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NEWSLETTER

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Synthesis and Foreign Policy Debates

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Last period has been marked by a series of important events for the Republic of Moldova.

-  The German Bundestag ratified in the final reading the Association Agreement between the Republic of Moldova and the European Union. Germany is the 14th country to ratify the document.
-  The Ukrainian Government adopted on March 18th a decision prohibiting the import of excise goods - alcohol and tobacco – through the customs units on the Transnistrian segment of the Moldovan-Ukrainian border- Platonovo and Cuciurgan. This decision will enter into force on May 1st. Tiraspol asked Chisinau to intervene on its side in the relations with the Kiev authorities in order to cancel this decision.
-  Russian Foreign Minister Sergei Lavrov said Gagauzia would receive increased attention on behalf of Kremlin in the context of Moldova's European integration. The elections for bashkan in the Gagauz-Yeri autonomy from March 22nd have been won by Irina Vlach who was supported by the Socialist Party.
-  On March 16th, Brussels hosted the first meeting of the Moldova - EU Association Council which looked at the progress in the implementation of the Association Agreement. The European partners have welcomed the progress made in 2014 and expressed hope that the new Gaburici cabinet will continue the reforms. The justice reform, combating corruption and the banking sector stability remain priorities.



During his visit in Bucharest, the German Foreign Minister Frank-Walter Steinmeier, assured that the European Union is not withdrawing its support and offers to Moldova, but that depends on how fast the Moldovan government will continue the reforms designed to bring the country closer to the EU. Steinmeier said that Germany is willing to support Moldova on its reform path and in addressing the Transnistrian conflict. The head of the German diplomacy underlined that his country is committed to supporting the peace process in the "5+2" format.

Transnistria in crisis



The Transnistrian region of Moldova is facing a severe economic crisis, which, according to the experts' estimates, has had no precedent in the last 25 years. In January, the regional budget revenues were four times lower than in 2014, while the external trade revenues fell by 13 times. For January-February the authorities reported only 40 percent of the planned revenues to the region's budget. Over this period, the exports decreased by 20 percent, while imports - by 25 percent. If this

pace is maintained, this year, the Transnistrian budget will have losses worth one billion rubles which is exactly the amount needed to cover the social costs.

In just a few months, the exports and imports, as well as the production, fell dramatically, the Tiraspol authorities finding it impossible to honor their obligations towards the employees. Since February the salaries have been paid in the amount of 70 percent, the remaining

30 percent being reported as state liabilities towards the citizens.

Also, the Transnistrian pensioners have learned that starting with the beginning of the year they would not receive, at least for a period, the Russian pension supplement in the amount of \$15 and that the supplement of 100 rubles that they used to get from the Transnistrian administration had been halved. After three months the Russian aid did come, but because of the Russian ruble depreciation, the monthly supplement to the pension is not 165 but 100 rubles, i.e. not 15 but \$9. In addition, the free travel in the public transport for pensioners has also been cancelled.

Against the background of the crisis, which Transnistrian authorities ascribe to the conflict in Ukraine, the depreciation of the Ukrainian hryvnia and the Russian ruble, and to the delay in the financial aid of the Russian Federation, several companies in the region confronted

with difficult circumstances and part of investors withdrew from Transnistria. The Russian oligarch Alisher Usmanov, the owner of "Metalloinvest", has transferred the controlling package of shares of the Ribnita metallurgical plant to the Tiraspol administration and put the cement and slate plant up for sale. One month later since the announcement, the Transnistrian press wrote that the metallurgical plant had been taken over by the investors from the United Arab Emirates. Moreover, the plant received a credit line that allows it to buy raw materials (junk iron) not only from Ukraine, Moldova and Romania, but also from Turkey and Germany.

On the other hand, the textile factory "Tirotext", the fourth on the list of major contributors to the region's budget, has announced that due to the loss of over \$ 10 million, starting with April 1st, it would close production and send the employees on forced leave for three months, and starting with July 1st, it

would have to lay off nearly all the three thousand employees. The analysts say that the reason is not just the economic rationale, but also the conflict of interest between the Shevchuk administration and the Sheriff economic group which has more representatives in the Supreme Soviet (parliament of Transnistria).

In this crisis situation, the Transnistrian leader Yevgeny Shevchuk, paid several visits to Moscow trying to persuade the Kremlin to continue funding Transnistria, but apparently they did not have any effect. Nevertheless, Moscow's support is still maintained in Transnistria through its social projects, the pension supplements, although reduced, but also through the money accumulated in Transnistria for gas consumption which is not transferred to "Gazprom", remaining with the Tiraspol administration as a source of the budget replenishment.

