

MOLDOVA



**CENTER
FOR STRATEGIC STUDIES
AND REFORMS (CISR)**

Moldova's and Transnistria's Economies: from Conflict to Prospects of Peaceful Development.

**Foreign Trade: the source of growth and
contradictions**

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Introduction

The problem. Being small open economies, Moldova and Transnistria both are quite sensitive to safe foreign-economic activities. Therefore, the opportunities to diversify and expand the external trade, as well as to attract foreign investment, depend on the involvement of the country’s infrastructure (transportation, power production, telecommunications, etc.) in the relevant regional systems.

Such involvement is obstructed by internal division of the infrastructure and its poor quality. The actual separation of a formerly common economy into two “independently” functioning systems, has not been favouring to maintenance and development of the common infrastructure. After over 15 years of insufficient funding and improper maintenance of the infrastructure, it is difficult for Moldova to benefit from its advantageous position being region of transit.

Upgrading of Moldova’s internal communications to the level of European standards is rather a costly exercise to be undertaken by the country alone, whereas potential investors are scared off by high risks due to a frozen conflict.

Undue consideration of this issue, delays in the re-unification and upgrading of the infrastructure - while the efforts of neighbouring countries (Ukraine and Romania) are very active - may deepen Moldova’s provinciality and weaken the competitiveness of its economy.

The subject of this research is to provide analysis and assessment of new processes, recent challenges and decisions (in 2000 through 2006) that had influenced the exacerbation of Moldova-Transnistria economic relations i.e., instable export and import regulations for the region’s enterprises (the so-called “economic blockade”), “autonomism” of the region’s infrastructure and also the effect thereof on the development of foreign trade of Moldova and Transnistria.

The research consists of four parts i.e., 1) analysis of foreign trade evolution and structure; 2) industrial infrastructure as the basis for economic development; 3) new developments in the movement of goods in the Transnistria zone, normalization of customs regime; and 4) the intellectual property issue.

The data of the National Bank of Moldova, Republican Bank of Transnistria, the National Bureau of Statistics of the Republic of Moldova and the Statistics Service of Transnistria, the Chambers of Commerce of the Republic of Moldova and Transnistria were used in the preparation of the report.

Foreign trade: evolution and structure

Characteristically, Transnistria’s economy relies heavily on both exports (as the main source for building the foreign currency reserve) and imports (the region practically lacks own raw materials, energy, other material and technical resources). These factors also account for the excessive openness (in comparison with the partner-countries) of the region’s economy (*see table 1*).

Table 1

Moldova and Transnistria: index of economic openness

(foreign trade turnover ratio to GDP, %)

	1996	2000	2001	2002	2003	2004	2005	2006
Transnistria	161.1	393.0	359.7	278.8	334.4	308.8	277.4	198.2
Moldova	110.2	96.9	98.1	101.2	110.7	106.0	116.7	111.6
Russia	30.7	52.7	46.3	44.3	44.2	43.7	44.6	38.0
Ukraine	71.8	91.3	84.3	82.4	91.9	95.0	84.9	81.1

The region’s uncertain status and, therefore the difficulties in gaining full and equal participation in foreign economic relations, account for the vulnerability of foreign trade for external shocks and its dependence on the external situation.

Transnistria’s exports and imports are not stable from one year to another; however, the region’s foreign trade turnover registers a stable growth and has almost tripled in the last decade. Noteworthy, in 1996-1997 Transnistria registered a *positive trade balance*, equal to about USD 90 million. The trend failed to carry on; and now the imports stably exceed exports i.e., by USD 140 million in 2000, by USD 276 million in 2005 and by USD 316 million in 2006.

In the attempt to adjust to frequently changing rules of reaching external markets, Transnistria tries to strengthen its foreign trade by diversification of export and import partners, though mostly punctual and unsustainable. Thus, in 2005 foreign trade was done with almost 100 countries (versus slightly more than 70 countries in 2000).

Table 2

Evolution of Transnistria’s foreign trade (1995-2005)

(without the Republic of Moldova)

	USD million						
	1995	2000	2001	2002	2003	2004	2005
External trade turnover	743.7	703.9	768.8	607.4	931.7	1207.9	1300.7
Export	409.2	291.8	285.1	186.9	354	462.2	520.3
<i>of which:</i>							
<i>CIS countries</i>	325.8	93.0	90.9	57.2	107.0	156.7	249.0
<i>Rest of the world</i>	83.4	198.8	194.2	129.7	247.0	305.5	271.3
Import	334.5	412.1	483.7	420.5	577.7	745.7	780.4
<i>of which:</i>							
<i>CIS countries</i>	287.2	202.6	266.8	246.7	371.6	489.6	467.1
<i>Rest of the world</i>	47.3	209.5	216.9	173.8	206.1	256.1	313.3
Trade balance	74.7	-120.3	-198.6	-233.6	-223.7	-283.5	-260.1

Source: Statistical yearbook of TMR for 1990, 1995-1999, Tiraspol, 1998;

Statistical yearbook of TMR for 2005, Tiraspol, 2006.

The export structure is mainly limited to four groups of goods i.e., ferrous metals, textiles, electric energy, machinery and equipment that account for 85-90% of the total exports (*see Annex, table 3*). The domestic market is in general rather thin with

practically no demand for ferrous metal while the latter is the major industrial product of the region.

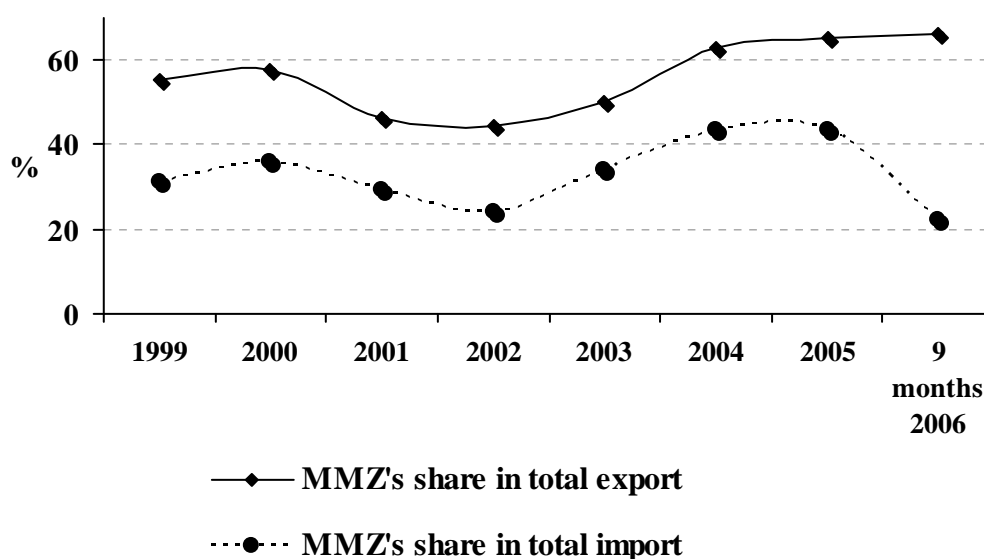
Box1

«Moldovan Metallurgical Works» («MMZ»)

- the fifth largest steel mini-works in Europe (producing over 1 million tons of quality electric steel and over 900 million tons of ready rolled steel a year);
- one of the main source of budget revenues for Transnistria;
- the only metallurgical works in the territory of Moldova.

Figure 1

The importance of the «MMZ» for the Transnistria region



The reasons for major attention to this enterprise in and out of Transnistria, i.e. Russia, Ukraine, Moldova) are obvious.

- For Transnistria the MMZ’s performance largely determines the outcome of the macroeconomic indicators i.e., industrial output, exports, budget revenues, etc. (see figure 1);
- “Metalinvest” - a Russia holding - manages the MMZ assets and owns a part of its shares; therefore, the Russia party is interested in the works’ efficient and smooth operation. Since 2003 a special check-point, Suzemki, for the importation of scrape metal to the MMZ has been in operation, while Russia has been the main consumer of the works’ products of late.
- HARES Group Holding GmbH, an Austria-Ukraine Company, is also the MMZ shareholder. However, for Ukrainian steel producers (e.g. OAO «Mittal Steel – Krivoy Rog») the MMZ is primarily an important competitor at international markets, European among others. The likely reason behind removing waste and scrape ferrous metals from items of free trade with Moldova in June 2006 must be the wish to neutralize the competitor; in recent years Moldova has become the second largest (after Turkey) consumer of Ukraine’s scrape metal (due to convenient geographical position and absence of export duty - 30 Euro per ton). And unlike for Ukraine’s steel, there is no quota for the export of Moldovan steel to the EU market.

- Moldova’s attitude to the MMZ is rather contradictory. While relations with Transnistria are not settled Moldova cannot support the MMZ. A good example is the dumping issue of the MMZ in the USA (2001); the MMZ had to change markets because of it. Presumably the US found it rather difficult to prove any damage to the US metallurgy given the huge capacity of the US market and the small steel imports from Moldova. Later, upon Moldova’s inquiry, a double verification procedure for export of metal to the EU countries was introduced (in 2004). In 2006, the request to extend the procedure was not supported by the European Commission. One has to admit that Moldova’s and the EU’s doubts about the cleanness of exports to Europe are not without grounds. Even the management of the MMZ considers that a metallurgical works “for normal operation would need a round-the-clock customs post. However, the enterprise’s position is determined by the government’s position and the issue ceases to be economic and becomes political”.¹

Import – having a much more diverse structure both by geography and goods – consists of five main groups i.e., scrape ferrous metal, inputs for textile industry, gas and petroleum products, machinery and equipment, foodstuffs. The share of these goods in total imports is 70-85%.

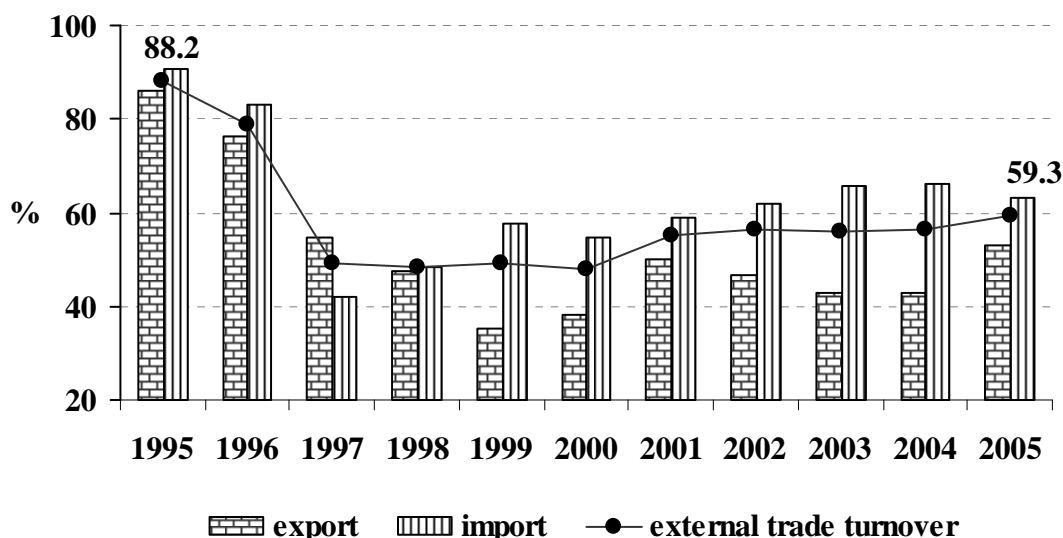
With ongoing difficulties and almost 20% foreign trade reduction in 2006 (exports reduced by of 27% and imports decreased by 14%), the shipment of machinery and equipment to Transnistria went up by over 25%.

Relations with the CIS: evolution and structure

Transnistria’s economy has been traditionally oriented towards the CIS countries and their share in the foreign trade is stably high (*see figure 2*).

Figure 2

Evolution of external trade: Transnistria and CIS countries



Transnistria is far from using the CIS market potential to the full while it has stable relations with as few as five countries i.e., Russia, Ukraine, Belarus, Kazakhstan and

¹ Information agency „Noviy region”, 14.04.2006

Uzbekistan. Transnistria exports machinery, equipment, foodstuffs and spirits to the CIS markets. Major inflows of goods from the CIS are ferrous scrape metal, petroleum products and some production equipment.

The leading trade partners are stably Russia and Ukraine, which account for over 90% of all foreign trade with the CIS; however, their importance for Transnistrian region is manifested differently.

Russia is the first and the most reliable partner of Transnistria. It is the Russia market, business and others that come to the rescue of Transnistria's economy in difficult situations. In regular situations Russia is primarily a major donor (of energy resources, investment, etc.) for Transnistrian region and a consumer of its goods. When in 2005 European markets were practically closed for export of metal from Transnistria the metal was exported to Russia. Today Russia also provides economic assistance to the region. (According to the estimates by Transnistrian experts, under the tough rules of the «new» customs regime the region could survive *independently 2 or 3 months at most*).

Ukraine takes a different and less consistent position. The inconsistency is largely accounted for by the common border and traditional business relations between the bordering regions and Transnistria. Ukraine is a partner, which is primarily concerned with its import to Transnistria, while the latter accounts for over 1/3 of foreign shipments of goods to the region. The share of exports from Transnistria to Ukraine is very small: on average it is about 10% of the region's exports to the CIS (or 2-4% of the region's total exports). Having established in Transnistrian market Ukraine takes its time and does not increase imports from the region; moreover Ukraine has excluded sugar and scrape ferrous metal from items of the free trade.

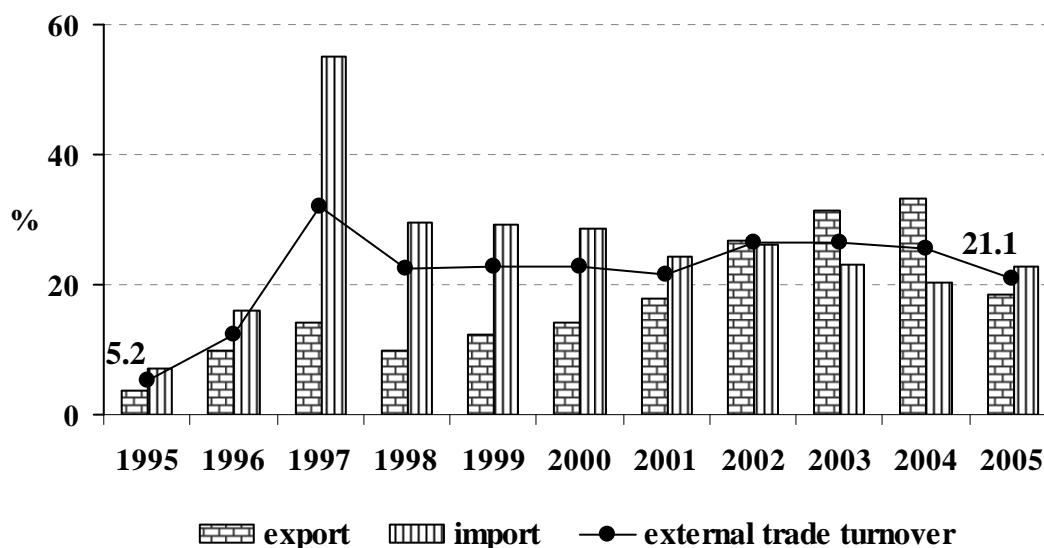
Trade with EU countries

The evolution of external, especially in recent years, demonstrates a significant breakthrough by Transnistria in the trade with the other countries of the world. Noteworthy, it is to markets outside the CIS (the years of 2005-2006 are an exception) that ferrous metal, the major product of the region, is exported. Till 2001 the USA and Canada had been the major markets. And after those had been closed, EU and accession countries became the major markets. Among the latter Romania takes a special place goes since it is the region's long-standing and reliable partner.

