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TRADE SECTOR IMPACT BRIEFS

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INTRODUCTORY NOTE

The 2016 selection of trade sectors includes five areas: 1) agriculture, 2) financing, banking and insurance, 3) information and communication technology (ICT) sector, 4) energy sector and 5) automotive industry. These sectors were selected taking into consideration their impact on commercial flows and overall economic developments and the intensity of changes taking place during the last year.

Due to the fact that some sectors were covered in previous 2015 edition of the Trade Sector Briefs 2015, selected information will appear repeatedly. However, new tendencies, trends and evolutions, as well as updated recommendations were collected for this recent analysis.

ABBREVIATIONS

AEO - Authorised Economic Operator

ANSA - Agenția Națională pentru Siguranța Alimentelor

CIS – Commonwealth of Independent States

DCFTA – Deep and Comprehensive Free Trade Area

EU – European Union

FDI – Foreign Direct Investments

GDP – Gross Domestic Product

ICT – Information and Communications Technology

IT – Internet Technology

Mbit - Megabit

MDL – Moldovan leu

mil. - million

NBM – National Bank of Moldova

NBS – National Bureau of Statistics

NCFM – National Commission for Financial Markets

NCM – Mercosur Common Nomenclator

Nr. - number

SPS – Sanitary and Phytosanitary

TRQ – Tariff Rate Quota

US – United States

USD – United States dollars

MACROECONOMIC SNAPSHOT

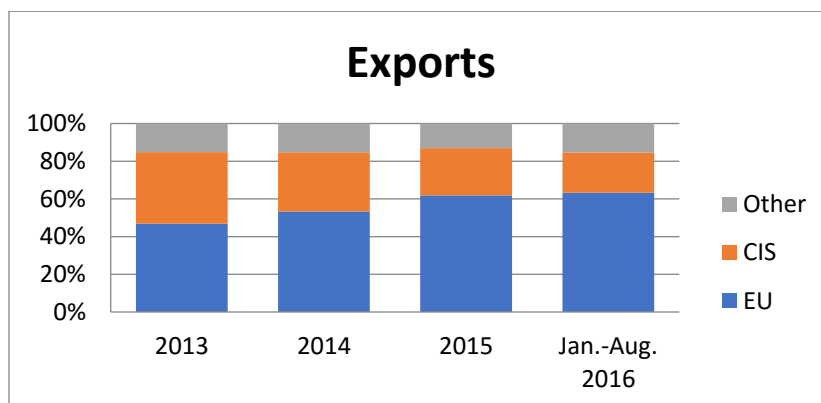
The year 2016 was a difficult period for the Republic of Moldova in terms of economic conditions, reflecting problems which appeared in 2015 as well as political uncertainty. At the same time, there are signals that the economy is recovering after the serious shock produced by the problems in banking sector. According to the official data, in the second quarter of 2016 the country's GDP constituted 31434 million MDL in current market prices, increasing in real terms by 1.8% compared to the second quarter of 2015.

In January-August 2016, total exports decreased in comparison with the same period of 2015 by 3.5 %. This decrease is primarily due to the significant reduction of exports to some destinations, such as Belarus (- 25,8) and Kazakhstan (-80,8%). Exports increased to Bulgaria by 2.2 times, Poland (19.3%) and Austria (52.1%).

The EU is the main economic partner of Moldova, holding 63.3 % of total exports for January-August 2016 (compared to 61.9 % for the same period of 2015).

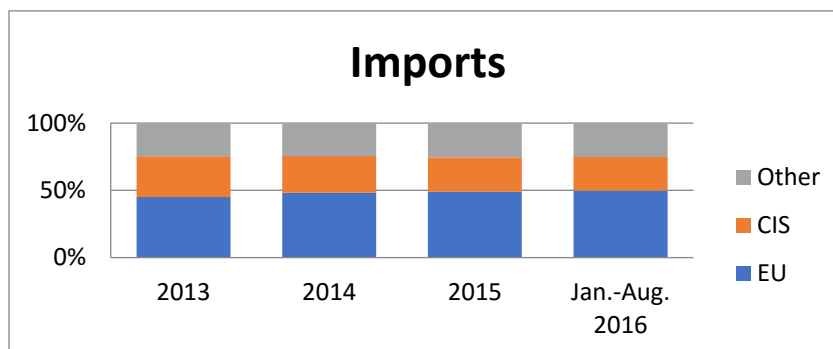
Total imports to Moldova decreased by 3.4 % in January-August 2016 compared to January-August 2015. Imports from the EU constituted 49.8% of total imports, however declined by 2.1 % compared to 2015. During the last two year, exports to the EU are more than 60% of the total Moldova exports and almost half of the total imports of the country (Figure I).

Figure I. Moldovan exports to the world regions for January 2013-August 2016



The figure shows that the share of exports to the EU has been steadily increasing since the implementation of the DCFTA and mainly due to the reduction of CIS's share in exports. Thus, the reorientation of exports to the West and, therefore, exports diversification is indeed feasible. However, imports from the EU have developed in the opposite direction (Figure II).

Figure II. Moldovan import to the world regions for January 2013-August 2016



The tendency of increasing exports to the EU and an almost constant volume of imports from the EU has positively impacted the Moldovan balance of payments (Table I).

Table I. The balance of payments of the Republic of Moldova in 2013-2015

	2013	2014	2015
<i>Balance of payments (thousands USD)</i>	-3064090,1	-2977429,3	-2019937,4

As of January 2016, there are 1835 exporting companies in Moldova, more than 60% of which are providing exports to the EU and ensuring about 600 (673 in 2015) positions of goods.

The DCFTA implementation brought changes in the structure of exports: in the top positions being placed the industrial goods (Table II), covering over 65% of all exported goods. This is an outstanding contrast to Moldova's export of primary and resource-based products in earlier years.

Table II. Top 10 exported good from Moldova to the EU in 2015

The EU is also the main investor for Moldova, having provided in 2015 over 52% of the total FDI into the country.

NCM code	Group of goods	Mil. USD
85	Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image, reproducers and parts and accessories of such articles	233,7
12	Oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit, industrial or medicinal plants, straw and fodder	139,9
62	Articles of apparel and clothing accessories, not knitted or crocheted	137,4
08	Fruits, peel of citrus fruits or of melons	96,4
94	Furniture, bedding, mattresses, mattress supports, cushions, similar stuffed furnishings, lamps, lighting fittings, illuminated sign illuminated nameplates, the like and prefabricated buildings	91,5
10	Cereals	69,1
15	Animal or vegetable fats and oils and their cleavage products, prepared edible fats, animal or vegetable waxes	68,1
61	Articles of apparel and clothing accessories, knitted or crocheted	58,4
22	Beverages, spirits and vinegar	40,7
20	Preparations of vegetables, fruit, nuts or other parts of plants	35,2

The top three biggest investors for Moldova come from the EU Member States: the Netherlands, Cyprus, and France.

In summary, the overall trade relations between Moldova and the EU have intensified. This fact has been a result of the significant change in the structure of Moldovan exports, which are reorienting towards the West, and becoming dominated by non-resource-based products.

OVERVIEW OF THE DCFTA IMPLEMENTATION for 2016

The DCFTA is oriented to the removal of import and export duties on the trade in goods between the Republic of Moldova and the EU together with the removal of obstacles to trade in goods and services and stimulating better access for companies to the EU market. The DCFTA has established a free trade area for trade in goods since the provisional application of the EU–Moldova Association Agreement (1 September 2014). By the end of 2016, significant efforts have been realized by the Moldovan authorities, with EU support, regarding the promotion and implementation the EU principles, regulations and standards in the Moldovan legal and institutional framework. This chapter proposes to present an overview of the most important changes which occurred for the “free trade”, “comprehensive” and “deep” components of the DCFTA during the last months of 2015 and 2016.

- i) *The DCFTA understands **FREE TRADE** as a broad approach, combining the elimination of tariff duties, recognition of rules of origin, the right of establishment principles and the liberalization of related services.*

1a. Tariff duties

The duties applied to goods originating from Moldova and which are imported into the EU were eliminated as of 1 January 2016. An exception exists for goods listed in one of the Annexes XV (A, B or C). Products listed in Annex XV-A (tomatoes, garlic, table grapes, apples, plums and unfermented grape juices) are imported into the EU free of customs duties within the limits of the TRQ set out in that Annex. The most-favored-nation (MFN) customs duty rate shall apply to Moldova exports to the EU exceeding the TRQ limit. Products listed in Annex XV-B (other fruits, vegetables and grape must) are subject to an import duty into the EU with exemption of the ad valorem component of that import duty. Products listed in Annex XV-C shall be subject to the EU anti-circumvention mechanism set out in Article 148 of the Association Agreement.

The elimination of certain customs duties applied by the Republic of Moldova to EU imports is set out in Annex XV-D.

