13
Grapes	3	11
Tomatoes	3	6
Apricots, cherries, plums, peaches	7	38
Berries	-	6
<b>Other commodities</b>	<b>35</b>	<b>76</b>

Source: National Bank of Moldova

Third. One of the key obstacles for Moldovan exports to the EU is the differences in technical standards. Bringing Moldovan technical regulations into line with European standards

would have a multiplier effect on the economy of the Republic of Moldova, both by simplifying access to external markets and simplifying trade procedures as such. The costs of compliance assessment procedures for exporters are expected to fall by 50% for agricultural goods and by 35% for industrial goods. Coming into line with European sanitary and phytosanitary standards would simplify access by Moldovan companies both to the EU market and to markets of third countries, such as the U.S. and Russia.

Fourth. Given that there is currently no possibility of the Republic of Moldova implementing the DCFTA in Transdniestria, the preferences under the system of autonomous trade preferences (ATP), would exceptionally also be extended to Transdniestria until 2016. Currently, in order to export to the EU without paying customs duties under the asymmetric trade regime under the quota system applied to the Republic of Moldova, Transdniestrian economic entities must register with the State Registration Chamber of the Republic of Moldova, be inspected by the Moldovan customs and obtain a certificate of origin and an export license. Within a year, Transdniestria must decide whether to participate in the new trade regime with the EU.

And finally: Although the process of implementation of the action plan on AA and DCFTA by the Republic of Moldova is already underway, a number of political, legal and economic questions remain uncertain, such as the prospects of the Republic of Moldova joining the EU, the effects of DCFTA on trade with the Russian Federation and the EuroAsian Economic Community (EurAsEC), as well as the conditions and format of Transdniestria's participation in DCFTA.

At some point, to avoid an escalation in tension, the Russian Federation and the EU will have to accept a number of reciprocal adjustments aimed at eliminating differences between the trade and customs rules of the EU and EurAsEC. As they wait for a new balance in the trade relations of Greater Europe, the Republic of Moldova and Transdniestria can already start

coordinating their efforts on implementing structural reforms for the simplification of trade procedures and increasing the potential for trading with each other and with third countries.

## **Russia and the EU – looking for ways of cooperation in the common neighbourhood: the case of the Republic of Moldova and Transdniestria.**

*Yu. Ganin*

### **1. Introduction**

A number of events that took place in the second half of this year eloquently testify to the aggravation of disputes between the Republic of Moldova and Transdniestria. This primarily relates to the Association Agreement between the Republic of Moldova and the EU, which includes the creation of a deep and comprehensive free trade area (DCFTA). This agreement was signed on 27<sup>th</sup> June, in Brussels, was ratified by the Parliament of the Republic of Moldova on 2<sup>nd</sup> July, and came into effect on 1<sup>st</sup> September. Transdniestria's response to this agreement was demonstrated by its signing in Moscow of seven interdepartmental Memoranda between governmental structures of Transdniestria and those of the Russian Federation (2<sup>nd</sup> July) with the subsequent signing (on 28<sup>th</sup> August, 16<sup>th</sup> September and 11<sup>th</sup> November) of seven further similar agreements, timed to coincide with the ratification of the EU-RM Association Agreement. The two banks of the Dniester thus demonstrated their completely opposing strategic directions. The start of the implementation of the Agreement with the EU led to a worsening in trade relations between Moldova and the Russian Federation; it became a new factor further aggravating the problem of Transdniestria's future trade relations with the European Union and with the Republic of Moldova.

At least three more facts witness to the aggravation of the situation on the banks of the Dniester. Firstly, from November import cargoes in transit to Transdniestria began to face systematic delays while on Ukrainian territory. A new requirement was introduced for goods entering and leaving Ukraine to hold a document showing temporary registration with the Registration Chamber of the Republic of Moldova and temporary accreditation with the Customs Department of the Republic of Moldova. Previously it was Transdniestrian exporters, and now it is Transdniestrian importers who are forced to go through registration in the Republic of Moldova en masse. The impression is that all of this is just the start of something larger. The second fact is that Moldova has brought an additional twenty criminal cases against leaders of public bodies of Transdniestria, including the Prime Minister. The third fact is that

the Moldovan uniformed services kidnapped an employee of the Transdniestrian customs agency from the security zone.

