



Declaration of the 5th joint meeting of the Republic of Moldova – European Union Domestic Advisory Groups on Trade and Sustainable Development

15 October 2020
Chişinău – Brussels

Representatives of the two Domestic Advisory Groups (DAGs) from the EU and Moldova, set up under Chapter 13 on Trade and Sustainable Development (TSD) of the Association Agreement (AA) between the Republic of Moldova and the European Union, held their 5th joint meeting on 15 October 2020. Due to the COVID-19 pandemic, the meeting was held virtually. The proceedings followed the provisions of Chapter 13 on Trade and Sustainable Development of the Association Agreement between the Republic of Moldova and the European Union.

In particular, the participants discussed the estimated impact of the COVID-19 crisis on implementation of the Deep and Comprehensive Free Trade Area (DCFTA). They also discussed issues relating to the business climate, labour market, and environment, and made a statement on the implementation of the DCFTA in Transnistria, a region that does not fall under the control of authorities in Chişinău.

DAG members drew the following conclusions on implementation of the DCFTA and its impact on Moldova's economy:

- The latest statistics show that between September 2014 and July 2020 total exports of goods from Moldova to the EU increased by about USD 3.5 billion (or USD 1.7 million per day). As a result, the EU became the most important export destination for Moldovan producers, accounting for over two thirds of total exports of goods and over half of imports. Similarly, imports from the EU increased by EUR 1.9 billion, so that the bilateral trade deficit narrowed by about USD 2 billion, demonstrating the increased competitiveness of Moldovan producers in the EU market. This is a much better trend than the foreign trade with for instance the Commonwealth of Independent States (CIS), with which the trade deficit worsened. It confirms that Moldova should continue implementing the DCFTA provisions in order to reap the full benefits of this agreement.
- Many competitiveness issues nevertheless persist: most exports are not processed goods (e.g. two thirds of exported agri-food products to the EU market are primary products) and most are technologically unsophisticated, so have rather limited value added. Another problem is the lack of diversification of exports: more than half of total industrial exports to the EU are destined for a single country (Romania) and more than half of agri-food exports to the EU go to just three countries (Romania, Italy and the UK). It is therefore necessary to make progress with implementing essential EU standards and to modernise the quality infrastructure of the country so that Moldovan producers

can export products of animal origin (meat, eggs and dairy products). Financial and technical support to the private sector, especially SMEs, must also be stepped up in order to improve their technical facilities, promote implementation of EU standards and build capacity to tap EU markets.

- Members welcomed the updated Annex XV of the Association Agreement, which fully entered into force at the beginning of 2020. This provides for updated tariff quotas for three product categories: (a) table grapes, for which the volume doubles, from 10 000 to 20 000 tonnes; (b) plums, with a 50% increase, from 10 000 to 15 000 tonnes and (c) fresh cherries, where the new quota is 1 500 tonnes. The annex also stipulates higher volumes for a number of categories of goods which are included in the anti-circumvention mechanism (wheat, barley and processed cereals).
- The COVID-19 pandemic and the severe drought of 2020 have affected exports of certain goods, in particular those of plant origin. Authorities anticipate a fall of more than 50% in the harvest of cereals and sunflower seeds. Exports of these products represented about 14% of total exports in 2019, but domestic consumption needs are now expected to result in a significant decrease.
- Although the measures and actions to be implemented for exporting products of animal origin (chicken and category B eggs) have been agreed on, those rights have not yet been granted. Authorities continue to face various obstacles, such as limited human resources, but also lack of the significant investment needed to adapt the production process to all health standards. In this context, the support provided by the European Union for improving the laboratories of the National Agency for Food Safety is very valuable.
- Moderate progress has been made in the field of standardisation, metrology and conformity assessment in transposing EU standards into the national framework. The Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) is currently being negotiated with a view to signature and implementation.
- The process of electronic customs clearance of goods has been facilitated and a large infrastructure project is being implemented for the rehabilitation of six customs posts at the Moldovan-Romanian border. Implementation of the New Computerised Transit System (NCTS), conclusion of the agreement on mutual recognition of authorised economic operators with the EU Member States, as well as implementation of the GoSwift border crossing mechanism, are pending.
- Improving governance in the financial sector is one of the areas that will be included in the new programme with the International Monetary Fund. Strengthening the independence of the National Bank of Moldova (NBM) and reform of the non-banking financial sector will be addressed by the authorities between now and the summer of 2023. The main element of non-banking financial sector reform is the transfer of its regulation from the National Commission for Financial Markets (NCFM) to the National Bank of Moldova (NBM), so that both insurance and non-bank lending will be regulated by the NBM.
- Although development partners, along with national experts, continue to emphasise the importance of measures to increase the independence of the National Bank, there is a risk of political influence undermining those efforts. For example, at the initiative of the President of Moldova, the Moldovan parliament approved a law that will allow the reallocation of NBM assets to partially cover public debt created as a result of supposed "banking fraud" uncovered in 2014. Political influence has also been observed in relation to delaying the appointment of NBM deputy governors. Currently, only four out of five positions are filled, since the terms of two members have now expired.
- The fees charged by banks for online/electronic transactions remain quite high and non-transparent, and this does not encourage the use of electronic payments by citizens. The government, together

