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Could Transnistria block Moldova's integration with the EU?

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Moldova's progress in its negotiations on an Association Agreement with the European Union, with a Deep and Comprehensive Free Trade Area (DCFTA) as its key element, has become a source of tension between Chisinau and the breakaway Republic of Transnistria. An almost certain refusal by Transnistria to join the DCFTA, will deprive the region of the benefits it currently enjoys under the EU Autonomous Trade Preferences (ATP) worsening its already precarious economic situation. It is to be expected that the issue will become an additional source of tension between the two sides of the Transnistrian conflict, and might also have a negative impact on the EU–Russia relationship.

The signing of the Association Agreement, which is scheduled for the autumn of 2013, will be an important step towards Moldova's integration with the EU. Both sides assign great importance to the speediest possible finalisation of the Agreement, and so far the negotiations have been described as progressing very smoothly. Transnistria's highly sceptical attitude towards its possible accession to the DCFTA, however, is consistent with the interests of its main ally, Moscow. It is highly probable that Russia intends to thwart Moldova's EU association process. Moscow's objective seems to be to draw Moldova permanently into its own sphere of influence, and therefore it perceives Chisinau's movement towards the EU as a transgression against its geopolitical interests. Consequently, in order to hinder this process, Russia may instrumentally exploit its extensive influence over Transnistria to provoke a crisis between Tiraspol and Chisinau. An apparent increase in Russian presence in the region over the last few months (including tighter control over Transnistria's KGB and the Ministry of Information) may suggest that the Kremlin is preparing to implement such a scenario.

The current state of the EU–Moldova DCFTA negotiations

The DCFTA negotiations between Moldova and the European Union were launched in March 2012, and three rounds of talks have already been held. The constructive attitude demonstrated by Moldova has allowed the negotiating teams to quickly settle a number of difficult issues (trade in goods, customs and trade facilitation, public procurement and energy), which indicates that Moldova wishes to complete the negotiations and sign the Association

Agreement in the autumn of 2013. Declarations coming from Brussels also suggest that this is a realistic time frame. Although the final Association Agreement will require ratification by all EU member states (which could take up to two years), an interim implementation clause is likely to be adopted for the DCFTA. The implementation of the DCFTA will bring about a deepening of economic integration of Moldova with the EU, and the adoption by Moldova of part of the EU *acquis*, which is seen as a crucial instrument in the modernisation of the country.

DCFTA and Transnistria

Currently, there are no reasons to believe that Transnistria might change its position and join the ongoing DCFTA negotiations. This in turn means that the region will not be covered by the agreement. Despite encouragement from Brussels and Chisinau, Tiraspol has so far refused to participate actively in the talks and has merely delegated to it a low-ranking observer. This means that Transnistria is *de facto* not taking part in negotiating matters that are of direct interest to Transnistrian exporters (export quotas, customs tariffs, transition periods, etc). Transnistrian government officials and local experts have argued that accession to the DCFTA would actually be economically harmful to the region, and that implementing the EU *acquis* would run against the grain of Tiraspol's policy of legal harmonisation with the Russian Federation. One gets the impression that Transnistria refuses to par-

Currently, there are no signs suggesting that Transnistria could join the DCFTA negotiations, and that it will therefore eventually be covered by the agreement.

ticipate in DCFTA negotiations in order to argue later that the new trade regime has been introduced unilaterally, without consultation with Tiraspol, and without taking its interests into account. **Transnistria might even hope that as a result of its refusal to join the DCFTA, the EU will suspend the signing of the DCFTA agreement with Moldova.**

Currently, Transnistrian companies are able to export goods to the EU market under the Autonomous Trade Preferences granted to Moldova by Brussels in 2007. As a result, **the EU market absorbs as much as 30–50% of Transnistria's**

total exports¹. However, if Chisinau signs the DCFTA agreement, the ATP regime will be automatically discontinued. Its further application for Transnistria alone will not be possible for legal reasons; since the Transnistrian government lacks international recognition, it cannot be a party to any legally-binding agreement with the European Union. Consequently, once the DCFTA has been implemented, EU customs tariffs on Transnistrian exports will rise by 10–17%, which will have a serious impact on the region's economy.

Russia's position on a DCFTA for Moldova

The signing and implementation of the DCFTA agreement will result in a high degree of economic and legal integration between Moldova and the EU (through the implementation of large parts of the EU *acquis*), which in turn will make it impossible for Moldova to participate in regional integration projects in the post-Soviet area (i.e. the Customs Union and the planned Eurasian Union), and thus frustrating the implementation of Moscow's openly declared strategic policy goal in Moldova². The Russian political elite remains convinced that Moldova naturally belongs in the Eurasian integration projects. Importantly, fostering such projects is one of the main objectives of President Vladimir Putin's foreign policy. Most likely, from the Kremlin's perspective, it is not only the fate of Moldova which is involved, but also preventing the precedent of a successful integration of a CIS state with the EU (even if temporarily integration will remain incomplete, i.e. falling short of EU membership). Russia is particularly

¹ According to Transnistria's official figures, 30% of the region's exports reach the EU market; Moldovan and EU experts, however, have placed this figure at around 50%. Another 35% of Transnistrian exports are bought by Moldova.