In the external sphere, for the Republic of Moldova and Transdniestria relations between their strategic partners, the EU and the Russian Federation, are of the utmost importance. Although these relations are going through an acute phase, positive signals appeared concerning the intention of the Russian Federation to move towards rapprochement with the European Union. The leadership of Russia announced this at the Minsk CIS Summit on 10<sup>th</sup> October. In particular, the Customs Union intends to establish a free trade zone with the EU, the Customs Union will continue its work on harmonising its legal base with EU standards and provisions; in the period before the economic part of the agreement between Ukraine and the EU is fully implemented, the problem of harmonising this agreement with the agreement on the free trade area of CIS countries of 18<sup>th</sup> October, 2011 needs to be addressed. This position was also confirmed in subsequent statements by the leadership of the Ministry of Foreign Affairs of the Russian Federation. The proposals on the rapprochement of strategic partners are indirectly related to a settlement of the conflict on the Dniester, but they open new prospects and expand the stockpile of ideas for identifying mutually acceptable compromises between the Republic of Moldova and Transdniestria.

## **2. Key interests of Transdniestria.**

The geopolitical choice made by Transdniestria is well known. It was determined at the referendum in 2006 and was reflected in the External Policy Concept of 20<sup>th</sup> November, 2012. This choice is essentially comprehensive Eurasian integration.

In foreign trade relations, Transdniestria' key interests lie in maintaining and developing trade with the Republic of Moldova, the European Union and the countries of the Customs Union (Eurasian Economic Union (EEU)), primarily the Russian Federation.

a) **Trade with the Republic of Moldova.** Between the left and the right banks of the Dniester, there are still no formal agreements on the rules of mutual trade. Chisinau offers a «common economic space» as a future system for economic relations with Transdniestria, while Tiraspol for its part uses notions such as a “free trade area”. In the current realities, both proposals



merely represent theoretical possibilities. Two preliminary steps would appear to be simpler, steps that the Parties could make without affecting their core interests. The first is to formalise the rules for mutual trade, which were established unilaterally and are valid today. The second preliminary step could be to introduce elements of trade liberalisation by reducing or eliminating a whole range of non-tariff barriers. It is in Tiraspol's interests to incorporate these agreements in the Agreement on Trade Regime, whilst it is in Chisinau's interests to force Tiraspol to operate under Moldovan rules. IF this were achieved, the Parties would then have to move towards agreeing a third mutually acceptable form of agreements, which would for the first time also contain performance guarantee mechanisms.

Tiraspol has a number of principled stands it wants to defend when any agreements are made on trade:

**1. The platform of the agreement.** For Chisinau, with its pro-Western foreign policy, the DCFTA platform is more acceptable. Transdniestria remains a supporter of the principles of free trade contained in the agreement between the CIS countries. As a compromise, Tiraspol could propose the introduction of European standards in Transdniestria "via Moscow". Both the Customs Union and the Russian Federation have already harmonised a number of their regulations and state standards with EU regulations and directives. In other words, Tiraspol could have started a conversion to European standards via the standards of the Customs Union. In this case, the technical standards of Chisinau and Tiraspol could have come closer. And the two banks of the Dniester could have become a test bed where the harmonised standards of Moscow and Brussels could be reviewed.

**2. Depth of trade liberalisation.** For any country, opening up its market too much under an agreement to certain countries could give rise to claims from other countries with which similar agreements are concluded, because of risks arising in their economies. If the Republic of Moldova fails to reach a compromise on trade with the Russian Federation, the regime of free trade between Transdniestria and the Republic of Moldova would have to include some limited level of liberalisation and should not include free circulation of goods over which there are disagreements with the Russian Federation and the Customs Union.

**3. Equality of the Parties of the agreement.** Trade between the left bank and the right bank of the Dniester is carried out not only without any rules, but also on a non-equal basis. Delegation of authorities, classifications of goods and the levels of trade barriers should be symmetrical in nature.

**4. Tax systems.** Mutual trade is currently subject to double taxation in terms of VAT, and this is absolutely unacceptable in a free trade regime. In order to resolve this problem, Tiraspol would have to change its tax system for participants in foreign economic activities and introduce VAT into this system. Moldova would have to make a decision about a single levy of VAT in trade with Transdniestria.

**5. Customs duties, quotas and excise duties.** As mentioned above, these have to be subject to a certain limited level of trade liberalisation, which would allow for protection of internal markets to be regulated and for the balance of interests of the Western and Eastern trade partners to be maintained. However, they could be harmonised with respect to trade with third countries.

