

MOLDOVA REALITY CHECK

SUCCESS STORY BEFORE THE STORM?

2ND NON-PAPER



INTRODUCTION

The “Reality Check” is a policy review process aiming to gather insights from top domestic and international analysts, practitioners, diplomats and policy-makers working in and on the Eastern Partnership (EaP) countries, with the ambition to provide a realistic policy framework based on evidence on the ground. The first such a review was the Belarus Reality Check enacted in Vilnius, Lithuania in October 2012.

Following the first Moldova Reality Check session held in Bratislava during the GLOBSEC 2013 conference on 20 April 2013, the second event took place on 5 November, 2013 in Vilnius, Lithuania at the premises of the Ministry of Foreign Affairs of Lithuania. The meeting was organised after the first hundred days of Leanca’s government and only a few weeks before the EaP Summit in Vilnius.

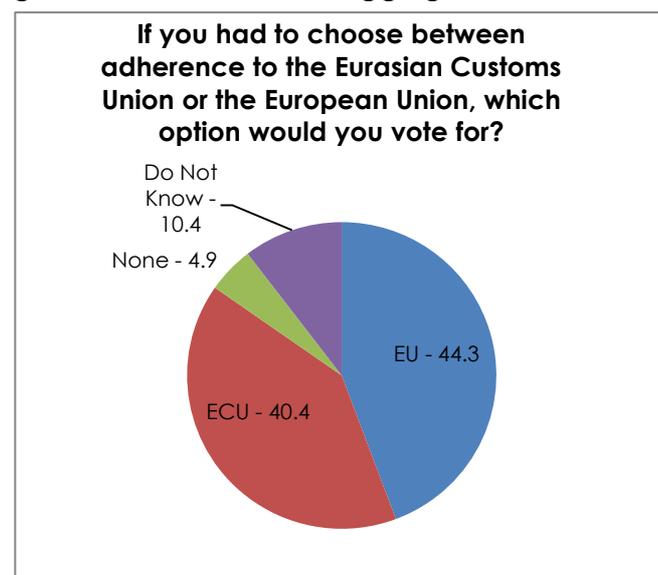
The review group comprises top Western, Moldovan and regional analysts with a particular emphasis on the independent character of the group in order to deliver evidence-based and balanced policy advice for the post Vilnius Summit period. Reality Check meetings are held under the Chatham House Rule and the list of participants is not distributed. This non-paper, summarizing the debate held in Vilnius with

additional fact-checking and peer review, is released to contribute to the policy debate in and outside of Moldova.

CONCLUSIONS

Domestic Affairs: Reforms lost in geopolitics

Among the EaP countries, Moldova is a frontrunner in understanding that European Union (EU) integration is primarily about domestic reforms rather than about foreign policy. But being distracted by geopolitics – now with a lot of help from Russia – the main homework, the transformation of the governance model, is lagging behind.



Source: *What Do Moldovans Think? Public Opinion Poll*, Slovak Atlantic Commission and Central European Policy Institute, SlovakAid, November 2013

Moldova's ruling elite accepted the EU's offer for modernisation and signed up for a wide-ranging reform process. This process would run counter to its short-term political priorities, though. In addition to that, serious challenges – polarised political climate, political instability, weak political institutions and lack of trust vis-à-vis state institutions – have a strong impact on implementation of any reforms.

Ending the “Moldova as a success story” rhetoric, which has caused cynicism among many Moldovans, would be the first important post-Vilnius Summit step in order to re-gain a power broker position. Geopolitical tattering before Vilnius caused the Moldovan ruling elite to continue its previous rent-seeking practices, further alienating the Communist opposition, widening the “either or” political framework, with Russia growing more resilient and the EU favouring the ruling coalition. Realistic expectations should be framed: transformation – as well as the association process itself – will take time.

Recommendations: While the EU should increase reform assistance, it should move away from being viewed as a partisan player. Its desirable role combines close monitoring of the political situation as a neutral public actor, supporting technical implementation (reforms) implying conditionality, and supporting civil society focusing on accountability and civic education issues. Tangible deliverables of the reform process, such as visa liberalization, should be made visible in a much bolder manner. Other benefits, such as better roads, need to be better communicated to the public too.

Concentrating on judiciary and law enforcement would be necessary for the EU, while using the regulatory framework to eliminate dubious privatization deals and

concessions (such as the case of the Chisinau Airport deal) would send a strong political message. The whole political spectrum should be covered in order to reduce the zero-sum framework, however, intensified monitoring as well as tactful assistance to pro-European parties (although distinction between them should be made, finally) should be provided by the European Parliament along with other European partisan institutions.