Re-launching of the Chisinau-Tiraspol dialogue

Against this crisis background, after investiture of the Gaburici Government, a first meeting between the new Prime Minister and the Tiraspol leader Yevgeny Shevchuk took place on March 14th. At this meeting, which was the first in the last one year and a half, the leaders agreed on the simplification of the people's circulation during the Easter holidays and extension of the validity of the Protocol on the railway traffic between the two sides by the end of 2016. In addition, it was agreed to resume the activity of the working groups at the expert level between Chisinau and Tiraspol which had several meetings in the following period. There followed several meetings between the chiefs of negotiating groups – the



Vice Prime Minister Osipov and the head of the Tiraspol foreign office, Nina Shtanski. At one of the meetings, a protocol on the mutual recognition of vehicle insurance was signed. Thus, the drivers will have only one car insurance recognized on both banks of the Nistru.

The press conference that followed after the meeting between Prime Minister Gaburici and the Tiraspol leader Evghenii Shevchiuk

was visibly dominated by the extensive answers of Yevgeny Shevchuk, who emphasized several times that Transnistria is a separate entity independent from the Republic of Moldova, while Chiril Gaburici seemed to be out of his depth giving short and very general answers.

Chiril Gaburici: Chisinau goal is to maintain the dialogue



Chiril Gaburici: “First of all, it was decided to extend the Additional Protocol on the train traffic through Transnistria. This protocol was signed in March 2012 and today it has been extended until the end of 2016. We believe that this decision is important not only for the economic activity but also for building confidence.

We have also agreed on the need for execution of the works of disassembling the Râbnița-Rezina cable car. Last year, the part from the right bank was dismantled and the other part from the left bank still remains to be removed.

At the moment, our goal is to provide additional impetus to the dialogue between Chisinau and Tiraspol, creating a positive climate for dialogue on all platforms. We have discussed about the need to continue the negotiations in the “5+2” format, the problem of the Moldovan farmers’ access to their land in Dubasari, the free movement in the security zone, resumption of the direct telephone communication between the two sides and the situation in the security zone.

We have also discussed about issues related to the economic situation and the problems faced by the people on both sides of the Nistru. I want to reiterate that we want very much to have a constructive and active dialogue, which would allow us to reach progress and find solutions to the existing problems”.

Evghenii Șevciuk: We have to be able to trade on preferential terms both on the Russian and European market

In his turn, although he appreciated as positive the results of the discussion, the leader of the Transnistrian administration Shevchuk emphasized that Tiraspol would return to the negotiations in the “5+2” format only after removal of what Tiraspol calls “economic blockade imposed by Moldova and Ukraine” on the Transnistrian region.

Yevgeny Shevchuk has also requested the unconditional dismissal of criminal cases opened by Chisinau last year to several representatives of the Tiraspol separatist administration.

The Transnistrian leader also said that he is ready to discuss with the Chisinau authorities about the implementation of the Free Trade Agreement with the European Union, stating that because of the Chisinau, Transnistria had been put in the position of having its trade oriented towards the EU, while actually it wanted to be more present on the Russian market.



Evgheni Șevciuk: The Transnistrian economy is acting in the conditions that have been set and that makes it impossible for the dynamic development of relations with Eastern markets. These conditions have been artificially created and accordingly, Transnistria has to trade within the given scheme. We are pleading that the potential of our economies is no longer limited

by various artificial mechanisms. We think it is silly to block each other this way. I believe that if these limitations are removed - and we hope that we will find a compromise – the Transnistrian economy would have a serious potential for growth. We have presented our position – when it comes to the economy, we should discuss in such a way as to be able to trade on preferential terms both on the Russian and European markets.

Victor Osipov: The discussions at all levels must be resumed, but the Transnistrian conflict settlement is a long-term task

“We will have as many discussions as needed in order to reach a solution which would ensure that Moldova remains a viable, democratic and European state.”

The deputy Prime Minister for Reintegration, Victor Osipov, said the most important task in the coming months is to restore the dialogue mechanisms between Chisinau and Tiraspol, find solutions for the implementation of the Free Trade Agreement with the EU in the



Transnistrian region and solve at least some concrete problems faced by the people, such as, for example, restoring direct telephone connection between the two sides.

■ **Lina Grâu:** How do you assess the prospects of resuming the negotiations at the working group level, but also within the “5+2” format, after having been blocked last year? Do you expect concrete results?

■ **Victor Osipov:** The first step, naturally, was to stimulate these platforms of interaction and negotiation. And we, indeed, have managed to do so. I'm not trying to exaggerate the results of our work in the first month in office of the Government, nor should others appreciate them other than dynamic restoration of contacts. We have already had several meetings, including in the "1+1" format within the dialogue between Chisinau and Tiraspol. The meeting between the Moldovan Prime Minister and the Transnistrian leader was important both through its results and signals transmitted to the other formats and structures on both banks. This has already led to activation of the working groups for building confidence - in the last two weeks there have been already several meetings of these groups, which still continue.