1b. Rules of origin

In September 2015, the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) entered into force in Moldova. The PEM's provision of diagonal cumulation stipulates that materials which have obtained originating status in one of the Contracting Parties may be incorporated in products manufactured in another Contracting Party without those products losing their originating status when exported to a third Contracting Party within the pan-Euro-Med zone¹. Taking into consideration Moldova's proximity to the EU, Turkey and the Balkan countries, this mechanism represents a tremendous potential. On 27 April 2016, the EU-funded project “Support to the DCFTA process in the Republic of Moldova” (DCFTA project) held a workshop titled “Support the implementation of the PanEuroMed Convention in the Republic of Moldova” with participation of representatives from Government, ministries, civil society and business associations².

¹http://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en

² <http://dcfta.md/eng/workshop-on-implementation-of-the-paneuromed-convention-in-the-republic-of-moldova>

1c. Services and establishment

Moldova's progress in the field of establishment is a challenging and necessary dimension. Many aspects still need to be solved in order to fully comply with the EU principles. The Civil Code and the immigration policy need to be seriously adjusted to ensure efficient and acceptable labor market conditions for foreign employers and employees.

The conditions for services realized some important modifications. In 2016, the Law on Postal Communications entered into force³, which provides for the de-monopolization of the postal sector. Moldova shall progressively reduce the areas of the postal monopoly, based on the provisions of EU Directive 2002/39/EC and EU Directive 2008/6/EC, within the timeframes stipulated by the Association Agreement.

- II) *The “**COMPREHENSIVE**” component of the DCFTA presumes that several important domains, such as competition or transparency, cannot be viewed separately from trade and, therefore, are included in the DCFTA.*

2a. Competition policy

There are two major components of competition policy within the framework of the Association Agreement - competition and state aid. Both elements are covered in Title V - Chapter 10 of the Association Agreement. The Association Agreement sets very ambitious commitments for Moldova, including:

- a) ensuring the functions of licensing and aid recovery by the Competition Council - two years from the entry into force of the Association Agreement (1 September 2016),
- b) full transposition of the EU *acquis* regarding state aid - five years from the entry into force of the Association Agreement (1 September 2019), and
- c) publication of information about the state aid in accordance with EU standards from 1 January 2016 (bi-annual basis), thus, the first report on state aid in Moldova should be made available to the public on 1 January 2018⁴.

The Competition Council has made significant progress in regulating state aid by adopting sectoral regulations for various forms of state aid. The Competition Council has promoted and integrated an information system for the registration of state aid – the State Aid Register of Moldova (SIRASM), which will contribute to the efficient use of resources from the state budget by establishing a system for the notification, monitoring and reporting of state aid online by completing the necessary forms electronically. But there are still several important aspects that require much effort from the authorities to ensure a space similar to European competition.

2b. Intellectual property

The protection of intellectual property rights (IPR) is an important issue, reflected in the DCFTA. The year 2016 was particularly fruitful in results in this area.

With Law Nr. 212 of 29 June 2016 amending the Law on Copyright and Related Rights 139/2010, Moldova harmonized the terms of copyright protection with the provisions of EU Directive 2006/116/EC on the term of protection of copyright and certain related rights.

Significant progress occurred in implementing the EU-Moldova Agreement for the protection of Geographical Indications (GI), which became part of the Association Agreement. With Law Nr. 97 of 13 May 2016 on Amending and Supplementing the Law Nr. 66-XVI of 27 March 2008 on the Protection of Geographical Indications, Appellations of Origin and Traditional Specialties Guaranteed, the Moldovan legislation was harmonized with the EU Regulation on quality schemes for agricultural products and foodstuffs.

³ <http://lex.justice.md/md/364504/>

⁴ http://www.kas.de/wf/doc/kas_44091-1522-19-30.pdf?160202164411

The State Agency on Intellectual Property and the Moldovan Customs Service have undertaken measures to implement the National Strategy on Intellectual Property Rights (IPR) 2020. To improve the IPR enforcement environment, new Regulations of customs measures applied at the border for intellectual property protection were approved by Government Decree Nr. 915 of 26 June 2016, which established the border enforcement procedure in line with EU Regulation 608/2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) 1383/2003.

However, to better fulfill Moldova's commitments of the Republic of Moldova in ensuring the protection of EU geographic indications (GIs), there is a need to strengthen the IPR enforcement capacity of the Customs Service, to improve the available tools and to implement an efficient enforcement mechanism for GI protection in accordance with the Association Agreement. Development of an efficient mechanism for the destruction of counterfeited and pirated goods is another priority for the responsible institutions.

- III) *The “DEEP” component is related to the reform and modernization of the economy and improvement of the policy environment on the basis of EU rules and principles.*

3a. Food safety/sanitary and phytosanitary measures

Sanitary and phytosanitary issues still remain as the most challenging point of the DCFTA implementation. During 2015–2016, the Government adopted and examined numerous decisions and proposals for draft laws. The most relevant are the following:

- draft law on control of compliance with quality requirements for fresh fruit and vegetables (Regulation (EC) 1234/2007);
- draft law on the classification of carcasses of cattle, pigs and sheep (Regulation (EC) 1249/2008);
- requirements for the quality evaluation of milk and meat products;
- National Programme for monitoring and surveillance in plant health, food and feed safety for 2016;
- a technical concept for the automatic informational system for a Moldovan wine register;
- draft regulation concerning a ‘one-stop shop’ for the issuance of permits for exporting products of animal origin;
- an automatic informational system for a phytosanitary register on plant protection and phytosanitary quarantine;
- draft law aimed at establishing the Rapid Alert System for Food and Feed (RASFF) in line with Regulation (EC) 178/2002. The Ministry of Agriculture and Food Industry's (MAFI) competences were completed by transposing Regulation (EC) 882/2004 on official controls to ensure the verification of compliance with feed and food law, animal health and animal welfare rules.

Some steps have been undertaken for the improvement of laboratories. For accreditation purposes of the Animal Health Laboratory as to ISO 17025, the departments and sections proposed for accreditation were evaluated in 2016. An application for international accreditation was submitted for ISO 17025, RENAR Romania, the Animal Health Laboratory. In September 2016, the Action Plan on Animal health laboratory accreditation to ISO 17025 was approved. This plan envisions a series of measures such as ensuring a laboratory, creating environmental conditions, equipment calibration, participation in proficiency testing, and personnel training. Weekly reports on the steps regarding the accreditation process are prepared.

ANSA personnel are regularly involved in capacity-building activities with a focus on food safety and agri-food composition, veterinary residues, and food and feed contaminants. For instance, veterinary subdivisions from ANSA were instructed about the use of the TRACES system and veterinary certification of goods exported to the EU.

3b. Public procurement

In 2016, Moldova took a big step in the field of public procurement. In April 2016, the Ministry of Finance announced procurement reforms including the creation of an Agency responsible for contestations and appeals, introduction of the eProcurement system and restructuring of the Public Procurement Agency. Several technical cooperation projects in the field of public procurement will be initiated in cooperation with the EU Delegation in Moldova and the European Bank for Reconstruction and Development (EBRD). Technical cooperation projects will assist the Agreement on Government Procurement with the introduction of the national procurement standards, implementation of e-procurement and the constitution of a body responsible for revision of public procurements in Moldova.

3c. Customs and trade facilitation

Various measures were undertaken to simplify the customs rules for Moldovan exporters, particularly with the **AEO concept** that has been applicable since 2014. Currently, more than 100 companies benefit from AEO status. The simplified procedures for AEOs from the EU have been applied as a pilot project at Leușeni customs post since July 2015, and the unilateral recognition of EU AEOs has been already implemented. In May 2015, the authorities reduced the number of obligatory acts for export/import to only three documents instead of nine, and three documents instead of eleven for imports. The authorities also apply the mechanism of **approved exporters** to facilitate the export of 'preferential origin' from Moldova. The approved exporter certificate excludes the obligation to apply for the EUR 1 movement certificate.

Another big step towards the simplification of customs procedures is the procedure for the **electronic declaration for export and import** (Government Decision Nr. 904 of 13 November 2013). The submitted declarations are kept afterwards in the ASYCUDA system, administered by the Customs Service. The share of electronic declarations for export amounted to 21% of the total in 2014, but rose to 98,4% by the beginning of 2016. The use of electronic declarations for imports is still at an early stage (only 16% at the beginning of 2016).

The European Union Border Mission (EUBAM) is another important instrument in EU–Moldova customs cooperation. EUBAM is assisting Moldova and Ukraine (especially the customs services) to create the legal framework, institutional infrastructure and administrative capacity to implement the DCFTA customs and trade facilitation rules. Much of this work is accomplished using the mission's Trade Facilitation Working Group - a platform for cooperation between the relevant national government agencies, national business and key international development partners such as USAID, American Chamber of Commerce and the European Business Association. In collaboration with the European Commission, EUBAM assisted the Moldovan customs services to introduce reforms related to post-clearance control and audit and the AEO concept.

In 2016, the Integrated Customs Tariff of the Republic of Moldova (**TARIM**) was introduced, which clearly established the list of permissive documents for customs clearance and excludes personal interpretations.

The Customs Service also has adopted the first Action Plan on integrity, which requires quarterly reports on integrity to be submitted to the Anti-corruption Centre. The Customs Services also improved its collaboration framework with other state institutions, such as State Fiscal Inspectorate, National Agency for Products Safety (ANSA), and the Ministry of Interior.

