

# Declaration of the 4<sup>th</sup> joint meeting of the Republic of Moldova – European Union Domestic Advisory groups on Trade and Sustainable Development

5 July 2019

Chisinau, Republic of Moldova

Representatives of the two Domestic Advisory Groups (DAG) from the EU and Moldova, established under Chapter 13 on Trade and Sustainable Development (TSD) of the Deep and Comprehensive Free Trade Agreement between the Republic of Moldova and the European Union, held the fourth joint meeting on 5 July 2019 in Chisinau, Moldova. The meeting was held in accordance to the provisions of the 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 DCFTA implementation after 5 years and identified key policy priorities in order to speed up the implementation for the next 5 years, as well as other issues related to labour market, business climate and environment. The participants took note of the political stabilization and the formation of the new pro-EU and pro-reform government and expressed their willingness to join efforts in promoting and implementing the TSD provisions of the DCFTA.

The participants were informed about a study on the DCFTA implementation after five years<sup>1</sup>:

## *Key conclusions of the study on DCFTA implementation*

- After 5 years of implementation of DCFTA, one can clearly note its net positive impact. In the period 2015-2018, total exports increased by USD 1.5 billion or 34% compared to 4 years before the signing of the DCFTA (2011-2014), which compensated losses on the CIS market. As a result, the European Union strengthened its positions as the main trade partner for Moldovan exporters.
- The trade between the Republic of Moldova and the European Union has become more balanced due to the rapid growth of exports on the EU market and the reduction of imports of industrial products from the EU. The level of import coverage with exports has increased from 47% (average for 2011-2014) to 66% in 2015-2018, while this indicator has decreased dramatically in the case of trade with CIS, and compared with other states - increased twice as slowly. DCFTA therefore helped mitigate trade and trade-related pressure on the current account as an important element securing macro-financial stability of the country.
- Exports of agrifood products benefited more from DCFTA compared to industrial products. In 2015-2018, agrifood exports grew by USD 820 million compared to 2011-2014 (+52%), while exports of industrial products increased by USD 761 million or by 26% over the same period. At the same time, the net impact of DCFTA on exports of agrifood products was about 3 times higher than the impact on exports of industrial products (475 million USD versus 128 million USD). This is due, on the one hand, to the marginal effect of DCFTA on exports of agrifood products, while trade in industrial products was already almost fully liberalized before the entry into force of the DCFTA; on the other hand, the existence of transition periods for the most vulnerable indigenous agro-food sectors has made it possible to avoid a competitive shock to domestic producers as a result of the liberalization of trade with the EU.
- Besides the positive performance of foreign trade in the context of the DCFTA, there are some concerns related to the concentration of exports, which reveals risks to the sustainability of growth and gaps in the competitiveness of domestic producers. Despite the impressive growth of exports, the study shows that more than half of the exports of industrial products are oriented

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<sup>1</sup> "DCFTA after 5 years of implementation: estimating the impact and key conclusions for the next 5 years", Expert-Grup, 2019

on a single market (Romania), and more than half of the exports of agrifood products are oriented only on three markets (Romania, Italy and Great Britain). Besides geographic concentration, exports become more concentrated product-wise as well during the DCFTA implementation, which confirms the concerns mentioned above.

- Concerns about the low competitiveness of domestic producers are also confirmed by the low level of technological sophistication of Moldovan exports on the EU market. In the case of agrifood products, despite the impressive increase in exports of primary products (e.g. sunflower seeds, wheat or fresh fruits), exports of products with a more advanced level of processing (e.g. oils made of sunflower seeds, fruit juices or bakery and pastry) decreased. In the case of industrial products, more than half of them do not retain the origin of the Republic of Moldova due to an insufficient level of processing, being categorized as re-exports. This is particularly the case for electric cables for the automotive industry and for clothing and footwear. Therefore, despite the positive evolutions in terms of export volumes, there is a rather limited contribution to the generation of gross added value in the economy, as well as significant competitiveness gaps.

Following up on the findings of the study and in order to ensure the irreversibility of the growth in exports and explore the benefits of DCFTA to larger scale, the following priorities should be followed by policy makers:

- Plenary implementation of the Investment Attraction and Export Promotion Strategy 2016-2020, which includes the entire spectrum of policy actions needed in order to increase the technological sophistication of exports of Moldova to EU and improve the investment attractiveness.
- Encourage the development of industries that focus on processing domestic raw materials, which generate the most value added to the economy.
- Modernize the quality infrastructure, by increasing the effectiveness of the National Food Safety Agency and modernization of laboratories for certification the quality of products. In this context, it is critical to obtain the permit to export on the EU market products of animal origin.
- Implementation of financial and technical programs to support SMEs in the implementation of EU quality standards at the firm-level.
- Continue raising the level of information and understanding among the SMEs about the technical requirements to access the EU market.