This is why I do not want to use the term "got stuck" when it comes to the negotiations or dialogue between Chisinau and Tiraspol. They were suspended. And there were certain objective reasons for that - I mean the elections in Moldova, which were not the most opportune time to negotiate such a sensitive issue. Formation of government also took time ... But we still believe - and we have tested this now - that all these platforms for dialogue are viable, functional and are already working.

Now, what is next to follow in this process is the "5+2" negotiations. Indeed, this format is designed to find a political solution to the Transnistrian conflict, even if such a solution is not possible in the foreseeable future.

It is not correct to raise expectations as regards the "5+2" format. The Transnistrian problem has been negotiated for 23 years and it would be somehow risky for anyone to promise now a solution in one year. It is wiser and fairer to people to recognize that, in reality, the problem is difficult and that we will discuss as much as it is necessary

in order to reach a solution which would ensure the future of Moldova within its internationally recognized borders, as a viable, democratic, developed, European, civilized and functional state. That is extremely important. A solution that would destroy the Moldovan state cannot be a solution, it cannot be accepted.

The "5+2" format of the negotiations are a guarantee, if I may say so, of preserving stability in Moldova, the security between the two sides, which find themselves in a deep divergence at the moment. Keeping the dialogue, protecting against risks and preventing the conflict from escalating are also very important goals.

I don't think there are - especially in the security area, and on the right and left banks- normal people who would say: "Give up the dialog, stop the negotiations" as this would lead to outbreaks of conflicts that may affect the people's safety and even life. Therefore, the peaceful discussions and negotiations are a guarantee of stability and security in the region. Or at least, these are an effort to minimize the risks as risks do exist. If until two years ago it was hard to imagine military risks in our area, now, everyone sees that they can become real and we should not admit this. That is why it is important to continue the work in the "5+2" format.

I can let you know now that we have basically agreed on the next meeting in the "5+2" format. Just it will not be a formal round of negotiations, but given the rather long break, this will be a closed working meeting, where we will discuss about the action mechanisms and the way we will organize our work schedule. In late April, after a long break, the first meeting of the mediators, observers and parties - Chisinau and Tiraspol - will take place in Vienna.

■ **Lina Grău:** Do you think that by the end of the year the sides will succeed in the negotiation and development of mechanisms for implementing the

provisions of the Free Trade Area with the EU for the Transnistrian economic agents?

■ **Victor Osipov:** I think these discussions have to take place at the technical level with involvement of experts in the field of trade, administration and necessary authorizations, in order to trade between Chisinau, Tiraspol and the European Union. Discussions regarding the application of trade rules in relation to the EU are carried out both on the right and left bank.

Regarding the term when we expect to reach clarity on this issue, I am convinced that we should not wait until the end of the year. Our objective is to have clarity over the potential mechanisms and general approaches by the middle of this year.

If the approach is favourable and implementation mechanisms are acceptable, it will take time to implement them. But if the approach by the Tiraspol administration is unfavourable, as it was until now, this creates a very different situation, which calls into question whether the economic agents from the left bank will be able to benefit from the Free Trade Agreement with the EU that takes effect on 1 January 2016 for Transnistria and the autonomous trade preferences, valid until that time. Given the volume of trade with the EU of the Transnistrian region, this thing will change radically the situation of producers and exporters, as well as of the importers on the European markets.

It will be good to have this thing clear by the middle of this year, because in both cases we will need to get ready for the next stage, whether it is in favour or against the Free Trade Agreement with the EU. However, certain preparations have to be made so that the business community knows what to expect starting with 1 January 2016.

■ **Lina Grău:** So, starting with 1 January 2016, the Transnistrian goods will no longer benefit from the tax-free regime

entry into the European markets and being subject to taxes will become more expensive and therefore not competitive on these markets. This is the most negative scenario. Do you think that in these conditions - and Tiraspol counts on this - the autonomous trade preferences can be extended to Transnistria?

■ **Victor Osipov:** This decision doesn't depend on Chisinau, it depends on Brussels which has a very firm position that it had offered Tiraspol enough vacation to prepare for the next steps and does not intend to continue with that. This is the position known at the moment.

■ **Lina Grâu:** How do you think will the Russian Federation react to the depth of the Tiraspol dialogue with Chisinau and the European partners? On one hand, we see that Russia has substantially reduced its financial aid in the region. On the other hand, we know that Moscow's control over the region is quite large and Russia can easily impose certain decisions, even if at the expense of economic interest.

■ **Victor Osipov:** We know what the general attitude and the position of the Russian Federation towards the European integration processes are. The Russian Federation is leading other integration processes and is interested in attracting partners in its union which it is trying to create in the Eurasian space.

Moldova has made its choice assumed through the Association Agreement. It has advantages offered by the European market from which it is already benefiting. And our further options should take account of the benefits for the business community and the population in Moldova.

