

# **MOLDOVA'S UNCERTAIN FUTURE**

Europe Report N° 175 – 17 August 2006

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY AND RECOMMENDATIONS</b> .....	<b>i</b>
<b>I. INTRODUCTION</b> .....	<b>1</b>
<b>II. A CHANGED INTERNATIONAL LANDSCAPE</b> .....	<b>2</b>
<b>III. NEW PRESSURE ON TRANSJNIESTRIA</b> .....	<b>4</b>
A. HOW THE TRANSJNIESTRIAN ECONOMY WORKS .....	4
B. THE EU’S ENGAGEMENT .....	5
C. THE CUSTOMS REGIME .....	8
<b>IV. MAKING THE CASE FOR A UNITED MOLDOVA</b> .....	<b>10</b>
A. A SPLIT IN THE TRANSJNIESTRIAN ELITE? .....	10
B. MOLDOVA’S FLAWED APPROACH .....	11
C. MAKING MOLDOVA MORE ATTRACTIVE .....	12
1. The EU-Moldova Action Plan .....	14
2. Trading with the European Union .....	15
3. Attracting (and pressuring) Transjniestrian businesses .....	16
4. Visa facilitation.....	16
D. BUILDING MUTUAL CONFIDENCE .....	17
E. DUBIOUS PRECEDENTS.....	18
F. THE NEED FOR INTERNATIONAL GUARANTEES .....	19
<b>V. CONCLUSION</b> .....	<b>21</b>
<b>APPENDICES</b>	
A. MAP OF THE REPUBLIC OF MOLDOVA .....	22

## MOLDOVA'S UNCERTAIN FUTURE

### EXECUTIVE SUMMARY AND RECOMMENDATIONS

With Romania's expected entry into the European Union in 2007, the EU will share a border with Moldova, a weak state divided by conflict and plagued by corruption and organised crime. Moldova's leadership has declared its desire to join the EU, but its commitment to European values is suspect, and efforts to resolve its dispute with the breakaway region of Transnistria have failed to end a damaging stalemate that has persisted for fifteen years. Young people have little confidence in the country's future and are leaving at an alarming rate. If Moldova is to become a stable part of the EU's neighbourhood, there will need to be much greater international engagement, not only in conflict resolution but in spurring domestic reforms to help make the country more attractive to its citizens.

Two recent initiatives by the EU and Ukraine gave rise to hopes that the balance of forces in the separatist dispute had changed significantly. An EU Border Assistance Mission (EUBAM) launched in late 2005 has helped curb smuggling along the Transnistrian segment of the Moldova-Ukraine frontier, a key source of revenue for the authorities in Tiraspol, the Transnistrian capital. At the same time, Kiev's implementation of a landmark customs regime to assist Moldova in regulating Transnistrian exports has reduced the ability of businesses in the breakaway region to operate without Moldovan oversight, striking a major psychological blow.

But optimism that these measures would ultimately force Transnistria to make diplomatic concessions appears to have been false. Although EUBAM has had significant success, particularly given its small size and budget, widespread smuggling continues. Nor has the Ukrainian customs regime had a decisive effect on Transnistrian businesses, which remain capable of profitable legal trade as they were in the past. Moreover, domestic political uncertainty has raised questions about whether Kiev will continue to enforce the new regulations.

Russia has increased its support for Transnistria, sending economic aid and taking punitive measures against Moldova, including a crippling ban on wine exports, one of its main revenue sources. Moscow refuses to withdraw troops based in Transnistria since Soviet times whose presence serves to preserve the status quo. With Russian

support, the Transnistrian leader, Igor Smirnov, has little incentive to compromise in his drive toward independence. The internationally-mediated negotiations between the two parties are going nowhere, despite the presence since 2005 of the EU and U.S. as observers. Although some understanding had been reached about the level of autonomy in a settlement, Moldova has hardened its position to match Transnistria's intransigence.

Barring a softening of Russia's stance, the best chance for moving toward a sustainable settlement is to convince the Transnistrian business community that cooperating with Moldova is in its own interests. There is evidence that some business leaders are growing frustrated with Smirnov and may be willing to work with Chisinau.

For this to happen, however, both Transnistrians and Moldovans will have to believe in the country's economic future. Its business environment is poor, foreign investment is low, and GDP per capita is on a par with Sudan's. The Communist Party government, headed by Vladimir Voronin, has shown little will to root out corruption and improve the business climate, and its Transnistria policy seems based more on easy rhetoric than engagement. Moldova's relatively new commitment to a Western-oriented policy is opportunistic rather than deep-rooted.

The EU has the leverage to play a greater role in pressuring Moldova to carry out reforms; it can also help by lifting tariffs on agricultural products, including wine, that Moldova could potentially sell in its market, as well as on products from Transnistrian factories such as steel and textiles. Transnistria's smuggling revenue must be further restricted, through long-term assistance to the Ukrainian and Moldovan border and customs services and a multi-year extension of EUBAM's mandate. The Transnistrian business community needs confidence it can make money in a united Moldova but it is equally important to limit the economic benefits of the status quo.

Even if efforts to alter the economic calculus are successful, however, the absence of mutual trust will remain debilitating. Addressing this will likely require years of confidence-building, through political dialogue, transparent customs rules and trade relations, and measures to increase

democratisation and freedom of the media on both sides. It may also require international guarantees to convince Transdniestrian businesses that they will not be stripped of their assets by the Moldovan government following a settlement.

Moldova is increasingly reliant on the EU and so is vulnerable to pressure from Brussels for reforms that would increase its economic and political attractiveness to its own citizens, including Transdnistrians. These reforms will have to have a central place if the groundwork for a settlement is to be prepared. The U.S. has been content to let the EU lead on Moldova, and the EU has done so – to a degree. But it must do far more with both incentives and pressures if it is to secure peace and prosperity in its neighbourhood and strengthen the weak roots of Moldova's European policy

## RECOMMENDATIONS

### To Moldova:

1. Show real political commitment in implementing the EU-Moldova Action Plan, particularly in the areas of media freedom, anti-corruption, judicial reform and the business environment.
2. Stop conditioning negotiations with Transnistria on up-front progress in democratisation and demilitarisation and instead show willingness to cooperate, particularly on customs and trade issues, even in the absence of movement on those longer-term goals.
3. Reform the customs service and border guards in line with EU Border Assistance Mission (EUBAM) recommendations, including by granting investigatory powers to the border guards, phasing out use of conscripts, developing risk analysis capabilities and putting serious effort into tackling corruption.
4. Request, with Ukraine, a multi-year extension of EUBAM's mandate.

### To the Transdniestrian Authorities:

5. Call off the 17 September 2006 referendum on independence and work constructively with Moldova and the international mediators on reaching a settlement, and, more immediately, on customs and trade issues.

### To the EU and its Member States:

6. Give more technical aid for reforms if Moldova demonstrates a genuine willingness to use it effectively.

7. Expand anti-smuggling assistance, in particular by:
  - (a) seeking a request from Moldova and Ukraine for a multi-year extension of the EUBAM mandate; and
  - (b) providing greater financial assistance and training to the customs and border services of both Ukraine and Moldova, including through EUBAM.
8. Grant Autonomous Trade Preferences to key Moldovan agricultural products, including wine, as well as goods produced by Transdniestrian factories, such as steel products and textiles.
9. Offer the Transdniestrian business community incentives to work constructively with Chisinau, including:
  - (a) Autonomous Trade Preferences for Transdniestrian exports;
  - (b) technical help in overcoming non-tariff barriers; and
  - (c) seminars, business clinics and trade missions.
10. Show parallel willingness to impose targeted financial sanctions against the Transdniestrian leadership, including members of the business community, and/or a trade embargo on Transdniestrian exports to the EU if cooperation is not forthcoming after a reasonable period of time.
11. Increase the EU's profile in Moldova and Moldovans' awareness of European values by:
  - (a) relocating the EU Special Representative (EUSR) to Moldova to Chisinau, with a view to double-hatting the same individual as both EUSR and head of the European Commission delegation;
  - (b) granting the European Commission a mandate to negotiate a visa-facilitation agreement with Moldova, and opening a joint visa application centre in Chisinau;
  - (c) increasing funding for exchange programs involving officials, students, and civil society; and
  - (d) doing more public diplomacy in Transnistria, targeting the business community and students.

### To Ukraine:

12. Continue to enforce the new customs regime along the Moldova-Ukraine frontier and reform the customs service and border guards in line with EUBAM recommendations, including by granting

them investigatory powers, phasing out use of conscripts, developing risk analysis capabilities and tackling corruption seriously.

13. Request, with Moldova, a multi-year extension of EUBAM's mandate and agree to establish joint customs posts with Moldova, both on Moldovan territory in areas controlled by Moldova and on Ukrainian territory between Ukraine and Transdnistria.

**To Russia:**

14. Agree with Moldova, the EU, U.S., OSCE and other parties on the deployment of a modest international peacekeeping and/or policing operation with participation from the EU, Russia, and other interested states, and withdraw all remaining troops accordingly.
15. Exert political and economic influence on the Transdnistrian leadership to negotiate with Moldova in good faith and accept a reasonable political settlement; discourage and do not recognise the Transdnistrian referendum scheduled for September 2006.
16. Revoke the ban on Moldovan wine and other agricultural products.

**To Russia, Ukraine, the OSCE, the EU and U.S.:**

17. Explore the possibilities for providing an international guarantee on property rights in a settlement between Moldova and Transdnistria.

**To the EU and U.S.:**

18. Help Ukraine and Moldova, through the relevant EU Action Plans and other instruments, to develop effective anti-corruption programs, particularly within the customs service and border guards; and urge Ukraine and Moldova to come to an agreement on joint customs posts on Ukrainian and Moldovan territory if Transdnistria continues to refuse to allow Moldovan customs officers to operate on its territory.
19. Continue to condition ratification of the adapted Conventional Armed Forces in Europe (CFE) Treaty on withdrawal of Russian troops, including peacekeepers, from Moldova, unless they are re-hatted as members of a new international peacekeeping force, and prepare for such a new force, including troops and civilian police from the EU, Russia, and other interested states.

**To the EU, U.S., OSCE and Other Donors:**

20. Strengthen cooperation between Transdnistria and Moldova at non-official levels by organising and supporting educational exchanges, NGO workshops, cultural events and business clinics with participation from both sides, and provide greater funding to Transdnistrian civil society and independent media.

**Chisinau/Brussels, 17 August 2006**

## MOLDOVA'S UNCERTAIN FUTURE

### I. INTRODUCTION

Romania's planned accession to the European Union in 2007 will bring the EU frontier to the border of Moldova, Europe's poorest economy and a country that remains divided and plagued by corruption. The state is weak, its borders are porous, and organised crime, particularly in the self-declared republic of Transdniestria, continues to thrive. While there has not been serious fighting between Moldova and Transdniestria since 1992, a resumption of hostilities is not unthinkable.<sup>1</sup>

But despite the urgent need to address the situation in the interests of both ordinary Moldovans and an EU seeking stability in its new neighbourhood, reforms are moving slowly, and there has been little progress toward a settlement with Transdniestria, a sliver of land between Ukraine and the Dniester River, formally part of Moldova but controlled by a separatist government with no international recognition.

The standoff between Moldova and Transdniestria is often included with the other "frozen conflicts" of the former Soviet Union – Abkhazia, South Ossetia and Nagorno-Karabakh in the South Caucasus. But history and demography suggest it should be comparatively easier to resolve.<sup>2</sup> The brief war that flared shortly after the break-up of the Soviet Union caused less bloodshed than those in Abkhazia and Nagorno-Karabakh<sup>3</sup> and left relatively few psychological scars. There was no widespread ethnic cleansing or massive violation of human rights, and the displaced persons issue is not as politically charged as in the South Caucasus. The two sides are ethnically and linguistically heterogeneous (each with significant

proportions of Romanians, Russians and Ukrainians),<sup>4</sup> and relations between the people are reasonably warm. Moldova and Transdniestria were together for half a century within the Moldovan Soviet Socialist Republic (MSSR), a shared history longer than that of many states in existence today.<sup>5</sup>

The conflict has proved anything but transient, however. Since the 14<sup>th</sup> Army intervened to stop the fighting in 1992, Russian troops, now labelled peacekeepers, have stood guard as Transdniestria has steadily consolidated its de facto independence, thanks to an economy based on Soviet-era industry, smuggling, and the support – political, economic, and military – of Moscow. It now has all the institutions of a sovereign state, including a functioning government, a strong internal security service, police, border guards, a customs service and a currency (the Transdniestrian rouble).

The Organisation for Security and Cooperation in Europe (OSCE) has led efforts to resolve the dispute but has made little headway. A 1997 "Moscow Memorandum" between Moldova and Transdniestria, with Russia and Ukraine participating as guarantors, stipulated that any settlement would be based on the principle of Moldova's territorial integrity but the division of competencies was never agreed. In February 2003, the EU and U.S. imposed travel sanctions on the Transdniestrian leadership for "obstructionism and unwillingness to change the status quo". In November 2003, a last-minute rejection by Moldovan President Vladimir Voronin of a plan put forward by Russia known as the Kozak Memorandum marked a major turning point, after which Voronin's relations with Moscow deteriorated, and Moldovan foreign policy swung toward the West. Although the likely shape of an eventual settlement involving

<sup>1</sup> The region is called Transnistria in Romanian/Moldovan and Pridnestrovia in Russian. Crisis Group uses Transdniestria because that term has been commonly employed by the international community, including the Organisation for Security and Cooperation (OSCE) in Europe, since the beginning of the crisis.