Trade relations with EU countries have registered a stable development since 2002 (*see figure 3*). In addition to having been - until recently - a major market for ferrous metal, there are long-standing and rather strong cooperation relations with textile and shoe industry enterprises, primarily with partners in Italy and Germany.

Figure 3

Evolution of external trade: Transnistria and EU countries



These traditional relations, by and large, endured the ordeal of the «new» customs regime. In January through June 2006 (the period of the left-bank businesses’ adjusting to the new rules of foreign trade) the exports of Transnistria’s textiles and shoe wear to the EU markets remained the same while imports from EU countries reduced slightly. It was due to the retaining of traditional, mainly European markets, by the light industry enterprises in the first quarter of 2006 that partly made up for considerable reduction of exports of metal.

Exchange of goods between Transnistria and Moldova

Trade and economic relations between Transnistria and Moldova call for a special analysis. They are far from being transparent and are maintained largely in spite of restrictions and sanctions imposed unilaterally, which does not exclude violation of legal rules. Importantly, the relations are viable due to the *on-going mutual interests* of businesses that operate on the both banks of the Dniester River.

The share Transnistria’s trade with Moldova, subject to various administrative barriers put in place, varied from 7 to 18% in the region’s total foreign trade (*see table 3*).

Table 3

Exchange of goods between Transnistria and Moldova

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
External trade turnover	119.9	136.6	169.1	93.4	80.4	150.6	90.4	100.1	85.5	134.6
<i>export to Moldova</i>	80.8	111.2	80.3	33.3	30.6	105.1	56.5	78.2	72.9	59.4
<i>import to Moldova</i>	39.1	25.4	88.8	60.1	49.8	45.5	33.9	21.9	12.6	75.2
Trade balance	41.7	85.8	-8.5	26.8	19.2	59.6	22.6	56.3	60.3	-15.8

Source: Statistical yearbook of TMR for 1990, 1995-199, Tiraspol, 1998;
Statistical yearbook of TMR for 2005, Tiraspol, 200.6

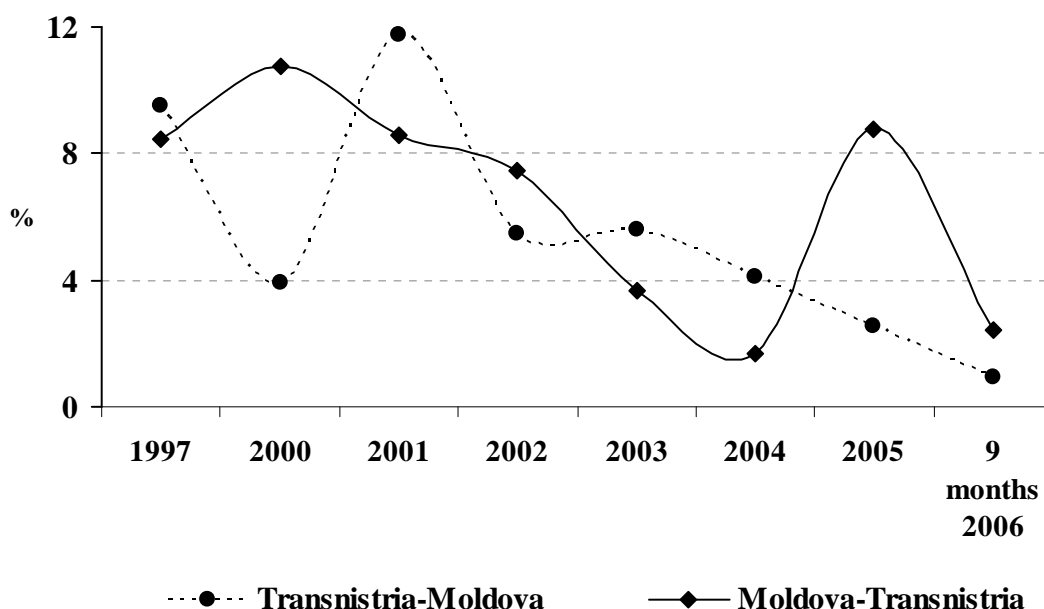
A hike in the exports from Transnistria to Moldova in 2001 was due to normalization of the two parties’ relations with regard to energy supply when a five year contract with “Union Fenosa” Company was made. In the same year, exports from Moldova to Transnistria halved due to withdrawal of the delegated customs authority by Moldova.

Undoubtedly, mutually promoted trade instability - among others non-fitment of infrastructure (transport, communications, gas and electricity supply) – has had a considerable effect on intensity and size of exports of goods and services within the country (Moldova).

However, the importance of Moldova as a market for and its share in the export of Transnistrian goods remain stably high. With rare exceptions flows of goods from Transnistria to Moldova are larger than those from Moldova to Transnistria. And Transnistria-Moldova trade is more successful compared with Moldova-Transnistria one (see figure 4).

Figure 4

Success of mutual trade of Moldova and Transnistria



The success of trade is calculated as a ratio of exports to Transnistria (Moldova) to total imports of Moldova (Transnistria).

Source: Statistical yearbook of TMR for 1990, 1995-199, Tiraspol, 1998;

Statistical yearbook of TMR for 2005, Tiraspol, 2006

National Bureau of Statistics of the Republic of Moldova

In spite of only relative reliability of the existing information on Moldo-Moldovan trade we can say that the effect of unilateral restrictive and prohibitive measures has been reverse in each of the two regions. The effect for Transnistria was contraction of access to third countries’ markets. While Moldova’s market remained open, and it was here that 50% of Transnistria brandies and wine came after Russia market had been closed. Whereas Moldova - expanding its foreign trade – lost Transnistria market, having left it to mainly Ukrainian goods. However, strange as it may seem the market is worth competing for.

As long as the parties communicate in the language of protests, declarations and statements the economy cannot but repose.

A priority in economic development of Moldova and Transnistria is creating conditions for more intense foreign trade. Unfortunately, *although advantages that can be gained by intra-Moldovan production cooperation of engineering, furniture, food and light industry enterprises and their joint presence at foreign markets, possibilities of creating new free-enterprise zones (in Ribnita, Tiraspol and Bender), attraction of investors, joint participation in regional projects for South-Eastern Europe are obvious, there are no concrete actions of restoration of the country's common economic space. Importantly, new advantages that can be provided by the facility of autonomous trade with the EU in the near future can realistically be fully used only as long as intra-Moldovan compromise is reached.*

Production infrastructure: the basis of economy

Production infrastructure and also the condition, technical and organizational level thereof are known to be the key factor driving economic activity, business initiative in creation of new jobs and conditions for normal life and activity of people. Production infrastructure is a measure of both the level of economic development and economy's capacity to absorb new investment, production and technologies.

Due to its geographical position and historical experience the *entire* Moldova has a major competitive advantage of being a transit territory. However, as long as the economic space remains non-unified and the infrastructure is separated, undeveloped and used as a political argument, there is an obstacle for economic development of the territories on the both banks of the Dniester, and advantages of a transit territory are more often that not, nullified.

Although settlement and land use rates in Moldova are high (with population density of 120 people per square m and almost 90% of land being in economic use) the availability of the necessary infrastructure is largely not in line with the international standards.

The current industrial infrastructure had been set up in 1970 and 80-s as a uniform system to serve *the whole of* the country and provide communication with both the other republics (now FSU) and foreign countries. After the disintegration of the USSR Moldova's and Transnistria's economies developed separately, hence the different legal rules and mechanisms for regulating various sectors of infrastructure; this was not conducive of favourable environment for mutual and foreign trade. Delayed development of infrastructure is mainly due to its autonomous status and shortage of financial resources when only local, non-integrated projects i.e., gas supply program, motor roads rehabilitation, construction of mobile phone transponder network and others are implemented.

Given the developments and decisions of recent years (2000 through 2006) manifested by the aggravation of Moldova-Transnistria relations, one can presume *that both trade and economic growth will be promoted, mutual trust will be re-established and real economic re-integration will take place as soon as compromise with regard to the industrial infrastructure is achieved.*

Although infrastructure of each sector (energy, transport and telecommunications) has its own specifics there are two common problems i.e., (i) insufficient *level of development* (according to European standards) and hence an urgent need for upgrading, and (ii) *divided* infrastructure, which reduces both opportunities of efficient use and attractiveness for investment.

Estimating the situation one should take into account a series of circumstances. Beginning from 1996 Moldova disposes *de jure* of a common (for Moldova and Transnistria) organization that transports and delivers gas – at first Gazsnabtranzit SA, later – Moldovagaz SA. It is a unified economic organism and a juridical person. At the same time, *de facto*, taking into consideration Moldova’s territorial partition and different tax, budget, price and currency systems existing in two subregions, as well as that there are no budget relations between them, annual contracts with RAO Gazprom on natural gas supply to the Republic of Moldova stipulated volume indicators for Moldova (the right bank) and Transnistria separately. Besides RAO Gazprom, founders of Moldovagaz SA were Moldova’s Government and administration of Transnistria separately, each of them disposing of a respective share holding.

Import and transit of natural gas

Energetic complex utilizing natural gas, with the gas-mains run along both banks of the Dniester River, is managed by the Moldovan-Russian joint venture “Moldovagaz” SA. Since 1996 Moldova disposes *de jure* of a common (for Moldova and Transnistria) organization that transports and delivers gas – at first “Gazsnabtranzit” SA, later (1999) – “Moldovagaz” SA. It is a unified economic organism with a legal person status. Besides RAO “Gazprom”, founders of “Moldovagaz” SA were Moldova’s Government and administration of Transnistria separately, each of them disposing of a respective share holding.

Natural gas for *whole* Moldova is both one of the main products imported to the country and the key item its energy balance.

The signing of the Memorandum between the Republic of Moldova and the Russian Federation on cooperation in the gas sector and of the Agreement on supply of Russia’s natural gas to the Republic of Moldova and its transit through the territory of the Republic of Moldova² in 2001 put an end the period of non-transparency in the parties’ relations with regard to the strategically important product for Moldova and Transnistria. *First*, the price (USD 80 per 1 000 m³) for supplied gas was fixed for a three-year period (2002-2004), as well as the payment scheme i.e., pecuniary component of USD 60, payment of USD 20 postponed for 3 years with further rescheduling as “Moldovagaz” SA debt to OAO “Gazprom”. *Second*, auditing of a total historic debt of the “Moldovagaz” SA (separately for each region) was made. *Third*, the debt belonging to the “Moldovagaz” SA for supplied gas was fixed (as of 01.10. 2001), as well as timelines (till 2011) and a scheme of repayment (by equal semi-annual instalments) were established. The debt is repaid by ordinary «Moldovagaz” SA notes with fixed redemption dates; while obligations under these notes are regulated by the Uniform law on bill of exchange and promissory notes passed in accordance with Geneva Convention of 1930. The historic gas debt of

² The Agreement had been in force till December 31, 2006.

Transnistria region is still frozen.³ *Fourth*, the volume of both gas supply and consumption began to be identified on an annual basis *separately* for Moldova and Transnistria.

De facto, “Tiraspoltransgas”, a daughter company of “Moldova-gas” SA in Transnistria identifies gas demand, documents the limits of gas consumption and records gas use in the region, as well as makes direct settlements – by-passing Moldova - with gas suppliers while profits are distributed without coordination with the other founders of the joint venture.

Transnistria has been accumulating arrears of payments for the supplied Russia’s gas since 1993. As of now, the amount of debt for gas (including penalties) is over USD 1.3 billion (which is *three times* as much as its annual GDP or almost *ten times* as much as the region’s annual budget).

The main *causes* of accumulating arrears are as follows.

1. *The government tariff policy* supported enterprises and households in the context of low paying capacity (in 1990-s the tariffs were extremely low; however, in 2007 when the price for Russia gas is USD 170 per 1 000 m³ gas is supplied to enterprises at USD 97 per 1000 m³ while preferential price for pensioners is USD 44 per 1 000 m³).⁴
2. *Non-payment for gas consumption* both by budget entities and enterprises (agricultural enterprises and heat producers are main defaulters), most of them being, in fact, bankrupt.
3. *Inefficient management of gas payments* to Russian gas suppliers (according to local experts, no money is paid into “Gazprom” accounts by Transnistria at all).⁵

Since 2004 Moldova has being fully current on payment for gas supply. Whereas in Transnistria there is persistent difficulty with payment for the gas consumed by the region although purchasing and selling prices have been converged and a special gas account has been opened with the Republican Bank of Transnistria. Moreover, the region’s gas debt is expected to increase by another USD 135-150 million in 2007.⁶

Since 2003 (when privatization in Transnistria became rather active) Russia gas supplier has been making attempts to collect the historic debt, prevent accumulation of new arrears and restructure the debt. Initially an option of re-paying part of the debt with the shares of Transnistria enterprises was not excluded. At that point of time Russia took interest in *14 large industrial enterprises*, Moldavian state regional power station («Moldavskaya GRES»), «Tirotex», «Kvint», Tiraspol metal ware and metal lithograph plants among others.⁷ The following plan was contemplated i.e., to set up joint ventures, and a part of the joint-ventures’ profits was to be transferred to repay the gas debt. However, none of the projects has been implemented for various reasons.

³ Decree No. 140 “On fixing the arrears of payments for gas, electricity and heat, water consumption and sewage by organizations, budget institutions, organizations of local and republican jurisdiction which provide such community services to the population” dated 03.05.2000.

⁴ Information agency „Noviy region”, 21.03.2007

⁵ Information agency „Noviy region”, 21.02.2007

⁶ Information agency „Lenta PMR”, 14.03.2007

⁷ Information agency „Olivia-press”, 22.05.2003

Official position of “Gazprom” with regard to Transnistria gas debt has changed i.e., A. Ryazanov (deputy chairman of OAO “Gazprom” Board of Administration and chairman of Russia-Moldova company “Moldovagaz” SA Supervisory Board) said that if the members of Russia State Duma, while recommending that the prices for natural gas should be raised for all the CIS countries, want to leave unchanged gas prices for Transnistria they should provide for (Russian Federation?) budget subsidies to the population of that region.⁸ However, the Transnistria administration alleges that repayment of gas debt poses no problem, since while the prices are not preferential (as well as for Moldova) there are privileges in the method of settlement.⁹

Noteworthy both Moldova and Transnistria make active attempts to stir up “Gazprom” interest with various investment projects. Thus, the government of Moldova proposed to “Gazprom” to take part in energy sector projects for building up power generating capacity of the two thermal power stations in Chisinau (which are the largest gas consumers and debtors)¹⁰. However, according to “Gazprom”, the energy sector enterprises – responsible for about 80% of the gas debt by the right-bank Moldova – are on the verge of bankruptcy and it is not known what should be done with them. In May 2006, a possibility of OAO “Gazprom” taking part in the *acquisition* of gas sector enterprises of Transnistria was discussed in Tiraspol. Noteworthy, the government of Moldova in principle gave its consent to “Gazprom” *purchasing* 13.4% of “Moldovagaz” SA shares belonging to Transnistria, however, the assessment of the package value has not been done yet. According to the Transnistria administration, the gas transportation system of the region has already *been passed on* to “Gazprom”.¹¹

So far, the situation with gas supplies to Transnistria is not clear. It is only known that the signing of a direct contract with “Gazprom” is being negotiated. After the procedure of redemption of stock from the Transnistria administration is over “Tiraspoltransgas-Pridnestrovie” will be responsible for the gas debt by the region.

As early as at the beginning of 2005, Transnistria *declared its intention* to initiate entering into a direct contract with “Gazprom” (reaching a special price compromise). The first step in this direction was the creation of the “autonomous” gas facility of Transnistria.

