

The importance of EU markets and the Moldovan market has increased for the region due to major disruptions in its trade with Russia. In 2022, as much as 76% of Transnistria's exports was bound for EU member states and Moldova (in 2021 the proportion was 67% and in 2019 65%).¹ Alongside this, in 2022 more than half of its imports hailed from the EU (in 2018 the figure was 31.8%).² A major decline in the significance of the Russian market to the Transnistrian economy has been noted. In 2022, trade between Transnistria and Russia (excluding trade in gas which used to be the main commodity Transnistria imported) contracted by as much as 22% y/y, and Russia's share in the region's exports declined by 6%, down to around \$81.5 mn, and was just 11%.

The outbreak of the war also triggered a radical change in Kyiv's attitude towards Transnistria. It had been ambivalent for years, especially prior to 2014. On the one

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hand, the Ukrainian government refused to recognise the region's independence and consistently supported the view that it should be reintegrated into Moldova. However, it did not seem interested in offering Chişinău any support in this sphere, including political support. For example, its reluctance to set up joint Moldovan-Ukrainian passport control or customs checkpoints on the Ukrainian side of the Transnistrian section of the border can be viewed as one manifestation of this policy. This decision could enable Moldova (which is unable to establish its customs and passport control checkpoints on Transnistrian territory) not only to regain its *de facto* control of a significant portion of its eastern border, but also, for example, to impose tariffs on Transnistria's trade. Meanwhile, the first joint border post, which is located at the main border crossing point linking the villages of Kuchurgan and Pervomaysk, was opened, not without problems, as late as 2017 (that is, 27 years after Transnistria declared its 'independence'). This reluctance to cooperate was mainly due to rampant corruption, as representatives of the Ukrainian administration, especially at the local level in Odesa region, had for years benefitted from the activity of numerous smuggling rings, which formed one of the key sources of income for Transnistria.

As already mentioned, 2022 saw a shift in Kyiv's attitude towards Transnistria. At present, the Ukrainian government view this region as a threat and have repeatedly signalled to Chişinău that, if it agrees, they could assist it in dismantling the self-proclaimed 'republic', including in a forcible manner. In March 2023, Oleksiy Danilov, the secretary of the National Security and Defence Council of Ukraine (NSDC), stated that the separatism problem should be resolved quickly, in a single decisive move.³ On 1 June 2023, at a summit of the European Political Community held in Moldova, President Volodymyr Zelensky announced that Ukraine could help Moldova to resolve the Transnistrian issue. He also stressed that Kyiv would only launch action if it is requested by Chişinău.⁴

...and energy

The most important changes which occurred post-24 February 2022, concern the energy sector. Previously, right-bank Moldova and Transnistria had been closely linked in terms of energy. Russia

¹ 'Приднестровский экспорт в 2022 году сократился на 200 миллионов, долларов', *Новости Приднестровья*, 17 January 2023, novostipmr.com; 'Показатели приднестровского экспорта в 2021 году – рекордные за последние 20 лет', *Новости Приднестровья*, 19 January 2022, novostipmr.com; 'Внешняя торговля Приднестровья в 2019 году, Торгово-промышленная палата Приднестровской Молдавской Республики', Тирасполь, 20 January 2020, tiraspol.ru.

² '67,1% din exporturi și 50,1% din importuri, efectuate de către companiile din regiunea transnistreană au ca destinație statele-membre din Uniunea Europeană', *The government of the Republic of Moldova*, 7 February 2023, gov.md.

³ Ю. Зиненко, 'Данилов назвал ошибочными планы властей Молдовы по решению проблемы Приднестровья', *Гордон*, 20 March 2023, gordonua.com.

⁴ M. Fornusek, 'Zelensky: Military action in Transnistria impossible without Moldova's consent', *Kyiv Independent*, 1 June 2023, kyivindependent.com.

(which at that time had a monopoly on the Moldovan market) supplied gas to both parts of Moldova on the basis of a contract signed by Gazprom and Chişinău. With full dependence on Russian fuel, the Moldovan government was unable to refuse contracts for specific volumes of gas for left-bank Moldova, as this could result in Russia halting the supplies for the rest of the country or refusing to prolong the contract (as part of the Kremlin's retaliatory activities). This, in turn, could strip the Moldovan government of temporary control of gas supplies to Transnistria.