² For a detailed discussion of Russia's foreign policy on Moldova, see Witold Rodkiewicz, 'Russia's strategy towards Moldova: continuation or change?', *OSW Commentary*, 18 April 2012, http://www.osw.waw.pl/sites/default/files/commentary_74.pdf

concerned about the effect such a precedent might have on Ukraine's future political course. Therefore one should assume that **Moscow may use Transnistria as an instrument for preventing closer ties between Moldova and the EU, and to provoke a political crisis between Chisinau and Tiraspol, using as a pretext Tiraspol's loss of trade preferences following Moldova's accession to the DCFTA.** An attempt to provoke such a crisis is all the more likely due to the perception, widely shared in Russia, that the current geopolitical situation and reality and the existing balance of power with the West, is favourable to Moscow, due to the deepening crisis within the European Union and the serious economic plight of other post-Soviet states. Therefore in Moscow's view this might look like a propitious moment for undertaking actions that would permanently block integration between former Soviet republics and the European Union.

Russia may use Transnistria to block the integration process between Moldova and the EU, provoking a crisis in relations between Chisinau and Tiraspol.

In the context of the scenario sketched out above, Russia's tightening of control over the Transnistrian security forces (for instance, the new deputy head of Tiraspol's KGB previously served as Dagestan's deputy director of the Federal Security Service) and the Ministry of Information (which controls the local media) seems particularly significant. Over the last few months, visits to Transnistria by high-ranking Russian officials have become increasingly frequent; among the recent visitors were Dmitry Rogozin, the deputy prime minister and the Russian president's special envoy to Transnistria (who is also responsible for the Russian defence industry) and Anatoly Serdyukov, Russia's defence minister (a historical first). All these measures collective-

ly can be seen as a preparation for a crisis in the region, the aim of which would be to block further integration between Moldova and the EU, and to send a signal to the West that Moscow will not suffer Brussels to unilaterally decide the future of countries from the so-called 'shared neighbourhood'. Particularly striking in this context was a statement by Sergei Gubarev, Russian Foreign Ministry's special envoy, who suggested during his visit to Tiraspol in mid-October that Transnistria could be allowed into the Customs Union, and that Russia might recognise the region's independence should Moldova lose its sovereignty or neutrality.

EU proposals for Transnistria's membership of the DCFTA

Both official and unofficial statements by EU officials indicate that the **European Union assumes that the issue could be resolved by convincing Transnistrian businesses of the benefits of joining the DCFTA, and thus retaining their present access to the EU market.** Brussels hopes that Transnistrian companies will be able to put sufficient pressure on Yevgeny Shevchuk to persuade him to join the on-going DCFTA negotiations. In addition, Brussels also seems to believe that the DCFTA offers such economic opportunities that it can serve as an instrument for persuading the political and economic elites in Tiraspol to show more flexibility and to arrive at a *modus vivendi* with Chisinau within a framework of a single Moldovan state. Therefore EU officials are approaching the DCFTA as a tool for facilitating the reunification of Moldova – both directly in economic terms and indirectly in political terms. **However, Brussels' approach is based on wishful thinking and a faulty diagnosis of the current situation in the region.** Transnistria depends heavily on Russian subsidies (both direct ones, such as financial transfers, and indirect ones, such as a free supply of natural gas from Russia), and in order not to lose this sup-

port, Shevchuk must strive to retain Moscow's favour. In addition, the Transnistrian leader remains in conflict with the political milieu of the former president Igor Smirnov and is fighting for extra powers with the Transnistrian parliament, which is controlled by the opposition Obnovleniye party. Moreover, he remains at loggerheads with Transnistria's largest company, Sheriff.

The EU believes that the issue can be resolved by convincing Transnistrian businesses of the benefits of DCFTA membership, including continued access to the EU market.

In these conditions, Shevchuk cannot afford to ignore the Kremlin's wishes. During his visit to Moscow in February of this year, Shevchuk declared that Transnistria was eager to participate in integration projects within the framework of the Customs Union; while in early June, he declared that Eurasian integration should be taken as the cornerstone of Transnistria's national idea, and issued directives for the official foreign policy conception to be re-drawn accordingly.