The fact that there are very strong and highly motivated processes in the context of Moldova's European integration, I think, is well known in Moscow, and as I said above, I understand very well the

processes that the Russian Federation is leading in the Eurasian space. I hope very much that it is the mutual understanding of the interests which will count in this relationship and attitude.

If we talk about how Tiraspol is caught in this contradiction between the vectors, I do not see the situation as having no solutions. Every producer and every enterprise should apply the standards required on the export markets. If you produce for the European market, you have to apply the standards required there.

I understand the latest affirmation of the Tiraspol representatives that they are interested in the development of trade and markets both on the East and the West, namely from this perspective - it is a necessity to diversify markets and that means the production standards must also be diversified. It is not easy - enterprises and entrepreneurs need more technical assistance, modernization, investment in improving product quality in order to be able to align to the standards of the export market.

This is necessary and we should find the way to adjust to the requirements as soon as possible. It is a matter that requires investment, assistance, and our partners are ready to provide it. We just need to have a clear and correct understanding of the things and be prepared to work with the Europeans if we want to sell our goods. Because it is nonsense to want to sell goods on preferential terms to the Europeans and ignore their quality requirements. This is not how markets are operating.

■ **Lina Grâu:** I understand that the Tiraspol complaints do not have anything to do with the standards, rather with the Chisinau control over the production processes involving access of the Chisinau control bodies to the Transnistrian enterprises. How can this problem be solved?

■ **Victor Osipov:** It is not easy, but I believe there are solutions. There are precedents and practices from previous years where certain enterprises have been assisted by specialized international bodies to market their produce on the European markets. That is precisely what we should deal with in the coming months. We need to see how we can develop interaction mechanisms which would allow for fulfilment of the requirements.

■ **Lina Grâu:** In conclusion, how do you see the progress over the Transnistrian problem by the end of 2015? In which areas can progress be achieved?

■ **Victor Osipov:** First of all, I would like to continue the negotiations for a political settlement, being aware that we cannot fix any targets for this year and probably also for the years to come. But these negotiations are essential for maintaining stability and security in Moldova and the Eastern Europe region in general. This is especially important in the context of the armed conflict in Ukraine. These negotiations are necessary because only such a platform - when the conditions are more favorable, and all participants ready - can generate a solution. The solution cannot occur in the absence of a platform. So this is one of the expectations - to keep the "5+2" negotiations active, no matter how difficult it may be.

Another expectation and common objective - and I think both Tiraspol and Chisinau have this interest - is to support the economic development on both sides, given the exclusive opportunity of benefiting from the Free Trade Area with the EU. This year we will have an answer to this question and I wish it was positive.

I would like - even if the working groups deal with very sensitive, painful and difficult issues to solve - not to get stuck in polemics and conflict but focus on issues beneficial to people in such areas

as health, culture, economy, transport, telecommunications ... I would like to have concrete results and allocate the necessary time and effort in order to work on joint projects for the benefit of the population.

We will continue to discuss the complicated problems and find solutions to them as we cannot neglect them. But we still have to focus on the problems that can be solved together, for example to find solutions to the landline telephony. At present, it costs a

lot to make a phone call from one bank to another. It is a trivial paradox the fact that people have to pay that much in order to be able to speak with the family members, neighbors, and friends. If we were able to solve at least this problem in 2015, I would consider it a success.

Vladimir Iastrebczak: Discussions on expanding the free trade zone with the EU to Transnistria have not even started

Ex-chief negotiator of Tiraspol, **Vladimir Iastrebczak**, says that in the current crisis situation, the Transnistrian administration will have to seek internal solutions to the difficulties in the social sphere, but would also be interested in maintaining preferential trade with the EU after 1 January 2016, which will be possible only if it joins the Free Trade Area under the Association Agreement between the Republic of Moldova and the European Union. The coming months should be dedicated to the identification of such a mechanism, says **Vladimir Iastrebczak**.



■ **Lina Grâu:** What are the causes of the crisis in Transnistria? Is this connected to the fact that as a result of the conflict in Ukraine, Russia does not have funds available to support the breakaway region and Kiev is more concerned with the control of the border?

■ **Vladimir Iastrebczak:** The situation is indeed very complicated. Given this crisis our leadership had to take a number of unpopular social decisions, such as the freezing of 30 percent of budgetary payments, freezing of pension supplements, removal of certain facilities such as the free public transport services. These measures, of course, aroused popular discontent.

The external factor is quite important in this situation and is largely related to the events in Ukraine. The situation there makes it difficult for the logistical situation as the Transnistrians have to think about new ways of transiting their goods. In addition, new requirements appear periodically related to the documents which must accompany the Transnistrian goods, which have a negative impact on the economy of Transnistria.

In addition, we should mention the fact that the Ukrainian market accounts for about 10 percent of our exports and although this is not a big percentage, contraction of this market is felt. The purchasing power of the Ukrainian population has decreased. Moreover, in Transnistria, the level

of the local currency against the dollar is maintained, be it through administrative or market levers, while in Ukraine, both the inflationary processes and the devaluation of the national currency have reached high levels as a result of which our products on the Ukrainian market are slightly more expensive compared to the products from other countries.

