



**CENTER
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**Costs
of
Transdniestrian conflict
and
Benefits
of its Resolution**

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All opinions expressed in the present study belong solely to its authors, do not reflect any standpoints of any organisations or administrative structures and do not necessarily reflect the opinion of the British Government.

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Executive Summary and Recommendations

The negotiation process used as the main instrument of Transdnistriean settlement has not brought any positive results so far. Through the recent years, the official positions declared by Moldova and Transdnistria regarding a “common future” have turned into incompatible ones. Excessive “politicisation” contributed to that – being the search for a primarily political form of settlement.

At the same time, there was no improvement or harmonisation of internal political conditions for the settlement of the issue. Political preferences and aspirations of the conflicting parties are getting more and more remote from each other. For example, in the recent years, Moldova has been increasingly demonstrating its aspiration for European integration and obtaining a special status from the EU, while Transdnistria – to integration with the CIS countries and with Russia. Chisinau and Tiraspol gave directly opposite assessments to the 2008 events in Georgia and its consequences. Political events in Moldova that took place after the elections of April 5, 2009 caused a wave of categorical statements by Transdnistriean officials and politicians about different historical fates and different political future of Moldova and Transdnistria.

At the same time, there is no stabilisation of geopolitical conditions for the settlement of the issue. Transdnistriean settlement is especially negatively impacted by an ambiguity of political relationships between some participants of the negotiation process (EU – Russia, Ukraine – Russia, USA – Russia), which fuels the centrifugal trends of the parties to the conflict to some extent.

Taking into consideration these circumstances, it is relevant to look more actively for compromises between Moldova and Transdnistria in spheres of their mutual economic interests. Account should also be taken of the fact that emergence of economic conflicts usually resulted in aggravation of political relationships between Moldova and Transdnistria.

A shift in the emphasis from the political to the economic component of the settlement will allow the solving of many problems which exist, the elimination of tension in relationships between the parties in the economic sphere - in this way ensuring more sound conditions for continuation of the political dialogue.

The study conducted showed that the parties incur significant costs as a result of economic pressure over each other. Often, the economy of one party would become a hostage of economic policy conducted by the other. Besides the fact that Moldova and Transdnistria are still incurring costs of the consequences of the armed conflict, they have often taken steps that resulted in the emergence of newer and newer economic costs in the spheres of mutual trade, transport, energy and communication. Such steps not only caused direct damage to economic entities, budgets, infrastructure and the population of Moldova and Transdnistria, but in a number of cases contradicted the economic interests of third parties.

The wastefulness of the economic opposition of Moldova and Transdnistria is obvious – the level of economic development is the lowest, and the level of poverty is the highest among European countries including countries of the European part of the CIS.

The parties do not see benefits in cooperation and interaction in the economic sphere that could be gained from normalisation of conditions of internal trade, attraction of investments, development of infrastructure sectors, use of transit potential etc.

Unfortunately, through the years of parallel development, Moldova and Transdnistria only accumulated an experience of economic opposition, and not interaction. This experience is non-constructive from the point of view of ensuring a stable internal economic development and achievement of political settlement in the future.

It is necessary to take steps to establish normal mechanisms and instruments for solving existing economic contradictions and for developing economic interaction between Moldova and Transdnistria for the parties to stop incurring “unreasonable” losses and to convert from economic confrontation to common work to obtain real economic benefits in the sphere of trade, infrastructure, entrepreneurial activity, and attraction of investments in the first instance.

Recommendations

For Moldova and Transdnistria:

1. Discuss issues of economic relationships and disagreements and present to each other relevant well-argued information.
2. Attract independent thematic experts to develop options for solving existing problems and recommendations for the normalisation and development of interaction in the economic sphere.
3. Elaborate and adopt a coordinated Statute for Working Groups on confidence building measures and common socioeconomic projects - establishing their status, aims, tasks, mechanisms of activity; confirm their work plans.
4. Elaborate and adopt a coordinated action plan for elimination of economic contradictions and cooperation development.

OSCE, Russia, Ukraine, EU and USA:

5. Develop general basic principles of settlement of economic contradictions between Moldova and Transdnistria.
6. Analyse economic disagreements and mutual claims of the parties and develop an action plan for facilitation of settlement of conflicts between Moldova and Transdnistria in the economic sphere.
7. Offer Moldova and Transdnistria to present materials (information and justification) on problematic economic issues that cause disagreements and prevent stable and effective development of the economies of the parties and their economic relationships.
8. Provide support to the activity of the working groups in development of proposals for elimination of economic contradictions and improvement of economic relationships of the parties.

For Donors:

9. Coordinate the donors' country programmes and action plans for the support of efforts of Moldova and Transdnistria aimed at settlement and development of economic relationships.
10. Offer Moldova and Transdnistria assistance programmes/projects, the implementation of which involves development of contacts, coordination of actions and cooperation between Moldova and Transdnistria (first of all, in the sphere of infrastructure, trade, small business, and humanitarian development etc.).
11. Create a trust-fund with a purpose of accumulating funds to implement coordinated projects promoting common economic interests of Moldova and Transdnistria and involving implementation by them of common action plans.
12. Facilitate establishment and development of cooperation between non-governmental organisations of Moldova and Transdnistria (associations of entrepreneurs, chambers of commerce and industry, trade unions etc.).
13. Increase awareness of the Transdnistrian side regarding the aims, directions and results of the activity of donors in Moldova, as well as intentions regarding support to cooperation between Moldova and Transdnistria in the economic and other spheres.

Introduction

The Transdniestrian conflict that turned into an armed confrontation in 1992 resulting in human losses, humanitarian, social and economic losses still “presents bills” to the conflicting parties for which people of both banks of the Nistru/Dniester eventually pay.

Despite numerous attempts to solve the Transdniestrian issue and facilitation from the part of guarantor-countries, mediators and observers, the end of the armed phase of the conflict did not mark an end to confrontation between the parties.

Essentially, the settlement process of the Transdniestrian conflict is oriented at finding a mutually acceptable political formula and using political mechanisms of reaching a compromise. Meanwhile, economic aspects of the conflict have been pushed to the sidelines.

At the same time, the conflict is not only political, but also economic by nature. A longstanding economic confrontation of the parties that showed up in different periods of time in different forms and sectors resulted in certain costs incurred not only by Moldova and Transdnistria, but also by third parties.

Despite lots of studies, publications and information on the Transdniestrian conflict, the issues of costs incurred by the conflicting parties and possible mutual benefits of settlement of economic relations and the conflict as a whole still remain poorly studied.

The offered work gives the results of an analysis of costs of the conflict and possible benefits of its settlement. Assessments of losses and lost benefits presented in the present work can serve additional “thought-provoking information” about the ways of solving the Transdniestrian issue. Increased attention to economic aspects and opportunities of settlement will allow broadening the “platform” in order to find efficient solutions by way of harmonisation and consolidation of economic interests of the conflicting parties and use of economic mechanisms of settlement of the Transdniestrian conflict.

1. Methodology

Vast international experience of analysis of various aspects of conflicts was accumulated – factors and causes of their emergence, political, humanitarian, economic, social consequences, and opportunities and ways of their solution.

Several works can be marked out from among the researches which are of special interest for the Transdniestrian issue, containing:

- a general analysis of conflicts in the modern history in different regions of the world, for example – “Conflict in Somalia: Drivers and Dynamics”, World Bank 2005; “Avoiding War in South Ossetia”, International Crisis Group, Report No. 159, Brussels, Belgium (2004); “War and Peace in the South Caucasus: A Strategic Conflict Assessment of the Armenia-Azerbaijan Conflict”, Humanitarian Initiatives, London, UK; Tony Vaux, Jonathan Goodhand “Disturbing connections: aid and conflict in Kyrgyzstan” (2001); Jonathan Goodhand “A Synthesis Report: Kyrgyzstan, Moldova, Nepal and Sri Lanka” (2001) and others;
- an analysis of economic aspects of conflicts – Bargandzia, D. “Settlement of the Georgian-Abkhaz Conflict: Economic aspects” (1999); From a War Economy to a Peace Economy in the South Caucasus// The Economy and Conflict Research Group in the South Caucasus, International Alert (2004); Gunatilleke, Godfrey “The Cost of the War: Economic, Social and Human Cost of the War in Sri Lanka”, National Peace Council, Colombo (2001); Arunatilake, Nisha, Sisira Jayasuriya and Saman Kelegama “The Economic Cost of the War in Sri Lanka” Institute of Policy Studies, Colombo (2000); Paul Collier “Civil war and the

economies of the peace dividend”, Centre for the Study of African Economies (1995); “Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector Case Study South Caucasus”, International Alert (2006); Bhaskar Koirala, Ram Prasad Gyanwaly, Shyamal Shrestha “The Relationship Between Political Instability and Economic Growth in Nepal (1975-2003)” (2005); Muttukrishna, Sarvananthan “Economic Imperative for Peace in Sri Lanka”; Hannah Beardon “The economics of war and peace: addressing the dilemmas”, Report on the CODEP Conference 2001; Macartan Humphreys “Economics and Violent Conflict”, Harvard University (2003) and others.

When analysing the costs of the Transdnestrian conflict and benefits of its resolution, the authors of the present report did not only take into consideration results of numerous research of conflicts in other countries, but also peculiarities of the Transdnestrian conflict that showed up in its nature and evolution after the end of the armed phase.

Unlike many other conflicts, the Transdnestrian conflict was very fast in getting over the so-called “hot phase”, a return to which is virtually impossible, and has remained in a “frozen state” for a very long time with no clear progress from a post-war phase to final settlement.

According to the Network of Ethnological Monitoring and Early Warning of Conflicts, the Transdnestrian conflict has been a “low tension” conflict for a long time based on the level of socio-political state of the conflict.¹ Assessments of intensity of the Transdnestrian conflict (low intensity) published in the yearly “Conflict Barometer” are similar.²

One of peculiarities of the Transdnestrian conflict consists in the fact that its costs transformed from costs of war into “costs of unresolved conflict” very quickly, conditioned by economic contradiction between the actors.

For this reason, the offered work includes an analysis of two components of costs:

- analysis of costs of the armed phase of the conflict
 - *human costs*
 - *economic loss caused by military activities*
 - *costs of consequences of the armed conflict*
- analysis of costs of the peace phase in sectors “involved” in the conflict
 - *business and trade*
 - *transport infrastructure*
 - *energy*
 - *communication*

The choice of sectors for the analysis of “peace costs” is conditioned by the fact that exactly these sectors are most sensitive to the conflict and are used by the parties as a tool of pressure in economic confrontations. At the same time, losses in these sectors are significant in size and have an essential impact on the general economic and social situation on the two banks of the Nistru/Dniester.

So far, the parties do not see any particular benefits of stopping the economic opposition and settlement of the conflict as a whole.

That is why, issues related to benefits “acquired” by the parties as a result of stopping the economic opposition and settlement of the conflict are rendered in this work in two aspects:

- analysis of benefits of consolidation of the main sectors and of general steps aimed at their development contained in each “sector” section related to the analysis of costs of the peace phase of the conflict (i.e. a “sector” analysis of benefits was conducted)
- analysis of benefits that can be obtained given joint solving of acute and practically identical issues of Moldovan and Transdnestrian economies’ development and given joint solving of strategic issues related to ensuring sustainable and qualitative growth of the economies.

¹ <http://eawarn.ru/>

² Heidelberg Institute for International Conflict Research. <http://www.hiik.de/en/konfliktbarometer/index.html>.

The main cumulative benefit of transition to constructive economic interaction and conflict settlement consists in reduction and following elimination of risks and threats that were generated by the conflict and prevent sustainable stability and security of the economic development of both parties.

Data from official statistical bodies of Moldova and Transdnistria, information from public authorities, laws and other regulations of the parties, public information of a number of companies, publications of local and foreign researchers, data from mass media and non-governmental organisations were used in this work.

2. Costs of the armed phase of the conflict

Tension in the relationship between Moldova and Transdnistria started to manifest itself at the end of the 1980s in the conditions of the collapse of the USSR and resolution of questions of political self-determination and gaining independence:

- June 23, 1990 – the Supreme Council of the Soviet Socialist Republic of Moldova adopted the Declaration of Sovereignty, and on August 27, 1991 Moldova declared its independence
- September 2, 1990 – The 2nd Extraordinary (Special) Congress of Members of Legislatures of Transdnistria of all levels declared establishment of the Transdnistrian Moldovan Soviet Socialist Republic, and on December 8, 1990, the Supreme Council adopted the Declaration of Sovereignty of the Transdnistrian Moldovan Republic.

In fact, the country turned out to be split into two parts, and escalation of political confrontation built up into an armed conflict.

The zone of the armed conflict

The left and right banks of the Nistru/Dniester fell within the zone of military operations.³ So both parties incurred humanitarian and material costs of the armed conflict.

The period of military operations

The period of the intense armed conflict continued from March to August 1992. It was officially recognized as a period of warfare in Moldova⁴, and a period of war in Transdnistria.⁵ Major military activities with use of artillery and tanks were conducted in 1992 in the area of the cities of Bendery and Dubosari. So it was exactly here that most of human and material losses were recorded.

However, armed clashes involving human losses happened also before March 1992. Starting from November 1990, a number of similar incidents were registered in the region of the Dubosari city.

The conflict was eventually “frozen” at the end of July 1992 due to signing of the “Agreement on Termination of the Armed Conflict in the Transdnistrian Region of the Republic of

³ Thus, according to Decree of the Government of the Republic of Moldova No. 662 of 12.10.1992 “On establishment of borders of the zone of armed conflict and the time of beginning and end of the military activities of the Republic of Moldova in the Dniester zone”, the zone of armed activities was recognized to be the 15 km wide territory on the right bank of the Dniester river limited by the villages of Viscauti and Susleni of the Orhei district in the north, Causeni town, villages of Talmaz and Rascaieti of the Stefan-Voda district in the south. The following localities situated on the left bank of the Dniester were included in the indicated zone: Cocieri, Corjevo, Cosnita, Dorotcaia, Lunga, Molovata Noua, Pirita, Pohrebea, and Roghi.

RM Government Decision No. 662 “On establishment of borders of the zone of armed conflict and the time of beginning and end of military activities of the Republic of Moldova in the Dniester zone”, MO No. 010, 30.10.1992.

⁴ March 2, 1992 is specified as the day of the start of the armed activities and August, 13 1992 as the day of their end.

RM Government Decision No. 662 “On establishment of borders of the zone of armed conflict and the time of beginning and end of military activities of the Republic of Moldova in the Dniester zone”, MO No. 010, 30.10.1992.

⁵ See: <http://presidentpmr.org/category/124.html> .

Moldova” between the Republic of Moldova and the Russian Federation. Military peacekeeping forces of Russia, Moldova and Transdnistria acting under command of the Joint Control Commission were brought into the established security zone.

2.1. Human costs

The armed conflict caused deaths not only among armed personnel who directly participated in the warfare, but also among civilians. More than 1100 people died and more than 3500 were wounded. There appeared refugees and internally displaced persons. The number of people who left places of their permanent residence during the armed activities amounted to more than 200 thousand people.

The caused emotional distress was immense, taking into consideration the level of migration during military activities, the number of dead and wounded, the number of those who became handicapped and their family members and dear ones. This damage cannot be quantitatively estimated.

Dead and wounded

According to the most recent figures from the Transdnistrian part, 812 Transdnistrian people were killed as a result of the armed activities during years 1991-1992, including 310 civilians, 42 women and 14 children.⁶ The number of the wounded comprised 2485 people, including 231 people that were civilians.⁷

Moldova did not publish any official information on the number of dead and wounded. According to V. Mukomel’s estimates most often quoted by Moldovan and Russian experts, the death toll in Moldovan constitutional forces constituted 320 people in 1992.⁸

According to the data of the General Headquarters of the armed forces of the Republic of Moldova, daily losses of the Moldovan side during the last days of the conflict amounted to 10-15 people killed, and the number of wounded amounted to 40-45 people daily. From June 12, 1992, and until the day of termination of the armed activities 165 people were killed and 1022 people were wounded. In the Ministry of Defence units 46 people were killed and 334 were wounded, in those of the Ministry of Internal Affairs, respectively, – 45 and 333, among volunteers – 41 and 225, civilians – 34 and 140.⁹

Thus, according to information sources mentioned above, the total number of dead from both sides as a result of the armed conflict amounted to approximately 1132 people, the wounded – more than 3500 people (minimum estimates).

Estimated minimum of the number of dead and wounded in the armed conflict

Killed <i>including:</i> - armed units - civilians	1132 people 822 people 310 people
Wounded	3500 people

⁶ The White Book of the PMR (Pridnestrovian Moldovan Republic) – Moscow, REGNUM, 2006, p. 26, 164.

⁷ The White Book of the PMR. – Moscow, REGNUM, 2006, p. 79.

⁸ Mukomel V. “Demographic Consequences of Ethnic and Regional Conflicts in the CIS” – Population and Society //Newsletter of the Centre for Demography and Human Ecology of the Institute for Economic Forecasting RAS, No. 27, April 1997.

⁹ “Confrontation line (for the 10th anniversary from the beginning of the war conflict on the Dniester)” – Newspaper “Nezavisimaya Moldova” (Independent Moldova), No. 1320 of March 5, 2002.

Refugees

The total number of people who left the conflict zone in 1992 and of those seeking asylum in other countries amounted to more than 70 thousand people. Refugees headed to Russia, Ukraine and Belarus. Naturally, hosting parties incurred expenses related to receiving and providing ongoing support for refugees.

We do not consider as refugees the population that left the former USSR in this period, since emigration to “far-abroad” countries in the 1990’s was permanent and not related to the armed conflict (before the beginning of the conflict more people were leaving for “far-abroad” countries yearly than during the conflict).

A major part of the refugees left for Ukraine – approximately 61 thousand people, including more than 30 thousand children.¹⁰ The Ukrainian Government undertook refugee assistance measures during the period of their stay and provided assistance in returning to Moldova. In autumn of 1992 almost all refugees returned from Ukraine to places of their permanent residence.

In 1992 the Federal Migration Service of Russia registered 10.3 thousand refugees from Moldova. The official refugee and forced migrant status was granted to 2.7 thousand people, with their rights being secured in accordance with the legislation in force of the Russian Federation¹¹.

The number of Moldovan refugees registered in Belarus amounted to 0.8 thousand people¹².

The majority of refugees who left for Russia and Belarus and received there official status did not return back.

An estimate of the number of refugees during the armed conflict

Total of refugees	72.1 thousand people
<i>including in recipient countries:</i>	
Ukraine	61 thousand people
Russia	10.3 thousand people
Belarus	0.8 thousand people

Note: the estimate was done based on the data from sources indicated in footnotes 10-12.

Consequences of the armed conflict negatively influenced people’s migration behaviour also after its termination – after 1992 refugees from Moldova continued to be registered in Russia and Belarus. Thus, within the period of 1993-2003, 16.2 thousand people were registered in Russia that had arrived from Moldova and applied to the migration service¹³.

Internally displaced persons

Internal displacement of population caught in the field of military operations occurred both on the right and left banks of the Nistru/Dniester. People were displaced from the dangerous area in three directions:

- from the left bank to the right bank
- from dangerous right-bank regions deeper into the right bank
- from the zones of armed activities to more secure places inside the Transdnistrian region.

¹⁰ V. Mosneaga, P. Fruntas. “The Problem of Refugees and Displaced Persons in the Republic of Moldova”. http://www.e-journal.ru/p_bzarub-st7-2.html.

¹¹ Information-statistical book of the FMS MIA (Federal Migration Service of the Ministry of Internal Affairs of Russia), No. 1, 2002.

¹² V. Mosneaga. “Armed conflict in the Republic of Moldova and problem of displaced people” //MOLDOSCOPIE. Issues of Political Analysis. Part VII. – Chisinau, 1995, p. 93.

¹³ Informational-statistical book of the FMS MIA (Federal Migration Service of the Ministry of Internal Affairs of Russian), No. 1, 2002.

There is official data on displaced persons that arrived from right-bank and left-bank parts of the armed conflict zone. There is no complete data on displaced persons inside the Transdnestrian region.

The number of displaced people that arrived from the zone of armed activities and registered in the right-bank part amounted to 51.3 thousand people.¹⁴ In July 1992, 80 thousand people who left the town of Bendery were registered in the Transdnestrian region.¹⁵ Therefore, the total minimum number of internally displaced persons was more than 130 thousand people.

Most of registered displaced persons that arrived to the right-bank part were women and children – 91.4%, including children – 56.2%.¹⁶ Most of those who arrived were people who had departed from left-bank localities – 93.5%.

The majority of displaced persons arrived from Dubosari and the Dubosari district, and from Bendery, the place where major military activities took place.

**Number of registered displaced persons
that arrived from different districts of the armed conflict**

Arrived from:	Number of people arrived
Bendery town	24121
Dubosari town and Dubosari district	17070
Tiraspol town	1940
Criuleni district	1851
Grigoriopol district	1175
Anenii Noi district	724
Causeni district	516
Ribnitsa	178
Camenca	17

Sources: V. Mosneaga. “Armed conflict in the Republic of Moldova and problem of displaced people” //MOLDOSCOPIE. *Problems of Political Analysis. Part VII.* – Chisinau, 1995, page 94; “The migration of the Moldovan population from 1970 to 1992, and the problem of the displaced persons” //UNDP. *Moldova. Studies formulated by Moldovan consultants.* – Chisinau, September 1993, p. 97.

During the period of the armed conflict (March-July, 1992) various kinds of assistance were rendered to displaced persons: places to host them were prepared, their employment problems were solved, funds were allocated for special allowances, food, maintenance and education of children etc.

Thus, daily food allowance was paid to displaced persons (50 roubles), the unemployed were paid monthly unemployment allowance (400 roubles), allowance for accommodation in hotels, rented houses and apartments.¹⁷ Besides, all kinds of social allowances were offered to them, those envisioned in the existing social protection system. Pensioners from the number of displaced persons received pensions. Families moving to the countryside were paid a lump-sum cash allowance for household establishment equal to 5 thousand roubles for the head of the family and 1 thousand roubles for each member of the family¹⁸.

¹⁴ V. Mosneaga. “Armed conflict in the Republic of Moldova and problem of displaced people”. //MOLDOSCOPIE. *Проблемы политического анализа [Issues of Political Analysis]. Part VII.* – Chisinau, 1995, p. 93.

¹⁵ “Mass and most serious violations of human rights and the situation registered in the zone of the armed conflict in Bendery”. June-July, 1992. <http://www.memo.ru/hr/hotpoints/moldavia/index.htm>.

¹⁶ V. Mosneaga. “Armed conflict in the Republic of Moldova and problem of displaced people”. //MOLDOSCOPIE. *Issues of Political Analysis. Part VII.* – Chisinau, 1995, p. 95.

¹⁷ RM Government Decision No. 197 “On creation of a republican commission for coordination of refugees’ material support and approval of the regulation on assistance procedure for refugees, who forcedly left places of permanent residence from left-bank regions of the Dniester of the Republic of Moldova”, MO No. 003, 30.03.1992

¹⁸ RM Government Decision of No. 172 “On high priority assistance measures to refugees who forcedly left permanent places of residence from the left-bank Dniester regions of the Republic of Moldova”, MO No. 003, 30.03.1992.

To help displaced persons 160 million roubles (10.1% of total expenditures for social security) were allocated from the state budget of Moldova for 1992. In total, expenses on the reception and social assistance for displaced persons amounted to 0.3% of all budget expenditures.¹⁹ After the end of the armed activities almost all displaced persons registered in the right-bank part returned to their places of permanent residence – 95.5% as of September 22, 1992.²⁰

2.2. Economic damage

The armed conflict resulted in a deterioration of the economic situation on both banks of the Nistru/Dniester and contributed to the deepening of the economic crisis that started back in 1990. The decrease of the main macroeconomic indicators in 1992 (for the right and left banks in whole) was catastrophic and stronger than before and after the end of the conflict.

In 1992 the total gross domestic product (produced on both banks of the Nistru/Dniester) decreased by 29% (in 1991 – by 17%, in 1993 – by 1%). The depth of drop in GDP production was more significant than in other CIS countries (except for Armenia).²¹ The total output of industrial production decreased by 27% (in 1991 – by 11%, in 1993 no decrease was registered), the volume of cargo carried – by 51%, including carried by railway transport – by 47%, automobile transport – by 51%.²²

Quite obviously, in 1992, the losses for the economy could have been less if it were not for the armed conflict.

During the armed conflict, major damage was caused to the industrial sector, the population, social and technical infrastructures of both banks of the Nistru/Dniester.

Amidst the armed hostilities it was impossible to maintain stable functioning of the technical infrastructure (transport, energy supply). Due to blocking of the eastern part of the transport routes (automobile and railway), the right-bank plants did not get from their partners in Ukraine and Russia the necessary production materials, accessories, raw material, oil products, which resulted in significant losses.

Operation of many enterprises in the Transdnistriean region was paralyzed due to destruction and general economic destabilization in the conflict zone, particularly in the towns of Bendery and Dubosari.

According to Transdnistriean data 218 enterprises in the field of industry, transport and construction, (including 46 enterprises from Bendery) were destroyed or damaged, 8 kilometres of cable power lines and 35 kilometres of overhead power transmission lines, 15 kilometres of heat supply networks and 10 transforming stations were damaged.²³

Several economic indicators for the towns of Bendery and Dubosari for the year 1992 could be used as an example: compared to 1991 industrial output (in comparable prices) declined by 45% in Bendery, and by 43% in Dubosari. Production of precast concrete structures and products (in natural terms) slowed down in 2.1 times in Bendery; in Dubosari – in 6.7 times, the number of carried passengers (bus service) decreased in 1.7 times in Bendery, in Dubosari – in 3.9 times. Furthermore, significant declined (in natural terms) in production of cable products (3.3 times),

¹⁹ Statistical yearbook of the Republic of Moldova, 1993//Department of Statistics of the RM. Chisinau, 1994, p. 387; V. Mosneaga. “Armed conflict in the Republic of Moldova and problem of displaced persons”. //MOLDOSCOPIE. Problems of political analysis. Part VII. – Chisinau, 1995, p. 103 and author’s calculations.

²⁰ V. Mosneaga. “Armed conflict in the Republic of Moldova and problem of displaced persons”. //MOLDOSCOPIE. Problems of political analysis. Part VII. Part VII. – Chisinau, 1995, p. 97.

²¹ Statistical Yearbook of the Republic of Moldova, 1996//Department of Statistics of the RM. Chisinau, 1997, p. 506.

²² Statistical Yearbook of the Republic of Moldova, 1994// Department of Statistics of the RM. Chisinau, 1995, p. 10, 17, 280.

²³ The White Book of PMR. – Moscow, REGNUM, 2006, p. 31, 26.

silk fabric (2 times), vegetable oil (2.3 times) and preserves (2.2 times) was registered in Bendery town.²⁴

There was a disruption in power supply on both banks of the Nistru/Dniester. Power transmission lines with voltage of 330 and 110 kilovolt providing electric power supply from the left-bank part to the right-bank part were disconnected. According to Transdnestrian data the power supply lines were disabled on July 4, 1992 as a consequence of military activities (330 kV power lines: Dnestrovsk – Chisinau, 110 kV power lines: Dnestrovsk – Tiraspol – Bendery, power lines – Tiraspol – Chitcani – Tolmaz – Cioburciu, Bendery Yuzhnaya electric substation).²⁵

From June, 20 to August, 10 the gas supply to Chisinau and Orhei, as well as to 4 other regions (Anenii Noi, Ialoveni, Orhei, Rezina) was stopped. The consumers under-received 95 million cubic meters of gas.²⁶

Due to the military activities the population's property was damaged. According to Transdnestrian data 1812 residential houses and 427 apartments were damaged in the left-bank area.²⁷

In the zones of hostilities social infrastructure facilities were damaged. Thus, in Bendery 19 education facilities, 15 health care and sport facilities were destroyed.²⁸

It is practically impossible to make an exact estimate of the overall damage caused by the armed conflict. This is confirmed by the fact that the existing estimates significantly differ.