with the NBM, could make further efforts to improve the situation here, especially during the current period of social distress caused by COVID-19.

- Moldova's competition authority has focused on areas such as advertising in the audiovisual market and fuel prices. However, activities planned through the National Complaint Settlement Agency (NCSA) have not been documented and evaluated, and another relevant planning document has not yet been drawn up.
- Of 54 acts drafted in relation to harmonisation with European Union legislation, based on the provisions of the Association Agreement and National Action Plan on the Implementation of the Moldova-European Union Association Agreement in 2017-2019 (NAPIAA), 22 normative acts have been adopted, most of them in the form of Government Decisions, but also including decisions of the NBM and orders of the Customs Service.
- The following policy priorities are identified to facilitate implementation of the DCFTA:
 - promoting high-profit export goods positions;
 - supporting businesses that have the necessary resources for production but which need additional support to standardise production based on EU quality requirements, with a focus on sectors with high export potential and profitability;
 - incorporating environmental priorities into sectoral policy documents (agriculture, rural development, SME support, producer groups), with the necessary disbursement of funds from existing public resources;
 - concluding negotiations on the ACAA and implementing its provisions on product quality assurance infrastructure (Institute for Standardisation of Moldova (ISM), National Metrology Institute (INM), National Accreditation Centre (MOLDAC), testing laboratories, and inspection bodies);
 - strengthening internal processes within the authorities responsible for quality assurance infrastructure, so as to exclude the human factor as far as possible;
 - continuous communication between the business community and quality assurance authorities in the process of reviewing, updating and approving new standards;
 - providing finance for enterprises in the process of transposing quality standards and quality schemes, focusing on branches of the economy and products with higher profitability;
 - adoption of the draft law on animal husbandry, which transposes 15 pieces of EU legislation;
 - obtaining the right to export eggs, poultry meat and other products of animal origin to the EU. To achieve this goal, it is important that the authorities increase the speed of adoption/implementation of European Union standards and regulations and provide support to producers wishing to export products to the EU market;
 - technical equipment of laboratories and improving the capacity of officials responsible for phytosanitary matters;
 - adoption by parliament and implementation of the provisions of the new Customs Code of Moldova;
 - negotiation, signing and implementation of the agreement on mutual recognition of Authorised Economic Operators (AEOs) between Moldova and the EU Member States;
 - adoption of the necessary framework and implementing the NCTS;
 - adoption and implementation of the electronic border queue management system (GoSwift);

- reducing the incidence of corruption by continuing to digitise information systems within the Customs Service, connecting its services to the MPay electronic payment portal, and expanding the options available for prior presentation of data through the e-Customs platform;
- implementing measures to centralise public procurement and reduce the number of contracting authorities, which experts believe would reduce costs, as well as simplifying procurement procedures and making them more efficient;
- adopting in second reading the draft law on de-offshorisation, to prevent companies that do not comply with the highest standards of governance and transparency from participating in public procurement;
- improving the MTender electronic system by simplifying use of the search engine and introducing the possibility of generating public procurement reports;
- requiring state-owned enterprises to use the electronic platform;
- strengthening the capacity of Moldova's competition authority to conduct relevant market analyses in priority areas, including the pharmaceuticals, audiovisual, and petroleum sectors, and service delivery to final consumers (electricity, transport, telecommunications, banking);
- initiating action to recover illegal state aid provided by central or local public authorities in areas where there is a market, including a potential one, open to competition;
- implementing the ex-ante verification mechanism of the draft normative acts of central and local public authorities from the competition perspective;
- progressively transposing the provisions of Directive 2019/1 of the European Parliament and of the Council to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market.

