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## Helping Moldova stay on the EU course Proposals for a real 'more for more' approach

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### BACKGROUND

At the Vilnius Eastern Partnership (EaP) Summit in November, Moldova initialled its Association Agreement including a Deep and Comprehensive Free Trade Area (DCFTA) with the EU, and became the first EaP country to meet all the requirements of their Visa Liberalisation Action Plan. It marked an important milestone in Moldova's integration process, after some three and a half years of negotiations, reflecting the serious reform efforts the country has made. In the words of German Chancellor, Angela Merkel, in the Bundestag on 18 November, "in spite of some domestic turmoil, the Republic of Moldova has perhaps demonstrated the greatest political will of all the Eastern partners to adopt and implement reforms".

Not surprisingly, Moldova's success story is welcomed by the European Union (EU). With the decision of Armenia and subsequently Ukraine to abort their Association Agreements following significant political and economic pressure from Moscow, the EU faces the prospect of losing credibility as an influential actor in the East if it cannot deliver a success story. Moldova, (as well as Georgia) offers the EU a light at the end of the tunnel. Moldova clearly has advantages over Armenia (less dependent on Russia, particularly in relation to security) and Ukraine (smaller share of exports towards Russia; an overtly pro-EU oriented government). But it also has a number of weak points. Instability is endemic due to political crises, caused by back-biting and feuding in the governing coalition, rank corruption within the dysfunctional political and legal systems and institutions, and a popular anti-EU Communist Party. The unresolved Transnistria issue, with Russia backing the authorities in Tiraspol, remains a huge challenge, impacting on Moldova's EU journey.

### STATE OF PLAY

The road ahead to the actual signing of the AA/DCFTA in autumn 2014 will not be easy. Moldova's coalition government remains fragile and susceptible to both internal and external pressure: it could fall from one month to the next. With every step Moldova takes towards the EU, political and economic pressure from Russia increases. As Russian Deputy Prime Minister, Dmitry Rogozin, recently warned, "Each country can of course develop relations with the EU – but without forgetting the implications".

Moldova is fully aware of the implications. In the run up to Vilnius, Russia gave Chisinau an early taster of what could be on the menu if Moldova continues down the EU road: Moldovan wine was embargoed, imports of fruit were selectively blocked and threats were made to cut gas deliveries during winter, along with menacing comments related to Moldovan workers in Russia and the Transnistrian frozen conflict. Such threats are nothing new. Moldova faced Russian hostility over its membership of the European Energy Community as it requires the adoption of the Third Energy Package,



something Moscow strongly opposes as it bars gas suppliers from controlling the transport infrastructure used to deliver their gas. Moldovans were forced to postpone adoption until 2020 due to Russian coercion. Ultimately, Russia's leadership wants Moldova to re-assess its European trajectory and consider Eurasian integration instead.

### **AA-DCFTA – not the only game in town**

The period following Vilnius should be a soul-searching time for the EU. Of the three pillars (AA, DCFTA, visa regime) of the Eastern Partnership, two are now being openly challenged by Russia. While EaP was not designed for such a competition, it now has to step up to the bar if it wants to remain attractive compared to Moscow's Euro-Asian Customs Union and its influence in the region.

The EU and Russia have different styles in engaging with partner countries. The EU mainly works with governments and is engaged in projects with long-term systemic benefits (such as institution-building). Therefore, ordinary citizens only feel the effects indirectly. Take competition policies, for example: effective anti-monopoly agencies and regulated state aid may bring prices down and generate better quality for citizens, but this does not happen immediately and the link with EU conditionality is not always visible. The same applies to almost every EU intervention: food and agriculture standards, justice and police reform, anti-discrimination laws. Russia, for its part, promises concrete short-term gains such as cheap gas, while also engaging in fictional tales about EU initiatives, over which the EU is reluctant to openly tackle Russia. The EU Delegation in Chisinau, for example, was for some time prohibited to officially dismiss the Communist's Party claim that Moldova could have a DCFTA while also being part of the Customs Union, while Russian officials openly depicted the anti-discrimination law as an attack on Moldova's fundamental values. Russian diplomacy has also been mobilised for the past few months in discrediting the EU and the packages it has offered to Moldova. To this, the EU's diplomatic system as a whole has not found appropriate credible responses, making its communication strategy uncompetitive.

While EU funding amounts to some 5% of GDP or €40 per capita, this is not visible to the population as, since 2009, the money mainly went on institution building. The latest trend in EU funding – direct budgetary support – is not helping either as Moldovans cannot distinguish between EU money and means coming from the national budget. Meanwhile, the Russians are making their financial contribution very visible. In Transnistria, for example, Moscow is spending €43 per capita on food supplies and pension supplements alone, branding it as a gift from 'mother Russia'. Add to that the cheap gas Transnistrian households receive, compared to the high prices paid by the rest of Moldova's population, and we see a battle for hearts and minds, in which the EU is a reluctant player.