According to the State Archive' data, as a result of the conflict the left bank's financial loss amounted to 945 million roubles or USD 7.5 million. This amount is given as of 1992 (in prices of 1992 and at the exchange rate as of 1.08.1992) and reflects the minimum price to be paid for functional recovery of the damaged facilities.²⁹

There is other data given in a number of publications. For example, with reference to initial data of the Moldovan Embassy in Russia, the conflict "cost the Right bank 12 billion roubles in prices of 1991. Nearly the same damage was caused to the Left bank, meaning USD 380 million for both parties in 1992 (the year of beginning of the armed conflict)".³⁰

In one of his statements I. Smirnov pointed out that the amount of financial damage caused to Transdnestria equalled 10 billion roubles.³¹

KEY COSTS OF THE ARMED PHASE OF THE CONFLICT:

- *Deceased (more than 1100 people)*
- *Wounded (more than 3500 people)*
- *Refugees (more than 72000 people)*
- *Internally displaced persons (more than 130000 people)*
- *Assistance and allowances to refugees and internally displaced persons*
- *Escalation of the economic crisis, drastic decrease in the GDP and industrial production*
- *Damage to population's property and housing facilities*
- *Disruptions in the work of the transport, gas transmission pipelines and in energy supply*
- *Destruction of enterprises*
- *Destruction of the social infrastructure facilities*

²⁴ Statistical yearbook of the Republic of Moldova, 1993// Department of Statistics of the RM. Chisinau, 1994, p. 402-405 and authors' calculations.

²⁵ The White Book of PMR. – Moscow, REGNUM, 2006, p. 61.

²⁶ Essam Abbou Salem. "Contemporary conflicts and methods of solving them (Case-study: Transdnestrian and Palestine-Israeli conflicts)". PhD thesis in historical sciences –State University of Moldova. Chisinau, 2006, p. 57.

²⁷ The White Book of PMR. – Moscow, REGNUM, 2006, p. 166.

²⁸ The White Book of PMR. – Moscow, REGNUM, 2006, p. 31.

²⁹ The White Book of PMR. – Moscow, REGNUM, 2006, p. 166; I. Petrov. "June 19 – The day of grief and remembrance: a nation's freedom cannot be jeopardised". <http://www.olvia.idknet.com/ol64-06-03.htm>.

³⁰ N. Airapetova. "600 thousand human lives" // Независимая газета [*Independent newspaper*], 2001, June 22, p. 10.

³¹ http://president.pmr-gov.org/index.php?option=com_content&task=view&id=280&Itemid=45.

2.3. Costs of the armed conflict' aftermath

After termination of the armed conflict, the sides began to incur costs related to restoration of the destroyed facilities, mine neutralization in the area, compensation of the population's material damage, financing of various allowances, bonuses and benefits established for participants of the military activities, disabled people, bereaved families, displaced persons who did not return to places of their permanent residence, and payment of special compensations.

Only the armed conflict has to be "blamed" for appearance of these costs. Until now, the majority of similar costs are financed from the budgets of Moldova and Transdniestria.

Social protection of participants of military activities

Both sides established special norms on social security and social protection of participants of the conflict, bereaved families and persons who became disabled as a result of the military activities. In Moldova and Transdniestria, existing systems of social assistance for these categories of population are very similar – increased sizes of pensions, allowances for payment for utility services, free public transport passes, allowances for a number of medical services etc. All measures of social protection are financed from the budget resources.

In Moldova, the government is financing the following key social protection measures, established by the Law "On veterans"³² and in normative acts:

- monthly state benefit to disabled persons from among military servicemen and senior officers and enlisted personnel of law enforcement agencies and penal system (to pensioners) from MDL 375 to MDL 600 depending on the group of disability, as also to one of incapable parents of participants (among military servicemen) of military activities in the amount of MDL 150,³³
- free internal passports to persons with disabilities resulting from the Transdniestrian conflict;³⁴
- monthly target compensations for payment for utility services (25%) to participants of the military services (military servicemen and civilians);³⁵
- raise in the length-of-service pension and disability pension to participants of the military activities by MDL 135 (military servicemen and senior officers and enlisted personnel of law enforcement agencies who took part in the military activities);³⁶
- provision of free health resort trips once in three years;
- provision of free passes for all types of municipal transport (except taxis);
- orthopaedic prosthesis and provision of prosthetic and orthopaedic appliances;
- granting of telephone communication services on a priority basis, telephone installation with a 20% discount, and 50% discount for the monthly fee and local communication;
- higher personal tax exemption (MDL 10000 as compared to MDL 6300 for other citizens) with respect to payment of the income tax for disabled persons of the military activities, as well as to parents or a spouse of deceased or missing.³⁷

After the end of the conflict the bereaved families were paid a one-time compensation – 50 thousand roubles, and the wounded – 10 thousand roubles; bereaved families were granted

³² RM Law No. 190 "On veterans", MO No. 84-86, 1.04.2004

³³ RM Government Decision No 470 "On approval of the provision on the procedure of establishment and payment of monthly state allowances to certain categories of the population", MO No. 73-74, 12.04.2006

³⁴ Decision of the Governmental Commission on the implementation of the National Passport System, State Population Register and other systems of the national importance (Protocol No 8 of 14.09.2001)

³⁵ RM Law No 933 "On special social protection of certain categories of the population", MO No. 70-72, 22.06.2000

³⁶ RM Law No 1544 "On the pension for military servicemen and senior officers and enlisted personnel of the law enforcement agencies", MO No. 007, 30.07.1993

³⁷ RM Tax Code, Title I, "Income Tax", Chapter 4, Art. 33 (Law No 1163, MO No. 62, 18.09.1997)

monthly allowances for a period of 7 years (six minimum wages and an extra minimum wage for each child, starting from the second).³⁸

A decision was made on the provision of preferential loans to bereaved families and to participants of military activities (for those in need for accommodation) in the amount of not more than 400 thousand roubles for one borrower for the term of 25 years with repayment of 50% of the granted loan at the expense of the local budgets (bank losses were covered by the state budget funds).³⁹

In Transdnistria, at the expense of the budget resources the following key social protection measures are financed for participants of the military activities and disabled persons:

- free of charge medicines on prescription according to the list;
- extraordinary and free dent-prosthetic rehabilitation (except prostheses made from precious metals) in clinics at the place of residence, as well as free provision with other prosthesis orthopaedic appliances;
- free health resort trips once in two years (non-workers);
- non-recurrent preferential loans from bank institutions for individual (cooperative) construction;
- a 50% discount for installation and use of a telephone (except for long-distance talks);
- a 50% discount for payment for utility services within the normal limits of consumption of public services for participants of the military activities, exemption from the payment for utility services for disabled persons;
- free education at secondary and higher educational institutions of vocational training;
- remuneration in the amount of 100% tariff rate for the whole period of training when getting a new profession (training of new workers).⁴⁰

An increased rate of tax rebate for participants of the armed conflict (rebate from the tax base) when paying the income tax was established – 150 estimated levels of the minimum wage per month (for other categories of taxpayers, the tax rebate constitutes from 40 to 70 estimated levels of the minimum wage).⁴¹

For participants of military activities a higher level of pensions was established; on a yearly basis one-time financial assistance is provided to them.

In 2007, expenses of Pension Fund budget of Transdnistria for payment of pensions to members of families and widows of defenders, additional pensions and increases in pensions to participants of the military activities, pensions to disabled from childhood as a result of the military activities amounted to 8.8 million roubles (USD 1 million).⁴²

Assistance to the population that suffered from the conflict

Costs of reconstruction of destroyed and damaged residential buildings and of compensation of material damage to population that suffered in the conflict were incurred both by Moldova and Transdnistria.

In Moldova, according to the Decision adopted by the Government in November 1992, caps were fixed for the amounts of compensation for the damage caused to persons that suffered as a result of the armed conflict:

³⁸ RM Government Decisions No 249 “On the status of implementation of the governmental regulations concerning social protection of the participants of the military activities in eastern regions of the Republic of Moldova and those who suffered as a result of the armed conflict” MO No. 005, 30.05.1993; No 302 “On payment of allowances to family members of civilians who died in the period of the military activities to defend the territorial integrity of the Republic of Moldova”, MO No. 005, 30.05.1994; No 719 “On additional measures on liquidation of the consequences of the war conflict and social protection of persons who suffered as a result of this”, MO No. 011, 30.11.1992

³⁹ RM Government Decision No 779 “On approval of the provision on granting interest-free long-term loans to families of deceased participants of military activities”, MO No. 011, 30.11.1992

⁴⁰ PMR Law “On social protection of veterans of war” (version as of September 5, 2007)

⁴¹ Law on Income Tax for Physical Persons (version as of April 15, 2008)

⁴² PMR Law No. 148-3-IV “On the state pension fund budget for 2007”, 11.01.2007

- for the damaged buildings – within the limits of the real damage less costs of construction materials granted to citizens by the local authorities free of charge;
- for household goods – within the limits of claimed damage, but not more than 500 thousand roubles (to one family);
- for transport vehicles – according to the established amounts of damage within the limits of 400 thousand roubles.⁴³

Funds were allocated from the state budget to resolve the housing problem of persons and families, who arrived from left-bank regions and did not want to return to the previous place of residence (2.3 thousand persons - as of September 22, 1992 and 872 families - as of September 1, 1995).⁴⁴

For the solution of the housing problem the following key measures were taken:

- citizens, whose houses were destroyed, as well as displaced persons, who did not return to the left-bank area, were granted interest-free loans for a term of 15 years in the amount of not more than 400 thousand roubles for one borrower (bank losses were covered at the expense of the state budget);⁴⁵
- in 1998, funds were granted twice to the Chisinau Mayor's Office – 0.5 million roubles and MDL 1.5 million – for provision of dwelling-space to persons, who suffered as a result of the armed conflict;⁴⁶
- in 2005, the municipal enterprise "Capital Construction Administration of the Chisinau Municipal Council" received from the state budget MDL 5 million for construction of a residential building for internally displaced persons.⁴⁷

In 1997, 150 families of those who did not return to the left-bank area needed housing.⁴⁸

Despite measures taken to finance acquisition and construction of housing, the problem has not been solved yet.

In Transdnistria funds from the republican budget were provided to the population as a compensation for the damage done by the armed conflict:

- for stolen private property – up to 500 thousand roubles per family;
- for hijacked/ burned transport facilities – up to 400 thousand roubles;
- for the damaged buildings – within the limits of the real damage;
- for lost livestock – the amount corresponded to the purchasing price.⁴⁹

Assistance to the population, producers and public institutions of localities on the left bank

After termination of military operations and disengagement of the parties' armed units some localities situated in the newly formed security zone on the left bank of the Nistru/Dniester, as well as some schools situated in the left-bank area, remained under the jurisdiction of Moldova. The "ambiguous" position of these localities and schools – physical location in the territory belonging to Transdnistria and juridical subordination to the Republic of Moldova – caused the emergence of some problems related to the conditions for productive and agricultural activity, to the education process, and further complicated living conditions of the population in these areas.

⁴³ RM Government Decision No 780 "On Establishment of compensations to persons who suffered as a result of the armed conflict", MO No. 011, 30.11.1992

⁴⁴ V. Mosneaga. "The armed conflict in the Republic of Moldova and the problem of displaced persons" //MOLDOSCOPIE. Issues of Political Analysis. Part VII. – Chisinau, 1995, p. 97.

⁴⁵ RM Government Decision No 779 "On approval of the provision on granting interest-free long-term loans to families of deceased participants of military activities", MO No. 011, 30.11.1992

⁴⁶ RM Government Decisions No 949 "On providing dwelling space to persons who suffered as a result of the armed conflict of 1992, MO No. 087, 24.09.1998 and No 387 "On providing dwelling space to persons who suffered as a result of the armed conflict of 1992, MO No. 056, 25.06.1998

⁴⁷ RM Government Decision No 57 "On providing dwelling space to internally displaced persons from the eastern regions of the Republic of Moldova", MO No. 017, 28.01.2005

⁴⁸ V. Mosneaga, P. Fruntas. "The problem of refugees and displaced persons in the Republic of Moldova", http://www.e-journal.ru/p_bzarub-st7-2.html.

⁴⁹ PMR Government Decision No. 68 "On Establishment of compensations to persons who suffered as a result of the armed conflict", 12.03.1993

Moldova incurs the financial costs of smoothing-over this situation and compensating enterprises and population for losses and inconveniences of being in such a situation.

Compensation of the difference in tariffs for electricity and natural gas

From the state budget, residents of such villages (Cocieri, Cosnita, Dorotcaia, Molovata Noua and Pirita - Dubosari district, Copanca - Causeni region, and Varnita - Anenii Noi region) are paid monthly direct compensations covering electricity and natural gas. The compensations were established “in the amount of the difference between the tariffs approved by the National Agency for Energy Regulation and corresponding tariffs set by the Tiraspol authorities”.⁵⁰

Compensation of losses to agricultural producers

For compensation of regularly emerging losses funds were repeatedly allocated to agricultural producers and other types of financial assistance were provided. Thus, in 2004, for economic entities from the Dubosari district whose lands are situated beyond the Ribnitsa – Tiraspol highway, tax payments were divided in order to be paid in instalments over a one-year term; the regional council of Dubosari received MDL 3.5 million to compensate the losses; socially vulnerable categories of population were provided one-time financial assistance (MDL 500 per capita),⁵¹ at the expense of the state budget debts and penalties of agricultural producers were written off (for the total amount of MDL 2.4 million) resulting from non-payment of obligatory state social insurance contributions for 2004.⁵²

Thus, in 2004 alone, at least MDL 6 million was allocated from the state budget for compensation of losses to agricultural producers.

In 2006, a “protective” norm was implemented. Owners of agricultural lands situated beyond the Ribnitsa – Tiraspol highway, in case of restriction of access to these lands until the consequences of such restriction are eliminated, are exempted from paying the land tax, obligatory state social insurance contributions, obligatory state health insurance contributions and get unemployment compensation or employment allowance. All expenses are covered from the state budget.⁵³

Support to recovery of economic activity after the armed conflict

For the purpose of recovery of normal operating conditions of economic agents that suffered as a result of the armed conflict, measures were financed to write off their arrears on previously issued bank credits. In 1994, the amount of loan arrears written off and repaid from the state budget amounted to MDL 466.7 thousand. Some economic agents were exempt from paying fees to the Social fund, as well as from paying the penalty for late budgetary settlements (for 1993 and 1994) in all kinds of payments.⁵⁴

⁵⁰RM Law No 1435 “On compensation of the difference in tariffs for electric power and natural gas used by residents of some localities of the region of Dubosari, Causeni, and the village of Varnita, Anenii Noi region”, MO No. 169, 12.12.2002

⁵¹ RM Government Decisions No 1098 “On improvement of the socio-economic situation of localities situated in the security zone”, MO No. 186, 15.10.2004; No 1386 “On partial compensation of losses incurred by agricultural producers from localities situated in the security zones”, MO No. 237, 24.12.2004

⁵² RM Laws No 243 “On relief of debts to the of state social insurance budget for 2004 to agricultural producers of localities of the Dubosari region situated in the security zones”, MO No. 154, 18.11.2005; No 146 “On writing off the penalty accrued for late payment of social insurance contributions and not transferred to the state social insurance budget to agricultural producers of localities situated in the security zones of the Dubosari region as of January 1, 2005”, MO No. 107, 15.08.2005

⁵³ Law No 39 “On Establishment of additional measures for the support of entrepreneurial activity performed in localities of the Dubosari region situated on the Left Nistru/Dniester bank”, MO No.051, 31.03.2006

⁵⁴ RM Parliament Decree RM No 196 “On measures to stabilise the economic situation of certain enterprises and organizations who suffered as a result of the armed conflict in 1992”, MO No. 006, 22.09.1994

Population aid

To ensure social support, tax exemptions were provided – during 1993 population of left-bank regions, part of the armed conflict zone, was exempt from income tax,⁵⁵ from July 1, 1994, workers of a number of left-bank enterprises were exempt from a part of taxable wage base (for the size of one minimum wage).⁵⁶

Pensioners of some villages were awarded monthly state allowances (from MDK 50 to MDL 100 depending on the category of the pension beneficiaries) financed from the state budget.⁵⁷

Support for schools

A number of schools, situated in the territory of Transdnistria, are financed from Moldovan state budget (schools No 1, No 2, No 13, No 19 and boarding school No 2 in Bendery, No 12 in Ribnitsa and No 20 in Tiraspol, as well as some classes at schools No 4, No 17, No 18 in Bendery and No 11 in Ribnitsa).⁵⁸ According to operational information of the Ministry of Education 4 thousand children study there.⁵⁹

The specified schools receive additional financial and material assistance due to the complexity of their working conditions. Thus, starting from September 1, 1995, for the teaching and administrative staff of Moldovan schools No 20 in Tiraspol and No 1 in Bendery a monthly increase to the tariff rate (official salary) was established in the amount of 30%.⁶⁰

In 1996, the same increase was established for pedagogical employees living in Bendery, but forced to work in a Moldovan secondary school of the Hagimus village, Causeni region, where schoolchildren from Bendery were moved, not having possibilities to study in the Moldovan language in Bendery. Additional expenses were financed from the state budget for the organisation of the study process and meals of the transferred pupils of grades 1-5. A provision was also made for allocation from the budget of MDL 15 thousand to purchase a school-bus to transport children to the Hagimus village and back to Bendery.⁶¹

Costs associated with lawsuits brought to the European Court of Human Rights

In December 1993, the Supreme Court of Transdnistria brought in verdicts of guilty with regard to cases of citizens of the Republic of Moldova (Ilascu, Ivantoc, Lesco and Petrov-Popa), who participated in military activities and were arrested in Transdnistria.

In 1999, the convicted persons made complaints to the European Court of Human Rights that were considered and satisfied.

In July 2004, the Grand Chamber of the European Court of Human Rights determined the case (“The case of Ilascu and others against Moldova and Russia”). According to the decision made Moldova has to pay to Ivantoc, Lesco and Petrov-Popa EUR 60 thousand each as compensation for material and moral damage, EUR 3 thousand to each of the four appellants as a compensation of moral damage and EUR 7 thousand for reimbursement of the court costs and expenses.⁶²

⁵⁵ RM Parliament Decree No 1541 “On Exemption of income tax for citizens permanently living in localities situated on the left Nistru/Dniester bank that were part of armed conflict zone”, MO No. 006, 30.06.1993

⁵⁶ RM Parliament Decree RM No 196 “On measures to stabilise the economic situation of certain enterprises and organizations who suffered as a result of the armed conflict in 1992”, MO No. 006, 22.09.1994

⁵⁷ RM Law No 591 “On additional social protection of pension beneficiaries, registered in the State Social Insurance System”, MO No. 001, 15.01.2003

⁵⁸ RM Government Decisions No 750 “On financing of some schools of the left bank of the Dniester and the city of Bendery”, MO No. 011, 03.11.1994; No 475 “On making certain pre-higher education institutions of the republic subordinate to the Ministry of Education”, MO No. 067, 17.10.1996.

⁵⁹ Ministry of Education of the Republic of Moldova. Operative information as of 01.09.2004

⁶⁰ RM Government Decision No 622 “On social protection of the teaching and administrative staff of Moldovan schools No 20 in Tiraspol municipality and No 1 in Bender municipality”, MO No. 065, 24.11.1995

⁶¹ RM Government Decision No. 103 “On organization of the teaching process for pupils from the Bendery municipality studying at the Moldovan secondary comprehensive school of the Hagimus village, Causeni region”, MO No.026, 02.05.1996

⁶² The case of Ilascu and others against Moldova and Russia (Complaint No. 48787/99). – The European Court of Human Rights. Strasbourg, July 8, 2004.

Thus, Moldova had to allocate from the state budget almost EUR 200 thousand to fulfil the decision of the European Court of Human Rights and pay the appellants. Russia also incurred costs on this case and had to pay applicants more than EUR 580 thousand. There are certain risks that Moldova (and Russia) may incur more costs in the future on claims to the European Court of Human Rights and related to the consequences of the armed conflict. The question is about actions filed by internally displaced persons, who arrived to the right bank from the left bank in 1992 during the military activities and who according to the decisions made by the Government had to be provided with housing. The process of their provision with housing has delayed too much. As a result, a corresponding action was filed by a group of Moldovan citizens to the European Court of Human Rights (71 people).⁶³

MAIN COSTS AS CONSEQUENCES OF THE ARMED CONFLICT:

- *Benefits and allowances to participants of military action, disabled persons and bereaved families*
- *Reconstruction of destroyed and damaged residential houses, settlement of the housing problem for non-returned displaced persons*
- *Compensation of material damage to the population*
- *Financial assistance to economic agents, who suffered as a result of the armed conflict*
- *Compensations, benefits and exemptions to the population of left-bank villages (being under the jurisdiction of Moldova)*
- *Costs of actions filed to the European Court of Human Rights*

⁶³ <http://migration.org.ua/index.php?module=pages&act=page&pid=186>

3. Costs of the post-war phase of the conflict and benefits of interaction and cooperation

3.1. Business and trade

Foreign relations: dynamics, structure, partners

In terms of most of the indicators used in international statistics, by the beginning of 1990's, Moldavia (Moldova - Transdnistria) was defined as an industrial-agricultural country: the share of industry in the structure of the social product (1989) was 60 %, and in export of produce – around 90 %.⁶⁴

Until 1990, the nucleus of the economy of Moldavia was the agrarian-industrial complex – 1.9 thousand of agrarian and agro-industrial enterprises and about 200 large food processing enterprises; one third of its gross output was sent to the all-union turnover, including: agricultural products - 10 % and food products - 50 %.⁶⁵

The comprehensive nature of development of the economy of the Moldavian Republic, its involvement in export supplies of the former Soviet Union were secured both by enlargement of branches of traditional specialization,⁶⁶ by creation of new industrial branches⁶⁷ “dependent” on other regions, and by development of the regional production infrastructure (energy sector and energy supply system, transport networks, networks of refrigerators, storages etc.).⁶⁸

Due to a number of reasons (transport availability, presence of water resources, lower seismic hazard, proximity of the port of Odessa, etc.), the largest State District Power Plant (“GRES” in Russian) in the Balkans, a metallurgical complex and about 100 industrial enterprises (engineering, light industry, furniture industries, production of construction materials etc.) were located on the left bank (Transdnistria).⁶⁹ In addition, back in 1930's, a group of the largest canning and wine-making factories in the Union was established there.⁷⁰

As a result, there was emphasis on production of food and drinks (50 %) with engineering (15 %) and light industry (8 %) in a distant second and third place on the right bank. Meanwhile, on the left bank the “load” was distributed more equally: the share of the light industry was 34 %, of the food processing industry – 24 % and the share of engineering was 21 %.

Limited capacity of the domestic market predetermined the orientation of the economy of Moldavia towards external markets. At the end of 1980's, the Republic exported 40 % of its electricity, more than 90 % of the outputs of its engineering industry, 60-70 % of the outputs of food processing and light industries.⁷¹ About 75 % of wines and brandies that were exported from the former Soviet Union were manufactured in Moldavia.⁷² Besides connections with various regions of the former Soviet Union, the Republic maintained foreign-economic relations with almost 60 countries.

⁶⁴ RM Government Decision No. 553 “On the Concept of Industrial Policy of the Republic of Moldova for years 1996-2000”, MO No. 074, 04.11.1996, p. 7

⁶⁵ A.A. Gudym. „Moldavian SSR in the common economic complex of the country”. – Kishinev, 1987. - (Inform.review/MoldNIINTI), p. 11-12

⁶⁶ It is primarily multibranch agriculture, food processing industry and construction materials production.

⁶⁷ Science intensive, non-material intensive and labour intensive sectors operating mostly on imported raw materials – power sector, engineering sector, light, furniture and chemical industries, etc.

⁶⁸ A.A. Gudym. „Moldavian SSR in the common economic complex of the country”. – Kishinev, 1987. - (Inform.review/MoldNIINTI), p. 12

⁶⁹ A.A. Gudym and others. Economic sub-districts of Moldova, Kishinev, 1973

⁷⁰ A.A. Gudym. „Moldavian SSR in the common economic complex of the country”. – Kishinev, 1987. - (Inform.review/MoldNIINTI), p. 5

⁷¹ Ibid, p. 8

⁷² “Economic growth of the Moldavian SSR: problems and solutions». – Kishinev, 1981.- (Inform.review/MoldNIINTI), p. 6

The breakdown of traditional relations in the whole post-socialist space and the crisis and stagnation of 1990's aggravated by the internal conflict and disintegration of the economy only deepened the “historical” dependence of economies of Moldova-Transdnistria upon external markets, both from the point of view of the sale of products, and from the point of view of inputs for their manufacturing. Furthermore, in the absence of energy resources, in the context of reduced capacity of domestic markets, the conditions for and efficiency of foreign economic activities (trade) to a large extent became determinants of growth dynamics (positive or negative) of both economies.

Foreign trade of Moldova and Transdnistria

	1990 (in tote)	1995 (in tote)	of which:		2007 (in tote)	of which:	
			Moldova	Transnistria		Moldova	Transnistria
<i>USD million</i>							
Export - total	4912.8	1351.0	745.5	605.5	2068.7	1341.7	727.0
CIS countries	...	792.7	466.9	325.8	906.3	550.2	356.1
Rest of world	...	362.0	278.6	83.4	1115.4	791.5	323.9
Import - total	5071.3	1346.7	840.7	506.0	4821.1	3689.5	1131.6
CIS countries	...	856.1	568.9	287.2	2076.9	1333.7	743.2
Rest of world	...	319.1	271.8	47.3	2722.0	2355.8	366.2
<i>%</i>							
Export as % to GDP	47.7	...	51.7	93.3	...	30.5	89.9
Import as % to GDP	49.2	...	58.3	67.8	...	83.8	140.0
Level of coverage of imports by exports	96.9	100.3	88.7	119.7	42.9	36.4	64.2

Sources: Progress report on the Program of activities of the Government of the RM for years 1994-1997 (April 1994 – September 1995). Chisinau, October 1995, p. 98,132; Statistical Yearbook of the Republic of Moldova//Department of Statistics of the RM, 1995, p. 394; Statistical Yearbook of the Republic of Moldova//National Statistics Bureau of the RM, 2008, p. 415; Statistical Yearbook of the Transdnistrian Moldovan Republic //State Statistical service of the Ministry of Economy of the TMR. Tiraspol, 1998, p.142; Statistical Yearbook of the Transdnistrian Moldovan Republic //State Statistical service of the Ministry of Economy of the TMR. Tiraspol, 2008, p.164 and calculations made by authors.

During the years of parallel development, the situation in the economy of Moldova-Transdnistria became much more complicated – structural differences that existed before but that were “consistent” between the economies of the right and left banks were transformed into high risks of foreign economic vulnerability – low level of export diversification, serious dependency on import (raw materials, investments, consumer goods). According to the World Bank classification, Moldova-Transdnistria belongs to the category of economies with a low level of income.

The commodity structure of the foreign trade reflects as a mirror both the achievements and problems of development of the economy of Moldova-Transdnistria.