On business climate matters, the DAG members:

1. welcomed the EU-supported platform Covid-19-moldova-eu4business.eu, which helps small and medium-sized enterprises (SMEs) in Moldova to cope with the crisis through the EU4Business initiative and encourages Moldovan SMEs to take full advantage of the various support mechanisms provided;
2. pointed out the devastating effect of certain restrictions taken by the government on businesses, especially on micro, small and medium-sized enterprises;
3. underscored the need for quality education, including training, lifelong learning and up- and re-skilling as necessary tools for grasping the job opportunities of the future and fostering enterprise competitiveness. In this context, they emphasised the need for general information systems and ensuring children's access to reliable internet connectivity and technical equipment;
4. stressed the need to fight corruption and foster integrity in the private sector through implementation of international anti-corruption standards (ISO 37001:2016), promotion of ethical codes and corporate social responsibility in the private sector, and promotion of cashless payments, electronic payments and other digital solutions in the private sector.

On the labour market, the DAG members:

5. expressed concerns regarding the labour market situation in Moldova, which had been severely affected by the COVID-19 pandemic, with many companies having to suspend their activities under the state of emergency, leading to unemployment and decreased incomes;
6. in the context of the current pandemic, called for a more sustainable and resilient social protection system, which had to be developed in close discussion with the social partners. The crisis had had a severe impact on informal workers in particular, and the members reiterated their call for a comprehensive plan to combat this phenomenon;
7. observed that the measures imposed at national and global level to contain COVID-19 had also led to the return of a significant number of citizens who had been working abroad. Thus during the first eight months of 2020, the number of jobseekers registered in the territorial subdivisions of the National Employment Agency had increased to over 58 000 people, or about three times as many as in the same period of 2019;
8. drew attention to the very limited progress made in the sphere of labour inspection, pointing out that accidents at workplace, as well as having obvious negative consequences for the workforce, also entailed significant material losses for employers;
9. welcomed the progress made in transposing EU directives relating to labour, occupational health and safety (OSH) and gender equality, while also noting that gender pay gaps in salaries and pensions remained substantial and that relevant legal amendments to fully transpose EU directives needed to be adopted;
10. recommended improving the legal framework in order to stimulate the creation of new decent jobs, increase the employment rate, reduce population migration and narrow the divide between the urban and rural labour markets and between women and men.
11. formulated the following policy priorities for managing the impact of COVID-19:
 - development of an economic recovery programme to mitigate the consequences of the COVID-19 pandemic, with the emphasis on maintaining jobs and preventing wages from falling;
 - adoption of a careful and balanced approach to initiatives loosening the employment terms of the foreign labour force, which undermine the conditions of the domestic labour force (especially in the case of low-skilled workers) and generate high risks and instability on the labour market;
 - supporting wages by reconsidering the possibility of a (guaranteed) minimum wage in the near future in the real economy;
 - ensuring a high level of investment in both human and material resources in the fields that are on the front line of the fight against the COVID-19 pandemic and where risk of infection is high (medicine, public order, education, social services, etc.);
12. stressed the importance of ensuring lifelong learning and development of skills in value-chain management, increasing the efficiency of value chains in trade and setting up regional centres for continuing professional development in this area.

On the environment:

13. The Republic of Moldova was encouraged to sign up to the European Green Deal, which must not be seen as an additional cost but as a clear economic, environmental and climate opportunity.