Throughout this process the EU may strongly consider putting re-integration with Transnistria back on the table – first through a cost benefit analysis, while the establishment of a re-integration and investment fund should follow in order to make re-integration a realistic possibility and provide an alternative to Russia's ongoing subsidies in Transnistria. Without changing the incentives for well-cemented interest groups around Transnistria (including in Russia, Ukraine, and Moldova) the association process is unlikely to be turned into an integration one – unless the EU risks another Cyprus.

Economy and Energy: Key issues not in public discourse

Who is actually aware in Moldova that the Deep and Comprehensive Free Trade Agreement (DCFTA) does not imply joining the EU, while the Customs Union (CSU) is an actual political decision (CSU being like the EU's single market)? That a certain compatibility model is possible, with Serbia for example having both Association Agreement (AA) with DCFTA as well as a free trade agreement (FTA) with Russia? That Moldova does not have a common border with the CSU, which makes participation impossible by current rules (similarly to Armenia)? Or for that matter that Moldova negotiated a ten-year transition period for the agriculture sector under DCFTA? On top of that, that energy

prices are out of scope of the CSU deal and will depend on the Kremlin's political will?

Indeed, the DCFTA dynamics is set up for longer-term and it is a trade framework intended to change the country's operation as such. Short-term costs could be mitigated, though. Still, Moldova's economy cannot afford an immediate and exclusive pro-Western vector as both markets are important, CSU (and CIS more generally) is critical for agriculture where one third of the country's workforce is employed, while the EU is crucial as a source of technology, innovations and imports, as well as competitiveness and investments. Such points are absent in the political discourse, thus leaving only "either-or" zero-sum game and geopolitical thinking.

Energy independence will be achieved only in the longer-term, but there are two key projects in gas and electricity sectors (Iasi-Ungheni and Vulcanesti-Isaccea respectively) supported by the EU already underway, while Moldova can and should devise a clear domestic strategy to reduce its own consumption and invest into alternative energy sources. Russia's offer is quite different: Russia offers no long-term development model, but short-term incentives such as lower energy prices, and is willing and able to use punitive measures and pressure immediately, e.g. by using Transnistria and Gagauzia, and selectively funding opposition parties, with the goal of undermining the EU's attractiveness in the short-term.

Recommendations: To lower the cost of its policies in short-term, the EU should focus both on delivery (assistance) and on raising awareness in the society. Information on AA and DCFTA is now confined only to a very narrow group of actors and experts. Communicating assistance is not about the

size and funds, but about the visible progress and benefits it brings. The bulk of the EU's assistance targets state actors and public administration involved in the AA and DCFTA negotiations and implementation, but a significant amount of obligations stemming from the DCFTA is to be borne by the private sector – what is the EU doing for the private sector? The EU should target the private sector in a close interaction and coordination with the European Bank for Reconstruction and Development (EBRD). When raising awareness a clear distinction between the AA and DCFTA should be made too – the two being quite confusing to the general public – as this is not only about trade, but rather a process including visa liberalisation and other benefits.

External (F)actors: EU's inroads - Resurgent Russia

It needs to be acknowledged that domestic politics of the EU and Russia interact with their foreign policies. Too often both of them are presented as monolithic blocks, but there are important nuances within the Russian political elite when it comes to Moldova and Transnistria. Also in the case of the EU, the internal developments and foreign policies are even more tightly interwoven because of the EU's multilevel system of governance.

The EU is making inroads in Moldova when it comes to assistance, Moldova now being the biggest aid recipient per capita in the neighbourhood. The political will and backing have been there despite the lack of reforms, and Ukraine suspending the signature of the AA will further increase that political support. In case of a continuing zero-sum game with Russia, the EU could be ready to accept the aspiration of Moldova to get membership – something that should naturally come after the next parliamentary elections in 2014. Moldova needs a much better track record

to persuade all EU member states, which can be achieved especially with the necessary reforms as well as handling the next elections. Moldova can even act as if it signed the AA, but a realistic timeframe should be drawn: the Vilnius Summit is the initiation, while Riga in 2015 is likely to see the AA signed and ratified (after). The visa-free regime should be in place within a year.

The EU, and especially certain member states, will push for more support for Moldova after Ukraine's decision to suspend signing the AA before the Vilnius Summit. But a lesson should be learned from Ukraine and the Russian actions. Given the 2014 parliamentary election is close and the Ukrainian suspension is so painful, a greater push for Moldova will likely trigger an even greater resurrection of Russia as well. This framework is not likely to help push the necessary reforms, rather it will be more likely to increase geopolitics.