In Moldova, for clear reasons,⁷³ food products and wine were the first to enter external markets. The importance of these commodities remains until today – before 2006⁷⁴ they comprised more than one third of the total export from Moldova.

⁷³ For more detailed information see “Moldova and Transdnistria: Two models of economic development”, research by CISR, Chisinau, 2007

⁷⁴ From March 2006 to October 2007 there was a prohibition to import Moldovan/Transdnistrian wine products in Russia. To a certain extent, loss of the Russian market contributed to search of new markets and expansion of presence in the market of the EU and in markets of other CIS states.

The sustaining of “specific features” in the structure of the Moldovan economy led to the worsening of export “quality”: reduced diversification with growth of concentration of export by certain goods.⁷⁵

The export specialization of Transdnistria is determined by the specifics of the maturing and development of the left bank economy.⁷⁶

Here the commodity structure of export is also quite limited, similar to Moldova. Mostly these are four commodity groups: ferrous metals, textiles, electricity, machinery and equipment, the share of which comprises 85-90 % of Transdnistrian export. At the same time the production capacity of Transdnistria in all potentially exportable products is significantly higher than the demand in Moldova-Transdnistria for those products. Export of food products practically does not take place. Transdnistria’s dependence on the import of food products is steadily becoming more and more severe.

⁷⁵ In 2005, goods of 700 tariff groups were exported versus 1000 tariff groups in 1998. Meanwhile, Moldova becomes dependent on export of only certain categories of commodities, such as food products, textile, etc. (Decree of the Government of the RM No. 1288 “On Approval of the Strategy of Attraction of Investments and Export Promotion for years 2006-2015”, MO No. 181-183, 24.11.2006)

⁷⁶ For more detailed information see “Market of Transdnistria: its influence on the politics and economy of the Republic of Moldova”, research by CISR, Chisinau - Tiraspol, 2005; “Moldova and Transdnistria: two models of economic development”, research by CISR, Chisinau, 2007

Structure of foreign trade of Moldova and Transnistria
(main commodity groups, %)

	1995		2000		2007	
	Moldova	Transnistria	Moldova	Transnistria	Moldova	Transnistria
Agricultural products, food and beverages	61.5	40.3	56.1	5.9	32.7	3.0
Base metals and articles of base metals	4.3	11.5	2.5	57.6	8.2	65.3
Textiles and textile articles	4.7	0.2	17.7	11.6	20.6	11.8
Machinery and mechanical appliances; equipment and vehicles	6.2	10.3	6.2	0.1	8.2	5.5
<i>as % in total export</i>	76.8	62.3	82.4	75.2	69.7	85.6
Mineral products	46.5	23.9	33.0	26.2	21.4	25.7
Chemical products	7.8	8.6	9.6	2.9	8.6	4.2
Textiles and textile articles	4.9	8.0	10.0	8.4	6.8	5.2
Machinery and mechanical appliances; equipment and vehicles	15.0	17.1	14.7	9.5	22.5	13.3
Agricultural products, food and beverages	4.1	15.3	12.4	20.0	6.4	6.4
<i>as % in total import</i>	78.4	72.9	79.7	66.9	65.7	54.8

Sources: *Statistical Yearbook of the Republic of Moldova*//Department of Statistics of the RM, 1995, p. 400-411; *Statistical Yearbook of the Republic of Moldova*//National Statistics Bureau of the RM, 2008, p. 432-448; *Statistical Yearbook of the Transnistrian Moldovan Republic* //State Statistical service of the Ministry of Economy of the TMR. Tiraspol, 1998, p.148-149; *Statistical Yearbook of the Transnistrian Moldovan Republic* //State Statistical service of the Ministry of Economy of the TMR. Tiraspol, 2008, p.171-174 and calculations made by authors.

The geographic orientation of the export of Moldova-Transnistria is determined primarily by the product specialization of their economies and secondarily by conditions of access to external markets.

During the first five-year period of independent development the common orientation of foreign trade of Moldova-Transnistria, both in terms of export and in terms of import, towards the “East” (CIS countries), is explained primarily by remaining “old” relations of industrial cooperation between republics of the former USSR. Because of the difficulties of the transitional period, commodity exchanges inside the CIS were mostly carried out on a barter basis. In addition, the lack of a “habit” to produce goods of consistently high quality and maladjustment to market relations resulted in non-competitiveness of goods manufactured in Moldova–Transnistria in Western markets, including markets of the former “socialist” partners.

In 1992-1995, Moldova exported to CIS countries more than 60 % of its export, while Transnistria - 70-80 %. From the CIS area Moldova and Transnistria received up to 70 % and up to 90 % of import, correspondingly.

Starting with 1998, Transnistria changed its geographic export orientation: from CIS countries towards “other world” countries. This was exactly the moment, when the geography, as well as the volumes of export deliveries from Transnistria became to a large extent dependent on the stable functioning and on the key sales markets of one enterprise – the Moldovan Steel Works (in Ribnitsa).⁷⁷

Changes in geographical orientation of export from Moldova “matured” gradually: before 2000 more than 60 % of exported goods went to CIS markets.

Inclusion of the Republic of Moldova into the EU Generalised System of Preferences (1999) and its accession to the WTO (2001) helped to balance to a certain extent export flows: about 45 % of Moldovan export goes to “other world” countries.

⁷⁷ For more detailed information see “Foreign trade: the source of growth and contradictions”, research by CISR, Chisinau, 2007

Starting with 1997,⁷⁸ a stable 20-25 % of shipments from Moldova and 10-15 % of shipments from Transnistria go to EU-15 countries.

Expansion of the European Union towards the East (2005), new possibilities of preferential export of Moldovan/Transnistrian goods to EU countries,⁷⁹ and the aggravation of the internal conflicts relating to the economies of Moldova and Transnistria have had a different effect on the geography of export from the right bank compared to the left bank.

In trade flows from Moldova, the European direction dominates – more than 50 % of the total volume of export (the share of new EU members is about half of all supplies to EU-27). Correspondingly, about 40 % goes to markets of CIS countries.

Transnistria is returning to CIS markets – more than 55 % of the total volume of export.⁸⁰

Geography of foreign trade of Moldova and Transnistria (%)

	1995		2000		2007	
	Moldova	Transnistria	Moldova	Transnistria	Moldova	Transnistria
Export						
CIS countries	62.6	86.2	58.6	38.3	41.0	55.4
Other countries	37.4	13.8	41.4	61.7	59.0	44.6
EC-15	11.1	3.5	21.7	10.1	26.4	10.8
EC-27	32.7	5.2	35.1	19.0	50.6	35.3
Import						
CIS countries	67.7	90.7	33.5	54.6	36.1	67.6
Other countries	32.3	9.3	66.5	45.4	63.9	32.4
EC-15	11.7	7.1	29.1	19.8	25.6	12.9
EC-27	25.7	8.1	53.2	34.0	45.6	18.9

Sources: *Statistical Yearbook of the Republic of Moldova//Department of Statistics of the RM, 1995, p. 394-398; Statistical Yearbook of the Republic of Moldova//National Statistics Bureau of the RM, 2008, p. 424-429; Statistical Yearbook of the Transnistrian Moldovan Republic //State Statistical service of the Ministry of Economy of the TMR. Tiraspol, 1998, p.144-147; Statistical Yearbook of the Transnistrian Moldovan Republic //State Statistical service of the Ministry of Economy of the TMR. Tiraspol, 2008, p.166-169 and calculations made by authors.*

The import structure of Moldova-Transnistria, unlike for export, is more diversified both in terms of goods and in terms of geography.

However, in spite of a different “specialisation” of economies, the structure of commodity import is practically the same. There are five main groups: energy resources (gas and oil products, and in Moldova also electricity), machinery, equipment, transport vehicles, raw materials for the textile industry; industrial chemical products and food products. The share of these goods remains constant and is about 70 % and 60 %, correspondingly, of the total volume of import of both Moldova and Transnistria.

⁷⁸ In 1995, the European Union granted to the Republic of Moldova preferences for export of textile products

⁷⁹ Starting with 2006, the Republic of Moldova is included in the expanded EU GSP+. From March 2008, a system of autonomous preferences is used in trade with EU countries.

⁸⁰ In October 2004 a system of double control over export of metallurgical products was introduced without any quantitative limits from the RM to the EU (was valid until the end of 2005).

Costs and mutual barriers

The openness of economies of Moldova-Transdnistria (the share of foreign trade in the GDP of Moldova exceeds 100 %, and of Transdnistria – 200 %) is aggravated by the fact that they are separated and in conflict with each other. That is exactly why the presence or absence of the “problem of customs” in relations between Moldova-Transdnistria is a kind of an “indicator” of the parties’ readiness for constructive compromises.

In February 1996, the first attempt was made to coordinate the work of the customs services of Moldova-Transdnistria. The Protocol decision “On resolution of arising problems in the field of activities of customs services of the Republic of Moldova and Transdnistria” envisioned: (1) liquidation of customs posts of Transdnistria on the “border” with Moldova; (2) creation of joint (Moldova-Transdnistria) customs posts on the border with Ukraine; (3) customs clearance of cargoes going from Transdnistria with seals and stamps of the new type; (4) applying transit regime to goods imported from/exported to Moldova-Transdnistria; (5) introduction by Transdnistria of customs tariffs for non-food import, similar to those valid in Moldova; and (6) unification of the methodology of customs statistics and carrying out of operational information exchanges.⁸¹

Partial execution of this decision led to quite contradictory results:

On the one hand - relative stabilization of relations between the right and left banks: mechanisms and procedures of regular exchange of information between customs services of Moldova-Transdnistria operated, joint customs escort of transit of excisable goods was carried out, first signs of unification of the customs legislation appeared⁸² and, though quite short, but still the experience of operation of joint customs posts was gained.⁸³

On the other hand – the shaping of *two* customs spaces⁸⁴ and of the special status of economic entities from Transdnistria – residents that do not have tax relations with the budget system of the RM,⁸⁵ while remaining as *one* subject of international trade.⁸⁶

For that reason there is a possibility to carry out foreign economic activities on the left bank and on the right bank in a standard, though changing, regime in the absence of force majeure circumstances in relations between Moldova and Transdnistria; with a destabilisation of trade in case the latter is present.

The first customs crisis (01.09.2001 -11.07.2003)

The reason was Moldova’s streamlining of accounting for foreign trade transactions in accordance with international standards; and implementation of the National Program of the RM on combating contraband.

On August 30, 2001, a decision was made in Moldova to put into effect and use, from September 1, of new types of customs documents and stamps.⁸⁷ It was assumed that in accordance with

⁸¹ The Protocol decision on resolution of arising problems in the field of activities of customs services of the Republic of Moldova and Transdnistria. February 7, 1996, city of Tiraspol

⁸² In 1996, in Transdnistria excise taxes and tariffs on import were introduced. While zero tariff rate was set for most food products, similar tariffs were applied on both banks of the Dniester / Nistru for imported wine, tobacco and fresh fruit. By 1997, excise tax rates in general corresponded to those applied on the right bank. Tariffs for export were cancelled.

(The Republic of Moldova: Economic Review of the Transdnistria Region, June 1998, Report No. 17886-MD, p. 15)

⁸³ Ibid

⁸⁴ RM Parliament Decree No. 217 “On measures for implementing the Law on the budget for year 1999”, MO No. 119, 31.12.1998

RM Government Decision, No. 362 “On general internal control tax posts”, MO No. 045, 06.05.1999

⁸⁵ RM Government Decision, No. 362 “On general internal control tax posts”, MO No. 045, 06.05.1999

⁸⁶ According to the Protocol decision of 1996, when clearing foreign deliveries, the customs service of Transdnistria used the same documents/stamps as those used by the customs service of the RM with a note “Republic of Moldova – Transdnistrian region”.

⁸⁷ RM Government Decision No. 904 “On organizing joint control in border-crossing points on the Moldovan-Ukrainian border”, MO No. 128, 19.10.2001

existing agreements⁸⁸ control on the whole perimeter of the border, including Transnistria, will be carried out jointly, but *only* with Ukrainian customs officers.⁸⁹

In case of joining the structure of the Customs Department of the RM, the Customs Service of Transnistria *could also have got* new customs provisions. Otherwise, in the opinion of the Moldovan side, economic entities of the left bank are “doomed” to work exclusively with Moldovan customs.⁹⁰

The situation at the Transnistrian section of Moldovan – Ukrainian border (and not only) became aggravated. For the first time, the notion “economic blockade” was sounded.⁹¹

On *September 19, 2001*, the RM Government Decision introduced a special procedure for declaration of goods by Transnistrian economic entities,⁹² changes were made in the tax and customs legislation of Moldova.

Besides, the “problem” of indirect taxes predetermined by drawbacks in the tax legislation of the parties became clearly visible.⁹³

In *June 2002*, changes in the tax legislation of the RM,⁹⁴ “turned” Transnistrian economic entities, from the point of view of their trading partners on the right bank of the Nistru/Dniester, into “*semi-foreigners*”:

- On goods brought in from Transnistria into Moldova the Value Added Tax was levied (a rule for import);
- On goods brought from Moldova into Transnistria the VAT was also levied (a rule for internal transactions).

On *March 22*, representatives of customs and border services of Moldova, Transnistria, Russia and Ukraine tried to find a solution *acceptable* for everyone on mechanisms of exercising joint control (Moldova – Transnistria – Ukraine and Russia as a country-guarantor) over the Transnistrian section of the Moldovan – Ukrainian border, however, all the attempts *failed*.⁹⁵

On *November 4*, the Transnistrian side “responded” to the change of the situation: a special 20 % duty was introduced on import of all Moldovan goods, requirements to certificates of conformity and procedures for their confirmation became more rigorous.⁹⁶

Supplies of goods from Moldova to Transnistria can be carried out only if there is a special permit and such supplies are controlled by the Ministry of Industry.⁹⁷

⁸⁸ RM Government Decision No. 608 “On approval of the agreement between the Government of the Republic of Moldova and the Government of Ukraine on organizing joint control in border-crossing points of the Moldovan-Ukrainian state border”, MO No. 000, 07.08.1997

⁸⁹ RM Government Decision No. 904 “On organizing joint control in border-crossing points of the Moldovan-Ukrainian state border”, MO No. 128, 19.10.2001

Joint control over the Moldovan-Ukrainian state border was exercised until November 12, 2001.

⁹⁰ Economic review „Logos-Press”, No. 29 (429), 17.08.2001

⁹¹ TMR Supreme Council Decree No. 226 “On economic blockade of the Transnistrian Moldovan Republic from the side of the Republic of Moldova” of 05.09.2001 recommended to suspend the process of negotiations with the RM until removal of the economic blockade and final resolution of the situation (<http://www.olvia.idknet.com/ol25-09-01.htm>).

⁹² RM Government Decision No. 1001 “On declaring goods by economic entities from Eastern districts of the Republic of Moldova”, MO No.116-118, 27.09.2001

⁹³ RM Tax Code Title III “Value added tax” is in effect in Moldova since 1998, taxation is done based on the principle “country of destination of the commodity. (RM Law No. 1415, MO No. 040, 07.05.1998)

In Transnistria, since 2000 there is a tax on the volume of sales (since 01.04.2002 – a tax on income of organizations). With introduction of this turnover tax, on the left bank they cancelled the *value added tax*, taxes on profit and on own property of enterprises. The turnover tax rate is differentiated and is linked to industries. (TMR Law No. 86 “On tax on income of organisations”, (SAZ 01-53), 28.12.2001)

⁹⁴ RM Law No. 1106 “On making changes and amendments in Article 4 of the Law on the State Budget for 2002, No. 681-XV of November 27, 2001”, MO No. 074, 11.06.2002;

RM Law No. 1440 “On introduction of changes and amendments in certain legal acts, MO No. 178, 27.12.2002

⁹⁵ “Nezavisimaya Moldova”, 26.03.2002 (<http://www.nm.md/daily/article/2002/03/26/0103.html>)

⁹⁶ TMR President Decree No. 679 (SAZ-02-45) “On responsive measures towards the Republic of Moldova in the sphere of foreign economic activities”, 04.11.2002

⁹⁷ News Agency “Olvia-press”, <http://www.olvia.idknet.com/ol60-11-02.htm>

From November 8, VAT was not levied on goods *manufactured in* Transdniestria and supplied to Moldova,⁹⁸ but volumes of Moldovan – Transdniestrian exchange of commodities remained practically unchanged.

In December 2002, in Moldova, rules were approved for determining the origin of goods and new forms of certificates of origin. The Chamber of Industry and Commerce of the Republic of Moldova was appointed to become a body authorised to issue certificates of origin for export of goods both for preferential and non-preferential regimes.⁹⁹

Certificates of origin, including those for preferential export to CIS countries (form ST-1) are also issued by the Chamber of Industry and Commerce of Transdniestria:¹⁰⁰ they are not legitimate in Moldova, but they are recognized by most CIS countries, including Ukraine.¹⁰¹

Mutual changes in the legislation “contributed” to the reduction of competitiveness of goods manufactured in Moldova/Transdniestria in the markets of Transdniestria/Moldova filled with products of other (external) producers.

From September 29, 2001 to June 12, 2003, the Registration Chamber of the RM registered 215 Transdniestrian enterprises. The total customs value of foreign economic transactions carried out by them comprised MDL 3262,4 million (USD 240 million), they paid customs fees amounted to MDL 14.1 million (USD 1.0 million).¹⁰²

Some data on costs of the first customs crisis:

- According to estimates of the Ministry of Economy of Transdniestria, from September 2001 to June 2003 direct and indirect losses of Transdniestria from the economic blockade comprised more than USD 200 million;¹⁰³
- Traditional business contacts between enterprises of Moldova and Transdniestria are replaced with legal (through free economic zones or foreign dealer firms) or illegal (withdrawal to the “shadow” economy) schemes of presence in the markets of Transdniestria/Moldova;¹⁰⁴
- In 2002, commodity turnover between Moldova and Transdniestria decreased by 40.0 %, including supplies from Moldova – by 25.5 %, supplies from Transdniestria – by 46.2 %;¹⁰⁵

The second customs crisis (12.07.2003 – 31.07.2004)

The reason was the Moldovan-Ukrainian Protocol of May 15, 2003, according to which transfer of goods through customs control points on the Moldovan-Ukrainian border, including Transdniestria, has to be done only on the basis of trade and customs documents of official Chisinau.¹⁰⁶

⁹⁸ RM Law “On introduction of amendments to Article 103 of Section III of the Tax Code and Article 4 of Law on putting into effect Section III of the Tax Code No. 1417-XIII of December 17, 1997”, No. 357, MO No. 170, 08.08.2003

⁹⁹ RM Government Decision No. 1599 “On the rules of origin of commodities”, MO No. 174-176, 20.12.2002

¹⁰⁰ From July 2002, the Chamber of Industry and Commerce of Transdniestria is a member of the International Chamber of Industry and Commerce. (<http://www.tiraspol.ru/abouttpp/>)

¹⁰¹ In February 2002, in the letter addressed to the Government of the RM, the State Customs Committee of the Russian Federation confirmed that certificates of origin of goods (form ST-1) issued by non-authorized central authorities of Chisinau would not be recognized or accepted for further handling. (Economic review „Logos-Press”, No. 7 (455), 01.03.2002)

¹⁰² Information of the Ministry of Reintegration of the RM

¹⁰³ News Agency “Olvia-press”, <http://www.olvia.idknet.com/ol10-07-03.htm>

¹⁰⁴ For more details see “Research of the economy of Transdniestria”, Centre for Strategic Research and Reforms (CISR), Chisinau, 2003, p. 23-24

¹⁰⁵ Statistical yearbook of the Transdniestrian Moldovan Republic//The State Statistical Service of the Ministry of Economy of the TMR, Tiraspol, 2005, p. 162, 164

¹⁰⁶ A Protocol between the State Customs Service of Ukraine and the Customs Department of the Republic of Moldova “On mutual recognition of commodity-transport, commercial and customs documents and tariff protection”, May 15, 2003

On July 12, 2003, the Government of Moldova adopted a Decision “On measures for carrying out export-import transactions by economic entities of the Eastern districts of the Republic of Moldova”.¹⁰⁷

The following was established to create conditions for operations of economic entities of the left bank and to ensure unified accounting for enterprises and organisations:

- Economic entities of Transdnistria can prepare documents necessary to carry out export and import transactions only after their *temporary* registration with the State Registration Chamber of the RM (IDNO code is assigned and *data is provisionally entered* in the State Registry of enterprises and organisations);
- Record registration and issuance of a relevant license are done free of charge;
- When declaring goods imported/exported for *own production* customs fees, except for customs documentation (0.18 %) ¹⁰⁸ are not levied;¹⁰⁹
- When importing goods brought in by intermediary enterprises (not meant for own production) all customs fees (guarantee amounts) have to be paid with subsequent compensation, except for amounts charged for carrying out customs procedures.

Compensation of due amounts of customs fees on import is done through *banking deposit accounts* of customs bodies.

Procedure for depositing and withdrawal of guarantee amounts was developed by the Ministry of Finance together with the National Bank of Moldova.¹¹⁰

Customs fees are paid by means of transfer and/or by cash (also by bank cards).

Compensation of paid customs fees is done by customs bodies in the national currency of the RM within 3 banking days from the day of submission of an application, provided the following is presented:

- A payment document confirming payment of customs fees to customs bodies of Transdnistria;
- A verified copy of the customs declaration on import approved by customs bodies of Transdnistria;
- Copies of the payment document confirming payment of customs fees to customs bodies of the RM.

Amounts unclaimed within 30 days are transferred to the settlement account of the state budget of the RM. Funds accrued to the account of the state budget can be compensated according to the procedure¹¹¹ set by the Ministry of Finance of the RM.

On July 14, 2003, Transdnistria increased up to 100 % the size of the *special* duty for all goods imported from Moldova.¹¹²

On July 18, 2003, a “regime of free trade zone with Ukraine” was introduced,¹¹³ with Ukrainian goods, except for excisable goods, not being subject to customs duties when being imported to Transdnistria.

¹⁰⁷ RM Government Decision No. 712 “On measures on carrying out export-import transactions by economic entities from Eastern districts of the Republic of Moldova”, MO No. 123, 20.06.2003

¹⁰⁸ From January 1, 2004, the size of fees was increased up to 0.20%, (RM Government Decision No. 1599 “On making changes in certain decrees of the Government”, MO No. 006, 01.01.2004)

¹⁰⁹ This provision is recorded in RM Government Decision No. 1001 “On declaration of goods by economic entities from Eastern districts of the Republic of Moldova”

¹¹⁰ The procedure for transfer and compensation of guarantee amounts paid by economic entities from Eastern districts of the Republic of Moldova, approved on 04.07.2003, MO No. 155-158/209, 25.07.2003

¹¹¹ Letter of the RM Ministry of Finance No. 07/3-111 “On the procedure for transfer and registration of budget revenues for 2003” of December 23, 2002.

¹¹² TMR President Decree No. 291 “On making changes in Decree of the President of the TMR of November 4, 2002”, No. 679 “On responsive measures towards the Republic of Moldova in the field of foreign economic activities”, (SAZ 03-29), 14.07.2003

¹¹³ TMR President Decree No. 308 “On creation of the most favourable regime for trade and economic relations with Ukraine”, (SAZ 03-29), 18.07.2003

It was noted in Moldova that though introduced restrictions could lead to complete termination of supplies of Moldovan products to the left bank, possible lost of sales markets in Transdniestria would not affect macroeconomic indicators in the country.¹¹⁴

In spite of the fact that from *May 25, 2003*, Ukraine officially stopped letting in its territory goods with customs documents of Transdniestria, the most important border crossing points Cuciurgan and Slobodka continued to function “normally”. Commodity turnover of Transdniestria-Ukraine almost doubled due to the drastic increase of import in comparison with 2002.

From July 13, 2003 until July 31, 2004, the Registration Chamber of the RM recorded 317 Transdniestrian enterprises. The total customs value of foreign economic transactions carried out by them comprised MDL 6743.5 million (USD 520 million), the size of paid customs fees was MDL 155.2 million (USD 12 million).¹¹⁵

Here are certain data about costs of the second customs crisis:

- Losses of the budget of the RM, including due to higher transport expenses when cargoes go through Transdniestria, according to estimates of international experts, comprised more than USD 400 million;¹¹⁶
- Import of Moldovan goods in Transdniestria was restricted, in comparison with 2002 supplies of goods from Moldova decreased by 35 %;
- Migration control was introduced as well as payment for transit when crossing the internal (Transdniestria - Moldova) and external (Transdniestria - Ukraine) border;¹¹⁷
- New conflict areas appeared: “forced” registration of international road haulers of Transdniestria in Moldova and growth in cost of transit for *all* freight forwarders not registered in Transdniestria.

The third customs crisis (01.08.2004-31.12.2005)

The reason was the “school” blockade (schools that worked according to curricula approved by the Ministry of Education of the RM were refused to be registered in Transdniestria, which almost led to a disruption of the educational process).

From August 1, 2004, the customs legislation of the Republic of Moldova became fully applicable, including charge of import duties, to economic entities of Transdniestria.¹¹⁸

On August 3, Transdniestria blocked movement at the Transdniestrian section of the railway.

On August 5, the Moldovan State District Power Plant (“GRES”) drastically decreased the supply of electricity to Moldova’s transmission lines.¹¹⁹ As a result of such unforeseen circumstances the Government of Moldova began elaboration of measures aimed at prevention of possible interruptions in supply of electricity and natural gas to the republic. Work on preparation and coordination of bilateral agreements with external suppliers was activated concerning purchase of natural gas and electricity from alternative, more profitable sources.¹²⁰

On August 5, Ukraine unilaterally terminated execution of the Protocol of May 15, 2003. A decision was made to carry out customs clearance of Transdniestrian goods without any marks made by the Moldovan side.¹²¹

¹¹⁴ „Nezavisimaya Moldova”, 17.07.2003, <http://www.nm.md/daily/article/2003/07/17/0101.html>

¹¹⁵ Information of the Ministry of Reintegration of the RM

¹¹⁶ Moldova: No Quick Fix, Report N° 147 International Crisis Group Europe 12.08.2003, p. 33

¹¹⁷ TMR President Decree No. 108 “On establishing migration control over foreign citizens and person without citizenship who go in or out of the country or who transit the territory of the TMR”, 05.03.2003

¹¹⁸ RM Government Decision No. 876 “On measures on regulation of export-import transactions”, MO No. 131, 31.07.2004.

It is recognized as void on January 18, 2006 by the RM Government Decision No. 48 “On introduction of changes and recognition as void of certain decrees of the Government”, MO No. 009, 20.01.2006

¹¹⁹ News Agency „Olvia-press”, <http://www.olvia.idknet.com/ol37-08-04.htm>

¹²⁰ „Nezavisimaya Moldova”, 04.08.2004, <http://www.nm.md/daily/news/2004/08/04.html#1>

¹²¹ News Agency „Olvia-press”, <http://www.olvia.idknet.com/ol30-08-04.htm>

Ministry of Foreign Affairs of the RF: (19-08-2004): Press conference on the results of the meeting of the President

*The official position of Moldova – creation of the common customs space – would allow maintenance of open reporting on export-import transactions of economic entities from the Eastern region of the country.*¹²²

*In October, the European Union introduced a system of double control for some categories of goods (metallurgical products) of Transdnestrrian export. The agreement envisions that in order to be able to supply metallurgical products from Moldova to EU countries, in addition to the quality certificate there should also be an export permit issued by customs bodies of Moldova, and also an import permit obtained in the country of destination of the delivery.*¹²³

*On December 1, the procedure of administering “tax obligations of economic entities from localities on the left bank of the Dniester/Nistru and municipality of Bendery” was confirmed.*¹²⁴ This Provision is applicable to economic entities of the left bank registered with the State Tax Service of the RM.