In March 2005, “Moldovagaz” SA was informed of Transnistria disaffiliating with the «Moldovagaz” SA shareholders and “of setting up a joint-stock company building on the assets, which had been transferred by the Pridnestrovskaya Moldovskaya Respublica by way of contribution to the “Moldovagaz” SA share capital”.¹² According to the same document, a part of the shares of the new joint-stock company shall be securely transferred to “Gazprom” under the procedure, agreed on by the parties (*what parties?*), “towards earlier clearance of arrears of the Pridnestrovskaya Moldovskaya Respublica for the supplied Russian natural gas”.¹³ A part equal to 50% of the value of assets, which had earlier been transferred to the Russia-Moldova joint-venture “Moldovagaz” SA share capital, shall be considered the property of OAO

⁸ Information agency „Info-Market”, 03.08.2005

⁹ Information agency „Noviy region”, 21.02.2007

¹⁰ <http://www.vz.ru/news/2006/8/7/44361.html>

¹¹ Information agency „Noviy region”, 21.02.2007

¹² Decree No. 96 of 04.03.2005

¹³ Ibid.

“Gazprom”. Transfer of the remaining part (50%) shall be made pursuant to *current* legislation.¹⁴

In April 2005, company “Tiraspoltransgas”, a shareholder of “Moldovagaz” SA (with 13.44% shares), was reorganized into an independent company “Tiraspoltransgas-Pridnestrovie”; while in October 2005 a commission for the stock-taking of *Transnistria’s debt and organizations’ debt* for Russian natural gas.¹⁵ From that moment, upon decision of the administration, “Gazprom” was authorized to represent the region’s interests in the operations of “Moldovagaz” SA.

In the context of Transnistria’s disaffiliation with “Moldovagaz” SA, withdrawing locally situated assets of the gas facility, we will note the following.

1. In a normally functioning joint-stock company a major shareholder can only initiate a procedure of his disaffiliation with the company, whereas it is up only to the general shareholders’ meeting to pass a decision.
2. Only a general shareholders’ meeting of a joint-stock company can make a decision on further actions i.e., the company’s reorganization or other actions pursuant to legislation of the Republic of Moldova.
3. If a decision on reorganization is passed possible consequences in terms of “Moldovagaz” SA obligations to OAO “Gazprom” should be considered.

Pursuant to Agreement of 2001, “in case of reorganization, liquidation, bankruptcy, receivership or any other change of «Moldovagaz” SA status or ownership, which can entail non-fulfilment of its obligations under this Agreement *the Moldova party* undertakes to ensure proper fulfilment of these, obligations, including debt obligations”.¹⁶

Nevertheless the integrity of the gas transportation system was preserved. The Moldova and Russia parties have come to an agreement with regard to further operations of “Moldovagaz” SA. With the view to improving the efficiency of Russia’s natural gas sales in Transnistria the region’s administration agreed to hand over “Moldovagaz” SA assets situated in Transnistria (13.44% shares) for management to “Gazprom”. However, the terms of hand-over are not yet known, although it cannot be excluded that “Gazprom” shares in the joint venture will increase from the current 50% plus one share to 64%.

In December 2005, before the negotiations for signing a new long-term agreement for gas supplies to the Republic of Moldova, “Moldovagaz” SA arrears to “Gazprom” were in part cleared¹⁷ by passing-through to OOO “Factoring-Finance” (a daughter company of “Gazprom”) the right of claim of the Republic’s of Moldova debt (USD 1.2 billion) for the gas supplied in 1997-2004.

Now “Moldovagaz” SA is working on a program of repayment (rescheduling) of this debt; the program will be sent to OOO “Factoring-Finance”. The major problem is determination who should pay that debt. By way of reminder, the government of Moldova is a guarantor of the entire debt to “Gazprom”, while the major portion of the debt, USD 1.085 billion, had been accumulated by Transnistria. *Noteworthy*, in addition to the historic debt, the rate of payment for the current gas consumption is

¹⁴ Decree by the Supreme Soviet No. 2646 of 02.12.2005, i.2

¹⁵ Enactment No. 723 of 13.10.2005

¹⁶ Agreement between the government of the Russian Federation and the government of the Republic of Moldova on supplies of Russia’s natural gas to the Republic of Moldova and the gas transit in the territory of the Republic of Moldova, article 12

¹⁷ Net of arrears of penalties for 1996 equalling USD 91.7 million

also an item on the agenda; in 2006, Moldova paid for over 90% of the consumed gas, whereas Transnistria paid for as little as about 25% of the consumed gas.

The cost of gas contributes considerably to the cost of goods, produced by the both regions, and thus gas had a considerable effect on the competitiveness of the goods; given this we note that in Moldova gas tariffs have been adjusted to the purchasing prices whereas *the relative stability and competitiveness of the economy of Transnistria builds on cheap natural gas*.

Thus, in July 2006, due to the change in costs of purchase, transportation, distribution and supply of natural gas, the average gas tariff was increased by 50.4% for final consumers in Moldova. However, the "Moldova-gas" management believes that it is insufficient since previous tariffs did not include the January increase in price from USD 80 to 110, which resulted in accumulation of losses.

What in today's situation in natural gas supplies to Moldova is unusual is that Moldova and Transnistria *for the first time* receive gas, *theoretically*, under *independent* contracts with "Gazprom".

The new five-year contract for gas supplies to Moldova was signed on 30.12.2006 whereas the issues of gas supplies to Transnistria *were still in the discussion stage* in March 2007. In other words, while Transnistria does not have a direct contract with "Gazprom" *it receives gas through Russia-Moldova joint venture "Moldovagaz" SA*.¹⁸

Moldova's contract provides a formula for calculating the gas price, using the base price, petroleum and gas price variations and discount coefficients for Moldova, rather than stipulates the price proper for the supplied gas. According to calculations under the new formula, in 2007 the average gas price for Europe is USD 250 for 1 000 m³. Given the discount coefficients, in 2007, the gas price for Moldova is USD 170 and in 2008 the price will be USD 195.¹⁹

Whereas the Government of Moldova and "Gazprom" have come to an agreement on prices, discussions with regard to the Russian company's participation in the investment projects for upgrading of the enterprises of the Republic's of Moldova energy sector and increasing "Moldovagaz" SA share capital continue. A protocol identifying the major terms the parties' cooperation in the gas sector is expected to be signed soon by the government of Moldova and OAO "Gazprom".

Under the changed conditions, regulated payments and guaranteed settlements for, at least, current gas supplies to Transnistria become urgently necessary; and it is universally recognized that orderly payment for gas is a "must", while it is also important for demonstrating Transnistria's reliability as a trade partner.

In order to settle the issue, the Supreme Soviet has developed a set of laws that will streamline the payment for the natural gas; these are the law "On some specific features of making payment for natural gas" and related changes in the current laws and regulations (law on corporate tax, Penal Code and Code of administrative crime).

During the three months' discussions different opinions were expressed i.e., the draft law was deemed necessary but the timing was not right; and the arguments differed, too i.e.,

¹⁸Information agency „Noviy region”, 21.02.2007

¹⁹Information agency „Novosti-Moldova”, 05.01.2007

- There is no direct contract with “Gazprom”; a law regulating the mechanism of payments for gas will be needed as soon as the contract is in place.
- It was proposed to spend resources, which pursuant to draft law shall be accumulated in a special gas account and transferred to the Russian supplier, for social sector needs while the partner in Russia could wait more.

Nevertheless the base law “On some specific features of making payment for natural gas” was adopted in the final reading on 27.12.2006 (it is effective from 01.01.2007).

The new approach with regard to gas payment aims at *assuring in two-three years a hundred per cent settlement* of current gas supply bills and, in essence, provides as follows.

- A special gas account shall be opened wherein payments from legal entities and households shall be accumulated, thus regular payments to OAO “Gazprom” for current gas consumption will be ensured.
- It is forbidden to withdraw the resources accumulated in the special gas account for purposes that are not regulated by *this* law; in case of non-targeted spending of the resources officials responsible for the violation shall be held liable to administrative or criminal proceedings.
- Gas shall be supplied and consumed only on a refundable, pecuniary basis.
- Households shall pay for gas at approved selling tariffs.²⁰
- Gas supplying enterprises shall report to the parliament and president regularly, including on flow of funds in and out of the special gas account.

In March 2007, at “Gazprom”’s urgent request the region’s administration made a decision to convert the long-standing arrears of payments *for natural gas and other resources* into foreign public debt. Respective amendments, in order to provide for a mechanism of converting the *OOO “Tiraspoltransgas-Pridnestrovie” debt* to Russian suppliers, shall be made in the law on public debt and government guarantees (the relevant draft law has passed the first reading in the Supreme Soviet).

Since independent contracts will be made while there are not own gas-meters at the Moldova-Ukraine border and, importantly, forms of payment will be different, *a special mechanism needs to be developed and coordinated in the shortest possible time for separated recording of gas imports and, hence, payment for relevant customs procedures*. Unless this issue is resolved positively, the absence of unified principles of customs accounting for gas supplied to the Republic of Moldova and transited in its territory will continue complicating the financial and economic situation in the country.

Till present, *natural gas imported to the Republic of Moldova but supplied to Transnistria is not subject to declaration procedure*. The gas is accounted for under a special formula and is recorded in an acceptance report of natural gas for the Republic of Moldova consumers. Such document is made with the view to submitting it to Transnistria customs bodies and also as a document for mutual payments under the contract. Noteworthy, a number of large enterprises of the region receive gas under direct contracts made with Russian companies.

²⁰ In 2007, presumably there will not be a significant increase in gas and electricity tariffs. (<http://www.vspmr.org/News/?ID=21>)

Customs clearance of natural gas imported to the Republic of Moldova and payment for the clearance service contributes to the selling price of gas; therefore “Moldovagaz” SA cannot have gas supplied to Transnistria cleared (the price of customs clearance accounts for 0.18% of the cost of import) without a coordinated mechanism for reimbursement of the expenses by “Tiraspoltransgas”.

The volume of transit, mainly to the Balkan countries, is comparable to the volumes of gas transit in Belarus i.e., 22-25 billion m³ a year (or about 15% of total gas exports by “Gazprom”). *While, according to AO “Gazprom” expert estimates, transportation losses are as high as 40% Moldova’s revenues from gas transit are USD 53-58million, however, over 70% of gas pumping work is done by compressor stations situated in Tiraspol. Here also things have to be made clear.*

Given that Transnistria’s gas debt ceased to be an economic issue and became a political one, *this issue, and also Moldova’s and Transnistria’s historical and current arrears of payments for gas call for a constructive resolution.* Legally, it is, a before, “Moldovagaz” SA arrears of payables guaranteed by the government of the Republic of Moldova.

And *it is particularly important in the changed conditions to maintain the common gas supply space, among other things, by restoring the operation of Tiraspol-Chisinau gas main line.* Separate accounting mechanisms should be fit into common national system. It appears that even in the present difficult situation a compromise can be worked out.

Electric energy export, import and transit

The electric power issues (rehabilitation of «Moldavskaya GRES» [Moldavian State Regional Power Station] and Dubasari HPS capacities, payment for consumed energy, etc.) always persist is in the agenda of the two parties either when they talk with each other, or communicate through intermediaries. However, in spite of the difficulties, the electric power facilities continue to operate as a unified system. This is due to a number of reasons.

First, the electric power facilities are structured as a unified regional system (power generating facilities, open switch-yards and a ramified network of transmission lines and equipment), which is a part of the former “Druzhba” electric power system.

Second, the territorial location; historically over 90% of power generating capacity is concentrated in the south-east. While the technical coordination of the system’s operation, scheduling of electricity flows, is done in Chisinau, by GP [State Enterprise] “Moldelectrica”.

Third, the on-going interdependency; the market of *entire* Moldova is the traditional major market for power supplies; about 60-70% of the Republic’s of Moldova electric energy demand was *usually* met by «Moldavskaya GRES». Besides, export of electric energy to Ukraine and the Balkans («Moldavskaya GRES» is potentially one of most high capacity energy producers in the region) is possible only when there is an agreement between Moldavskaya GRES, GP “Moldelectrica” (control point) and GP “Energoom” (system’s operator).

The two regions’ reliance on energy imports being very high, reliable energy supplies, electric power among others, have always been and remain important. Though approaches to ensuring reliability have been developed, as a rule, independently.

On the right bank, the shortage of own power generating capacity poses a problem; Chisinau TPS-1 and TPS-2, Balti TPS-Nord and Costesti HPS meet, at most, 30% of Moldova’s demand in electric energy. Therefore, major effort is concentrated on the up-grading of the existing and construction of new power stations in order to meet 70% of local energy demand by local energy production by 2010.²¹

In recent years the government of the Republic of Moldova approved a number of energy projects. Three of the projects (all with the participation of a foreign investor) were nearly launched in Ceadir-Lunga (in 2001, Italian company “Celtica Energy”), in Burlaceni (in 2003, “Celtica Energy” and in 2004, company group “Itera”) and in Balti (German company “RW Energy Investment”), but for various reasons were never implemented. Positive developments in the distribution network are taking shape; the exiting electric mains have been renovated and new ones have been constructed, among others, for electric energy supply to localities on the left bank (villages of Dorotcoe, Cosnita and others).

On the left bank, whereas electric safety strategy had not been deemed necessary effort had been made and operating condition of the existing facilities, «Moldavskaya GRES» and Dubasari HPS, was maintained, and also, until recently, traditional markets, i.e., Moldova, Ukraine (southern part of Odessa Oblast) and Romania (till 2004) were retained.

<i>Box 3</i>	
«Moldavskaya GRES»	
Installed capacity	2 520 MW
Average annual generation	3 billion KWh, potential 12-15 billion KWh,
Dubasari HPS ²²	
Installed capacity	48 thousand KW
Average annual generation	260 million KWh

Moldova’s and Transnistria’s *mutual interest* in full capacity operation of «Moldavskaya GRES» is obvious: the power station can run on three types of fuel i.e., coal, black oil and natural gas and due to this it can operate even when some fuels are in short supply. The GRES is also a generating and distribution centre of Moldova’s and Ukraine’s power systems. All this, apart from energy supply to *entire* Moldova, allows resuming large-scale electric power export to the Balkans.

Attempts have been made to convert the mutual interest into real actions. As early as in 1996 a Protocol decision was signed on the rehabilitation of «Moldavskaya GRES» and Dubasari HPS. Then in 2002, the upgrading of «Moldavskaya GRES» and Moldova’s network facility for organizing joint electric power export to the Balkan countries was considered by Moldova-Russia intergovernmental commission. There

²¹ “The Energy Strategy of the Republic of Moldova till 2010”, Resolution No. 360 of 11.04.2000 by the Government of the Republic of Moldova; “The Concept of development and location of electric power stations in the Republic’s of Moldova territory for the period till 2010”, Resolution No. 830 of 11.07.2003 by the Government of the Republic of Moldova.

²² The power generated by Dubasari HPS, 260-280 KWh a year, is in line with the household consumption by Transnistria population.

was a proposal to set up a Russia-Moldova joint venture, ZAO “Inter RAO EES Balkany” with three major shareholders i.e., ZAO “Inter RAO EES” (76% of the share capital), GP “Moldelectrica” (12%) and ZAO «Moldavskaya GRES» (12%).²³ The joint venture was presumed to ensure stable electric power supply to Moldova and Transnistria and also export electric power to Ukraine and the Balkan countries. However, it failed to be materialized.

The relations of Moldova and Transnistria i.e., the consumer and producer of electric power had not been easy, primarily due to Moldova’s considerable arrears of payments for electric power supplied by the GRES. In 1998-1999, because of the arrears, supplies were almost completely stopped. The situation changed with the arrival of Spain’s company “Union Fenosa” (the owner of Chisinau, South and Centre electric power distribution lines). In August 2001 a five-year USD 267 million contract for energy supplies was made with the GRES, which largely helped settling a major economic problem in Moldova-Transnistria relations.