1. AGRICULTURE

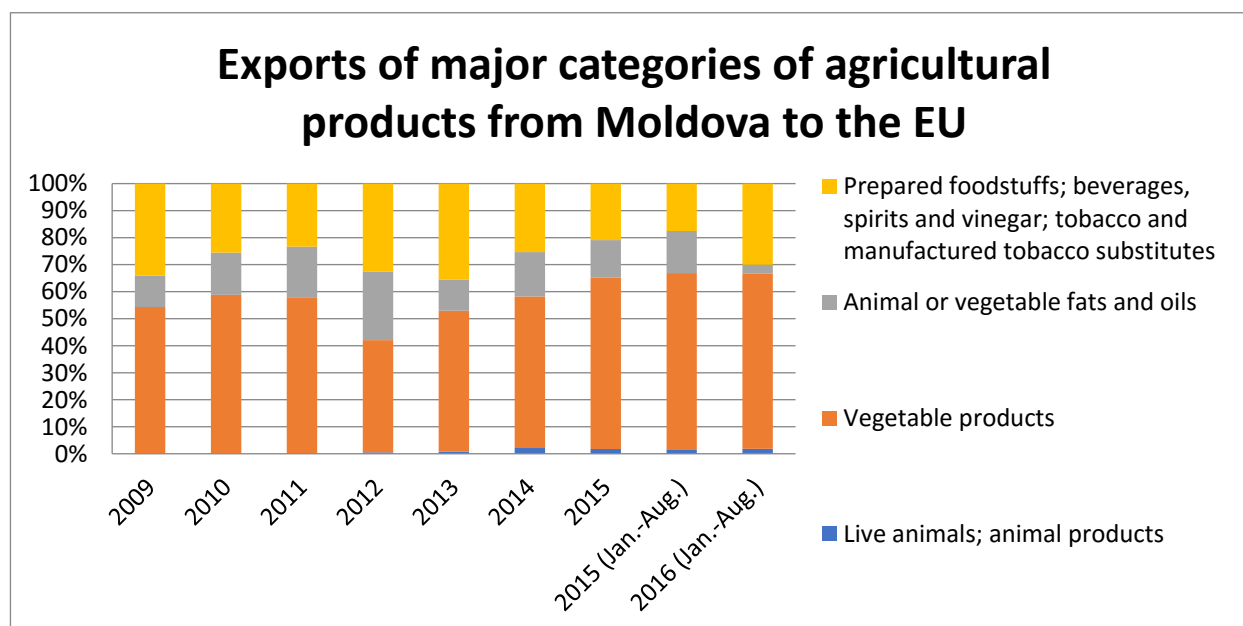
Agriculture remains one of the most important sectors of the Moldovan economy. Although agricultural products no longer occupy the dominant positions in the export structure of the Republic of Moldova, 38% of the population is occupied in this sector, according to the latest data of the National Bureau of Statistics. Only the services sector as a whole offers more working places in the country. The EU Joint Analysis suggests that agriculture is the sector to be most influenced by the DCFTA. It is also the least prepared regarding the tough competition on international markets, due to low productivity, high land fragmentation, and outdated technologies⁵. Therefore, it is difficult to overestimate the significance of transformations in this sector, including those conditioned by the DCFTA implementation.

1.1. Brief description of the current situation

Agriculture is traditionally considered to be one of the most important sectors of the Moldovan economy. In the second semester of 2016, the agricultural production increased by 4% (in current prices) in comparison with the same period of 2015. Exports of vegetable products and live animals covers 25% of total Moldovan exports (second semester 2016) and almost 23% of exports to the EU.

Having a relatively good increase of exports in almost all categories (excluding prepared foodstuffs) in 2014⁶ and an exceptional growth of exports of vegetable products in 2015, the situation changed in 2016. In the second semester of 2016, compared to the same period of 2015, exports of live animals, vegetable products and fats went down, however, exports of prepared foodstuffs and beverages increased by almost 50%, which denotes a visible modification in the structure of agricultural exports to the EU (Figure 1.1.).

Figure 1.1. Exports of major categories of agricultural products from Moldova to the EU, 2009-August 2016



Source: NBS and Customs Service data

⁵ https://eeas.europa.eu/sites/eeas/files/joint_analysis_0.pdf

⁶ <http://dcfta.md/uploads/0/images/large/trade-sector-briefs.pdf>

The DCFTA implementation undoubtedly caused observable changes in the list of the top exported agricultural products, which is not dominated by wines (which constituted in 2013, 5% of the total Moldovan exports). More importantly, Moldova exported significant volumes of other products, such as sugar, which are new in the basket of top export products (Table 1.2)

Table 1.2. Top 8 exported agricultural products from Moldova to EU, January-August 2016

<i>NCM code</i>	<i>Product</i>	<i>Value, thousands USD</i>
1206	Sunflower seeds	56657.3
0802	Nuts	39435
1001	Wheat	34066.7
1701	Sugar	22592.5
2204-2206	Wines	22385.3
1005	Corn	18083.8
0409	Honey	4917
0806	Grapes	3705.8

Source: Data from the Customs Service

The export/import of products subject to annual duty-free TRQs increased immediately after the start of the DCFTA's implementation. **Unprocessed goods**, such as grapes, plums and barley, registered a five-fold increase. However, the TRQ quotas are still far from being exhausted for many categories of exported or imported products (Table 1.3.).

**Table 1.3. Tariff rate quotas in comparison with the volume of export/imports of goods
(01.01.2015-01.09.2016)**

<i>Products</i>	<i>TRQ (thousands of tons)</i>	<i>Volume of export/import (thousands of tons)</i>
Exports		
Grapes	10	13.9
Apples	40	0.7
Plums	10	7.6
Imports		
Sugar	5,4	0
Milk products	1	0.41
Processed meat products	1	0.65
Chicken meat	4	6.51
Exports due to anti-circumvention mechanism		
Barley	70	117.4
Corn	130	312.8
Wheat	75	421.1
Sugar	37.4	58.51

Source: http://ec.europa.eu/taxation_customs

The tariff rate quotas were totally covered by exports of grapes or imports of chicken meat, however, more categories of products still have a high potential for their increase of trade statistics. At the same time, due to the application of the anti-circumvention mechanism, exports of other categories of products (barley, corn, wheat, sugar) exceeded the existing tariff rate quotas.

Processed food exports increased in 2016 (Figure 1.1.) and are dominated in this year by sugar confectionary and alcoholic (beer) non-alcoholic beverages (wine is not included in this category). For January-August 2016, Moldova exported 837 tons of sugar confectionary, and 3427010 liters of beverages.

To date, Moldovan enterprises have not been authorized to export a large variety of products of **animal origin** to the EU. The major barrier for increased exports is due mainly to non-compliance with the EU sanitary and phytosanitary standards that would ensure extensive access to the EU market for meat, eggs and dairy. Currently, the most important products of animal origin which are exported by Moldova is honey, which is delivered in bulk and later processed in the importing countries. The main problems for Moldovan local initial processing lies in the lack of suitable packaging materials which are produced in the country and excessive customs duties for imported packaging. This means that the final honey products are not labelled as "Moldovan" in the EU market. In January-August 2016, the largest quantities of honey were shipped to Germany (388 tons), Italy (359 tons), Romania (323 tons), and France (231 tons). Another product of animal origin appeared in the

palette of exported products from Moldova – snails. In the first eight months of 2016, businesses, which were opened due to support of PARE 1+1 Program⁷ and financed by the EU, exported 13.5 tons of snails to Lithuania and 30 tons of snails to Romania.

1.2. Brief description of the EU market and regulation

Agriculture in the EU is developed within the Common Agricultural Policy (CAP), which aims to make the EU play a key role in ensuring food safety in the world and, at the same time, ensure that farmers have a reasonable standard of living, while producing quality and affordable food. The diversity and quality of EU agricultural products make the region a major world exporter, but also importer of quality food. The EU imports annually over EUR 60 billion worth of agricultural products from developing countries.

The EU has a series of tools to ensure the quality of products. These are:

- Marketing standards;
- Certification system, which ensures compliance with environmental protection, animal welfare etc.;
- Quality systems for products with special quality;
- Hygiene rules based on the “from farm to fork” principle.

1.3. Reference to the Association Agreement/DCFTA

Title IV, Chapter 12 of the Association Agreement explains the principles of collaboration between the EU and Moldova in agriculture and rural development. The cooperation should cover the following areas: facilitating mutual understanding on rural policies, enhancing capacities in order to implement EU policies, sharing knowledge, improving competitiveness etc. A range of Regulations and Directives will have to be taken into account on approximation of Moldovan legislation, for example with regard to the control of wine sector, organic agriculture etc.

According to the provisions of Title V, Articles 143-153 of the Association Agreement and its Annex XV, agricultural products originating from Moldova are exempted from customs duties in different ways:

- Most products are imported entirely free of customs duties since the start of implementation of the Agreement.
- Some products are subject to an import duty (entry price) into the EU with the exemption of the *ad valorem* component of that import duty (pears, apricots, cherries, peaches etc.).
- Some products are imported duty free within tariff-rate quotas (apples, plums, tomatoes etc.).
- Some products are subject to the anti-circumvention mechanism that monitors import levels (pig meat, poultry meat, some dairy products etc.);
- For some categories, the elimination of customs duties will take part gradually by different stages (some categories of jams, juices, wines etc.)