Recommendations: Moldova certainly deserves all the support the EU can muster for the post-Vilnius period – including re-considering enacting article 49 for the AA preamble. But in parallel the EU could (and, more importantly, should) further increase political conditionality as it tried with Ukraine before Vilnius. Given it holds much more cards than in Ukraine, the outside-of-the-box thinking may be helpful considering Russia. Moscow knows that Vilnius is the beginning of the process and not the end. What the EU cannot do before the Summit may be considered after: a substantial dialogue between the European Commission and the Eurasian Economic Commission. Or, at least an expert dialogue could start – under the auspices of the upcoming Latvian Presidency of the EU - in order to identify issues of common interest and possible solutions. Given that Moldova's long-term integration perspectives are unlikely without (some kind of) participation of Russia, the EU's best

intentions should not lead towards a blind-eyed policy.

DETAILED FINDINGS

DOMESTIC AFFAIRS: REFORMS LOST IN GEOPOLITICS

Choice between the European and Eurasian model has become the subject of major focus in Moldova before the Vilnius Summit, thus reducing focus on and capacity for actual reforms. The European model constitutes a historical choice that Moldovans could make freely, and the ruling elite clearly recognises the associated benefits. But for parts of the Moldovan society concentrating on survival, being dependant on Russian markets, the Eurasian model is an alternative. The ruling government's practice of corrupt politics and the "either or" rhetoric are only fuelling those feelings. If the main success of the current government remains its declared orientation towards Europe, the opposition will have greater incentives to oppose Europe given the higher frequency zero-sum (geopolitical) framework.

Domestic reforms: there has been slow progress on domestic reforms, while public awareness about the benefits of those is even more meagre. The list of reforms is modest: the law on financing of political parties as one of the most important laws is still pending in the parliament given the lack of political will from the main coalition parties (Liberal Democratic Party and Democratic Party) to adopt it. There has been an ongoing battle of models, while the credibility of the EU has been shrinking along with the support for the government coalition. Weak political institutions and the judiciary, and the law enforcement serving political interests, continue to block reforms. The government is essentially a "marriage of convenience" of various political and business competitors and interests, although an important

distinction should be made between the Liberal Democratic Party of Vladimir Filat, and the Democratic Party of Vladimir Plahotniuc.

Although relations in the government coalition have improved, both Filat and Plathoniuc continue to lead from behind. Top political leaders (Speaker of the Parliament Igor Corman, Prime Minister Iurie Leancă, and Minister of Foreign Affairs and European Integration Natalia Gherman) represent a highly positive pro-EU face of Moldova, while in the shadow of pro-EU declarations there is a continuation of the old practices (capture of power, rent-seeking) – as the price for keeping the pro-EU coalition together. To regain public trust, the government should target where it is the weakest: make the National Anti-Corruption Commission independent from the Government (and put it under the Parliament), while at the same time the General Prosecutor's Office and the justice system should be the main reform targets. Not coincidentally, these posts are now held by the part of the coalition that was imported from the previous Communist government (via the Democratic Party of Vladimir Plahotniuc).

Moldova lacks the necessary political framework to promote the European orientation, especially a viable **political party system**. Parties operate not as institutions, but rather as reflection of politics as a life strategy, a framework for achieving personal goals and ambitions, with the country's benefits not being viewed as a priority. Political parties do not work to facilitate and educate a new generation of politicians, but serve to promote interests of a few politicians (rent-seekers). The prime example of this practice is the Democratic Party: demanding concessions in return for their support for the coalition's EU integration efforts has caused a continuous negotiation and re-negotiation of the balance of power and distribution of

political posts and access to economic assets. Mihai Ghimpu's Liberal Party, although no longer a coalition member, also opposes some key points of the EU agenda, such as the introduction of the equal rights legislation or liberalisation of the air travel, while not being supportive of the DCFTA.¹

The Party of Communists of the Republic of Moldova (PCRM) was once called the only pro-EU communist party, however, it has turned rhetorically against the EU after becoming the opposition, partly as a result of the EU's neglect and preoccupation with "gluing" together its opponents in the government. The party is believed to be in a worse shape than it looks, its media holding has been shrinking, its vast patron-client network in the regions has been eroding. The currently entertained "velvet revolution" dream is rather a sign of weakness than a show of viability. A decline of the PCRM seems inevitable, while co-opting some of its elements into the main political system and discourse may be possible.

