
Moldova – Heading into a hot autumn

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After four years of negotiations, Moldova signed an Association Agreement (AA) including a Deep and Comprehensive Free Trade Area (DCFTA) Agreement with the European Union (EU) on 27 June 2014. Ratified in the Moldovan Parliament on 2 July 2014 it came into provisional application on 1 September 2014.

While this development represents an important milestone in Moldova's relations with the EU, the journey has not been easy. Negotiations were difficult and internal politics turbulent with three government crises during the process. Neighbouring Ukraine, Moldova has also come under pressure from Russia, including a ban on imports of Moldovan wine in 2013 and, in the aftermath of the AA's ratification, on fruit and meat products. Despite Russia's bullying, Moldova has remained focused on its goal of becoming a full EU member, although no such perspective is currently on offer. Yet the road ahead remains tough. Moldovan society is far from united on European integration; the ruling pro-European Coalition, remains fragile and prone to infighting, and Russia is poised to meddle further. Concern is growing as security and stability in the region has deteriorated following Russia's invasion of Ukraine. The result of the forthcoming 30 November parliamentary elections is crucially important, as a return to power of the current coalition is far from guaranteed.

BACKGROUND

Best known as Europe's poorest country, Moldova has come a long way. It is the fastest-reforming country on Europe's eastern border, frequently touted at the champion of Eastern Partnership (EaP). Since the current government came to power in 2009 there have been many positive developments. Politics have become more pluralistic and the country has experienced slow but steady economic growth with GDP growing in the first semester of 2014 by 3.9%. Important political and economic reforms have taken place, along with improvements to key infrastructure. Steps aimed at improving the business climate have taken Moldova from 98th position to 78th in the World Bank's Ease of Doing Business Index. In order to obtain visa liberalisation with the EU, the government had to carry out far reaching reform of the police service and Moldova is still the only member of the EaP to forbid discrimination by sexual orientation in line with the new "Law on Enforcement of Equality," despite resistance from the Church and leftist forces. Today Moldova is the only EaP state to have achieved a visa free regime with the EU.

Yet reforms need to be completed and implemented. Governance structures need to be strengthened and problems over their independence persist. The economy is still distorted by monopolies, constitutional reform, deep judicial reform, and further efforts to fight corruption are crucial. Transparency International Corruption Perception Index placed Moldova 102 out of 137 countries in 2013, one point lower than the previous year. The newly created National Anti-Corruption Centre and National integrity Council have not been as successful as expected.

Carrying out unpopular reforms, failing to adequately fight corruption, bickering within the ruling coalition, which has in the past brought decision-making to a standstill, and more recently Russia's sanctions, have cost the government support. This has boosted the main opposition Communist Party of former President Vladimir Voronin, the most popular party in the Moldova with some 37% support.



Russian revanchism

Russia has taken steps to push back against what it views as an encroachment by the EU into its sphere of influence. Moscow has significant leverage over Moldova in a number of areas including trade; energy; migrant workers; the breakaway territory of Transnistria backed by Moscow; and the pro-Russian Autonomous region of Gagauzia. It has used this leverage, along with an intensive 'information' campaign to try and re-rail the process by spreading nightmare scenarios on what closer association with the EU means. Bans have been placed on a number of key exports to the Russian market, while Moscow has threatened to cut off Moldova's gas, with the country until recently almost 100% dependent on Gazprom; and denied work permits to some 20,000 Moldovans. Approximately half a million Moldovans work in Russia either permanently or seasonally with remittances averaging €1.09 billion annually, 19% of Moldova's entire GDP. The potential loss is some €31.1 million if they are unable to return for an entire year, which could be catastrophic for living standards.

Furthermore, EU integration is far from being a national project. Recent polls show that only 35% of Moldovans support EU integration while 38% favour Russia's Customs Union. This includes the population of Gagauzia, with which Chisinau has a strained relationship, having spent years embroiled in a struggle over the degree of autonomy and amount (and distribution) of funding the region should receive.

STATE OF PLAY

The Gagauz headache

While a strong pro-Russian sentiment prevails, the Gagauz, which number some 160,000 are not ethnic Russians but descendants of the Seljuk Turks. In a referendum on 2 February 2014, denounced as illegal by Chisinau, 98.4% of Gagauz favoured Russia's Customs Union over the EU. This is not surprising given the lack of information about the EU. They fear that European integration could lead to the possible unification of Moldova with Romania and that Russia could also punish them with trade restrictions or cut off access to the labour market. So far Russia has exempted Gagauzia from the wine and fruit ban and promised Gagauzia a preferential gas price. Gagauzia's leader, Bascan Mihail Formuzal, claims he was never consulted on Moldova's decision to sign the AA. Another Russian-backed breakaway territory is the last thing that Moldova needs. Chisinau needs to take more steps to improve relations, as well as making EU funded projects in the region more visible. Furthermore, the planned visit of Turkish President Recep Tayyip Erdogan to Gagauzia as part of a visit to Moldova in the autumn is welcomed. Erdogan is expected to give a strong message of support for Moldova and its territorial integrity. Over the years Turkey has contributed considerable economic assistance and investment to Gagauzia and Erdogan is a popular figure.

