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**PROGRESS REPORT ON THE IMPLEMENTATION STATUS OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) WITH THE REPUBLIC OF MOLDOVA (RM)**

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Signed on 1 September 2014 and fully entered into force on 1 July 2016, the Association Agreement, which establishes a Deep and Comprehensive Free Trade Area (DCFTA), is an important step for RM in the process of integration with the European Union, which is considered to be the biggest economic market in the world. The signing of the two agreements is extremely important because it allows Moldovan citizens to travel in the European territory without visas and lays the groundwork for trade relations between RM and the EU based on advantageous conditions for both parties. The main economic advantage is the elimination of customs duties on the import and export of products for both signatory parties, which will improve the quality of the products from RM, which must comply with European standards, and create an economic climate encouraging foreign investment in RM.

It should also be noted, however, that most of the tariff advantages were already laid down by the previous unilateral tariff regime, with extra autonomous trade preferences (ATPs). Tariffs have therefore not decreased dramatically following the entry into force of the DCFTA, except for the products which are subject to tariff-rate quotas, which fall within the scope of the entry prices and of the anti-circumvention mechanism.

Implementing the DCFTA was and is challenging for RM, because it has had to promote a set of legislative and regulatory acts, but in the end they bore fruit.

It is the activities in agriculture and the food industry, trade and retail, services, the textile industry, the manufacturing industry and the hotel business that stand to benefit most of all. RM is gaining access to a market with 500 million inhabitants, stable economic relations and direct foreign investment flows.

A study carried out in RM in 2016 shows that after the entry into force of DCFTA, 9% of the total number of local companies mainly work in exports and 23% of them mainly work in imports.

With regard to legal status, 90% of them are Ltd. companies, and in terms of territorial breakdown, 70% of the exporting companies and 90% of the importing companies are established in Chişinău.

The same study shows that micro-enterprises and small companies (up to 50 employees) are in a larger number in the field of import-export compared with large companies (more than 50 employees). As proof of the importance given to the former type of companies, a law on SMEs and a medium and long-term Development Strategy for SMEs have recently been adopted.

When it comes to economic fields, of the exporting companies 30% are in the field of services and trade, 21% in the field of goods production and 16% in agriculture.

After the entry into force of the DCFTA, production capacities were found to have increased by 2% to enable companies to increase their volume of exports to the EU in the fields of manufacturing (14% of the total increased capacities) and of agriculture (16% of the total increased capacities).

The exports of agricultural products to the EU were influenced by the climatic conditions, by the commercial restrictions imposed by the Russian Federation after signature of the Association Agreement and by the regional unrest which caused mutual economic sanctions and restrictions between the EU and the Russian Federation. Under these circumstances, in the period 2014-2016, exports of agricultural products to the EU increased by 25% in terms of value, which partly compensated for the loss of eastern markets.

Given that the major difference between the previous tariff regime (ATP) and the present tariff regime under the DCFTA affects the agricultural products subject to quotas (a total of six), it should be noted that the tariff quota has been used for only two products (grapes and plums), as the other four products are not exploited.

As regards export of agricultural products under the anti-circumvention mechanism, the exploitation of those products has exceeded the allocated quotas, which reflects an export potential greater than that which has been allocated.

In the period from September 2014 to September 2016 by means of the anti-circumvention mechanism, the following products were exported to the EU: 117.46 thousand tonnes of barley, 312.87 thousand tonnes of maize, 421.15 thousand tonnes of wheat, 58.51 thousand tonnes of sugar, 16.73 thousand tonnes of processed cereals. Exports of wine and natural honey (one of the few products of animal origin currently allowed to be exported to the EU) have grown significantly.

At the same time, by exploiting the import-export quotas, the following products were imported: pork, chicken, meat products, sugar, sugar products, and the following products were exported: grapes, apples, plums.

For the moment, the only products of animal origin which RM can export to the EU are honey and caviar, as it has obtained sanitary and phytosanitary authorisation only for those products following an audit carried out by the *Food and Veterinary Office* (FVO) and DG SANTE.