Neither the GRES privatization in December 2003 (Russian-Belgian company “Saint Guidon Invest NV” became the owner), nor change of owner (since March 2005 the MGRES is a member of “Inter RAO EES” group) had any effect on the implementation of the contract.

With the acquisition of «Moldavskaya GRES» the Russian energy holding became able to fulfil at least two goals: (i) further development of the CIS unified power system and (ii) resumption of export supplies to the Balkan area, which fully fits in one of its global projects of synchronizing Europe’s and Russia’s energy systems.²⁴ And the *minimum goal* is to rehabilitate of the power station, make investment available and provide with contracts for energy supply.

Practically immediately after the acquisition of the GRES “Inter RAO EES” started consultations with Republic’s of Moldova Ministry of Industry on electric energy transit through Moldova’s territory. The timing of the consultations was not good – their beginning coincided with the making of a new energy supply contract with Moldova consumer, “Union Fenosa”. Given the gas prices increase the selling tariffs were also increased from USD 0.0305 per KWh to USD 0.0408 per KWh. A compromise was not reached in spite of possible benefits both for GP “Moldelectrica” by way of income from providing transit services (long idle transmission lines would be put to use) and for “Inter RAO EES”, which would get a possibility to export electric power to the Balkans. Consultations with GP “Energom” (a monopoly electric power importer) about electric power supply and transit were also stalled.

Supplies of electric power from «Moldavskaya GRES» were stopped on November 9, 2005, while only one unit of the station continued to run. Such operation is considered to be an emergency in the grid: any failure in the unit or transmission lines may be

²³ <http://www.avias.com/news/2002/04/23/27027.html>

²⁴ In April 2005 in the context of Russia – EU energy dialogue RAO “EES of Russia” and the UCTE, Union for Coordination of Transmission of Electricity, signed the Agreement on cooperation in preparation of a feasibility study of synchronous unification of the grids of Western, Central and Southern Europe with the EES of Russia and the parallel operating grids of the CIS and the Baltic countries (EES/OES). The study will be carried out by experts from Belgium, Bulgaria, Hungary, Germany, Poland, Spain, France, Slovakia and Romania, all representing the UCTE, and experts from Belarus, Kazakhstan, Latvia, Lithuania, Moldova, Russia, Ukraine and Estonia, representing EES/OES.

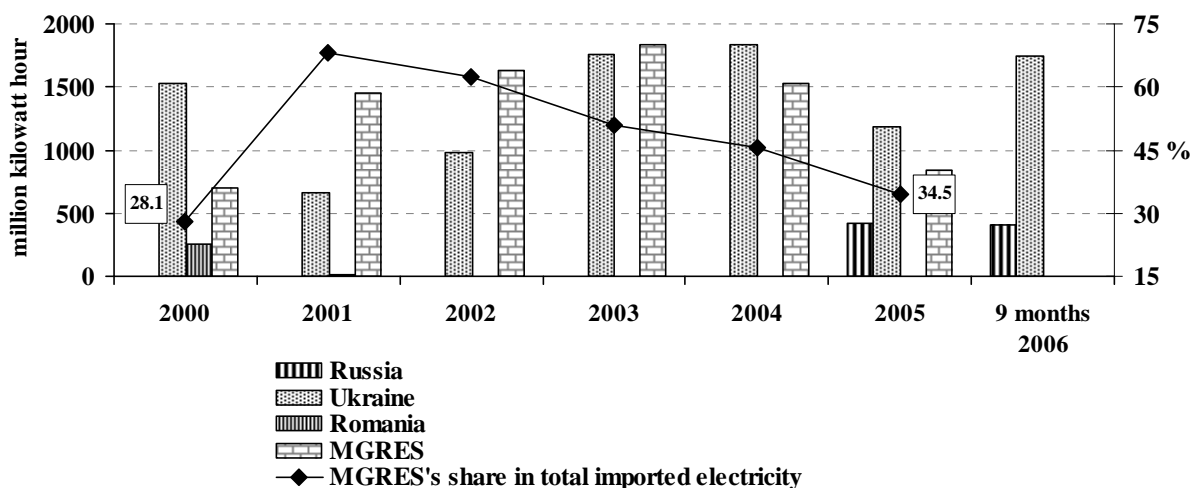
fraught with inadmissible unbalance and an avalanche-like accident development, replicating the 2001 scenario.²⁵

In January 2006 negotiations between “Inter RAO EES” and GP “Energocom” on cooperation in electric power supply and transit were resumed. A compromise, at least on export and transit of energy generated by «Moldavskaya GRES», among others, to Romania seemed to have been reached. It was presumed that GP “Energocom, the single operator of the energy transfer, would supply the power imported from Ukraine to the consumers as follows i.e., 100 % of the annual demand to the Northern RED, 50 % of each one’s annual demand to both “Union Fenosa” and MMZ. «Moldavskaya GRES» would, in turn, supply to the MMZ another 50% of its annual demand and 100% of each one’s annual demand to both Southern RED and South-Eastern RED. Thus, GP “Energocom” would purchase electric energy from ZAO «Moldavskaya GRES» from 400 KW line for export to Romania and would independently export the energy to Romania by 110 KW lines.²⁶ However the agreement document never was signed.

From November 2005, Ukraine became the *main* electric power supplier to Moldova while from May 2006, after the transit of Russian electric power through Ukraine was stopped, it remained the only *external* electric power supplier (the price is USD 0.025 per KWh, the average price at the Ukrainian market is USD 0.04 per KWh). Whereas in 2005, about 1.6 billion KWh were received from Ukraine, including 420 million KWh of the transit electric power from Russia, in January through September 2006, Moldova imported 1.7 billion KWh of Ukrainian electric energy, or 2.3 times more than in the same period in the year before (*Figure 5*).

Figure 5

Import of electric energy to the Republic of Moldova



Source: National Bureau of Statistics of the Republic of Moldova, CISR calculations.

²⁵ In February 2001, an emergency disconnection of inter-system power lines on the Ukrainian side took place. As a result Moldova’s power system was separated from the Ukraine’s. Because of a considerably excessive load at MGRES the automatic switches operated and all the power units were disconnected. There was no power supply in several districts of Transnistria, Moldova and south-eastern Ukraine.

²⁶ <http://www.interrao.ru/news/company/23/>

At the same time changes in the price policy of the Ukrainian transfer operator (company "Ukrinterenergo") were beginning to show already in 2006. The minimum indicative price for exports to Bulgaria, Romania, Slovakia, Czech Republic and Hungary was increased (on average by 56 %). While in 2007, the company decided to discontinue the fixed, lower, than domestic market prices (USD 0.04 per KWh), tariffs for exported electric energy.²⁷ Presumably *new contracts will be made on a quarterly basis using a new formula for the price*, which will take into account the international markets prices, cost of energy transportation and cost of inputs for atomic and thermal power stations. In this case, both power prices and profits from exports are expected to rise; the former by 35-40% and the latter by USD 25 million.²⁸ Apparently, tariffs for Belarus, Moldova and Poland will be next to increase; the electric power is exported by Ukraine to these countries at a preferential price of USD 0.021, 0.025 and 0.026 per KWh, respectively.

Importantly, a contract between ZAO "Inter RAO EES" and "Ukrinterenergo" was signed in the end of October 2006 and energy supplies from Ukraine to Russia, which had been stopped in July 2005, were resumed already in November. In addition, agreement was reached on joint electric power supplies to the power system of Moldova, *on organizing the transit of power produced by «Moldavskaya GRES» through Ukraine to Russia*, on the implementation of joint investment projects, among others, a possibility of setting-up a Ukraine-Russia joint venture *for resuming the operation serviceability of Yuzhno-Ukrainskaya-Isakcha-Varna 750 kV power line*. The contract term is from November 1, 2006 through the end of 2007 with the possibility to be extended. Under the contract Ukraine, provides for 200-800 MW power transfer to the Russian Federation.

Noteworthy, in August 2006 «Moldavskaya GRES» filed an application for supply of electric power (500-700 MW) to Russia, thus *at least three gas-fuelled units would be utilized*. In order to utilize two coal-dust-fuelled units a proposal was made to Ukraine for using 2 million tons of coal with further payment by electric power. In November the National Agency for Energy Sector Regulation (ANRE) issued to the station a licence for power production and supply both to Moldova's domestic market (at tariffs coordinated with the ANRE) and abroad (at contract prices). And a contract between MGRES and GP "Moldelectrica" for scheduling and power transportation to Russia was signed.

Already in January 2007 "Ukrenergo" resumed the transit of the power generated by «Moldavskaya GRES» through Ukrainian power system to the Russian Federation; in January, 180 MW were supplied. Electric power is supplied by way of replacement i.e., electric power from the MGRES is supplied to Odessa Oblast while the same volumes are supplied to Russia from Ukraine's power system at the Russian border, thus power transportation costs are reduced significantly. Besides, with this supplies scheme the load on the service line to Odessa Oblast is relieved and this, according to the Ukraine party, improves the reliability of power supply of the region.

In March 2007, MRGES resumed export of electric power to Romania. However, since the payment of Moldova's Euro 30 million-worth debt to Romania for earlier

²⁷ Information agency „Noviy region”, 13.11.2006

²⁸ Information agency „Noviy region”, 08.11.2006

power supplies had not been settled Romania took a decision not to import power through the territory of Moldova until the debt issue was regulated.²⁹

For *Moldova* the situation is not devoid of problem: the contract with “Ukrenergo” was effective till the end of March 2007, while the new price for the Ukrainian electric power is not known, and so far there has not been any notification about negotiations of a new contract. By way of reminder, so far Ukraine is *an only (!)* exporter; and it is here that problems *may* arise; export to Russia has been resumed, besides, having ensured energy supply from MGRES to its southern regions, Ukraine may block up non-contracted power extraction. And electricity charges may be increased significantly, to the boots. Apart from the exacerbated issue of the historic electric power debt volumes of possible power supplies from Romania are limited by the networks technical parameters.

Though, it is encouraging that negotiations with the MGRES on both emergency back-up power supplies and direct contracts for energy supplies to Moldova for domestic use and export are going on. The high price of the power by MGRES poses the major obstacle. As long as the new purchasing price of electric power from Ukraine is not known Moldova takes its time in making contracts with its traditional power supplier.

At the same time, given the new reality, non-traditional measures are needed to provide for *Moldova’s energy safety*. Unfortunately, the Republic of Moldova practically has not had any *profit from resumed export of MGRES electric power*; supplies are made directly to Ukraine rather than transited through Moldova and payment is made only for the transfer dispatching services.

It appears to be the time to go back to the 2002 proposal of setting up a joint venture by MGRES and GP”Moldelectrica”, thus, sustainable power supply will be provided for entire Moldova and mutually beneficial export to Ukraine and the Balkan area countries will be ensured.

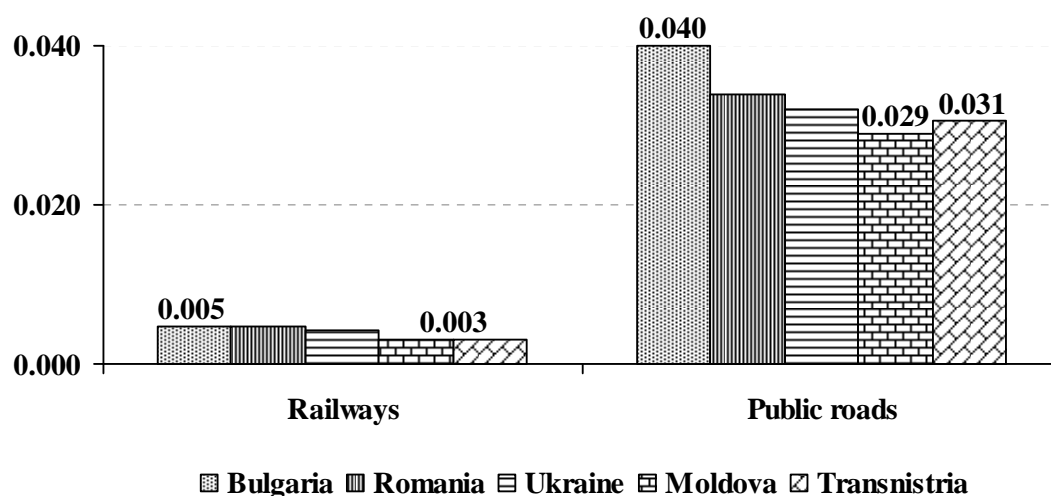
Transport infrastructure

International thoroughfares. Moldova’s *transport network* has a length of over 13 thousand kilometres, 80% are motor roads, railway lines and navigable waterways account for 9% each, and 2% are pipelines. The availability of motor roads in the region is generally rather close to Eastern Europe, whereas the availability of railways is considerably lower. (*See figure 6*). The massive share of domestic transportation of goods and passengers is done by motor transport, whereas the major share of interstate transportation is done by railway. In the recent five years, the rate of volumes of transportation growth is higher than that of GDP, which is in line with the realities of market economy i.e., openness to the world, increase in population mobility.

²⁹Information agency „Noviy region”, 30.03.2007

Figure 6

Road utilization factor (the Engel coefficient)



Source: National Bureau of Statistics of the Republic of Moldova, CISR calculations.

The region’s transport structure is a component part of the pan-European transport system. The importance of Moldova as transit territory is supported by the fact that two of the ten pan-European transport corridors cross its territory.³⁰

- Lane VII: the Danube, including the Black Sea –Danube Canal;
- Lane IX: Helsinki - St. Petersburg – Moscow – Pskov – Kiev – Lyubashevka – Odessa – Chisinau – Bucharest – Dmitrovgrad – Alexandropol (total length is 6 500 km).

Practically all Moldovan components of the international transport lanes connect the two banks of the Dniester (see box I); however, the quality of roads on both banks is poor while the sector’s own sources of financing are rather limited.

³⁰ Initially trans-European transport networks, and pan-European transport lanes and components thereof, were conceived for Western Europe, however, later it was decided that they should cover the whole of the continent’s territory. Relevant decisions were made by all-European Conferences of Ministers of Transport at the isle of Crete (in 1994) and in Helsinki (in 1998). As a result, 10 lanes were made.

International Motorways

- Border with Ukraine – Dubasari – Chisinau – Leuseni - border with Romania (*pan-European lane IX*);
- Chisinau – Tiraspol –Odessa (*pan-European lane IX*);
- Chisinau – Cimislia – Comrat – Giurgiulesti – border with Romania / Ukraine (*pan-European transport area, PETrA*);
- Vienna – Iasi – Chisinau – Tiraspol – Odessa (*intermediate road of west – east direction, E 58*);
- Poltava – Kirovograd – Chisinau – Giurgiulesti – Galati – Slobosia (*connecting road, E577*);
- Marasesti – Tecuci – Albita – Leuseni – Chisinau – Tiraspol – Odessa (*connecting road, E581*);
- Roman – Iasi – Balti – Mogilev-Podolskiy – Vinnitsa – Zhitomir (*connecting road E583*).

