

Transnistria: Conflicts and Pragmatism of the Economy

Anatol Gudim,

Centre for Strategic Studies and Reforms / CISR

1. The post-soviet area is now – 15 years since the collapse of USSR – still flexible / slidable and tensely. The processes of building of new statehood, transformation of political systems and social life all have their common and individual features in former soviet republics. Yet, though, centrifugal tendencies prevail and, as it seems, crystallization of the environment will not commence soon. And appearance of new players in the post-soviet field: European Union, USA, Euro Atlantic and regional international organizations, whose presence has been already showing quite actively in politics – domestic and foreign – of the new states, including Moldova that found itself in a “buffer zone” between the EU/USA and Russia, is partly the reason for this.

Russia’s attention towards Moldova (Basarabia – in the past) is traditional, but as for the post-soviet times, it showed the most visibly three times, in connection with the events in Transnistria mainly: in 1992 – in order to stop hostilities; in 2003 – through the “Kozak’s plan” to federalize Moldova; and, finally, in 2006 – in order to overcome the “economic blockade” of this region after the introduction of the “new customs procedures” at the Transnistrian sector of the Moldovan-Ukrainian border.

2. Transnistria is one of the “pain spots” on the post-soviet area. For EU, it represents threats of the “frozen conflict” closest to its borders. For Moldova, it means the dismembered country’s impairment, for Transnistria – uncertainty of the future, and for Russia – caring for compatriots and, nowadays, for - ownership. Having arisen on the surge of the local confrontation between Moldova and its most developed region, the “phenomenon of Transnistria” has immediately exceeded the limits of intra-Moldovan relations, increasingly taking on the *regional dimension*. At that, the economic component of the “Transnistrian issue” has been ever stepping forth to the forefront.

The position of the Center for Strategic Studies and Reforms (CISR) is that economic interests have been constantly underlying the “Transnistrian conflict” and showing through from the very beginning[1]. First, in the 90’s, it was interests of the region as a whole, as the most well-off as regards population’s incomes and the most industrially developed part of MSSR and, consecutively, interests of the local “red directors’ corps” who initiated creation of the “free economic zone” (June 1990) much before TMR declared its independence. Later, after the monetary privatization with participation of both local elite and foreign investors (Russian first of all) since 2001, it was interests of the new owners and the local administration collaborating with them.

3. “Moldo–Moldovan” (RM – TMR) economic relations varied from “do anything you want – trade with whoever you want” (including legalization of the TMR’s foreign trade activity through customs seals of the Republic of Moldova) to from time to time pressing of Transnistria’s export-import transactions. It is paradoxical, but it has been entry of the Republic of Moldova into WTO in 2001 that became the reference point in turning to the current confrontation of Moldova’s and Transnistria’s economies; and the forthcoming entry into the same organization of Russia and Ukraine – the guarantor-states and main trade partners of both Moldova and Transnistria not only served as a factor that could precipitate reaching a compromise in Transnistrian settlement, but, on the contrary, made the situation in the region more dramatic. *Three acts of this drama are already over.*

Act I. First, in 2001, Transnistria was deprived of the right that Moldova had granted to that region in 1996 to use customs seals of the Republic of Moldova while performing export-import operations. Transnistria objected to that, citing the Moscow memorandum (signed by the RM’s President as well) that specifies the region’s right for foreign-economic activity[2]. Ukraine’s reaction was noticeably late mainly due to active involvement of its economic agents in traffics in Transnistria (Ukraine’s share in import of goods to Transnistria is 40% as of 2005) and it was only May 15, 2003, when the State Customs Service of Ukraine and the Customs Department of Moldova signed the Protocol on Mutual Recognition of Shipping, Commercial and Customs Papers. Further, in July 2003, Moldova’s Government introduced procedure under which Transnistrian economic agents can execute papers necessary for export-import transactions only after registration at the State Registration Chamber of Moldova. To

prompt Transnistrian enterprises to legal traffics it was established that: they are conferred ID numbers free of charge; no customs fees are collected for declaration and customs clearance of goods during export/import, except for customs legalization of 0.18%; licenses are issued free of charge; Transnistrian economic agents bear no liability for the budget of the Republic of Moldova. In the upshot, circa 320 enterprises of the region obtained such a registration in Chisinau during 2003; and “Kvint”, the leader of cognac business in the Black Sea area was the first among them.