In spite of the formal narrowing of possibilities of access of economic entities of the left bank to external markets, in 2004-2005, foreign economic activities of Transdnestrria developed most successfully.

*In December 2004, Transdnestrria cancelled both the special duty on goods imported from the Republic of Moldova, and the regime of most favoured treatment in trade and economic relations with Ukraine.*¹²⁵

In the context of the moratorium for all special procedures of documenting export-import transactions of economic entities of the left bank, which is valid since 30.07.2004, preparation began to resume legalization of the economic entities of Transdnestrria.

On July 22, 2005, the Parliament of Moldova adopted a law on Basic provisions of the special legal status of localities from the left bank of the Nistru/Dniester (Transdnestrria). Adoption of this law was perceived extremely negatively in Transdnestrria, while opinions of countries-guarantors were divided.

*On August 2, a decision of the Government of the RM was adopted on regulation of flows of cargoes that are subjects of foreign trade activities of Transdnestrria,*¹²⁶ *which restores with certain changes procedure that was valid earlier for temporary registration, issuance of certificates of origin and licenses.*

*It was assumed that the “new”*¹²⁷ *regime for movement of goods on the Transdnestrrian section of the Moldovan-Ukrainian border would be introduced from January 25, 2006.*¹²⁸

Moldova introduced for consideration of the EU and OSCE a proposal to conduct on the Transdnestrrian section of the Moldovan-Ukrainian border an international monitoring operation.

On December 1, 2005, the Border Assistance Mission (EUBAM) began its work on the border of Moldova and Ukraine.

From August 1, 2004 until February 28, 2005, the Registration chamber of the RM registered 17 Transdnestrrian enterprises. The total customs value of foreign economic transactions carried out

of Russia V. V. Putin with the President of Ukraine L. D. Kuchma, Sochi, August 18 2004, http://www.ln.mid.ru/Brp_4.nsf/arh/F438E88E43AC40FEC3256EF5002E9874?OpenDocument

¹²² „Nezavisimaya Moldova”, 06.08.2004, <http://www.nm.md/daily/news/2004/08/06.html#3>

¹²³ „Nezavisimaya Moldova”, 10.08.2004, <http://www.nm.md/daily/news/2004/08/10.html#1>

¹²⁴ RM Government Decision No. 1330 “On approval of the Regulation on the procedure of administration of tax obligations of economic entities from localities of the left bank of the Dniester and municipality of Bendery”, MO No. 233, 17.12.2004

¹²⁵ TMR President Decree No. 629 “On improvement of a number of legal acts of the President and Government of the TMR”, (SAZ 04-50), 07.12.2004

¹²⁶ RM Government Decision No. 815 “On regulation of flows of cargoes that are subject of foreign trade activities of Transdnestrria”. MO No.104-106, 05.08.2005

¹²⁷ In essence, the process was resumed of passing goods across the Ukrainian-Moldovan border in accordance with provisions of the Protocol signed between the State Customs Service of Ukraine and the Customs Service of Moldova “On mutual recognition of commodity-transport, commercial and customs documents and tariff protection”

¹²⁸ Joint Statement of Prime-Ministers of Ukraine and the Republic of Moldova, Kiev, December 30, 2005

by them comprised MDL 178.9 million (USD 14.5 million), and the amount of paid customs fees comprised MDL 1.2 million Lei (USD 0.1 million).¹²⁹

Some data on the costs of the third customs crisis:

- Losses of budgets of Moldova and Ukraine (October 2005 – April 2006) due to mass contraband of food products from Transdnistria were Euro 18 and Euro 43 million, correspondingly;¹³⁰
- According to estimates of the Ministry of Industry of Transdnistria during the first two weeks of August 2004, direct and indirect losses of industrial enterprises of the left bank comprised more than USD 30 million;¹³¹
- “Guarantee” amounts “frozen” on deposit bank accounts of customs bodies of the RM were withdrawn from turnover of Transdnistrian enterprises;
- Production was suspended at some Moldovan enterprises;¹³²
- In comparison with 2003, supplies from Transdnistria to Moldova decreased almost by 1.5 times;
- In 2004, supplies from Moldova to Transdnistria decreased almost by 2 times – from USD 22 to USD 13 million;
- Due to difficulties with supplies to EU countries, foreign trade of Transdnistria was forced to be re-oriented towards CIS markets, primarily markets of Russia and Ukraine. In 2005, only 12 % of Transdnistrian export went to EU-15 countries (in 2003 - 21 %).

The fourth customs crisis (03.03.2006 - ...)

The reason was the implementation of the Joint Statement of the Prime Ministers of Ukraine and of the Republic of Moldova. The joint statement was signed in order to ensure regional stability and security, to exercise efficient control on the Ukrainian-Moldovan state border and to create conditions¹³³ necessary for successful operation of the EU Border Assistance Mission to Ukraine and the Republic of Moldova.¹³⁴

At the same time, official Chisinau noted a significant change in the position of Ukraine in terms of understanding the aspirations of Moldova, especially emphasising that there was no need to talk about any kind of blockade - this was an aspiration to comply with international rules supported by specific actions.¹³⁵

Ukraine’s conversion from many years of rhetoric to real actions was not easy: until the very last moment representatives of its profile departments expressed doubts about the correctness of such a step.¹³⁶ Additional consultations with Moldova were required, including those on improvement of mechanisms of regulation of Transdnistrian export/import,¹³⁷ approved by the RM Government Decision “On regulation of traffic of cargoes and services that are subjects of foreign trade activity of Transdnistria” adopted in *August 2006*,¹³⁸ by the OSCE and observers

¹²⁹ Information of the Ministry of Reintegration of the RM

¹³⁰ European Union Border Assistance Mission to Moldova and Ukraine. Annual report 2005-2006, p. 17-18

¹³¹ News Agency „Olvia-press”, <http://www.olvia.idknet.com/ol108-08-04.htm>

¹³² „Nezavisimaya Moldova”, 06.08.2004, <http://www.nm.md/daily/news/2004/08/06.html#8>

News Agency „Olvia-press”, <http://www.olvia.idknet.com/ol117-08-04.htm>

¹³³ Documentation by the Customs Service of Ukraine of Transdnistrian goods that have “non-recognized” documents “eroded” the very notion of “contraband”, which decreased efficiency of functioning of the *EU mission on border assistance at the Ukrainian-Moldovan border* (the first project of such type in the post-Soviet space).

¹³⁴ Joint Statement of Prime-Ministers of Ukraine and the Republic of Moldova, Kiev, December 30, 2005

¹³⁵ „Nezavisimaya Moldova”, 06.01.2006 (<http://www.nm.md/daily/article/2006/01/06/0102.html>)

¹³⁶ Order of the Cabinet of Ministers of Ukraine No. 112-p of March 1, 2006, in essence, repeats Decree No.165-p of May 26, 2005, “On the procedure of customs clearance of goods and transport vehicles brought in Ukraine from the Republic of Moldova”.

Weekly publication „Zerkalo nedeli” No. 9 (588), March 11 – 17, 2006, <http://www.zn.ua/1000/1600/52857/>

¹³⁷ RM Government Decision No. 48 “On making changes and recognizing as void of some Government Decisions”, MO No. 009, 20.01.2006

¹³⁸ RM Government Decision No. 723 “On making changes and amendments in Decree of the Government No. 815 of August, 2 2005”, MO 110-111, 24.06.2008

from the EU and the USA. New rules were discussed for almost two months in all details with the business community of Transdniestria and with official Tiraspol.

*On January 18, 2006:*¹³⁹

- The period of validity of the RM Government Decision No. 1001 was extended (until 01.01.2007)¹⁴⁰;
- The amount of fees for customs documentation of goods was unified according to the legislation, rather than to set rules;
- The future procedure for administering guarantee amounts paid by economic entities from the left bank;
- The following was recognized as void: the RM Government Decision No. 712 of June 12, 2003, "On measures related to carrying out export-import transactions by economic entities from the Eastern districts of the Republic of Moldova" and the RM Government Decision No. 876 of July 30, 2004, "On measures on regulation of import-export transactions".

*On February 22, 2006:*¹⁴¹

- A possibility was envisioned to resume the obtained license without paying the license fee;
- A special procedure was set for documenting the certificate of origin ST-1 for export to Ukraine.

On March 3, 2006, the "new" rules came into effect for carrying out Transdniestrian export/import through border crossing points on the Moldovan-Ukrainian border.

"New aspects" in the movement of goods in the zone of Transdniestria:

1. Terms and conditions for registering economic entities from the left bank with the State Registration Chamber of the RM *on a permanent basis* were set.¹⁴² In order to get registered, it is necessary to submit to the Registration Chamber of the RM documents on ownership. Documents on ownership issued in Transdniestria before Law No. 173 of July 22, 2005, on basic principles of the special legal status of the left bank of the Dniester (Transdniestria) came into effect, are accepted.¹⁴³ The said documents are subject to be changed in cadastre bodies of the Republic of Moldova within *90 days* after the Law on the special legal status of Transdniestria comes into effect, *i.e. by October 29, 2005.*¹⁴⁴

2. The period of validity of issued licenses was reduced from 1 year to 6 months.

3. Border crossing points were established for excisable goods and for goods belonging to commodity groups 1-24 of the Harmonized system (animal and plant products, fats and oils, food products and drinks).

4. Restrictions were imposed on drawing up preferential certificates of origin for export (on forms "A", "ST-1" and "EUR.1"):

- before July 1, 2007, only economic entities registered on a permanent basis could obtain such certificates,
- in coordination with the Ukrainian party, a certificate of origin for export to Ukraine (form "ST-1") is prepared also by Transdniestrian enterprises that are registered on a temporary basis, *if: (i)* free and safe access is granted to representatives of the authorized body of the Republic Moldova to documents, production, storage and warehouses, and also for the purpose of control of goods meant for export, and *(ii)* customs procedures with respect to

¹³⁹ RM Government Decision No. 48 "On making changes and recognizing as void of some Decrees of the Government", MO 009, 20.01.2006

¹⁴⁰ As of the date of writing this report, the period of validity of the RM Government Decision No. 1001 of September 19, 2001, is extended until December 31, 2009

¹⁴¹ RM Government Decision No. 202 "On approval of additions that are introduced in Decree of the Government No. 815 of August 2, 2005", MO 31, 24.02.2006

¹⁴² The mechanism for temporary registration remained unchanged.

¹⁴³ RM Law No. 173 "On Basic provisions of the special legal status of localities from the left bank of the Dniester (Transdniestria)", MO No. 101, 29.07.2005

¹⁴⁴ De facto, Transdniestrian enterprises that existed before 1991 and that are willing to get a preferential certificate of origin for export had to make a choice: either to register in the RM until October 29, 2005, and at least during half a year to have double tax burden, or to lose out on future advantages of preferential export.

imported components for production of goods meant for export are carried out by customs bodies of the RM.¹⁴⁵

5. It was determined that compensation of “guarantee” amounts (all payments meant by the customs legislation of the RM less fees for customs documentation of goods) is done through *bank* accounts of customs bodies.

*On March 22, 2006:*¹⁴⁶

- the procedure for compensation of guarantee amounts paid by economic entities from the left bank was changed;
- it was allowed to compensate funds, which are in bank accounts of customs bodies, paid by economic entities from the left bank, starting with August 1, 2004.

On April 25, 2006, in Transdnistria a special duty (100 %) for all groups of commodities imported from Moldova was restored.¹⁴⁷

On March 17, 2007, rules for documenting certificates of origin for export to Ukraine (form “ST-1”) started to apply to all forms/areas of certificates of origin for export.¹⁴⁸

The adaptation period given to importers from Transdnistria was 3 months.¹⁴⁹ At first sight positive changes in the procedure for carrying out foreign economic activity by economic entities of Transdnistria caused ambiguous response both on the left bank, and in Ukraine. Transdnistria perceived the decision to issue certificates for preferential trade to all economic entities registered in Moldova as an attempt to control all external commodity flows (both export and import). The validity of the response of Transdnistria was indirectly confirmed by worries on the Ukrainian side concerning possible “threat” of the use of resources of the border crossing point “Kuchurgan” and potential losses of the national railway carrier. The Ministry of Foreign Affairs of Ukraine asked its Chisinau colleagues to provide relevant explanations.¹⁵⁰

On June 29, 2007, the *current* (compromise) order was fixed for documenting preferential certificates of origin for export: certificates are issued to Transdnistrian economic entities registered in Moldova on a permanent or temporary basis “observing provisions of the World Trade Organization, international obligations of the Republic of Moldova and the current national legislation”.¹⁵¹

From September 2007, Transdnistria gradually opens the market for goods from Moldova: validity of the special duty on goods received from the right bank is suspended.¹⁵²

By now, the economy of Transdnistria has almost fully adapted to changed circumstances. As of December 31, 2008, in Moldova 498 Transdnistrian economic entities were registered, including those on a permanent basis – 170, and on temporary basis – 328.¹⁵³

The conflict of economies is in a “stand by” mode. While formally rules for carrying out foreign economic activities by Transdnistrian enterprises remain unchanged, in reality failures occur in procedures of customs documentation of cargos, there is inconsistency of actions of both the Customs Service and the Chamber of Industry and Commerce of Moldova, and of relevant

¹⁴⁵ RM Government Decision No. 202 “On approval of additions that are introduced in Decree of the Government No. 815 of August 2, 2005”, MO 31, 24.02.2006

¹⁴⁶ RM Government Decision No. 299 “On introduction of additions in Decree of the Government No. 1330 of December 1, 2004”, MO No. 47-50, 24.03.2006

¹⁴⁷ TMR President Decree No. 188 “On setting a special duty on goods imported from the Republic of Moldova”, (SAZ-06-18), 25.04.2006

¹⁴⁸ RM Government Decision No. 303 “On making changes in the RM Government Decision No. 815 as of August 2, 2005”, MO No. 039, 23.03.2007.

It was assumed by default – no terms for coming into effect were indicated in the decree – that new rules for getting certificates of origin for export would become effective from July 1, 2007.

¹⁴⁹ Weekly publication “Zerkalo nedeli” No. 22 (651), 9-15 June 2007., <http://www.zn.ua/1000/1550/59555/>

¹⁵⁰ Weekly publication “Zerkalo nedeli” No. 22 (651), 9 - 15 June 2007, <http://www.zn.ua/1000/1550/59555/>

¹⁵¹ RM Government Decision No. 743 “On approval of changes, which are made in Decree of the Government No. 815 of August 2, 2005”, MO 94-97, 06.07.2007

¹⁵² TMR President Decrees No. 674 (SAZ 07-40), 26.09.2007 and No. 409 (SAZ 08-27), 09.07.2008

¹⁵³ Data of the Ministry of Reintegration of the RM

ministries together with the Ministry of Reintegration.¹⁵⁴ As a result, duration of customs clearance of Transdnistriean goods increased from 3-4 hours in 2007 up to 1-2 days in 2008. Some data on the costs of the fourth customs crisis:

- according to expert estimates, at the time the “new” customs regime was introduced (2006) daily losses of regional budgets and economic entities of Ukraine comprised at least USD 2 million;¹⁵⁵
- in 2006, the total amount of financial losses of Transdnistria resulting from the “change” of the customs regime, according to estimates of the Ministry of Economy of Transdnistria, comprised USD 450 million;¹⁵⁶
- According to estimates of the Chamber of industry and commerce of Transdnistria in comparison with 2007, in 2008 expenses of Transdnistriean enterprises associated with customs documentation in Moldova almost doubled;¹⁵⁷
- Transport expenses of economic entities of Moldova-Transdnistria increased significantly when carrying out foreign economic activities;¹⁵⁸
- In comparison with 2005, supply of Moldovan goods to Transdnistria decreased by more than 3 times;
- Average annual volume of the informal economy of Moldova-Transdnistria comprises at least USD 1 billion;¹⁵⁹

It is obvious that current mechanisms for carrying out foreign economic activities by Transdnistriean enterprises still lack stability. To provide for stability so badly needed by businesses, in the circumstances of many years of mistrust towards each other, most probably relevant “external” guarantees are necessary. Only in that case one can expect some real steps aimed at restoration of the common economic space, which would contribute to improvement of attractiveness of Moldova-Transdnistria for domestic and foreign businesses.

Benefits from efficient implementation of the “model of a small open economy” in Moldova-Transdnistria

Intensification of foreign trade is an issue that is especially important for Moldova-Transdnistria. On both banks of the Nistru/Dniester the dynamics and prospects of economic development are closely related to the improvement of quality of foreign economic relations.

Major problems that hinder efficient implementation of the “model of a small open economy” are common for Moldova and Transdnistria:

- mono-structural nature of economies (about 50 % of production/export of Moldova-Transdnistria is comprised, correspondingly, of food and drink products and products of the metallurgical industry);
- significant foreign economic vulnerability (steadily high trading balance deficit and the level of external debt, corresponding, in Moldova is 53 % and 75 % of the GDP, in Transdnistria – 50 % and 230 % of the GDP);
- limited nature of internal sources of investments and relatively small, also due to conflict related risks, inflow of foreign capital (as of 01.01.2008, the volume of accumulated direct and portfolio investments in Moldova comprised USD 1909.7 million, or USD 534 per one inhabitant, and in Transdnistria – USD 212.7 million, or USD 396 per one inhabitant);

¹⁵⁴ From 01.06.2008, on some types of raw materials imported to Transdnistria special environmental duty is imposed. From 19.09.2008 Transdnistriean enterprises have to get special permits for import from the phytosanitary service of Moldova.

¹⁵⁵ News Agency „Lenta PMR”, 10.01.2007

¹⁵⁶ <http://mkspmri.dknet.com>

¹⁵⁷ Letter to the Government of the RM (copies to the OSCE Mission, Embassy of the RF, and Embassy of Ukraine), No. 221, 22.12.2008

¹⁵⁸ For more details see Section 3.2. Transport infrastructure of the current research.

¹⁵⁹ Information from the National Bureau of Statistics of the RM: “The unobserved economy in the Republic of Moldova” and calculations by authors

- contraction of Moldovan-Transdnistrian trade (in 2007, in comparison with 2001, the total volume of trade of Moldova-Transdnistria reduced by 2.5 times, including supplies from Moldova – by 1.8 times, and from Transdnistria – by 3 times).

However, mutual interest of the parties in efficient functioning of the “external” sector of the economy is not embodied in any specific action aimed at restoration of the common economic space of Moldova-Transdnistria.

During the time of parallel development, a lot of problems accumulated, which can be resolved only together and in a non-conflictual internal environment - the primary of all these are: a deficit of qualified labour force; underdeveloped infrastructure; low competitiveness of products and high regional competition in the realm of attracting investments.

The main benefits from the efficient implementation of the “model of a small open economy” in Moldova-Transdnistria:

- reduction of costs related to existence of a “special” regime for carrying out foreign economic activities by Transdnistrian economic entities;
- more complete use of preferences in autonomous trade with the EU countries;
- make use of benefits from Moldovan – Transdnistrian production cooperation of enterprises of engineering, light industry, furniture and food processing industries, and, consequently, their joint entry into foreign markets;
- creation of new zones of free entrepreneurship (Rybnitsa - Rezina, Tiraspol-Bendery);
- improvement of food security, including through restoration of connections of production cooperation between producers and processors of agricultural produce on the right and left banks;
- mutual diversification of possible export and mutually beneficial import substitution;
- possible constructive resolution of the problem of debts for natural gas with Russia;
- additional inflow of foreign investments, including those in the framework of implementation of projects for South-East Europe on reconstruction of the infrastructure;
- intensifying participation, including through involvement of Transdnistria, in regional projects for South-East Europe.

The “history” of development of relations between Moldova-Transdnistria attests that mitigation to a certain extent of customs, tax, administrative and other restrictions introduced by the parties resulted in growth and improvement in the main indicators of economic activity, of export-import transactions of economic entities on both banks of the Dniester / Nistru, positively influenced living standards of the population and, thus, weakened the intensity of political confrontation. And alternatively, introduction and stiffening of administrative-restrictive sanctions led to a worsening of the economic situation, pre-determined the discontent of economic entities and the population, delaying a final resolution of the Transdnistrian conflict for an indefinite time period.

3.2. Transport infrastructure

Situation in the transport sector

Motor roads and transportation

The motor transport sector is very important and practically equally significant in ensuring transportation of cargo and passengers in Moldova and Transdnistria. In Moldova, it accounts to 71% of all freight traffic and 32% of passenger transportation by public transport, respectively, in Transdnistria – 65% and 31%.¹⁶⁰

¹⁶⁰ Statistical Yearbook of the Republic of Moldova// National Bureau of Statistics of RM, 2008, p. 387, 393; S. Sukhinin “Transport Complex in TMR: Structure, Status, Development”, http://pmr21.info/text.php?cat=9&name=transportnyj_kompleks_v_pmr_struktura_sostojanie_razvitie&arch=onsite.

The 1990's economic crisis was destructive for the motor transport sector. Even in the conditions of the continuing eight-year economic growth, the situation remains critical both in Moldova and in Transdnistria. The main indicators of activity of this sector are currently several times lower than the level of 1990 (by 2-8 times). The total amount (Moldova-Transdnistria) of freight carried in 2007 constituted only 12% of the amount of 1990, with freight turnover at 44% of 1990, passenger transportation at 26%, passenger turnover at 55%.

Motor transportation

	1990 (in total)	2007 (in total)	including:	
			Moldova	Transdnistria
Freight carried, <i>million tons</i>	262.8	32.9	28.8	4.1
Freight turnover, <i>million ton-km</i>	6305	2771	2743	28
Passengers carried (by buses), <i>million passengers</i>	446.9	115.7	103.1	12.6
Passenger turnover (bus), <i>million passenger-km</i>	4878	2683	2470	213

Sources: *Statistical Yearbook of the Republic of Moldova// Department of Statistics of RM, 1995, p. 321, 323; Statistical Yearbook of the Republic of Moldova// National Bureau of Statistics of RM, 2008, p. 387, 393; Statistical Yearbook of the Transdnistrian Moldovan Republic// State Statistics Service of the Ministry of Economy of TMR. Tiraspol, 2008, p. 121-124 and authors' calculations.*

Possibilities for development of the motor transport sector are essentially limited because of the poor condition of roads and problems in relationships between Chisinau and Tiraspol. At the same time, further prospects of economic growth on both banks of the Nistru/Dniester will largely depend on the extent of the success in solving the problem of restoration and development of the motor transport sector and its effective international integration.

Both the right bank and the left bank have a wide reaching network of motor roads which allows the delivery of freight and passengers to virtually any location.

The total length of roads constitutes 10.6 thousand kilometres (right-bank Moldova – 9.3 thousand km, Transdnistria – 1.3 thousand km). Motor road density in Moldova and Transdnistria is practically the same (about 31 km per 100 sq. km) and is comparable with motor road density in a number of other countries of the region – Romania (31), Bulgaria (31), Hungary (33), Belarus (24), and Ukraine (30).¹⁶¹

Public motor road network (as of the end of 2007)

	Total	Moldova	Transdnistria
Length of roads, <i>km – total</i>	10615	9337	1278
- national	3887	3329	558
- local	6728	6008	720
Road density, <i>km per 100 sq. km of territory</i>	30.6	30.6	30.4

Sources: *Statistical Yearbook of the Republic of Moldova// National Bureau of Statistics of RM, 2008, p. 397; TMR Supreme Council Decree “On Approval of the Prognosis of Socio-Economic Development of the Transdnistrian Moldovan Republic for 2009” and authors' calculations.*

In the early 1990's, 70% of the motor road network was in good or satisfactory condition. At the present time, only 7% of national roads and 2% of local roads in Moldova are in safe condition.¹⁶² According to the Transdnistrian data, 10% of motor roads going through the

¹⁶¹ The Republic of Moldova. Trade Diagnostic Study// Document of the World Bank. December 23, 2004, p. 76.

¹⁶² RM Government Decision No. 85 “On Approval of the Strategy of Land Transport Infrastructure for 2008-2017”, MO No. 30-31, 12.02.2008

territory of the left bank are in good condition.¹⁶³ It should be noted that the above mentioned data is not quite comparable, as different assessment methods are used in Moldova and in Transdnistria.

Generally, the official assessments of the motor roads' condition, problems and challenges of development of road infrastructure are the same both in Moldova and in Transdnistria. They are set forth in the "Strategy of Land Transport Infrastructure for 2008-2017" (Moldova) and in the "State Target Programme of Road Sector Development for Modernisation and Restoration of Public Motor Roads of the Transdnistrian Moldovan Republic for 2006-2010" (Transdnistria). Both documents state that roads are in degraded condition and that the increase in traffic numbers speeds up the process of destruction of road paving. In Moldova, more than 90% of the national road network requires urgent repair or rehabilitation. In Transdnistria, more than 85% of motor roads are badly worn and have not had the necessary repair works for 2-3 inter-repair terms.¹⁶⁴

According to prognoses, the risks of increased destruction of road pavement will grow in the mid-term perspective, as freight traffic growth rates of heavy-duty transport facilities with large axial load will be higher than general economic growth rates.¹⁶⁵

A study by the World Bank shows that "for every dollar not spent for motor roads maintenance over the last 20 years, the costs of a motor road user went up by USD 1.23, and road destruction (loss of asset value of the road network) can be estimated at USD 2.47. According to estimates, because of under-financing of motor road maintenance in the last two decades, losses of the national economy exceed the "saved" (un-spent) amount for motor road maintenance by almost four times.¹⁶⁶ These estimates are also fair for the situation in Transdnistria.

The main reason for the degradation of motor roads is longstanding and considerable under-financing of their maintenance and repair. Opportunities of Moldovan and Transdnistrian economies and resources of road funds do not allow the maintenance of the road network in proper condition.

For example, in Moldova, the total amount of financing for roads in the period from 1997 to 2007 (USD 123 million) was 10 times less than the necessary (USD 1350 million).¹⁶⁷

The estimate of the Transdnistrian experts comes to a conclusion that "means channelled into the road fund are apparently insufficient to stop the increasing process of intense destruction of motor roads resulting from long-standing operation without major repairs",¹⁶⁸ "recovery of the road network to required parameters is only possible with an increase of the road fund by not less than 2.5-3.0 times".¹⁶⁹

Economic and resource possibilities of Moldova-Transdnistria will not allow the solving of the issue of road financing in mid- or long-term perspective, without attracting additional sources.

¹⁶³ TMR Law No. 111-3-IV "On Approval of the State Target Programme of Road Sector Development for Modernisation and Restoration of Public Motor Ways of the Transdnistrian Moldovan Republic for 2006-2010 financed from the Republican Road Fund", 31.10.2006.

¹⁶⁴ RM Government Decision No. 85 "On Approval of the Strategy of Land Transport Infrastructure for 2008-2017", MO No. 30-31, 12.02.2008; TMR Supreme Council Decree "On Approval of the Prognosis of Socio-Economic Development of the Transdnistrian Moldovan Republic for 2009".

¹⁶⁵ The GDP growth rates in Moldova will constitute about 6%, and heavy-duty transportation – 7-15% (RM Government Decision No. 85 "On Approval of the Strategy of Land Transport Infrastructure for 2008-2017").

¹⁶⁶ Vasile Ursu "Economic Growth is Conditioned by Effective Transport Infrastructure, in particular" //Information Messenger of the RM Government No. 3, 2008.

¹⁶⁷ Republic of Moldova. Improving Public Expenditure Efficiency for Growth and Poverty Reduction (A Public Expenditure Review for the Republic of Moldova) // World Bank, February 12, 2007, p. 33.