ECONOMY AND ENERGY: KEY ISSUES NOT IN PUBLIC DISCOURSE

Moldova's economy could be doing much better if the following structural deficiencies were addressed: a) capital: poor investment climate causes scarce capital and thus reluctance of banks to give loans and further reduces access to capital; b) labour: turning from advantage to disadvantage, companies have problems finding competent workforce due to poor education supply and a gap between the demands of the market and employers; c) efficiency: weak competition hampers the way in which sectors are combined in economy. It is

¹ The Liberal Party was a member of the previous pro-EU coalition (Alliance for European Integration), however, its place in the current Pro-European Coalition, formed in May 2013 after the AEI collapsed several months before, was taken up by the Liberal Reformist Party – a splinter group of former Liberal MPs led by Ion Hadărcă.

coupled with an oversized and inefficient public sector, as well as a network of state-owned companies that work ineffectively.

CHANGE OF PARTY OF COMMUNISTS OF THE REPUBLIC OF MOLDOVA (PRCM)

Party's leaders and strategists (Mark Tkachuk) are captive towards Russian media and messages. Accordingly, their perception is: the Western decline and the Eastern ascent embedded in the Customs Union, cheap energy and cheap loans. The PRCM's constituency is Soviet nostalgic and mostly Russian speakers. At the same time, however, the PRCM is not necessarily a viable partner and ally for Russia: there is a profound mistrust between Vladimir Voronin, the party's leader, and Mark Tkachuk and Moscow. While opposing the EU, the PRCM is also not willing to make itself a hostage to Russia: in case it would be able to form the next government it is most likely to follow a two-vector policy - between the EU and Russia - similarly to Belarus and Ukraine. That would not exclude the continuation of the association process with the EU, but Brussels would need to be taken as more neutral.

Russian wine ban is estimated to have cost the Moldovan economy \$6.6 million so far and is expected to have a relatively small overall impact: Moldova's sales of alcoholic products to Russia were worth around \$60-80 million in 2012 and accounted for 3-4% of the country's total exports, and for 30% of its wine sector's exports. Compared to the first Russian wine ban in 2006, most Moldovan wine producing companies are now less indebted and less vulnerable to disruptions in cash flows. This ban will further push the winemakers to look for new EU markets. However, other potential Russian retaliation measures, such as banning fruits (6% of trade) and expelling migrant workers, would be much harsher for the Moldovan economy. The wine ban thus serves a political purpose

of messaging the public opinion before the elections rather than as a real economic retaliation.

Officially, there are around 190,000 Moldovan **migrant workers** staying in Russia in violation of the country's immigration laws (mostly overstaying the 90 days limitation),² meaning that more than half of the estimated 300-400,000 Moldovans working in Russia could be legally deported virtually at any time. Russia, though, is unlikely to opt for mass deportations of Moldovan migrant workers because of the consequent shortage of workforce and concerns over the associated bad image. However, it still may expel smaller groups of Moldovan citizens to unsettle the public opinion.

DCFTA vs. Customs Union: The CSU promises short-term benefits for Moldova, mostly cheaper energy as gas prices could possibly go down by 20-30%. Russia could indeed decide to remove its export tariffs applied to gas exports; however, such a decision would depend on Russia's political will, since gas prices are not included in the CSU deal. CSU standards for adapting to the Russian market would be easier for Moldovan companies to meet, especially in the agriculture sector, where about one third of Moldovans are employed. CSU would also facilitate labour migration: about a half of migrants is working in Russia and about a half of remittances come from Russia. Moldova's geopolitical interests would converge with those of Transnistria and Gagauzia, mitigating existing tensions. **Costs outpace benefits**, though: CSU implies a higher, deeper form of integration than DCFTA. It would introduce Russian custom tariffs to Moldova. These are much more restrictive and 2.7-times higher than the

² See Kamil Catus, Russia Announces New Sanctions Against Moldova, Centre for Eastern Studies, October 2, 2013, <http://www.osw.waw.pl/en/publikacje/analyses/2013-10-02/russia-announces-new-sanctions-against-moldova>.