The DCFTA presumes that no party can introduce new customs fees or increase the existing ones above the established by the Agreement level for goods originated from another party. At the same time, no export fees shall be applied by both parties.

⁷ <http://www.cuvintul.md/article/Un-moldovean-creste-melci-la-Peresecina-si-ii-vinde-in-Vest/>

Chapter 4 of the DCFTA part of the Agreement, together with Annexes XVII-XXV, cover the gradual reform process of Moldova's sanitary and phytosanitary measures for agricultural products, which will allow Moldova to export all its agricultural products to the EU. The Moldovan legislation will be gradually harmonized with the EU legislation. Official laboratories have to be accredited at the international and European level and, thus, should be provided with all necessary equipment for that. Also, the communication and notification system should be implemented (in particular, the RASFF – Rapid Alert System for Food and Feed will be introduced).

Article 175 stipulates requirements for marking and labeling. The Moldovan regulation should correspond to *acquis communautaire* in this field.

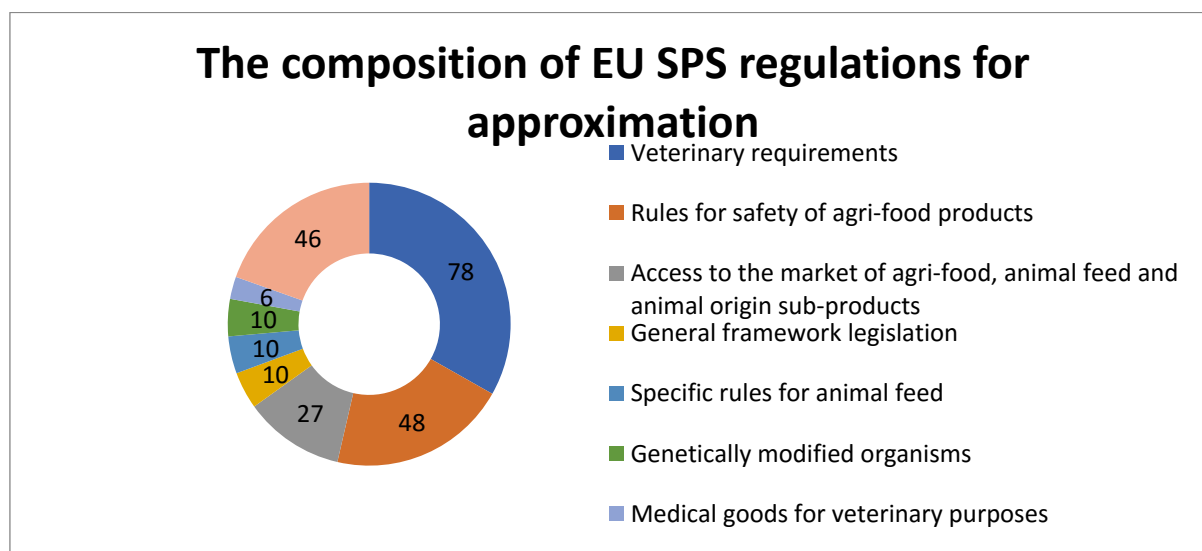
1.4. Opportunities and challenges

Two important priorities in the SPS field are the diversification of exports of animal origin products and the improvement of the laboratory infrastructure. The SPS legislation for the period 2016–17 includes measures to make Moldovan companies eligible for exporting class B eggs and poultry. The EU has begun its assessments for both products. The following products foresee these transitional periods for trade liberalization with the EU:

- three years - pasta, pepper, corn;
- five years - cheeses, vegetables (tomato, cucumbers, etc.), fruits (cherries, nectarines, raspberries) wines, juices, jams and bakery products;
- ten years - milk, meat etc.

The list of EU laws for SPS to be approximated was not fixed in the original Association Agreement, but was scheduled to be decided within three months of its entry into force. In 2015, the Moldovan authorities prepared this list, with the aid of a screening done with EU experts under a TAIEX project, and presented it to the European Commission for consultation. In March 2016, the list was published for public consultation in Moldova. The agreed list of SPS legislation covers 235 EU directives and regulations. It was officially adopted, as of 1 June 2016, as Annex XXIV-B by the EU-Moldova SPS Sub-Committee. The composition of this list is presented at Figure 1.4.

Figure 1.4. The composition of EU SPS regulations for approximation



The largest share of EU SPS regulations relates to veterinary requirements and rules for safety of agri-food products, with fewer regulations relating to access to the market of agri-food, animal feed and animal origin sub-products, general framework legislation, and specific rules for animal feed and medical goods for veterinary purposes. The approximation periods agreed for this EU SPS legislation are up to five years, until 2020. The bulk of this legislation is scheduled for two-year approximation periods (for 68 directives), three-year periods (52 directives) and four-year periods (57 directives) starting from 2016.

ECORYS (2012)⁸ estimates for Moldova state that the DCFTA would boost other crops output by 18.5% and grains output by 7.7% in the long-run. The impact on food industry is more significant: sugar output is estimated to grow three-fold, and other processed food by 12%.

Table 1.5. Changes in Moldova's agriculture and food sectors output due to the DCFTA for Short-Term and Long-Term periods

<i>Products</i>	<i>Short-term</i>	<i>Long-term</i>
Grains and crops	7.1%	7.7%
Vegetables and fruits, nuts	-0.1	-0.4
Other crops	18.2	18.5
Animal products	-0.2	0.7
Livestock and meat products	-18.1	17.7
Vegetable oils and fats	5.8	5.9
Dairy products	0.9	1.5
Sugars	187.7	187.1
Other food products	2.3	12.1
Beverages and tobacco	3.7	-14.5

There are already some signs of the reliability of this data. The total agricultural production is increasing, sugar as an export product is in fourth place among agri-food products, and other crops also occupy the leading export positions. In fact, this forecast means that the long-term and the short-term changes in the agri-food sector due to the DCFTA implementation would have a positive impact not only on output, but also for exports.

⁸ ECORYS (2012) Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova (with annexes), http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf

The EU is providing significant support for the agricultural sector's development in Moldova. According to the European Neighbouring Instrument for 2014-2020, 30%⁹ of the EU allocations are proposed for agricultural and rural development of Moldova (indicative allocation for the 2014-2020 period is 610-746 million euro; the indicative bilateral allocation for the programming period 2014-2017 is 335-410 million euro). This support is intended to:

- increase the competitiveness of the agri-food sector through modernization, market integration and alignment with international standards;
- support the diversification of economic activity in rural areas giving due attention to the creation of green and decent jobs, observing in particular agro-biodiversity conservation and the protection of valuable areas; and
- ensure the sustainable utilization of natural resources in rural areas and in the agri-food sector etc.

Thus, Moldova has excellent opportunities to modernize the agricultural sector, developing it in a flexible and competitive direction.

1.5. Projection of future trade flows and trends

The potential for production and export growth in agriculture is indeed promising, taking into consideration the DCFTA requirements and the experience of the first two years of its implementation. The ECORYS's estimations reveal a general positive short-term and long-term perspective for Moldova, which, however, would depend significantly on the speed of legal approximation and the quality of implementation of the new regulations.

1.6. Information on available financial and technical support

- Web page with synthesized information about financing programs: www.finantare.gov.md
- Project "Support for agriculture and rural development in ATU Gagauzia and Taraclia" (SARDSARD Project (6.5 million euro), implemented during 2016-2018 by the United Nations Development Programme with the financial assistance of the European Union
- Project "Mac-P Competitive Agriculture": <http://www.capmu.md/index.php?lang=ro>
- Program for Irrigation Development: www.2kr.md
- IFAD Program for infrastructure: www.ifad.md
- Competitiveness Enhancement project: <http://uipac.md/eng/competitiveness-enhancement-project-cep-i>
- PARE 1+1 Project: www.odimm.md

1.7. Recommendations

There is no doubt that agriculture will remain important to the Republic of Moldova economy for several years into the future. This is due to the fact that a fast shift of the working force into other sectors is not possible from the technical and other points of view. Therefore, maximum efforts should be applied in strengthening this sector by the Government and the market players. Most recommendations which were listed in the Trade Sectors Briefs 2015 remain valid for this year. A special emphasis is needed in the field of sanitary and phytosanitary standards, because the major sources of export growth are hidden in products of animal origin. Also, in order to be able to harness the enlarged export potential, Moldovan producers need to create more associations of producers and exporters, which would fulfill the roles of trade facilitator.

1.8. Useful links and addresses

1. Agency of Interventions and Payments for Agriculture, www.aipa.gov.md
2. Ministry of Agriculture: www.maia.gov.md
3. Organization for SMEs Development: www.odimm.md

⁹ http://ec.europa.eu/enlargement/neighbourhood/pdf/key-documents/moldova_2014_2017_programming_document_en.pdf

2. FINANCING, BANKING AND INSURANCE SERVICES

The EU Joint Analysis for Program in the Republic of Moldova until 2020 detected the Moldovan financial sector as a weak point in the development agenda. Problems in supervision and regulation, inadequate certification of bank owners – all these issues distort the stability of the financial system and influence negatively many other economic mechanisms and processes. The Moldovan authorities need to make it a top priority to bring an outstanding order to the area of banking, which is dominant for financial services, however, the insurance and other domains also need to be addressed.