<sup>2</sup> For a concise history of the conflict, see Crisis Group Europe Report N°147, *Moldova: No Quick Fix*, 12 August 2003.

<sup>3</sup> Casualties in South Ossetia, about 1,000, were on a similar level to those in Moldova. Those in Abkhazia and Nagorno-Karabakh, according to the International Institute for Strategic Studies (IISS), were approximately 6,000 and 22,000 respectively.

<sup>4</sup> According to a 2004 census, Moldova (excluding Transdniestria) has 3.4 million inhabitants, of whom 78 per cent are Moldovan/Romanian, 8 per cent Ukrainian and 6 per cent Russian. Moldova also has significant populations of Gagauz, a Christian community which speaks a Turkic language, and ethnic Bulgarians. A 2004 Transdniestrian census reported a population of 555,000, including 32 per cent Moldovan/Romanian, 30 per cent Russian, and 29 per cent Ukrainian.

<sup>5</sup> See "Thawing a Frozen Conflict: Legal Aspects of the Separatist Crisis in Moldova", The Association of the Bar of the City of New York, 2006, p. 51.

Transdniestrian autonomy within Moldova is relatively well understood – and has been outlined in OSCE documents (and Crisis Group reporting)<sup>6</sup> – the negotiations have achieved little since the failure of the Kozak Memorandum.

The five-sided negotiations format (with Russia, Ukraine and the OSCE as mediators) was widened in 2005 to include the EU and the U.S. as observers, but the talks remain stalled; more energy is being devoted to trying to get the parties to negotiate in good faith than to the substantive issues. If anything, the positions have hardened, with Chisinau insisting it will not discuss final status issues until Transdnistria is democratised and the Russian troops are withdrawn, and Tiraspol preparing an independence referendum. Mutual trust is near an all-time low.

There have, however, been significant changes in dynamics since Crisis Group last reported on Moldova, in June 2004.<sup>7</sup> In particular, the EU has become more actively engaged, while the policies of Ukraine and Russia have shifted sharply – the former, at least until the confirmation of a new government in August 2006 whose orientation is not yet certain, becoming more pro-Western, the latter increasingly hardline in support of Transdnistria.

This report examines the prospects for ending the stalemate. It looks at the extent to which recent initiatives by the EU and Ukraine have changed the equation and what further actions may be necessary to bring about a settlement. It concludes that while a constitutional agreement that reunites the breakaway republic with Chisinau remains a realistic long-term goal, the immediate priorities should be to increase Moldova's political and economic attractiveness to Transdnistrians and to build confidence between the two sides.

## II. A CHANGED INTERNATIONAL LANDSCAPE

External actors have been heavily involved in the conflict from the outset – especially Russia, but also to varying degrees Ukraine, Romania, the U.S., the EU and its member states and the OSCE.<sup>8</sup> Over the past two years, the roles of Ukraine, the EU and Russia have evolved considerably, with major implications for settlement prospects.

Ukraine's shift is the result of the Orange Revolution, which brought to power a Western-leaning administration that has shown far more willingness than its predecessor to resolve the conflict. A co-mediator since 1995, it has always been somewhat equivocal, seeking to balance its relations with Russia and the West and rarely exercising a decisive influence one way or the other. In part, this is calculated: the Ukrainian elite have significant business interests in Transdnistria, which continue to profit from its unresolved legal status.

However, the new president, Viktor Yushchenko, has made resolution of the conflict a foreign policy priority. In April 2005, he presented a peace plan that had unrealistic elements but signalled increased engagement. Two months later, he made a joint request with Moldovan President Voronin to the EU for help in monitoring the porous Moldova-Ukraine border, across which the majority of Transdnistria's smuggling activities take place. This led to an EU Border Assistance Mission (EUBAM) in November 2005, which has had a number of early successes.

Most significant was Ukraine's agreement with Moldova in December 2005 on new customs procedures for trade with Transdnistria. The region's businessmen had been able to export to Ukraine without reference to Chisinau. But as part of the new agreement, Ukrainian authorities pledged to stop accepting Transdnistrian goods that were not accompanied by Moldovan customs documents, which meant that Transdnistrian companies would have to register in Chisinau. Although Ukraine delayed implementation, the agreement was put into operation in March 2006, following strong EU pressure.

The revised customs regime is a serious political blow to the breakaway regime and has had economic consequences for Transdnistrian businesses. Kiev has pledged to continue to uphold the agreement, but there are concerns

<sup>6</sup> See Crisis Group Report, *No Quick Fix*, op. cit.

<sup>7</sup> See Crisis Group Europe Report N°157, *Moldova: Regional Tensions over Transdnistria*, 17 June 2004.

<sup>8</sup> For more on the role of Russia and Ukraine, see *ibid*.

that the August 2006 nomination of Viktor Yanukovich as prime minister could signal lesser resolve.<sup>9</sup>

The EU has likewise become more heavily engaged in Moldova. As part of its Neighbourhood Policy, political dialogue has intensified considerably, and Moldova has been granted preferential tariff rates on a wide spectrum of products for export to the EU market. In February 2005, Brussels signed a three-year Action Plan with Moldova, setting priorities for settlement of the conflict and reform on a range of primarily domestic issues. It also opened a European Commission delegation office in Chisinau, appointed a Special Representative to Moldova, and, as mentioned above, joined the negotiation process between Moldova and Transdniestria as an observer and launched a Border Assistance Mission.

Possibly in reaction to these developments, but also perhaps symptomatic of its newly assertive posture toward all the former Soviet republics, Russia has become much more openly supportive of Transdniestria. In 2005, it banned the import of Moldovan meat, vegetables and fruit on questionable grounds. This was followed in 2006 by a crippling ban on wine, the country's largest export, which was widely seen as a political move to punish Moldova for its more Western alignment. In January 2006, it cut Moldova's gas supply for sixteen days and then negotiated a 100 per cent price increase for future supplies.<sup>10</sup>

Following implementation of the new Ukraine-Moldova customs regime, Russia increased its economic aid to Transdniestria and signed a cooperation protocol with the separatist leader, Igor Smirnov, which for the first time recognised him as "President of Transdniestria".<sup>11</sup> Smirnov's announcement in May 2006 that Transdniestria would vote on independence before the end of the year was greeted with approval by Russia's special envoy to the negotiations process, Valeriy Nesterushkin.<sup>12</sup> Russia has also continued to resist calls to withdraw its troops in line with past commitments. Defence Minister Sergei Ivanov said they would remain until a "political settlement of the

Dniester problem is attained".<sup>13</sup> Moscow is also believed to have increased support to pro-Russian organisations in Transdniestria that propagate anti-Moldovan and anti-Western views, such as the youth movement Proriv ("Breakthrough"). With Moldova and Ukraine declaring their desire to join the EU, there are fears the Kremlin intends to use Transdniestria to maintain its influence in a region it is not prepared to concede to the West.

All indications are that the Kremlin has no intention of relaxing its position on Transdniestria in the foreseeable future. There is certainly no reason to anticipate any softening of its hard line after the 2008 Russian presidential elections. This means that progress in talks on Transdniestria's constitutional status is unlikely, as is a withdrawal of troops, two issues at the heart of the conflict. However, progress is possible in a number of areas regardless of Russia's level of cooperation. These include trade relations, customs procedures and democratisation and media freedom, as well as confidence-building.

---

<sup>9</sup> Yanukovich, the leader of the Party of Regions, was Yushchenko's rival for the presidency in 2004-2005 and is generally considered to be more pro-Russian.

<sup>10</sup> The price until 31 December 2005 was \$80 per 1,000 cubic meters. Russia and Moldova agreed on 16 January 2006 to raise this by 38 per cent to \$110; in July 2006, it was further raised to \$160. Figures denoted in dollars (\$) in this report refer to U.S. dollars.

<sup>11</sup> In the past, agreements had been signed, "For Transdniestria, I. N. Smirnov". The recent protocol was signed "President of Transdniestria, I. N. Smirnov".

<sup>12</sup> "Russian envoy talks up importance of Dniester referendum outcome", Interfax, Moscow, 31 May 2006.

---

<sup>13</sup> "Russia says troops to remain in Moldova's Dniester region till conflict settled", ITAR-TASS, Moscow, 31 May 2006.

### III. NEW PRESSURE ON TRANSNIESTRIA

The most promising area in which to focus efforts on breaking the stalemate is the economy. Although Moscow and Tiraspol have political interests in the status quo, their strongest bond is economic. For fifteen years, the Transnistrian economy has survived through a combination of licit trade, smuggling and large subsidies from Russia. The concentration of industry left over from the Soviet Union and the region's position at the centre of large smuggling rings connecting the Ukrainian ports of Odessa and Illichivsk with markets in Ukraine, Moldova and beyond have made elites in Tiraspol, Moscow, Kiev and even Chisinau extremely wealthy. Changing the logic of this system and the incentives that result from it is critical.

Some believe a transformation is already under way as a result of the EU monitors on the Transnistrian border with Ukraine and the new customs procedures Ukraine and Moldova are implementing to control Transnistrian exports. A senior Western diplomat told Crisis Group: "With the customs regime in place, it's the end of the game for Tiraspol".<sup>14</sup> Another said: "EUBAM's presence on the border means the game is up for Transnistria".<sup>15</sup> But such optimism is premature. Although EUBAM and the customs procedures are having an effect on the Smirnov regime, they have important limitations.

#### A. HOW THE TRANSNIESTRIAN ECONOMY WORKS

To understand the effects of those developments, it is important to appreciate how the Transnistrian economy operates. Above all else, it relies on trade.<sup>16</sup> Much of this is legal and consists of the output of a handful of large factories left over from Soviet times. The largest, the Ribnitsa steelworks,<sup>17</sup> accounts for roughly 60 per cent

of legal exports and somewhere around half the tax revenues.<sup>18</sup> Other major firms include Sheriff, an increasingly dominant chain of supermarkets and petrol stations that has built a state of the art football stadium in Tiraspol, Tirotext (textiles), Electromash (machine-building) and Kvint (cognac and wine, recently purchased by Sheriff). These companies send the bulk of their products to the CIS, primarily Russia, Ukraine and Moldova, but they also export to the world market, including Western Europe and the U.S. According to one study, a third of Transnistrian exports in 2004 went to the EU, primarily Italy and Germany.<sup>19</sup>

Russian subsidies, direct and indirect, are crucial. Transnistria is given a preferential rate for its natural gas imports and is rarely asked to pay even that: it has run up a billion dollar debt to the Russian gas company Gazprom, which neither side seems particularly intent on settling. In the first three months following the implementation of the Ukraine-Moldova customs procedures, Russia gave over \$50 million in direct aid and another \$150 million in credits.<sup>20</sup> In return, it is reportedly accumulating stakes in Transnistrian businesses.<sup>21</sup>

A third major source of income is smuggling, typically in the form of re-export schemes. In the most common, goods arrive at the nearby Ukrainian ports of Odessa and Illichivsk marked with Transnistria as their final destination, thereby avoiding Ukrainian customs duties. They are shipped to Transnistria by road or rail but soon after arrival are re-exported to Ukraine or across the internal border to Moldova. Because the re-export is done illicitly, across fields and rivers or by bribing border guards, the importers avoid paying Ukrainian or Moldovan import duties and value added tax (VAT), thus generating large profits.<sup>22</sup> EU border monitors estimate that the smuggling of frozen chicken alone could potentially have cost Ukraine's budget €5 million in just seven months.<sup>23</sup>

But there are numerous schemes. For example, though a Ukrainian law bans import of cars older than eight years, a loophole allows individuals who have been registered as living abroad for over a year to bring in a vehicle of any age for personal use before taking up or resuming residency in Ukraine. This is exploited by Ukrainians, who import hundreds of older cars and then bribe

<sup>14</sup> Crisis Group interview, senior Western diplomat, Chisinau, May 2006.

<sup>15</sup> Crisis Group interview, EU official, Brussels, June 2006.

<sup>16</sup> Reliable statistics on the Transnistrian economy are difficult to come by. Statistics from the Transnistrian authorities must be treated with caution and do not take into account the significant shadow economy. Information in this section is derived, unless otherwise indicated, from interviews with local experts and a range of published material, including from the Centre for Strategic Studies and Reforms (CISR). See in particular "Transnistrian Market and Its Impact on Policy and Economy of the Republic of Moldova", CISR, July 2005, at [www.cisr-md.org](http://www.cisr-md.org).

<sup>17</sup> Known officially as the Moldovan Metallurgical Plant (MMZ).

<sup>18</sup> "Thawing a Frozen Conflict", op. cit., p. 87.

<sup>19</sup> "Transnistrian Market", op. cit. These were mostly textiles, but Transnistria also exports significant steel to the EU.

<sup>20</sup> Crisis Group interview, Brussels, May 2006.

<sup>21</sup> Crisis Group interview, Chisinau, May 2006.

<sup>22</sup> Transnistrian taxes on imports, if charged, are generally much lower than Moldova's or Ukraine's, and there is no VAT.

<sup>23</sup> Crisis Group interview, EUBAM, Odessa, May 2006.