In addition, FVO and DG SANTE have completed the audit to approve the export of class B eggs to the EU, and exports are expected to start by the end of the year. The audit for chicken is to be completed in the near future.

As laws complying with the EU requirements on animal and plant health are being implemented, food security monitoring laboratories are being upgraded and customs inspection is being improved, other products of animal origin are set to receive approval to be exported to the EU. An important step to that end is drafting the law on the New Food Security Strategy, the priority of which is to apply standards in accordance with the EU legislation.

Non-agricultural products were exported when the activity in several industrial sectors in the EU slowed down, and the prices of those products went down. Even under those circumstances, industrial product exports to the EU went up compared with exports to other destination.

Among non-agricultural products exported in larger volumes to the EU, the following, in particular, should be noted: cabling, wiring and other insulated conductor cables (28% of the exports), vehicle seats and upholstery (12% of the exports) and textile products – clothing and footwear. For some products, exports to the EU went down: gas meters, water heaters, petroleum oils.

At the ‘Two Years of DCFTA’ Conference in September 2016, the RM Minister of Economy informed the participants, among other matters, that ‘RM exports to the EU reached a market share of 63.6% in 2016, around 13% higher than in 2014, before the Agreement was signed’. The main export destinations in the EU were: Romania, Italy, Germany and the UK.

As regards imports, it should be noted that in spite of the fear of an agri-food product invasion from the EU, overall they went down by 15% after the DCFTA was signed. Non-agricultural product imports from the EU have dropped by 23% in terms of value, while in terms of quantity, they went up against the international price fall.

Another important element of the economy of RM is services, which generated 50% of the gross value added and 30% of the total export revenues in 2016 and employ around 30% of the labour force.

The EU-RM Association Agreement contains a number of commitments on the liberalisation of trade in services. Both the European Union as a whole and each Member State individually have negotiated a large number of derogations and reservations which will help to improve the conditions for the export and import of services from RM. The derogations and reservations are those which assess the level of liberalisation of commercial services. It should be noted from the very beginning that the impact on the EU economy will be minor, given the difference in economic size between the two parties. RM will therefore automatically be the party that benefits more following the implementation of the new regulations.

After the entry into force of the DCFTA in RM, the encouraging and nondiscriminatory environment created led to a significant increase in the volume of fixed and mobile telecommunication services, accounting and audit services, courier services, IT services, bank services and insurance services. The Government is seeking to privatise state-owned companies and prerequisites are being laid down for partnerships with local firms.

At the same time, a significant proportion of the restrictions related to the movement of persons have been removed, specifically, the amount of time that skilled personnel and graduate trainees can enter RM for and remain in the country is being extended from 12 months to 36 months. The presence of contractual service suppliers and independent professionals remains limited to 12 months. On the other hand, the EU and Member States have, to the detriment of service suppliers from RM, kept restrictions on the movement of persons.

A particularly relevant aspect to the liberalisation of trade in services for both parties is mutual recognition of the criteria applied by each party for the authorisation, licensing, operation and certification of entrepreneurs and suppliers of professional services. The movement of skilled personnel will therefore increase, leading to a mitigation of the trade restrictions.

Following the Association Agreement, RM will adopt new rules regarding public procurement to ensure equal and nondiscriminatory treatment of all local and foreign economic operators. The international anti-money laundering standards are also expected to be imposed and implemented.

Competitiveness of the export of services from RM can be increased by investing in human capital, by improving the skills of managers and qualified staff and by boosting employee productivity, but also by investing in transport, logistic and customs infrastructure.

The impact of the liberalisation of trade in services with the EU is very small, negligible even, except for the sector of freight road transport services.

Although the actual level of protection applied to the service sector in the EU is quite low, the EU and the Member States are maintaining a high level of restrictions pm trade in services in RM, mostly also on account of the intrinsic weakness of Moldovan companies.

The energy sector is particularly important, as the operation of any company depends on electricity, and in some cases also on natural gas.