¹⁶⁸ TMR Law No. 111-3-IV "On Approval of the State Target Programme of Road Sector Development for Modernisation and Restoration of Public Road Ways of the Transdnistrian Moldovan Republic for 2006-2010 financed from the Republican Road Fund", 31.10.2006.

¹⁶⁹ TMR Supreme Council Decree "On Approval of the Prognosis of Socio-Economic Development of the Transdnistrian Moldovan Republic for 2009".

Railway

The operating mileage of railways of Moldova-Transdnistria constitutes 1154 kilometres including the Transdnistrian sector – 78 km (less than 7% of the total railway mileage). Average tracks density (3.4 km per 100 sq. km of territory) is comparable with indicators in Bulgaria (3.9), Latvia (3.7), and Lithuania (3.1). The railways transport 43% of all cargo and about 2% of passengers (data given for 2003 – before the separation of the Transdnistrian segment from the Moldovan railway).

After the crisis of the 1990's, the railway, the same as the motor transport, did not restore the pre-crisis volumes and indicators of its activity. For example, the amount of freight carried in 2007 (Moldova-Transdnistria) amounted to less than 1/4 of the level of 1990, and freight turnover – about 1/5.

Railway network and transportation

	1990 (total)	2007 (total)	including:	
			Moldova	Transdnistria
Mileage of communication lines, <i>thousand km</i>	1.15	1.15	1.05	0.1
Communication lines density, <i>km per 100 sq. km of territory</i>	3.4	3.4	3.6	1.9
Freight carried, <i>million tons</i>	64.9	15.2	11.8	3.4
Freight turnover, <i>million ton-km</i>	15202	3146	3120	26

Sources: *Statistical Yearbook of the Republic of Moldova//Department of Statistics of RM, 1995, p. 319, 321; Statistical Yearbook of the Republic of Moldova//National Bureau of Statistics of RM, 2008, p. 387, 397; Moldova. Transport Sector Review. Statistical Appendix// Document of the World Bank. November 16, 1995; Statistical Yearbook of the Transdnistrian Moldovan Republic//State Statistics Service of the Ministry of Economy of TMR. Tiraspol, 2008, p. 121-123 and authors' calculations.*

The railway infrastructure is in unsatisfactory condition and cannot ensure the designed train speed. According to the RM Chamber of Accounts, railway transport and tracks are badly worn; about 65% of the total number of locomotives and 29% of freight cars are completely worn-out. Of 8318 cars, 2182 (26%) are not in operation for reason of requiring repair.¹⁷⁰

The amount necessary for maintenance of railway tracks and rolling stock is unavailable for both Moldova and Transdnistria.

The Strategy of Land Transport Infrastructure for 2008-2017 sets forth that “railway infrastructure continues to deteriorate”, as the necessary works cannot be financed by “The Railway of Moldova”.¹⁷¹ Freight revenue is used to subsidise losses from passenger transportation, which decreases the financial potential of the enterprise.

Financial possibilities of Transdnistrian Railways related to maintenance and infrastructure development are also rather limited. Contrary to 2006-2007 when the enterprise was the profitable one, estimated losses for 2009 are to be in the amount of 0.5 million transdnestrian roubles or USD 57 thousand. A way out of the situation is associated with an increase in the tariffs for railway services.¹⁷²

¹⁷⁰ RM Chamber of Accounts Resolution No. 76 “On the Report on Financial Audit and Efficiency of Public Property Management at the Railway of Moldova State Enterprise for 2003-2005”, MO No/36, 16.03.2006

¹⁷¹ RM Government Decision No. 85 “On Approval of the Strategy of Land Transport Infrastructure for 2008-2017”

¹⁷² TMR Supreme Council Decree “On Approval of the Prognosis of Socio-Economic Development of the Transdnistrian Moldovan Republic for 2009”

Costs and mutual barriers

Railway conflicts

The Railway of Moldova is connected with the railway networks of Romania and Ukraine. It satisfies internal and external transportation needs, is involved in international freight and passenger transportation services between the CIS and South Eastern Europe countries, in the first instance. The Transdnestrian segment of the railway is essential for a normal operation of the whole railway network and assurance of export, import and transit, as it has two access points to the railway network of Ukraine (Ribnitsa – Slobodca and Bendery – Kuchurgan). That is why the railway conflicts between Chisinau and Tiraspol result in failure of transportation logistics and economic losses not only for immediate participants of the conflicts, but also for third parties using the Moldovan railways services.

1991 – The first “Rail War”

Cause – a number of Transdnestrian politicians arrested.

Within a month (September), the Transdnestrian party completely blocked movement of trains through the Tiraspol station.

Economic loss was sustained not only by the conflicting parties, but also by Russia, Ukraine and other countries.

2004 – The second “Rail War”

Cause – closure of schools teaching in the Moldovan language in Latin script in Transdnestria and following introduction by Moldova of the requirement for Transdnestrian economic entities to register export-import transactions in accordance with the legislation of the Republic of Moldova.¹⁷³

The Railway of Moldova stopped admission and dispatch of export-import freight of Transdnestrian economic entities without respective Moldovan customs identification.

On August 1, the Transdnestrian side stopped a train going to Chisinau at the Ribnitsa station; on August 2 the Moldovan side arrested four freight trains going to Transdnestria. Movement of trains in the territory of Transdnestria was stopped completely from 3 to 5 of August. In connection with this situation, starting from August 5, OAO “Russian Railways” enforced a ban for “loading of freight for export to Moldova and transit through the territory of Moldova on the segments of Kuchurgan-Novosavitcaia-Bendery-Reni-Giurgiulesti-Galati and Slobodca-Ribnitsa”.¹⁷⁴

In the Transdnestrian segment of the border with Ukraine, as well as at the Bendery and Ribnitsa stations, there gathered hundreds of freight trains transiting through and to/from Moldova-Transdnestria. Most of the trains going to/coming from Russia and Ukraine were forwarded bypassing the Transdnestrian segment through the North of Moldova,¹⁷⁵ increasing the time of their travel. A part of the trains were cancelled (Chisinau-Reni, Chisinau-Odessa and Chisinau-Ivano-Frankivsk).

This resulted in costs incurred by passengers, economic entities, Moldovan Railways, Ukraine and Russia. Costs were related to delays in the schedule of train movement, idle hours, extension of routes and time of travel, temporary cancellation of a number of trains.

¹⁷³ RM Government Decision No. 876 “On Approval of Import-Export Transactions Regulation Measures”, MO No. 131, 31.07.2004.

¹⁷⁴ Telegram of OAO “RZD” (*Russian Railways*), No. X3-7159, 03.08.2004

¹⁷⁵ Telegram of “The Moldovan Railway” administration No. H/288 of 12 Aug 2004 – Passing of cargo to/from the Republic of Moldova through the checkpoints of the Moldo-Ukrainian Kolbasna-Slobodca border and Novosavitcaia-Cuciurgani shall be temporarily stopped. All the cargo with a destination of the specified stations will go through the Mohyliv-Podilskyi-Valcinet border crossing.

Some data on costs of the 2004 railway conflict:

- As estimated by Elena Chernenko, the Minister of Economy of Transdnistria, in case of a continued railway conflict, losses of the Transdnistrian party could constitute USD 50-60 million per month.¹⁷⁶
- According to the data of the Ministry of Industry of Transdnistria, within the first half of August, losses of the sector's enterprises caused by the railway conflict constituted USD 16 million.¹⁷⁷
- During the time of blocking of railway communication from the Ukrainian side, there accumulated more than 1.7 thousand freight cars heading towards Moldova and Romania.¹⁷⁸

The Ukrainian railway incurred losses because of the blocking of trains in the Transdnistrian segment (including movement of transit freight to the Reni port); passenger and freight trains were admitted only through the border terminal Mohyliv-Podilskyi-Valcinet.
- According to the estimate of Miron Gagauz, Director of "The Railway of Moldova", in five days, the situation with the blocking of movement of freight and passenger trains caused the enterprise a loss in the amount of approximately USD 90 thousand,¹⁷⁹ movement of freight trains through Moldova reduced twice and Railway of Moldova will need half a year to come back to normal work after the caused loss.¹⁸⁰

It was possible to unblock movement through the mediation of Russia and Ukraine after the Ukrainian party decided to pass trains with Transdnistrian cargo without Moldovan customs identification.

2006 – The third "Rail War"

Cause – introduction of new rules of passing of Transdnistrian freight through the Moldovan-Ukrainian border.

In accordance with a Moldovan-Ukrainian inter-governmental agreement, the Ukrainian Cabinet of Ministers adopted a resolution (No. 112-P of 3 March 2006), pursuant to which Ukrainian customs stations stopped passing freight with Transdnistrian customs identification.

Starting from March 4, Transdnistria blocked railway movement in the Kuchurgan-Bendery segment, while the leadership of "The Railway of Moldova" introduced a prohibitive convention for freight and passenger transportation through that railway segment. Movement of trains was forwarded to the North of Moldova – through the customs terminals of Valcinet (Moldova) – Mohyliv-Podilskyi (Ukraine) and Ocnita (Moldova) – Sokyriany (Ukraine).¹⁸¹ This route is approximately 500 km longer than the Transdnistrian segment. Due to changes in the schedule and extension of routes of trains, economic entities, passengers, Railways of Moldova, Ukraine and Russia incurred losses.

At the beginning of September, a critical situation emerged, when Ukrainian railway stopped movement in the segment of Valcinet (Moldova) – Mohyliv-Podilskyi (Ukraine) for technical reasons (repair of a bridge over the Nistru/Dniester. Movement of passenger and freight trains was forwarded to a longer route: Ocnita – Sokyriany – Large – Kelmentsi. But in three days this route suffered from defects and on September 4 both railway accesses from Moldova to Ukraine appeared to be closed. Passenger trains heading towards Moscow and Saint-Petersburg were returned to Chisinau, passengers were refunded their tickets and more than a thousand freight cars were stopped.

Movement through the North of Moldova was resumed on September 6 after negotiations and completion of repair works.

¹⁷⁶ http://www.vor.ru/Russia/Commentaries/commentaries_1251_2224.html.

¹⁷⁷ <http://www.olvia.idknet.com/ol104-08-04.htm>.

¹⁷⁸ <http://podrobnosti.ua/economy/2004/08/04/137550.html>.

¹⁷⁹ <http://www.rian.ru/economy/20040806/648544.html>.

¹⁸⁰ <http://subscribe.ru/archive/media.world.news.railway/200409/13203332.html>.

¹⁸¹ Telegram of the Moldovan Railway administration, No. HP 121, 0.03.2006.

Some data about costs of the 2006 (March-September) railway conflict:

- as of March 17, 3432 freight cars stood idle (including 2074 cars in Ukrainian railways, 1358 cars in CIS countries' railways); losses from idle-hours constituted more than USD 2 million (including USD 1.4 million losses of the Ukrainian party);¹⁸²
- losses of Ukrainian railways caused by limitation of the activity of the “Kuchurgan” transport terminal and closing for repair of the Mohyliv-Podilskyi – Ocnita segment (starting from September 1) constituted more than USD 10 million;
- the volume of transportation through Kuchurgan over January–August 2006 decreased by 6.3% (by 8.9 thousand tons) compared to a similar period of 2005; volumes of export transportations decreased by 57%, there was no import transportation through the station;¹⁸³
- by March 11 the transport flow heading towards the Ukrainian port of Reni decreased from 100-150 cars to 3-4 cars per day; in the first half of the year, losses of the Reni seaport constituted USD 0.6 million, the port's freight turnover decreased by 27%;¹⁸⁴
- daily losses of the enterprise “The Railway of Moldova” in early September constituted USD 0.34 million,¹⁸⁵ its revenue decreased in 11.2 times over the first half of the year (compared to a similar period in 2005), and the volume of freight carried – by 11%;¹⁸⁶
- losses of economic entities of the Centre and the South of Moldova caused by transportation of freight along a more extended route through the North of Moldova constituted USD 5-15 for each ton of transported freight;¹⁸⁷
- costs for passengers: on September 4-6, “Chisinau–Moscow” and “Chisinau–Saint-Petersburg” passenger trains were cancelled, travel times of passenger trains were considerably increased (for example, the travel time of train No. 47 “Moscow–Chisinau” increased from 26 hours to 2 days), inhabitants of Transdnistria lost possibilities of direct railway communication with Ukraine and Russia.

On September 8, 2006, freight transportation was resumed in the Kuchurgan-Bendery segment, but movement of passenger trains was not recovered.

The conflict was settled only partway – agreements on normalisation of railway communication reached in late 2006 limited movement of trains through the Transdnistrian segment and practically anchored the forwarding of transport flow through the North of Moldova.

On November 24, 2006, in Kyiv, leaders of the railway administrations of Ukraine, the Russian Federation and the Republic of Moldova signed a protocol “On Organisation of Railway Communication between Ukraine, the Russian Federation and the Republic of Moldova», providing for: (i) starting of full-scale movement of freight and passenger trains through the inter-state border terminal of Valcinet (Moldova) – Mohyliv-Podilskyi (Ukraine) and (ii) recovery of movement of a Russian Railways passenger train No. 65/66 along the Kuchurgan (Ukraine) – Chisinau (Moldova) route.¹⁸⁸

On December 8, 2006, leaders of transport authorities of Russia, Ukraine and Moldova signed a 1 year agreement, pursuant to which only transit freight transportation was made possible through the Kuchurgan-Bendery segment. According to the agreement, movement of the “Chisinau-Moscow” passenger train No. 65/66 and the “Varna-Saratov” seasonal train was resumed. This agreement is valid until now (it was extended twice – in 2007 and in 2008).

¹⁸² Vitaly Kulik “Rail Expediency”, http://dialogs.org.ua/print.php?part=issue&m_id=7825.

¹⁸³ <http://compatriot.su/news/26384.html>.

¹⁸⁴ Russian Railways Partner, 13.07.2006

¹⁸⁵ Economic review “Logos-Press”, No. 32 (672), 08.09.2006

¹⁸⁶ http://pass.rzd.ru/wps/portal/press?STRUCTURE_ID=73&layer_id=463&id=49472.

¹⁸⁷ <http://www.regnum.ru/news/952120.html>.

¹⁸⁸ “On organisation of railway communication between Ukraine, the Russian Federation and the Republic of Moldova”, Information of the RM Ministry of Transport and Road, <http://railway.md/events/index.htm#0000000000>.

Separation of railways

In August, 2004, in Transnistria, an own railway administration, separate from Moldova, was established (State Unitary Enterprise “Transnistrian Railway” with Tiraspol, Bendery and Ribnitsa stations),¹⁸⁹ including the segments of Bendery-Novosavitcaia (38 km long) and Ribnitsa-Slobodca (40 km long). These segments of railway going through Transnistria are not connected to each other. Connection between them is only possible “by-passing” – through Ukraine or Moldova. After separation of the Transnistrian segment of railway into an individual enterprise, Transnistria began charging for passage and inspecting freight.¹⁹⁰

On the separation of the Transnistrian segment of railway, the Moldovan side incurred property and financial losses:

- loss of a diesel-train, 13 diesel-electric locomotives and 297 freight cars etc.,¹⁹¹ that passed under Transnistrian control (total cost of property – more than USD 40 million;¹⁹²)
- payment of fines for blocking of 173 cars with freight belonging to carriers from Kazakhstan, Ukraine and Russia (more than CHF 1 million, or about USD 800 thousand);¹⁹³

Establishment of own railway enterprise in Transnistria required attracting budget financing for the needs of development of railway infrastructure.

For example, repair works were fully financed from the Republican budget along the down track of railway of the Bendery–Kuchurgan segment,¹⁹⁴ a diesel-electric locomotive was purchased (about USD 500 thousand)¹⁹⁵ and funds were allocated to development of the enterprise (about USD 700 thousand).¹⁹⁶

Construction of new “internal” railway branches

To reduce the impact of negative consequences of railway conflicts, both the Moldovan and Transnistrian party implemented construction projects for “independent internal” railway spur lines. The projects were financed both from the budget funds and from railway enterprises resources.

Revaca – Cainari

The Revaca–Cainari railway line (42 km of tracks and two stations) was built in 2005 bypassing Transnistria. Operation of this spur line allows transportation without needing to use the Transnistrian segment of railway and shortens the route from the North to the South of Moldova by 70 km.

A press release published by Railways of Moldova says: “Introduction of this track allowed solving a number of issues related to the known events of August 2004 in the Transnistrian region, ensuring transportation of freight and passengers from Central and Northern regions of the Republic and back. Open movements in the segment of Revaca–Cainari permanently

¹⁸⁹ TMR Ministry of Industry Order No. 525 “On Creation of the State Unitary Enterprise “Transnistrian Railways””, 06.08.2004

¹⁹⁰ TMR State Customs Committee Order No. 45 “On Approval of Rules of Interaction of the TMR State Customs Committee and the State Unitary Enterprise “Transnistrian Railways” in Customs Identification of Cargo Carried by Railway Transport”, 08.02.2005

¹⁹¹ Official statement of the State Enterprise “Railway of Moldova” administration, 11.07.2008, <http://www.railway.md/events/index.htm>

¹⁹² “Railway of Moldova is the Patrimony of All the People of the Republic of Moldova”, “Nezavisimaia Moldova”, 06.07.2005

¹⁹³ “A Technical Problem with an Economic Impact”, Economic review “Logos-Press”, No. 32 (672), 08.09.2006

¹⁹⁴ Head of the Transnistrian Railways: “Moldova Brings all Strength to Block TMR”, <http://regnum.ru/news/466448.html>.

¹⁹⁵ State unitary enterprise “Transnistrian Railways”

http://www.mcds.ru/default.asp?Mode=Review&ID_L0=4&ID_L1=52&ID_L2=455&ID_L3=5107&ID=&ID_Review=108180.

¹⁹⁶ It is planned to allocate transnistrian roubles 5.7 million additionally for the development of Transnistrian Railways, <http://www.olvia.idknet.com/ol34-04-05.htm>

deprived the leadership of the separatist Transdnistrian region of the opportunity to exert pressure on the economy of the Republic”.¹⁹⁷

About USD 28 million was spent to finance construction works of the Revaca–Cainari spur line (development of design and estimate documentation, design and survey works, reacquisition of land, issuance of documentation for allocation of lands for construction etc.)

Meanwhile, about USD 22 million was allocated from the state budget and USD 5.6 million was spent by the Railway of Moldova from own sources.¹⁹⁸

Cahul-Giurgiulesti

The 50 km long Cahul-Giurgiulesti railway branch line was commissioned in 2008. It connected the new Moldovan port with internal railway lines and provided access to the Romanian Galati port. The branch line was built with the particular purpose of “interlocking the transport system of Moldova”. It allows transportation of freight to the South bypassing not only Transdnistria, but also Ukraine (before the new branch was constructed, a railway line was used that crossed the territory of Ukraine three times).¹⁹⁹

The project cost about USD 70 million, with works financed primarily from the state budget.²⁰⁰

Novosavitcaia – Livada

In 2008, a 1.4 km long connection route was built in Transdnistria between the Kuchurgan-Livada and Kuchurgan-Novosavitcaia hauls.

After customs and railway conflicts, imported freight for Transdnistrian economic entities could only be delivered from the Kuchurgan station to the Livada station, where they were reloaded to motor vehicles and sent to Tiraspol and Bendery. Such a scheme of transportation was associated with additional costs for Transdnistrian enterprises amounting to about USD 5 million per year.²⁰¹

The new line allowed delivery of freight to Tiraspol and Bendery via railway. It connected the main line (allowing only transit of freight trains from the Ukrainian border through Transdnistria) and the internal line (starting to pass freight trains from the Livada station to Tiraspol and Bendery).

The construction cost USD 1.2 million, works being financed by the Transdnistrian Railway.²⁰²

Thus, *the total expenditures of Moldova-Transdnistria for construction of new railway lines comprised about USD 100 million.* At the same time, the achieved economic effects are conventional, as building was basically conditioned by aspirations of each of the parties to operate internal railroad lines possibly independently from each other.

There are risks of further isolation of railways related to occasionally appearing ideas of new railway branch line construction projects.

¹⁹⁷ Press release, 19.09.2006, <http://railway.md/events/index.htm#0000000000>

¹⁹⁸ RM Government Decision No. 1228 “On resumption of construction works on the Revaca-Cainari railway line”, MO No. 205, 12.11.2004;

<http://www.vremya.ru/2005/175/5/134958.html>;

<http://www.railway.md/ro/events/index.htm#0110001000>;

http://www.rzd.ru/wps/portal/popup?STRUCTURE_ID=2&vp=9&layer_id=459&id=40734

¹⁹⁹ “The functional railway line leading to Giurgiulest from Cimisia goes into the territory of Ukraine three times. This line is all right today, but what if disagreements occur with the Ukrainian side tomorrow. Construction of the Cahul-Giurgiulesti line will allow the interlocking of the transport system of Moldova” – from an interview with the General Director of the Railway of Moldova Miron Gagauz Economic review “Logos-Press”, No. 3 (739), 01.02.2008.

²⁰⁰ http://www.pressa.tm.md/?page=itrec_4&id=940; <http://www.nr2.ru/pmr/119373.html>;

http://www.tvc21.md/prn_news.php?id=11193&par=0; <http://www.point.md/News/Read.aspx?NEWSID=45967>.

²⁰¹ www.regnum.ru/news/1117180.html.

²⁰² <http://www.olvia.idknet.com/ol28-08-08.htm>.

Key projects are intended to reduce the role of the Transdnestrian segment in railroad communication, connecting the railways of Moldova and Ukraine.²⁰³

Among such projects can be included:

- construction of a new Marculesti – Soroca railway branch having access to the Ukrainian railways;
- recovery of the 22.7 km Berezino-Basarabeasca line (the project costs approximately USD 200 million);²⁰⁴
- construction by the Ukrainian Railway of a branch connecting the Reni station with Izmail; implementation of this project is provided for in the “Complex Program of Approval of Ukraine as a Transit State for 2002-2010”,²⁰⁵ estimated cost – USD 150-200 million.

In its turn, the Transdnestrian side intends to implement a project of construction of a crossover track “to ensure freight work at the Bendery and Tiraspol stations and access of the Moldavskaya GRES (power plant) to the main line when receiving freight from Moldova”,²⁰⁶ implementation of which will require allocation of additional funds.

Benefits of consolidation of transport infrastructure and international cooperation

Issues of modernisation of transport infrastructure are attracted special importance both in Moldova and in Transdnestria. The parties associate the necessity of transport sector development with prospects and priorities of further development of the economies in general.

To resolve issues related to rehabilitation of transport infrastructure both Moldova and Transdnestria are facing with the similar problems:

- unsatisfactory technical condition of transport systems having a negative impact on economic development opportunities; and
- lack of sufficient financial resources for transport infrastructure modernisation.

At the same time, the transport infrastructure development policies carried out in Moldova and in Transdnestria have a number of differences.

Moldova emphasises the transport sector as one of development priorities and formulates a mid- and long-term perspective sector policy. Only recently, a number of relevant documents was approved – the National Development Strategy for 2008-2011 (development of transport infrastructure treated as one of priorities for competitive growth of the economy), the Concept of Formation and Development of the National Network of International Transportation Corridors, the Strategy of Land Transport Infrastructure for 2008-2017, the Strategy of Civilian Aviation Development for 2007-2012. A strategic approach in planning allows attracting funds of foreign development partners to realisation of transport strategies and solving the issue of lack of own financial resources.

Provisions were made to finance scheduled measures from 3 sources – the state budget, external resources (loans and grants) and funds of the road fund. The total cost of transport infrastructure development projects is USD 3184 million. Even if financing is incomplete and not all projects are possible to implement, a complex approach to transport sector development will allow holding up the degradation of transport infrastructure at least.

In Transdnestria, there is no strategic approach – measures in the sphere of motor and railway transport development are planned for one year and are included in the annually approved forecasts of socioeconomic development. There is only one mid-term program – the Motor Road Sector Development Program for 2006-2010. Planned measures are rather fragmentary and are not aimed at complex and long-term development of transport infrastructure. For example, the

²⁰³ “Railway Investment Projects”, Economic review “Logos-Press, No. 3 (379), 01.02.2008; Miron Gagauz. “Left Bank – Right Bank, Road is One”, *Nezavisimaia Moldova*, 09.02.2006.

²⁰⁴ http://www.uz.gov.ua/index.php?f=Doc.View&p=drugim_putem.0.news.

²⁰⁵ Ukraine Law No. 3022-III “On the Complex Programme of Approval of Ukraine as a Transit State in 2002-2010”, 07.02.2002

²⁰⁶ TMR Supreme Council Decree “On Approval of the Prognosis of Socio-Economic Development of the Transdnestrian Moldovan Republic for 2009”.

Prognosis of Socioeconomic Development of Transdnistria for 2009 envisages carrying out repairs of a part of the motor roads (97% being regular repairs), building a crossover rail line to ensure freight work at the Bendery and Tiraspol stations, equip a guarded rail crossing in the Bendery-Tiraspol haul, and enhance technical equipment of the Ribnitsa junction. All activities are planned to be financed from own sources only – from the means of the road fund and the railway. With the existing approach to solution of problems in the transport sphere, it will be very difficult to avoid further destruction of transport infrastructure.

The different approaches of Chisinau and Tiraspol to the development of the transport sector (to planning and to financing) hinder recovery and modernisation of the transport infrastructure, which not only “physically” connects the right bank with the left, but also the two Nistru/Dniester banks with regional and international transport networks.

The transport network on both banks of the Nistru/Dniester has good geographic coverage and is closely connected to transport arteries of the neighbouring countries – Ukraine and Romania. The territory of Moldova-Transdnistria is crossed by important international transportation routes, which is a good premise for effective development of trade, including transport services trade, for increasing the income from freight and passenger transportation and maintaining the economic growth in general. However these advantages of Moldova-Transdnistria are common and they can only be fully utilised together.

There are several international transport corridors and main lines going through the territory of Moldova-Transdnistria.²⁰⁷

The 9th Pan-European Transport Corridor, which is the longest of ten Pan-European multimodal transport corridors. Components of the corridor in the territory of Moldova-Transdnistria:

- a railway line: border with Ukraine-Novosavitcaia-Bendery-Chisinau-Ungheni-border with Romania;
- a motor road: border with Ukraine-Dubasari-Chisinau-Leuseni-border with Romania.

Black Sea Pan-European Transport Zone PETrA that includes the above-mentioned areas of the 9th corridor and their branches:

- a railway line: Bendery-Cimislia-Basarabeasca-Taraclia-Greceni-Etulia (Reni)-Giurgiulesti;
- a motor road: border with Ukraine-Dubasari-Chisinau-Leuseni-border with Romania.

TRACECA corridor (Europe – Caucasus – Asia):

- a railway line: border with Ukraine-Novosavitcaia-Bendery-Chisinau-Ungheni-border with Romania;
- a motor road: border with Ukraine-Dubasari-Chisinau-Leuseni-border with Romania.

Main lines of the international “E” network:

- CE-95 (railway line): border with Ukraine-Novosavitcaia-Bendery-Chisinau-Ungheni-border with Romania;
- E-560 (railway line): (Galati)-Giurgiulesti-(Reni)-Etulia-Greceni-(Bolhrad)-Taraclia-Basarabeasca-(Carabuteni)-Cimislia-Bendery.
- CE 95 (combined transportation): border with Ukraine-Novosavitcaia-Bendery-Chisinau-Ungheni-border with Romania.
- E 58 (motor way): border with Romania-Sculeni-Ungheni-Chisinau-Tiraspol-border with Ukraine;
- E 577 (motor way): border with Ukraine-Dubasari-Chisinau-Comrat-Giurgiulesti;
- E 581 (motor way): border with Romania-Chisinau-Bendery-border with Ukraine.