Transdniestrian authorities to issue documents stating they have lived in Transnistria for the past year.<sup>24</sup>

Transnistria has often been described as an arms trafficking hub, but there is little evidence of this. The weapons factories left over from the Soviet Union that continue to operate are believed to produce mostly steel, pumps and spare parts for Russian and Ukrainian arms factories.<sup>25</sup> Although illegal trafficking of arms, as discussed below, cannot be ruled out, it is unlikely to account for a significant proportion of GDP.

In recent years, the Transdniestrian government has also earned considerable revenue from the privatisation of formerly state-owned companies. However, the last major holding, the cognac company Kvint, was sold to Sheriff in July 2006 for a reported \$21 million.<sup>26</sup> With only smaller companies left to privatise, there are concerns in Transnistria that the region may run short of cash in 2007.<sup>27</sup>

## B. THE EU'S ENGAGEMENT

In 2004, the European Commission included Moldova among the sixteen states in its new European Neighbourhood Policy (ENP), designed to enhance relations with countries on the EU periphery.<sup>28</sup> Shortly after the EU and Moldova signed their Action Plan (discussed below) in February 2005, the European Council appointed as Special Representative (EUSR) to Moldova Dutch diplomat Adriaan Jacobovits de Szeged, who had previously served as the special envoy on Transnistria of the 2003 OSCE Dutch Chairman-in-Office.

Designed to raise the EU's profile in the region and give greater coherence to its policy, the appointment of the EUSR has been well received by all sides. Jacobovits has been directly involved in the negotiations process as well as in bilateral talks with the key players. He has also developed links with Moldovan civil society. He is generally seen to be performing well, though his location in The Hague rather than Brussels has reduced his effectiveness. Indeed, to improve the EU's visibility and political credibility on the ground, it would be best to locate the EUSR in Chisinau, with a view to unifying his position and that of the head of the Commission delegation.<sup>29</sup>

There have long been proposals for the EU to get physically involved with the Transdniestrian dispute by providing peacekeepers in the context of an overall settlement or, as Crisis Group has proposed, internationalising the existing force. Such a contingent would likely have to be led jointly by the EU and Russia, possibly under an OSCE mandate. The EU is divided over whether it would like such a mission.<sup>30</sup> As noted above, however, it is already on the ground in a somewhat different context from standard peacekeeping. The launch of EUBAM on 30 November 2005 was hailed by Moldovan authorities as a major step toward resolving the conflict with Transnistria.<sup>31</sup>

That mission's official purpose is to boost the capacities of the Moldovan and Ukrainian border guard and customs services to combat "criminal activities such as trafficking in persons, smuggling, proliferation of weapons and customs fraud", as well as to "play an important role in building preconditions for seeking a peaceful settlement of the Transnistrian conflict".<sup>32</sup> Its 101 staff members, led by Hungarian Brigadier General Ferenc Banfi, are

---

<sup>24</sup> Crisis Group interview, Kuchurgan, May 2006.

<sup>25</sup> Crisis Group interview, May 2006. According to Moldova's state news agency, Transdniestrian Defence Minister Stanislav Khazheyev recently told the Russian newspaper *Krasnaya Zvezda* that the region has manufactured rocket launchers, 82-mm and 120-mm mortars and RPG-7 grenade launchers. However, he denied it had sold these. "Moldova's Dniester region makes arms, official tells Russian paper", Moldova 1 television, 1900 GMT, 30 June 2006.

<sup>26</sup> As reported on the "Den" news broadcast, Tiraspol Dniester Moldovan Republic TV, 1740 GMT, 12 July 2006.

<sup>27</sup> Crisis Group interview, economic adviser to the Transdniestrian government, Tiraspol, May 2006.

<sup>28</sup> The other fifteen are: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria, Tunisia and Ukraine. The ENP is the EU's response to countries with membership aspirations but no prospect of early accession talks, a means "to offer more than partnership and less than membership without precluding the latter". Romano Prodi, "A Wider Europe: a proximity policy as the key to stability", speech to the Sixth ECSA-World Conference, Brussels, 5-6 December 2002.

---

<sup>29</sup> Crisis Group recommended such a "double-hatting" arrangement as general practice in Europe Report N°160, *EU Crisis Response Capability Revisited*, 17 January 2005, p. 43. It was adopted by the EU for Macedonia in October 2005.

<sup>30</sup> EUSR Jacobovits apparently favours proposing such a force to help settle the separatist dispute, but member states such as Germany and France, as well as High Representative Javier Solana, are against a mission until after a settlement has been reached. The U.S. is reportedly closer to Jacobovits's view but unwilling to commit its troops or police. Romania is said to be keen on participating but this would not be viewed favourably by the EU or Russia. Crisis Group interviews, May-July 2006.

<sup>31</sup> The management structure was debated in Brussels for weeks, with many member states hoping it could be run by the EU Council as a formal European Security and Defence Policy (ESDP) mission and suspicious of the Commission's ambitions. However, even those who were most reluctant to see the Commission take charge now praise the mission's successes. Crisis Group interviews, EU member state diplomats, Brussels, September/October 2005 and March/April 2006.

<sup>32</sup> European Commission press release, 29 November 2005.

divided between Odessa headquarters, five field offices along the border (three along the Transdnestrian segment<sup>33</sup>), a field office in Odessa covering the Ukrainian Black Sea ports of Odessa and Illichivsk, and a Chisinau field office that monitors the internal border between Transdnestria and the rest of Moldova.<sup>34</sup>

Rather than patrol the border themselves, EUBAM experts monitor how the Moldovan and Ukrainian border guards and customs services do document checks and vehicle inspections, accompany border guards on occasional patrols, observe customs clearance procedures and foster cooperation and information-sharing between the two sets of authorities. Although EUBAM has no executive powers and cannot itself inspect or investigate suspected traffickers, it can observe and advise local authorities and request that individuals or cargo be re-inspected in its presence. An analytical cell in Odessa helps process and evaluate the information compiled by field offices.

EUBAM's findings suggest that Transdnestria is not the arms and drugs trafficking black hole critics have long contended. It has found no evidence of organised arms smuggling and only minor drug trafficking.<sup>35</sup> What it has discovered is organised smuggling on a massive scale of basic consumer goods and foodstuffs, in particular frozen chicken: it calculated that Transdnestrian companies imported 42,000 tons of chicken across the Ukrainian border from October 2005 to April 2006, the equivalent of 70 kg. of meat for each Transdnestrian. By comparison, the average German ate 11 kg. of chicken in all 2004. The implication is that most of the chicken imported to Transdnestria was illegally re-exported.<sup>36</sup> Profits run in the tens of millions of euros per year. Other foods are also regularly smuggled out. In the winter of 2005-2006, authorities apprehended a man dragging a sled packed with thousands of dollars worth of frozen squid across a lake straddling the Transdnestrian border.<sup>37</sup>

EUBAM has found serious management deficiencies on both sides of the border and has made a number

of recommendations to the Moldovan and Ukrainian governments with a view to bringing standards up to those in the rest of Europe. These include upgrading information technology and communications equipment, giving all border agencies investigatory powers, improving daily information exchange, developing risk analysis capabilities and decentralising authority.

The reaction to EUBAM and assessment of its performance have been almost universally positive. Moldovan, Ukrainian, EU and U.S. officials have praised the speed with which it was deployed, its impact on the ground in countering smuggling and improving cross-border cooperation and its political impact.<sup>38</sup> "It's not waterproof, but it's certainly having an effect by shining a light on what goes on at the border", said a Western diplomat in Chisinau.<sup>39</sup> Moscow has not criticised it publicly, though in private Russian officials are not enthusiastic.<sup>40</sup>

The mission is widely credited with having created the conditions for the recent implementation by Ukraine of its new joint customs procedures with Moldova, long a goal of Moldova as well as the U.S. and EU so as to force Transdnestrian businesses to cooperate with Chisinau. According to an EU official in Brussels, "In the past, the Ukrainians made excuses that they couldn't implement the customs regime for technical reasons, but now EUBAM is there to give technical responses, and this has made the customs regime possible".<sup>41</sup> EUBAM also played a crucial role immediately after the new procedures were implemented in countering the Transdnestrians' assertions that the Ukrainian action amounted to an economic blockade and had created a "humanitarian catastrophe" (see below).

The political impact was thus felt almost immediately. The success of the counter-smuggling and training aspects of its mandate, however, is less clear-cut. There is some evidence that pressure on smuggling operations has increased, but there should be no illusions that the mission has ended the activity. The Moldova-Ukraine border is 1,200 km. and topographically a smuggler's paradise. The terrain is flat, with houses and farms straddling a frontier which in some areas is not signposted and has numerous lakes and rivers with large reed beds that provide cover for smugglers. EUBAM has less than 100 experts on the border, and these are concentrated in a few teams that spend most of their time at checkpoints. According to an expert with knowledge of the area, "The border is basically wide

---

<sup>33</sup> The Transdnestrian segment of the 1,200 km. Moldova-Ukraine border is approximately 470 km.

<sup>34</sup> In its first phase, to 20 May 2006, the mission had 70 staff from EU member states, approximately 50 of whom were deployed along the border. For phase two, it was strengthened by a further 31 border experts, an analytical headquarters cell and field offices in Odessa and Chisinau. The mission has 57 national staff in support roles.

<sup>35</sup> EUBAM identified three cases of marijuana smuggling on a rail route originating in Chisinau and transiting Ukraine to Moscow when it conducted a cross-border operation in the spring of 2006. A total of 3.9 kg. were seized. Crisis Group interview, EUBAM, Odessa, May 2006.

<sup>36</sup> Crisis Group interview, EUBAM, Odessa, May 2006.

<sup>37</sup> Crisis Group interview, Kuchuran, May 2006.

---

<sup>38</sup> Russian and Transdnestrian officials, who reacted angrily to the new customs regime (see below), have been less positive, but notably restrained in public criticism.

<sup>39</sup> Crisis Group interview, Chisinau, May 2006.

<sup>40</sup> Crisis Group interview, senior Russian official, Moscow, June 2006.

<sup>41</sup> Crisis Group interview, Brussels, May 2006.

open it's so porous. No one bothers trying to smuggle through the checkpoints because it's so easy to evade [Ukrainian] border guards".<sup>42</sup>

Also worrying is that 95 per cent of goods that enter and exit Transnistrian border checkpoints do so by train.<sup>43</sup> EUBAM is at two of these transit points, but only Kuchurgan has equipment and facilities to inspect train cargo, and this is rarely done. "You could smuggle anything in those trains", commented a border expert, a point EU officials have acknowledged privately to Crisis Group.<sup>44</sup> Although EUBAM has not found evidence of arms trafficking, it cannot assert with confidence that it is not taking place.

EUBAM does not claim to be a physical deterrent to smugglers. Rather it works to improve the capacities of Moldova and Ukraine to police the border themselves, including through risk analysis:

You can't control the border physically unless you build a Berlin Wall along it, so you need risk analysis to be able to predict suspicious movements [of goods]. For this risk analysis to work, you need effective information exchange between the Moldovans and Ukrainians.<sup>45</sup>

By all accounts, information exchange has improved markedly since EUBAM's arrival but has a considerable distance to go.<sup>46</sup> If cooperation between agencies within Moldova and Ukraine is anything to go by, this will remain a challenge long after EUBAM has departed. Relations between the Ukrainian border guards and police, for example, are atrocious. According to EUBAM's Banfi, the lack of interagency cooperation is a legacy of the Soviet Union, whose decision-making was centralised and agencies were kept in the dark about the activities of others so that only the very top was fully informed. This attitude is unlikely to change overnight.<sup>47</sup>

The border agencies' lack of investigatory powers is another serious obstacle to effective risk analysis. Of the four services (Moldovan and Ukrainian border and customs services respectively), only the Moldovan customs service has the power to investigate serious criminal violations. Such crimes are generally handled by the interior and state security ministries. The other services are authorised to deal only with low-level administrative violations. Personnel have little incentive to pursue organised crime, as cases are likely to be forwarded to another agency.

The problem is also one of attitude:

There appears to be a reluctance to get at the roots of the problem. It's easier to just do the basics and ignore the wider picture. Under the present system, border guards stop smugglers on a minor illegal crossing charge that guarantees one or two days in prison instead of following them and trying to learn more about and possibly bust a smuggling operation.<sup>48</sup>

Changing this attitude in both Moldova and Ukraine is a major challenge. According to Iurie Pinteia, a security sector expert with the UN Development Programme (UNDP), "You cannot change the [Moldovan] border guards without changing the entire security sector. What ails the border guards is deeply entrenched in their mentality".<sup>49</sup>

An issue EUBAM has raised with Kiev is that of smugglers obtaining advance knowledge of Ukrainian border patrols. Each border unit submits a weekly report to headquarters with a patrol plan for the next week from which it does not deviate. "Kiev knows where every border patrol is in the country at any one time", says a border expert interviewed by Crisis Group.<sup>50</sup> This is information smugglers would gladly pay for. EUBAM has recommended delegating more power to field personnel to patrol based on daily intelligence rather than a pre-set schedule. But the problem of corruption goes far beyond patrol schedules; it pervades the border agencies of both countries. One reason frontline agents lack initiative is that they often do not know how high up in their own agency the corruption goes. "They don't necessarily want to know who is doing what because it may be their boss or his buddy".<sup>51</sup>

EUBAM is working hard to overcome these obstacles but its resources are limited. Training is mostly just ad hoc,

---

were not authorised to operate within five km. of the border so would not be called.