In 2022, Moldova launched efforts to diversify its sources of gas supplies, and at the turn of 2023 it had accumulated more than 300 mcm of gas reserves which it stores in

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underground storage facilities in Ukraine and Romania due to the absence of sufficient storage infrastructure in Moldova. This was in large part possible due to assistance from its Western partners, mainly the EBRD which in June 2022 granted a specific purpose loan to Chişinău of €300 mn. Due to the government's decisions aimed at diversifying the sources of gas supplies and building up gas reserves, in December 2022 right-bank Moldova became independent of Russian gas supplies. Although Gazprom continues to provide gas to Moldova on the basis of a contract it signed with Chişinău at the end of 2021, the entire volume of this gas is sent to Transnistria to meet the region's demand.⁵ It should be noted that as a result of the Moldovan government severing its dependence on Gazprom, they are now able to decide on the volume of gas dispatched to the separatist region, while no longer fearing that Russia may halt the supplies intended for right-bank Moldova.⁶

Chişinău took advantage of the possibility of rationing the volumes of gas forwarded to Transnistria at the end of 2022. This was linked with the actions carried out by Gazprom which, for political reasons, reduced its gas supplies to Moldova (including Transnistria). Initially, this led (in October) to a drop and then (since November) to a complete halt in electricity transmission to right-bank Moldova from the Moldovan GRES (MGRES) power plant located in Transnistria, which is fired with Russian gas. At that time, Tiraspol argued that it needed to reduce electricity generation and was unable to provide electricity to Chişinău-controlled territory. In response to this, Chişinău demanded an increase in electricity supplies in line with the valid contract and, when these calls brought no results, it radically decreased the volume of gas forwarded to Transnistria. This decision resulted in a halt in the operation of Transnistrian heavy industry which, combined with the lack of profits from the sale of electricity and a reduction in earnings from trade in Russian gas on the domestic market, began to generate major losses for the region's budget. Finally, at the beginning of December Chişinău and Tiraspol reached an agreement on resuming electricity supplies to right-bank Moldova. In exchange for this, Transnistria now receives the entire volume of gas provided by Russia and is obliged to pay for this gas.

Following the outbreak of the full-scale war, Moldova's dependence on electricity supplies from Transnistria also decreased. On 16 March 2022, the Moldovan (and the Ukrainian) electricity grids were synchronised with the European system, which enabled Chişinău to import electricity, including from Romania and other EU member states. Although Moldova continues to meet 80% of its demand for electricity using electricity generated at MGRES, this is mainly due to economic reasons, as

⁵ For more on Moldova's dependence on Russian gas supplies and on the situation in Transnistria in this context see K. Calus, 'More independence, less fear. Moldova's perspective on Russia after a year of war in Ukraine', *OSW Commentary*, no. 490, 20 February 2023, osw.waw.pl.

⁶ Although the gas which Russia provides to Transnistria is sent there via Ukrainian territory (Ukraine is a transit state which controls the transmission infrastructure), Chişinău, as the client specified in the contract, is entitled to request the Ukrainian operator to reduce the volume of gas sent to Transnistria.

electricity generated by this power plant is cheaper than that offered by other suppliers, in particular the Romanian and Ukrainian ones. The fact that Moldova is now able to purchase electricity from other sources, even if at a higher price, has stripped Russia (effectively, the Inter RAO company which owns MGRES) of opportunities to blackmail the government in Chişinău that it might halt supplies.

Transnistria's fears

The present situation has posed the biggest threat to the regime of the separatist 'republic' since the end of the so-called Transnistria War in 1992 and has forced the local elites to launch actions to protect themselves from losing all of their political and economic influence. Transnistria's economic model, which has been in place for almost two decades, relies on two pillars whose continued existence has been undermined as a result of the outbreak of the war. The first pillar is the *de facto* free gas the region receives from Gazprom on the basis of a contract signed by Moldova. The other pillar involves unrestricted access to EU markets. Russian gas is re-sold to individual customers and companies from the region at a very low price. Profits earned in this way enable Transnistria to fund its public spending, for example on the pension system. The extremely cheap Russian gas (the price valid for the residents of Transnistria is up to seven times lower than that paid by residents of Moldova proper)⁷ combined with the relatively cheap labour on which local companies rely and the fact that Transnistria has been covered by the agreement on the Deep and Comprehensive Free Trade Area signed by the EU and Moldova back in 2014 all enable Transnistrian companies (especially in sectors such as metallurgy, the production of textiles and alcoholic beverages) to maintain a high level of competitiveness on European markets and to generate profits from exporting their goods.

The Sheriff company has been the main beneficiary of this economic model. This company is managed by Transnistrian oligarchs Viktor

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Gushan and Ilya Kazmaly and controls not only nearly all the profitable sectors of the local economy (including the production of textiles and alcoholic beverages, wholesale trade, the local fuel market and large format retail stores), but has also had a monopoly on the local political scene since 2016. It has fully dominated Transnistria's 'parliament' as, since 2020 as many as 29 out of the 33 'MPs' have been representatives of the Obnovlenie party which is the political arm of this company.⁸ Transnistria's 'president' Vadim Krasnoselsky is also a representative of this party.