14. Moldova has submitted its second Nationally Determined Contribution (NDC), a document establishing the degree of reduction in greenhouse gas emissions. Under its NDC, these would decrease by 70% compared to 1990 levels by the year 2030. The more ambitious target compared with the first NDC was welcomed, but it was even more important to develop and implement policies that would contribute to this goal.
15. At the end of 2019, a loan agreement was signed with the European Investment Bank to implement solid waste management projects in the Republic of Moldova, under which Moldova will have access to a credit line of up to EUR 100 million.
16. The law on control of major accident hazards was approved, which is designed to reduce the number of accidents involving dangerous substances and mitigate the consequences of such incidents. Adoption of this law fully transposed the EU directive in this area. The government has set up a new mechanism to coordinate climate change activities. In this new mechanism, two members out of 17 represented environmental non-governmental organisations and are to be appointed by the National Council of Environmental NGOs. The creation of this mechanism should give impetus to the integration of climate change issues into policy documents.
17. The government has adopted regulations on: export and import of chemicals (transposing Regulation EU No 649/2012); batteries and accumulators and their waste (transposing Directive 2006/66 /EC); control of emissions of volatile organic compounds resulting from the storage and distribution of petrol from terminals to petrol stations (transposing Directive 94/63/EC); and packaging and packaging waste (transposing Directive 94/62/EC).
18. Household waste continues to be a major challenge for the authorities. The problem affects many municipalities in Moldova, but is more acute in Chişinău. Every day, inhabitants and enterprises located in the capital generate between 5 000 and 5 100 m³ of waste. Although a new law on waste provides for waste sorting, so far the rules have not been implemented. Experts believe that waste sorting would reduce the volume of waste transported to the landfill site at Țânțăreni, Anenii Noi, by up to 60%. Reduced recycling capacity is negatively affecting the air, water, soil and people's health, especially for those living close to landfill sites.
19. Modest results have also been seen with integrating the environment into other sectoral policies, such as transport. The data available show transport to be the largest generator of CO₂, so more attention should be paid to promoting an integrated approach to environmental protection. In 2018, the authorities approved the Green Economy Promotion Programme, which provides for tax incentives to be designed for the import of electric and hybrid motor vehicles, as well as development of the necessary national infrastructure for electric vehicles. So far, however, no action has been taken to implement these provisions.
20. The National Ecological Fund is still under political control, being managed by the Ministry of Agriculture, Regional Development and the Environment. There is no transparent, impartial mechanism with clear rules for the selection of environmental projects and their financing.
21. The following key priorities were formulated:
 - All economic activities should involve measures to ensure environmental sustainability.
 - Waste sorting and recycling, including by promoting public-private partnerships. Waste management remains a challenge for the authorities: although the Waste Management Strategy is in its seventh year of implementation, the measures taken have been far too timid to improve the situation in the country.
 - Integration of environmental policies into other sectoral policies, in particular transport policies: developing tax incentives for electric and hybrid vehicles; gradual introduction of

the concept of emissions taxation; development of a national network of electric car charging stations.

- Catching up on commitments made in policy documents already approved by the Republic of Moldova and implementing activities that would achieve ambitious goals (e.g. reducing greenhouse gases, banning the collection of waste through pipes, reducing energy consumption).
- Establishing a clear and transparent mechanism for accessing financial resources disbursed by the National Ecological Fund.

On implementation of the DCFTA in Transnistria, the DAG members:

22. noted that on 1 July 2016 the EU-Moldova Association Agreement with its Deep and Comprehensive Free Trade Area had entered into effect. The Agreement had been provisionally applied since 1 September 2014;
23. noted that by the summer of 2021 Transnistria, a territory of the Republic of Moldova that is not under the effective control of the Chişinău authorities, would also have benefited from the provisions of the Deep and Comprehensive Free Trade Agreement for five years;
24. pointed out that the objective of applying this trade agreement in the territory of Transnistria was to avoid a humanitarian crisis and maintain the territorial integrity of the Republic of Moldova. From the point of view of trade, the results obtained so far were encouraging – the EU had become the region's first trading partner – but from the perspective of organised civil society in the EU and the Republic of Moldova it was important to understand whether trade benefits had led to improved relations between the Chişinău and Tiraspol authorities;
25. reiterated that democracy, human rights, freedom of association, freedom of expression, climate and environmental responsibility were principles and values that the European Union promotes and upholds in political dialogue with all countries around the world. No long-term compromises could be made on these issues;
26. agreed that in order to clarify the extent to which implementation of the EU-Moldova Association Agreement and Comprehensive Free Trade Area in the territory of Transnistria could continue, it is important that in the coming months the European Commission draw up an evaluation report on compliance with the obligations under Chapter 13 ("Trade and Sustainable Development"). Based on the conclusions of that report, the European Commission and the government of Moldova should decide on the necessary measures to ensure concordance between the DCFTA principles and the actions of the Transnistrian authorities;
27. expressed concerns about unfair competition between companies on the right and left banks of Nistru because of preferential fiscal, environmental and administrative treatment of companies on the left bank of Nistru by the Transnistrian authorities in comparison with companies from the right bank of Nistru (e.g. the gas subsidy which benefits companies in Transnistria, making them more price competitive while increasing Moldova's gas debt).
28. called for greater data transparency and access to data about ultimate beneficial ownership in private companies from Moldova and Transnistria to identify suspect FDI that is harmful to Moldova's national interests;
29. called on the Parties to conduct a public assessment of the DCFTA implementation in Transnistria.