<sup>42</sup> Crisis Group interview, Kuchurgan, May 2006.

<sup>43</sup> Crisis Group interview, EUBAM, Odessa, May 2006.

<sup>44</sup> Crisis Group interviews, Kuchurgan, Odessa and Brussels, May-June 2006. The trains tend to carry steel wire, scrap metal, coal and other cargoes well-suited to concealing illicit goods.

<sup>45</sup> Crisis Group interview, European official, June 2006.

<sup>46</sup> Crisis Group interview, Anatolie Barbarosie, vice-director general, and Simion Hadirca, head of customs law and international relations division, Moldovan customs service, Chisinau, May 2006.

<sup>47</sup> Crisis Group interview, Ferenc Banfi, Odessa, May 2006. In a telling incident, a car attempted to cross into Ukraine from Transnistria with a piece of rubber flapping from a tyre, a safety hazard. On seeing that the border agents were going to let the car in, EUBAM asked the agents if it was legal. The agents replied that road safety was a police matter and waved the car through. EUBAM then asked if the agents would notify the police to stop the vehicle. The response was that the police

<sup>48</sup> Crisis Group interview, Kuchurgan, May 2006.

<sup>49</sup> Crisis Group interview, Iurie Pinteia, UNDP, Chisinau, May 2006.

<sup>50</sup> Crisis Group interview, Kuchurgan, May 2006.

<sup>51</sup> Ibid.

on-the-job advice in such areas as vehicle inspection and spotting false identification, with only a small classroom component for more senior officials. Since many border guards in both Ukraine and Moldova are military conscripts who spend only a year or two in the service, much of this training is quickly lost. Ukraine and Moldova are working toward phasing out conscript border guards and moving to fully civilian agencies but this will likely take several years. EUBAM has reportedly been a catalyst for this process. The European Commission is currently reviewing €8 million worth of project proposals from EUBAM, including an extensive strategic training element targeted at more senior officials. It should approve this with minimal delay.

Still, there are serious concerns about what will happen if and when EUBAM leaves after its two-year mandate expires. Changing the mentality of the border guards and customs services may require decades as well as increased training, financial aid and external pressure. As a first step, the EU should seek a request from Moldova and Ukraine and begin planning for a multi-year extension of EUBAM's mandate. Only with a long-term commitment will it be possible to crack down on the array of smuggling schemes that the Transdnistrians (and their business partners elsewhere) have perfected over the past decade and a half.

### C. THE CUSTOMS REGIME

Moldova and Ukraine had made similar agreements pursuant to which the latter was not to accept Transdnistriean products that were not accompanied by export documents obtained by registering with the Moldovan government. Until the 30 December 2005 agreement, which came into force in March 2006, however, these had never been strictly enforced; business circles in Ukraine, as well as in Chisinau and Moscow, with interests in Transdnistria had too much to lose. Even after the latest agreement was signed, the Ukrainians delayed implementation and went along only when the EU threatened to speak publicly about lack of cooperation – at a time when President Yushchenko's Our Ukraine party was fighting a parliamentary election on a platform of EU integration.<sup>52</sup> The Transdnistriean leadership immediately complained vigorously,<sup>53</sup> as did the Russian Duma,<sup>54</sup> while Moscow began sending "humanitarian aid".

The reality on the ground was quite different. An alarmed Transdnistriean leader, Igor Smirnov, ordered local businesses to respond to the procedures by ceasing to export.<sup>55</sup> The only blockade was thus self-imposed.<sup>56</sup> Smirnov seemed to be playing for time: with Ukraine embroiled in negotiations over the formation of a new coalition government, his hope was that the next administration in Kiev might not enforce the customs rules.<sup>57</sup>

Under the new regulations, Transdnistriean companies that wish to export can register either permanently or temporarily in Chisinau. The process is swift and inexpensive. Permanent registration grants the company the status of a regular Moldovan economic agent, with access to EU trade preferences<sup>58</sup> but also obligations to the state budget such as VAT and income tax. Temporary registration does not provide access to EU trade preferences, but neither does it require any payments to the state budget. Chisinau has promised to reimburse import duties paid by registered Transdnistriean companies when they bring goods into Moldova. Over 200 of an estimated 300 companies have registered in Chisinau, about half permanently.

The customs regime has clearly worried the Transdnistriean leadership, as well as Russia. Its message that legitimate business activity can only be done via Chisinau has struck a major psychological blow: "If Kiev continues to do what they say they'll do on the border, then Russia is powerless....The bottom line is that if the border regime sticks, Transdnistria has to deal with Chisinau".<sup>59</sup>

There remain serious concerns about the extent to which Ukraine will continue to enforce the customs procedures. The growing influence of the more Russia-oriented Party of Regions and the August 2006 nomination as prime minister of its leader, Viktor Yanukovich, could well

---

<sup>52</sup> Crisis Group interview, May 2006.

<sup>53</sup> See, for example, "Leader says Dniester region under economic attack by Moldova, Ukraine", ITAR-TASS, Moscow, 5 March 2006, and "Russia considering Dniester region's appeal over new customs rules", Interfax, Moscow, 9 March 2006.

<sup>54</sup> "Russian State Duma condemns Moldova's and Ukraine's actions on the border", Infotag, Chisinau, 10 March 2006.

---

<sup>55</sup> Crisis Group interviews, Brussels, Kiev, and Chisinau, May-June 2006.

<sup>56</sup> Initial confusion was exacerbated by poor communication. Neither Moldova nor Ukraine explained procedures so media with no one at the border re-broadcast the humanitarian catastrophe line. Only after the EU's Javier Solana issued a strong statement on 6 March did Ukraine start to defend its policy. The Moldovan government's first public diplomacy effort was a 6 March press conference by Prime Minister Vasile Tarlev and 7 March statements by Minister for Reintegration Vasili Sova.

<sup>57</sup> Crisis Group interviews with several officials and analysts in Brussels, May 2006.

<sup>58</sup> These are discussed in detail in Section IV below.

<sup>59</sup> Crisis Group interview, senior Western diplomat, Chisinau, May 2006.

foreshadow a change in policy toward Transnistria.<sup>60</sup> The EU will need to maintain pressure on Kiev to enforce the customs procedures. "The big question is whether Ukraine will continue to play the game", says an EU official. "If they pull out, they will have to pay for it". But it will be equally important for the EU to stand up to Moscow. According to Ukrainian political analyst Olexander Sushko:

Brussels needs to send a clear message to Moscow that its support for the status quo in Transnistria is not consistent with its role as a reliable international partner on the world stage. When [Commission President] Barroso visited Moscow recently, he talked only about pipelines. The EU needs to be clearer in its message about Moldova and its support of the customs regime; otherwise Kiev is left alone to face Russian pressure.<sup>61</sup>

But the customs regime is probably not sufficient to change the Moldova-Transnistria relationship. Although Transnistrian businesses have an incentive to register, they can then return to business as usual, without paying tax to Moldova. The relatively few companies that pay tax – those that wish to benefit from Moldovan trade preferences for exporting to the EU – do so because they believe the benefits outweigh the costs. But this option is not new; Transnistrian companies have long been able to register in Chisinau and obtain Moldovan customs documents. Moreover, companies that register temporarily (and so do not pay Moldovan tax) may still export to the EU under the Most Favoured Nation (MFN) tariff rate, which for many products is not significantly worse than the "GSP+" rate applied to Moldovan entities.<sup>62</sup> Also, the economic cooperation protocol Russia and Transnistria signed in May 2006 gives Transnistrian businesses preferential tariffs for exporting to Russia; by registering in Chisinau temporarily, they can ship their goods through Ukraine to the Russian market without difficulty.

The new customs regime is a bitter political pill for the Transnistrian regime but only that; it does little economic damage.<sup>63</sup> Only if it is used as a means for imposing new conditions – for example, if Transnistrian companies were asked to allow Moldovan inspectors into their factories on threat of having their registration revoked – would it cause the businesses much distress. As Moldova analyst Nicu Popescu puts it, "the new customs regime is in many ways a tool that can only bring about a change in the status quo if it is used as a stick to force concessions from the Transnistrians. But pressure should be coupled with greater incentives for compliance. If it remains as it is now, it will be only a minor step forward".<sup>64</sup>

A further weakness in the customs regime is the lack of control over Transnistrian imports. Goods from Ukraine continue to enter Transnistria directly, at checkpoints on the Transnistrian segment of the Moldova-Ukraine border. Since Moldovan customs officers are not permitted to operate there, they have no way of knowing what is being imported unless Transnistrian companies declare their imports at an inland Moldovan customs office. This means the Transnistrians can still run their illegal re-export schemes. Controlling imports would require Moldovan customs officials at these border points, or an unprecedented level of information exchange between Ukrainian and Moldovan customs officials, neither of which appears likely in the near future.<sup>65</sup>

Allowing Moldovan customs officials to operate on Transnistrian territory would be central to making the customs procedures more effective, but it looks a long way off. The EU, U.S. and Ukraine should support Moldova's attempts to secure this right from the Transnistrians, using not only pressure but also incentives and confidence-building measures, as discussed below.

---

<sup>60</sup> It is interesting that Moldova is not mentioned in the Ukrainian government agreement of 3 August 2006.

<sup>61</sup> Crisis Group interview, Olexander Sushko, Kiev, June 2006.

<sup>62</sup> The GSP+ is a system of EU trade benefits which entered into force in Moldova on 1 January 2006. Previously, Moldova traded under the GSP system. (GSP stands for Generalised System of Preferences.) According to the European Commission's Directorate-General for Trade, "The EU's GSP grants products imported from GSP beneficiary countries either duty-free access or a tariff reduction, depending on which of the GSP arrangements a country enjoys.... The special incentive arrangement for sustainable development and good governance (the "GSP+") provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs, and good governance". GSP+ applies to eleven Latin American countries, as well as Georgia, Moldova, Mongolia and Sri Lanka.

---

<sup>63</sup> The economic impact on the Ribnitsa steelworks is said to be more significant. It must now divert its shipments through Moldova to have them verified (as opposed to shipping directly to Ukraine). This is said to have raised the price of a ton of its steel exports by \$15 - several million dollars for total production. Information provided to Crisis Group by CISR, Chisinau, based on data from Transnistrian sources.

<sup>64</sup> Crisis Group interview, Nicu Popescu, CEPS, Brussels, June 2006.

<sup>65</sup> Since Transnistrian authorities would be unlikely to allow Moldovan officials at their checkpoints, they would have to work from the Ukrainian side, jointly with Ukrainian officers. Kiev has not allowed this, despite repeated Moldovan requests.

#### IV. MAKING THE CASE FOR A UNITED MOLDOVA

As long as Russian support for Transnistria continues, the recent measures aimed at squeezing the Transnistrian economy will not be enough to break the stalemate and compel the breakaway region to normalise relations with Chisinau. The Transnistrian elite will need to decide that a future within Moldova has more to offer than one apart from it.

##### A. A SPLIT IN THE TRANSDNIESTRIAN ELITE?

Until recently, such a decision seemed impossible, as real cooperation between Tiraspol and Chisinau would remove Transnistria's *raison d'être*. But a constituency in Transnistria may be ready to take a more conciliatory line.

In December 2005, a group of business leaders headed by the then deputy speaker of the Supreme Soviet (the Transnistrian parliament), Evgeny Shevchuk,<sup>66</sup> won an unexpected victory in legislative elections. The movement, *Obnovlenye* ("Renewal"), which formally registered as a political party in June 2006, gained 23 of 43 seats, defeating the pro-Smirnov *Republica* party. The Supreme Soviet has traditionally had little power but many analysts believe *Obnovlenye*'s victory signifies the growing influence of the business community. Subsequently, Shevchuk was elected speaker of parliament, a highly visible position.

Shevchuk is closely linked to a number of Transnistrian companies, including the dominant supermarket chain, Sheriff. He portrays himself as a young reformer, "a social democratic technocrat with a European outlook".<sup>67</sup> His party calls itself "pro-business and pro-Western" and says that, though it supports Transnistrian independence like Smirnov, it differs on economic issues. Transnistria has "an incomplete market economy", party member Mikhail

Burla says, and *Obnovlenye*'s goal is to make it "more European".<sup>68</sup>

Shevchuk certainly speaks the language of the Western-minded businessman. According to him:

Transnistria can survive under the current conditions but it can't develop. Investors are frightened away: one day we're under a customs regime, the next day we're not. European companies look a year ahead in determining their contracts and strategy, so with the volatility here, we have no chance of attracting investment. Given that we haven't invested much in infrastructure, this is not a good situation...if things continue, employees of small and medium business will leave for countries with more stability, and only pensioners and radicals will remain.<sup>69</sup>

In the spring of 2005, *Obnovlenye* tried to initiate constitutional reforms that would have weakened Smirnov's powers and strengthened parliament. Although the motion failed, many saw it as a sign of division within the regime. Friction between Smirnov and the local business community grew after Ukraine began to enforce the new customs regime in March 2006 and Smirnov ordered Transnistrian businesses to stop trading so as to create the impression of an externally-imposed blockade and enlist Ukrainian and Russian business leaders to press Kiev to back down. But on the insistence of Sheriff, Smirnov relented, at first allowing imports of foodstuffs, and later, with inventories piling up, including at the Ribnitsa steel factory, allowing exports which required registration in Chisinau. "What investor would invest in a Transnistrian enterprise when they see that inventory can sit in the warehouse for three months?", asks Shevchuk.<sup>70</sup>

Other incidents suggest that the split between Smirnov and *Obnovlenye* is real. On 5 July 2006, members of *Proriv*, the government-sponsored political party and youth movement with links to the security services, demonstrated outside parliament against plans by *Obnovlenye* to introduce legislation that would have distributed land on long-term lease to large producers to individuals who used to belong to collective farms.<sup>71</sup> *Proriv* is thought to get its orders directly from the regime, so the protest is significant.