²⁰⁷ RM Government Decision No. 365 “On Approval of the Concept of Formation and Development of the National Network of International Transport Corridors”, MO No. 049, 05.04.2002

The 5th Railway Corridor (defined by the Organisation for Railway Cooperation): border with Romania-Ungheni-Chisinau-Bendery-Novosavitaia-border with Ukraine.

ACE-95 Railway Line (defined by the Organisation for Railway Cooperation): border with Ukraine-Novosavitaia-Bendery-Chisinau-Ungheni-border with Romania.

Transit opportunities can and should be used for development of the transport sector and the economy of both Nistru/Dniester banks. For this, Chisinau and Tiraspol have to carry out a common long-term policy and take common measures. It is relevant to have at least for a mid-term (for 3-5 years) joint policy in the field accompanied with the transport infrastructure development strategy. Obviously, motivation for elaboration and carrying out of such policy is not only usage of transit potential, but also consistent creation of effective transport infrastructure to ensure sustainable growth of economies, attracting investments, normalising the level of transport tariffs, increasing competitiveness of internal manufacturers, etc.

The main benefits of consolidation of transport systems and the transport policy of Moldova and Transdnistria could be:

- reduction and following exclusion of costs related to transport conflicts (a prerequisite for implementation of a joint policy of modernisation of transport infrastructure is *a priori* an unblocking of current problems in relationships between Chisinau and Tiraspol in the transport sphere);
- attraction of foreign resources for rehabilitation and modernisation of transport infrastructure (financing of projects developed with due account for the condition of the whole infrastructure object, not its parts, is more reasonable, effective and attractive for investors);
- gradual enhancement of transport infrastructure quality given joint determination of common priorities and plans of development of motor roads and railways, and given joint creation of effective internal schemes of transport infrastructure financing; and
- consistent realisation of transit potential and growth of incomes from transit of freight and passengers.

For a qualitative shift in “transport” relationships of Moldova and Transdnistria, “commonness” ideology should replace the ideology of “separateness” of transport systems and interests causing economic losses and expenses for each of the parties.

3.3. The Energy Sector

Situation in the energy sector

The major spheres of “energy” relationships between Moldova and Transdnistria are the electricity and gas sector. This is conditioned by the fact that Moldova has a shortage of capacities in electricity production, while Transdnistria has a surplus, and both parties use Russian natural gas as the source of primary energy and also transport it to the Balkans.

The internal energy market of Moldova-Transdnistria is one of the smallest among European and CIS countries. It is almost fully dependent on import of primary energy resources, the main of them being natural gas, coal and residual oil. Primary energy constitutes an essential part of Moldova’s import (21% in 2007²⁰⁸) and Transdnistria (24% in 2007²⁰⁹).

Given the lack of own primary energy, right bank Moldova and Transdnistria have a rather large joint potential of electric power production and export. Total energy capacities are abundant compared to the scale of internal electric power consumption.

Annual production of electric energy in Moldova-Transdnistria in 2001-2007 constituted about 4 billion kWh (1.1-1.2 billion kWh in Moldova, about 3 billion kWh in Transdnistria), with a total internal consumption of 2.1 billion kWh.

²⁰⁸ Statistical Yearbook of the Republic of Moldova//RM National Bureau of Statistics, 2008, p. 457.

²⁰⁹ Socioeconomic Development of TMR//TMR State Statistical Service. Tiraspol, 2008, p. 35.

Compared to 1990, production, internal consumption and export of electric energy decreased significantly. This is conditioned by the fact that the pre-crisis development parameters of the economies have not been regained so far (prior to the crisis of the 1990's), there still are unsolved issues of energy relationships between the parties, and export positions have been partially lost. In 2007, compared to 1990, the total output of electric energy decreased by more than 4 times, consumption – by more than 2 times, export – by almost 12 times.

Electric Energy Balance

	1990 (total)	2007 (total)	including:	
			Moldova	Transdnistria
Production of electric energy, million kWh	15690.3	3869.2	1100.0	2769.2
Import of electric energy, million kWh	4488.9	2931.0	2931.0	-
Consumption of electric energy, million kWh	11425.9	5497.5	3364.0	2133.5
Export of electric energy, million kWh	7532.0	635.7	-	635.7
Net export of electric energy, million kWh	3043.1	- 2295.3	- 2931.0	635.7
Export to production ratio, %	48	16	-	23
Import to consumption ratio, %	39	53	87	-

Sources: *Statistical Yearbook of the Republic of Moldova // RM Department of Statistics, 1995, p. 272-273; Statistical Yearbook of the Transdnistrian Moldovan Republic // State Statistical Service of the TMR Ministry of Economy. Tiraspol, 2008, p. 95; Energy Balance of the Republic of Moldova // RM National Bureau of Statistics, 2008, p. 113 and authors' calculations.*

Note: there was no electricity supply from Transdnistria (from Moldavskaya GRES) to right bank Moldova in 2007.

A major part of generating capacities is located on the Left bank – 85% (Moldavskaya GRES and Dubasari HPP) producing about 80% of all electric energy produced in the territory of Moldova-Transdnistria. Respectively, the Right bank has 20% of total capacities (CHP-1, CHP-2, CHP-Nord and Costesti and factory CHPs).

High-voltage power lines go through the territory of Moldova-Transdnistria connecting the energy systems of Moldova, Ukraine, and Romania. That is why it is very important for Chisinau and Tiraspol to maintain workable relationships in the energy sphere to have stable production, supply and transit of electric energy.

Another common problem is the necessity of modernisation of the obsolete equipment of power plants that has been in operation for 30-40 years now.

Installed capacity of electric energy production sources

	Total	Moldova					Transdnistria	
		CHP-1	CHP-2	CHP-Nord	Costesti HPP	Sugar factories CHP	Moldavskaya GRES	Dubasari HPP
Installed capacity, MW	3016.5	66	240	28.5	16	98	2520	48
% of total installed capacity	100.0	2.2	8.0	1.0	0.5	3.2	83.5	1.6

Source: Postolatii V., Bicova E. "On the Status of Energy Security of the Republic of Moldova", Energy Institute of the Academy of Sciences of Moldova, Chisinau.

Total import of Russian natural gas in Moldova-Transdnistria amounts to about 3 billion cubic metres per year (in 2007, Moldova consumed 1.3 billion cubic metres, Transdnistria – 1.4 billion cubic metres). The parties transit Russian gas to the Balkans and Turkey. The transit

volume is rather large and constitutes 22-25 billion cubic metres of gas annually (approximately 18% of Russia's total export supply), comparable with transit through the territory of Belarus.

The main task, which is quite successfully solved by Moldova-Transdnistria in the gas sector, is provision (penetration) of gas supply. Since 2002, the "National Gas Supply Provision (Penetration) Programme" is pursued in Moldova,²¹⁰ the "Programme of Gas Supply Provision (Penetration) of Populated Localities" was implemented (for 1998-2001) in Transdnistria.²¹¹

With the construction of new gas pipeline mains and branches, Moldova has managed to provide gas supply to 60% of all localities,²¹² Transdnistria to 88%.²¹³

Over the last years, the energy industry and economy of Moldova and Transdnistria has functioned in conditions of permanently increasing prices for imported gas, which is the major primary energy source (the share of natural gas in the structure of fuel and power resources of Moldova is 45%²¹⁴). That is why stability of relationships with the supplier of Russian gas, predictability prices and transparency of supply and transit terms constitute an utterly important and common stability factor for both parties.

The Russian natural gas supplier, "Gazprom", concludes annual agreements with "Moldovagaz" JSC on supply of gas to Moldova and on transit (the Transdnistrian side is not a party to the contracts) based on a Moldovan-Russian intergovernmental agreement. In late 2006, in view of expiry of a previous agreement (2001-2006²¹⁵), a new gas supply agreement for the period of 2007-2011 was concluded; it stipulates that the price for gas shall be calculated annually according to a formula based on market principles with the use of reduction coefficients. By 2011, the price will reach the level of average European prices for supply of Russian gas.²¹⁶

Costs and mutual barriers

Energy conflicts

From time to time and for various reasons, conflicts that emerged between Chisinau and Tiraspol had a negative impact on consumers of electricity and the stability of the regional energy market including also south-eastern and southern energy systems of Ukraine.

In July 2003, the Transdnistrian side limited electricity and gas supply to left bank villages under Moldova's jurisdiction due to accumulated historic debts of the population and economic entities of these villages to Transdnistrian suppliers.

To settle the situation, the government of Moldova adopted a decision to redeem the historic debts of left bank economic entities for electricity (MDL 752.4 thousand) and to offset the historic debts of the "Dubasari-Gaz" enterprise resulting from granting gas supply benefits to certain categories of population.²¹⁷ Execution of the resolution was ensured from the state budget.

In August 2004, the Transdnistrian side disconnected high-voltage power lines supplying the Right bank. Disconnection of energy supply is one of the episodes of large-scale opposition of 2004 that emerged as a result of the so-called "schools conflict" and introduction by Moldova of new rules for export-import transactions for Transdnistrian economic entities.

At the moment of disconnection of electric energy, about 215 thousand people suffered – customers of Chisinau and Central Energy Distribution Enterprises. Within several days,

²¹⁰ RM Government Decision No. 1643 "On Approval of the National Gas Supply Provision Programme of the Republic of Moldova", MO No. 190-197, 31.12.2002.

²¹¹ TMR President Decree No. 230, 03.07.1998.

²¹² Informational Agency "InfoMarket", 29.12.2008

²¹³ <http://www.rusenergy.com/?page=news&id=74414>.

²¹⁴ Energy Balance of the Republic of Moldova, RM National Bureau of Statistics, 2008, p. 66.

²¹⁵ RF Government Decision No. 831 "On Signature of an Agreement between the Government of the Russian Federation and the Government of the Republic of Moldova on Supplies of Russian Natural Gas to the Republic of Moldova and its Transit through the Territory of the Republic of Moldova", 29.11.2001

²¹⁶ "Gazprom" Information Department. http://www.gazprom.ru/news/2008/06/201220_29257.shtml.

²¹⁷ RM Government Decision No. 976 "On Some Measures of Stabilisation of the Situation in Localities of Eastern Regions of the Republic of Moldova», MO No. 177, 15.08.2003

55 localities of right bank regions (Stefan Voda, Causeni and Criuleni) and 6 localities on the left bank of the Nistru/Dniester (Dorotcaia, Cocieri, Rogi, Cosnita, Pohrebea and Pirita villages) being under Moldova's jurisdiction were not supplied with electricity. Damage was brought also to some localities of central, eastern and southern regions of Moldova.²¹⁸

To stabilise electricity supply, Moldova had to increase supplies of electricity from Ukraine. The issue of restoration of a normal energy supply regime was solved by Chisinau and Tiraspol relatively quickly (in two days).

In autumn 2004, Moldavskaya GRES and the "Union Fenosa" Company, the owner of the Chisinau, Central and Southern energy distribution networks, held negotiations on conclusion of a new agreement for supply of electric energy. The parties could not agree about a new price for electric energy due to insistence of the Transdnestrian side which argued for its proposals based on the increase in the price for consumed natural gas.²¹⁹ The leadership of Moldavskaya GRES offered electric energy at a price of USD 0.0322 per 1 kWh instead of an earlier price of USD 0.0265 per 1 kWh.

On November 1, Moldavskaya GRES stopped delivering electric energy to Moldova. Due to a deficit of electric energy, there occurred power outages – short-term power cut-offs in more than 200 localities in the south and central part of Moldova. Altogether, approximately 109 thousand consumers and economic entities suffered from power outages.²²⁰

The conflict was settled as a result of signing a new agreement on the supply of electric energy for a two-year term. The contract price for the delivered electricity was increased by 13% and comprised USD 0.0305 per 1 kWh – the new price was established for one year.

In November 2005, taking into consideration that on October 31, 2005, agreements on the selling price of USD 0.0305 per 1 kWh was expired, Moldavskaya GRES warned the "Union Fenosa" Company on its intention to raise tariffs for the supplied electric energy from USD 0.0305 to USD 0.0408 per 1 kWh. Moldavskaya GRES motivated this with an increase in the price for natural gas consumed by the power plant (from USD 57 to USD 86 per 1 thousand cubic metre). The "Union Fenosa" Company refused to buy electricity for the proposed price.

In November 2005, Moldavskaya GRES stopped deliveries of electric energy to Moldova. After the cessation of deliveries, the deficit of electric energy for Moldova was filled by Ukraine. Ukrainian electric energy was imported based on a contract concluded between the Moldovan "Energocon" Company and the Ukrainian "Ukrinterenergo" Company valid until July 2009.

Import of electric energy from Ukraine was economical due to a lower purchasing price that initially constituted USD 0.0235 per 1 kWh.

However, Moldova's transfer to procurement of Ukrainian electric energy was not only positive – there occurred technical and economic costs of replacement of electricity supplies from Moldavskaya GRES by import of electricity from Ukraine.

Firstly, technical risks of failure of stable operation of the regional energy system occurred:

- periodically, there occurred failures of regimes of parallel operation of the energy systems of Ukraine and Moldova, as set forth in a respective technical agreement in 2001;²²¹ overloading of the Ukraine-Moldova power transmission line negatively affected the stability of power supply of the southern part of Ukraine (Odessa oblast);

²¹⁸ <http://old.azi.md/news?ID=30326>; <http://news.finance.ua/ru/~1/0/all/2004/08/26/52961>

²¹⁹ In 2001, Moldavskaya GRES and "Union Fenosa" entered into a 5-year agreement on supplies of electric energy at a price of USD 0.0265 per 1 kWh. The third party of this contract was Transdnestrian administration that guaranteed supplied of cheap fuel for the electric power plant. In December 2003, a new owner of Moldavskaya GRES became a Belgian company "Saint Gidon Invest". Transdnestrian administration withdraw its guarantee and Moldavskaya GRES had to buy gas at higher prices (the price grew by 50%), which resulted in an increase in the production cost of the generated energy. The new owner of the plant addressed "Union Fenosa" company and initiated negotiations related to conclusion of a new agreement due to force majeure provided for in the previous contract ("Nezavisimaya Moldova", 03.11.2004., "Komsomolskaya Pravda v Moldove", 03.11.2004)

²²⁰ <http://www.proua.com/analytic/2004/12/24/160639.html>

²²¹ Agreement "On Ensuring Parallel Operation of UPS of Ukraine and the Moldovan Electric Power System", 29.08.2001

- Moldavskaya GRES transferred to a single-unit operating regime, which is considered to be an emergency regime for the operation of the plant itself and does not ensure secure power supply of consumers (Ukraine, Transdnistria and right bank Moldova).²²²

Secondly, the price benefits which Moldova got immediately after the signature of the contract with the Ukrainian party were gradually evaporating due to numerous increases in the prices for purchased Ukrainian electricity:

- in 2006, it increased to USD 0.025 per 1 kWh, in May 2007 – to USD 0.0269, in August 2007 – to USD 0.031; in 2007, a supplement to the contract was signed establishing a monthly increase in the price for electricity supplied to Moldova by USD 0.0001 per 1 kWh; in late 2008, the price arrived at USD 0.054 per 1 kWh;²²³ over the period of import of electric energy from Ukraine, the purchasing price for Moldova increased by more than 2 times.

Thirdly, the Ukrainian supplier of electric energy incurred losses due to differences in prices for delivery of electric energy to Moldova and prices in the domestic market, which was repeatedly stated by Ukrainian officials. For example, in the period of power supply to Moldova at a price of USD 0.025 per 1 kWh, the price in the internal Ukrainian market constituted USD 0.039.²²⁴ Over the period from 2006 till mid 2007, losses incurred by Ukraine as a result of export of electric energy to Moldova constituted more than USD 70 million.²²⁵

Absence of supplies of electric energy to Moldova in 2006-2008 was very negative for the situation in the electric energy industry of Transdnistria – decreases in the volumes of export and production of electric energy. For example, in 2006, total export of electric energy decreased by 35 times compared to 2003-2004, and production – by almost 2 times.²²⁶

Since *January 1, 2009*, supplies of electric energy from Moldavskaya GRES to Moldova were resumed and commercial power supplies from Ukraine were stopped (the so-called interchange supply regime was only preserved in small amounts – 7 million kW/hr).

An agreement was concluded between Moldavskaya GRES and the “Energocom” Company and coordinated with the National Agency for Energy Regulation of Moldova. Duration of the agreement is from January 1, 2009 till March 31, 2010, the price of the supplied electric energy constitutes USD 0.056 per 1 kWh.²²⁷

Energy systems isolation projects

The energy systems of Moldova, Transdnistria and Ukraine were created and functioned for a long time within the common energy system of the USSR. That is why coordination and matching of their activities are the starting conditions of the effective interaction of the whole system. However, periodic disagreements between participants of the regional energy market brought them to a necessity to look for ways of isolation of their energy systems and initiation of relevant energy projects.

Ukrainian projects are aimed at individual provision of electric energy to consumers of the South of Odessa oblast and refusal from supplies of electric energy from Moldavskaya GRES. These projects include, for example, construction projects of high-voltage power transmission lines of Artsyz–Bolhrad and Bolhrad–Budjak–Reni, Novoodesskaya–Artsyzy (declared cost – USD 32 million), Adzhalyk–Usatovo (EUR 26 million), construction of a substation

²²² Statement of the “Moldavskaya GRES” company’ management, <http://www.interrao.ru/news/smi/10/>

²²³ Economic review “Logos-Press”, No. 39 (775), 24.10.2008

²²⁴ «INTER RAO UES» Annual report, 2006

²²⁵ <http://news.liga.net/news/N0749547.html>;

http://mpe.kmu.gov.ua/fuel/control/uk/publish/article;jsessionid=A3D86E1F06B0A74B832D538CF8625C76?art_id=106724&cat_id=35082;

http://www.energospace.ru/2007/08/01/ukrainskaja_jelektroenergija_dlja_moldovy_podorozhaet_napolovinu.html

²²⁶ Statistical Yearbook of the Transdnistrian Moldovan Republic, State Statistical Service of the Ministry of Economy of TMR. Tiraspol, 2008, p. 95

²²⁷ “Kommersant” No. 235(4052), 24.12.2008

“Primorskaya” (USD 220 million),²²⁸ and combined cycle gas power stations in Izmail and Bolhrad.

Reasons given for *Moldova’s projects* consist in a necessity to achieve energy security and reduction of electric power production deficit.

According to the governmentally approved “Development Concept and Electric Power Plants Allocation Scheme in the Territory of the Republic of Moldova until 2010”, it is planned to build power plants in the cities of Balti, Chisinau, Orhei, Ceadir-Lunga, Comrat and other localities with a total capacity of about 1300 MW, which is comparable with ½ of the Moldavskaya GRES installed capacity.²²⁹

At different times, negotiations were held with private investors regarding construction of new power plants in Balti and Burlaceni, as well as of Budesti CHP-plant and others. The first result was signature of an agreement with a Czech Company “J&T Finance Group” on the construction of an electric power plant in the free economic zone “Ungheni-Business” (Ungheni region) with a capacity of 350 MW. The rationale of this project is ambiguous:

- the new station will supply the energy system of Moldova with about 20% of the total volume of electric energy consumption in Moldova yearly, which can cause a reduction of supplies from Moldavskaya GRES in the future (by approximately ¼) and yet another disequilibrium of interests between Moldova and Transdnistria in the energy sphere;
- the investor will benefit not only from preferences that are currently provided to residents of free economic zones, but also from special preferences that have been recently established for investors “taking part in implementation of the construction project and operation of the power plant in the region of Ungheni”,²³⁰ the special preferences can influence the competitive conditions in the internal energy market in Moldova, including the position of Moldavskaya GRES in this market.

Besides the construction of new electric power plants, provision is made for an increase in capacities of existing CHP (CHP-1, CHP-2 and CHP-Nord) and construction of a mini-CHP. The total cost of planned projects constitutes 667.6 million dollars.²³¹ It is planned that by 2020, the degree of meeting the internal requirements for electric energy from own production will increase from 31% in 2007 to 35% (minimum) – 55% (maximum).²³²

The energy policy of Moldova does not provide for a strategy of energy relationships with Transdnistria and the position of Moldavskaya GRES in meeting the internal demand for electric energy.

Energy and economic conflicts between Chisinau and Tiraspol had a negative impact on the assessment of the role of the Transdnistrian producer of electric energy as a supplier of electric energy to the right bank of the Nistru/Dniester. The Energy strategy of Moldova notes that supplies of electric energy from Moldavskaya GRES “cannot be deemed secure as there is no information on the volume of capacities of this plant that can be provided to the right bank of the Nistru / Dniester, both technically or commercially”. At the same time, it is recognised that “electric power from Moldavskaya GRES remains to be significantly cheaper than the electric power produced at new power plants, at least in the short- and mid-term”.²³³

But at the same time, the left bank power plant’s potential is not taken into consideration in the design of generating capacities and in the development of an energy strategy for Moldova. The energy policy is staked on an increase in the share of own generating capacities in meeting the internal demands for electric energy, which can instigate isolation of systems of production and consumption of electric energy of Moldova and Transdnistria.

²²⁸ Kyiv declared energy war on Chisinau. <http://finans.net.ua/content/view/7444/1/>

²²⁹ RM Government Decision No. 830 “On Approval of the Development Concept and Electric Power Plants Allocation Scheme in the Territory of the Republic of Moldova until 2010”, MO No. 155, 25.07.2003

²³⁰ RM Law No. 14 “On Amendment of Some Legislative Acts”, MO No. 45-46, 27.02.2009

²³¹ RM Government Decision No. 958 “On the Energy Strategy of the Republic of Moldova until 2020”, MO No. 141-145,

²³² *ibid*

²³³ *ibid*

Tariff policy and “gas” debts

Moldova and Transdnistria conduct different policies in the field of price regulation in the energy sector. This does not help the development of mutually beneficial cooperation in the field of energy and creates not only economic, but also non-economic problems hindering conflict resolution as a whole.

In Moldova, internal tariffs for electricity and consumed natural gas are regulated by an independent specialist authority – National Agency for Energy Regulation (ANRE). In its activities, ANRE follows approved tariff calculation methodologies and proceeds from the necessity of considering the interests of all energy market participants, observing competitiveness and consumer protection conditions.²³⁴ The emerging system of tariff regulation allows to gradually minimise the risks of subjectivity and to maximise the effectiveness of an energy tariff policy.

In Transdnistria, the internal tariffs (threshold levels) for energy sector services are established by Presidential Decrees.²³⁵ The tariff policy largely performs a “social” function, which shows up in a poor account of the level and dynamics of prices for imported natural gas given established internal tariffs for gas and electricity, as well as in a significant differentiation of internal “energy” prices. For example, in 2007, with a cost of imported Russian gas amounting to USD 170 for 1 thousand cubic metres, its price incorporated into internal tariffs constitutes only USD 70-75, i.e. less than ½ of the price of imported gas.²³⁶

The tariff policy conducted in the energy sector in Transdnistria adversely affected the conditions of activity of the major producer of electric energy (Moldavskaya GRES), the energy relationships with Moldova and the situation with the gas debt of Transdnistria.

One of the reasons for disagreements that occurred in 2005 due to the increase in the price for electric energy delivered from Moldavskaya GRES to Moldova was an imbalance between the prices for gas for production of electric energy (established for Moldavskaya GRES) and for electricity supplied to the internal market of Transdnistria. Moldavskaya GRES attempted to solve the problems of imbalance of prices set in Transdnistria by increasing prices for supplies of electric energy to Moldova. As a result, a new contract would not be concluded – for three years, Moldova did not buy electric energy from Moldavskaya GRES and purchased it in Ukraine, while Moldavskaya GRES was forced to decrease the total output (by 45% in 2006) and supplies of electric energy outside Transdnistria (by almost 30 times in 2006).

The inefficient tariff policy became one of the main reasons for the accumulation of a big Transdnistrian debt for Russian natural gas. According to the Transdnistrian Republican Bank, the Transdnistrian debt for natural gas (inclusive of a penalty interest) constituted USD 1606.2 million as of July 1, 2008 and increased by 25% compared to January 1, 2007.

The large amount and continuous increase of the gas debt of Transdnistria in the conditions of Moldova’s fulfilling its obligations of settlement of current payments and historical debt for Russian natural gas, brings a certain tension into the bilateral relations between right bank Moldova and Transdnistria.

Moldovan mass media periodically voices experts’ and politicians’ opinions that the debt burden of Transdnistria lies heavy on Moldovan consumers.²³⁷

There are grounds for such statements – the Russian supplier, “Gazprom” concludes its contracts for supplies of natural gas in Moldova as a whole (without separating Transdnistria), though supplies are accounted and paid separately. At the same time, it is not Transdnistria, but “Moldovagaz” that is legally committed to observance of fulfilment of contract conditions and debt settlement.

²³⁴ RM Government Decree No. 958 “On the Energy Strategy of the Republic of Moldova until 2020”

²³⁵ TMR Law No. 513-C-III “On Prices (Tariffs) and Pricing”, 31.12.2004

²³⁶ Information Agency “New Region”, 25.09.2007.

²³⁷ “Generalised Point of View on the Transdnistrian Issue”, <http://ava.md/material/1759.html>; “Gas Industry in RM: the Burden of Ignorance and Cost of Errors”, <http://www.viitorul.org/public/800/ro/Politici%20PubliceGAZZ.pdf>

Thus, issues of the unsettled status of the gas debt and unclear mechanisms of debt management cause certain “political costs” and do not contribute to improvement of the political environment for resolution of the Transdniestrian issue.

Benefits of consolidation of energy infrastructure and international cooperation

Moldova and Transdniestria can effectively solve its major problems in the energy sector only through coordinated and joint efforts. *For Moldova*, these are issues of sustainably meeting the requirements in the energy industry and increasing the level of energy security. *For Transdniestria*, there are issues of maximal use of the productive potential (primarily, of Moldavskaya GRES²³⁸) and getting relevant regular income.

Over the last years, electric energy production deficit in Moldova constituted 74% – meaning that own production ensured only an average of 26% of internal energy demand. The deficit was conditioned by a limitation of existing generating capacities. That is why Moldova is a net importer of electric energy.

Production and Consumption of electric energy in Moldova

	2003	2004	2005	2006	2007
Production, million kWh	1046	1022	1229	1192	1100
Consumption, million kWh	4629	4383	4196	4074	4032
Production to consumption ratio, %	23	23	29	29	27

Source: Energy Balance of the Republic of Moldova // RM National Bureau of Statistics, 2008, p. 85, 89, 97, 105, 113.

On the contrary, Transdniestria has quite a large potential of production and export of electric energy, and is a net exporter. However, over the recent years, opportunities to expand the volumes of production and export of electric energy have not been used fully, because of the cessation of deliveries to the right bank in 2005 in particular. For example, in 2003, Transdniestria exported 61% of the total volumes of produced electric energy, down to only 3% in 2006, and then 23% in 2007.

The stable delivery of electricity to the right bank is one of the main factors of energy sector development and effective use of the sector’s production potential for Transdniestria.

With a deficiency of generating capacities in Moldova, and a surplus in Transdniestria, the parties can reach the following results given effective cooperation:

- complete and long-term provision of all Moldova with electric energy (solving of the issue of deficit in production of electric energy and assurance of energy security); and
- maintenance of an effective regime of energy industry production activity in Transdniestria and use of generating capacities.

Another very important issue is a different common “energy interest” of both Moldova and Transdniestria – full realisation of the advantages of a transit territory for transportation of electric energy and natural gas to European countries, and increase in transit incomes. Moldova-Transdniestria can also only use these transit advantages conjointly.