Another aspect that influences the Transnistrian economy - which is maintained since the crisis of 2006 - is that there are no clear and transparent rules of the game and our trade activity does not depend on the external trade agreements reached with our participation, but on the political decisions taken by the countries participating in the regional processes. For example, this was the case with the decision of the Moldovan authorities to introduce the green tax or excise duties. Of course, our economic agents are grateful that these decisions were subsequently canceled, but the question is whether problems had to be created so that they were heroically overcome later. It would be better to develop clear, transparent, and long-term game rules as I think this is the way forward - to try and get out of the crisis together, without affecting our mutual interests.

Regarding the Russian assistance, it

importance for the social sphere of Transnistria is very high. But besides the assistance to the Transnistrian pensioners which reduced a bit because of the devaluation of the Russian ruble, we must take into account the fact that Transnistria continues to benefit from preferential payment conditions for the Russian gas. Until recently, the money for the gas consumption went into a special account and was used for budgetary purposes. After certain actions by the executive in Tiraspol the transparency of using this money was lost, so I would not support the idea that the crisis is because Russia began to allocate less money or that the external factors are responsible for that. There are enough internal reserves and resources, which if optimized, could solve some of the social problems.

■ **Lina Grâu:** You said that there exist internal reserves to overcome the situation. On the other hand, we know that in Tiraspol there is a confrontation between the executive and legislative representatives who try to shift the responsibility for the crisis on one another. Do you think they will be able to undertake necessary anti-crisis measures under these conditions or we will witness a confrontation between the two sides given the coming elections?

■ **Vladimir Iastrebczak:** In December 2016, we will have presidential elections in Transnistria, while the elections for the Supreme Soviet (Parliament in Tiraspol) and local councils will take place on the same day and already in November 2015. Basically, in a few days the local councils and the Supreme Soviet will go on vacation, which means, de facto, entry in the electoral campaign. So, maintenance of the status quo seems already quite problematic. I think they will try to preserve or stabilize the situation. But given that things change

at the regional level, there are certain moments which will require some coordination between the authorities in order to get them stabilized. I mean, for example, a decision on the Autonomous Trade Preferences in the trade with the EU. It is an objective reality that this trade regime will expire on 1 January 2016. If they succeed to postpone that period for a year or six months, it will be good, but the situation is changing anyway.

Regarding the coordination between the executive and legislative powers, they have demonstrated repeatedly the ability to find ways out if the latter are really needed. Now it would be a priority to develop a joint decision in the economic area. And this, of course, will be the touchstone issue of the Value Added Tax (VAT). This issue which is apparently mainly technical in nature still creates problems when working on other markets. The executive and legislative power must work together to develop a solution here, especially as this is possible. The enterprises have to be given the opportunity to work within different tax systems, i.e. who needs - to work in the VAT system, who does not - to maintain the current system. I do not think it would be good to have a categorical decision in favour of the VAT system, as this could be rejected by the Supreme Soviet bearing in mind the interests there and that VAT is not very convenient to big importers.

Obviously, the pre-election situation has a significant impact on the decision-making process - no one wants to cut social spending, no one wants to bear responsibility for the social destabilization. But since unpopular decisions have already been taken, everyone should think about how to minimize the consequences for the most vulnerable population. And I have no doubt that prerequisites for such national consensus do exist.

■ **Lina Grâu:** You have mentioned about the Association Agreement with the EU. What is the prospect at present - will Tiraspol join this document by the end of the year? Officially, Tiraspol categorically denied last year the possibility of alignment to this document. However, the economic situation is getting more complicated and cancellation of the EU trade preferences would have serious consequences for the Transnistrian enterprises and the situation in the region.

■ **Vladimir Iastrebczak:** Now the situation is a little bit strange though explicable – in Chisinau it took a while to form the new coalition, while Tiraspol is more concerned with overcoming the crisis, trying to find internal resources or ask for help from the Russian Federation and Ukraine. And against this background, the issues regarding the free trade regime between Moldova and the EU have been secondary. I have the impression that both sides believe that it's only March and that there is still a long way until the end of the year. I think it is a dangerous illusion, because Tiraspol will soon be starting the election campaign for the Supreme Soviet and this leaves even less time and human resources to address this really serious problem.

The key challenge for Tiraspol remains the fact that it is very difficult to separate Chapter 5 of the Association Agreement, which refers to the free trade, from the other aspects of the document. The provisions of Chapter 5 are closely related to those of Chapter 4, which refer to common economic issues, and to those of the next chapters that relate to the institutional and transitional provisions.