International railway lines:

- Border with Ukraine – Novosavitskaya – Bender – Chisinau – Ungheni – border with Romania; (*pan-European lane IX*);
- From Moldova-Ukraine border through Ukraine stations of Kuchurgan and Razdelnaya to Odessa ; (*pan-European lane IX*);
- Bender – Basarabeasca – Giugiulesti – border with Romania/ Ukraine (*pan-European transport area, PETrA*);
- Border with Ukraine – Ungheni – border with Romania (*international railway network, west – east direction, CE95*);
- Busau – Galati – Reni – Bender (*international railway network, west – east direction, E 560*);
- Ungheni – Chisinau – Razdelnaya – Zhmerinka - (*OSJD³¹: lane V, branch 5d*);
- Valcinet – Ocnita – Balti – Slobozia – Ungheni – Iasi – Bucharest - Giugiulesti – Ruse – Varna / Dimitrivgrad (*OSJD :lane XII*);

Source: The Concept of Forming and Development of the national network of international transport lanes, Resolution # 365 of the Republic of Moldova Government, MO # 49, 05.04.2002

While Moldova has rather a branched *motor-road network*, no segment of the roads in its *entire* territory is in line with the international standards. Road construction is calls for *significant* investment. According to *preliminary* estimates, the needed investment

³¹ The Organization for Railways Cooperation (OSJD) is an international organization; it was set up on June 28, 1956 in Sofia (Republic of Bulgaria) at the Meeting of Ministers responsible for railway transport. Ministries of transport or other central government bodies responsible for railway transport of 27 countries are members of this organization. Within the OSJD 12 railway lanes connecting countries of Central and Eastern Europe and Asia were identified.

in the renovation of sections of the international motor-road lanes in Moldova alone is USD 174 million.³²

According to the most optimistic estimates, the cost of construction of one km of motor road in line with European standards is USD 1.5 – 2 million. In 2005, Moldova’s investment in renovation was MDL 139 million (or USD 11 million)³³, while Transnistria’s expenditure was 16.2 million roubles (or about USDS 2 million). According to the inventory made in the 2005, the roads in Transnistria had operated three or four overhaul periods *without* overhaul³⁴, while about 90% of Moldova’s national road had been in operation past the admissible operation time. At the same time, the *available funds cover only one fourth* of the funding needed to maintain the network in its current condition. In November 2006, the government of the Republic of Moldova decided to reallocate MDL 24 million (USD 1.8 million) provided for the overhaul of the roads to the reconditioning (i.e., patch work). Among others, it was due to the fact that the railways crisis had impeded the supply of the required materials.

The public budget resources being limited, the issue of attracting investors for construction of new roads is posed. While doing so, it is important that the transparent and equitable government–investor relations mechanism included the parties’ obligations and liability for the assessment of realistic conditions of efficient use of the road (the functioning capacity should ensure the return of investment) and methods of compensation for unrealized gain if the traffic flow turns out to be lower than had been projected.³⁵

Unfortunately, after the fifteen years of the force-major condition of the roads Moldova is not very attractive for transit flows yet and therefore the required transportation load cannot be achieved.³⁶ The reasons are obvious i.e.,

- Poor road network quality, in many cases they can hardly be called roads. Carrier’s losses per kilometre of road, due to excessive depreciation and repair, are on average one dollar. In fact, the transit flow in the country is minimal.
- Due to the country’s disintegration there are additional costs, financial and by way of time.

In addition, while Moldova’s competitiveness in international truck haulage is rather high (80% of services are exported) the Transnistria market has been left to carriers from Ukraine.

The upgrading of road infrastructure is becoming a priority of the development agenda. An investment project is being prepared for the renovation of the Moldovan component of pan-European transport lane IX (*border with Ukraine – Bender – Chisinau – Ungheni – border with Romania*) which will have been implemented by 2010. The up-grading of the road network, of the internationally important roads in particular, will only be effective if the approach is comprehensive rather than

³² The Concept of Forming and Development of the national network of international transport lanes, Resolution No. 365 of the Republic of Moldova Government, MO No. 49, 05.04.2002

³³ “BASA-Press” Information agency, 19.10.2006

³⁴ „Pridnestrovie”, 08.06.2006

³⁵ To ensure return of investment the required traffic intensity for European quality road should be at least 20 thousand motor vehicles a day.

³⁶ The current traffic intensity at the most busy road segment, Chisinau – Orhei, is less than 10 thousand motor vehicles a day.

territorial. That is, already at the development stage the approach should be from the perspective of an international transport lane, rather than Moldova component thereof.

Here the following important factors are worth noting i.e.,

- Road are public property on *the whole of* Moldova’s territory.
- Since 1995, the official road statistics on public roads length *does not include* the roads on the left bank of the Dniester River and in the municipality of Bender.

Unfortunately, *whether the issue of ownership poses an insurmountable obstacle for investment can only be proven with time.*

Undoubtedly, *maintaining the integrity of the common railways space* is important for the development of *the whole of* Moldova. Until recently the main barriers to improving the railway sector competitiveness were its infrastructure characteristics i.e., absence of electric railways (whereas in Ukraine and Romania over 40% of railways are electrified), lower average speed with higher handling time of goods vans than in the neighbouring countries, and the share of double-track lines being only 15%.

Traditionally, the major transit load (50% of the volume of freight carriage) is concentrated in a short segment (one fifth of the total railway network length) i.e., border with Ukraine – *Novosavitskaya – Bender – Chisinau – Ungheni* – border with Romania. That is why this road segment is a subject of negotiations on settlement of the Transnistrian problem and an instrument of pressure by the parties.

In 1994, Transnistria’s administration made a decision to assume jurisdiction over the total of 20 railway facilities i.e., enterprises, organizations and railway sections in the region’s territory. And the management of the Moldovan Railways was informed accordingly.

However, the organizational and operational integrity of the sector were maintained. After intensive negotiations in 1998-1999 “Protocol Decisions were signed both on the operation of railways in Transnistria territory and mutual settlements by transport and communications enterprises of the Republic of Moldova and Transnistria”, and Transnistria Branch of Moldovan Railways was set up.

At the same time, *technical* operation of the railways has *always* been the area of oversight by the Moldovan Railways; and was not questioned until very recently.

The *economic* problems of the operation of Transnistrian segment of Moldovan Railways became evident already in 2001 (after the withdrawal of delegated customs authority from Transnistria). Three hundred vans with goods for Moldovan enterprises were held up at the railway station of Bender until payment of transit charges. Whereas the vans after all passed, the issue remained.

Later, in 2003, the issue of sharing the payments for transit of goods through the territories on the left and right banks was discussed by expert groups under the “Joint State Project”, which failed to be implemented. Agreement was not reached. However, the intention of establishing in Transnistria an administrative body, independent of the Moldovan Railways, was made known for the *first time*; while the status of the Moldovan Railways’ enterprises in Transnistria was found to be half-legal.

In August 2004, (when temporary registration was cancelled and foreign trade tax liability was introduced for Transnistrian enterprises) Transnistria set up its own

railways agency, GUP «Pridnestrovskaya Zheleznaya Doroga» [Transnistrian Railways]. The railway sections under its authority are *Bender – Novosavitsakya* (38 km) and *Ribnita – Slobodka* (40 km).

The separation of the Transnistrian sections provided an impetus for speeded-up (7 months-long) construction of a line by-passing Transnistria. In November 2005, railway branch Revaca – Cainari - the northern part of Moldova was put in operation. However, given the distance and the line’s capacity, foreign carriers continued to choose transit through Transnistria.

The situation *changed radically* on March 4, 2006 when three transit trains from the CIS were held up in Bender. *Until then*, the international freight transit in Reni – Galati direction had operated on time, even though there were problems with stable transit of trains in and out of Moldova through Transnistria. The “Moldovan Railways” took a decision to direct *temporarily all* transport flows through the branch Revaca – Cainari - the northern part of Moldova and an *only* railway crossing Ocnita - Mogilev-Podolsky (the way increased by of 500 km).

Since the developments did not follow the best of scenarios Moldova started looking for a way out of the situation. First radical ones of by-passing Transnistria were considered. In *May* 2006, feasibility of a joint Moldova-Ukraine project by-passing Transnistria in the south was considered; however, agreement on the route was not reached. While Moldova insisted on restoring Basarabasca – Berezno line, Ukraine was taking a decision to construct 60 km of railway and connect Odessa to Reni and Izmail by-passing *entire* Moldova. The estimated cost of the latter project was USD 150-200 million with a payback period of 30-40 years. However, none of the projects materialized.

From September 1, 2006, because of maintenance work on the railway bridge on the line between Mogilev-Podolsky (Ukraine) and Valcinet (Moldova), goods and passenger trains in and out of Moldova were temporarily re-routed through Ocnita – Socireni – Larga – Kelmentsy line (which has handling capacity of 3 trains a day). Thus the time increases, and, besides, there no capacity for processing excisable goods.

The three-party negotiations between Russia, Ukraine and Moldova on resuming transit by Kuchurgan – Bender route were started then; they were accomplished by the signing of a temporary – *till December 31, 2006* - agreement on resuming a non-stop transit of *goods* through Transnistria. However, Moldova’s goods continue to be transported by the northern route. Noteworthy, the traffic on Ribnita – Slobodka line, mainly delivering inputs for the «MMZ», had been resumed in August. The idle time was used for making repairs, the line was tested by a track-test-car of the Ukrainian Railways, and a servicing agreement was made.³⁷

The situation in the railway transport sector was considered in a session by the Parliament of the Republic of Moldova, where the *economic* aspect of the issue and the need to negotiate and make arrangements were articulated.

As a result, from 15.12.2006, passenger transportation was partly resumed by the traditional route.

Noteworthy, the resumed transit by the Transnistrian section of the Moldovan Railways settled the problems for only foreign importers, primarily of Ukraine. The

³⁷ „Pridnestrovie”, 24.08.2006

situation has not changed for the businesses of *entire* Moldova since for them the transportation still goes only by the northern route.

The most recent initiative is to set up the Danube railway transport consortium “with the participation of businesses from Ukraine, Russia, the Republic of Moldova, including businesses from Transnistria region, the consortium would have a legal status of a resident of Ukraine. OSCE might be invited to take part in the monitoring of the consortium’s operations of the”.³⁸

It appears that in this case the *issue of ownership* of the railways has again been brought up, though implicitly; however, it concerns only the right to operate and manage property. Obviously the intention is to assure transit through Transnistria. Unfortunately, the issue of technical support and future development of the Moldovan railways (which is the responsibility of the proprietor) remains unaddressed.

Moldova has ratified the agreement on setting-up a modern railway network that will be put in place within the Process for Cooperation in Eastern Europe. It is presumed that one of the future railway lanes will pass through the territory of Moldova i.e., *Cuciurgani – Chisinau – Ungheni – Iasi* – to Bulgaria and Greece. *The implementation of this project largely depends on Moldova’s and Transnistria’s ability and willingness to maintain the integral railways space.*

Noteworthy, today Moldova’s territory is a blank spot in the European electric railways network. However, expediency of electrification of Moldovan Railways can only be discussed after a comprehensive assessment of the cost-effectiveness of the investment project, whereas such assessment can hardly begin as long as there are political differences.

If Moldova does not want to miss the opportunity of benefiting from its transit position, which can, however, be missed if transit of freight flows are re-routed to bypass Moldova on the north or south, the railways electrification project should be started immediately with prior assessment of the real cost of works and tariffs for competing energy resources.

Today it is particularly evident that *the restoration of integral motor-road and railways space is a precondition for both successful development of foreign and domestic trade, for improving entire Moldova’s attractiveness for transit and for full-scale implementation of large investment projects i.e., construction of a north-south motor highway within the IXth European transport lane, setting-up a hub (international trans-shipment point for international air-mail and cargoes) in Marculesti and, of course, electrification of the railways.*

Information and communications structure

Development of information society is a key condition for the implementation of European aspirations of Moldova, while the sector of information technologies is demonstrating the most dynamic development and the highest attractiveness for investment in *entire* Moldova’s economy.

After the market of telecommunications services was liberalized in 2004, the number of information technologies companies has doubled. Fixed communication services

³⁸ <http://www.tiras.ru>

undoubtedly take the lead at the IT market (52%), followed by mobile communication, access to the internet, on-air broadcasting and cable TV. Telecommunications market of Transnistria is also developing actively; the major operators are “Interdnestrcom” and its daughter company “Transtelecom”.

Strange as it may seem, it were preparation for market liberalization and introduction by Moldova of a new National Numbering Plan (NNP) that provided an excuse for separation of *entire* Moldova’s regional telecommunications space.

By way of reminder, till 2003, communications operators of Moldova and Transnistria managed to settle their issues without attracting the attention of the general public. While with the introduction of the new NNP technical and economic issues were transformed into a political issue, thus disrupting the integrity of entire Moldova’s telecommunications market. Distribution of the numbering resource proved to be a stumbling block. The conflict in telecommunications was escalated by highlighting the technical aspects of the problem while economic and political issues were concealed i.e., the use by Transnistrian operator of all-Moldovan channels for international traffic and “independent” development of the region’s telecommunications system (which required the resource of one number series).

By way of arguments in the dispute various actions were used, which affected negatively the telephony of both *entire* Moldova and the neighbouring regions of Romania and Ukraine i.e.,

- Planned testing of digital TV transmitter by Moldova resulted in blocking up the mobile communications in Transnistria (“Interdnestrcom” operates on the CDMA standard).
- Transnistria responded by using interfering radio-emitting devices.
- Finally, fixed telephone lines were disconnected completely by both sides.

Agreement became possible due to the intermediation of the International organization: a group of the International Telecommunications Union (ITU) visited Moldova. A compromise was achieved only with the assistance of the international experts and on the premises that telephone isolation of a region or a country is contrary to the ITU Charter.

In its operation bulletin the ITU announced that “the Ministry of transport and communications of the Republic of Moldova and the National Telecommunications and Informatics Agency (ANTCI) consider the use of numbering resources from numbering series “5” or other resources, apart from those identified by the new NNP of the Republic of Moldova, for Transnistrian region to be illegal”.

And Transnistria received the sought-after resource from the “5” series i.e., 4 million telephone numbers while according to the new NNP of the RM, only 3 million were to be allocated.

However, *to present day*, for over two years subscribers from the right bank of Moldova can reach Transnistria only through IP or IP VIP telephony at a price ten times higher than the average price for trunk calls, even given summer tariff discounts by “Moldtelecom”.

The restoration of *normal* telephone communication is conditioned on the legalization of “Interdnestrcom” in the legal space of Moldova i.e., its registration by the Registration Chamber of the Republic of Moldova, acquisition of license (from ANTCI) for supply of telecommunications services and making a cooperation

agreement with “Moldtelecom”. However, in 2003, Transnistrian operator “Interdnestrcom” had sent a formal memo to the ANTCI management expressing its readiness to fulfil all the registration and licensing procedures required by the Republic’s of Moldova legislation. The company’s wish *alone* is obviously not sufficient for the settlement of the situation.

Therefore the experts’ community on both banks is quite sceptical about possible reunification of the telecommunications space. There are at least three reasons for such scepticism.

First, an attempt of package solution of the “telephone issue” was made in *July* 2004 by way of issuing licenses to “Interdnestrcom” for providing fixed and mobile telephony services in Moldova (CDMA standard), the latter for 15 years at a price of USD 1 million. The package provided as follows i.e., telephone communication between the two banks resumes, Transnistria accepts the NNP provisions, by 2010 “Interdnestrcom” switches over from frequency 800 to 450 MHz. In addition, the Transnistrian operator was to provide guaranteed minimum telecommunications services (telephone and Internet) for distant localities in Transnistria (average coverage by fixed telephone services in rural areas is about 17%), the company intended to make an investment of USD 15 million during the first one and a half years.

The existing mobile communications operators were quite reserved in expressing their appreciation of the arrival of the third operator. “Voxtel” was very much surprised by both the hasty issue of the license and the price thereof (the price of the license for “Voxtel” and Moldcell” was USD 9 million each). “Moldcell” expressed hope that the new operator would begin work at the same terms as the old ones. The response by the national experts was positive on the whole. While the CDMA standard was an efficient modern technology the arrival of a third operator would promote positive market dynamics.

However, only the competitors’ responses were listened to and as result, the Constitutional Court found the licenses issued to “Interdnestrcom” to be invalid.

Even now the existing mobile communication operators’ networks do not provide coverage to over 20% of towns and villages in Moldova yet.