A fruit nightmare

Moldova's economy relies heavily on its agricultural exports. As soon as the AA/DCFTA was ratified, Russia banned Moldovan meat and fruit "for health reasons". Shortly afterwards it cancelled its Free Trade Agreement with Moldova within the CIS, removing the 'zero duty' for 19 products. The EU is the biggest importer of Moldovan agricultural exports (54%), followed by Russia. In 2013, Russia imported 43% (\$988 million) of Moldova's agricultural exports, hence this ban has been a big blow, particularly in the apple sector, where 90% were exported to Russia. The expected loss for the cancellation of the CIS FTA for the remainder of 2014 is reported to be some \$31 million. Coming on top of the estimated \$90 million losses as a consequence of the fruit ban this has put the Moldovan economy in difficulty.

Moldovan Prime Minister, Iurie Leanca, pledged an unspecified amount of compensation from both state and foreign sources to help farmers make up for lost revenue, as well as assistance for the rescheduling of bank loans, and payment of gas and electricity bills. Air Moldova is due to start distributing apples and other fruit to passengers, while the government has allocated some \$1.44 million to provide apples to kindergartens, public schools and the army. Moldovan canning companies also reportedly agreed to purchase more fruit. Moldova is in talks with the Russians to try and solve the issue and it is also actively looking for new markets. While these measures from Russia were expected, Moldova had hoped that much of its banned fruit could enter the EU market. However, since Moscow's decision to block imports of many EU agricultural products, as a consequence of sanctions placed on Russia, the EU market is saturated with fruit and vegetables leaving little space for extra Moldovan produce.

With Brussels also having no extra money to help compensate the farmer's losses, several credit/finance agreements are being negotiated with some Member States including Poland, and Denmark who has donated €4 million to modernise the agriculture sector. Chisinau is also strengthening ties with other states such as Turkey and Qatar. On 12 September 2014 an FTA was signed with Turkey. In August a Strategic Partnership was signed with Qatar. Trade with Belarus has also been boosted. Belarus, a Fellow Customs Union member has refused to join Russia's ban on Moldova, rather

choosing to increase trade. Following Russia's fruit ban the export of plums and apples to Belarus has significantly increased. It is widely predicted much of this will be re-exported to Russia. Furthermore, on 24-25 September, Belarus President Alexander Lukashenko headed a delegation to Moldova, where agreements worth \$50 million were signed.

Moldova pays one of the highest prices in Europe for gas, \$380 per 1.000 cubic meters. Hence the recent completion of the first phase of the Ungheni-Iasi natural gas inter-connector from Romania to Moldova is good news. While initially it is expected to transport only some 50 million cubic metres of gas annually, which represents only 5% of Moldova's gas needs, it breaks the monopoly that Russia's Gazprom has over Moldova and integrates Moldova into the European gas market. Yet to make a real difference it needs to be rapidly completed, as it could have an annual capacity of some 1.5 bcm which would cover all of Moldova's needs. The second phase is the construction of compressor station in Romania, and the extension of the pipeline from Ungheni to Chisinau.

Dealing with Transnistria

Transnistria is a narrow strip of Moldova bordering Ukraine. The 'five plus two' settlement talks (Moldova, Russia, Ukraine, Transnistria, OSCE & US and EU as observers), are far from delivering a result and as a consequence of the Russia-Ukraine crisis, there has been no meeting since the Spring of 2014. On 1 August, the Ukrainian security services reinforced controls at the Transnistrian segment of the Ukrainian-Moldovan border, making Transnistrians feel further isolated. Moldova's leadership tries to maintain a constructive approach with the Transnistrian authorities, taking steps that they hope will ultimately lead to the reintegration of Transnistria with Moldova. This has included actively supporting confidence-building measures, and allowing Transnistria to temporarily trade with the EU as part of Moldova's Autonomous Trade Preferences (ATP) regime. This has most recently included supporting caviar farms, with the first international sales taking place this year. Furthermore, following Moldova's visa free regime with the EU, there has been in a significant increase in demands from Transnistrians for Moldovan passports.