**6. Political goals.** Formation of trade relations should not pursue the goals of reintegration of Moldova.

**7. The system of guarantees.** Compromises over arrangements could take place only when they are protected by performance guarantee mechanisms. If this cannot be done through generally accepted domestic procedures, other acceptable methods would have to be proposed.

**b) Trade with the EU.** In its trade with the EU Transdniestria uses the system of autonomous trade preferences (ATP). In the Agreement on Association of the Republic of Moldova – EU this was extended until the end of 2015. As a result, the trade regime with the EU after 2015 is especially important for Transdniestria. Consultations on this topic are of a preliminary nature and their translation into practical discussions is hindered by the lack of a coordinated format for negotiation. Transdniestria initially proposed a bilateral format of Transdniestria – the EU. Recently, talks began about a trilateral format – Transdniestria– the Republic of Moldova – the EU. So far, no solution has been agreed. In addition, it is not clear how the other participants of the 5+2 format would react to the establishment of yet another format. The method used to

record agreements on trade with the EU and their guarantee mechanisms remains as important for Transdnistria as for trade with the Republic of Moldova. Transdnistria hopes that in the course of consultations it would manage to reach agreement on a special trade regime for trade with the EU. Such a regime would have to reflect Transdnistria's actual capacities in the sphere of technical regulation and take into consideration its political choices. Tiraspol could introduce a number of compromises to support this regime:

- implementation of Custom Union standards harmonised with those of the EU;
- introduction of VAT on imported goods into the tax system;
- phased introduction of zero-rating of duties on imports from the EU;
- harmonisation of charges and excise duties with those of the Republic of Moldova;
- exchange of authorities with the Republic of Moldova with respect to determining the country of origin of goods, phytosanitary and veterinary control.

**c) Trade with the Russian Federation.** Exports from Transdnistria to the Russian Federation consist mainly of industrial goods (91%). Cooperation between Russia and Transdnistria's mechanical engineering companies is currently at a high level across major mechanical engineering industries. Significant prospects have opened up for Transdnistria since fourteen interdepartmental agreements were signed between the Russian Federation and Transdnistria. In order to expand the Russian market, it is necessary to promote the introduction of Customs Union standards in Transdnistria, as well as opening certification and testing centres accredited with the Customs Union.

### **3. Possible political space for compromises on trade-related issues.**

From a technical point of view, Transdnistria and the Republic of Moldova could identify compromises for creating a regional free trade area, and could even expand it to include elements of a common economic space, in particular, harmonising their trade regimes with certain third countries. From a political point of view, formalising and later liberalising trade, including duty-free treatment, are not a primary concern for Moldova at the current stage. Since the parties of the European alliance won at the parliamentary elections, it has become highly likely that Moldovan customs officers will start to appear on Ukrainian territory along the

Transdnestrian border. This could open up the opportunity for Moldova to establish full control over Transdnestrian exports and imports, and on this basis to increase political and economic pressure on Transdnestria. This prospect significantly reduces the likelihood of contractual relations developing between the parties of the conflict and contributes to the aggravation of the situation on both banks of the Dniester.

There is a much broader political space in the sphere of future trade relations of Transdnestria and the EU. In particular, in a number of European Union bodies there is an opinion that it is necessary to find a formula for Transdnestria to preserve the free trade regime with the EU. Otherwise, the division of Moldova would become final.

Transdnestria's relations with the Russian Federation would be built on the basis of signed interdepartmental memoranda and would develop as long as Ukraine does not block the transit of cargo.

The Republic of Moldova's trade relations with the Russian Federation have a chance of improving, given that at the parliamentary elections that took place in Moldova half or even more of the constituents voted for left-wing parties that support Moldova's focus on rapprochement with the Customs Union.