Act II. During another outbreak of exacerbation in the Transnistrian zone (“school crisis”– blockade of Moldovan schools situated in the region) the Moldovan Government decreed on July 30, 2004, that any economic agent may only execute export-import transactions within internationally recognized borders of Moldova in strict compliance with the national legislation and international norms and rules. The Moldovan Ministry of Foreign Affairs notified Ukrainian Government that passage of goods belonging to physical persons is suspended at 11 frontier points situated in the Transnistrian sector of the Moldovan-Ukrainian border (beginning from August 20, 2004).

At the same time, Moldova submitted a proposal for EU and OSCE to conduct an international monitoring mission in the area. The arguments were as follows: ensuring economic security and regional stability in the Transnistrian zone and legalizing foreign trade of the region’s enterprises under international rules, norms and standards. EU, starting from its commitments under the EU – Moldova Action Plan, decided to appoint an “Aid Mission” for the Moldovan-Ukrainian border, which started its activities in December, 2005.

Act III. Moldovan Government issued the decree (August 2005) on regulation of traffics resulting from the Transnistrian foreign trade activity, through which the Moldovan State Registration Chamber was charged to introduce Transnistrian enterprises executing export-import transactions into the State Registry of Enterprises and Organizations (temporarily), with the right to obtain “C”-type certificates of origin and “CT-1”-type – for export to Ukraine. The enterprises registered permanently can obtain “A”, “CT-1”, “RM” and EUR”-type certificates of origin.

But more than half a year has passed before such a regulation was introduced into operation – since March 3, 2006, which took Common statement of Moldovan and Ukrainian Prime-Ministers (December 30, 2005), a series of bilateral consultations with participation of EU and informing business community and the Transnistrian administration. At first, the latter recommended Transnistrian enterprises to not register in state bodies of the Republic of Moldova, perceiving it as an attempt to take them out from the Transnistrian “legal area” and financial-budgetary system.

Later on, Transnistria conducted quite an effective PR-campaign (“economic blockade”, “humanitarian disaster”, etc.), which resulted in political and economic demarches of Russia (declarations of the State Duma and the Ministry of Foreign Affairs, the decision to grant credits and humanitarian aid, the introduction of restrictions for Moldovan export).

Now, after the four months of the “new customs regime”, the situation in the Transnistrian zone is very contradictory and is far from normalizing. On the one hand, most Transnistrian enterprises have registered at the State Registry of RM (84 – temporarily and 98 – permanently). But before that, during March – May, many enterprises (as the region’s administration recommended), including Rybnitsa Steel Works, either stopped their production or just kept filling up their warehouses. Some enterprises agreed for double taxation. Others (a group of light industry enterprises that work by contracts with partners from the EU countries) have no restrictions as regards import of inputs and export of products. “Grey schemes” of traffics were also used, fuelled by interests of administrative-economic conglomerations from Ukraine (Odessa – Illyichevsk, Vinnitsa, Kherson), Transnistria and Moldova. According to estimates, the “new customs regime” could yield daily losses of 2 mil USD – for regional budgets and economic agents of Ukraine. In fact, though, it were economies of Moldova and Transnistria where the worst decline took place – reduction of production, export and budget revenues.

Political costs are also quite evident: the 5+2 format negotiations on settlement of the Transnistrian conflict was suspended; Russia and Ukraine have practically turned from mediators into participants of the conflict; implementation of the “Yuschenko’s plan” (“3 D’s” over 18 months, yet 14 months have already passed) is being more and more put off for the future.

4. *The situation is being aggravated by the contradictory actions of the Republic of Moldova concerning political and economic guarantees for both Transnistrian business and population (property rights, registration and taxation, relations with the budget and banking system of RM, etc.) and the region as a whole (local self-government, financial autonomy).* It seems that Transnistrian authorities and population are not quite delighted of the prospect of the (much curtailed) rights and resources granted to the other “problematic” region – Gagauzia, which obtained special status of “administrative territorial unit” in 1995.

Currently, distrust and confrontation mood dominate the dialogue between Moldova and Transnistria. In the meantime, they will have to search hard for a solution sometime or another (you cannot pick neighbors in the end). Besides, there are signs that the new Transnistrian business elite (and politicians derived from it) is inclined towards pragmatism and search for a compromise; in the form of the “union state” model, this time, rather than autonomy or federation. According to E. Shevchuk, the new Chairman of the Supreme Council of the TMR, such a state can be created after a referendum in Transnistria, pre-term elections in Moldova and TMR under observation of the guarantor-states and international organizations, and based on the Constitutional Agreement on Creation of a Union State, elaborated under the aegis of the UN special representative. “The agreement stipulates for three-year term of “rapprochement”, during which Transnistria is not invested with international legal personality and has no right to secession[3]”.