2.1. Brief description of the current situation

As discussed in the previous edition of the Trade Sector Briefs¹⁰, the Moldovan financial sector is strongly dominated by banks, which provide more than 90% of the total financial assets and loans in the last decade. The situation in the **banking sector** in 2014-2015 contributed to its association with high risks and unpredictability. Some experts consider that after the banking crisis of 2014-2015, the situation in the banking sector shows signs of stabilization¹¹. Some basic indicators are really reflecting good tendencies (Table 2.1.). The risk-weighted capital adequacy ratio has increased in 2016 in comparison with 2015, which means that the degree of protection of the depositor's money is higher. Total deposits registered a slight increase, which means that the population did not lose its credibility towards banks. However, to ensure that the process is sustained and irreversible, it required several full systemic reforms to strengthen the sector and to resume financial cooperation with the key development partners. The measures taken so far are not fully sufficient to prevent similar crises in the future. The quality of assets of the entire banking sector is not ensured, and the situation in the three largest banks continue to be under special supervision. One of the most important point in the agenda has not yet been fully achieved - namely the quality and transparency of bank shareholders, as there are more doubts about the real beneficial owners.

Table 2.1. Activity of Moldovan banks as of 31.12.2015 and 30.09.2016

Indicator	30.09.2016	31.12.2015
Total regulatory capital (MDL)	9,497,905,410.31	9,305,211,137.95
Risk weighted capital adequacy ratio	28.7	26.21
Total assets (MDL)	72,727,699,509.00	68,790,195,378.00
Total loans (MDL)	36,336,494,795.19	38,186,609,530.26
Total deposits (MDL)	54,263,335,225.00	50,201,511,210.00
Liquid Assets Ratio	47.20	41.72
Profit (loss) of the year (MDL)	1,365,495,025.00	1,144,231,255.00

Source: National Bank data

¹⁰<http://dcfta.md/eng/trade-sector-briefs>

¹¹ <https://www.ceps.eu/publications/deepening-eu-moldovan-relations-what-why-and-how>

In September 2016, the Moldovan Government approved, by the assumption of responsibility procedure, three important laws:

1. The Law of recovering and resolution of banks, which is based on international standard “Key Attributes for Effective Resolution Regimes for Financial Institutions” of the Financial Stability Board and EU Directive 2014/59/EU about the recovery and resolution of banking institutions
2. The Law of Single Central Securities Depository, which focuses on creation of a unified central securities settlement, in the form of a limited company, setting the founders/shareholders - NBM, market operators, financial institutions and investment firms. This reconfiguration of the financial market infrastructure is reflected by point 8.8 of the Roadmap¹² of the reform agenda of the Government Committee for European Integration
3. The Law on amending and completing of some legal acts¹³, which includes changes in the Law of Financial Institutions, Law of the National Bank of Moldova etc.

New rules are needed to prevent a bank from becoming insolvent or, if it occurs, to explore all avenues for the viability of the bank, and the lack of alternatives to liquidating the bank concerned with minimal impact on the national financial system and public finances. The amendments are aimed at strengthening the national legal framework on transparency and quality of bank ownership, corporate governance and risk management of banks, while some additions are related to the creation of a regime establishing foreign bank branches in the Republic Moldova.

The Moldovan **insurance market** was facing serious challenges in 2016. The main issues were related to the Green Card insurance, which provides 22% of insurance premiums collected and about 18% of compensation¹⁴. There was a very high probability for Moldova to be excluded from the international Green Card system because of some serious Green Card rules’ infringements. However, due to the fast and significant actions of the Moldovan authorities, the General Assembly of the Council Bureau of the international Green Card system for auto insurance decided in June 2016 to revoke the decision to suspend the membership of the Moldova National Bureau of Motor Insurers (BNAA) in the “Green Card” system.

The insurance sphere, as a whole, continued to be adjusted to EU norms and practices. On 25 April 2016, the Ministry of Economy and the EU-financed project “Support to the DCFTA Process in the Republic of Moldova” organized a conference on the Law of Insurance in Moldova. This Conference represented the logical culmination of the expert mission which identified the needed amendments in the local insurance legislation after a thorough analysis and assisted in transposing the relevant European Directives¹⁵. The event was very successful in its aim to provide information to a wide cross-section of stakeholders on the implementation parameters of the EU *acquis* on insurance into Moldovan legislation, and assisted the regulator and insurance companies in their efforts to comply with EU standards for insurance law.

2.2. Brief description of the EU market and regulation

Following the 2008 financial crisis, the EU launched a reflection process to establish a uniform system that includes detailed rules for the restructuring and resolution of credit institutions. EU Directive 2014/59/EU is a concretization of efforts to create an effective framework for crisis management for cross-border financial institutions. This constitutes a fundamental reform of the regulation and supervision of financial markets, which sets up a regime that ensures that the authorities effectively coordinate their actions and have the appropriate tools to intervene.

¹² https://gov.md/sites/default/files/foaie_de_parcuri_privind_agenda_de_reforme_prioritare_.pdf

¹³ <http://lex.justice.md/md/364623/>

¹⁴

http://www.infomarket.md/en/analitics/Moldova_has_maintained_its_membership_in_the_international_system_Green_Card_but_will_be_monitored_until_the_end_of_July_2017

¹⁵ <http://dcfta.md/conference-on-eu-moldova-insurance-law>

2.3. Reference to the Association Agreement/DCFTA

Chapter 9 of Title IV recognizes basic principles of collaboration in the area of financial services and their adaptation to the needs of the market economy by implementing EU legislation in the area, strengthening cooperation with the Financial Action Task Force (FATF), the Council of Europe, and Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), any other relevant authorities in EU Member States.

Art. 241-249, Title V of the Association Agreement refers to principles of the regulatory framework for financial services. In particular, it is important that Parties should implement internationally agreed standards in the sphere of financial services.

The Republic of Moldova will have to implement a series of regulations and EU directives in the field, for example:

1. Regulation (CE) nr. 1781/2006 of 15 November 2006 on information on the payer accompanying transfers of funds. Normative acts of the National Bank have to be harmonized within 3 years from the beginning of implementation of the Association Agreement.
2. EU Directive 2013/36/UE and Regulation (CE) 575/2013 and initiate the modification of Law of Financial Institutions, rules for banking supervision etc.
3. EU Directives 2005/60/CE and 2006/70/CE and elaborate or modify existing normative acts with regard to money laundering.
4. EU Directive 2003/41/CE about pension funds and their promotion.

In order to ensure effective and independent supervision, as the Agreement presumes, Moldova has to improve and strengthen the administrative capacity of the National Bank of Moldova as a result of implementation of the Twinning project "Strengthening the capacity of the National Bank of Moldova in the field of banking regulation and supervision in regards to the implementation of the requirements of the Basel II/III Agreement" and evaluate the capacity of the banking supervisor and strengthen its capacity as a result of the implementation of the project.

2.4. Opportunities and challenges

The EU is providing significant financial and technical support for the approximation of Moldovan banking and insurance legislation. However, its implementation and progress mostly depend on Moldovan authorities and market players.

At the same time, the capacities, abilities and possibilities of local entities (banks, insurance companies, financing organizations etc.) and the regulators (NBM and NCFM) are indeed limited in terms of development opportunities and deeply-rooted perceptions which should be changed over time. In this context, the openness of the Moldovan institutions and capacity to absorb necessary reforms is vitally important.

2.5. Projection of future trade flows and trends

The stability and well-being of the financial and banking sector in Moldova is now almost totally in the hands of the responsible authorities. Political will to revive the confidence towards banking institutions is necessary to provide the conditions for Moldova's economic recovery for which cheap and available financial sources are vitally necessary. The picture is as simple as it is complicated – if this political will imposes its strong presence and the population really will receive the message of positive changes, the banking sector has good perspectives to fulfill its main function – saving deposits and granting loans. In a contrary case – sluggish banking activity would determine weak business and economic development. For the insurance sector, these forecasts are quite valid. A series of measures and regulations which are able to stimulate the market would be a significant boost of the services provided.

2.6. Recommendations

- Following the experience of EU Member States, the recovery and resolution provisions should be extended to other financial institutions such as insurance companies and microfinance companies. Even if they do not have systemic impact on the country's financial chain, they remain quite integrated with the banking sector, as demonstrated by the latest developments of the non-bank financial sector.
- The investigation of frauds should be accelerated. In this context, a strong collaboration with the relevant authorities from the countries to where the funds were transferred is recommended. In addition, the process must be highly transparent and objectively presented to the public¹⁶.
- Independent and impartial authorities and regulators are crucial for the development of the financial sector, and their independence and competence should be secured by all means possible. Thus, the boards of the responsible institutions – the National Bank and NCFM should be selected in an open and public hearing, potentially with the participation of international experts.
- In the insurance domain, the implementation of Solvency II rules is recommended in order to improve the financial and organizational situation and the shareholders' protection. Considerable capacity-building and paradigm shifts should take place on the side of the regulator (NCFM).
- A series of regulatory measures are suggested to stimulate the insurance market development, such as deductibility of various insurance schemes for private entities etc.