Second, two years after, a third mobile communication operator appeared in Moldova. In the end of June 2006, “Moldtelecom” received a license for supply of mobile communication services in the CDMA-2000 standard. There is a risk that in case the actions by two operators (operating in the same CDMA standard) are not concerted the situation of 2003 can repeat “for technical reasons”.

Third, on 15.07.2006, the Supreme Chamber of Justice of the Republic of Moldova passed a decision on dismissal of the suit filed by Transnistrian operator “Interdnestrcom” for the refund of USD 1 million paid by way license fee. The possibility of the company’s going to the international court in protection of its interests may not be excluded. This will not be beneficial for the image of Moldova in the eyes of investors.

Thus, in spite of widely announced need for transition to information society and global informational integration, the absurd situation of no normal relations between the communications systems of the right- and left-bank parts of Moldova persists, which is detrimental to both the population and businesses.

New developments in the movement of goods in Transnistria: normalization of customs regime

Current dramatic situation as regards movement of goods in the Transnistrian sector of the Moldovan-Ukrainian border is readily apparent from the openness of Moldovan economy (it cannot exist without the rest of the world); while the country’s disintegration and non-recognized status of Transnistria even deepen this innate dependence. That is why the appearance or absence of the “customs issue” on the agenda of the Moldova-Transnistria relations could be used as an indicator of whether the parties’ are ready for any compromise or not.

Being aware of the importance of providing security and controllability of the frontier for carrying out economic activities, Moldova and Transnistria have tried many a time to coordinate the customs services activity.

For the first time the issue on harmonization of customs legislation and abolition of internal customs points was raised by the parties as early as February, 1996. At the same time on the basis of intergovernmental agreement there was reached an accord about creation of joint customs points of Transnistria at entrance to the region from the side of the Republic of Moldova.³⁹ However, the agreement failed to be fully implemented.

In the new realities - the Republic of Moldova is the WTO member since 2001, Ukraine is in the completion stage of joining the WTO and their common pro-European orientation - there could be distinguished three stages in the customs conflict at the Transnistrian sector of Moldovan-Ukrainian border (and not only there) due to changes in the rules regulating the Transnistrian external trade.

01.09.2001-31.07.2004. For a start, Moldova revoked the old customs seals granted to Transnistria in 1996, and introduced «new» customs documentation. It is well known that since the middle of 90-s the external trade of TMR was realized under the “cover” of customs stamps of the Republic of Moldova, resulted in freely access of Transnistrian enterprises to foreign markets and the considerable inflows of undeclared goods to Moldovan one. At the same time the procedures allowed Transnistrian economic entities to carry out external transactions were established.⁴⁰ The changes in other legislative and normative documents that followed this Decision brought out a “new” status of economic entities of Left river-bank – “*residents that are situated in the territory of the Republic of Moldova and do not have tax relations with its budget system*”. It was then that the “economic blockade” was first spoken of, while losses, at the estimate of the Transnistrian authorities, amounted to USD 170 million.

The “response” of Transnistria to these changes was quick to come: a special 20% duty for all imported Moldovan goods was introduced, the requirements for certificates of conformity and procedures for their recognition were tightened, a migration control over foreign citizens’ going in and out of Transnistria or transiting its territory was set up, and a special transit fee was introduced.

³⁹ Protocol Decision on Problems Settlement in the Field of the Republic of Moldova and Transnistria Customs Activities.

⁴⁰ Decision No. 1001 of the Government of the RM „On declaration of goods by economic entities from the eastern areas of the Republic of Moldova”, MO No. 116-118, 27.09.2001.

The State Customs Committee of the Russian Federation in its letter to the RM Government specified that the certificates of origin (CT-1) issued by entities that were not authorized by central authorities of Chisinau would not be recognized and accepted for registration.⁴¹

Ukraine’s reaction was coming with a visible delay, and it was only May 15, 2003, when the State Customs Service of Ukraine and the Customs Department of Moldova signed the Protocol on mutual recognition of shipping, commercial and other documents.

Further, Moldova’s Government issued Decision No. 712 on July 12, 2003, under which Transnistrian economic agents were allowed to draw up papers necessary for export-import transactions only after the temporary registration at the State Registration Chamber of the Republic of Moldova.

To prompt Transnistrian enterprises to legal traffics it was established that: they are conferred ID numbers free of charge; no customs fees are collected for declaration and customs clearance of goods during export/import, except for customs procedure fee; licenses are issued free of charge; Transnistrian economic agents bear no liability for the budget of the Republic of Moldova. In the upshot, circa 320 enterprises of the region obtained such a registration in Chisinau during a year, before the mid 2004.

At the same time, the access of Moldovan goods to Transnistrian market was limited drastically. The *special* duty was increased to 100%. Transnistria’s local market was left to Ukraine, whose goods, with exception of excisable goods, were not subject to customs duty. Despite the fact that on 25.05.2003 Ukraine had formally stopped the entry of goods accompanied with Transnistrian customs documentation to its territory, Slobodca and Cuciurgani, the key border railway stations, continue the “regular” operation. Moreover, Ukraine invested over USD 2 million in the renovation of Cuciurgani railway junction, while the trade turnover with the Transnistria region registered more than two-fold increase since 2002 due to a sharp growth of imports.

01.08.2004-31.12.2005. During another outbreak of exacerbation in the Transnistrian zone (the cause being the “school crisis” – blockade of Moldovan schools situated in the region) the Moldovan Government decreed on applying the rules of the national legislation and international acts - to which Moldova is a party – to export/import transactions of all economic entities, which operate within the state borders of the Republic of Moldova.

Transnistria suspended railway communication for several days (September 1-5, 2005). The “prior rules” were resumed forthwith Ukraine had unilaterally stopped the implementation of the Protocol. Although possibilities of Transnistrian economic entities to access external markets has significantly deteriorated, the period of 2004-2005 has become one of the most successful for Transnistria out of last 15 years in terms of development of its international economic relations.

In April, 2005, Ukraine initiated its own proposals for settlement of Transnistrian conflict (V Iuscenko initiative). On July 22, 2005, the Parliament of the Republic of Moldova adopted the Law on basic provisions of a special legal status of localities situated on the left bank of Dniester River (Transnistria). The response by Transnistria to the adoption of this law was highly negative, whereas the opinions of the guarantor-countries were varied. In *August*, the Government of the Republic of Moldova passed

⁴¹ «Logos-press», 01.03.2002

the Decision on regulation of movement of goods subject of Transnistria’s foreign trade *resumed, with amendments*, the prior procedures of temporary registration, issue of certificates of origin and licenses.

Moldova submitted a proposal for EU and OSCE to conduct an international monitoring operation in the area. The arguments were as follows: ensuring economic security and regional stability in the Transnistrian zone and legalizing foreign trade activity of the region’s enterprises under the Moldovan legislation and international rules, norms and standards. EU, starting from its commitments under the EU – Moldova Action Plan, decided to appoint a Mission to provide help on the Moldovan-Ukrainian border, which started its operation in December 1, 2005.

01.01.2006 - ... Initially the «new» customs regime of movement of goods across the Transnistrian section of the Moldova-Ukraine border was presumed to be introduced from January 25, 2006, as had been stipulated by the Protocol of May 15, 2003.

Ukraine began to execute its commitments with some delay, it took a series of bilateral consultations with participation of EU and USA and informing business community and the Transnistrian administration. The “new” rules came into effect on March 3, 2006 and appeared as a painful surprise for Transnistrian party. At that, Tiraspol and Moscow consider this fait accompli as an economic blockade or a peaceful occupation of Transnistria, whereas Chisinau, Kiev, the OSCE, EU and USA view it as achievement of transparency at the border.

Let us examine the most sensitive components of the “new” customs regime that mainly provoked the current confrontation of the parties resulting in mutual economic losses.

The temporary registration requirement. Two aspects put Transnistria on guard here: the period of validity of the temporary registration is not defined, whereas customs fees benefits will only be in effect till January 1, 2007 (as of now, till 01.01.2008). Considering that temporary registration does not let to obtain certificates of origin for preferential trade with either the CIS countries (with exception of CT-1 certificate for export to Ukraine) or the EU countries, benefits granted to Transnistrian economic agents are not so evident due to less competitive, as compared to Moldovan exporters, terms of foreign trade activity.

Since *April 2007 only*, certificates of origins - forms A and CT-1 (for all the CIS countries) and EUR⁴² - could be issued to economic entities from Transnistria, registered on a temporary basis. However, the requirements for issue of preferential trade certificates i.e., free and safe access of representatives of the Chamber of Commerce and Industry and the Customs Service of RM to documents, production-lines and storages of goods; as well as control of goods destined for export and the imported components thereof, have not been changed and remain to be difficult to implement in practice.

The permanent registration requirement has clearly highlighted the existing problem of recognition of the ownership’s legality. Registration on a permanent basis is only possible when ownership papers were issued by proper Transnistrian bodies before July 29, 2005 (when the Law on basic provisions of a special legal status came into

⁴² Decision of the Government of the Republic of Moldova No. 301 “On amendments to the Government Decision No. 815 of August 2, 2005”, MO No. 039, 23.03.2007.

force) and re-legalized by cadastral bodies of RM during 90 days since the date this law has taken effect. Otherwise the RM Chamber of Registration considers these enterprises to be state property and Moldova does not recognize their alienation from the state.

Import duties and its refunds. Pursuant to established rules the size of duty on goods imported by Transnistrian economic entities depends on the purpose of import – for self-production or for subsequent sale, including foodstuffs, medicines, fuel. In the first case duties (with exception of fee for customs procedure, which is on average 2% of the declared value of goods) are not applied; while in the latter case (which means all wholesale traders, etc.) importer has to pay all import payments (import duties, excises, VAT and customs fees) in Moldova. According to Transnistrian party’s opinion, this can lead to growth in prices for foodstuffs and medicines of no less than 30% and, and thus cause a decline in the population’s living standards.⁴³

The procedure of import duties refund is not quite clear either. On the one hand, the whole amount is refunded via bank accounts of customs authority, whereas the procedure for the transfer and withdrawal of refunds to and from such accounts has not been made public yet.⁴⁴ On the other, according to another document⁴⁵, means to be refunded under the tax legislation (VAT and excises) are first entered to territorial treasuries’ accounts and are then refunded by local administration of the first level to whose accounts they were transferred. Refunding has been done through accounts with financial institutions licensed by the National Bank of Moldova. Such an order was put in force in December 2004. While it is clear what local administration bodies in question are, it is not what these territorial treasuries are and where they are instituted, and thus the Transnistrian party is not the only one who has doubts as to the whole refunding mechanism. It was only March 22 when the Government Decision No. 1330 was amended in order to make the situation clear: in case executive bodies of the first level refuse to open accounts in territorial treasuries, Ministry of Finance is to ensure that Central State Tax Department and Customs Service (depending on the case) reimburse funds to Transnistrian economic agents, but to their accounts in financial organizations licensed by the National Bank of Moldova. Refunding of means accumulated from August 1, 2004 is allowed. The procedure of accounting for duties paid by economic entities of the eastern part of the Republic of Moldova⁴⁶ and theirs refunding, developed by the Ministry of Finance, was published at the end of April only.

Unfortunately, there were more questions than before. First, the last document provides that a tax-payer is entitled to import tax refund within 30 days of goods entry into the customs territory of the Republic of Moldova. After expiry of this period tax refunds are made as per regular procedure. Tax-payer is required to enclose documents, which confirm *completion of transit through the Republic’s of Moldova customs territory*. Second, there are practically no relations between the banking systems of Transnistria and Moldova, and economic entities from the left bank

⁴³ Information agency „Olvia-press”, 15.03.2006.

⁴⁴ Decision of the Government of the Republic of Moldova No. 815 “On regulation of movement of goods subject of Transnistria’s foreign trade”, MO No. 104, 05.08.2005.

⁴⁵ Decision of the Government of the Republic of Moldova No. 1330 “On approving the Regulation concerning the administration procedure of tax liabilities of economic entities in localities situated on the left bank of Dniester River and Bender municipality”, MO No. 233, 17.12.2004.

⁴⁵ MO No. 63-65, 21.04.2006.

⁴⁶ MO No. 63-65, 21.04.2006.

encounter problems while opening accounts in Moldovan banks. Third, the region has an autonomous monetary system with its own monetary unit; therefore conversion losses are inevitable when refunds of duties paid, net of banking charges, are made. Forth, it is evident that the mechanism existed initially only on paper, i.e. no refunds were made. It became possible only after a year. And given that Moldova’s attitude towards fulfilment of declared obligations is not always proper, in particular, with regard to settlements (payment for supplied energy, etc.), distrust of Transnistrian businesses only increases.

One more detail. Export and import of excisable goods and goods attributed to groups 1-24 i.e., products of animal and vegetable origin, fats and oils, ready foodstuffs, alcoholic and non-alcoholic beverages, can be realised only through specially fixed customs points⁴⁷ at the Moldovan section of the border with Ukraine (Cuciurgani customs point is excluded); so, transportation costs of Transnistrian economic entities increase almost by 30%.

Today, after a year of testing the «new» customs regime, the situation in the Transnistria zone is rather contradictory. On the one hand, rather a large group of Transnistrian enterprises has been registered at the State Registry of RM (135 on a temporary and 113 on a permanent basis). Most enterprises, including the large taxpayers, which earlier, upon the recommendation of the region’s administration, had stopped their operation or just kept filling up their warehouses, operate at full capacity. A group of light industry enterprises, that have contacts with partners from the EU countries, work without restrictions as regards import of raw materials (cotton, fabrics, accessories, etc.) and export of products; and this was the industry, to a certain extent, supported the region’s economy in the mobilization period (in April and May). “Grey schemes” of traffics also continue to exist, fuelled by interests of administrative-economic conglomerations from Ukraine (Odessa-Ilyichevsk, Vinnitsa, Nikolaev), Transnistria and Moldova. Some estimates show that thanks to “new” customs regime both regional budgets and Ukrainian businesses run daily losses of at least USD 2 million. For the same reason in 2006 the region lost, at the estimate of Transnistrian administration, USD 450 million. While these amount was partly (USD 77 million)⁴⁸ compensated by Russia.

Undoubtedly, the impact on Moldova’s and Transnistria’s economies - by way of reduction of output, exports and budget revenues - was the greatest.

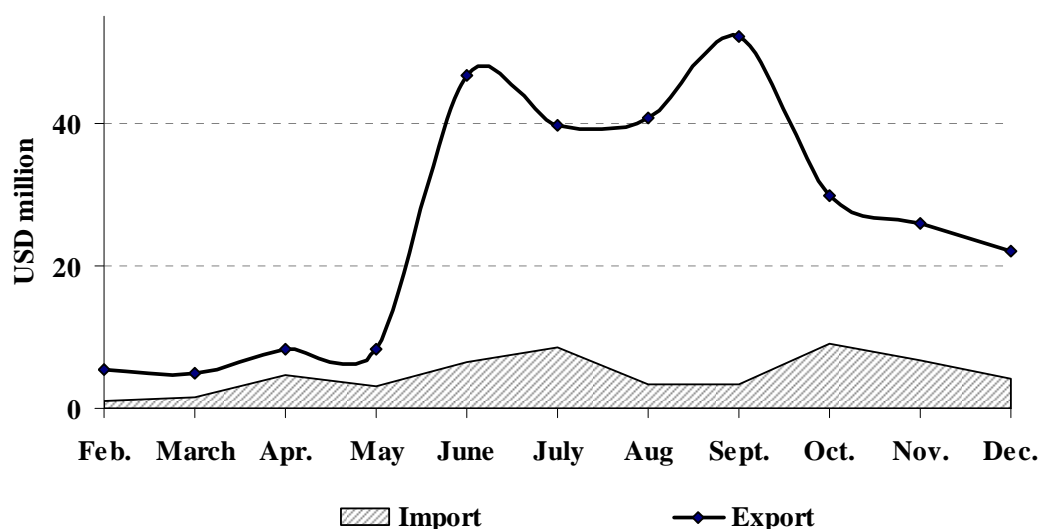
Let us try and analyze the dynamics of export and import operations by Transnistria during March-December of 2006 (*see figure 7*).