## **PROSPECTS**

While the EU should not engage in a populist competition with Russia, it does need to adapt its actions to the realities on the ground. This means greater visibility, better public diplomacy and delivering tangible benefits to the Moldovan population as rapidly as possible. Not only will this help counter Russian activities, it will also help shore up support for pro-EU reformers in the country.

The European Commission's proposal of 15 November for visa liberalisation should be adopted by the EU Council and the European Parliament before the May 2014 European elections. This would help the current government keep the Communist Party at bay in Moldova's November 2014 parliamentary elections.

Given Moldova's size, its proximity to the EU and Romania's citizenship policies, visa procedures are rather futile as an instrument for controlling migration. But they increase frustration as Moldovans view them as humiliating. It would not be an undeserved reward, but late recognition of efforts made by the Moldovan government, with Chisinau way ahead of other EaP countries. Reaching this point has not been easy. The Visa Liberalisation Action Plan (VLAP) was the most coherent element of the EU-Moldova relations of the last few years. It had clear demands, regular monitoring missions and visible rewards (passing from Phase I to Phase II and final recommendations). It included difficult reforms and an institution-building process, which prepared Moldova for wider European integration, beyond the narrow visa issue. It even led Moldovan governments to assume serious political risks. The anti-discrimination law resulted in harsh criticism from the powerful Orthodox Church which claimed it would mean an unbridled "Islamisation and homosexualisation" of Moldova. Furthermore, the migration check points on the administrative lines with Transnistria made the government vulnerable to criticism from the opposition for enforcing an internal border Moldova does not recognise, while also providing Tiraspol with victimisation arguments. However, under the terms of the VLAP, Moldova is obliged to control the circulation of people on its territory, yet is unable to control its border with Ukraine as it borders Transnistria, making this a necessary step. These challenges notwithstanding, the VLAP proved to be a successful instrument thanks to its 'clear conditions – clear rewards' model. The AA and DCFTA should follow this model.

The DCFTA is more than a technical free trade agreement. It was originally created for Ukraine after the Orange Revolution to enhance economic integration, as an important step towards deeper EU integration. Therefore, the DCFTA should be communicated as the first step on the long path of EU integration. While the *ex-ante* assessment of the impact of the DCFTA on Moldova infers an estimated 5.4% increase of GDP, a 4.8% increase in wages and a 1.3% drop in prices, public debate has been dominated by saber-rattling and nightmare scenarios from the anti-EU camp. While it is never easy to communicate technical details, the fact that the EU only began to seriously promote the DCFTA in September shows there is a need to up its game.

Moldova negotiated five- to ten-year exemption periods for most economic sectors, which means that, for the same goods, Moldovan producers will export to the EU custom tax-free while EU producers will export to Moldova with the current tariffs. Previous economic integration, before the 2004-2007 enlargement wave, showed that states have a tendency to ask for such exemptions (given that EU rules allows it) but to ignore using this advantage in practice, losing the opportunity to prop up the economy for the lifting of tariffs. Moldova and the EU should learn from this experience and make the best of these periods. A serious five-year strategy for DCFTA implementation will be necessary after Vilnius. In the short term, the EU should consider a pre-emptive unilateral lifting of quotas for the products where Russia enforces embargos, as it already did with wine. Transnistrian companies should be able to export to the EU under the current conditions until 2015 and the EU should avoid raising this issue on the agenda, at least until AA/DCFTA is signed.

The EU's present approach to funding is inconsistent. In some cases, such as the Visa Action Plan, the EU has given clear benchmarks in order to receive finance, but this is frequently not the case. For example, new institutions created in Moldova to implement EU demands (Competition Council, National Agency for Food Safety, National Integrity Commission, and Anti-discrimination Council) lack proper resources, while old institutions, despite having criticised them for poor performances, continue to receive substantial funding.

The coordination of EU affairs within the Moldovan government remains problematic and is expected to further deteriorate after the AA/DCFTA is signed. The Foreign Affairs and European Integration Ministry employs only three people in its policy monitoring and evaluation section. The MFA should coordinate line ministries, but lacks the leverage. For the DCFTA alone, Moldova will have to adopt 95% of the EU's economic *acquis*, yet the Centre for Legal Harmonisation is understaffed and misplaced (under the Justice Ministry). There is no strategy to support them through EU funds, although some EU members (Finland, Sweden, Romania) try to address this problem through bilateral donations and administrative support. It would be beneficial to coordinate efforts into a coherent programme to link funding with EU demands.