The political and business elite which manages Sheriff is concerned about the present situation, in particular the prospect of a halt in the supplies of free Russian gas. This could result in the collapse of the Transnistrian economy because it would equate to a major increase in its budget deficit and would spell a pause in the operation of its industrial sector. For example, the halt in production at the Rîbniţa-based Moldova Steel Works, an extremely energy-intensive steel mill which accounts for around 50% of its exports, would deal it a major blow. In the long term, MGRES would also be unable to operate, and this could not only prevent Transnistria from earning profits on the sale of electricity to right-bank Moldova, but also would pose a threat to its own electricity supplies.

The halt in Russian gas supplies (which is almost inevitable in the context of Ukraine's announced intention to refuse to prolong its gas transit contract with Gazprom)⁹ would force Transnistria to buy gas directly from the Moldovan state-controlled gas trader, that is the Energocom company.

⁷ 'Тарифы на услуги ЖКХ в Приднестровье и соседних странах на начало 2023 года', *Новости Приднестровья*, 14 January 2023, novostipmr.com.

⁸ The remaining four 'MPs' are businessmen directly linked with this holding.

⁹ M. Tsvetkova, 'Ukraine has no plans to talk with Russia on gas transit contract renewal – VOA', *Reuters*, 17 August 2023, reuters.com.

It seems that Sheriff's executives are interested in launching talks with the government in Chişinău in order to prepare for these developments. This would enable the oligarchs who control the region to retain at least a portion of their assets and sources of financial gains.

Although Transnistria has been strongly influenced by the Kremlin and its army and internal security bodies are supervised or actually directly managed by the Russian services, Sheriff continues to be relatively independent of the Russian leadership and its business interests are often in conflict with Moscow's interests. While the Kremlin opposes Tiraspol's growing dependence on Chişinău, it *de facto* has no instruments at its disposal, aside from gas supplies, to stop this process. Should transit gas supplies via Ukraine be halted, Russia will effectively be unable to continue to provide gas to the region. Alongside this, it does not have any effective instruments with which it could put pressure on the Moldovan government or to intimidate it. At present, the use of force is out of the question because Russia is unable even to rotate its troops in Transnistria. The deployment of troops by air would require flights over Ukraine or Romania. The situation may change, should the Russian army take Odesa. However, at present this scenario is very unlikely.

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Chişinău's hesitation

The Moldovan government is now in an unprecedentedly favourable situation vis-à-vis Transnistria. Not only have they obtained new instruments of pressure targeting Tiraspol, but they have also severed most of the former dependencies which had enabled Russia to blackmail Chişinău and prevented Moldova from launching actions to force the separatists to cooperate.

Taking advantage of these circumstances, in August 2023, for the first time in Moldova's history, the government imposed a requirement on Transnistrian companies to pay a fee for performing customs procedures (companies operating in the region are exempt from paying tariffs to the Moldovan budget). Although these fees are very small, as they amount to 0.4% of the customs value of the imported goods (no more than €1,800) and 0.1% of the exported goods (up to €500), the decision itself has symbolic significance.¹⁰ In November, Chişinău also announced its intention to strip the Transnistrian companies of some tax reliefs, including an exemption from fees for polluting the environment. Moreover, in October 2023 the governments of Ukraine and Moldova announced the launch of a new grain corridor running through Transnistria to the Moldovan Port of Giurgiuleşti and to Romanian ports. Forcing Tiraspol to consent to this (which would effectively equate to obtaining tacit approval from Moscow) would have been much more difficult, if not impossible, if Chişinău and Kyiv had a less favourable negotiating position.

Despite the beneficial strategic circumstances, it seems that the Moldovan government is not paying particular attention to devising a feasible and comprehensive plan for the country's reintegration and that it generally downplays the Transnistrian issue. In addition, for several months it has consistently argued that resolving the problem of left-bank separatism is not among the conditions for Moldova's accession to the EU. This argumentation has received backing from EU officials and is mainly intended to demonstrate to Moscow, which has long viewed the region as an 'anchor' preventing Moldova's integration with the EU, that Chişinău does not intend to reach any agreement with the Kremlin in this respect if it comes at the cost of European integration. However, there is no doubt that these arguments are simply convenient for the authorities in Chişinău.

¹⁰ A. Borodaev, 'Экономических агентов из приднестровского региона обяжали платить налоги за проведение таможенных процедур', TV8, 10 August 2023, tv8.md.