⁴⁷ Decision No. 815 of the Government of the Republic of Moldova “On regulation of movement of goods subject of Transnistria’s foreign trade”, MO No. 104. 05.08.2005.

⁴⁸ Information agency „Lenta PMR”, 10.01.2007.

Figure 7

Evolution of external trade of Transnistria
(Customs Service of the Republic of Moldova)



Evidently, the mobilization period for Transnistrian economy had finished in May. By way of reminder, on 23.05.2006, a Protocol stipulating a significant extension of contacts between Transnistria and Russia in economic, social, scientific and technological and cultural spheres was signed in Moscow. As a result, the number of registered businesses increased, industry started production, and exports began to grow.

It appeared that in June-September all Transnistrian exports would be registered by the Customs Service of the Republic of Moldova. The attention of both Transnistrian and Moldovan authorities was riveted on the political component i.e., on the referendum and its outcome. Thanks to this the economy of the region was picking up.

However, in October the situation changed i.e., the exports registered by Moldova's Customs Service became obviously lower. And the accuracy of the estimate of 100% exports control was questioned. In September Russia and Ukraine reached an agreement on energy issues: the price for Russian gas and volumes of gas transit became more certain. At the same time, the protracted repair of Mogilev-Podolsky Railway Bridge was started, and passenger traffic to Russia reduced. *Non-stop* (?) freight traffic through Transnistria was resumed; however, businesses from the Right bank remained uninvolved. Moldova had serious difficulties exporting and importing excisable good. And the last developments were in the context of wine-makers breaking through strenuously to new markets or trying to expand the presence in the non-traditional Asia markets!

For the first time, transport, rather than customs procedure, was the issue in Moldova-Transnistria confrontation, and the term of transit protocol appeared. Understandably, Ukraine was also interested in the settlement of the transit issue; since in 2006 Moldova increased transit tariffs two times and the ports of Reni and Izmail were running losses due to freight flow decrease.

As far as imports are concerned, it is obvious that the Customs Service of the Republic of Moldova controls, as before, the inputs for goods made on commission by

light industry enterprises of Transnistria. The main bulk of imports bypasses Moldova’s customs and remains in the shadow sector. Therefore the efficiency of enforcement of the new rules becomes questionable.

At the same time, it is clear to everyone – to Moldova, Transnistria, and intermediary and observer countries – that resuming full negotiations process is impossible without constructive settlement of the customs and transport issue. *The stability of the existent rules, rather than their convenience or inconvenience, is the most important issue for Transnistrian economic entities.* Producers (exporters and importers) of *whole* Moldova must be confident that there would not be any sudden changes. In the context of long-standing distrust, confidence can only be supported by relevant guarantees. The experience shows that “the level” of a memorandum signed by all parties involved into the negotiation process is not sufficient.

Apparently, it is high time for proposing mutually acceptable, legally effective and internationally recognizable guarantees. And these can be the only basis for real steps to restore the common economic space of entire Moldova and that, the country will be more attractive for both domestic and foreign investors.

Intellectual property

Since Moldova’s and Transnistria’s economies are oriented to and highly rely on foreign markets - hence, their need to retain the existing markets and work up a new ones - therefore in order to promote sustainable economic development, new quality economic growth driven by intensified innovation component is required, and thus, the importance of intellectual property and a possibilities of putting it to commercial use is in increase.

That is why the legislation that provides legal, organizational and economic framework for the state policy in the field of innovations was adopted by both Moldova (Code on Science and Innovation)⁴⁹ and Transnistria (Law on state support to innovation activity)⁵⁰ almost at one time.

The intellectual property system, including the enforcement of the relevant laws, their alignment with international standards, broader cooperation with institutions and organizations in the field, plays an essential role for dynamic and quality of social and economic development. This system is an important component of state economic and social security; increasing country’s intellectual capacity the system is an accelerator of market development.

The Republic’s of Moldova current legislation on protection of intellectual property rights is largely in line with the international standards and rules. The Republic of Moldova is a member of the World Intellectual Property Organization (since 1991), of the WTO (since 2001) and a full member of 25 international and regional conventions and agreements on intellectual property. Legal protection of intellectual property items is possible both in *the entire* country’s territory and at the regional and international levels. The State Agency on Intellectual Property of the Republic of

⁴⁹ Code of Research and Innovation of the Republic of Moldova, No. 259-XV dated 15.07.2004.

⁵⁰ PMR Law on state support to innovation activity No. 579 of 17.06.2005.

Moldova (AGEPI) is a specialized governmental body invested with a right to grant protection to the intellectual property objects; it represents the country at the World Intellectual Property Organization and other international and interstate organizations on intellectual property protection, AGEPI supports and develops relations of co-operation with them as well as with profile establishments of other states.

Moldovan, including Transnistrian, economic entities can efficiently resort to AGEPI for protecting intellectual property objects both in *entire* Moldova’s territory and abroad. This provision is particularly important given the orientation of the large taxpayers of the region (i.e., «MMZ», «Kvint», «Electromash», «Tighina» and others) towards export.

However, *in July 1993*, “with the view to respect the legislation in the field of protection of industrial property, achievements in plant and animal selection, copyright and related rights” Transnistria set up its *own* intellectual property agency (RAIS). The first relevant normative act, provisional regulation on legal protection of industrial property objects in the region, was approved in *February 1994*. Being aware of the importance of registering documents with an internationally recognized body, it is noted in the regulation that “it does not contain full information, requirements and conditions that are worked out in detail in the “Provisional Regulation on industrial property protection in the Republic of Moldova”, the Russian Federation’s laws “On Patent” and “On Trademarks”, Ukraine’s “Provisional Regulation on legal protection of industrial property objects” for obtaining a writ of protection of the said countries”.⁵¹ Principal standard acts in the basis of which could be realized the objects intellectual property protection were put in place i.e., relevant provisions in the Civil Code⁵², Patent law (2000), law on trademarks, service marks and brand names (2000) and law on selection achievements (2001). In 2001, Paris Convention for the protection industrial property was recognized as a framework law in Transnistria territory⁵³; while in 2004, several standards of the World Intellectual Property Organization were put into effect as state standards.⁵⁴

On the eve of the *mass privatization* (December, 2002), more focus was given to intellectual property issues i.e., a decision on recognizing intellectual property objects, registered and non-registered, produced in the region’s territory after January 1, 1992, to be the state property. The exclusive trademark ownership rights belong to enterprises, which have registered the trademarks with the RAIS and have made license agreements with relevant line departments that have the functions of state assets owner. From March 1, 2003, the use of state property trademarks was forbidden without their registration with RAIS.⁵⁵

In August 2003, the *mandatory* registration (re-registration) of intellectual property objects was started. Intellectual property objects were subject to registration as follows. First, intellectual property objects produced in Transnistria, non-registered or registered contrary to the relevant legal rules i.e., registered with foreign (among

⁵¹ Provisional regulation on legal protection of industrial property items in PMR, government decision No. 34 of 07.02.1994.

⁵² PMR Civil Code, part I., art. 143 (2); part II, art. 575 (2).

⁵³ Decree by PMR Supreme Soviet No. 72 of 14.03.2001 on recognizing Paris Convention on industrial property protection to be a framework rule of law in the PMR territory.

⁵⁴ Order by the Ministry of justice No. 72 of 06.02.2004 on introducing the World International Property Organization standards in the PMR territory.

⁵⁵ Edict of PMR President No. 743 of 10.12.2002, p.2.

others, in AGEPI) agencies for industrial property protection; second, *all* intellectual property objects registered in other states while not registered in Transnistria.

Pursuant to current regulations, all types of intellectual property, produced in Transnistria, are subject to internal registration. Registration of intellectual property objects with AGEPI only is considered to be “violation of intellectual property rights at a state level”.⁵⁶ Should managers of Transnistria’s enterprises deem the “national” registration inexpedient, they shall be liable to administrative sanctions, fines, with further mandatory registration with RAIS.

When an enterprise is sold as a package of assets (intellectual property objects are included in enterprises’ intangible assets) “the rights to brand name, trademark, service mark, other means of enterprise’s individualization and individualization of goods, works and services thereof, and also the right to use such means of individualization under license shall be transferred to the buyer if the contract does not stipulate otherwise”.⁵⁷ However, the expediency of transfer of the identified rights to the buyer is considered on a case-by-case basis.⁵⁸ Shoe-wear factory «Tighina», factory «Boucet Moldavii [Bouquet of Moldova] », plant «Pribor» and others were sold as a package of assets (privatized under an individual project).

Due to this case-by-case approach to transfer of property rights for “means of individualization” of enterprise *additional* difficulties appeared in selling products of brandy factory «KVINT», which is widely known beyond the region and was privatized in summer 2006. The right to the enterprise’s trademarks (which are registered with AGEPI) belongs to «KVINT»’s distributor, firm «Aroma» (from Russia). The new owner of the factory, LLC «Sheriff», intends to buy back the right to trademarks of its enterprise from the distributors, which the factory was not able to do before. So far, the enterprise will have to pay for using “own” trademarks.

In Transnistria, registration of trademarks and inventions is the most common. Pursuant to current rules, legal entities and individuals *are in the right* to take out a patent for an invention (utility model, industrial design) or register a trademark, appellation of origin of goods in foreign countries or obtain international registration, however, *only after filing an application with RAIS*.⁵⁹ At the same time, pursuant to Patent law, *patenting in foreign countries* of inventions, utility models, and industrial designs created in Transnistria *should be made within three months* of filing an application with RAIS.⁶⁰ This requirement is apparently due to formal conducting of patent research without proper “study of the global and national fund of inventions”.⁶¹

Transnistrian Research Institute of Agriculture is doing rather active research in the field of plant selection. Therefore relevant protection of researches’ results is essential. The situation is characterized by chaos in the interpretation and implementation of the current law on protection of achievements in selection; several provisions of the law are of a nature of relative generalizations, while explanatory regulations are not available. As a result, “over 100 varieties and hybrids of crops are

⁵⁶ Information agency Olivia-press”, 20.05.2003.

⁵⁷ Civil Code of PMR, part II art. (2).

⁵⁸ Edict of PMR President No. 743 of 10.12.2002, p.2.

⁵⁹ PMR Patent law No. 249 of 18.02.2000, art. 32; PMR Law on trademarks, service marks, appellation of origin of goods and brand names, No. 329 of 07.08.2000, art.16 and art. 36.

⁶⁰ PMR Patent law No. 249 of 18.02.2000, art. 32.

⁶¹ <http://www.zakon-pmr.com/doc.php?docid=23846425&queryid=29448022>

not legally protected either in Transnistria, or in other countries, nor is the developers’ agreement required for their use”.⁶²

While enterprises, holders of the trademarks known abroad, operate in Transnistria the registration of these trademarks, inventions, designs with the Republic’s of Moldova Sate Agency of Intellectual Property, rather than with Transnistria’s relevant agencies, is quite explicable. Intellectual property rights should be protected reliably at domestic market (which Transnistria’s relevant agencies can assure to a certain extent), as well as at foreign markets. However, in the latter case adequate protection of intellectual property rights can only be provided by an internationally recognized body, that is, by AGEPI. Pursuant to regulations, an international application for registration may be filed only through a specialized *national* agency (for the Republic of Moldova it is AGEPI), which is called the agency of the country of origin. *Essential condition* is mandatory preliminary registration of any intellectual property object, or filing a registration application thereof in the territory of the country of origin.

Noteworthy, this requirement is mandatory for both regional (Eurasia patent system) and international protection of intellectual property items in foreign countries.

Today when the intellectual property protection becomes more and more actual at international level, as well in Moldova and Transnistria, it is very important to avoid confrontation in this new for entire Moldova area. The system of intellectual property protection should not be divided.

⁶² <http://www.zakon-pmr.com/doc.php?docid=23846411&queryid=29448022>

Conclusion

As the over fifteen years’ experience of confrontation have shown, that it is harmful to social and economic development of both Moldova and Transnistria, and the reciprocal sanctions applied just aggravate the situation. All these make reintegration of the divided country’s economy and its adjustment to market even more difficult.

The current crisis in the Transnistrian zone seems to reflect the introduction of “new” customs regime in the Transnistrian sector of the Moldovan-Ukrainian border. But Ukraine mere started to apply at this sector the same customs procedures as elsewhere at the Ukraine’s border, including the rule to accept the internationally recognized customs documentations only.

The customs issue is one of the vexed questions today. And it is widely discussed by all parties involved into Transnistrian conflict settlement. In these circumstances the infrastructure is used as a tool to press the opponent. This leads to gradual but successive disintegration of common – in recent times - infrastructure space. Fixed and mobile communications networks became the first victims. Railway communications were the next. Although the electric power complex is not divided physically it does not operate to its full capacity. Thus, while attempts are made to solve one problem it has become the cause for another problem. The acceptable for both Moldova and Transnistria mechanisms, permitting Transnistrian businesses to carry out of foreign-economic activities (i.e., registration, customs procedures, duties and refunds), will be identified sooner or later. But how to assess the inevitable cost of restoration of the separated infrastructure let alone the loss of benefits?

Presumably, a compromise reached in the field of industrial infrastructure and its reintegration can serve as a basis for sustainable economic growth and trade development both in Moldova and Transnistria, and as a result for the progressive reintegration of common economic space.

Not giving up the global project of the country’s reintegration and identification of Transnistria’s status, a small-step-approach should be tried. Such approach would create favourable environment for business and provide social and economic guarantees for the population of whole Moldova.

Possible scenarios of infrastructure reintegration are as follows.

- Joint participation of Moldova and Transnistria in the renovation and upgrading of the motor roads network with the participation of private investors and international financial institutions.
- Electrification of Moldovan railways: Moldova runs the risk to miss the benefits from its geographical situation, which may happen if transit freight flows will be re-routed to by pass Moldova on the south or north.
- Achieving compromise on the issue of common and effective use of «Moldavskaya GRES» (in Transnistria) and transit power transmission lines (in Moldova).

In spite of current, predominantly confrontational mood in the relations of Moldova’s and Transnistria’s authorities, the conviction that reintegration of Moldova and Transnistria should become a practical action is becoming increasingly stronger.