An eloquent example is the meeting of the Association Council between



Moldova and the EU from March 16th. In this Council parties are equally represented. It is this body which will decide on the possibility of extending the Free Trade Area to Transnistria. Transnistria, though, is not represented in this body. So this is an example of how Tiraspol, even if it tries to meet all the provisions of Chapter 5, will still have enough questions about how these mechanisms are operating. And these mechanisms will not function separately from other provisions of the Association Agreement. And this remains a challenge for Tiraspol – the fact that it is difficult to separate the political part of the Association Agreement from the economic one.

In our situation, when we had the referendum in 2006, and the external course is towards the integration in the Eurasian union and the Russian Federation, the political part of the Association Agreement is unlikely to be fulfilled by Tiraspol. For this to happen, I think, there would be need for really radical changes in our political system, which is not in sight in the foreseeable future. Therefore, in order to minimize the consequences of the trade preferences' cancellation, the principle of depoliticization should be applied.

In addition, an action format should be found. Obviously, the main decisions should be taken by Chisinau and Tiraspol, while the European Union and Russia should participate actively in the discussions. Additionally, we are bordering with Ukraine, therefore, I think, it would be important that it also takes part in the process. So, it should be a five-sided and fully depoliticized format, with participation of economic experts from the EU, Russia and Ukraine. It requires not only respectful diplomats representing embassies here, but especially professionals in trade regimes. For the time being, we see activities in this direction only on the part of the EU.

We do not see such an interest from Russia and in my view, it would be good for the activities on this segment to begin.

■ **Lina Grâu:** A first meeting between the Moldovan Prime Minister Chiril Gaburici and the Tiraspol leader, Yevgeny Shevchuk, has taken place recently. Do you expect for the 5+2 talks to be resumed, including the operation of the working groups? Do you see any optimism about these developments?

■ **Vladimir Iastrebciaik:** Anyway, this first meeting after a break of more than a year and a half inspires optimism and it is a positive signal for the working group leaders who should meet and resume work. There is a certain optimism related to the fact that neither Mr. Osipov will have to tackle the topic from scratch as he had previously coordinated the process and had participated over the past years in several expert forums in this field. So, people know very well the subject and I think, the key factor is the political will and willingness of politicians to interact- not only to make declarations but also to identify solutions.

Regarding the 5+2 negotiations, the break has really lasted for too long, but on the other hand, the Tiraspol administration wants to avoid sterile meetings, trying to fill the format with real content in the course of preparation for these meetings. I think it would be wrong to delay the talks for too long, because without contact and communication at various levels it will be very difficult to move the dialogue and promote the interests.

■ **Lina Grâu:** Experts have noted that lately the tone of the Tiraspol representatives has become more conciliatory. Has Tiraspol become more willing to accept solutions in the situation of the crisis?

■ **Vladimir Iastrebciaik:** In fact, the rhetoric has become quiet on both sides. Chisinau has been for long busy with its parliamentary elections, while Tiraspol has been dealing with the crisis. In addition, in Chisinau a new team came to power and it would have been counterproductive and even harmful for the relationship of the two sides to begin immediately with criticism. That is why, I believe, the positive dialogue messages coming from Tiraspol can be interpreted as a softening of rhetoric. In reality, this is another invitation to the Moldovan side to try and identify a consensus, avoiding making just statements. So, I see primarily a call to a direct dialogue in which Chisinau and Tiraspol should try see each other as equal parties and real subjects able to help with overcoming the current crisis in the first place.

■ **Lina Grâu:** In a few sentences, what are the trends for 2015 in the Transnistrian issue on the regional level, especially regarding the way out of the crisis?

■ **Vladimir Iastrebciaik:** It is the economic component that should become a priority, because it will be a positive factor for the population in the sense of ensuring stability and can also serve as a basis for further discussions on other issues, including political ones. There has to be established a certain economic foundation for collaboration or at least the existent links should not be jeopardized. In order not to worsen the situation, the emphasis should be on this particular field. From my point of view, Mr Gaburici's business experience and the business and administrative experience of Mr. Shevchuk will contribute significantly to this, and the statements voiced provide some ground for optimism.

Editorial

By Ernest Vardanean



Transnistria: economic decline and increased geopolitical interest

Developments in the Transnistrian region show an alarming trend: sharp reduction of budget revenues as a result of the self-proclaimed republic's isolation.

Since 2014, the pensions and salaries of the civil servants, militia and other state employees have been "cut" by 30 percent. In the beginning, the Transnistrian authorities asserted that those austerity measures had been implemented due to the reduced volume of aid from the Russian Federation as the latter had to care more of Crimea which was annexed in March last year.

However, last autumn, other reasons for that have been identified which seem to be more credible. We have learned from the electronic media of Transnistria, which is in opposition to the Shevchuk's administration, as well as from the Russian media, about the dramatic "freezing" of relations between Moscow and Tiraspol. The problems are not of political nature, rather have to do with the financial cooperation. Reliable sources say that Moscow has doubts as to the transparency of distribution

of the funds transferred to Tiraspol for the budget sector employees. They speak about lack of confidence in the Transnistrian administration which had apparently spent the money fraudulently.