KEY ECONOMIC FIGURES

Moldova is passing through a revival after a recession last year (0,8% contraction of the real GDP): this year the GDP growth should be around 5-6 %, being driven mainly by compensatory growth in agriculture, but also by revival in consumption fuelled by remittances and wage growth. In 2014 and in the medium-term forecast, the growth should be more modest (3-4%), based on the same factors as in the past years: fuelled by continued growth of consumption and investment, covered by growth of remittances. This is enough for survival, although, in terms of catching up with its Eastern peers, Moldova should grow twice as fast.

current Moldovan ones, causing higher prices on imports. This would apply to consumer products (causing rising inflation, paid by consumers), as well as to the most expensive innovations and technology from the West, thus further hampering Moldova's long-term competitiveness. This would also prompt the EU to cancel the current trade preferences for Moldova. Moldovan producers - both from left and right bank - would be less competitive and would lose their most important market the EU. Less trade, less investment, higher prices and less consumption would lower the country's GDP by 9.7-13.2%³ (based on modelling on three different scenarios⁴). Moldova would in turn become dependent on Russian aid, essentially making the country another Transnistria.

³ See Valeriu Prohntchi, Strategic Comparison of Moldova's Integration Options: Deep and Comprehensive Economic Integration With the EU Versus The Accession to the Russia-Belarus-Kazakhstan Customs Union, Expert-Grup, June 7, 2012, http://pasos.org/wp-content/uploads/2012/06/Moldova_a-DCFTA_versus_RBK_CU_English.pdf.

⁴ Cost-benefit analysis of the two options - DCFTA versus CSU - was modelled on three different scenarios: a.) DCFTA (Deep and Comprehensive Free Trade Agreement), b.) RBK (Customs Union), and c.) RBK_GAS (Customs Union with a 10% discount to the import price for Moldova pays for gas from Russia). See Prohntchi.

DCFTA, on the other hand, would boost Moldova's GDP by 6.4%⁵ with the main sources of growth in more exports, higher consumption and investments. Larger exports would be triggered by the EU's removal of the remaining restrictions for Moldovan exports, especially for the agriculture and food sector, as well as products of animal origin (currently banned from access to the EU) - in case the necessary sanitary and phytosanitary standards (SPS) are met. The gradual winding down of the existing customs tariffs for imports would imply lower prices for imports, depending on the product. Lower prices would fuel consumption, which again would fuel economic growth. Cheaper imports would apply also to raw materials and technologies that are fundamental for the economy - e.g. the automotive or textile industries. DCFTA would also have its costs, with the agriculture sector being most vulnerable. Currently there are some protectionist government measures, e.g. high import tariffs applied to protect a number of companies within the sector which are not competitive enough. Lifting these measures would expose this sector to a competitiveness shock. DCFTA would mean a 3% decline⁶ in agricultural production, while adopting new SPS would mean a short-term increase of production costs by around 8%.⁷ This would likely lead to a short-term price increase. Russia could make the situation worse with a ban on Moldovan agricultural products and foodstuffs.

DCFTA costs can be mitigated by: a) liberalising the business environment to ensure fluent migration of production factors from industries which would suffer to industries which would benefit; b) investing into agriculture in order to mitigate "shock" from

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

DCFTA; c) increasing communication about DCFTA requirements, especially in rural areas and Transnistria, where information vacuum is the greatest; d) modernizing the infrastructure – currently only a small proportion of standards in Moldova are harmonised with those of the EU, which creates an important non-tariff barrier for Moldovan producers, restricting their competitiveness. The EU should focus (conditionality) on implementation of economic reforms aimed at business environment and assist with modernizing the infrastructure. Moldova also negotiated advantageous conditions for implementing the DCFTA provisions, granting

the agriculture sector a ten-year transition period for most vulnerable products (Turkey, for example, did not negotiate such a clause).

Energy prices are out of the Customs Union's scope – lowering the gas price remains

dependent on the political will of Russia even in case of CSU accession. At the same time, despite the political declarations, Moldova will not gain energy security through completing the recently launched construction of the Iasi-Ungheni pipeline. The reason for that is not the lack of gas on the Romanian side, as most of critics of this project claim,⁸ but the fact that the Iasi-Ungheni interconnector will be able to work at just 10% of its planned construction capacity of 1.5 bcm of gas a year (amount necessary to meet Moldova's total energy needs) until the necessary additional infrastructure is in place. Achieving a genuine energy independence from Russia would require construction of a new compression station at Ungheni (with costs estimated at around €20 million) and a 120-km gas pipeline running from Ungheni directly to Chisinau (with costs estimated at €80-170 million), with the construction work expected to take at least five years.

Moldova's transmission and distribution network, owned by Moldova-GAZ company, is not controlled by Chisinau, but by the company's main shareholder – Russia's Gazprom. Its influence over the energy sector would diminish only if Moldova adopted the EU's Third Energy Package. This would allow the country to break up Moldova-GAZ monopoly. The adoption of the Package, however, will not happen before 2020. What Chisinau can do immediately is to adopt a suitable energy security strategy focusing on

⁸ Romania has contracted more Russian gas than it needs at the moment, however it still needs to pay for the unused supplies because of the take-or-pay clause.