Such an approach has both supporters and opponents. Within the region, supporters are mainly the ageds who remember advantages of living together in soviet times, and the actively thinking students. But the most independent and motivated supporter of the conflict’s settlement – both in Moldova and Transnistria – is business community. A new generation of proprietors and managers came to replace post-soviet dirigisme and the “red directors’ corps”. Business in Moldova and Transnistria is internationalizing quickly (investors from EU and CIS, trade partners from 80 countries) and it already feels uncomfortable within either dismembered country (Moldova), or “unrecognized” state (TMR). In Transnistria, besides “Sheriff” (born in the region and dominating its market of foodstuffs, oil products and communications (plus constructions, sports business, etc.) that initiated formation of the “Renewal” movement, as well as a group of enterprises that work by contract basis with partners

from the EU countries, a conglomeration of businesses collaborating with the Russian Gazprom (Rybnitsa Steel Works, GRES (Cuciurgan), “Elektromash” plant, Gazprombank (Tiraspol) and others) is interested in normalization of export-import flows. Gazprom also has interests of its own that lie in the stability of its presence in Transnistria, along the way to the Balkans.

5. *The clash of economic interests in the Transnistrian area is new phenomenon that makes the conflict settlement more complicate.* In addition to conflicts that accumulated between economies of Moldova and Transnistria (registration, taxes, tariffs and other regulatory barriers, division of infrastructure, “telephone war” and so on), there appeared obstacles along other vectors over the last year or two: Transnistria – Ukraine, Moldova – Russia, Moldova – Ukraine, Ukraine – Russia. Actions of the friendly Ukraine can be an example: the decision of its government to cancel duty-free export of scrap metal to Transnistria (to Rybnitsa Steel Works controlled by Russian business); the delayed prolongation by “Ukrinterenergo” of an agreement with “Inter RAO EES” on transit of Russian electric power; Ukraine’s decision to construct a southern railway line to Izmail bypassing Transnistria and Moldova; obstacles to construction of the Moldovan oil terminal on the Danube (Giurgiulesti), etc. The Russian actions – by Rospotrebnadzor (wine) and Gazprom (natural gas) that are associated with the unsettled “Transnistrian issue” are also very painful for Moldova’s economy.

Our opinion is that disregard of the economic component of the “Transnistrian issue”, as it was before, will only further postpone finding the mutually acceptable political solution of the problem. Consideration of economic interests of the Republic of Moldova and Transnistria, as well as their partners during formulation and making political decisions is vitally important. The experts from Brussels (International Crisis Group) have finally reached the same conclusion: “a reconstruction program for Transnistria to be implemented after conclusion of a final settlement should be thoroughly thought over, and is to benefit its population, first of all. Transnistria’s inhabitants should be assured that they could continue their legal business operations and that the region would keep its property and a fair share of the revenues collected on its territory.”^[4]

The longer the period of active confrontation will last, the bigger will be the losses for Moldova, Transnistria and their economic partners, including Russia. This should prompt both Chisinau and Tiraspol to deploy the situation.

All attempts to propose settlement plans “from the outside” have yielded no success yet. This is mainly due to the fact that Chisinau, at one moment, and Tiraspol, at another, did not act as independent players, but rather as accompanists in someone else’s game. Political elites are changing and it is time, at last, for Moldova and Transnistria to display sense and take up the running, beginning, first of all, with formation of working conditions for business and socio-economic guarantees for the region’s population. It is also time to make up our minds as to delimitation of powers. It is clear that the decision has to include unequivocal answers about relations with Russia, European Union and the closest neighbors within the regional cooperation framework.

[1] Evolution of Transnistria’s Economy: Critical Evaluation. CISR, 2001; Study on Transnistria’s Economy. CISR, 2003; Transnistria’s Market and its impact upon politics and economy of the Republic of Moldova. CISR, 2005 see www.cisr-md.org)

[2] «Transnistria has the right to independently establish and keep international relations in economic, scientific, technical and cultural areas; and by mutual agreement of both parties – in other areas”, *Memorandum on normalizing the relations between the Republic of Moldova and Transnistria, Moscow, 08.05.1997*

[3] E. Shevchuk. Report at the Conference “Ways to Solve the Moldovan-Transnistrian conflict – Views from Both Banks of the Dniestr”, Institute of International Relations – Chatham House, London, 24.05.2006

[4] Moldova: No Quick Fix, International Crisis Group Europe Report N°147, Brussels 12.08.2003, p. 27