It would have been in Transnistria's interests to accept the DCFTA, given that about 70% of goods produced go to the right bank of the Dniester River (Moldova) and onwards to the EU, while only about 18% go to Russia. However, their dependence on Russia, including financially, makes such an option almost impossible. While Transnistria has been granted an extension of the ATPs until 2015, once this ends it is likely that anti-EU sentiment will grow unless an alternative way is found for trade with EU, thereby increasing tensions with Chisinau. On 16 April 2014, shortly after the annexation of Crimea, the Transnistrian authorities voted in the Transnistrian Parliament to join Russia. A declaration was adopted, motivated by the 2006 referendum in which 97% of voters in Transnistria voted to join Russia, which was actually put on hold by the Russian authorities. While Russia has been happy with the status quo as it allows Russia to keep a tight control over Moldova's actions, it is not cheap. It is estimated that Russia's financial support amounts to some \$1 billion every year. Since the beginning of 2014 Moscow has been increasingly pushing the "Federation Model" which Chisinau firmly rejects. It considers federalisation to be contrary to its interests, and viewed as tool to allow Moscow a long-term influence over Moldova, including related to foreign policy decisions.

PROSPECTS

The next few months will be very challenging for Moldova with internal and external developments continuing to shape Moldova's future. Not only will Chisinau need to move ahead with the difficult and expensive implementation of the DCFTA, the ruling coalition simultaneously needs to campaign for the elections with very importantly, a united front. Moscow timed the bans to weaken support for the government and its EU ambitions ahead of the elections. Russia may take further steps including further trade and labour market restrictions, as well as measures to provoke instability in Gagauzia and Transnistria. Moscow may also try to further pressurise its Customs Union partners, Kazakhstan and Belarus to stop trading with Moldova, although so far both countries have rejected this.

Events in Ukraine will continue to impact on Moldova. The decision to postpone the implementation of the DCFTA until 2016 undermined Moldova's efforts to convince Transnistria that becoming part of its DCFTA would be in their benefit as they would find themselves caught in the middle of a regional free trade zone with the EU. The fact that Russia is now part of Ukraine's DCFTA talks has also set a bad precedent as it gives the impression that Moscow has a say in the foreign policy choices of a sovereign state. Moreover, where Russia's military intervention into Ukraine will finally end is of significant importance to Moldova. An effort by Moscow to create a corridor between Donetsk and Ukraine's border with Transnistria would be a significant security threat, as it would allow Russia to freely move its military personal and equipment. While this would require Russia occupying a number of Ukrainian towns in the Southeast of the country and would therefore seem unlikely, recent events have taught us to expect the unexpected.

The Moldovan authorities, in cooperation with the EU, should devise an effective communication strategy to better inform society about the benefits of the AA/DCFTA to dispel the myths being spread by Moscow. The government has

begun to extend its outreach, organising town hall meetings in towns and villages across the country, but much more needs to be done including creative ideas such as using famous people to sell the EU in order to win hearts and minds.

The outcome of the November election is crucial. If the current government is unable to hold on to power and the Communists return to office a change of policy is almost certain. However, while Voronin has condemned the government's policy as hostile to Russia stating "we cannot lose our partner and restrict our possibilities for development" at the same time, Russia's annexation of Crimea created a rift with Voronin, as the Communists are staunch supporters of territorial integrity. Furthermore, in the past Voronin has said the Communists would back all the initiatives aimed at bringing Moldova closer to the EU. A fan of 'balancing' it is possible that the EU process would continue although at a slower and inconsistent pace with the DCFTA possibly frozen. If the ruling coalition returns to power, they have pledged to drive ahead with reforms in the run up to the Riga EaP Summit in May 2015.

What can the EU do?

Moldova's successful European integration and modernisation hinges on two things: Chisinau's ability to tackle difficult issues such as corruption and a compromised judiciary and the EU's ability to adequately support it. While numerous senior EU officials have visited Moldova during the past year offering words of support and solidarity, this needs to be transformed into resolute commitment. Requests from Chisinau, most recently asking the EU to send a special mission to support judicial reform should be immediately accepted. Member State parliaments should rapidly ratify Moldova's AA, while further steps should be taken to help Moldova strengthen its energy security. The EU's public diplomacy should also be extended with particular attention to rural areas and Russian-speaking cities. The EU also needs to further differentiate between those EaP countries such as Moldova, that are already implementing their agreements and those that are lagging behind.

Despite the readiness of several Member States including, Romania, Poland, and the Baltic States to give Moldova a membership perspective others such as Germany insist it should be done on a step-by-step basis. By failing to offer Moldova such a perspective the EU is removing the most important instrument for bringing about reform and democratic change. It leaves Moldova in a climate of uncertainty, which is a prerequisite of instability.

Moldova is contemplating throwing down the gauntlet by submitting a membership application at the Riga EaP Summit. Several Member States have advised Moldova not to do this, stating the time is not right. Yet it is unlikely that the time would ever be right. Today's EaP lacks a longer-term perspective which is unhelpful. If the EaP is to deliver a success story, it needs to clarify its current ambiguous position over what is at the end of the EaP road. The Riga Summit should provide roadmap for those countries that want closer ties – a robust package that goes beyond association.

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