By signing the AA-DCFTA, RM is committing to integrate its energy market into the EU market. By adopting Laws 107 and 108 in 2016, RM has therefore been making efforts to incorporate Energy Package 3 into Moldovan law and to develop a legislative framework in the field of natural gas. Following the entry into force of those laws, the Energy Regulatory National Agency has developed an action programme for the liberalisation of the electricity and natural gas market.

A measure taken for that purpose is designed to separate energy and natural gas supply from distribution (there is a derogation from the Energy Community for the total implementation of that measure for natural gas by 1 January 2020).

Two major ongoing projects are focused on securing both electricity supplies (interconnection with Romania on the route Isaccea-Vulcăneşti-Chisinau) and natural gas supplies (the Iaşi-Ungheni-Chişinău pipe), and on opening up access to the EU market.

Briefing on the status of implementation of the DCFTA in Transnistria. A news item put together by Dionis Cenuşă and recently broadcast on HotNews.md points out that ‘no clear evidence has been provided by the authorities in Chişinău or Brussels that Tiraspol is implementing the central elements of the DCFTA, that is, the elimination and reduction of duties on the EU imports’. In practice, economic operators from Transnistria continue to export to the EU in accordance with the previous ATP tariff agreement solely as a result of the fact that Tiraspol has expressed its intention to implement the DCFTA in the future.

During his meeting with Commissioner Malmström in March, Prime Minister Filip also said that ‘we managed to extend these benefits (author’s note: offered under the DCFTA) for economic operators throughout the country, including those from the Transnistrean region’. This remains a problem to be monitored and analysed in the future.

In spite of all these achievements, there are also issues to focus on.

RM exporters face obstacles such as

* administrative barriers (health certificates, excessive occasional requirements for tax and customs documents etc.);
* inappropriate tax legislation, which causes significant delays in VAT recovery;
* difficulties in meeting the consumers’ increasingly demanding requirements with regard to quality, appearance, packaging;
* infrastructure and delivery-related shortcomings;
* a lack of updated and coordinated information on demand and supply;
* limited access to information on international markets;
* a lack of a developed network of accredited laboratories which can certify food safety levels;
* burdensome procedures at customs for perishable products;
* insufficient support from the state with regard to access to international markets;
* obsolete technology;
* a lack of an efficient national irrigation system;
* problems with access to electricity because electricity infrastructure for industrial purposes is not sufficiently developed in rural areas, and complicated administrative procedures for connection;
* difficulties finding skilled and seasonal workforces.

The EU, as voiced by Trade Commissioner Malmström, appreciates the Moldovan Government’s efforts and achievements with regard to the implementation of the reforms set out in the Association Agreement and hopes that those efforts will continue so that RM is able to benefit from all the advantages conferred by the agreement. A particularly important element discussed is the possibility that export quotas may be raised for the products subject to tariff-rate quotas on the EU market.

The Moldovan authorities’ significant efforts to align RM with the EU regulations and standards are appreciated. With a view to RM implementing the EU acquis and to helping Moldovan SMEs enter the EU market, the EU supports the country’s efforts with substantial financing and technical assistance. In April, a financing assistance programme of EUR 100 million (60 million in loans and 40 million in grants) intended to support economic stability and to continue with structural reforms was approved.

Commissioner Johannes Hahn has noted that ‘We are already seeing some positive first results from Moldova implementing the Association Agreement but more needs to be done’. The Commissioner highlighted that the Moldovan citizens are now able to travel in the Schengen area without visas and have gained access to a number of training and specialisation training policies.

In the European Commission and European External Action Service Progress Report on the implementation of the AA-DCFTA, Commission Vice-President, Federica Mogherini, also highlighted RM’s progress following the entry into force of the agreement. She said that the EU and RM had a ‘strong relationship’ and that the Agreement had intensified the partnership, ‘increasing our cooperation in some areas and consolidating it in others’.

In summary, the words of H.E., Pirkka Tapiola, the EU Ambassador in RM who said in April, ‘the DCFTA is the best thing that could happen to Moldova and the EU market is the place where you want to be, is the place where you can make your reputation, your fortunes, if you meet EU standards’.

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