The EU requirements must be implemented in the field of anti-money laundering: EU Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

2.7. Useful links and addresses

1. National Commission for Financial Markets, www.cnpf.md
2. National Bank of Moldova, www.bnm.md

¹⁶ http://www.expert-grup.org/media/k2/attachments/Monitorul_financiar_2_aprilie_-_iulie_2016.pdf

3. ENERGY INDUSTRY

Moldova's energy sector is burdened by some technical, financial and institutional deficiencies, and energy dependence. Moldova depends totally on imports of natural gas from the Russian Federation. In addition, energy security is also influenced by the lack of sufficient capacity for generating electricity, covering only about one-fourth of the necessary consumption, while the rest being purchased from an entity located in the Transnistrian region.

3.1. Brief description of the current situation

The energy sector is the main source of dependency and vulnerability in Moldova's political and economic external factors. This is due to the 100% dependence on imports of natural gas from the Russian Federation. However, over 60% of electricity consumption is covered by deliveries by the Cuciurgan power plant, owned by a Russian company and operating in the Transnistrian region. Another source of vulnerability comes from Gazprom's monopoly on gas distribution infrastructure, which increases Moldova's energy dependence. This external vulnerability is fueled by several sector-specific systemic weaknesses. Projects for diversification are being developed through network connections with Romania for both gas and electricity, but these actions require extended EU funding which is not yet assured.

The main challenges related to the implementation of the Association Agreement in the energy are:

- Energy efficiency is very low in most businesses and households. Old panel houses, which were built about thirty years ago, register heat consumption 2-3 times higher than normal, reducing the average energy efficiency. Depletion of the distribution network and housing also increase the energy consumption and cause annual losses totalling several hundreds of millions of US dollars which are paid by the consumers. Many serious measures would be able to change the situation remain established only in official documents.
- The Cuciurgan power plant, which provides over 60% of domestic electricity consumption, has an uncertain status, and relations with it are vulnerable to political variables.
- A major problem is the energy sector's high level of indebtedness to suppliers. This debt is estimated at about 500 million US dollars and is an important barrier to the modernization of the sector.
- Power Quality regulation remains problematic¹⁷.

Also, some aspects regarding the property rights of the state pipelines remain open. The Transparency International Report stated that in Moldova violations of the law when negotiating and concluding contracts for the privatization of energy property, failure to take action in the event of failure by investors of the contractual clauses, and the lack of attention of regulatory authorities to the quality of the supply of energy resources are not random. Behind these irregularities, the interests of certain groups of power were hushed¹⁸. In addition, the independence of Moldova's regulatory body on energy is still very unstable and uncertain, a fact which also creates barriers for potential investments in the sector's development.

¹⁷ <http://conventia.md/angajamentele-r-moldova-%C3%AEn-domeniul-energetic-stipulate-%C3%AEn-cadrul-acordului-de-asociere-cu-ue/>

¹⁸ <http://www.transparency.md/files/docs/Sector%20energetic%20final.pdf>

Moldova has a very promising agenda for renewable energy and efficiency. There is an Agency for Energy Efficiency, established by Government Decision Nr. 1173 of 21 December 2010 and entrusted with the implementation of state policies on energy efficiency. There is also the Energy Efficiency Fund, created by Government Decision Nr. 401 of 12 June 2012, which is responsible for identifying, assessing and financing of projects in energy efficiency and renewable energy. However, some important projects on renewable energy faced serious challenges, in connecting to national distribution network and establishing tariffs, by the National Energy Regulation Agency (NERA), and were forced to assimilate additional losses for invested money while waiting for official procedures and approvals.

In summary, there many issues and challenges in this sector which need to be seriously addressed to fulfill the Association Agreement provisions, but, more importantly, for the sustainable future of Moldova.

3.2. Brief description of the EU market and regulation

The energy sector, including the production and distribution, directly employs about 1.6 million people in the EU and generates 250 billion euro added to the economy, corresponding to 4% of the value added of the non-financial EU business economy¹⁹.

Despite serious progress in the field, the EU is still facing important energy challenges. Among these are the dependence on energy imports providing over half of the EU energy at a cost of 350 billion euro per year and the scarcity of fuels, such as crude oil, which contribute to higher prices.

In the framework of the EU Sustainable Development Strategy, the European Commission has developed energy security of supply and climate change policies and adopted several regulatory measures aiming at the introduction of low-carbon innovative technologies, which will ultimately impact the market structure of the sector. The EU has also endorsed ambitious greenhouse gas emission reduction targets and accompanying targets for the decarbonization of the energy sectors.

The **2020 Energy Strategy** defines the EU's energy priorities between 2010 and 2020. It aims to:

- reduce greenhouse gases by at least 20%,
- increase the share of renewable energy in the EU's energy mix to at least 20% of consumption, and
- improve energy efficiency by at least 20%²⁰.

The latest round of EU energy market legislation, known as the **third package**, entered into force in 2009 and covers five main areas:

- unbundling energy suppliers from network operators,
- improvement of activities as to the independence of regulators,
- establishment of the Agency for the Cooperation of Energy Regulators (ACER),
- cross-border cooperation between transmission system operators and the creation of European Networks for Transmission System Operators, and
- improvement of transparency in retail markets to benefit consumers.²¹

In 2010, the European Agency for the Cooperation of Energy Regulators (ACER) was established and started its work in March 2011. The Agency makes recommendations to the European Commission regarding market regulation and priorities for transmission infrastructure and is responsible for promoting cooperation between national regulatory authorities at the regional and European levels; monitoring the internal markets in electricity and natural gas; the retail prices of electricity and gas, access to the network including access to electricity from renewable energy sources, and compliance with consumer rights.

¹⁹ <https://ec.europa.eu/jrc/en/research-topic/energy-sector-economic-analysis>

²⁰ <https://ec.europa.eu/energy/en/topics/energy-strategy>

²¹ <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation>

3.3 Reference to the Association Agreement /DCFTA

The legal provisions of the Agreement and DCFTA in the energy sphere largely consist of commitments made under Moldova's accession to the Energy Community Treaty in 2010, including the EU's Third Energy Package. The Association Agreement contains two major chapters on energy sector: Title V - Chapter 11 "Trade Related Energy" and Title IV - Chapter 14 "Energy Cooperation". The Agreement contains provisions on transit: In particular, the Parties shall take all measures necessary to facilitate transit, consistent with freedom of transit in accordance with the provisions of the General Agreement on Tariffs and Trade (GATT) and the provisions of the Energy Charter Treaty

3.4 Opportunities and challenges

The Association Agreement certainly will not solve all problems of the energy sector. However, it will create the preconditions for systemic reforms that would gradually help to strengthen energy independence and the sustainability of the sector. In this regard, the essential condition relates to the existence of political will and the administrative capacity of the relevant institutions without which sector improvement will not be possible.

3.5 Projection of future trade flows and trends

The Energy Strategy of Moldova to 2030²² indicates that the consumption of energy will permanently increase at least until 2030, even if the population of Moldova will slightly decrease in this period. This is proposed concomitantly with the increase of domestic energy production and reduction of energy losses by 11% for electrical energy, 39% for natural gas and 5% for thermal energy by 2020. In addition, Moldova must and can use the experience of the EU *acquis* in energy and competition as part of the overall EU *acquis* to find solutions to its energy problems. Implementation of the EU *acquis* should be used as a vehicle for Moldova's efficient and safe energy market integration into the EU internal energy market. Under these conditions, Moldova will not be alone to face the challenges of its existing energy conditions and will certainly benefit from its collaboration with a large EU energy community.

3.6 Information on the available financial and technical support

- Financing Line for Energy Efficiency in Moldova (**MoSEFF**), launched in September 2009 in Moldova with the scope to support investing in energy efficiency at Moldovan enterprises. A credit line of EUR 42 million, in combination with a grant component of 5-20%, was provided for the granting of loans to Moldovan companies through the partner banks of the European Bank for Reconstruction and Development (EBRD). <http://www.moseff.org/index.php?id=13&L=1%20UNION%20SELECT%20>
- Moldovan Residential Energy Efficiency Financing Facility (**MoREEFF**) provides credit lines to reputable Moldovan banks in order to provide loans for energy efficiency projects in the residential sector in Moldova. <http://moreeff.info/>
- The project „**Energy and Biomass**” has been extended for three years and will be implemented in the period of January 2015 – November 2017 with a total budget of EUR 9.41 million, granted by the EU. <http://www.biomasa.md>
- Budget support from the European Union Commission for **Energy Efficiency Fund**. <http://www.fee.md/index.php?l=en>
- EU **COSME** Programme:
<http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/cosme/index.html#c.calls=hasForthcomingTopics/t/true/1/1/0/default-group&hasOpenTopics/t/true/1/1/0/default-group&allClosedTopics/t/true/0/1/0/default-group&+PublicationDateLong/asc>

²² <http://lex.justice.md/md/346670/>

3.7 Recommendations

- It is necessary to provide opportunities for serious changes in the energy sector, such as:
 - gradual liberalization of the energy sector,
 - ensuring fair competition,
 - increasing transparency on pricing (especially on the price charged by the supplier and distributor)
 - implementation of the energy package.
- Energy efficiency in households should be promoted and supported.
- Moldova has assumed certain goals regarding renewable resources even before signing the Association Agreement. Thus, energy from renewable sources should constitute 20% in total energy consumption. This direction should be promoted and the target achieved.
- Pipelines and the entire energy infrastructure should be included in the normal economic cycle. This will, in particular, lead to the inclusion of depreciation costs and price adjustment in tariffs to the levels required to cover the maintenance costs.
- Serious adjustments need to be introduced for ensuring the independence and efficiency of the National Energy Regulation Agency. A roadmap or action plan can be developed in collaboration with all interested stakeholders (civil society, business associations etc.) to implement and promote the necessary changes.
- Diversification of the energy sources would reduce the country's dependence and, therefore, reduce certain risks.