DCFTA vs. CSU	
CSU	
Benefits	<ul style="list-style-type: none"> Gas prices possibly lower by 20-30% (though not included in the CSU deal). Standards easier to meet for Moldovan companies Migration easier for Moldovan citizens Moldova's geopolitical interests convergent with those of Transnistria and Gagauzia
Costs	<ul style="list-style-type: none"> Customs tariffs 2.7-times higher Current trade preferences to Moldova cancelled by the EU Moldovan producers from both banks less competitive on the EU market Moldova's GDP lower by 9.7-13.2%
DCFTA	
Costs	<ul style="list-style-type: none"> Agriculture production lower by 3%, production costs higher in short-term by 8% Potential ban on agriculture and foodstuffs exports to Russia Potential worsening of relations with Russia in migration, trade and energy sectors
Benefits	<ul style="list-style-type: none"> Restrictions on Moldovan exports to the EU lifted Cheaper imports of products, raw materials and technologies Moldova's GDP higher by 6.4%

saving, effectiveness, awareness-rising of energy challenges, and taking into account also electric energy. The EU step to invest into a back-to-back station on the Vulcanesti-Isaccea grid would allow Moldova to increase electricity imports from Romania to up to a half of its yearly power consumption.⁹

EXTERNAL (F)ACTORS: RESURGENT RUSSIA

Polls suggest that the civilizational choice between the European and Eurasian models has not been made yet, despite the impressive pro-European rally on November 3, 2013 – a gathering that the PRCM was not able to match on November 23, 2013. The pro-European constituency should, however, not campaign with the “now or never” narrative – increasing the stakes may backfire, given this is a long-term process.

The most sensitive questions are not being addressed, leaving the door wide open for opponents. What will Moldova's European path mean for **Gagauzia**? This is a major question which needs to be discussed much more substantively by the Moldovan elites. This applies also to Transnistria and the whole Russian-speaking population: why would it be better for them, if the European path overrides their Soviet nostalgia and ideals of better times back then? This nostalgia does exist and this part of population needs its motivation, too. Much more homework is left to do in the area of historical reconciliation such as legacy of the World War II, or hanging over the Transnistria issue. This would be a task for an effectively functioning civil society.

Moscow is most likely to intensify its current efforts. It has been ratcheting up its soft power arsenal - until now most of the public

space has been dominated by Russian information, influence, information outlets and public television. Also, the number of pro-Russia NGOs active on the ground with the necessary resources has increased. The Russian Orthodox Church is one of the most powerful soft power tools: some representatives of the Church consciously promote a policy of aligning the EU with the “homosexual agenda”.

However, many of the pro-Russia supporters are situational and could switch back to supporting a different vector under different conditions. Russia also suffers from a **“diversity” of interpretations of its position**.¹⁰ Moldova watchers are often confused about what the official Russian position actually is: is it the position expressed by officials of the Ministry of Foreign Affairs, by Dmitry Rogozin, the Vice-Deputy Prime Minister of the Russian Government and the Special Representative for Transnistria, or by the Government representatives? Rogozin is perceived in Russia as too conservative, too populist, too ambitious and not representing the government's line. Although with Putin's return the conservative line has become the mainstream, Putin is still more moderate than most of the stakeholders around Transnistria. Russia's long-term objective is a reunited Moldova integrated into the Russian project. However, the best option for Russia's interest would be a reunified Moldova in the EU with two official languages – thus Russian becoming an official EU language in a very long-term perspective. At the moment, however, there are no indications that such a policy would be chosen/formulated by the government. The first indication of such a change would be a shift to moderation in the

⁹ See Statement by President Barroso following his meeting with the Prime Minister of Romania, Victor Ponta, and the Prime Minister of Moldova, Iurie Leancă, November 15, 2103 http://europa.eu/rapid/press-release_SPEECH-13-929_en.htm.

¹⁰ See more about this: Philip Remler, Negotiations Gone Bad: Russia, Germany and Crossed Communication, Carnegie Europe, August 21, 2013, <http://carnegieeurope.eu/2013/08/20/negotiation-gone-bad-russia-germany-and-crossed-communication/s/gjd2>.

communication on the Russian side, this being not left to Rogozin only.

