

**EU-Moldova Cooperation Sub-Committee 1
“Trade and Investment”
12 November, 2008, Brussels**

REPORT

**ON PROGRESS MADE IN IMPLEMENTING
EU – MOLDOVA ACTION PLAN**

Introduction and overview

Moldova has continued to implement trade and investment related provisions of the EU-Moldova PCA Agreement, ENP Action Plan as well as the Internal Agenda for Priorities for European Integration 2008. Further efforts have been made, specifically in the areas of technical regulations, safety and quality requirements, and intellectual property rights protection for potentially gaining a greater stake in the EU internal market. After signing Autonomous Trade Preferences (ATP) agreement with EU, Moldova has been striving to obtain maximum commercial benefits. For Moldova ATP boiled down mainly to coping with the EU rules of origin, raising competitiveness and diversifying production, improving marketing and distribution skills of local exporters, ensuring adequate quality infrastructure, as well as to facilitating a better dialogue with business counterparts on the EU market.

In order to considerably boost the current levels of foreign direct investment (FDI), to broaden country's export base and increase productivity of domestic producers, special attention has been made to the improvement of business climate. Moldova has responded to the signals of market participants and initiated necessary internal procedures for the withdrawal of some of the protectionist measures of domestic market. In particular, the Government has initiated the retrieval of the legislative initiative on introducing additional safeguard tax on import of pastry products, as well as drafted relevant amendments to legislation regarding the tax for environment pollution. This was done in order to prevent possible effects that the potential protectionist measures may cause on the preferential trade with EU. The general vision of the Government regarding investments is based on consolidating and extending regulatory reform, promoting stimulatory tax regime and proactive trade policy, as well as ensuring political, macroeconomic and financial stability, including coping effectively with inflationary pressures.

1.1. Developments in Foreign Trade

1.1.1. Despite of EU granting autonomous trade preferences, the foreign trade of Moldova during the first six months of 2008 followed the trend observed during previous periods. In comparison to 2007 total imports have increased by 44.5% and exports - by 23%. In total, imports were 3.2 times higher than exports and balance of trade deficit has increased by 57.3%. totaling 877 mln. USD. Worsening of the trade balance is mainly due to the increase in imports of primary energetic resources. In relative terms, comparing to the similar period of 2007 these have increased by 164,6% and during January-July 2008 have totaled 607.1 mln. USD.

1.2. Developments in the Balance of Payment

1.2.1. During the first six months of 2008 there was registered a negative dynamics in the current account. Thus, in the second quarter of 2008 the current account deficit has constituted 323.6 mln. USD. If compared to the first quarter of the year, it represents a deficit increase by 25.4%. This development is mainly due to the increase in imports of goods (FOB), including of energy resources. In relation to the similar period of the previous year, the increase in the current account deficit represents 64%.

1.2.2. There was registered a positive trend in exports of goods (FOB), income and current transfers, including working remittances from abroad in the period of the first six months of 2008. If compared to the first quarter of the year, in the second one Moldova's exports have increased by 46.9 mln. USD, totaling 401.89 mln. USD; income has increased by 35.5 mln. USD totaling 162.6 mln. USD; and current transfers – by 99.1 mln. USD, totaling 397.8 mln. USD.

2.1. Bilateral Trade Flows

2.1.1. The increasing trend of bilateral trade with EU observed in the course of last 5 years has been given further impetus in 2008 after EU has extended ATP regime to Moldova. Total

trade turnover with EU in January-August constituted 1.9 bln. USD. It represents an increase of 41.4% in comparison with the same period of the previous year. During January-August 2008, imports increased by 40.5% while exports by 33.9%, which has led to an increase of the trade deficit in relations with EU by 45%, reaching 877 mln.USD.

2.1.2. Moldova's exports constituted 545.8 mln.USD, that represents an increase of 33.9%, in comparison with the same period of 2007, and comprised 52.1% of the total volume of exports. The main groups of export products to EU were textiles and textile articles (31.8%); machinery and mechanical appliances (13.2%), base metals and articles of base metals (9%); foodstuffs products, alcoholic and nonalcoholic (8.6%); vegetable products (7.6%); footwear, headgear, umbrellas and similar articles (6.1%). Until October 2008, Moldova has almost completed Community tariff quotas for white sugar and wine of fresh grapes, while maize export quota has been completed in proportion of approximately 50%.