A promising trend of cooperation between right bank Moldova and Transdniestria is in the export and transit of electric energy to countries of South East Europe,²³⁹ particularly to

²³⁸ The Moldavskaya GRES, located in Transdniestria, is the largest major energy facility in Southeast Europe. In its time, this plant was designed as the largest in the South of the USSR (12 power units) and was built to supply electric energy to Moldova, Bulgaria and Southern regions of Ukraine. The plant is unique for its being able to operate on three kinds of fuel – gas, residual oil and coal. Besides that, the presence of branching intersystem lines and a special electrical schematic allow separation of individual power units for parallel operation with Romanian and Bulgarian energy systems. In 2005, Moldavskaya GRES was acquired by the “INTER RAO UES” Company and is currently its biggest generating asset. The installed capacity of all generating assets of “INTER RAO UES” in 2008 is 7840 MW, Moldavskaya GRES – 2520 MW (32%).

²³⁹ According to estimates of Russian experts, the existing technical possibilities of the Moldavskaya GRES and the related power lines’ transmission capacity allow exporting up to 1.2 thousand MW electric powers to countries of Southeast Europe. <http://www.interrao.ru/news/smi/50/>. According to estimates of Moldovan power engineers, the

Romania, the energy system of which is technically connected to the energy system of Moldova and Transnistria. Some results have already been achieved in this respect. Moldova and Romania agreed on the construction of two power transmission lines, “INTER RAO UES” and “Moldelectrica” signed an Agreement on implementing the separation of power units of Moldavskaya GRES for radial operation with the energy system of Romania. Export of electric energy to Romania increased by 87% in 2008,²⁴⁰ the Transnistrian supplier of electric energy (Moldavskaya GRES) gets an annual income of USD 1.8 million from export to Romania;²⁴¹ Moldova gets USD 0.003 from the transit of each kilowatt.

However, so far, Moldova and Transnistria have acted mostly independently. In order to get long-term income from operation in the European market, including Romania, it is necessary to have a common long-term strategy, and address and develop a power generating potential (basically, Transnistria) and transit (basically, Moldova) as one system.

Both Moldova and Transnistria need modernisation of their energy enterprises. According to the plan of development and expansion of generating capacities, Moldova will need USD 670 million for this.²⁴² Financial capacities of energy industry enterprises and budget resources of Moldova are not enough for implementation of expensive projects. That is why provisions are made for attraction of private investors and international structures. There is a vital necessity of reconstruction of the Dubasari HPP in Transnistria, which requires attraction of investments in the amount of USD 50 million. The enterprise does not have the necessary funds.

Moldova-Transnistria could receive joint benefits by solving issues of modernisation of energy facilities and attracting investments, for which it is reasonable to have a common well-thought-out plan in the framework of a common energy strategy and a common policy for attraction of investments.

Without strengthening of international cooperation it is impossible to fully realise the main energy interests of Moldova and Transnistria, both technically and economically.

Moldova intends to:

- expand cooperation in the sphere of energy with European Union countries;
- join the Energy Community Treaty as a full-fledged member;
- continue bilateral and multilateral cooperation with countries of South East Europe with the aim of forming an effective, viable, transparent energy regional market;
- connect the electric energy system to the Union for the Coordination of Transmission of Electricity (UCTE);
- participate in the energy activity and energy programs and projects of international organisations dealing with development, implementation and coordination of energy policies at the global, European and regional levels (main partners – United Nations Organisation, European Commission, Energy Charter Secretariat, Energy Community Secretariat, UCTE, World Energy Council, World Bank, European Bank for Reconstruction and Development, European Investment Bank, etc.);
- attract foreign investments; implement technological “know-how” and up-to-date management in the energy sphere.²⁴³

At the same time, the practical effects of Moldovan international community development can be more weighty and full-fledged with a due account of the Transnistrian energy industry potential and common approaches to defining detailed objects of development of international cooperation and expected specific results with the Transnistrian side.

existing inter-connections with Ukraine, Bulgaria and Romania can ensure a transit of electric energy of 4-5 billion kWh yearly (RM Government Decree No. 958 of 21 Aug 2007 “On the Energy Strategy of the Republic of Moldova until 2020”).

²⁴⁰ Information Agency “InfoMarket”, 22.01.2009

²⁴¹ Economic review “Logos-Press”, No. 39 (775), 24.10.2008

²⁴² RM Government Decision No. 958 “On the Energy Strategy of the Republic of Moldova until 2020”

²⁴³ *ibid*

A matter of common interest of Moldova-Transdnistria is transportation of Russian natural gas to Europe. The volume of transit (about 17% of natural gas exported by Russia) allows for the receipt of stable revenues. It is necessary to take into account a somewhat complicated situation in the regional and European gas market (emergence of the so-called “gas conflicts” in conditions of sustained high demand from European countries for the import of gas), as well as a lack of new alternative gas transportation routes. Therefore, it is necessary to effectively use existing transit opportunities of Moldova-Transdnistria, treat them as “common strategic values”, minimise relevant risks in the relationships in the gas sector between the parties (certain dissociation of gas supplies conditions, internal tariff strategies and debt management policies). A common energy policy and consolidation of the energy sector potential are the most promising directions for Moldova-Transdnistria to access maximum benefits from production, export, transit of electric energy and transit of natural gas and to solve the most severe problems in the energy sphere.

To realise common energy interests of Moldova-Transdnistria and get common benefits in the nearest perspective, the following makes sense:

- establishment of stable bilateral “energy relationships” and coordination of the energy policy;
- establishment of long-term contract relations between electricity consumers from right bank Moldova and suppliers from Transdnistria;
- exclusion (non-admission of emergence) of any barriers to access for producers/suppliers of electricity from Transdnistria to the energy market of Moldova;
- assistance on the part of Moldova for development of producers and suppliers of electricity from Transdnistria in the regional and European markets by using different mechanisms of international relations development;
- development of joint energy projects and their promotion;
- ensuring reliable transit of natural gas and electric energy by Moldova-Transdnistria to European countries

3.4. Communication

Situation in the communication sector

Effective communication is important both for right bank and left bank. Dynamic incorporation of Moldovan and Transdnistrian communication systems in the international telecommunication space takes place in a situation of a lack of normal relationships between communication operators on right and left bank of the Nistru/Dniester.

The economic difficulties of the 1990’s and limited investment possibilities also affected the development of the telecommunications sector of Moldova and Transdnistria: an outdated network, lack of capacities and unreliability of services. It was fixed telephony that was developing in the first instance in conditions of limited access to modern communication services: mobile telephone services, the Internet etc.

Reorganisation and reforms in the communications sector in Moldova and the appearance of a mobile network operator in Transdnistria instigated a quick growth of the telecommunications market, and for the last decade this has been one of the most dynamically developing and investment attractive sectors of the economy of Moldova and Transdnistria.

Communication services

	Moldova		Transdnestria	
	2000	2007	2000	2007
Telecommunication market value, million dollars	65.3	445.0	11.6	51.7
fixed telephony	50.3	193.3	9.9	45.5
mobile telephony	13.0	195.9	1.3	3.8
data transfer and access to the Internet	2.0	18.6	0.1	2.0
Share of communication services in the GDP, %	4.2	6.7	4.0	6.2

Sources Statistical Yearbook of the Republic of Moldova // RM National Bureau of Statistics, 2008, p. 271; Report of NARTI Activity and Communication Services Market Development in 2003, Chisinau, 2004; Report of ANRCETI Activity and Communication Services Market Development in 2007, Chisinau, 2008; Statistical Yearbook of the Transdnestrian Moldovan Republic // TMR State Statistical Service of the TMR Ministry of Economy, Tiraspol, 2005, p. 125; Statistical Yearbook of the Transdnestrian Moldovan Republic // TMR State Statistical Service of the TMR Ministry of Economy, Tiraspol, 2008, p. 125 and authors' calculations.

The quality of telecommunications markets of Moldova and Transdnestria is also supported by international comparisons: In 2008, the level of fixed telephony services penetration per 100 persons was 31.2% (Moldova) and 35.7% (Transdnestria) being higher than the average for the CIS (26%), and for Southeast Europe countries (28%). With mobile telephony developing at rather high rates, there are significant reserves: the level of penetration of these services is still lower than the average in the CIS (110%) and constitutes, respectively, 67.8% in Moldova and 42% in Transdnestria. Unfortunately, Internet access services have not become widely-spread either in Moldova or in Transdnestria so far: the level of penetration is far lower than the averages in countries of Southeast Europe and the CIS.²⁴⁴

Fixed telephone communication

In 2007, 14 operators functioned on the fixed telephony market of Moldova. However, the main actor on this market is still "Moldtelecom" JSC (97.9% of subscriber base).²⁴⁵ In Transdnestria, fixed telephony services are represented by one operator – "Interdnestrcom"/"Transtelecom" Company.²⁴⁶

In contrast to most countries of Southeast Europe, fixed telephony in Moldova and Transdnestria is gathering momentum due to low takeoff levels of telephone services penetration and quality of services. In right- and left-bank, penetration of digital telephone networks is virtually over now.²⁴⁷ The major activity of operators ("Moldtelecom" and "Transtelecom") is related to network modernisation works and implementation of new services.

²⁴⁴ European Bank for Reconstruction and Development: Comparative Assessment of the Telecommunications Sector in the Transition Countries. Analysis Report, p. 49, <http://www.ebrd.com/country/sector/law/telecoms/assess/index.htm>;

"Interdnestrcom": Year 2007 in Review, <http://idc.transtelecom.md/about/press/1902.html>; authors' calculations.

²⁴⁵ In July, 2007, the RM National Agency for the Protection of Competition recognised «Moldtelecom» JSC an operator with a dominant position in the communications market

²⁴⁶ In 2003, the "Interdnestrcom" Company privatised the State Unitary Telecommunication Enterprise "Telecom Pridnestrovya" for USD 1.9 million. In 2008, the two operators merged.

²⁴⁷ In November 2008, Transdnestria was fully transferred to digital fixed telephone communication (<http://www.olvia.idknet.com/ol126-11-08.htm>)

Development of fixed telephony

	Moldova		Transdnistria	
	2000	2007	2000	2007
Telephone communication density per 100 population, %	16.5	30.3	18.9	34.4
urban aria	20.4	41.0	24.3	40.8
rural aria	7	22.6	6.9	20.5
Number of interurban telephone calls provided, million	134.9	397.5	19.6	249.0
Average monthly revenue per user (ARPU), dollars	7.2	15.4	6.0	20.7

Sources Statistical Yearbook of the Republic of Moldova // RM National Bureau of Statistics, 2008, p. 409; Report of NARTI Activity and Communication Services Market Development in 2003, Chisinau, 2004; Report of ANRCETI Activity and Communication Services Market Development in 2007, Chisinau, 2008; Statistical Yearbook of the Transdnistrian Moldovan Republic // TMR State Statistical Service of the TMR Ministry of Economy, Tiraspol, 2005, p. 125-126; Statistical Yearbook of the Transdnistrian Moldovan Republic // TMR State Statistical Service of the TMR Ministry of Economy, Tiraspol, 2008, p. 125-126 and authors' calculations.

Mobile telephone communication

The first GSM standard mobile network operator "Orange Moldova" (former "Voxtel") has been operating in the market of Moldova since November, 1998. Today, mobile telephone services in Moldova are represented by four operators. GSM standard: "Orange Moldova", "Moldcell" (since April, 2000), "Eventis Mobile" (since December, 2007) and CDMA 2000 standard, on the 450 MHz frequency band, "Moldtelecom", under the "Unite" trade mark (since March, 2007). The "Interdnestrcom" Company²⁴⁸, the first and the only mobile network operator (CDMA 2000 standard, on the 800 MHz and 450 MHz frequency band), operates in Transdnistria since September, 1999.

Compared to 2000, the value of the mobile services market in Moldova was 15 times higher in 2007 than the corresponding indicator in 2000. In Transdnistria, the market grew by three times over the same period of time.

In 2007, the average monthly revenue per user (ARPU) of mobile network operators in Moldova amounted to USD 10.1, and in Transdnistria – USD 25.1.

Virtually everyone living in Moldova/Transdnistria can use mobile communication services (territorial coverage); in 2007, penetration per 100 population reached 55% in Moldova, and 37% in Transdnistria, including 30% by the "Interdnestrcom" Company.²⁴⁹

Note that in Moldova, due to a reduction in tariffs for mobile communication services and an increase in the volume of incentive on-network traffic, there is a stable trend for substitution of fixed telephony by mobile one. In Transdnistria, fixed and mobile telephone services are monopolistically represented by the "Interdnestrcom"/"Transtelecom" Company, and as a result mobile telephone services are still like complementing fixed communication.

Data transfer and access to the Internet

According to the estimates of the National Regulatory Agency for Electronic Communication and Information Technology (ANRCETI), the registered 3.2% Internet penetration in 2007 in Moldova speaks of a substantial digital gap compared not only to countries of the European Union, but also to CIS countries.

At the same time, demand for data transmission and Internet access services in Moldova-Transdnistria is growing and persistently exceeds supply.

Insufficient growth rates of this segment of the telecommunications market is conditioned by a lack of effective competitiveness in this market, in the first instance, both on the right and the left banks of the Nistru/Dniester. Essentially, development prospects for these kinds of services in

²⁴⁸ The "InterDnestrCom" trade mark was registered with the World Intellectual Property Organisation (WIPO) in 2003. (<http://www.wipo.int/ipdl/en/madrid/key.jsp?KEY=799255>)

²⁴⁹ According to expert estimates, about 20% of mobile telephony users in Transdnistria are subscribers of Moldovan GSM operators.

Moldova and Transnistria is directly dependent on the level of interest towards them, correspondingly, from “Moldtelecom” JSC and “Interdnestrcom” Company that practically control the entire telecommunications infrastructure in right- and left-bank, respectively. De facto monopolisation of Internet access services on both banks of the Nistru / Dniester is mainly responsible for preservation of high tariffs for Internet services and their poor development.

Costs and mutual barriers

The Republic of Moldova has been a member of the International Telecommunication Union (ITU) since October 20, 1992, and since February 1, 2002 “Moldtelecom” JSC has also been a member of ITU. There is also a growing cooperation at the regional level in the framework of initiatives of the Stability Pact for South Eastern Europe, Black Sea Economic Cooperation and the CIS. There are 19 bilateral cooperation agreements in information and communication technologies between the Republic of Moldova and other states.

The uncertain status of Transnistria does not provide for full-bodied cooperation with international and regional telecommunication organisations “substituting” it by interaction with foreign communication operators (currently, the “Interdnestrcom” Company cooperates with twelve foreign communication operators).²⁵⁰

The conflict status of Moldovan and Transnistrian economies results in failures in operation of communication systems not only of Moldova/Transnistria, but also their neighbouring countries (Ukraine and Romania).

Technical networking (access to international communication through interurban and international exchanges of the cities of Chisinau, Tiraspol and Balti) made possible a de-facto “self-sufficient”, but not independent, development of communication systems of Moldova after 1990.

Year 1999 – an attempt by Transnistria to exit the telecommunication space of Moldova

Cause – commencement of operation of the “Interdnestrcom” mobile network operator. A decision on deployment of mobile communication in the territory of Transnistria was made in 1998. At the same time, the “Interdnestrcom” Company was registered in Transnistria, and the “Intertelecom” Company in Odessa (Ukraine),²⁵¹ with the main founder being “Interdnestrcom”.²⁵² There was no agreement reached with the Ministry of Transport and Communication of the Republic of Moldova as per legalisation of the “Interdnestrcom” Company in the legal framework of Moldova – assignment of the 800 MHz frequency for provision of mobile communication services. The attempt of the Transnistrian Company to enter the Ukrainian number area together with “Intertelecom” Ltd was blocked by the Moldovan Government.²⁵³

However, “unnoticed” by the Moldovan communications administration, mobile communication (800 MHz frequency reserved for digital television services in Moldova) started developing in Transnistria, using a system of telecommunication, “autonomous” from Moldova. At the same time, a satellite communication port was built in Tiraspol “guaranteeing” a stable operation of the Transnistrian communication system for contingency cases.²⁵⁴

Year 2003 – a telephone war

Cause – introduction by Moldova of a National Numbering Plan (NNP) and distribution of numbering resources, use of the 800 MHz frequency range.

²⁵⁰ <http://idc.transtelecom.md/about/press/1889.html>.

²⁵¹ “Intertelecom” Ltd operated (international and interurban switched telephony in public communication networks (since 1998), mobile telephony with right of maintenance and operation of telecommunication networks and assignment for use of telecommunication channels (since 2006)) based on licenses of the State Committee for Communication and Informatisation of Ukraine. On November 25, 1998, the Company was assigned an access code “045”.

²⁵² <http://www.velton.ua/ru/press-center/didgest/16/112.shtml>

²⁵³ Weekly publication “Zerkalo nedeli”, No. 21 (650) Jun 2-8, 2007, <http://www.zn.ua/2000/2675/59445/>

²⁵⁴ <http://www.olvia.idknet.com/OL10-08.htm>

The NNP was developed by the National Agency for Regulation in Telecommunication and Informatics (NARTI)²⁵⁵ and approved by the Ministry of Transport and Communications of RM. It was planned to implement the new NNP both in Moldova and in Transdniestria.

The plan included incorporation of regions from the left bank of the Nistru/Dniester into the numbering space of Moldova on a “common basis” without regard to particular characteristics of the Transdniestrian communication sector: 1 million numbers (access code “28”). No provision was made for allocation of a number resource for the Transdniestrian mobile operator: “Interdnestrcom” operated outside the legal framework of Moldova, provided services and used the 800 MHz frequency without having the respective licences. The operator was offered to switch to the 450 MHz range.²⁵⁶

The Transdniestrian communications administration decided to use reserve numbers starting from digit “5”, allowing for an increase in the number resource of the region up to 10 million numbers. A “numbering plan of telecommunication networks of Transdniestria” was also developed.²⁵⁷ Transdniestria expressed readiness to “return” the surplus (5 million numbers) to the number reserve of Moldova.²⁵⁸

On *July 19*, “Moldtelecom” JSC limited the outward traffic of Transdniestrian users.

On *September 8*, Moldova started “testing” a digital television. A single wave was chosen for the tests, at which the digital television intersects mobile communication.²⁵⁹ For four hours operation of mobile communication in Transdniestria was blocked.

Transmitters, including high radiation power of up to 1 MW, of the Transdniestrian radio and television broadcast centre “Mayak” started interfering with the mobile networks of Moldova, with almost all of Chisinau being in the zone of interference: a stable signal could only be received close to transmitters there.²⁶⁰

“Moldtelecom” JSC limited automated telephone communication between public telephone networks of Moldova and Transdniestria.

On *September 9*, the “Interdnestrcom” Company decided to fully limit communication with the “Moldtelecom” JSC operator.²⁶¹

On *September 11*, “Moldtelecom” disconnected two international channels rented by “Interdnestrcom” – one to Europe, another one to Ukraine.²⁶²

On *September 14*, “Moldtelecom” disconnected the international channel to Moscow rented by “Interdnestrcom”.²⁶³

*For 3 weeks of the “telephone war”, direct losses of the parties, telecommunication operators of Moldova and Transdniestria, made up about USD 700 thousand dollars*²⁶⁴

In October, a group of the International Telecommunication Union’s Experts (ITU) visited Moldova. A *temporary compromise* was found with the help of international experts:

- A warning was published in the operational bulletin of ITU (01 Nov 2003) stating that “the RM Ministry of Transport and Communication and the National Agency for Regulation in Telecommunication and Informatics (NARTI) regard illegal usage of the “5” numbering

²⁵⁵ On March 14, 2008, the National Agency for Regulation in Telecommunication and Informatics (NARTI) was reorganised into the National Regulatory Agency for Electronic Communication and Information Technology (ANRCETI), reason for both the old and the new names of the agency being used through the text, meaning one and the same authority though.

²⁵⁶ Economic review “Logos-Press”, No. 46 (638), 16.12.2005

²⁵⁷ Resolution of the TMR Ministry of Information and Telecommunications “On Approval and Commission of the “System and Numbering Plan at TMR Telecommunication Networks””, No. 158 (CA3 03-32), 06.08.2003.

²⁵⁸ <http://www.sostav.ru/news/2004/01/14/725/>

²⁵⁹ Newspaper “Pridnestrovie”, 01.10.2003

²⁶⁰ <http://lenta.ru/world/2003/10/01/phone/>

²⁶¹ <http://idc.transtelecom.md/about/press/1339.html>

²⁶² <http://www.vedomosti.ru/newspaper/article.shtml?2003/09/18/66586>

²⁶³ *Ibidem*

²⁶⁴ <http://www.gzt.ru/rub.gzt?rubric=news&id=3705000000008646>

range resources or other resources, except for those provided for by the new NNP of the Republic of Moldova”²⁶⁵.

- Transdnistria “fixed” the numbering resource from the “5” range for itself.

On *November, 1*, Moldova put a new National Numbering Plan in force.

On *November, 7*, a new “System and Numbering Plan at TMR Telecommunication Networks” began its operation.

On *November, 19*, the disturbing influence of the digital television transmitter (Moldova) and of the Transdnistrian radio and television centre “Mayak” was eliminated.

On *November, 22* – telephone communication between Transdnistria and Moldova is carried out according to the international principle. There is no fixed telephone communication between Moldova and Transdnistria.

Costs of the “telephone war”:

- “Moldtelecom” JSC lost fixed communication traffic with Transdnistria completely.
- Additional expenses of the “Voxtel” (“Orange Moldova”), “Moldcell” and “Interdnestrcom” mobile communication operators for installation of new equipment and granting of “bonus” minutes to subscribers as a compensation for inconveniences caused. (For instance, losses of the “Voxtel” (“Orange Moldova”) company amounted to USD 300 thousand²⁶⁶).
- NARTI (ANRCETI) does not receive full payment for use of the numbering resource from Transdnistrian communication operators.
- Fixed communication network blocked between right and left banks.
- Communication between right bank and left bank is carried out through IP-telephony only.

The temporary compromise allowed only for diffusion of the problem, but not for its solution.

Year 2004 – the first “telephone opposition”

On July 8, in order to restore the integrity of Moldovan telecommunication networks, to ensure stable and reliable operation of fixed and mobile communication networks, and to regulate the activity of operators in conditions of liberalisation of the telecommunication services market, the Government of Moldova adopted a Decision on regulation of the situation in the field of telecommunication networks in Moldova.²⁶⁷

The Decision provided for:²⁶⁸

1. a temporary registration of the “Interdnestrcom” Company in the RM State Register of enterprises and organizations;
2. establishment and registration at the RM State Registration Chamber of a subsidiary undertaking (branch) of the “Interdnestrcom” Company with a legal address and registered office in the Chisinau municipality (within 10 days from the date of temporary registration);
3. issuance to the “Interdnestrcom” Company of licenses required for operation in the field of telecommunication in the territory of the Republic of Moldova (USD 1 million individual licence fee for CDMA (WLL) standard cellular mobile and fixed communication services);
4. provision of a necessary number of communication channels to the “Interdnestrcom” Company;

²⁶⁵ Ekonomicheskoe obozreniye “Logos Press”, No. 39 (535), 24 Oct 2003.

²⁶⁶ <http://www.server.md/articles/318/>

²⁶⁷ RM Constitutional Court Decision “On Control of Constitutionality of Government Decree No. 782-37 of 8 Jul 2004 “On Regulation of the Situation in the Field of Telecommunication Networks of Moldova”, No. 21, Official Monitor No. 168-170/23, 10 Sep 2004. (the Government Decree was not published).

²⁶⁸ Ibidem

5. conclusion of an agreement on interconnection between “Moldtelecom” JSC and the “Interdnestrcom” Company – restoration of fixed telephone communication between both Nistru/Dniester banks.

“Additionally” the Transdnestrian operator had to provide:²⁶⁹

- parallel development of networks on the 800 MHz and 450 MHz basis (starting from 2010, under the terms of the license, the 800 MHz frequency will be used only for digital television);
- the volume of network development investments amounted to about USD 15 million for one and a half years;
- guaranteed minimum package of telecommunication and informatics services in distant right bank areas;
- 100% coverage of the right bank territory (within 3 years).

This agreement was partially fulfilled:²⁷⁰

On *July, 13*, the “Interdnestrcom” Company received a statement of temporary registration at the State Register of Moldova.

On *July, 15*, NARTI (ANRCETI) issued two licenses to the “Interdnestrcom” Company: for provision of 450 and 800 CDMA standard cellular mobile communication services (till July 15, 2019) and for provision of service of local fixed communication (till July 15, 2009).

The “Interdnestrcom” Company passed USD 1 million to the account of the Ministry of Finance.

On *July, 30*, an Decree of the President of the Republic of Moldova was published “On Suspension of Government Decision No 782-37 of July 8, 2004”.²⁷¹

On *August, 1*, consistent codes were introduced in Transdnestria: “210” for Grigoriopol, “245” for Dubosari, “219” for Dnestrovsk, “216” for Camenca.²⁷²

On *September, 2*, the Constitutional Court of RM noted that having established a discriminating license fee²⁷³ the Government put the “Interdnestrcom” Company into a privileged position against other mobile operators. “Classification of Decision No 782-37 led to uncertainty in the sphere of law and access to information, harm was inflicted on the public in the activity of a central public authority body and fair competitiveness in the sphere of economy guaranteed by art. 126 of the Constitution”; and admitted the Decision on regulation of the situation in the sphere of telecommunication networks of Moldova unconstitutional.²⁷⁴

Costs of the first “telephone opposition”:

- preservation of “autonomous” operation of communication systems of Moldova and Transdnestria (lack of fixed telephone communication²⁷⁵, “different” numbering plans);
- non-accomplished investment intentions of a private investor – 15 million dollars;
- delay in implementation of third generation (3G) mobile communication in right bank;

²⁶⁹ Economic review “Logos-Press”, No. 25 (569), 23.07.2004

²⁷⁰ RM Constitutional Court Decision No. 21.

²⁷¹ RM President Decree “On Suspension of Government Decision No. 782-37 of 8 Jul 2004”, No. 1936, MO No. 125, 30.07.2004

²⁷² TMR Ministry of Information and Communication Order, No. 153 (CA3 04-31), 19.07.2004

²⁷³ The license fee was established for mobile network operators of “Voxtel” (“Orange Moldova”) and “Moldcell” in the amount of USD 8 million. At the same time, by Government Decision “On Development of Mobile Cellular Telephone Communication of the GSM Standard” No. 95 (05.02.2003) there was set a “tariff for issuance of third individual license for provision of services of cellular mobile communication in the amount of one million US dollars”. This Decision (No. 95) was adopted in accordance with the recommendations of “Raiffeisen Investment” Company, consultant in issues of privatisation of the national fixed telephony operator “Moldtelecom” JSC, that recommended issuing “Moldtelecom” JSC a license for mobile telephone service before its privatisation.

²⁷⁴ RM Constitutional Court Decision “On Control of Constitutionality of Government Decree No. 782-37 of 8 Jul 2004 “On Regulation of the Situation in the Field of Telecommunication Networks of Moldova”, No. 21, MO No. 168-170/23, 10.09.2004

²⁷⁵ It was planned that on August 5, 2004, an agreement would be signed on interconnection between “Moldtelecom” JSC and the “Interdnestrcom” Company and fixed telephone communication restored.

- strengthening of the monopolistic position of “Moldtelecom” JSC in the communication market of Moldova;
- ensuring communication for the population and economic entities of Moldova and Transdnistria at increased prices: Transdnistria-Moldova – USD 0.12 per minute (international call), Moldova-Transdnistria – USD 0.36 per minute (IP-telephony).