Last year, the officials in Tiraspol said the technical difficulties were temporary and that the statements about Moscow's refusal to provide financial aid were wrong. Moreover, the public sector employees were promised to be compensated for all the amounts "cut". But so far, nothing has been compensated and for the time being no one knows when all the payments will be re-established. In February this year, for the first time in 10 years, and for the first time after the change of power in Transnistria, protests have been held. The public employees in Tiraspol and Ribnita have expressed their dissatisfaction with the decline in the living standards and requested reinstatement of wages and pensions in full measure.

On the other hand, the socio-economic situation has become a perfect "gift"

for the opposition represented by the "Obnovlenie" Party and the "old guard" of Igor Smirnov. Anti-Shevchuk forces are preparing a series of actions designed to draw the attention of the Transnistrian society to the failure of the social policy and cooperation with the Russian Federation. And here we must mention one very important thing: indeed, the main mistake of Shevchuk's team consists in the exclusive stake on Dmitry Rogozin, Moscow's special envoy to Transnistria.

Also, according to some well-informed sources, the figure of Rogozin causes laughter in the Russian capital. My interlocutors stated with certainty that the Russian Deputy Prime Minister is neither respected by the Kremlin, nor by the Foreign Ministry, the Ministry of Defence, and the Russian special services. The fact that Rogozin is "curator" of Moldova, including Transnistria, has no special significance, because the Vice Premier is just a clown who, from time to time, sensitizes the public opinion in Chisinau through scandalous statements and creates the impression that Moldova would have

serious weight in the Russia's foreign policy.

Accordingly, those who rely solely on Dmitry Rogozin, are not welcome in Moscow's high-society circles. The Transnistrian leader got exactly in such a situation. All important doors have closed for Shevchuk who is not able to convince the Russian partners to reinstate the financial aid program. Especially, the Russian officials have noted several times that Mr. Shevchuk and Ms Nina Shtanski travel abroad, including for vacation, on the account of the Transnistrian budget, in full financial crisis, which causes confusion in Moscow.

All the above-mentioned does not mean that the Russian Federation is not interested in the separatist region. In the context of the Ukrainian crisis,

the Russian troops in Transnistria even though yet theoretically, represent a risk of opening a second "front" against Kiev.

On the one hand, Transnistria seems to be "a suitcase without handle" - poor, badly managed, with desperate people who still remain loyal to Moscow. On the other hand, this in no way means that Moscow would weaken the political support to Tiraspol in the "5+2" negotiations. Therefore, I disagree with some colleagues who believe that the Transnistrian administration could become more flexible or even vulnerable towards Chisinau. The results of the negotiations depend on the political will of Russia and on its interaction with the West. So, the financial problems remain entirely in the context of relations between Moscow and Tiraspol and Moldova should not have false expectations in this regard.

The existence of this region creates favourable conditions for a possible spread of territories of Ukraine under the control of pro-Russian forces. For the time being, it's not the time yet to make predictions about how Russia could use Transnistria against Ukraine.

However, henceforth, we can say that Moscow has found a new way of applying geopolitical interests in Moldova. Ms Vlach's victory in the Gagauz elections for bashkan from 22nd of March means total failure of Chisinau as the population of the autonomous region has more confidence in those who advocate for Eurasian integration. The Gagauz reject largely Moldova's aspirations towards the European Union, and that it is no less alarming than the hypothetical intention of the Russian Federation to benefit from the results of elections in Gagauzia.

Victor Chirilă: Hope Tiraspol will capitalise on the openness of Chisinau and international partners

Director of the Foreign Policy Association, Victor Chirilă, hopes Tiraspol will capitalise on the openness of Chisinau and international partners and decide in favour of the implementation of the trade rules required by the Free Trade Agreement with the EU.

■ **Lina Grău:** How can the crisis in Transnistria be overcome, given that Russia cannot or doesn't want to financially support Tiraspol to the extent it used to do before, Ukraine



is interested in better control of the border on the Transnistrian segment and Transnistria itself is

in a rather difficult situation being unable to financially support the left bank, given the fact that the budget revenues in the Transnistrian region fell by 40 percent?

■ **Victor Chirilă:** If the decreasing trend of budget revenues continues until the end of this year, the Transnistrian region budget will have a shortage of about one million rubles, which is exactly the amount Tiraspol needs to meet social spending.

Obviously, under these conditions the socio-economic pressure on the Tiraspol administration is high. It is normal to expect that the Transnistrian region would be more flexible in the cooperation and talks with Chisinau. But this is not certain as there may be other developments, when the Tiraspol administration will have to tighten the screws further, control the situation and be more rigid to Chisinau. It is precisely this development that should be avoided.