3.8 Useful links and addresses

1. Agency for Energy Efficiency: www.aee.md
2. National Energy Regulation Agency: www.anre.md
3. European Agency for the Cooperation of Energy Regulators (ACER): www.acer.europa.eu

4. Information and Communication Technology (ICT) SECTOR

The ICT sector is one of the promising and quickly developing fields of economic activity. Moldova is listed in 66th place in the ICT Development Index 2015²³, showing a good performance in this indicator and is a regional player. Moldova is ranked 5th in the world for the lowest prices for fixed broadband, is within the top 20 for average Internet connection speed, one of the top performers in e-Government advancement and has one of the best wired Internet connections in the world as well as one of the cheapest in terms of price per Mbit²⁴. The ICT sector is rapidly developing due to a skilled working force, fiscal advantages offered to ICT companies and a favorable regional context.

4.1. Description of the current situation

The ICT sector is stated as a strategic one for both for EU and Moldova, and as a sector that will be the main driver behind Moldova's economic growth, augmenting labor productivity and enhancing international competitiveness through the wider use of the ICT products and services in the economy and society. Due to its high potential for development, IT is considered as the subsector of focus for further development. The Decree of the President Nr.1743-III from March 19, 2004 regarding the Building of Information Society in Moldova²⁵ underlined the importance of the ICT sector for the country. The Moldovan ICT market is among the most dynamically developing sectors. In terms of offshore/nearshore activities, Moldova became one of the preferred outsourcing locations in the South-Eastern Europe region in the past years. This was heavily reflected in the volume of exports of services, which has been growing substantially during the last decade.

The entire ICT sector has registered a rapid growth in the last years, with the sector's contribution to GDP's formation accounting for about 8%. The Moldovan Government is creating additional opportunities for the businesses in this field (employees of IT companies may benefit from personal income tax (PIT) incentives, and standard taxation being limited to certain monthly amounts). The Ministry of Information Technology and Communications of the Republic of Moldova has developed a Digital Moldova 2020 Strategy – a policy document that creates the necessary preconditions for defining the direction for the future stable development of information technology and communications.

The Ministry of Information Technology and Communications, with the support of the development partners, including the EU, developed the draft law on IT parks. The project was developed to create necessary leverages to boost IT development and create a competitive business environment in Moldova at the regional level, as stated in the Strategy on the IT industry competitiveness growth for the years 2015 – 2021. The key element of this draft law is to implement the innovative tax model by applying a single tax of 7% for the IT parks residents with simple and clear management mechanisms, as well as exemption from VAT and customs duties on imports of computer technology and equipment for the development of production capacities²⁶.

²³ <http://www.itu.int/net4/ITU-D/idi/2015/>

²⁴ <http://miepo.md/sectors/ict>

²⁵ <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=289037>

²⁶ <http://www.mtic.gov.md/en/projects/virtual-parks-it-industry>

Starting from 2010, the annual Moldova ICT Summit is organized in Moldova, which is the leading industry event aimed at gathering all industry stakeholders, including government, business, multinationals, professionals and academia, to discuss the trends and challenges facing the ICT industry globally and in the country, and to define the roadmap for development and effective integration of technology, as well as the agenda for increasing the ICT sector's competitiveness²⁷.

Other important project and initiatives for the ICT sector development in Moldova have been supported by the EU or EU Member States. The IT Center of Excellence was opened in 2016 with the initial support of 2 million dollars from the Swedish Embassy in Moldova. The Swedish Government will provide additional financial resources during 2016-2018. In 2015, a series of workshops on Electronic Commerce, Electronic Communication Services and Electronic Signatures were held in Moldova, organized by the EU-funded project "Support to the DCFTA process in the Republic of Moldova" (DCFTA project). The aim of these workshops was to explain the rationale for the EU policies in e-commerce, e-signatures and e-communications services and the respective EU Regulations/Directives, as well as to explain the differences between the EU and Moldovan laws in the fields of electronic commerce, electronic signatures and electronic communication services and the level of compatibility of the Moldovan law with the EU law in these fields²⁸. These actions are very necessary, because despite good progresses, some significant gaps continue to exist, mainly in the regulatory field. For instance, there is a complete lack of correspondence between the E-Commerce Directive and the RM law regarding advertisement, and some other items are also not always in line with international practice.

4.2. Brief description of the EU market and regulation

ICT is believed to be one of the main drivers behind the recovery of the EU economy and for turning Europe into "a smart, sustainable and inclusive economy"²⁹.

Electronic communications are a key sector of the economy and a driver for growth in the modern information society. On the EU level, a series of legal acts have been enacted regarding the electronic communications sector which apply in all EU Member States and aim at encouraging competition, improving the functioning of the market and guaranteeing basic user rights. In 2002, the EU adopted a legislative framework that covered the entire range of electronic communications, which was amended in 2009 to take into account the subsequent developments in this area.

The E-Commerce Directive (Directive 2000/31/EC), adopted in 2000³⁰, set up a legal framework for electronic commerce in the EU, which aims at providing legal certainty for business and consumers. The E-Commerce Directive is supplemented by the E-Signatures Directive (Directive 1999/93), which lays down the criteria that form the basis for legal recognition of electronic signatures by focusing on certification services. These comprise the following:

- common obligations for certification service providers to secure trans-border recognition of signatures and certificates throughout the EU;
- common rules on liability to help build confidence among users, who rely on the certificates, and among service providers; and
- cooperative mechanisms to facilitate trans-border recognition of signatures and certificates with third countries.

²⁷ <http://www.moldovaictsummit.md/index.php/about>

²⁸ <http://dcfta.md/eng/dcfta-workshops-on-electronic-commerce-electronic-communication-services-electronic-signatures>

²⁹ European Commission (2010), Europe 2020 – A European Strategy for smart, sustainable. and inclusive growth, EC, Brussels, 3.3.2010, COM(2010) 2020.

³⁰ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32000L0031:en:HTML>

This Directive was replaced with the Regulation 910/2014 on electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation) adopted on 23 July 2014 and applied from 1 July 2016, with the exception of certain provisions which will apply in different stages. The eIDAS Regulation creates a European internal market for electronic identification and electronic trust services, which includes electronic signatures, electronic seals, time stamp, and electronic delivery service and website authentication.

It is also notable that in the Digital Single Market Strategy for Europe, presented by the European Commission in 6.5.2015³¹, e-commerce is amongst the top priorities of the EU.

4.3. Reference to the Association Agreement/DCFTA

The DCFTA requirements are described in Title V of the Association Agreement (Trade and Trade-Related Matters) which includes 15 Chapters covering various sectors and topics related to trade. The key DCFTA Chapter relating to *telecommunication services* is included in Chapter 6 (Establishment, Trade in Services and Electronic Commerce) in Section 5, Sub-Section 5 (Electronic Communication Networks). The key DCFTA Chapter relating to *e-commerce* is Chapter 6 (Establishment, Trade in Services and Electronic Commerce) in Section 5, Sub-Section 5 (Electronic Communication Networks) and Sub-Section 6 (Financial Services) as well as Section 6 (Electronic Commerce).

Title IV of the Association Agreement (Economic and Other Sectoral Cooperation) also contains several Chapters which are relevant to e-commerce: Chapter 5 (Consumer Protection), Chapter 9 (Financial Services) and Chapter 18 (Information Society).

4.4. Opportunities and challenges

In the current situation and preconditions, the ICT sector in Moldova has several important opportunities which can be addressed to achieve visible results. These include legal approximation and harmonization of the legislation with the EU norms and rules, and extended access of new technologies, mainly in telecommunications, where Moldovan progress is outstanding. However, some challenges may dilute the efficiency of measures, such as political disturbances, uncovered investments in rural areas due to depopulation, and reduced capacity of domestic investments caused by economic conditions.

4.5. Projection of future trade flows and trends

The National Strategy "Digital Moldova 2020"³² has stipulated some important objectives for the Moldovan society that should be reached before 2020. Some of the most relevant objectives are:

- Public services available on an on-line basis should cover 100% of all services,
- Digital signature will be used by 60% of the population,
- 70% of the population will use electronic services,
- On-line admission to universities of 30% and 70% of all university courses to be offered in the electronic format,
- 100% of population will have access to digital TV.