2.1.3. In the period of January-August 2008 Moldova's imports from EU constituted 1422.8 mln. USD. This amount represents an increase of 40.5% in comparison with the similar period of 2007 and comprises 44% of the total imports. The main groups of import products to EU were machinery and mechanical appliances, electrical equipment (19.8%); mineral products (17.6%); chemical products (10.3%); vehicles and associated transport equipment (9.5%); textiles and textile articles (8.2%); plastic, rubber and articles thereof (6.2%); base metals and articles of base metals (6%); foodstuff products, alcoholic and nonalcoholic drinks (4.2%); vegetable products (3.2.%).

2.1.4. Moldova perceives a potential deep free trade agreement (DFTA) with EU as a substantial enlargement of country commitments in various areas such as competition policy, restricting state aids, improving public procurement, customs and standardization. In this sense, Moldova is currently undertaking necessary steps to substantially strengthen the capacities of the country to take on reciprocal obligations of a potential DFTA and face EU competition.

2.2. Implementation of the Customs section of the EU-Moldova Action Plan

2.2.1. In order to reduce transaction costs and simplify border trade flows Customs Service has started the implementation of the New Computerized Transit System (NCTS), which will connect Moldova to unified European information system. The concept of NCTS has been elaborated, and Action Plan for implementation was approved by the internal decision of the Customs Service. Currently, Customs Service is implementing this Action Plan by harmonizing relevant customs legislation, as well as modernizing existing IT infrastructure. It is expected that this will ensure electronic connection among customs posts, will streamline and simplify the control of transit goods on the territory of Moldova. Currently, controls are conducted selectively, guided by the methodology for monitoring performance indicators, and established targets and performance indicators.

2.2.2. Customs Service in collaboration with other relevant public authorities continued to implement the "one-stop-shop" approach in streamlining the flow of goods, including agricultural products over the country's border. By Law nr 102 – XVI from 16 May, 2008, and the Decision of Customs Service nr. 169-0 from 25 April 2008, Customs Service has taken over the functions of State Phytosanitary Quarantine Service, State Ecological Inspectorate, and Agency for International Transport of Moldova at border-crossing points. Additionally, on 17 September, 2008 the Government has approved the Decision regarding approval, amendment and abrogation of normative acts in view of ensuring the principle of "one-stop-shop" at auto border crossing points.

2.2.3. On the basis of the Memorandum of understanding signed with United Nations Conference in Trade and Development (UNCTAD), in 2008 there was launched a program on

improving the Integrated Informational Customs System “ASYCUDA World” in order to implement the procedure of electronic declaration and simplified customs procedures. More specifically, main improvements relate to modernization of all the ASYCUDA modules; implementation of digital signature for documents used by Customs Service; development of the “blue corridor” and ex-post audit; and implementation of the Integrated Customs Tariff of the Republic of Moldova in accordance with EU norms. An Action Plan has been approved and all the improvement measures of “ASYCUDA World” will be completed by the end of 2008.

2.3. Standardisation, technical regulations and conformity

2.3.1. The Law nr.221 from 19.10.2007 regarding the sanitary-veterinary activity has finally delimited the competences of relevant public bodies in the area of standardisation, national measurement standards, verification and accreditation. Thus, it has clarified the competences of the Ministry of Agriculture and Food Industry and Ministry of Health (Epidemiologic State Service), as well as Metrology and Standardization Service. It is expected that this institutional “unbundling”, by eliminating previous conflict of interests, will have a positive effect on strengthening industrial competitiveness.

2.3.2. Horizontal legislation was harmonized with the EU acquis and WTO/TBT requirements in order to promote voluntary character of standards. The new amendments aim to give impetus on the gradual move from mandatory standardization to voluntary standardization and improving the framework for measurements, standards, testing and quality (MSTQ). The main challenge the country currently faces is to make this modern MSTQ system to function properly.

2.3.3. By the Government Decision nr 1183 from 20.10.2008 there was established new Sanitary Veterinary Agency and for the Safety of Animal Products by merging State Veterinary Inspectorate from the Ministry of Agriculture and Food Industry, sanitary veterinary services at the local/municipal level and state enterprise “State Veterinary Service for Border and Transport”.

2.3.4. In order to improve EU market access and implement adequate quality infrastructure the National System of the Identification of Animals (SITA) has been established and the target of identification and registration of 95% of all animals until the end of 2008 has been achieved. Moreover, the monitoring of actual implementation will continue by the end of 2010. In the framework of SITA there was elaborated and tested informational system “Veterinary Measures”, which foresees the integration of laboratories.

2.3.5. The World Bank *Competitiveness Enhancement Project* has been providing assistance to Moldova since 2005 by addressing product quality obstacles related to poor metrology, standardization, testing and quality (MSTQ) infrastructure and services. It runs until 31 December, 2009 and, mainly, promotes the use of MSTQ services by small and medium enterprises (SMEs), through the use of the Matching Grants Facility (MGF).