#### **4. What could be done in practice?**

a). At present, the establishment of contractual relations between the Republic of Moldova and Transdnestria is not possible due to the lack of political interest from one of the Parties. Progress in this area could be possible only under the influence of the external participants in the process of negotiations on the Transdnestrian settlement. In particular, if the EU and the Russian Federation demonstrate their interest to the Republic of Moldova and Transdnestria as to the territory of cross-border cooperation between European and Eurasian integration unions. In this case, reformatting trade relations between the two banks of the Dniester River in the framework of a regional free trade area could become an experimental model for the development of free trade between the West and the East. The Cyprus precedent of the introduction of the "green line" regulation could be used to reach agreement between the Parties. This involves the mediators (the EU and the Russian Federation) presenting a

proposal to the Parties on a regulation on mutual trade. Since the Republic of Moldova does not sign any agreements with Transdniestria, the Parties, to avoid this, unilaterally consider the mediator's proposed regulation at the level of Parliaments or Governments and pass it into law. If necessary, CMI could provide assistance to mediators in developing such a regulation. In this case, the Parties would switch to the agreed rules on mutual trade and would start to test the potential free trade regime of the two integration units. In parallel to the implementation of this project, rapprochement between the Republic of Moldova and Transdniestria may occur, as well as between their strategic partners – the EU and the Russian Federation.

b) Normalisation of trade relations between Moldova and the Russian Federation should be considered together with the issue of developing future trade relations between Transdniestria and the EU, and also taking into consideration the issue mentioned above under a). In this case, there is also a possibility of a compromise that is beneficial for all four parties involved.

# **Transdniestria and the Association Agreement of the Republic of Moldova with the EU**

*N.Popescu*

The signing and application of the EU-Moldova Association Agreement, which contains deep and comprehensive free trade area (DCFTA) provisions, are changing the trade situation around Transdniestria. The EU and the Republic of Moldova have already had a free trade area since 1st September 2014, which has already boosted Moldovan exports to the EU. For some agricultural products such as grapes, plums, barley or corn exports rose by 300%-800%.<sup>1</sup> Transdniestria is requesting a continuation of preferential trade access to the EU without implementing DCFTA conditions. Unless Transdniestria starts implementing DCFTA conditions, a new trade crisis around Transdniestria in early 2016 is almost inevitable.

## **A new trade context**

Transdniestria will continue to export to the EU under the pre-Association Agreement trade regime of Autonomous Trade Preferences (ATP) until the end of 2015. As of 2016 Transdniestria should either start implementing EU standards as provided in the Association Agreement, or risk losing its existing preferential trade access to the EU, and have its goods face higher tariffs when entering the EU market.

Transdniestria is currently asking for derogation from this requirement. The region wants to continue to export to the EU under the preferential ATP trade regime, rather than implement DCFTA provisions which would give even greater access to the EU market, but also imposes implementation costs. The EU and the Republic of Moldova insist that Transdniestria should comply with DCFTA if it wants to continue to export to the EU under a preferential trade regime.

## **The bigger picture**

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<sup>1</sup> Expert Group data, 24<sup>th</sup> November 2014, <http://www.budgetstories.md/primele-rezultate-aa/>

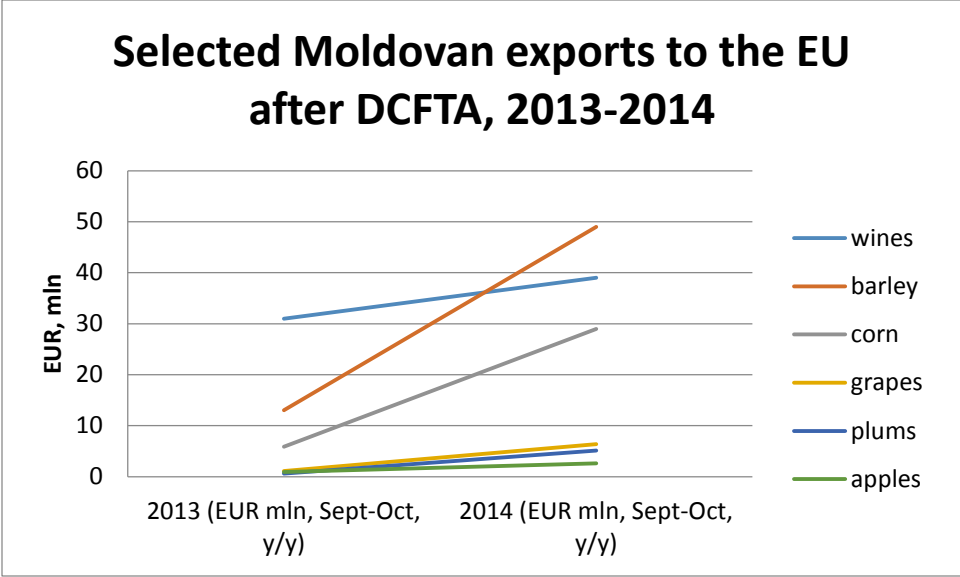
The situation around Transdniestria is developing against the background of a bigger crisis relating to the conflict in Ukraine and Russian opposition to EU Association Agreements in Eastern Europe. At the early preliminary stages of the Ukraine crisis, in mid-2013, even before the launch of the Euromaidan in November, Russia justified its opposition to an Association Agreement by claiming that such new agreements would disrupt Russian economic and trade interests in the CIS. However, these economic arguments are weak, to say the least.