Annexes

Table 1. Moldova: Main macroeconomic indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Real GDP growth, %	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.4	7.5	4.0
Nominal GDP, MDL million	8916.9	9122.1	12321.6	16019.6	19051.5	22555.9	27618.9	32031.8	37651.9	44068.8
Nominal GDP, USD million	1928.7	1697.9	1170.8	1288.4	1480.7	1661.8	1980.9	2598.2	2988.2	3355.9
GDP per capita, USD	527.8	464.9	321.1	354.1	407.8	458.8	548.4	721.1	831.3	936.0
Export of goods (FOB), USD million	874.1	631.9	463.4	471.5	563.9	643.9	790.0	985.2	1091.3	1051.6
<i>Export, year-on-year growth</i>	109.9	72.3	73.3	101.7	119.6	114.2	122.7	124.7	110.8	96.4
Import of goods (CIF), USD million	1171.2	1023.7	586.4	776.4	888.5	1038.5	1402.8	1768.5	2311.8	2693.2
<i>Import, year-on-year growth</i>	109.2	87.4	57.3	132.4	114.4	116.9	135.1	126.1	130.7	116.5
Trade balance, USD million	-297.1	-391.8	-123.0	-305.0	-324.6	-394.6	-612.8	-783.4	-1220.5	-1641.6
<i>as % of GDP</i>	-15.4039	-23.1	-10.5	-23.7	-21.9	-23.7	-30.9	-30.1	-40.8	-48.9
Current accounts, USD million	-274.82	-334.7	-68.2	-98.2	-26.8	-20.0	-134.8	-57.6	-241.4	-399.0
Trade balance, USD million	-348.01	-388.1	-137.2	-293.6	-315.1	-377.8	-623.0	-754.2	-1191.5	-1590.9
Balance of services, USD million	-28.34	-46.5	-42.3	-37.0	-37.9	-40.3	-46.9	-26.4	-23.0	-6.0
Balance of income, USD million	47.43	34.5	24.6	21.6	95.8	156.4	230.3	356.6	403.5	399.6
Net transfers, USD million	54.1	65.42	86.77	210.76	230.32	241.76	304.87	366.36	569.62	798.4
Capital and financing account, USD million	282.66	357.6	72.3	107.0	10.7	39.1	80.9	-54.9	56.0	281.7
<i>Current account as % of GDP</i>	-14	-20	-6	-8	-2	-1	-7	-2	-8	-11.9
Total foreign debt (including private debt and power), USD million				1721.2	1675.2	1817.3	1925.9	1897.9	2080.5	2482.1
<i>as % of GDP</i>	0.0	0.0	0.0	133.6	113.1	109.4	97.2	73.0	69.6	74.0
Currency in circulation MO, (MDL million)	972.0	855.3	1122.0	1469.3	1834.2	2288.6	2740.5	3699.9	4571.2	5145.8
Velocity of circulation (MO)	9.2	10.7	11.0	10.9	10.4	9.9	10.1	8.7	8.2	8.6
Broad money M3, (MDL million)	1923	1756	2504	3509.59	4787.37	6511.52	8509.16	11719.65	15826.80	12485.2
Monetization rate	21.56	19.25	20.32	21.91	25.13	28.87	30.81	36.59	42.03	28.33
Inflation rate (end-of-period)	11.2	18.3	43.7	18.4	6.3	4.4	15.7	12.5	10	20.1
End-of-year exchange rate (MDL 1/USD 1)	4.66	8.32	11.59	12.38	13.09	13.82	13.22	12.46	12.83	12.91

Table 2. Transnistria: Main macroeconomic indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Real GDP growth, %	42.3	-34.6	-30.1	-20.9	11.1	-2.7	18.1	16.2	11.8	7.7
Nominal GDP, rub. TMR million	272247.0	248333.0	477687.0	916.7	1462.9	1589.3	2196.6	3293.4	4198.6	4860.5
Nominal GDP, USD million	447.6	331.6	281.0	199.6	255.6	250.2	308.6	418.9	517.5	585.6
GDP per capita, USD	663.2	496.2	423.9	304.3	394.9	392.2	490.8	675.5	844.1	967.5
Export of goods (FOB), USD million	387.4	339.1	258.0	322.4	390.2	243.4	432.2	535.1	579.7	422.1
<i>Export, year-on-year growth</i>	126.8	87.5	76.1	125.0	121.0	62.4	177.6	123.8	108.3	72.8
Import of goods (CIF), USD million	301.2	587.3	416.5	461.9	529.2	454.4	599.6	758.3	855.6	738.4
<i>Import, year-on-year growth</i>	135.7	195.0	70.9	110.9	114.6	85.9	132.0	126.5	112.8	86.3
Trade balance, USD million	260.6	-248.2	-158.5	-139.5	-139.0	-211.0	-167.4	-223.2	-275.9	-316.3
<i>as % of GDP</i>	58.229	-74.8	-56.4	-69.9	-54.4	-84.3	-54.2	-53.3	-53.3	-54.0
Current accounts, USD million	...	-215.1	-215.1	-36.6	-62.8	-71.4	3.8	-17.7	28.5	...
Trade balance, USD million	...	-215.4	-138.0	-36.5	-75.2	-96.6	-25.8	-55.1	-32.7	...
Balance of services, USD million	...	-5.2	-22.5	0.2	1.7	8.1	5.6	-1.7	-10.3	...
Balance of income, USD million	...	1.3	-0.9	-3.4	-4.8	-1.7	-5.6	-12.0	-9.0	...
Net transfers, USD million	...	-46.26	-53.67	3.10	15.60	18.70	29.60	51.10	80.50	...
Capital and financing account, USD million	...	-80.1	-76.5	-18.3	-24.6	-28.5	1.2	-4.2	5.5	...
<i>Current account as % of GDP</i>	...	264.4	213.2	64.9	15.3	59.5	96.6	183.9	109.2	...
Total foreign debt (including private debt and power), USD million	...	...	...	674.0	800.8	946.7	1101.2	1239.5	1348.8	...
<i>as % of GDP</i>	...	...	...	337.7	313.3	378.3	356.9	295.9	260.7	...
Currency in circulation MO, (rub. TMR million)	7100.0	10100.0	16900.0	26.8	43.7	78.1	96.3	110.3	71.6	141.1
Velocity of circulation (MO)	38.3	24.6	28.3	34.2	33.5	20.3	22.8	29.9	58.6	34.4
Broad money M3, (rub. TMR million)	24400	32300	96700	159.40	323.20	446.00	851.20	870.80	871.70	1424.3
Monetization rate	8.96	13.01	20.24	17.39	22.09	28.06	38.75	26.44	20.76	29.3
Inflation rate (end-of-period)	46.5	81.7	141.1	90.1	26.8	10.6	32.7	21.4	10.8	8.9
End-of-year exchange rate (rub. TMR 1/USD 1)	1935	3360	3842	5.38	5.9	6.65	7.5	8	8.175	8.3

Table 3. Transnistria: Geography of external trade

(USD million)

	2000	2001	2002	2003	2004	2005
Export - total	322.4	390.2	243.4	432.2	535.1	579.7
<i>CIS countries</i>	123.6	196.0	113.7	185.2	229.6	308.4
Belarus	2.1	1.8	2.3	2.6	5.0	1.7
Moldova	30.6	105.1	56.5	78.2	72.9	59.4
Russia	73.2	73.3	42.7	80.5	128.8	231.5
Ukraine	6.7	14.4	9.6	19.5	18.9	12.8
Other CIS countries	11.0	1.4	2.6	4.4	4.0	3.0
<i>EU</i>	45.6	70.2	65.5	135.6	178.0	107.3
Austria	4.0	1.4	1.5	4.3	2.0	0.2
Belgium	0.2	0.3	0.5	1.8	0.8	0.1
Great Britain	2.9	4.1	1.0	4.3	1.8	1.0
Hungary	2.9	4.0	1.4	1.8	8.5	1.6
Germany	7.4	6.2	7.3	18.5	25.9	28.0
Greece	0.2	3.6	10.2	12.2	11.7	
Italy	15.8	18.8	24.2	45.9	45.2	34.3
Cyprus	1.9	4.7	3.5	4.6	2.4	2.7
Latvia	0.2	0.0	2.5	3.7	2.6	1.1
the Netherlands	2.2	2.9	1.3	3.2	2.6	5.1
Poland	1.0	1.0	0.7	1.0	13.2	11.6
Other EU countries	6.9	23.2	11.4	34.3	61.0	21.6
<i>Other countries</i>	153.2	124	64.2	111.4	127.6	164.0
Algeria	3.1	32.0	4.3	11.9	20.9	6.7
Bulgaria	3.7	2.2	1.6	7.2	11.6	7.3
Egypt		18.2	8.1	9.0	4.2	14.1
Romania	12.1	12.5	7.7	23.4	10.5	20.2
the United States	70.8	42.4	2.1	3.8	6.1	6.7
Turkey	0.9	...	0.2	1.8	9.7	9.7
Import - total	461.9	529.2	454.4	599.6	758.3	855.6
<i>CIS countries</i>	252.4	312.3	280.6	393.5	502.2	542.3
Belarus	7.1	9.6	11.3	11.3	14.2	27.9
Moldova	49.8	45.5	33.9	21.9	12.6	75.2
Russia	126.1	145.3	134.1	145	183.4	189.3
Ukraine	63.5	111.5	99.9	210.7	288.8	246.8
Other CIS countries	5.9	0.4	1.4	4.6	3.1	3.1
<i>EU</i>	132.0	128.4	118.7	137.5	153.8	195.2
Austria	2.1	3.4	3.0	2.1	8.5	7.3
Belgium	5.4	5.7	3.4	3	4.1	5.5
Great Britain	6.2	13.2	3.4	3.1	2.4	1.6
Hungary	2.7	3.7	2.3	2.6	3.5	6.1
Germany	52.2	30.3	31.6	44.3	50.5	56.9
Italy	19.6	27.3	22	18.1	30.3	35.3
Cyprus	10.4	9.7	4.0	1.7	0.5	0.8
Latvia	6.6	6.5	7.2	8.1	3.0	4.2
the Netherlands	3.1	2.3	6.2	7	9.2	13.3
Poland	11.2	16.8	26.2	30.1	24.8	44.1
France	2.9	2.6	3.9	9.8	4.5	3.9
Other EU countries	9.6	6.9	5.5	7.6	12.4	16.2
<i>Other countries</i>	77.5	88.5	55.1	68.6	102.4	118.1
Bulgaria	1.7	1.8	1.3	1.4	1.4	1.2
Canada	12.6	5.2	3.6	4	5.3	1.7
China		0.1	0.5	3.5	10.7	16.1
Romania	23.2	16.4	9.7	20.1	18.9	20.7
the United States	12.0	21.3	14.5	20.2	34.9	44.1
Turkey	1.0	2.5	1.9	2.7	4.4	4.5

Table 4. Transnistria: Structure of external trade by goods

	2000		2001		2002		2003		2004		2005	
	CIS	Rest of world	CIS	Rest of world	CIS	Rest of world	CIS	Rest of world	CIS	Rest of world	CIS	Rest of world
	(USD million)											
Export - total	123.6	198.8	196.0	194.2	113.7	129.7	185.2	247.0	229.6	305.5	308.4	271.3
Vegetable products	0.4	0.7	1.3	1.2	1.5	2.2	1.8	1.6	2.9	1.0	1.4	5.8
Foodstuff products, alcoholic and non-alcoholic drinks, tobacco	18.3	0.7	17.8	0.8	13.1	3.3	24.7	4.5	20.9	1.5	15.1	0.5
Mineral products	15.2	6.4	49.1	1.0	44.2	0.5	49.1	0.0	44.1	0.7	48.1	0.0
Textile and textile articles	9.5	27.9	8.9	29.1	7.6	30.5	10.6	53.1	7.2	60.5	5.3	67.5
Footwear, headgear, umbrellas and similar articles	9.3	2.6	10.2	1.8	6.1	2.8	5.8	13.0	6.7	10.9	5.7	12.4
Base metals and articles thereof	27.8	157.9	22.1	159.2	18.9	88.9	46.6	169.7	110.6	225.3	196.5	182.1
Machinery and mechanical appliances, electrical equipment, etc	33.4	1.0	31.1	0.6	15.8	1.1	22.7	3.5	29.7	2.4	29.4	2.0
Vehicles and associated transport equipment	1.6	0.0	6.1	0.1	2.9	0.2	10.6	0.4	0.7		0.4	0.2
Arms and ammunition		-	0.9	-		-	0.0	0.0				
Other goods	8.1	1.6	48.5	0.4	3.6	0.2	13.3	1.2	6.8	3.2	6.5	0.8
Import - total	252.4	209.5	312.3	216.9	280.6	173.8	393.5	206.1	502.2	256.1	542.3	313.3
Live animals and animal products	1.1	6.0	1.4	28.9	1.8	36.4	1.5	38.8	2.2	57.6	8.0	104.4
Foodstuff products, alcoholic and non-alcoholic drinks, tobacco	7.5	84.7	15.3	78.0	26.2	33.5	42.2	27.9	42.0	17.3	37.0	26.4
Mineral products	107.4	13.8	146.4	9.7	143.9	1.6	155.7	3.8	165.9	5.2	179.4	4.5
Chemical products	7.0	6.3	9.1	5.2	10.0	7.1	9.8	9.4	14.6	14.3	19.9	13.5
Plastics, rubber and articles thereof	3.8	9.4	4.5	8.3	3.8	7.7	5.5	9.4	6.6	9.9	8.1	11.7
Textile and textile articles	11.8	26.8	7.5	35.9	8.0	28.5	20.8	28.8	8.5	39.9	5.1	51.2
Base metals and articles thereof	79.5	16.9	76.9	12.4	51.2	8.6	115.7	19.9	207.8	20.1	228.2	19.6
Machinery and mechanical appliances, electrical equipment, etc	17.0	25.2	23.4	14.7	19.0	25.5	19.8	24.1	27.1	42.0	31.6	38.6
Vehicles and associated transport equipment	0.8	0.8	2.2	0.7	1.2	1.9	1.1	3.8	2.5	5.9	4.1	7.3
Arms and ammunition	0.1	-	0.0				0.0	0.0	0.0			
Other goods	16.4	19.6	25.6	23.1	15.5	23.0	21.4	40.2	25.0	43.9	20.9	36.1

Source: Statistical Yearbooks of Transnistria

Table 5. Transport infrastructure

	1990			1995			2000			2005		
	RM	TMR	Total	RM	TMR	Total	RM	TMR	Total	RM	TMR	Total
<i>Length of communication routes under operation, km</i>												
Railways of public use		1150			1160			1139			1139	
Public roads, total	9023	1277	10300	9400	1277	10677	9377.9	1405	10782.9	9467	1545	11012
of which, with hard surface	9700	1223	10923	8900	1223	10123	8779.7	1357	10136.7	8883	1486	10369
<i>Density of communication routes, per 1000 kilometres of territory, km</i>												
Railways of public use		33.2			33.5			32.9			32.9	
Public roads, total	296.0	306.7	297.3	308.4	306.7	308.2	307.6	337.5	311.2	310.6	371.1	317.8
of which, with hard surface	318.2	293.8	315.3	292.0	293.8	292.2	288.0	326.0	292.6	291.4	357.0	299.3
<i>Engel ratio</i>												
Railways of public use		0.003			0.003			0.003			0.003	
Public roads, total	0.027	0.023	0.026	0.028	0.024	0.028	0.028	0.027	0.028	0.029	0.031	0.029
of which, with hard surface	0.029	0.022	0.028	0.027	0.023	0.026	0.026	0.026	0.026	0.027	0.029	0.027
<i>Turnover of goods, million tonnes-kilometres</i>												
Transport, total	21648	4323	25971	4296	2056	6352	2605	89	2694	4352	170	4522
Railway		16614			3134			1513			3053	
Road	6305	2128	8433	1159	223	1382	1088	68	1156	1298	155	1453
<i>Indices of goods turnover, 1990=100%</i>												
Transport, total	100	100	100	19.8	47.5	24.5	12.0	2.1	10.4	20.1	3.9	17.4
Railway		100			18.9			9.1			18.4	
Road	100	100	100	18.4	10.5	16.4	17.3	3.2	13.7	20.6	7.3	17.2
<i>Passenger turnover, million passenger-kilometres</i>												
Transport, total	10102	157	10259	3605	71	3675.7	2386	457	2842.8	3569	393	3962
Railway		1626			1019			315			355	
Buses	4878	111	4989.2	1163	44	1207.3	992	186	1177.7	2077	173	2250
Trolley-buses	1063	41	1104	1103	25	1127.8	814	271	1084.7	676	220	896
<i>Indices of passenger turnover, 1990=100%</i>												
Transport, total	100	100	100	35.7	45.0	35.8	23.6	291.0	27.7	35.3	250.1	38.6
Railway		100			62.7			19.4			21.8	
Buses	100	100	100	23.8	39.8	24.2	20.3	167.0	23.6	42.6	155.8	45.1
Trolley-buses	100	100	100	103.8	60.5	102.2	76.6	660.2	98.3	63.6	535.4	81.1