<sup>66</sup> Shevchuk, born in Ribnitsa (Transnistria) in 1968, graduated from law school in Tiraspol in 1996 and has been head of the Tiraspol tax administration, manager of Sheriff's Ribnitsa branch and branch manager of Agro-Industrial Bank. Elected to the Supreme Soviet in 2000, he is ethnic Ukrainian, with a Russian passport, and attended the Kiev Diplomatic Academy, 2002-2003. According to a Western official with knowledge of the region, "Ukrainians in Kiev see him as their guy in Tiraspol". Crisis Group interview, May 2006.

<sup>67</sup> According to his official biography on the government's website, [http://pridnestrovie.net/evgeny\\_shevchuk\\_bioprofile.html](http://pridnestrovie.net/evgeny_shevchuk_bioprofile.html).

<sup>68</sup> See <http://pridnestrovie.net/renewal.html>.

<sup>69</sup> Crisis Group interview, Evgeny Shevchuk, speaker of Transnistrian Supreme Soviet, Tiraspol, May 2006.

<sup>70</sup> *Ibid.*

<sup>71</sup> "Progovernment group opposes land reform favoured by Moldova's Dniester MPs", *Olvia Press*, 5 July 2006.

In Chisinau, Shevchuk is widely seen as a possible successor to Smirnov, but his reformist credentials are viewed with scepticism. His position on Transdniestrian independence is widely considered ambiguous. His public statements suggest he strongly supports it, and in May 2006, he proposed a UN-monitored referendum.<sup>72</sup> But some analysts see him as a pragmatist whose position is dictated more by internal politics than conviction. Moldovan commentator Andrei Popov notes his rhetoric has grown tougher since March to keep pace with Smirnov, who has used the customs “crisis” to radicalise debate and sideline moderates. Popov cites an earlier Shevchuk comment that “any Transdniestrian politician who would say that he is for a unitary Moldova automatically becomes a cadaver in Transdniestrian politics”.<sup>73</sup> A senior EU official told Crisis Group he believes Shevchuk would be willing to allow a special OSCE assessment mission to visit the region to evaluate democratic conditions, something Smirnov has opposed since it was proposed in September 2005 by Moldova and Ukraine.<sup>74</sup>

Speaking with Crisis Group, Shevchuk appeared generally open to approaches aimed at improving confidence between the two sides but noted that in today’s climate, “Transdniestria would unite with any side but Moldova”.<sup>75</sup> His primary goal appears to be a more stable business environment. He has not yet declared whether he will run against Smirnov in the December 2006 presidential election. What seems clear, however, is that the Transdniestrian business elite is gaining influence, and its interests are diverging from Smirnov’s. “The consensus is that a substantial proportion of the Transdniestrian business community is ready to sign up to Chisinau’s rules”, says a senior Western diplomat. “These guys know that there is money to be made in legal business”.<sup>76</sup> The challenge for Moldova, as well as the EU, U.S. and Ukraine, is to exploit the divisions in the Transdniestrian regime so as to bring into power those with an incentive to work with Chisinau.

---

<sup>72</sup> See “Dniester speaker comments on relations with Moldova, referendum”, *Argumenty I Fakty* (Moldova), 31 May 2006, and “Moldova’s rebel region speaker proposes UN-monitored referendum”, Infotag, Chisinau, 26 May 2006.

<sup>73</sup> Andrei Popov, “Tiraspol softens its stance on new customs regulations: a first or a pyrrhic victory?”, Eurojournal.org, June 2006.

<sup>74</sup> Crisis Group interview, Brussels, June 2006.

<sup>75</sup> Crisis Group interview, Shevchuk, Tiraspol, May 2006.

<sup>76</sup> Crisis Group interview, senior Western diplomat, Chisinau, May 2006. There are signs this view is gaining currency at the highest levels of the Moldovan government. At an 11 July 2006 press conference, President Voronin called for the Transdniestrian leadership to be excluded from the negotiations and replaced by Supreme Soviet representatives. “Moldovan president upbeat on Dniester conflict settlement”, Infotag, Chisinau, 11 July 2006.

## B. MOLDOVA’S FLAWED APPROACH

The stalemate in negotiations has hardened in recent months because of the increasing intransigence of both sides. Many Moldovan officials and political analysts now demand that Transdniestria meet three major conditions before its constitutional status can be resolved. These “3Ds”,<sup>77</sup> are democratisation (free elections, but also lifting restrictions on civil society, the press and political opposition); demilitarisation (starting with withdrawal of Russian troops and arms); and decriminalisation (essentially a crackdown on illegal economic activities).<sup>78</sup>

This approach was the thrust of a proposal for solving the conflict put forward by Moldovan think tanks in late 2004 and subsequently formed the basis of a controversial law passed by parliament in July 2005 that set out principles for resolving the dispute.<sup>79</sup> Similarly, the key tenet of the April 2005 peace plan of Ukraine’s Yushchenko was that constitutional negotiations should only begin following internationally-monitored free and fair elections in Transdniestria.<sup>80</sup> Reflecting this line, talks are focused on issues relating to democratisation and demilitarisation, or as Moldovan Minister for Reintegration Vasillii Sova puts it, “preconditions before moving on to the final goal”.<sup>81</sup>

---

<sup>77</sup> The 3D approach was launched by Moldovan political analyst Oazu Nantoi and others at the Institute for Public Policy (IPP) in 2003. See Oazu Nantoi, “‘3D’ strategy – from ‘extremism’ to consensus?”, 3 November 2004, [www.e-democracy.md](http://www.e-democracy.md).

<sup>78</sup> Though some interpretations extend “decriminalisation” to purging the entire Transdniestrian political leadership.

<sup>79</sup> The law, passed on 22 July 2005, defines the future status of Transdniestria as “a special autonomous and territorial entity which is an integral part of Moldova”, and stipulates that talks on legislation for its status should only proceed after democratisation and demilitarisation. In its attempt to predetermine negotiations, the law was seen in Tiraspol and Moscow – and by many Western officials – as evidence of bad faith. The Russian foreign ministry responded: “As a guarantor country and mediator in the Dniester settlement, Russia believes that the unilateral act of the Moldovan parliament is counterproductive. It makes more difficult the prospect for a return to the negotiating table and hampers the efforts by mediators from Russia, Ukraine and the OSCE in their assistance to the sides in drawing up a viable and firmly guaranteed status of the Dniester region within one Moldova”. See “Russian foreign ministry criticizes Moldovan law on Dniester region”, Interfax, Moscow, 30 July 2005.

<sup>80</sup> Officially known as the Yushchenko plan but often referred to as the Poroshenko plan because it was largely drawn up by the former head of the Ukrainian National Security and Defence Council, Petro Poroshenko, it was controversial because it had an electoral schedule far too short for a fair vote. There was wide concern that holding elections in December 2005 would legitimise the existing Transdniestrian authorities, whose control over the media and suppression of debate would ensure an easy victory.

<sup>81</sup> Crisis Group interview, Minister for Reintegration Vasillii Sova, Chisinau, May 2006.

There is little question that Transdniestria's lack of democracy is an obstacle to a settlement. The region is essentially a dictatorship run by Smirnov and his security chief, Vladimir Antyufeyev, neither of whom has any interest in normalising relations with Chisinau. There is virtually no press freedom. Political opposition is almost non-existent, notwithstanding *Obnovlenye*, which has survived and grown because of its economic clout rather than by questioning political fundamentals. The only civil society organisations are those deemed non-political or, like *Proriv*, that have an anti-Moldovan agenda and are sponsored by the regime.<sup>82</sup> The absence of democratic institutions restricts public debate, gives Transdnistrians a distorted view of Moldova and allows the regime to pursue its narrow interests without accountability.

The Russian troops are a major obstacle for peace efforts and a prop for the Smirnov regime. So, too, is the widespread smuggling organised and encouraged by the regime to keep itself solvent. It would be premature to negotiate Transdniestria's constitutional status in the absence of trust between the two sides and with Moldova unattractive to the majority of Transdnistrians, including the business community. This is the superficial attraction of prioritising the 3Ds.

The problem, however, is that only Russia has the leverage to produce major concessions. "I do not see any instruments that can put in force democratisation", says Sergiu Stati, chairman of Moldova's Parliamentary Committee on Foreign Policy and European Integration.<sup>83</sup> The same can be said for demilitarisation, which Tiraspol and Moscow have resisted despite Russian commitments.<sup>84</sup>

---

<sup>82</sup> In March 2006, Igor Smirnov issued a decree banning foreign funding of NGOs; the Supreme Soviet amended this to a ban on foreign funding of NGOs engaged in political activity, though in practice such NGOs have long been unable to operate freely.

<sup>83</sup> Crisis Group interview, Stati, chairman, Parliamentary Committee on Foreign Policy and European Integration, Chisinau, May 2006.

<sup>84</sup> Russia committed itself at the Conference on Security and Cooperation in Europe's 1992 Stockholm ministerial to withdraw its troops from Moldova. At the 1999 OSCE Istanbul summit, it agreed to complete this withdrawal by the end of 2002. The deadline was extended to end-2003 at the December 2002 OSCE Porto ministerial, but the ministerial council's final statement welcomed Russia's intention to withdraw "provided necessary conditions are in place" – a qualification Russia has since used repeatedly to delay. Russian officials now say they will only withdraw the troops when a settlement is reached. See Defence Minister Sergei Ivanov's comments at the May 2006 Council of CIS Defence Ministers. "Russia says troops to remain in Moldova's Dniester region till conflict settled", ITAR-TASS, Moscow, 31 May 2006. The U.S. and other OSCE states have publicly linked Russia's withdrawal to ratification of the adapted Conventional Armed Forces in Europe (CFE) treaty, most recently in a statement by U.S. Assistant Secretary of State Paula

The 3Ds are plainly against the interests of the Smirnov regime, which has the capacity to survive as long as it retains Russian support and thus has no reason to compromise. Even if economic pressure is increased through stricter border controls, new sanctions or less favourable customs procedures, the regime is likely to resist democratisation and demilitarisation, because both threaten its existence. The current Moldovan strategy, which focuses primarily on extracting concessions in these areas, therefore, stands little chance of success.

Chisinau would be better advised to concentrate on the Transdnistriian business community. This is the constituency that is most interested in normalising the region's status and at the same time most sensitive to economic incentives and pressures. Brussels and Chisinau should recognise that the best chance of moving forward with democratisation, demilitarisation and ultimately, good faith negotiations is not by coercing Smirnov, but by strengthening the business community's incentives to turn their backs on him. This is essentially a strategy of regime change but one that requires pressure on Moldova from the EU and U.S. to conduct economic relations with Transdniestria fairly and transparently. It also requires the EU to offer greater trade and other benefits to Transdnistriian businesses for cooperation with Chisinau (as discussed below). And it may require an EU threat of further sanctions if cooperation is not forthcoming, including a ban on Transdnistriian exports.

### C. MAKING MOLDOVA MORE ATTRACTIVE

If Transdniestria is to agree to reunite with Moldova under some form of autonomy or federation, Moldova must become a much more attractive partner.<sup>85</sup> Although it is freer than Transdniestria, it is still plagued by pervasive corruption, a fragile economy and a mainstream media that is largely controlled by the Communist-led government. Reforms are proceeding only very slowly.

---

DeSutter in Chisinau, 26 May 2006. In December 2005, Undersecretary of State for Political Affairs Nicholas Burns said: "A basic principle of the CFE treaty is the right of sovereign states to decide whether to allow the stationing of foreign forces on their territory...Moldova and Georgia have made their choice. The forces should depart and all OSCE member-states should respect that choice". "U.S. refuses arms treaty while Russian troops in Moldova, Georgia", RFE/RL, 6 December 2005. Russia asserts that it has fulfilled all its CFE commitments.

<sup>85</sup> Making Moldova more attractive has been a common refrain among analysts for years. See Crisis Group Report, *No Quick Fix*, op. cit. and Nicu Popescu, "The EU in Moldova – Settling Conflicts in the Neighbourhood", ISS Occasional Paper No. 60, October 2005.

An important obstacle to building support for reunification is that Transdnistrians almost uniformly believe Moldovans are significantly worse off economically than they are. Standards of living are about equal<sup>86</sup> but the belief is largely the product of fifteen years of propaganda by the Smirnov regime, and even well-educated and well-travelled Transdnistrians in the private and non-governmental sectors often share it. In part, this is because outside Chisinau, the Moldovan economy is stagnating. The country is by far Europe's poorest, with per capita GDP on the same level as Sudan's.<sup>87</sup> As many as one million Moldovans have left to work abroad.<sup>88</sup>

Oleg Serebrian, leader of the Social-Liberals, an opposition party in the Moldovan parliament, says:

If there was an independence referendum, 90 per cent of Transdnistrians would vote for independence. Yes, it's because they have been manipulated by the regime, but it's also because Moldova is a failed state; it's not attractive. You have workers leaving for Russia and Europe in droves, so how are you going to attract 700,000 Transdnistrians?<sup>89</sup>

According to the World Bank, GDP has grown at an average rate of around 7 per cent in recent years but this has been fuelled largely by remittances from those who

have gone abroad.<sup>90</sup> There is concern their remittances are used for short-term consumption rather than much-needed investment in infrastructure and business development.