2.3. Agreement on Geographical Indications

2.3.1. The Parliament of the Republic of Moldova has approved the Law regarding the protection of geographical indications nr. 66 – XVI on 27 March 2008. It has entered into force in October, 2008. The law has established norms regarding registration, legal protection and use of the titles of origin, geographical indications and traditional guaranteed specialties.

2.4. Bilateral Market Access Issues

2.4.1. Moldova has notified the Secretariat of the WTO about the Government Decision nr. 1363 of 29 November, 2006 regarding the Procedures for the Issuance of Authorizations to Import Meat, Edible Offal, Meat Products (Commodities) and Dairy Products. After

examination of the initiative on 20 October, 2008 within Import Licensing Committee, no claims or disagreements from WTO members were registered.

2.4.2. Ministry of Economy and Trade has decided to retrieve from the Parliament of Moldova the draft Law on completing the Law nr. 289 from 20.12.2007 on application of safeguard measures, and, therefore, withdraw the initiative of introducing additional safeguard tax on import of pastry products.

2.4.3. The Government of Moldova on 5 November, 2008 has adopted a Decision regarding amendments to the Law nr. 1540 – XIII from 25.02.1998 regarding the tax for environment pollution. This was done in order ensure environment protection and equal market conditions for local producers and importers of plastic packages and tetra-pack containing products. Currently, the Government is finalizing internal procedures and soon the draft amendments will be passed to the Parliament for adoption.

2.5. Regional Trade Issues

2.5.1. Starting with January 1st 2008, Moldova took over the presidency of Central European Free Trade Agreement (CEFTA). Within the term of Moldova's presidency on 26th of June 2008, in Brussels (Belgium), an Agreement was signed between Belgium and CEFTA on privileges and immunities of CEFTA Secretariat. Decisions on Secretariat financing and its Working Plan have also been made. During the time of CEFTA presidency the Republic of Moldova has also organized 3 Sub-Committee meetings and an ordinary meeting of the CEFTA Joint Committee.

3.1. Investment climate

3.1.1. On 1 January 2008 provisions of the Law nr 235 – XVI from 20.07.2006 regarding key principles regulating entrepreneurial activity, which establish the principle that all drafts of normative acts should be accompanied by the Regulatory Impact Assessment (RIA), entered into force.

3.1.2 During the first quarter of 2008 the Working Group for regulating the entrepreneurial activity has examined 57 draft normative acts of the Government and various departments as well as 17 draft laws (50 drafts were accepted, 24 – returned back for re-examination). In general, the absolute majority of the draft normative acts, discussed by the Working Group regarding the entrepreneurial activity (86%), were accompanied by the Regulatory Impact Assessment.

3.1.3. By the Law 103 – XVI from 16.05.2008 in the Customs Code a number of amendments have been adopted in order to harmonize it with the EU customs code. These provide for the simplification of customs procedures and export/import operations, as well as to improving the protection of intellectual property rights.

3.2. Competition

3.2.1. The new draft law on Competition, containing amendments and some modifications to previous law 1103 – XIV from 30 June 2000 has been approved by the Parliament of the Republic of Moldova on 16 May 2008 in the second reading. However, after the rejection to endorse the draft law by the President, a number of comments by the office of the President were formulated. These are currently being examined by the relevant Parliamentary Committee. The discussions mainly refer to specific modalities of ensuring an effective interplay between independence and accountability of the National Agency for the Protection of Competition. The new draft Law is fully in line with the EU acquis, in particular Council Regulation (EC) Nr. 1/2003 of 16 December 2002 on the implementation of the rules on competition, laid down in Articles 81 and 82 of the Treaty.

3.2.2. The new draft law regarding state aid was elaborated in 2008. Currently the draft law is undergoing through the so-called “Guillotine” process, and soon the process of Government notification will start. This draft document specifies the terminology relating to state aid, proposes a methodology of identification of the state aid, main restrictions and criteria for the eligibility of aid (i.e. restructuring and support for poorly performing enterprises), and, most importantly, involves the obligation of notification the NAPC, and its close involvement in aid monitoring. New draft document has already passed through Regulatory Impact Assessment (RIA).

3.3. Company Law and Establishment

3.3.1. The Parliament of Moldova has approved the Law nr. 220 – XVI, from 19 October 2007 regarding the state registration of legal persons and individual entrepreneurs. It contains the provision for a simplified registration procedure in State Register, and is expressed in registration time reduction from 15 to 5 days.