#### *Key conclusions on labour market evolutions*

- The perpetuation of the low levels of employment confirms the poor quality and unsustainability of the economic growth during the last years, which proved to be jobless, with limited contribution to increasing the wellbeing of the population. Another particular concern is related to the high share of informal employment, especially in agriculture, domestic trade and constructions.
- The minimum wage is recognized as being too low in order to ensure a proper protection for employees, with no proper adjustments being made over the last years in accordance to inflation and/or the evolution of the average wage.
- Over the last years, the Government has made significant progress with the implementation of EU Directives related to labour market, labour security and health, as well as gender equality. Nevertheless, the number of work accidents increased and security at work decreased as a result of poor enforcement of relevant labour security legislation.
- Taking into account the above-mentioned trends and concerns, the following priorities should be followed by policy makers:

- Integration of the issue of fighting informal employment into the policy and budgetary framework and intensification of policy efforts in order to fight this fundamental constraint for development of the country.
- Conducting an institutional reorganization by splitting the Ministry of Health, Social Protection and Labour into two different institutions: Ministry of Health and Ministry of Social Protection and Labour.
- Tripartite consultations on unification and gradual rising of the minimum wage in correlation with inflation and average wage, subject to consultations and agreement in the tripartite consultations with the trade unions and employers' associations.
- Ensuring, in the process of the development and improvement of the labour law, the respect of the provisions of the international normative acts of which Republic of Moldova is part, as well as of the EU Directives provided in the Association Agreement RM-EU that have been already passed and that shall be passed into the national legislation;
- Observing, in the process of the development and improvement of the labour law and in other fields, of the provisions of Art. 371 of the Association Agreement RM-EU, according to which the parties acknowledge that encouraging trade or investments by decreasing the protection levels provided by the national environment or labour-related legislation is inappropriate;
- Reviving and continuously developing the tripartite dialogue among the Confederation of Employers of Moldova, Confederation of Trade Unions of Moldova and the Government of Moldova, as a key platform to find consensus on key issues related to employers' and employees' rights.
- Supporting efforts to strengthen vocational training schemes as a way to tackle the lack of skilled workers.
- The adjustment of the Law on the State Control over Entrepreneurial Activity No. 131 of June 8, 2012 and of the Law on the State Labour Inspectorate No. 140-XV of May 10, 2001 to the provisions of the Conventions of the International Labour Organization No. 81 „Convention concerning Labour Inspection in Industry and Commerce” and No. 129 „Convention concerning Labour Inspection in Agriculture”;
- Returning to an integrated labour inspection system (labour reports and labour security and safety reports) and strengthening the institutional capacities of the State Labour Inspectorate (human resources, hardware, information systems, etc.);

#### *Key conclusions on business climate evolutions*

- The regulatory framework improved significantly during the last years, by reducing the number of controls, inspections and permissive acts, reducing the number of institutions with business control function, as well as modernizing the labour market.
- However, simplification of the regulatory framework did not turn into a significant improvement in the business climate, as revealed by the poor performance of the investment activity during the last years. It undermined the capacity of Moldovan producers to diversify and increase the technological sophistication of exports to EU.
- Over the next years, the policies to enhance the business climate should go beyond simplification of the business regulatory framework, by targeting the following priorities:
  - Strengthening the rule of law and independence of judiciary, as well as speeding up the anticorruption agenda is a key precondition for enforcing contracts and protection of property right.
  - Speeding up the implementation of EU standards related to transports, energy and ICT.
  - Exchanges on the possible reduction or elimination of roaming tariffs

- Fostering the custom control systems in order to facilitate the transit of passengers and goods from Moldova to EU and vice versa, as well as to fight smuggling in a more efficient way.
- Implementing a unified register of inspections in order to increase the predictability of inspections for businesses.
- Facilitating the energy interconnectedness with Romania and Ukraine in order to diversify energy imports and increase the energy security of the country.

*Key conclusions on environment evolutions*

- Over the last years there were a series of important positive evolutions with the adoption of relevant legislation related to water resources and waste management in line with EU requirements. Still, there are major challenges with the enforcement and implementation of this legislation. In order to address this issues, the following policies are necessary:
  - Tapping the energy potential of waste by encouraging the incineration and co-incineration practices, in parallel with fostering the legal and institutional framework for prevention of potential air and water pollution that could result from these practices.
  - Establishment of a Ministry for the Environment dedicated to promoting an ambitious agenda for the implementation of Moldova's commitments under Multilateral Environmental Agreements and the adoption of international and European standards Building the capacity and ensuring the efficient functioning of the State Environmental Inspectorate and Environment Agency.
  - Supporting the companies to implement ISO 14000 standard on environmental management.
  - Engaging in active negotiations with Ukrainian counterpart on the issue of building hydro-power plants on the Nistru River, in parallel collecting evidence about the potential impact and ensuring transparency of this process.