The Government is working to achieve these objectives and there is a reasonable hope that many of the proposed targets will be met. This, in turn, will create conditions for further rapid evolution and approximation to international and EU standards.

³¹OJ L 178, 17/7/2000, pp. 1-16, online available at: http://ec.europa.eu/priorities/digital-single-market/docs/dsm-communication_en.pdf

³² <http://lex.justice.md/md/350246/>

4.6. Information on the available financial and technical support

- SEED/USAID grants: email: seed@chemonics.md
- Project “Support for agriculture and rural development in ATU Gagauzia and Taraclia” (SARD Project (6.5 million euro), implemented during 2016-2018 by the United Nations Development Programme with the financial assistance of the European Union
- EU Horizon Programme:
<http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/index.html>

4.7. Recommendations

- A more intensive legal approximation process is recommended in order to benefit from the experience of the EU in the field.
- The Government should continue active stimulation of the sector, providing efficient fiscal incentives and opportunities for foreign investments.

4.8. Useful links and addresses

1. Moldovan Association of ICT Companies: www.ict.md
2. The Regulation (EU) N°910/2014 on electronic identification and trust services for electronic transactions in the internal market: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.257.01.0073.01.ENG
3. Ministry of Information Technology and Communications: www.mtic.gov.md

5. AUTOMOTIVE INDUSTRY

(MANUFACTURING OF AUTOMOTIVE PARTS)

Manufacturing of automotive parts became a leading industry in Moldova. Due to its rapid growth, the Moldovan export structure significantly changed in the last two years and mainly due to this sector, Moldovan export is no longer a resource-based export. The most significant volumes of production are concentrated on seat covers, cables, cable harnesses and carpets³³. The perfect combination of a relatively available working force, resources, conditions offered by the Free Economic Zones (FEZs) and International Giurgiulesti Port linkages creates good conditions for the development of this sector in the future.

5.1. Description of the current situation

The manufacturing industry is contributing an increasing share to Moldova's GDP. In 2014, this contribution was 31%. At the same time, the automotive industry is a key growing sector for the Moldovan economy. In 2015 the manufacture of machinery and equipment had grown by 114,2 % in comparison with 2010³⁴. This is due to an increased focus on the unused industrial potential of Moldova and the maintained industrial orientation in the education system (Technical University, vocational schools and technical colleges). The total export to EU by the automotive industry registered significant export values in the last three years (Table 5.1.).

Table 5.1. Export of the automotive industry products to EU in 2014-August 2016

	2014	2015	2016 (8 months)
Export values, thousands USD	243331,4	234794,8	181886,2

Source: Customs Service data

The Moldovan automotive industry provided 7000 direct jobs³⁵ and showed a positive growth during the last year.

The EU is not only providing an export market for the Moldovan products of this industry, but also brings valuable investments for the sector. Until now, large direct investors preferred to locate themselves in Moldova's FEZs, which represent an excellent location for industrial development and production relocation oriented for exports. The automotive sector plays an important role especially in FEZ Balti and FEZ Ungheni Business. During the last decade, the volume of foreign and domestic investments in these zones increased several times. Large automotive companies, mainly from the EU, such as Draexlmaier Automotive, Gebauer & Griller, Leoni and others established large production in these zones. These investments, fueled by tax incentives

³³<http://miepo.md/promo/material/moldova-automotive-industry-report>

³⁴

http://statbank.statistica.md/pxweb/pxweb/ro/40%20Statistica%20economica/40%20Statistica%20economica__14%20IND__IND010__serii%20anuale/IND010200.px/table/tableViewLayout1/?rxid=9a62a0d7-86c4-45da-b7e4-fecc26003802

³⁵ <http://miepo.md/sites/default/files/reports/Automotive%20report.pdf>

and a friendly business climate within the FEZ, led to the latest growth in export and diversification. As previously shown in Table 2, electrical machinery and parts production is the main category of goods exported from Moldova in 2015. Until now, the overall automotive production concentrated on cables, wiring harnesses for cars, car seat covers, articles of furniture, carpets, and wool yarn, textile weaving, plastic molding injection, metal processing, electronics and electronic components, and assembling.

5.2. Brief description of the EU market and regulation

The EU automotive industry is a key EU employer, but due to interconnections with other sectors, this sector plays an outstanding role in the economic circuit of the EU. To enhance competitiveness in the EU's automotive industry, the EU is paying special attention to smart regulation, international harmonization, bilateral regulatory dialogues, access to finance and market access support for SMEs.

Technical harmonization in the EU is based on the Whole Vehicle Type-Approval System (WVTA)³⁶. Under the WVTA, a manufacturer can obtain certification in one EU Member State and then market it EU-wide without the need for further tests. This system significantly contributes to the completion of the single market in automotive products. United Nations Economic Commission for Europe (UNECE)³⁷ legislation aims to establish a global market for vehicles while ensuring a high level of environmental protection and safety. A proposal for the reformed 1958 Agreement (Agreement on the technical harmonization of vehicles of UNECE) has been presented in March 2013 and it is expected that long-lasting technical harmonization efforts in EU will be continued to provide industry sector with an inclusive platform.

5.3. Reference to the Association Agreement/DCFTA

Chapter 10 of the Title IV is dedicated to industrial and enterprise policy. It mentions the importance of export promotion in Moldova, modernization and restructuring of certain industries.

According to the provisions of Articles 143-153 in Title V-Chapter 1 (National Treatment and Market Access for Goods) of the Association Agreement and Annex XV of the Association Agreement, automotive industry products (cables, textile weaving etc.) originating from Moldova are exempted from EU customs duties. However, for several categories of products, the duty-free treatment is not granted automatically: For example, for carpets or seats, the EU customs duties shall be eliminated in 6 equal stages, starting on the date of entry into force of this Agreement, with the following reductions taking place on 1 January of the next 5 years following the date of entry into force of this Agreement. The list of products to which a gradual elimination of duties applies, is included in Annex XV-D.

5.4. Opportunities and challenges

Significant investments have been already made in the Moldovan automotive industry in the last decade. Political disturbance, unpredictability of the fiscal and other legal frameworks, and a lack of strategic visions from the side of inspecting authorities create obstacles for increased and more valuable investments in the sector and other economic branches. The domestic investment capacities in such „heavy” industries are very limited and international programs and grants usually do not offer substantial amounts of support to be relevant for these types of activities. Therefore, the ability to create a better investment climate and to convince foreign investors to come to Moldova is the biggest challenge for Moldovan authorities and society, which is asking for working places and decent work salaries. This industry can become a frontrunner of the Moldovan economy, as it already became for Moldovan exports, but the Government should first underline and promote its significance for the country.

³⁶ https://ec.europa.eu/growth/sectors/automotive/technical-harmonisation/eu_en

³⁷ <https://www.unece.org/wp29.html>

5.5. Projection of future trade flows and trends

The automotive industry demonstrated significant growth in Moldova during the last several years. The products manufactured in this industry are mainly oriented for export. Increased attention of the Moldovan authorities to its development would lead to further positive evolutions, which could provide more deep changes in the Moldovan export potential and structure. Foreign investments in this industry bring not only new and progressive technologies, but also create numerous working places. Therefore, its importance is multiplied. Some data shows that the global and European auto market will be in a consistent growth for the next decade³⁸. However, taking into consideration that experts suggest to automakers that “a very conservative approach — closely managing costs and factory capacity — is critical to staying above water”³⁹ in emerging economies, large investments are less probable in the nearest future. But, maintaining the positions of the existing stakeholders is absolutely necessary for Moldova.

5.6. Information on the available financial and technical support

There are several programs, currently available in Moldova:

- COSME program of the EU:
<http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/cosme/index.html#c,call=hasForthcomingTopics/t/true/1/1/0/default-group&hasOpenTopics/t/true/1/1/0/default-group&allClosedTopics/t/true/0/1/0/default-group&+PublicationDateLong/asc>
- Other programs (see at www.finantare.gov.md)

5.7. Recommendations

The implementation of the DCFTA in all sectors, including the automotive industry provided additional opportunities for Moldovan exporters. But for Moldova to benefit from this improved relationship, several areas are still critical for improvement:

1. Logistical infrastructure need to be stimulated. Some data revealed that logistics and customs are considered key obstacles and constraints to growth in Moldova’s foreign trade, especially for exports. Moldova ranked just 93 (of 160) in the 2016 Logistics Performance Index.
2. Moldovan entities face serious obstacles in access to finance. For heavy industries, this access is, however, very important and therefore, alternative and affordable financing schemes should be promoted.

5.8. Useful links and addresses

1. MIEPO’s information on industry: <http://miepo.md/sectors/automotive>
2. FEZ Balti: www.zelb.md
3. FEZ Ungheni: www.freezone-ungheni.md
4. Ministry of Economy, for FEZ: <http://mec.gov.md/ro/content/zonele-economice-libere>

³⁸ <http://www.pwc.com/gx/en/industries/automotive/autofacts.html>

³⁹ <http://www.strategyand.pwc.com/perspectives/2016-auto-industry-trends>

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