3.3.2. The Parliament of Moldova has approved the Law nr. 451 – XV from 30.07.2008 regarding the regulation through licensing of the activity of entrepreneurs, which establishes a principle of “one-stop-shop” at license issuance. In order to effectively implement the law a Government decision has been drafted, which foresees that 85 documents required for registration will pass through “one-stop-shop” procedure.

3.3.1 During 2008 Moldova has been implementing new Integrated Informational System “Single Register of Licenses”, introduced by Government Decision nr. 606 from 01.06.2007. It is expected that this system by reducing transaction costs will further streamline and simplify licensing in Moldova.

3.4. Financial Services

3.4.1. Taking as a reference the provisions of the 2003 Insurance Law, which removed the limitations for the access of foreign shareholding in Moldovan insurance companies, the year 2008 has shown growth of the foreign capital in the sector. It has had beneficial consequences on the capitalization of insurance companies and their restructuring, being also influenced by previous increase in the capital requirements in non-life insurance to MDL 15 million in order to meet generally accepted international standards.

3.4.2. The power of the National Commission for Financial Market (NCFM), responsible among others for the prudential monitoring, has been strengthened by acquiring the legal power from the Chamber of Licensing to NCFM relating to the process of licensing insurance companies and credit and savings associations (CSA).

3.4.3. All licensed entities regulated or supervised by the National Bank of Moldova (NBM) and NCFM were excluded from the provisions of the Law nr 235 – XVI from 20.07.2006 regarding key principles regulating entrepreneurial activity (“Guillotine Law”). Thus, the necessary amendments were operated to the art.1. The amendments entered into force on 14 March, 2008.

3.4.5. The Government has continued the process of privatization of the state-owned “Banca de Economii” JSC by publishing in international press (*Financial Times*, issue of 29 March, 2008) an announcement to hire a consultant, who will subsequently conduct a diligence study, make necessary preparations for the informational memorandum and will assist the Government in the bank privatization to a reputable strategic investor.

3.5. Public procurement

3.5.1. An assessment of national procurement system of the Republic of Moldova has been performed with technical assistance of UNDP using OECD methodology, and report issued in

October 2008. The report shows good progress registered by Moldova in implementing World Bank recommendations as part of Country Procurement Assessment Report (CPAR 2003) and meeting OECD targets for internationally accepted standards.

3.5.2. Moldova's Law on public procurement, which entered into force in October 2007, conforms to GPA requirements, provides for a fair and transparent public procurement process. In accordance with the Law, all announcements regarding annual Procurement Plans of Contracting Authorities, Invitation for Bids for public tenders, Requests for Quotations, as well as notification of Contract Awards and Complaints are published on the web-page www.tender.md and in the "Procurement Bulletin". As a result, the procurement procedures have become more transparent, and the accountability of the National Procurement Agency has been strengthened.

3.5.3. By the Government Decision nr. 476, from 27.03.2008 there was adopted the Action Plan regarding the elaboration and launching of new free public procurement portal. It is currently being elaborated by the National Procurement Agency. It is expected that this will allow to gradually moving towards e-procurement system in Moldova by 2010.

3.5.4. A Government Decision of 29 May, 2008 has established a supervisory Committee on public procurement. Agency for Material Reserves, Public Procurement and Humanitarian Aid (AMRPPHA) reports to this Committee, which in turn submits reports to the Government every 6 months. It approves contracts for goods > MDL 5 mln., and for works > MDL 20 mln.

3.6. Accounting, financial control and audit

3.6.1. On 1 January 2008 entered into force new legislation regarding accounting (Law on accounting nr 113 – XVI). The enforcement of new amendments to the existing Accounting Law and certain aspects of the Joint Stock Companies law improved the quality of financial information and allowed to move closer to implementing International Financial Reporting Standards (IFRS). All amendments were made through the prism of relevant EU directives (IV and VII). The Law stipulates compulsory use of the IFRS by public interest entities (i.e. financial institutions; insurance companies; companies with shares quoted on the stock market, etc) starting with 1 January, 2009. Currently, Moldova is completing the preparatory phase for generating financial reports on the basis of IFRS [mobilization of the finance function and IT, building tools (internal policies, accounting manual, financial statements, training and testing)].

3.6.2. New draft Law on public financial control has been developed by the Ministry of Finance in the context of the general reform of the system of financial control. A number of trainings were conducted for public authorities regarding the implementation of financial control and internal audit. An audit of the Ministry of Social Protection, Family and Child has been conducted, and it is planned to extend these efforts to other public authorities.

3.6.3. On 22 May 2008 there was signed an Agreement on the right to use IFRS on the territory of Moldova between the Ministry of Finance and Council for International Financial Reporting Standards.