EXTERNAL (F)ACTORS: EUROPEAN UNION

The “**success story**” narrative has been a **damaging one**; however, after the Ukrainian suspension of the Association Agreement there is a great risk of it being only further strengthened. The narrative has created a feeling in the ruling coalition that Brussels needs a “success story” to justify the Eastern Partnership, rendering it willing to relax the conditionality. As a result, for the sake of holding the pro-EU coalition together, many aspects of the rule of law were overlooked by the EU, the Presidential crisis of 2011-12 being a major example.

The **timeframe for the association process** speaks volumes against the “now or never” narrative: 2015 could be a clear target for the Association Agreement ratification and for the visa-free regime (ratification may take up one year by member states). The AA implementation may take between 7 to 10 years, thus there is a transition period when a lot of work and progress on re-integration of Transnistria could be made.

The EU has realised the need for both increasing the deliverables and communicating them better. Brussels has put forward the visa liberalization deal with Chisinau and identified two key energy projects on November 15, 2013. The EU assistance has also been booming: in 2013 it will reach €104 million, with an additional possible top-up of €35 million under the more-for-more principle, making Moldova the largest EU assistance recipient country in the neighbourhood per capita. Improvement of roads (the EU together with the European Bank for Reconstruction and Development and European Investment Bank), investments in the hospital and health care sector, signing of the Comprehensive Aviation Agreement

and improvement of transportation to the EU (new and cheaper flights – e.g. flights to Italy now at around €100) are tangible. Moldova is also only the second country in the neighbourhood after Israel to join the 7th Framework Programme for Research (FP7).

There will be some necessary changes in the EU assistance focus in Moldova: a) selection of only three main sectors of assistance; b) better focus on monitoring and not only on the checklists; c) alignment of the EU assistance with political priorities: focus on cases of corruption, non-implementation of reforms, and so on. But the EU is suffering from a **lack of monitoring capacity**. According to the new monitoring guidelines, conditionality for budget support operations will be made public to enable monitoring by the civil society at large. This will be progressive and also implies building NGO capacity in some sectors where there are only very few good civil society actors active. **Speaking Russian** should be a part of the agenda and, at the same time, the EU needs to better streamline member states activities. To achieve this, EU member states’ missions in Chisinau, under the coordination of the EU Delegation, have created a Communication Task Force to better inform Moldovans about EU integration issues, paying more attention to the Russian-speaking population in the regions.

The EU, at local level, can even try to “work it out right” with Russia: while becoming an EU-associated country, it should be in Moldova’s interest to have the best possible relationship and economic cooperation with Russia. Moldova can neither play a zero-sum game nor can it afford to be fully dependent on the EU for trade and aid. On the contrary, **Moldova could follow the model of having the AA with the EU while having an FTA with Russia**, like Serbia, for the necessary initial years. EU aspirations with good relations with Russia at the same time are not necessarily

mutually exclusive – the zero-sum approach makes them seem this way, though. Essentially, the Moldova's EU association process is similar to the EU's "Partnership for Modernisation" with Russia, and the two processes could be further inter-connected when it comes to standards and other technical issues. It would also help the Russian side better understand the process the EaP countries are going through, and would in turn help the EaP countries better construct their relations with Russia on principles that would be known to everyone, as everyone would be involved in the process. Even though Russia fuels the zero-sum game, the EU – as a much bigger actor – should not follow such tactics. In this regard, as much as there is no unified Russian policy enforcement, the individual interests and attitudes of member states should be much better coordinated.

But because of the EU's behaviour and rhetoric (irreversibility) around the EaP Summit, Russia feels intimidated and in the corner. At the same time it implicitly acknowledges that the EU has become the most influential public player in the region. Yet, while the Russian media talk about losing the region, the ordinary Russians are much more indifferent.¹¹

TRANSNISTRIA: SHIFT THAT STATUS QUO

How geopolitics is providing excuses for inaction is best visible on Transnistria. The government of Moldova should have had a more coordinated and more thought-through policy with regards to Transnistria, as well as a clearer plan on a re-integration strategy. True, the geopolitical context has not been permissive, but this also created

handy incentives for engaged actors to accept the status quo. Now, the association process offers a new opportunity to re-shape the Transnistria process as well.

Transnistria trades significantly with the EU and the right bank: 35.8% of Transnistria's trade is with Moldova proper, 29.1% is with the EU, 8.5% with Ukraine, while only 22.2% of the trade is with Russia.¹² Moldova's interest should be to have Transnistrian companies continue their trade with the EU under the DCFTA framework as well. Given that Transnistria relies heavily on import customs duties as a major income (one third of its public revenues), lifting the duties from the EU would be a heavy shock. In case of no mitigation, Transnistria's dependence on Russia will deepen, accelerate economic decay, and widen division with Moldova proper. Because Transnistria is highly sensitive to investment, the Moldovan government could start by commissioning an analysis on the costs (and benefits) of Transnistria's re-integration. This would be a starting point to develop incentives to move away from the status quo and propose (and well advertise) a Transnistrian Re-Integration Fund to guarantee the mitigation of the transition costs.