The Association Agreement is legally compatible with the existing Free Trade Area in the CIS. Article 18 §1 of the 2011 CIS Free Trade Area agreement Charter explicitly states that ‘the current treaty does not preclude participating states from taking part in customs unions, free trade or arrangements for frontier traffic that correspond to WTO rules’. The risks of the re-exportation of European goods to Russia could have been managed as in all other countries in the world – by applying ‘rules of origin’.

The fact that under the Association Agreement Ukraine and Moldova are expected to implement EU standards, was not likely to significantly hit Russian exports to these countries since two-thirds (for Ukraine) and three-quarters (to Moldova) of them are energy resources unaffected by such changes. Nor does it mean that all other exports would have suffered. Most would not.

### **The smaller picture**

For the Republic of Moldova, as well as Transdniestria, the EU is their largest trading partner. For most of the last decade around 50% of Moldova’s trade was with the EU, and around 20% with Russia. The EU’s share in Transdniestrian trade also oscillated for most of the last decade between 40% and 60%, if one does not consider Transdniestrian trade with the Republic of Moldova as ‘external’ trade (and which accounts for up to a half of what the region ‘exports’).



The Republic of Moldova and Transdnistria have a common interest. Both would like to retain the existing market access to both Russia and the EU. But both have little influence and leverage on changing what is a much bigger geopolitical problem.

However, there also are significant differences. The Republic of Moldova already suffers from a Russian trade embargo on most Moldovan exports to Russia, whereas Transdnistria is not yet faced with trade limitations. In addition, whereas Russia imposes a blanket trade embargo on the Republic of Moldova, the worst case scenario for EU-Transdnistria trade is that the EU will apply higher tariffs on Transdnistrian exports (most likely using a regime of goods of non-specified origin), rather than block all of them.

Transdnistria’s trade and economic interest lies in continuing its trade relationship with the EU. This creates jobs and generates incomes. But for political reasons Transdnistria says it does not want to implement DCFTA provisions, and instead looks to Eurasian integration (which is legally and geographically impossible since the region is not a recognised state, and is not territorially connected to Russia). At the same time social assistance, pensions, utility costs and various subsidies from Russia in multiple forms, including direct budgetary support – are an important part of the region’s economic reality. Jobs and future growth might depend on the EU, but the basic economic survival of many of the regions inhabitants is often dependent on Russia.



### **The way out: known, but unfeasible**

In theory - a grand bargain of Common Economic Space between Lisbon to Vladivostok would seem to be a way out that could help limit or even overcome the current trade complications between Russia, EU, Ukraine and of course the Republic of Moldova and Transdniestria. However, the truth is that the idea has been on the table for over a decade, with the EU and Russia agreeing to this in 2003, but since then both sides have only moved farther away from such a prospect. And even if political obstacles would be surmounted, it is unlikely that Russia finds in its interest to engage in a serious round of trade liberalisation with the EU from Lisbon to Vladivostok.

Transdniestria seems to believe that a solution would be to indefinitely prolong ATP for Transdniestria, and have a kind of permanent exemption from AA/DCFTA. But this creates problems. Some of these are legal. The EU treats Moldova's legal space as one, and accepting permanently different trade regimes for different parts of Moldova is not acceptable. But there are also trade and economic concerns. Implementing DCFTA brings benefits, but also costs. So a situation in which Transdniestria has the benefits of free trade with the EU (under an indefinitely prolonged ATP), without some of the costs that the Republic of Moldova has to face in order to implement EU standards, would put right-bank Moldovan exporters in a disadvantaged position.

### **Association "lite"?**

A half-way solution would be for Transdniestria to accept in principle the implementation of the Association Agreement, and start pursuing it, but on a more relaxed schedule than the rest of the Republic of Moldova. This would mean that as of early 2016 Transdniestrian goods start being exported to the EU under a DCFTA regime, but the region, with EU and Moldovan help, would implement EU norms in those areas where it trades with the EU as a matter of priority, and other areas could be put on a slower track.