Year 2005 ... – the second “telephone opposition”

*In October 2004,*²⁷⁶ the “Interdnestrcom” Company started testing, and from May 1, 2005 rolled out the commercial operation of an integrated network using CDMA technology in the 800 MHz and 450 MHz range²⁷⁷. Coverage – the whole territory of Transdnistria and the nearest localities of Moldova.

In November 2004, a country Program of telephone penetration for 2005-2010 was confirmed, and it started its operation from January 1, 2005.²⁷⁸ The national operator “Moldtelecom” JSC was appointed as the main executor of the Program. The program stated that the national operator shall use state-of-the-art technologies, such as fixed local radio access including the CDMA (WLL) technology in the 450 MHz frequency range.

In March 2005, the government of Moldova approved the usage of 450 MHz frequency band for CDMA standard mobile telephony services with a licence fee established in the amount of USD 8 million.²⁷⁹

In May, NARTI (ANRCETI) invited applications for an individual license of “Provision of CDMA 2000 mobile cellular network services in the 450 MHz frequency range.”²⁸⁰

June, 10, the “Interdnestrcom” Company showed interest to the announced tender emphasising at the same time its readiness to “register in Chisinau an enterprise to operate in accordance with the legislation of the Republic of Moldova and to get licensed for CDMA standard cellular services”.²⁸¹

On June, 17, NARTI (ANRCETI) cancelled its own decision on holding a competitive tender on the basis of art. 6 paragraph 2 of the Law on Prosecutor’s Office and the protest of the Prosecutor-General of the Republic of Moldova No 24-6d/2005 of 03 Jun 2005.²⁸²

In October 2005, “Moldtelecom” JSC declared its intention to establish and start operation before the end of the year of a fixed CDMA-2000 communication network in the 450 MHz frequency range. According to “Moldtelecom” JSC the start-up of the new service “will not affect the quality of services of the Transdnistrian operator “Interdnestrcom” also working in the CDMA standard. The companies concluded agreements that allowed the operators to operate in their own markets without mutual interference”.²⁸³

The “Interdnestrcom” Company did not agree to the position of Chisinau colleagues stating the following:²⁸⁴

- only one CDMA-450 operator can operate in the limited frequency band and the work of the second operator will lead to mutual interference and absence of communication in both operators. Subscribers of the Causeni, Anenii Noi, Orhei, Criuleni and Rezina regions of the Republic of Moldova will also fall into the zone absence of communication, as well as Chisinau;

²⁷⁶ http://idc.transtelecom.md/about/press/index.php?PAGEN_1=7#nav_start

²⁷⁷ <http://idc.transtelecom.md/about/press/1345.html>

²⁷⁸ RM Government Decision No. 1234 “On Approval of the Programme of Telephone Penetration of the Country for 2005-2010”, MO No. 208, 19.11.2004.

²⁷⁹ RM Government Decision No. 298 “On Use of the 450 MHz Frequency Band for Mobile Telephony Service in the CDMA Standard and Establishment of the License Fee”, MO No. 046, 25.03.2005

²⁸⁰ <http://www.server.md/newsdigest/29.05.2005/>

²⁸¹ Economic review “Logoss-Press”, No. 23 (615), 17.06.2005

²⁸² MO No. 83-85, 17.06.2005

²⁸³ http://www.newsmoldova.ru/news.html?nws_id=483194&date=2005-11-30

²⁸⁴ <http://idc.transtelecom.md/about/press/1351.html>

- “Moldtelecom” JSC is actually declaring a *new “telephone war”*, as no agreements have been signed between mobile operators on common use of limited CDMA-450 frequency resources;
- a claim was filed to the Economic Appeals Chamber of Chisinau on payback of 1 million dollars paid to the budget of the Republic of Moldova in July 2004 for the CDMA standard activity license.

Moldovan experts also supported the position of the Transdnestrian Company confirming that the work of two operators in zones of mutual overlapping is impossible. At the same time, in case of escalation of a conflict, the signal of “Moldtelecom” JSC will be completely blocked in “disputable” territories. The working system of CDMA-800 and CDMA-450 networks of the “Interdnestrcom” Company allows transferring all subscribers to the 800 MHz range in a forced regime and preserve communication.²⁸⁵

On June 14, 2006, a repeated decision was made on the use of the 450 MHz frequency range for CDMA standard mobile telephony services.²⁸⁶

On June, 15, the RM Supreme Chamber of Appeals delivered a judgement to not consider the claim of the Transdnestrian operator “Interdnestrcom” on payback of USD 1 million paid for the license (on April 13, the Economic Appeals Chamber of Chisinau made a similar decision).

On June, 29, through a direct guarantee, “Moldtelecom” JSC received a license for provision of services in the sphere of mobile communication in the CDMA standard with a frequency of 450 MHz.²⁸⁷

In December 2006 the “Interdnestrcom” Company sent lodged a complaint to the European Court of Human Rights regarding non-observance of the right to a fair process and to property protection against the Republic of Moldova.²⁸⁸

The problem of restoration of unity of the telecommunication space is still awaiting its solution...

Costs of the second “telephone opposition”:

- restoration of a full and qualitative telephone communication between Moldova and Transdnestria postponed for an indefinite term;
- decline in the efficiency of investments by the companies of “Moldtelecom” and “Interdnestrcom” in development of CDMA-450 networks;
- ensuring reliable operation of the two CDMA operators requires additional expenses (software, adjustments works, mutual testing of networks etc.);
- slow rates of development of new generation information and communication services due to underdevelopment of the competitive environment (monopolistic position in this market of “Moldtelecom” JSC in Moldova and “Interdnestrcom” Company in Transdnestria) and limited character of investment opportunities of both companies (according to expert estimates, accelerated development of Internet access services may result in an increase in the income of “Moldtelecom” JSC by a minimum of 15-20%);
- disloyal competition in the mobile communication market: the “Orange Moldova” (“Voxtel”) and “Moldcell” operators operate in the market of Transdnestria taking advantage of a de jure common telecommunication space, the Transdnestrian operator can not work in the market of Moldova.
- possible costs of Moldova related to the “Interdnestrcom” Company claim lodged at the European Human Rights Court.²⁸⁹

²⁸⁵ Economic review “Logos-Press”, No. 46 (638), 16.12.2005.

²⁸⁶ RM Government Decision No. 658 “On Use of the 450 MHz Frequency Band for Mobile Telephony Service in the CDMA Standard and Establishment of the License Fee”, MO No. 091, 16.06.2006. This Decision abolished the Government Decision No. 298 (18.03.2005).

²⁸⁷ License No. 020446 issued by the National Agency for Regulation in Telecommunication and Informatics (ANRCETI) 29 Jun 2006, expiry term – 15 years

²⁸⁸ <http://www.moldova.ru/index.php?tabName=themes&owner=40&id>

²⁸⁹ According to experts of a Moldovan Non-Governmental Organisation “Lawyers for Human Rights”, the “Interdnestrcom” Company claim can be sustained.

Advantages of a common telecommunication space and benefits of international cooperation

Building an information society is one of the current development priorities of Moldova. The concept and the key directions of the telecommunication services market development in Moldova are defined by the National Telecommunication Policy²⁹⁰ and substantiated in the National Strategy of Creation of an Information Society,²⁹¹ the Concept on the Electronic Governance²⁹² and the Law on Electronic Communications.²⁹³

In accordance with a WTO requirement, all telecommunication services in Moldova are liberalised (transmission of national data since 1993, transmission of international data since 1998, local fixed voice communication since 2001, internal and international fixed voice communication since 2004) and there are no special or exclusive rights any more. According to the legislation, since the acceptance by ANRCETI of all legally provided regulations, regulation in Moldova will correspond in whole to the EU regulatory and legal framework.²⁹⁴

There is no comprehensive policy in the sphere of telecommunication and information in Transdnistria. A development strategy of this segment of the market is basically defined by the development strategy of the “Interdnestrcom”/“Transtelecom” Company – a monopolistic supplier of the whole complex of information and communication services in the territory of the left bank. Until recently, the activity in the sphere of telecommunications has been regulated by a temporary Provision “On Communication in TMR”²⁹⁵ and a Decree “On Regulation of Certain Kinds of Activity in the Sphere of Information and Telecommunication”.²⁹⁶ The Law on Telecommunication was adopted in July 2008.²⁹⁷ However, the law mainly reflects the existing reality: it does not even incorporate the notion of access (to the market, physical infrastructure etc.). Communication market liberalisation and elimination of monopoly through existing legal acts are not foreseen.

Even today, on both banks of the Nistru/Dniester, there is a common understanding of growing significance of information society created as a result of fast-paced development of information and telecommunication technologies.

The Republic of Moldova is actively participating in the creation and development of regional information spaces in the framework of the Stability Pact for South-East Europe, CIS, and Black Sea Economic Cooperation. The Transdnistrian telecommunication operator also keeps actively developing international contacts and reaches out to external markets.

Clearly, factors such as the developing information society, the development of the telecommunication market of Moldova-Transdnistria, the quality and range of services provided to the population and business and their accessibility, are all interconnected with a (gradual) de-blocking of communication systems.

The main benefits of the restoration of effective commonality of the information and communication space of Moldova-Transdnistria are the following:

- expansion of contacts between the population and business and increasing the “density” of social and business communication;
- increase of investment attractiveness of the telecommunication sector and effectiveness of already existing investments;

²⁹⁰ RM Government Decision No. 975 “On Approval of the National Telecommunication Policy”, MO No. 112, 18.09.2001

²⁹¹ RM Government Decision No. 255 “On the National Strategy of Creation of an Information Society – Electronic Moldova”, MO No. 046, 25.03.2005

²⁹² RM Government Decision No. 733 “On the Electronic Governance”, MO 106-111/799, 14.07.2006

²⁹³ RM Law No. 241 “On Electronic Communications”, MO No. 51-54, 14.03.2008

²⁹⁴ European Bank for Reconstruction and Development: Comparative Assessment of the Telecommunications Sector in the Transition Countries. Analytic Report, p. 45, 49, <http://www.ebrd.com/country/sector/law/telecoms/assess/index.htm>

²⁹⁵ TMR President Decree No. 245 (D), 18.06.1999

²⁹⁶ TMR President Decree No. 598 (CA3 02-40) “On Regulation of Certain Kinds of Activity in the Sphere of Information and Telecommunication”, 03.10.2002

²⁹⁷ TMR Law No. 536 (CA3 08-) “On Telecommunication”, , 29.08.2008

- development of effective competition in the telecommunication market;
- exclusion of expenses related to “force-majeure” situations in the sphere of telecommunication;
- expansion of participation of the private sector in the realisation of socially important projects (marketing centres and electronic commerce to promote goods and services in external markets, telemedicine etc.).

The restoration of an effective commonality of the information and communication space of Moldova-Transdnistria and the realisation of a “world-without-borders-for-telecommunication” approach can become a premise for solving common socioeconomic problems (e.g. improvement of the quality of economic development, attraction of investments and expansion of employment) and can facilitate the growth of attractiveness of Moldova-Transdnistria for its own population.

4. Common problems of economic development of Moldova and Transdnistria and benefits of conflict settlement

Over almost 20 years, Moldovan and Transdnistrian economies have been developing in “autonomous” regimes. There exist different economic systems, which are not connected to each other, such as the budgetary, fiscal, monetary, currency, foreign economic and entrepreneurial activities regulation systems. There are institutions and instruments of economic regulation which function in parallel and not connected to each other. The economic policy is built by each of the parties proceeding exclusively from the development purposes of one of the Nistru/Dniester banks, without regard to the interests of the other bank.

Despite a long-term “parallel” development, the economies of Moldova and Transdnistria have largely the same qualitative characteristics, face the same risks and threats and can be compared from the point of view of socioeconomic results achieved.

The level of economic development of both banks of the Nistru/Dniester is equally low. In 2007, the GDP production per capita amounted to USD 1230 in Moldova and USD 1515 in Transdnistria. These indices are the lowest in the south-eastern region of Europe.

The structure of both economies is marked by poor diversification. Agricultural raw material processing dominates in the Moldovan industry (43%), and in the Transdnistrian case it is the iron industry (47%). In its turn, poor diversification of industrial production generates a problem of export mono-structure.

In Moldovan export, the biggest share belongs to agricultural goods and products resulting from agricultural raw material processing (38%), whereas in Transdnistria export this is products of the iron industry (64%).

Moldova and Transdnistria have chronically negative external trade balances, the size of which is constantly growing. Over the period of 2001 – 2007, the trade balance deficit increased by 7.2 times in Moldova and by 2.5 times in Transdnistria. In 2007, the size of the trade deficit reached 53% of the GDP in Moldova, and in Transdnistria - 50 % of the GDP.

**Basic macroeconomic and development indicators of
Moldova and Transdniestria (data for 2007)**

	Moldova	Transdniestria
<i>Low GDP production level</i>		
GDP per capita, dollars	1230	1515
<i>Poor diversification of economic structure</i>		
Share of predominant sector in industrial production, %	43	47
<i>Poor export diversification</i>		
Share of predominant group of export goods in total export, %	38	64
<i>High deficit of balance of trade</i>		
Deficit of balance of trade in % to the GDP	53	50
<i>Significant territorial unevenness of development</i>		
Share of main cities in capital investments, %	56	68
<i>Low level of labour remuneration</i>		
Average monthly salary, dollars	170	193
<i>Low size of pension</i>		
Monthly average pension (year end), dollars	45	59

Sources: Statistical Yearbook of the Republic of Moldova // RM National Bureau of Statistics, 2008; Statistical Yearbook of the Transdniestrian Moldovan Republic // State Statistical Service of the Ministry of Economy of TMR, Tiraspol, 2004 and authors' calculations.

The development problems of both economies show up not only at the macro level, but also at the level of territories. Moldova-Transdniestria is characterised by significant imbalance in regional development. There are big differences in the level of socioeconomic development of the main cities and other territories. For example, in 2007, the Chisinau municipality concentrated 56% capital investments realised in the territory of Moldova, and 68% of investments made in the territory of Transdniestria are in Tiraspol.

Key indicators of social development of Moldova and Transdniestria differ insignificantly due to similarity of the economies' development. In 2007, the size of average monthly salary on both Nistru/Dniester banks did not reach USD 200 (USD 170 in Moldova and USD 193 in Transdniestria). Average monthly pension comprised, correspondingly, USD 45 in Moldova and USD 59 in Transdniestria.

Low level of GDP production and insufficient diversification of the structure of production and export pose huge risks for sustainable economic development of Moldova-Transdniestria. The risks are quite dangerous because of the ultra-openness of both economies and their high dependence on external relations and markets, from external economic environment and conditions of export and import.

External economic vulnerability of the Moldovan and Transdniestrian economies is redoubled by the conflict nature of bilateral economic relations, which become especially obvious in the periods of escalation of conflicts and causes negative consequences and losses with both parties. In 2006, amidst a wide-spread economic conflict, which affected primarily the sphere of foreign trade and the transport sector, there was a slowing-down of development rates both in Moldova and in Transdniestria. The GDP growth rates, as compared to the previous year, reduced by 1.6 times (from 7.5% to 4.8%) in Moldova and by 1.5 times (from 11.8% to 7.7%) in Transdniestria. There was a decline in the most sensitive sectors. Volumes of industrial production in Moldova went down by 4%, export by 5%. In Transdniestria, production of

industrial products declined by 23%, and export volumes (including supplies to Moldova) – by 33%.

Thus, direct costs of the conflict turned out to be rather large. In fact, the conflict of 2006 prevented the positive dynamics of development of Moldovan and Transdnistrian economies existent through the previous years from being sustained, and largely “redirected” efforts of regulatory authorities of both parties from solution of strategic issues of socioeconomic development to liquidation of the conflict consequences.

The Moldovan and Transdnistrian sides admit the presence of problems in economic relationships, but focus their main efforts on solution of internal issues of socio-economic development. Doing so, the parties are not oriented towards removal of those obvious obstacles that are conditioned by the conflict nature of bilateral economic relations and limit opportunities of successful solution of internal strategic objectives.

At the same time, official estimates of internal fundamental problems of economic development by the parties are basically similar.

The following main problems are marked out in Moldova and Transdnistria – underdeveloped structure of the economy, low competitiveness, high dependence on import of energy resources and conditions of foreign economic policy, deficit of the trade balance, barriers for development of entrepreneurial activity, underdeveloped infrastructure, and the limitation of internal resources of investments.²⁹⁸

However, in programs, forecasts, and plans approved in Moldova and Transdnistria, no estimations are made of the benefits of prevention of the conflict nature, and likewise there are no common approaches to development of different sectors, common economic and infrastructure projects.

The parties do not put forward any tasks related to utilisation of economic interaction and joint development planning potential.

At the same time, both parties recognise that economic conflicts cause negative socio-economic effects and have a negative influence on the internal situation and sustainability of development.

For example, the National Development Strategy of Moldova for 2007-2011 notes that the delaying of conflict resolution poses threat to sustainable socioeconomic development and that “obstacles on the path of free movement of citizens, goods and services, as well administrative prohibitions get in the way of trade development between the Nistru/Dniester banks”. The Energy Strategy of Moldova specifies that “separate operative management of energy system components situated on the right and left Nistru/Dniester banks” is an obstacle for energy sector development. At the same time, these and other strategies of Moldova, as well as Transdnistrian programmes, do not take into consideration the interests of the other party and do not incorporate joint and coordinated activities.

Major benefits of resolving the Transdnistrian conflict and of overcoming the conflicted nature of economic relationships between the parties are related to the strengthening of factors assuring sustainable development, to a more effective use and expansion of the economic development potential for each of the parties and to harnessing common so-called synergistic effects.

The first group of benefits consists of the effects that Moldova-Transdnistria can harvest as a result of termination of economic pressure on each other, that is, as a result of eliminating the existing “conflict zones”. The benefits will show up in liquidation of the costs, which the parties

²⁹⁸ See: National Development Strategy for 2008–2011 (RM Law No. 295, MO No. 18-20, 29.01.2008); Strategies of Attraction of Investment and Export Promotion for 2006-2015 (RM Government Decision No. 1288 MO No. 181-183, 24.11.2006); Strategy of Reforms of the Bases of State Regulation of Entrepreneurial Activity (RM Government Decision No. 104, MO No/ 021, 16.02.2007); TMR Supreme Council Decree “On Approval of the Prognosis for Socioeconomic Development of the Transdnistrian Moldovan Republic for 2009”; Report “On the Socioeconomic Situation of the Transdnistrian Moldovan Republic for 2007”, Ministry of Economy of TMR, 2007.; Prognosis for Socioeconomic Development of the Transdnistrian Moldovan Republic for 2008, Ministry of Economy of TMR, 2007; Report Based on the Results of a Sociological Study on: “Administrative Barriers as Obstacles on the Way of Successful Development of Small and Medium-Sized Business in Transdnistria”, TMR Chamber of Commerce and Industry, Tiraspol. 2008.

had and still have because of already executed “unfriendly” actions against each other in the sphere of transport, communication, trade, taxation, and others.

A detailed analysis of costs caused by opposition of the parties in the spheres of trade, transport, energy industry, communication and business activity regulation, as well as analysis of benefit of overcoming such costs is given in Chapter 3 “Costs of the Post-War Phase of the Conflict and Benefits of Interaction and Cooperation”.

The second group of benefits is related to qualitative improvement of common conditions and expansion of common opportunities for sustaining stable economic growth rates through structural interaction and cooperation, particularly in strategic sectors and directions. In other words, the second group of benefits is “new procurements” as a result of joint actions aimed at solution of basic economic problems, development planning and joint movement towards achievement of strategic goals.

In the second group of benefits, infrastructure, investment, cooperation and benefits for business are the most obvious and at the same time the most significant.

Poor condition of the infrastructure does not allow any of the parties to fully utilise the advantages of their geographic position, communication capacities and to realise the tasks and goals of many directions of economic policy most effectively (achievement of energy security, use of the transit territory potential for active participation in the system of international freight, export and transportation of electricity, development of communications, etc.).

At present, in most cases, the infrastructure does not connect the two Nistru/Dniester banks and the interests of Moldova and Transdnistria, and on the contrary – disconnects and disengages them. At the same time, only technical and managerial infrastructural unity allows the implementing of the most effective projects from the point of view of development of the regional infrastructure system and its inclusion into international systems and networks. The benefits of “fully-fledged” infrastructure strategies and projects, in which infrastructure sectors are represented not in a “disjointed” form, but united, and interests of the parties are balanced, consist of better opportunities for promotion and realisation of infrastructure projects, and attraction of large-scale investments, including external ones. The settlement of bilateral problems in infrastructure sectors and unity in promotion of common interests and projects increases the chances of attracting large-scale investments, including private and foreign investments.

Moldova-Transdnistria does not have sufficient internal sources of investments needed for modernisation of the economies. But the unsettled status of the conflict significantly weakens investment attractiveness. This relates not only to foreign capital, but also to the local capital. Economic conflicts have a certain potential for instability and have a negative impact on the investment attractiveness of both parties. It is wrongful to plan that “one by one”, Moldova and Transdnistria will manage to attract big investments necessary for modernisation of economies and growth of their competitiveness. The conflict situation and the conflict itself are especially negative for attraction of long-term and large scale investments aimed at effects “in future”. The reality is that short-term investments are so far more profitable for business than long-term investments. At the same time, Moldova and Transdnistria need precisely long-term investments, as a first priority. Investment benefits can be gained only given significant reduction of risks related to the image of a “conflict region” and reduction of the risk of insufficient guarantees of investment activity in such a context.

Large benefits can be obtained from a normalisation of conditions for business interaction of both Nistru/Dniester banks. As a result of the conflicted nature of “official” relations, many industrial, cooperative business relations have been lost, which has caused the establishment of different bilateral mutual customs, tax, administrative and other kinds of barriers. Their overcoming turned out to be complex and costly for many businesspeople, which in many cases led business to refuse partnership with the other Nistru/Dniester bank and to switch to cooperation with partners outside Moldova-Transdnistria. The costs of establishment of a new partnership turned out to be lower than those of continuing the cooperation with the business “of

the other bank”. Elimination of barriers, establishment of equal rules for realisation of entrepreneurial activity and conflict settlement will bring doubtless benefits to entrepreneurship. They are related to development and strengthening of horizontal business relations, expansion of opportunities of work within the common internal market, cooperation in promotion of common business projects, formation and realisation of long-term strategies of business development for many economic entities. Special benefits can be gained by small business, which operates primarily in the internal market and has limited opportunities of promotion of its products in the external markets.

A serious structural imbalance of the economies of Moldova (predominance of agricultural production and processing of agricultural raw materials) and Transdnistria (predominance of the iron industry), is a problem which only at first sight seems like a special internal one, which can be and must be solved by each of the parties independently. Overcoming the conflicted nature of relations will allow to somewhat soften this problem by using opportunities of structural “additive complementarities” of the economies. For instance, the benefits of responding to the agricultural products and raw materials deficit in Transdnistria by Moldovan agricultural producers are quite obvious. The benefits of filling the deficit of electricity production in Moldova by Transdnistrian energy producers are also obvious. If obstacles and barriers are eliminated, the business of Moldova-Transdnistria will to some extent level-out certain existing imbalances and will benefit from expansion of its activity.

The main end receiver of the benefits of conflict settlement is the population of both Nistru/Dniester banks. Additional opportunities offered by settlement in the form of economies’ modernisation, attraction of major investments, improvement of the infrastructure, development of business, internal market, trade, etc. will allow the sustaining of economic stability and security more effectively, which means solving social issues more effectively.

Direct economic benefits that can first of all show up in the form of effects received by the “economy as a whole” and by entrepreneurship are in fact direct benefits for the population. Improvement of the infrastructure quality, increase in the number of jobs, growth of budget resources, salary, pensions, social benefits, etc. – eventually, these are the valuable effects and benefits that conflict settlement can and should bring.

Conclusion

After conclusion of the armed phase of the Transdniestrian conflict that resulted in human losses and destruction, the conflicting parties still continue to sustain losses.

First, Moldova-Transdniestria incurs costs related to direct social consequences of the armed conflict (payment of different benefits and expenditures for benefits to participants of the armed activities, invalids and bereaved families).

Secondly, the armed confrontation was replaced by an economic one that has caused significant and non-compensating costs due to the parties' actions infringing upon each other's economic interests.

Numerous conflicts between Chisinau and Tiraspol affected business, trade and infrastructure, in the first instance (transport, energy industry, and communication). These spheres are not only the most vulnerable to conflicts, but also the most "topical spots" in the economy of both countries.

Without due account of such costs and elimination of tension in economic relations of the parties, attempts to solve the Transdniestrian issue appear to be inefficient.

If in 1990's the conflict costs worsened the crisis situation in Moldova and Transdniestria, then in the present time they interfere with sustaining stable economic growth, and reduce its effects, including social ones.

Therefore, it is relevant to channel efforts into consolidation of the economic interests of the two Nistru/Dniester banks and into the development of cooperation between them in the spheres where the costs of confrontation are the greatest.

The benefits of combined actions of infrastructure development, improvement in conditions of trade, business and investment activity are fundamental for economic stability and security not only on the right and left banks of the Nistru / Dniester, but also in South-Eastern Europe as a region.

Information about Project IMPACT

The IMPACT project was developed with the specific aim of strengthening joint work of analytical NGOs and independent expert analysts from the two banks of the river Nistru / Dniester, Russia, Romania and Ukraine. The **goal** of this cooperation was to make a joint analysis of the socioeconomic effects of the protracted political conflict and to develop policy proposals in order to contribute to developing effective strategies and options for transforming the conflict.

In order to meet the main purpose of the project – to constructively influence the political and executive bodies’ decision making and to inform public opinion about the costs of the Moldova-Transdnistria conflict – the activities of the 2007-09 phase of the project included:

- Strengthening networking and mutual understanding of researchers and expert analysts, within a practical regional cooperation framework which included Moldova-Transdnistria, Ukraine, Romania and Russia;
- Capacity building of the Moldova-Transdnistria expert community by sharing and exchange of international experience from similar and related conflict zones and in relevant fields;
- Developing the conflict-sensitive capacity and constructiveness of participating professional socioeconomic researchers and analytical institutions;
- Engaging in practical cross-border expert cooperation, focused on investigating and making visible the economic and social costs of the conflict and benefits of peace in Moldova-Transdnistria;
- Experts across the conflict divide working together on advocating constructive policy alternatives in partnership with mass media.

The Project IMPACT partnership consists of the following organisations:

- Center for Strategic Studies and Reforms (CISR), Chisinau
- Independent Centre for Analytical Research “New Age”, Tiraspol
- PATRIR, Cluj-Napoca, Romania
- Joint Commission for Democratisation and Conciliation (JCDC), Chisinau
- Russian Information Agency New Region – Pridnestrovie Bureau, Tiraspol
- Center for Independent Television Development, Chisinau

Other outputs of the Project from its 2007-2009 phase include:

- Collection of Essays titled “Working together for a prosperous future”, in 3 thematic volumes focused on: Economic Aspects, Social Aspects and the Negotiation Process of the Transdnistrian conflict,
- Documentary Film about the human story of the socioeconomic cost of the conflict in Moldova-Transdnistria, and untold stories of peacebuilding from the last 20 years, titled “Transdnistria: When the Guns Fell Silent”,
- Sociological Report based on a unique opinion poll conducted on both banks of the Nistru / Dniester, focusing on the “Social and economic wellbeing of the population of both banks of the Dniester / Nistru in conditions of frozen conflict”.

For more information, please refer to the website: www.cisr-md.org.