There are several reasons behind this lack of interest in resolving the Transnistrian issue and the reluctance to take advantage of the favourable international situation to do so. The first reason involves Transnistria's minor importance to Moldovan society. In September 2023, a mere 1.9% of the residents of right-bank Moldova believed that the problem of separatism should be the primary issue that needs resolving. Alongside this, 6.5% of the respondents view it as an issue of secondary importance and 5.9% as even less significant. The respondents attached considerably greater importance to economic development, an increase in living standards and the fight against corruption.¹¹ Therefore, the Moldovan authorities prefer to focus on issues which the electorate views as important, all the more so because a decline in the level of support for the rule of the Party of Action and Solidarity (PAS) has recently been noted. In 2021, this party won an absolute majority in parliament, while at present its approval rating is just 23.8% (the pro-Russian parties such as the Party of Socialists and the Chance party could jointly win around 25% of the vote).¹²

Another reason behind Chişinău's reluctance to become involved in dismantling Transnistrian separatism is the weakness of the Moldovan administration. Since

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taking power (in August 2021), the PAS government has focused on implementing a comprehensive state reform programme, improving public administration institutions and enhancing their effectiveness. Consecutive governments and the political and business groups linked with them have for years used these institutions to protect their own interests, fight with their adversaries and benefit from corruption. In this context, the reform of the judiciary (covering the system of courts, public prosecutor's offices and anti-corruption bodies) is of key importance. Moldova, which gained the EU candidate status in June 2023 and will most likely soon launch its accession talks, has devoted a major portion of its administrative capacity to adapting its law to the EU legislation. This process is highly time-consuming and labour-intensive for the institutions involved in it. Due to the limited number of civil servants, this is forcing the Moldovan authorities to ignore the remaining problems to some degree.

It also seems that the pro-Western government is afraid of the challenges posed by the potential reintegration. It believes that this process, given the present financial and institutional difficulties, could trigger serious internal destabilisation.¹³ Should Transnistria, which is inhabited by around 300,000 individuals (around 13% of the population of right-bank Moldova), be indeed annexed to the rest of the country, this would mainly mean the state budget would bear a significant cost. Since around 50% of Transnistria's residents are pensioners, including them in the Moldovan social welfare system would pose a major challenge to public finances (as a consequence, the number of Moldovan pensioners would increase by around 25%).

Another serious problem involves the law enforcement bodies operating in Transnistria, that is the militia, the military, secret services etc., whose personnel can be counted in the thousands. Incorporating them into the Moldovan state structures seems effectively impossible. At the same time, mass redundancies could pose a significant threat to the state's security and could result in a surge in the crime rate. Another important challenge involves the above mentioned Russian military contingent which would be required to leave the region, should reintegration occur. However, this involves up to around 200 individuals (mainly officers), as other soldiers serving in the so-called Russian peace-keeping force are Transnistrians who have been granted Russian citizenship.

¹¹ *Barometrul de Opinie Publică – August 2023*, Institutul de Politici Publice, August 2023, ipp.md.

¹² 'Sondaj: PAS ar obține cele mai multe voturi, dacă duminică ar avea loc alegeri parlamentare', 2 November 2023, jurnal.md.

¹³ 'Что говорит Владимир Сокор о реинтеграции Молдовы', 10 October 2023, noi.md.

Finally, another factor which discourages the government from taking genuine steps to reunite the country involves a concern that the structure of Moldovan electorate would radically change as a result of reintegration. Residents of the left-bank region mainly have pro-Russian views. Although almost all of the region's residents, that is around 300,000 individuals, are Moldovan citizens and are entitled to vote in elections held in Moldova, a very small number of them decides to do so (for example, around 30,000 Transnistrians took part in the 2020 presidential election). However, following Transnistria's incorporation into right-bank Moldova it is likely they would become more active, which in turn could have a negative effect on the level of support for pro-Western parties in a reunited Moldova.

Outlook

By refraining from resolving the Transnistrian conflict, the Moldovan government risks losing an opportunity which has emerged in the present international situation to regain at least partial control of the region. The Western partners are willing to offer political, organisational and financial support to Chişinău to carry out a genuine and peaceful reintegration of the country. However, in exchange for this they expect Chişinău to demonstrate the political will to assume responsibility for this process, including to devise a specific plan and a cost estimate, and to identify the potential obstacles and threats.

By refusing to pay sufficient attention to the problem of Transnistria, the Moldovan leaders have exposed the country to a serious structural crisis which could emerge in the event of a 'forced reintegration'. This scenario could materialise, should gas supplies to Transnistria be halted (this may happen either as a result of the Russian-Ukrainian gas transit contract expiring in 2025 or in the event of the potential damage of infrastructure due to ongoing military activity or Moscow's deliberate decision to curb the supplied volume of gas) and the region's economy collapse. To prevent a humanitarian disaster, in particular if the aforementioned developments occur in winter, over around two weeks Moldova would need to provide assistance to Transnistria, make sure that it receives (most likely limited) gas supplies, and in the longer term, to launch the process of incorporating it into the Moldovan body politic, to carry out comprehensive reforms of its economy and to resolve its political and security-related problems.