Another challenge is state capture by rich businessmen who are politically active, including in the ruling coalition, using their position to block enforcement of new legislation, such as competition and anticorruption laws, that may affect their interests. The EU may be better placed to empower the technocrats in the Moldovan institutions who are genuinely interested in pursuing the EU trajectory. The EU reaction to Moldova's numerous political crises has been mediation amongst local politicians. Political dealings should not be able to undermine institutions and key reforms and the EU should use its influence with a more preemptive approach, making it clear to politicians what is acceptable and what is not (preferably before it happens). There are several examples of when the EU could have been bolder in its support for real reforms. For example, the reform of the Anticorruption National Centre (ANC) was hijacked by political interests. The reform, supported by the EU high level adviser's mission (a group of high-level policy advisers deployed to Moldova's main public institutions to assist and support the authorities in implementing and monitoring relevant policies), missed the opportunity to make the institution powerful by giving it clear competences and bringing it under the same umbrella with Anticorruption Prosecutors. Instead, the reform focused the debate on who appoints the head of ANC – Prime Minister or Parliament – starting scandal on this dilemma. Reform of the General Prosecutor's Office was similarly hijacked. The institution was openly integrated in 2010 in the Coalition Agreement (as belonging to the Democrat Party). Such an obvious disregard of good governance rules should not be allowed by the EU. Again, the focus of the debate was on who appoints the person instead of meaningful reforms. The EU provided €60 million on justice reform in Moldova, of which €58 million went on budget support and increasing the judges' salaries. The assumption was that the corrupt judges would stop taking bribes. However, public money will never be able to compete with the money paid as bribes, nor should it try. These institutions should firstly be reformed and afterwards rewarded.

Indeed, one of the key challenges facing Moldova is restructuring the dysfunctional political and legal institutions. Until now, the EU has focused too much attention on legislative reforms and not ascribed enough importance to structural challenges such as the public administration and judiciary, which are crucial for the country's effective functioning and transformation.

Following threats to cut off Moldova's gas, it would be helpful if the EU could rapidly invest in follow-up projects to the Iasi-Ungheni gas pipeline. The pipeline, financed by Romania and the EU, will ease the pressure on Moldova, providing

an alternative solution to Russian gas in case of emergency. However, in order to be commercially viable, the construction of a compression station is necessary, along with extending the pipeline from the Ungheni-Chisinau pipeline. These are costly investments. One possible method of financing could be to use a mix of assistance and loans from the European Bank for Reconstruction and Development (EBRD). Romania views the Iasi-Ungheni project as part of the EU common energy market integration process (similar pipelines with Hungary and Bulgaria are under way). The EU should consider adopting this approach given that Moldova will be part of the future common energy market.

Although it receives considerable attention, Transnistria has played a rather marginal role in the negotiations with the EU due to the Tiraspol authorities rejecting EU offers to be part of the process. The current 5 + 2 Chisinau-Tiraspol negotiations format is based on a step-by-step confidence-building approach, assuming that by working together on small problems, mutual trust will increase which may bring about a political settlement. Unfortunately, this assumption has not yet borne fruit and after several years, while many important confidence measures have been achieved, a political deal is still no closer and tensions are increasing. The mainstream view that it is impossible for Moldova to ever have an EU perspective until the Transnistrian problem is solved is not helping but rather increasing the leverage of Tiraspol. Given that Chisinau considers EU integration a national project, conditioning the offer of an EU perspective (although that is not yet on the table) on conflict settlement means, in practice, putting Tiraspol in the driver's seat. Moldova needs time and a European perspective to deal with the conflict. Having such a perspective and moving closer to the EU will change the region's dynamics. EU integration is the key to solving the Transnistria conflict, not the other way around. Ultimately, if all else fails, the EU may have to contemplate letting Transnistria go.

Despite often tricky and fragile domestic politics, pressure from Russia and no clear European perspective, Moldova continues to focus on a European future and is prepared to remain on the "train" in the hope that, one day, a destination will appear on its ticket.

2014 may prove to be a make or break year for Moldova, with Chisinau facing a number of serious challenges. From the EU's point of view, it could also prove to be a make or break year for the Eastern Partnership. As things stand, without Moldova there is little to show for the past ten years of EU engagement in the region. Yet, as we are witnessing on the streets of Kyiv, the EU remains attractive, offering the Union a unique opportunity to help transform the lives of millions of people. Therefore, despite the EU's internal problems and forthcoming changes in leadership, the Union needs to shake up and strengthen its Eastern Partnership policy if it is going to succeed in meeting the growing challenges in a region, which its leadership claims to be priority. Greater solidarity, engagement and flexibility with a more proactive and generous approach to partners – such as Moldova – which deliver, with greater efforts made to deepen ties with societies and grass root actors, would be a good start.

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