Possible scenarios

It appears that the European Union does not have a contingency plan for a scenario in which Transnistria decides not to join the DCFTA. The EU also seems to be playing down the possibility that its actions (the offer and the signing of the DCFTA) could result in a serious crisis both in the region and in its relations with Moscow. Neither Brussels nor the governments of the individual EU member states are prepared (politically or conceptually) to say whether the EU is willing to allow for a crisis in its relations with Russia for the sake of pressing ahead with the implementation of its policy towards former Soviet republics.

Assuming the most likely scenario, that Tiraspol will continue to reject the EU's invitation to join the DCFTA, Brussels will be left with the following three options:

- **Chisinau agrees to a customs border between Moldova and Transnistria**

It appears that Chisinau could potentially agree to such a solution, even at the expense of deepening the current division of the country and further delaying the prospect of reunification. However, this option carries the greatest risk of serious conflict because it would require the division of the so-called Security Zone, inhabited by around 700,000 people, which until now has been controlled by trilateral peacekeeping force (Russia–Transnistria–Moldova). Attempts to set up Moldovan state customs checkpoints within this zone could be thwarted by Transnistrian armed formations and even lead to armed clashes. On the other hand, if Chisinau decided to locate the checkpoints outside the Security Zone, this would translate into its *de facto* surrender of a significant part of its territory. Consequently, Chisinau's attempts to create a customs border could be used by Transnistria, and its ally Russia, as an excuse to provoke incidents. It is unlikely that this could turn into a full-blown military conflict, but it could definitely lead to armed incidents, which would consequently make it impossible to create a customs border, and by extension, might prevent Moldova from entering the DCFTA. Such incidents could be accompanied by Russian economic pressure in the form of a selective ban on the import of Moldovan goods to Russia, and/or interruptions in the supply of Russian gas to Moldova)³.

³ Signs of Moscow's pressure on Moldova have become evident over the last several months; examples include Russia's insistence that a new contract on gas supply to Moldova could be signed only if Chisinau abandoned its plans to implement the EU's Third Energy Package. See Agata Wierzbowska-Miazga, 'Russia's energy ultimatum to Moldova', *EASTWEEK*, 19 September 2012, <http://www.osw.waw.pl/en/publikacje/east-week/2012-09-19/russia-s-energy-ultimatum-to-moldova>

Nonetheless, even if a customs border with Transnistria were successfully established, the significant limitations on Transnistrian exports to the EU following Moldova's adoption of the the DCFTA would almost certainly create a situation similar to that witnessed in 2006. Then, after Ukraine had discontinued the practice of allowing Transnistrian goods through its border without Moldovan customs seals, Tiraspol declared that it was subject to an economic blockade, rather than allowing its firms to register in Chisinau and thus to enable them to continue their export operations (even though such an option was offered by Chisinau without subjecting the firms to double taxation). At the time Tiraspol preferred to provoke a crisis in its relations with Moldova to a 'pragmatic' solution. and it is unlikely that its reaction to a new change in its export operation regime will be different.

- **The EU suspends the signing of the DCFTA agreement with Chisinau**

This option, in turn, would deliver a crippling blow to the EU policy on Moldova, which during the last two years have been widely regarded as a success. Brussels, and a number of individual EU member states (particularly Germany), have invested, both politically and financially, in the process of drawing Moldova closer to the European Union. The idea was to make Moldova into a positive example for the EU's relations with other countries in the so-called 'shared neighbourhood'. A decision to suspend the signing of the agreement could also be perceived as a sign of weakness in the EU's relations with Russia. Such a move could

give the impression that when faced with the prospect of a diplomatic crisis, Brussels is prepared to abandon its strategic goals in Eastern Europe, and (despite its rhetoric) to accept that the countries in the region may not freely choose between different regional economic integration projects.

- **The EU agrees to grant Transnistria all the privileges afforded by the DCFTA**

This solution is problematic for at least two reasons. First, under the DCFTA both sides should ultimately lift all mutual customs tariffs. A decision to unilaterally cover Transnistria by the DCFTA rules would in effect reward Tiraspol's obstructive attitude, since the region would benefit from all the resultant privileges (including duty-free access to the EU market) but without having to incur any costs or making any commitments. For example, Transnistria would still be able to charge duty on goods imported from both the EU and Moldova.

Second, by including Transnistria in the free trade area, the EU would knowingly create a 'hole' in its customs border by opening up the possibility that goods produced outside the DCFTA could freely enter the EU market. This is because Chisinau would not be able to inspect Transnistrian manufacturers in order to enforce the so-called Rules of Origin, which are designed to prevent the re-export of goods produced outside the DCFTA area into the EU. Consequently, the EU cannot extend DCFTA privileges to Transnistria, because it would not be able to ensure that Moldovan goods produced in Transnistria had not in fact been produced in China or Russia, for example, and only repackaged in Transnistria.

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