Apart from the construction industry and the burgeoning Chisinau real estate market, there is little to keep the economy afloat. Growth in remittances is slowing, energy prices are rising, and Russia's recent ban on agricultural products, including wine, has been particularly damaging. Industrial output already shows negative growth as a direct result. In 2006, GDP growth is expected to decelerate to 4 per cent.<sup>91</sup> If Moscow were to take further punitive measures, such as imposing visa restrictions on citizens working in Russia, the economy could fall into recession.

There have been some fears that the wine ban could lead to a meltdown in the banking sector, as firms involved in the wine industry become unable to pay back loans. As of July 2006, the World Bank was confident that most banks would survive but this may change the longer the ban is in place.<sup>92</sup> Moreover, there have been alarming reports that Proriv has been trying to precipitate a crisis by distributing leaflets along the internal border encouraging Moldovans to withdraw their savings.<sup>93</sup>

One of the biggest causes for concern is the business climate. Corruption is still rampant, there is no independent judiciary and the regulatory framework is outdated and unwieldy. Political prosecutions are not unusual. The trial of former Defence Minister Valeriu Pasat for alleged fraud in connection with the sale in 1997 of 21 MiG-29 jet fighters to the U.S. is an example. In another recent case, Victor Turcanu, the director of Victoriabank, one of the country's largest, was investigated. The group that subsequently took over the bank is linked to President Voronin's son.<sup>94</sup> Not surprisingly, foreign investment is the lowest in South Eastern Europe.<sup>95</sup>

Neither are domestic politics particularly attractive, especially from a Transdnistrian perspective. President Voronin's Communist Party has a solid majority in parliament following its victory in March 2005 elections but has entered into an informal alliance with its traditional nemesis, the nationalist Christian Democratic Popular

---

<sup>86</sup> In 2004, GDP per capita (official exchange rate) was \$720 in Moldova, \$748 in Transdnistria, "Transnistrian market", op. cit.

<sup>87</sup> According to International Monetary Fund 2005 data, Moldova's GDP per capita (at purchasing power parity) was \$2,374, Sudan's \$2,396.

<sup>88</sup> The International Organization for Migration says that, "according to official government estimates, more than 600,000 Moldovans are living and working abroad, although the actual figure differs according to different sources and likely tops one million", <http://www.iom.md/resettlement.html>. 60 per cent of these are believed to be in Russia. "Moldova Country Report", Economist Intelligence Unit, June 2006. Human traffickers prey on those looking to go abroad. The U.S. State Department's 2006 "Trafficking in Persons" report calls Moldova a major source of women trafficked for sexual exploitation. The key destination countries are Turkey, Israel, the United Arab Emirates and Russia. According to the International Centre "La Strada", a Moldovan anti-trafficking NGO, the Moldovan government has taken several major steps recently – enactment of progressive anti-trafficking legislation and ratification of international conventions – but on the whole the authorities continue to delay implementation of laws including in the area of prevention, assistance and protection of trafficked persons and prefer to leave the job to NGOs, most of whom rely on Western funding. Crisis Group interview, Ana Revenco, La Strada, Chisinau, May 2006.

<sup>89</sup> Crisis Group interview, Oleg Serebrian, parliamentarian, Chisinau, May 2006.

---

<sup>90</sup> In 2004, remittances were 27 per cent of Moldova's GDP, making it the world's second most reliant country on remittances, after Tonga. "Global Economic Prospects: Economic Implications of Remittances and Migration", World Bank, 2006.

<sup>91</sup> Crisis Group interview, Iaroslav Baclajanschi, economist, and Valeriu Cosuleanu, junior professional associate, World Bank Moldova, Chisinau, May 2006.

<sup>92</sup> Crisis Group email correspondence, World Bank, July 2006.

<sup>93</sup> *Timpul*, 15 June 2006, pp. 1-2.

<sup>94</sup> Crisis Group interviews, Chisinau, May 2006.

<sup>95</sup> As a percentage of GDP. See "Southeast Europe Investment Guide 2006", [www.seeurope.net](http://www.seeurope.net).

Party (CDPP). Led by the deputy speaker of parliament, Iurie Rosca, the CDPP is known for its anti-Russia views and hawkish rhetoric toward Transnistria. The other opposition parties are weak and ineffective, meaning that the Communists will likely continue to dominate the political scene for some time.

## 1. The EU-Moldova Action Plan

The three-year Action Plan the EU and Moldova signed in February 2005 as part of the European Neighbourhood Policy to “support Moldova’s objective of further integration into European economic and social structures”<sup>96</sup> lays out ambitious targets across virtually all areas of government competence. These include democracy and the rule of law, settling the Transnistrian conflict, economic and social issues, trade, justice and home affairs, transport, energy and education. But there has been little progress. According to EU officials and Moldovan experts interviewed by Crisis Group, the authorities have submitted impressive progress reports about seminars held and laws passed but implementation has lagged badly, particularly in key areas such as combating corruption, freedom of the media, judicial reform and decentralisation.<sup>97</sup>

One of the most pressing issues is transformation of Teleradio Moldova, the major broadcaster, into an independent public entity. This was ostensibly done in 2004, but the station has continued to give preferential coverage to government institutions, and the oversight body, the Audiovisual Coordinating Council (CCA), remains staffed with political appointees. The vast majority of Moldovans get their news from it, so it is one of the most powerful political tools in the country.<sup>98</sup> In the hands of a government not trusted by Transnistrians, it is a further obstacle to making Moldova attractive.<sup>99</sup>

The extent of political interference in Teleradio Moldova was demonstrated during a project run by the U.S. embassy. Two experts provided to work for several months with middle management on production of news and current affairs programs were frustrated by persistent government

meddling. “What would happen is that 30 minutes before the broadcast, the show would get a phone call from parliament or the president’s office saying ‘so and so wants this topic covered’, and then they would send over edited clips done by their own production teams”.<sup>100</sup>

“Every broadcast of Moldova 1 [the national television station run by Teleradio Moldova] is the same”, says Dmitry Ciubashenko, an opposition journalist. “You start with the president, then comes the prime minister, then the speaker of parliament, then sports and weather”.<sup>101</sup>

Progress has been equally slow in other areas. One of the most important issues for Moldova is increasing its EU trade. A list is being negotiated of products for which the EU will consider granting special preferences (Autonomous Trade Preferences, ATPs) for export to the European market. But despite the obvious benefits, Moldova took over a year to respond to the European Commission’s request to identify what it wanted covered. Chisinau is also moving at a leisurely pace on EU requirements regarding certification of the origin of exports, a critical concern for Brussels on which progress is needed if ATPs are to be granted.<sup>102</sup>

There have been some steps, notably the approval in May 2006 by the International Monetary Fund (IMF) of a three-year, \$118 million poverty reduction and growth facility (PRGF), to help stabilise finances and provide impetus for further reform of public administration. The deal paved the way for an agreement between Moldova and the Paris Club of creditors to reschedule \$150 million of debt, and the World Bank is negotiating budgetary support for fiscal year 2007, after having suspended it in 2002.<sup>103</sup> According to some civil society members, there is also increased government willingness to engage with NGOs, at least rhetorically.<sup>104</sup>

But by and large, reforms are not moving at anywhere near the pace necessary if the country is to be attractive to Moldovans and Transnistrians in the foreseeable future, not to mention foreign investors. While the government has taken a political decision to seek EU integration,<sup>105</sup> there are serious questions as to whether it has the will

---

<sup>96</sup> EU/Moldova Action Plan, [http://www.mfa.md/En/Action\\_Plan\\_EU-Moldova.pdf](http://www.mfa.md/En/Action_Plan_EU-Moldova.pdf).

<sup>97</sup> See also Expert-Grup and Adept, “European Union-Republic of Moldova Action Plan: Assessment of Progress in 1<sup>st</sup> Quarter of 2006”, Euromonitor, April 2006.

<sup>98</sup> The March-April 2006 Institute for Public Policy (IPP) “Barometer of Public Opinion” found that television and radio – the media in which Teleradio Moldova is dominant – are the most important sources of information for 88 per cent of the population; newspapers are most important for 4 per cent, [www.ipp.md](http://www.ipp.md).

<sup>99</sup> Parliament adopted on 27 July 2006 a new broadcasting code which, if implemented, could improve the situation but many doubt the government’s commitment to it.

---

<sup>100</sup> Crisis Group interview, former Moldovan journalist, Chisinau, May 2006.

<sup>101</sup> Crisis Group interview, Dmitry Ciubashenko, Chisinau, May 2006.

<sup>102</sup> Crisis Group interviews, June 2006.

<sup>103</sup> Crisis Group interview, Iaroslav Baclajanschi, economist, and Valeriu Cosuleanu, junior professional associate, World Bank, Chisinau, May 2006.

<sup>104</sup> Crisis Group interviews, Ana Revenco, La Strada, and Timur Onica, IDIS-Viitorul, Chisinau, May 2006.

<sup>105</sup> Symbolically, the foreign ministry has been renamed the Ministry of Foreign Affairs and European Integration.

not just to pass reform-minded legislation, but also to implement it. "What we need from the Moldovans is fewer toasts and more action", says a senior EU official who monitors Action Plan implementation.<sup>106</sup>

The government complains it lacks administrative capacity to reform at the pace the EU demands and says the EU and other donors should offer more technical assistance. EU aid under the TACIS program is €42 million for 2005-2006,<sup>107</sup> though additional funding is given bilaterally by member states. The U.S. is close to granting Moldova "threshold status" in its Millennium Challenge Account, which would make it eligible to receive some financial aid and eventually qualify for full funding.<sup>108</sup> More assistance should be offered by donors, but it should be tied to evidence of greater willingness to use it. "Unfortunately not much has changed in Moldova", says an EU official. "In Ukraine, you had a revolution, and new people have taken over power. In Moldova, you have the same president you have always had, but he has simply made a strategic decision to turn to the EU over Russia".<sup>109</sup>

Moldova has indeed adopted a more pro-European foreign policy. Having alienated Moscow in late 2003 after the Kozak Memorandum affair, it is now dependent politically on the EU. Brussels should use this leverage to increase pressure for reform.

## 2. Trading with the European Union

Increasing exports to the EU is important not only because more exports mean more jobs and growth, but also because Moldova needs to diversify its trade. Russia still accounts for one third of all exports, by far the largest recipient.<sup>110</sup>

---

<sup>106</sup> Crisis Group interview, Brussels, May 2006.

<sup>107</sup> See [http://ec.europa.eu/comm/external\\_relations/moldova/intro/index.htm](http://ec.europa.eu/comm/external_relations/moldova/intro/index.htm). The European Commission's TACIS program provides grant-financed technical assistance to twelve countries of Eastern Europe and Central Asia (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan). EU assistance to Moldova channeled through TACIS has totaled some €120 million since 1991 in the form of national, regional and cross-border projects aimed at institutional reform, private sector development and poverty alleviation.

<sup>108</sup> The Millennium Challenge Account is a funding mechanism through which the U.S. delivers development assistance to countries which it deems "rule justly, invest in their people, and encourage economic freedom". Congress provided nearly \$1 billion in initial funding for FY04 and \$1.5 billion for FY05. President Bush requested \$3 billion for FY06 and pledged to increase annual funding to \$5 billion in the future. <http://www.mca.gov>.

<sup>109</sup> Crisis Group interview, May 2006.

<sup>110</sup> Other important export destinations are Italy, Romania, Ukraine, Belarus and Germany.

This gives the Kremlin enormous influence that the Putin administration is willing to use for political purposes. With Moldova increasingly moving into the EU's orbit, few doubt the March 2006 wine ban, ostensibly a health measure, and the 2005 restrictions on agricultural products are politically motivated.

The wine ban has had a serious effect on the economy. Wine is the country's most important industry, with almost 80 per cent going to Russia.<sup>111</sup> Only a small proportion can be redirected to other markets. If the ban remains for the entire year, losses will be roughly \$150 million – 4 per cent of GDP.<sup>112</sup> There will also be large indirect losses in the many other sectors of the economy that depend on wine, such as glass, packaging, banking and transport. Russia has received little criticism for the ban. "We have felt abandoned by the international community", says Foreign Minister Andrei Stratan.<sup>113</sup> Given the additional economic weapons in Moscow's arsenal, including a monopoly over Moldova's gas supply and the power to toughen visa restrictions on the thousands of migrant workers, the need to develop stronger economic ties with other European neighbours is apparent.

However, significant challenges must be overcome before trade with the EU can increase substantially. The wine and food products Moldova would like to export are considered sensitive by member states which produce the same goods. They are, therefore, excluded from the Generalised System of Preferences (GSP+), the low tariffs granted to Moldova at the beginning of 2006. Moreover, even if these products were to become eligible for duty-free export to the EU, many would be blocked by non-tariff barriers such as the need for compliance with EU sanitation standards.<sup>114</sup> Officials in Brussels have been attempting to convince the Moldovans that the scope for selling their wine is also minimal because it is mostly of relatively low quality, and the EU market is saturated.<sup>115</sup>

Moldovan officials have, nonetheless, pushed hard for wine to be covered by EU Autonomous Trade Preferences (ATPs), the system under negotiation to replace the GSP+ tariffs for selected products. At about €0.15 per litre,<sup>116</sup> the current tariff is not negligible. President Voronin made the request in person in Brussels on 21 June 2006 to the EU commissioner for agriculture, Mariann Fischer

---

<sup>111</sup> "Moldova Country Report", op. cit.