From this point of view, Chisinau can use this situation as an opportunity to boost the cooperation between the existent working groups and resume the discussions in the “1+1” format at the level of the negotiators from Tiraspol and Chisinau but also the “5+2” talks.

There are already encouraging developments – the Prime Minister Chiril Gaburici had his first meeting with the Transnistrian leader, Yevgeny Shevchuk; the protocol on the railway connection between Chisinau and Tiraspol has extended, which is a promising signal for the business community of the Transnistrian region. Such openings should be created in other areas as well. In my view, Chisinau should have a much more proactive attitude and take the initiative as this is exactly what the European partners are expecting.

As far as I know, the European partners are ready to help us - both Chisinau and Tiraspol - with experience, necessary expertise and financial assistance in order to open more platforms of cooperation provided progress is being made in these areas.

■ **Lina Grâu:** You said that Tiraspol could be a little more flexible in the talks with Chisinau. Do you think this flexibility could go as far as that Transnistria could accept the Association Agreement and the new trade rules that would allow the inclusion of Transnistria into the Free Trade Agreement? After this year, the Transnistrian enterprises will not be able to trade within the preferential regime with the EU and this will have a further negative impact on the budgetary revenues and the economic situation of the region.

■ **Victor Chirilă:** The meeting held between Prime Minister Gaburici and the Transnistrian leader, Shevchuk is already a sign of openness and flexibility of Chisinau and the Transnistrian region. I know there is a great desire on the part of Tiraspol to develop cooperation between Transnistria and foreign donors. But this is not so easy, especially when the foreign donors do not know very well what the situation is and do not have access to information. Also, Transnistria is not ready to take this assistance as it doesn't have the necessary capacity.

That is why there is need for a deeper cooperation in the area of exchanging the information and analyzing the situation in different fields with the Chisinau authorities, donors and international partners so that the latter understand better what the needs are. Also, the Transnistrian region needs to build capacity in different areas. This can be done either by transfer of experience in the dialogue with Chisinau, or through cooperation with the international organizations.

This, I think, some officials in Tiraspol have started to understand that. Of course, the economic situation forces them to understand this truth. We shall see whether there will be a desire to implement such an approach. I hope that Tiraspol will want to exploit this openness of both Chisinau and the international partners in order to help the Tiraspol administration cope with the problems of the region.

■ **Lina Grâu:** In this situation, we have not talked about Russia's interests in the region. Do you think Russia will allow this rapprochement of Tiraspol towards Chisinau and the dialogue with the European partners?

■ **Victor Chirilă:** Moscow understands it very well the precarious situation the region finds itself in. But at the same time, Russia is not ready to contribute with the necessary financial resources in order to deal with the problems of the region. They have transferred with difficulties eight million US dollars to pay the pensions and other social costs in the region. Moreover, the supplement that the Russian Federation pays to each pensioner was reduced from \$15 to \$9. So, this is another reason why Transnistria should think of identifying new sources for coping with the social and economic pressure.

Moscow itself is interested in Transnistria being economically self-sufficient and having access to markets either in the EU, the Russian Federation or Ukraine. I think that this possibility should be exploited by both sides in order to boost the economic and trade cooperation.

■ **Lina Grău:** In this situation, the fact that Transnistria is held by Moscow as a lever to control and influence the situation in the Republic of Moldova is a well-known thesis. What can Chisinau do in order to prevent Tiraspol from becoming a tool in the hands of Moscow?

■ **Victor Chirilă:** Unlike the 90s, when Moldova was dependent on the Transnistrian region economically and in terms of energy and railway connection, the things are different now. Transnistria is more dependent on Moldova than Moldova on the Transnistrian region. Just last year, about 60 percent of the Transnistrian exports were oriented towards Moldova. The right bank consumes the electricity produced by the

Cuciurgan power plant. Moldova offers Transnistria the possibility to export to the EU markets due to the agreements that Chisinau has signed with the EU. Moldova has now a new rail route to export its goods to Ukraine and the Russian Federation, bypassing the region. The protocol that Chiril Gaburici signed with Yevgeny Shevchuk is just an openness of Moldova towards the Transnistrian region and the enterprises there.

So the dependence of Moldova on the Transnistrian region has decreased significantly in the recent years, which means that the Russian Federation cannot use Transnistria to the full extent as a blackmail tool in relation to the right bank.

Nevertheless, in Transnistria there is a Russian military contingent—a well-equipped army of Transnistria of about 10 thousand soldiers, 18 tanks, and heavy military weapons—which is better than that of Moldova. These things are a risk and a tool that can be used by the Russian Federation to exercise political influence on Moldova.

And, of course, the risk of a potential violent conflict always causes some concern in Chisinau and can influence the position taken by Chisinau, either internal or external, and the Russian Federation understands this very well. As long as this potential violent conflict exists, Chisinau will be reluctant to take cardinal decisions about its future.

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