What the re-integration policy lacks is a clear roadmap dealing with concrete issues: how does Chisinau plan to re-integrate and merge the banking systems or the social security schemes? How does it plan to invest into the infrastructure re-shuffle and who will bear the re-integration costs? At least the Bureau of Reintegration, a key institution in (formally) coordinating the ministries in terms of Transnistria, should have an answer to one

¹¹ See a fresh Levada poll about Russians attitude toward Ukraine and the Association Agreement with the EU. 50% of the population is neutral on the issue, 30% is against, and 3% supportive: <http://www.levada.ru/24-11-2013/soglashenie-ob-assotsirovannom-chlensive-ukrainy-v-es>.

¹² See Berlin Economics, The Impact of the EU-Moldova DCFTA on the Transnistrian Economy: Quantitative Assessment under Three Scenarios, June 4, 2013, <http://get-moldau.de/download/policypapers/>.

question: what will be done if Tiraspol decides for a common state with Chisinau tomorrow?

Transnistrian television is indeed holding a campaign to show how concerned Tiraspol is with the upcoming DCFTA and how competitive the Transnistrian businesses are, including on the EU markets. Yet, the Transnistrian administration is unwilling or unable to develop a reliable strategy in order to protect against the negative economic effects of DCFTA implementation. Instead, it is putting pressure on Moldova in order to obtain strategic and tactical advantages, particularly little and formal signs of "recognition".

Good faith effort, though, should follow and become a policy: Moldovan team of EU negotiators should provide Transnistria with copies of all documents related to the DCFTA – translated into Russian. As of now, Transnistrian companies are required only to register in Chisinau in order to gain access to the market. However, once the DCFTA is in force, higher quality standards will need to be met in order for them to operate there. The fact that the EU has available the necessary support for Transnistria to prepare for the DCFTA should be advertised as loud as possible. Moreover, each policy of Moldova should have a Transnistrian element, line ministries should work on it and coordination at the governmental level should be done by the Bureau for Reintegration. Moldova should also be ready to support Transnistria's interest in the EU, should it appear. Working groups in confidence-building could be used for that purpose, while at the same time appropriate information should be provided to the public, pressuring Transnistria to more cooperation by increasing interest of the society. Every step to isolate the region more will only increase future costs of re-integration, as Transnistria simply has nowhere to go.

The EU should consider express reintegration as a condition for a final membership perspective of Moldova. Brussels is already communicating the "no more Cyprus" message. Leaving the Transnistria issue frozen and not making it a condition for following the EU integration would add to the PR hype around the Eastern Partnership, but not to its seriousness. Moldova needs to start with things that do not cost at all: improve inter-sectorial communication on Transnistria and include messages for Transnistria into political speeches of the country's representatives.

A reform of the peacekeeping (i.e. Russian) mission in Transnistria based on the international standards should be also on the table then – many of the peacekeepers are Transnistrian citizens with Russian passport, virtually being stationed at home. The main question is whether there will be efforts to destabilise the political situation in Moldova before the elections through Transnistria.

Ukraine's importance would be increased in case the DCFTA would enter into force along with Moldova, surrounding Transnistria within the EU framework. The Ukrainian request to open a consulate in Tiraspol could be considered in exchange for a more intensive sharing of border authorities' information with Moldova. Ukraine could also play a bigger role in reforming of the peacekeeping mission in Transnistria.

If there is a solution to be found on the common state for Chisinau and Tiraspol, this may be achieved on the platform offered by the Organisation for Security and Cooperation in Europe (OSCE). OSCE members should invest in strengthening the organisation's presence in this region, where it can play a crucial role, given the political constraints faced by the EU, and, even more so, by NATO.



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The "Reality Check" initiative is supported by the Konrad Adenauer Stiftung (Germany), Pact (US), International Visegrad Fund and the Ministry of Foreign Affairs of Lithuania. Partners of the initiative are the Eastern Europe Studies Centre (Lithuania), Centre for Eastern Studies (Poland), Hungarian Institute of International Relations (Hungary), EUROPEUM Institute for European Policy (Czech Republic), Levan Mikeladze Foundation (Georgia) and IDIS Viitorul (Moldova).

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