<sup>112</sup> Ibid.

<sup>113</sup> Crisis Group interview, Andrei Stratan, minister for foreign affairs and European integration, Chisinau, May 2006.

<sup>114</sup> See "Moldova Trade Diagnostic Study: Wine Sub-Sector Case Study", World Bank, September 2003.

<sup>115</sup> Crisis Group interview, Brussels, June 2006.

<sup>116</sup> Communication to Crisis Group from European Commission, August 2006.

Boel.<sup>117</sup> “Our exports are not so big as to endanger the EU economy”, says Foreign Minister Stratan, who argues that if ATPs are not granted for wine, the EU should at least offer an export quota as it does for the countries of the Western Balkans.<sup>118</sup> Total Moldovan wine exports were around 2 million hectolitres in 2003, compared with consumption in the EU-15 of 130 million hectolitres.<sup>119</sup>

Selling wine to the EU would not resolve all Moldova's economic troubles but it is hard to believe there would be no benefit to including wine in the ATPs. Moldova has extensive experience in the industry and a population willing to work for lower wages than EU counterparts. With investment – which should increase as the business climate improves and with the possibility of tariff-free trading with the EU – it ought to be feasible to raise quality and sanitation standards of a portion of output. Redirecting all the wine traditionally sold to Russia is unrealistic but Moldova's economic future depends heavily on the product. If the EU is serious about helping Moldova develop its economy, it should remove tariffs on its wine so that consumers can decide if there is a market for it.

One issue holding up negotiations on ATPs is EU concern about Moldova's certification of origin of its exports. That Moldova does not control its entire territory gives rise to two major problems. First is the lack of control of imports from Ukraine that reach Moldova through Transnistria. Although the fraud potential is presently minimal because Ukraine's system of EU preferences (GSP) is only slightly less generous than Moldova's (GSP+), it will grow if Moldova is granted ATPs. Secondly, Moldovan officials do not have access to Transnistrian factories, so cannot verify production procedures. This means Moldova cannot ensure, for example, that garments ostensibly produced in Transnistria are not Chinese. Still, EU officials say, “the EU won't ask for more from Moldova than was asked of Albania, and there's no reason Moldova can't reach those standards”.<sup>120</sup>

### **3. Attracting (and pressuring) Transnistrian businesses**

EU ATPs also have the potential to entice Transnistrian businesses into greater cooperation with Moldova. At present, much of Transnistria's legal trade consists of

exports of raw metals and textiles that can be shipped directly to the world market from Ukraine's Black Sea ports without branding or marketing but with low profit margins.<sup>121</sup> Extending ATPs to steel, textiles, machinery and other products that Transnistria produces while fostering cooperation between Moldova and Transnistria in overcoming non-tariff barriers would offer these businesses the possibility of moving beyond crude production to more profitable, value-added exports for the EU market. It would also solidify links between the two sides, as the trade benefits would only apply to exports certified by Chisinau.

But the biggest incentive that can be offered to Transnistria is stability. Part of the reason Transnistrian businesses concentrate on exports with low value-added is that the present climate affords few other opportunities. Shifting to more profitable goods requires investment, branding and the ability to predict business conditions several years into the future, which is impossible with the prevailing uncertainty.

There is little understanding in Transnistria of the benefits of – and obstacles to – trading with the EU, as with most topics involving Brussels. The EU recognises this but is limited in its public diplomacy by the region's political status. Nevertheless, it plans to conduct a business clinic in the last quarter of 2006, likely in Odessa, to explain the basics of EU trade regulations to Transnistrian and Moldovan firms. This is a good initiative and should be expanded by information sessions targeting businesses on both sides of the Dniester.

As it reaches out to the business community, the EU also needs to make clear that continued obstructionism by the Transnistrians would have economic consequences. EUBAM's presence is a good first step in making the status quo less comfortable, but further measures may be necessary, including financial sanctions targeting leading businessmen and their assets and, potentially, trade sanctions. As noted above, roughly one third of Transnistrian exports go the EU, principally Italy and Germany, but also to many others. Brussels should explain that the Smirnov regime's refusal to work constructively toward a settlement will jeopardise access to EU markets.

### **4. Visa facilitation**

The EU's visa policies are effectively undermining Moldovan statehood. The European Council has concluded a visa facilitation agreement with Russia and begun

<sup>117</sup> “Moldovan president asks EU to cut tariffs for Moldovan wines”, ITAR-TASS, 21 June 2006.

<sup>118</sup> Crisis Group interview, Stratan, May 2006. In 2005, the EU offered duty exemptions for 543,500 hl. of wine to Macedonia; 225,000 hl. to Croatia; and 152,000 hl each to Albania, Bosnia and Herzegovina, and Serbia and Montenegro.

<sup>119</sup> “Wine: Economy of the Sector”, European Commission working paper, February 2006, [http://ec.europa.eu/comm/agriculture/markets/wine/studies/rep\\_econ2006\\_en.pdf](http://ec.europa.eu/comm/agriculture/markets/wine/studies/rep_econ2006_en.pdf).

<sup>120</sup> Crisis Group interview, EU official, Brussels, June 2006.

<sup>121</sup> Crisis Group interview, June 2006.

negotiations with Ukraine and Macedonia<sup>122</sup> but it has not yet given the Commission a negotiating mandate for such an agreement with Moldova. This is reportedly due to resistance from the interior ministries of key member states.<sup>123</sup> The Commission is trying to placate the Moldovans by offering a joint application centre in Chisinau<sup>124</sup> but member states are also dragging their feet on this. Selective liberalisation for identified groups and visa facilitation for all applicants – involving a simplified, speedier, less painful process – should be a higher priority.

As it is, a growing number of Moldovans from both sides of the Dniester are acquiring Russian, Romanian and Ukrainian passports. The youth group Proriv says one of its main activities is to obtain Russian and Ukrainian passports for young Transdnistrians.<sup>125</sup> “The Russians are giving out passports to anyone who asks, using an LDPR [Liberal Democratic Party of Russia] office in Tiraspol as a de facto consulate”, says a senior Western diplomat.<sup>126</sup> The lack of a visa facilitation agreement is thus unlikely to stop Moldovans from entering the EU but will further weaken the attractiveness of Moldovan citizenship.

#### D. BUILDING MUTUAL CONFIDENCE

Regardless of how attractive Moldova becomes economically, there is little chance for a settlement without at least a basic level of trust between the parties. This is sorely lacking. Not only are relations poor, but each accuses the other of negotiating in bad faith and having broken its word countless times. Moldovan officials say an agreement is impossible as long as Igor Smirnov is in power; Transdnistrians say the same about Vladimir Voronin.<sup>127</sup>

Both may be right. Negotiations in the 5+2 format<sup>128</sup> are going nowhere. There was some hope inclusion of the U.S.

and EU as observers in 2005 would unblock the stalemate but it has not happened. “Chisinau and Tiraspol can’t achieve anything in relations with each other”, says one analyst. “The room for manoeuvre is solely with the international community”.<sup>129</sup>

But even external influence is limited by the lack of confidence between the parties. Were an acceptable constitutional settlement found on paper, it would break down as soon as either side was required to put faith in the other’s goodwill. Even the hawkish Moldovan analyst Oazu Nantoi says: “It would be best to decide the constitutional questions after the fear is gone, the stereotypes have been broken down and the media opens up”.<sup>130</sup> It would be more realistic to focus political energy in the short term – and perhaps until leaders change on one or both sides – on creating dialogue and trust rather than searching for the ideal constitutional arrangement, the outlines of which are in any case already known.<sup>131</sup>

A good place to start would be in economic relations. Moldova and Ukraine did an appalling job at explaining the new customs procedures to Transdnistriean businesses before they were applied in March 2006. Seminars were scheduled at the last minute, and the basics of the new system were not communicated to the public. Such oversights perpetuate Transdnistriean suspicions that the Moldovan authorities will make sudden, unexpected changes to the rules in the future. The customs regime is said to be operating more or less smoothly and transparently at present, though officials in Chisinau, Kiev and Brussels interviewed by Crisis Group gave widely differing interpretations. “If it’s a mess for us”, commented an EU official who works closely on Moldova, “it must be a mess for the Transdnistrians”.<sup>132</sup>

Building local trust through transparency of the customs service, the judiciary and other agencies involved in economic relations is critical. As an international official in Chisinau observes, “even Moldovan businesses will say to you that the government uses unfair means to put people out of business when it suits them. There is no trust in Chisinau for the Moldovan leadership. How can you expect trust in Tiraspol?”<sup>133</sup> Improving the Transdnistriean business community’s confidence that it can prosper under Chisinau’s authority should be a priority for all who want a settlement. “The key is to inform the left bank of how they will live in a reunified Moldova. This

---

<sup>122</sup> For more information on visa facilitation with the Balkan countries, see Crisis Group Europe Report N°168, *EU Visas and the Western Balkans*, 29 November 2005.

<sup>123</sup> Crisis Group interview, July 2006.

<sup>124</sup> To apply for most EU visas, Moldovans must go to Bucharest, where many member states have their nearest embassies. “Visa Policies of European Union Member States”, Stefan Batory Foundation, Warsaw, June 2006, p. 19.

<sup>125</sup> Crisis Group interview, Dmitri Soin, director, Proriv, Tiraspol, May 2006.

<sup>126</sup> Communication to Crisis Group from senior Western diplomat, August 2006.

<sup>127</sup> Crisis Group interviews, Chisinau and Tiraspol, May 2006.

<sup>128</sup> “5+2” is the term given to the five-sided negotiations process, with the “5” referring to the two parties and three official mediators (Russia, Ukraine and the OSCE), and the “2” referring to the EU and U.S. in their capacity as observers.

<sup>129</sup> Crisis Group interview, Sushko, Kiev, June 2006.

<sup>130</sup> Crisis Group interview, Oazu Nantoi, program director, Institute for Public Policy, Chisinau, May 2006.

<sup>131</sup> These have been described in OSCE documents and in Crisis Group Report, *No Quick Fix*, op. cit.

<sup>132</sup> Crisis Group interview, EU official, Brussels, June 2006.

<sup>133</sup> Crisis Group interview, Chisinau, May 2006.

can't be done through a government declaration", says Nantoi.<sup>134</sup>

There is no reason why mutual confidence cannot be improved. Relations between the populations are reasonably warm. The ethno-linguistic dimension of the dispute – often framed simplistically as Romanian-speaking Moldova versus Russian-speaking Transdnistria – is exaggerated. Transdnistria has an approximately equal mix of ethnic Romanians, Ukrainians and Russians; more Russians live in Moldova than in Transdnistria.<sup>135</sup> Most Transdnistrians have family or friends in Moldova and vice versa, and there is considerable freedom of movement between the areas. The extent to which hostility between the governments reaches the average citizen is limited.

But time is running out: having been separated from Moldova for fifteen years, Transdnistrians, particularly those under 30, are losing any allegiance they may have held to a Moldovan state. The fact that the two sides of the Dniester were united for 50 years under the Soviet Union as the Moldovan SSR has not left much of a mark, which is perhaps not surprising given that the average Soviet citizen's allegiance tended to be directed toward the state and Party rather than the autonomous republic. "It is not that Transdnistrian separatism is so strong", says Nantoi, "but that Moldovan statehood is so weak".<sup>136</sup>

Moldova needs to improve its public diplomacy in Transdnistria. Moldovan television does not reach Transdnistrians, but even if it did, few would watch because of its poor quality and the availability of more professional and entertaining Russian channels. Bolstering media independence and professionalism on both sides of the Dniester should be a donor priority. Donors can also help build trust by funding more projects that bring Transdnistrians and Moldovans together, such as educational exchanges, business clinics, cultural events, and civil society workshops.

An experienced international observer says of civil society on both sides of the river:

The Moldovan policy and negotiating strategy under the Voronin administration have actually discouraged independent contacts and dialogue

between groups from the right and left banks, and the Transdnistrian regime – especially the security forces – has enthusiastically embraced and supported this policy. In 1999 there were many local and foreign NGOs sponsoring human contacts, exchanges, travel, etc. between the two sides. Through lack of support and active discouragement from both Chisinau and Tiraspol during the current decade, many of these NGOs have gone out of business, or have greatly reduced their activities. This desperately needs to be reversed.<sup>137</sup>

## E. DUBIOUS PRECEDENTS

Although ordinary citizens display little strident Transdnistrian nationalism, the region's leadership has long sought to translate its de facto statehood into formal independence. This effort has gained new confidence as a result of developments in the Balkans, where Kosovo is embarked on the final leg of its journey toward independence, and Montenegro has been recognised following its May 2006 referendum. Ten days after Montenegro's vote, Igor Smirnov declared that Transdnistria would hold its own referendum on 17 September.

The announcement did not come out of the blue. Local and Russian politicians have in recent months mused publicly about the relevance of the Kosovo precedent for Transdnistria. Appearing on television in January ahead of a meeting of the six-nation Kosovo Contact Group, President Putin argued that the Kosovo solution should also apply to separatist disputes in the former Soviet Union.<sup>138</sup> This is now a common refrain of Russian diplomats and officials. Montenegro's successful independence bid has likewise been pointed to as a precedent for Transdnistria. On the day after the Montenegrin vote, Transdnistrian Foreign Minister Valery Litzkai said: "This is a little bit like our holiday, as Montenegrins have voted for independence".<sup>139</sup>

---

<sup>134</sup> Crisis Group interview, Nantoi, Chisinau, May 2006.

<sup>135</sup> One important qualification is that Transdnistria's Russians and Ukrainians are concentrated in Tiraspol, while the Romanian/Moldovan population is mainly in rural areas. There is, therefore, a heavily Slavic tint to the Transdnistrian regime and business community, which plays a part in shaping the region's identity. However, urban centres in Moldova also tend to be much more Slavophone. This goes for the elite as well; Prime Minister Tarlev is a member of the small ethnic Bulgarian minority.

<sup>136</sup> Crisis Group interview, Nantoi, Chisinau, May 2006.

---

<sup>137</sup> Communication to Crisis Group from senior Western diplomat, August 2006.

<sup>138</sup> "Decision on Kosovo status should be applicable to other areas", Interfax, 30 January 2006. Russian officials have repeatedly linked Kosovo to the separatist disputes in Abkhazia and South Ossetia, both in Georgia. Meeting in Sukhumi, Abkhazia, in June, the leaders of Transdnistria, Abkhazia and South Ossetia issued a joint declaration against "double standards in relation to states and peoples seeking self-determination". "Georgian, Moldovan self-proclaimed republics to press for independence polls", ITAR-TASS, Moscow, 14 June 2006.

<sup>139</sup> "Moldova's breakaway Dniester region welcomes Montenegro referendum", Interfax, Moscow, 22 May 2006.

There are, of course, substantial differences between the situations. Montenegro's referendum was carried out by a government internationally recognised as legitimate in a part of a state in whose institutions it participated. Transnistria is not recognised officially even by Russia. Montenegro and Serbia, in the 2002 Belgrade Agreement, had recognised the right of either to secede from the state union by referendum after three years; Chisinau and Tiraspol have no such agreement; the furthest Chisinau has gone is to accept that Transnistria might have the right of secession in the unlikely event Moldova unified with Romania.<sup>140</sup> The conditions of the Montenegrin vote, including freedom to campaign for both sides, were agreed by all sides in Montenegro after EU mediation, whereas the latest proposal from Tiraspol is a unilateral step by the government.<sup>141</sup>

The parallels with Kosovo are also not especially encouraging for the Transnistrians. The final status process for Kosovo is directly and explicitly mandated by UN Security Council Resolution 1244 (1999), and it is not at all clear a referendum will be a part.<sup>142</sup> There is no similar UN resolution on Moldova. And, as with Montenegro but unlike Transnistria, the UN administration in Kosovo is recognised as fully legitimate internationally. Only Russia argues that the Kosovo process should be a precedent for other conflict resolution situations; even if such a precedent were to be established, it might not go far.<sup>143</sup>

The Transnistrians have complained of hypocrisy in the West's attitude. "We are against the international community's policy of double standards on independence and the international bureaucracy that bestows the 'right' to independence selectively, as in Kosovo and Montenegro", says Dmitri Soin, the director of Proriv.<sup>144</sup> They claim a right to self-determination under international law but the self-determination principle is not a general

right to secession.<sup>145</sup> Only in very exceptional cases, when a people proves unable to protect its political, economic and cultural rights within a state by constitutional, legal or political means, is unilateral secession likely to be recognised by the wider international community. Given the shared history and ethno-linguistic makeup of the two sides, and the possibility of autonomy for Transnistria within a unitary Moldovan state, the claim of a right to secede from Moldova is not persuasive.

A Transnistrian referendum under current conditions would have little chance of broad acceptance, not least because of lack of media freedom. Russia's reaction is harder to predict. Following Smirnov's announcement, Special Envoy Nesterushkin said a vote would "serve as an important public and political benchmark".<sup>146</sup> A senior Russian official interviewed by Crisis Group said it should be "perceived as a willingness of the government of Transnistria to see how their policies correspond to the will of the people – testing the mood of Transnistrians".<sup>147</sup> Russia has always stopped short of formally recognising Transnistria, while supporting its de facto independence politically, militarily and economically. It continues to pay lip service to Moldova's territorial integrity. Whether it is preparing a new policy is an open question; as discussed above, it has become notably more assertive in its relations with the post-Soviet republics of late.

## F. THE NEED FOR INTERNATIONAL GUARANTEES

A chief concern of Transnistrian business is that a deal with Moldova would put its assets at risk. Most business leaders, like many of the new elite in the former USSR, earned their fortunes through shady privatisations of Soviet factories. They fear that once a settlement brings Transnistria under Chisinau's control, the Moldovan authorities would seek to reverse the most profitable of those privatisations.

Moldova does not recognise the Smirnov regime's privatisations. In October 2004, a law stipulated that privatisations without its consent were illegal. Although this has been contradicted by later government statements guaranteeing Transnistrian property rights, the oligarchs are understandably sceptical. According to Shevchuk:

The Moldovan government is loudly speaking about guarantees of the inviolability of Dniester companies' property on condition that they register

---

<sup>140</sup> On 1 July 2006, Romanian President Traian Basescu caused a political storm when he said he had offered Moldova the option of joining the EU with Romania. President Voronin quickly ruled this out but the Transnistrian security chief, Vladimir Antyufeyev, seized on the comment as evidence of continued Romanian claims on Moldova and called for a larger Russian military presence in Transnistria.

<sup>141</sup> For more on Montenegro, see Crisis Group Europe Briefing N°42, *Montenegro's Referendum*, 30 May 2006, and Crisis Group Europe Report N°169, *Montenegro's Independence Drive*, 7 December 2005.

<sup>142</sup> Crisis Group has recommended it should; Crisis Group Europe Report N°161, *Kosovo: Toward Final Status*, 24 January 2005.

<sup>143</sup> China is apparently eager that the Kosovo resolution explicitly not be considered a precedent for other situations. Crisis Group interview, Balkan foreign minister, March 2006. Other UN Security Council members have similar concerns.

<sup>144</sup> Crisis Group interview, Dmitri Soin, Tiraspol, May 2006.

<sup>145</sup> See on this point "Thawing a Frozen Conflict", op. cit.

<sup>146</sup> "Russian envoy talks up importance of Dniester referendum outcome", Interfax, Moscow, 31 May 2006.

<sup>147</sup> Crisis Group interview, senior Russian official, Moscow, June 2006.

in Chisinau. At the same time, there are other Moldovan laws, including the law on privatisation of companies in the Dniester region, which contradict these statements. Moldovan courts are also equivocal about the temporary registration. So, is this economic integration according to Moldova?<sup>148</sup>

Considering the blatant misconduct that characterised many privatisations, the desire to review them is reasonable. But if the goal is a settlement, the business community will have to be courted, and this likely means broadly accepting the present distribution of property, even if it legitimises the economic power of unsavoury oligarchs.<sup>149</sup>

Were the Moldovan government to agree to recognise the privatisations, its word alone would not convince the Transdnistrians. Parliament, controlled by President Voronin's Communist Party, has often reversed itself. What, ask many Transdnistrian business leaders, would prevent it from doing so after ratifying a peace agreement? "They are asking, 'How do we know that if Smirnov provokes a new crisis, the Moldovan reaction won't be to seize Transdnistrian businesses?'"<sup>150</sup> Moreover, the Communists' main ally, the far-right Christian Democrats, are considerably more hawkish and would likely do all they could to strip the assets.

To overcome the lack of trust, it may be necessary to provide an international guarantee of any agreement. At a minimum, this would entail having Russia, Ukraine, the EU, U.S. and OSCE co-sign it, as Russia and Ukraine did for the 1997 Moscow Memorandum. These parties would then have an obligation to act if the agreement was not respected. At a maximum, an international guarantee could involve creation of an independent body to adjudicate complaints from businesses.<sup>151</sup>

---

<sup>148</sup> "Dniester speaker comments on relations with Moldova, referendum", *Argumenty I Fakty* (Moldova), 31 May 2006.

<sup>149</sup> The Moldovan government may be able to extract some payments from the Transdnistrians for specific properties as part of any settlement but the greater these demands are, the less likely a settlement will be reached.

<sup>150</sup> Crisis Group interview, senior Western diplomat, Chisinau, May 2006.

<sup>151</sup> Life could be made difficult for Transdnistrian businesses in many ways other than outright seizure – for example, a demand for payments to "certify" past privatisations, closure of certain export routes, subsidies for competitors, and politicised audits and fire safety inspections. Such a body would thus need to be empowered to hear a broad range of complaints. There are also options between these examples, including creation of an independent body staffed with a mix of local and international officials, such as has been done in Bosnia and Herzegovina's Commission for Real Property Claims of Displaced Persons and Refugees.

Creation of an international body to guarantee a sovereign state's laws would have to be handled with sensitivity if it were not to be taken as a humiliation in Chisinau. Moldovan officials interviewed by Crisis Group appeared generally receptive if it could help bring a settlement. "A guarantee in this respect would be very much supported in Moldova, and we would not see this as a threat to our sovereignty", said Sergiu Stati, chairman of the Parliamentary Committee on Foreign Policy and European Integration.<sup>152</sup> According to Minister for Reintegration Vasiliu Sova, "there should be an appeal mechanism for businesses, first to the Moldovan government and then to the international community, but this mechanism should be the same for Transdnistrian and Moldovan businesses. We would not object to an international mechanism as long as it is homogenous for the whole country".<sup>153</sup> Transdnistrians, including Shevchuk, also appeared receptive, though Proriv's Soin argued trust would have to be built up before Transdnistrians would believe in international guarantees "on property or anything else".<sup>154</sup>

A key consideration for Chisinau, however, is not to entrench Russian influence. Many Transdnistrian businesses are owned in whole or part by Russians, and Moldovan officials worry that by guaranteeing Transdnistrian property rights, they would effectively create a permanent Russian economic stranglehold. Sova said:

We feel that some actors are not interested in a settlement but in maintaining their levers of power. We are ready to talk about guarantees but we should be careful about what we are talking about. It is a little offensive for a government to be forced to submit to international guarantees. We are not categorically against this but...we don't want to have to go to Moscow to get permission to buy tractors.<sup>155</sup>

The Moldovan authorities are preparing a new law which would provide "amnesties" for privatisations carried out by the Smirnov regime. However, they are reportedly considering including a clause which would discriminate between properties owned by Moldovans (including Transdnistrians) and non-Moldovans, the goal being to limit the extent of Russian influence. There is concern that such discrimination would violate Moldova's existing international obligations, including as a member of the World Trade Organisation.<sup>156</sup>

---

<sup>152</sup> Crisis Group interview, Stati, Chisinau, May 2006.

<sup>153</sup> Crisis Group interview, Sova, May 2006.

<sup>154</sup> Crisis Group interviews, Tiraspol, May 2006.

<sup>155</sup> Crisis Group interview, Sova, May 2006.

<sup>156</sup> Crisis Group interview, July 2006.

## V. CONCLUSION

Fifteen years after the de facto separation of Moldova and Transdniestria, there is little prospect for the foreseeable future of reaching a lasting settlement. Recent constructive EU and Ukrainian engagement has had a positive impact on the ground but, without Russian cooperation, will not be enough to break the stalemate. Assuming Russia's policy does not change, there will be little progress on democratisation and demilitarisation of Transdniestria – the two issues the Moldovan authorities prioritise. Given the absence of mutual trust, it seems futile to expend further diplomatic energy in the short term on trying to negotiate Transdniestria's constitutional status within a future united Moldova.

But there are two reasons for hope. First, there are signs that the Transdniestrian business community is gaining influence and beginning to recognise that the breakaway region's unresolved status is bad for profit. If it can be engaged by Moldova and outside actors, particularly the EU, progress may be possible. Secondly, having burned its bridges with Moscow, Moldova is increasingly reliant on the EU and so is vulnerable to EU pressure for reforms that would increase its economic and political attractiveness to its own citizens, including Transdniestrians. These reforms will have to have a central place if the groundwork for a settlement is to be prepared.

There are, of course, challenges that must be overcome if these seeds are to bear fruit. The Transdniestrian business community will not only have to decide that working with Moldova is in its interest; it will also have to win a political battle against the current leadership of Igor Smirnov and his security chief, Vladimir Antyufeyev, neither of whom will agree to a unified Moldova under any condition. Ukraine will have to navigate tumultuous domestic politics without weakening its resolve to enforce its customs regime with Moldova. The prospects of settling the conflict without Russia on-side are minimal, but without Ukraine as well, they are non-existent.

The U.S. has been content to let the EU lead on Moldova, and the EU has done so – to a degree. Its deepening involvement in the dispute with Transdniestria as part of its European Neighbourhood Policy is important and to be commended. But with Russia wielding its power through such blunt tools as export bans, energy cut-offs and the continued deployment of unwanted troops, the EU must do far more with both incentives and pressures if it is to secure peace and prosperity in its neighbourhood and strengthen the weak roots of Moldova's European policy.

**Chisinau/Brussels, 17 August 2006**

## APPENDIX A

### MAP OF THE REPUBLIC OF MOLDOVA



Base 802719AI (C00097) 2-01

Courtesy of The General Libraries, The University of Texas at Austin