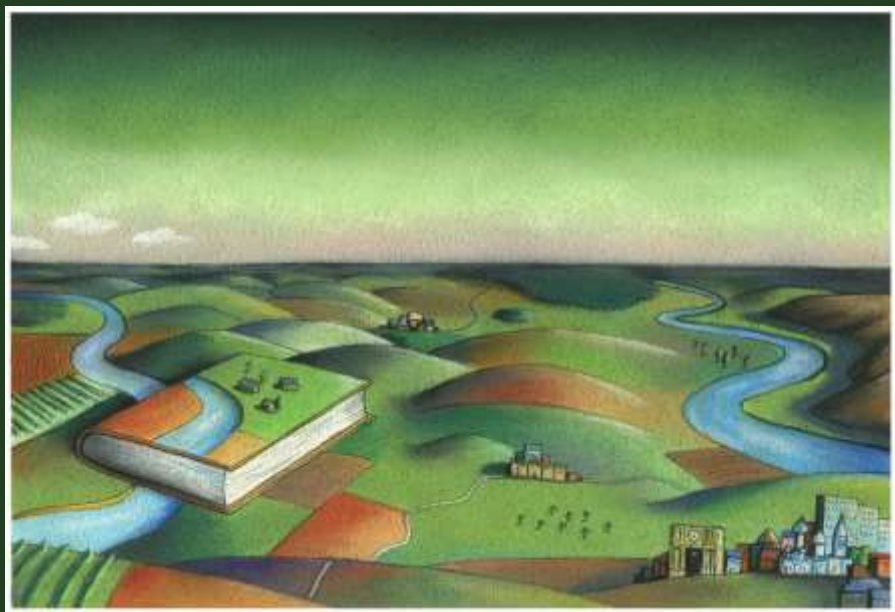


# MOLDOVA AND EUROPE

## A short guide



**Michael Emerson**  
and  
**Denis Cenuşa**

*A trilogy of short guides: Understanding the EU's Association Agreements and Deep and Comprehensive Free Trade Areas (DCFTAs) with Georgia, Moldova and Ukraine*



# **Moldova and Europe**

**A short guide**

**Michael Emerson  
and  
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This booklet is an abbreviated version of a larger study aimed at explaining the EU's Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA) with Moldova. The larger study, entitled *Deepening EU-Moldovan Relations: What, why and how?*, was prepared by two teams of researchers (listed on the inside back cover of this booklet), from independent think tanks: the Centre for European Policy Studies (CEPS) in Brussels and the Expert-Grup, Chişinău.

Founded in Brussels in 1983, CEPS is a leading think tank on European affairs, with a strong in-house research capacity and an extensive network of partner institutes throughout the world. Expert-Grup is an independent think tank, specialising in economic and policy research. Its core activities are economic analysis, forecasts and policy research.

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The views expressed in this booklet are entirely those of the authors and should not be attributed to CEPS, to Expert-Grup or to any other institution with which they are associated, or to the European Union.

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## SUMMARY

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The Association Agreement between the European Union (EU) and the Republic of Moldova is a comprehensive treaty establishing the relations between the parties and includes a long-term roadmap of reforms to be implemented by Moldova. The trade-related content establishes a Deep and Comprehensive Free Trade Area (DCFTA), and is one of the most important parts of the overall Agreement.

The Agreement was signed in June 2014 and much of its content entered provisionally into force in September 2014, in particular the DCFTA provisions. Since then, the Agreement has been ratified by the Moldovan and European Parliaments, and all member states of the EU. As a result, the Agreement entered fully into force on 1 July 2016.

Of all of the EU's eastern neighbours, Moldova is objectively the most European on several accounts, with a common history, language, culture and border with its direct neighbour, EU member state Romania. Many Moldovan citizens also have dual Moldovan-Romanian citizenship, and thus are also citizens of the EU. Reflecting these close ties, Moldova became the first of the six Eastern Partnership countries to secure visa-free travel with the EU.

The political purpose of the Agreement is to deepen the realisation of Moldova's 'European choice' and its relations with the EU. This means making a reality of fundamental European values, namely democracy, the rule of law and respect for human rights, and norms of the European security order. Membership of the European Union is not pre-figured in the Agreement, but neither is it excluded. Its resolute implementation is the only path for securing Moldova's EU integration.

The economic purpose of the Agreement is to help modernise Moldova, by boosting trade with the EU and the world, and reforming domestic regulations in line with best European practice. Combined with an improving business climate and stronger institutions, Moldova has the potential to become a good location for foreign and domestic investment, producing exports to the EU and international markets.

The Agreement amounts to a charter for Moldova's modernisation through alignment with EU norms and standards, which generally correspond to best international practice. Moldova does not have to 'reinvent the wheel' in many technically complex areas, where the choice of regulations and standards that differ from tested international practice would be highly costly and inefficient.

The EU has now almost completely opened its market for tariff-free imports from Moldova. This means new competitive opportunities for Moldova's economy, while preserving the most vulnerable domestic sectors from a sudden competitive shock, since Moldova will remove its tariffs on imports from the EU gradually over a period of up to ten years. Moldova's trade structure has already begun to diversify substantially in favour of EU markets, to a large extent mitigating the losses from the trade embargo imposed by Russia. The technical requirements for access to the EU market are demanding and strict, requiring significant investments by Moldovan authorities and businesses, but they are applied in a professionally fair manner, without (as elsewhere) geopolitical manipulation.

Financial assistance is available to help with technical support and investment where there are heavy adjustment costs, with grants from the EU, and loans or investment from European financial institutions.

The Agreement, with its DCFTA, is no magic wand to cure Moldova's political system and economy of all its problems. But its provisions do engage with a substantial part of Moldova's political and economic reform agenda. This normative alignment is far more than a technical matter, and goes to the heart of the urgent task of establishing sound, corruption-free governance.



**PART I. POLITICAL PRINCIPLES,  
RULE OF LAW AND FOREIGN POLICY**

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# 1. POLITICAL PRINCIPLES

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The Association Agreement is premised on a commitment to pursue and respect "...the common values on which the European Union is built – namely democracy, respect for human rights and fundamental freedoms, and the rule of law – [which] are essential elements of this Agreement."

Moldova's democratic institutions are generally perceived to be fragile. In early 2016, however, there was an significant ruling from the Constitutional Court reintroducing direct election of the president, which should improve the stability of the institutional structure.

Although the electoral process is competitive, irregularities prevent it from being considered truly fair and free. The excessive use of government resources, vote-buying practices and disproportionate access to mass media constitute the main factors that distort the outcome of elections. Politicisation of the institutions is widespread. It covers various areas, but in particular the law enforcement, regulatory, prosecution and anti-corruption institutions.

Moldova's human rights record is improving, but major problems remain, in particular in efforts to eliminate all forms of discrimination (against women, minorities, the poor and the elderly).

The human rights situation in the Transnistrian region is problematic; there are violations of the right to education, the right to liberty and security, and an ineffective prohibition of degrading treatment, as reflected in judgments of the European Court of Human Rights.

## 2. RULE OF LAW AND MOVEMENT OF PEOPLE

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According to independent sources, Moldova's record in the fight against corruption is poor. Success in anti-corruption policy is universally considered a prerequisite for the overall success of the Association Agreement and Moldova's economic future.

The authorities have been implementing the National Anti-corruption Strategy for 2011–15. The strategy's implementation is monitored by a group consisting of the National Anti-corruption Centre, the EU Delegation and the donor community. There have been significant improvements in legislation, for example in the provisions introduced into the Penal Code concerning illicit enrichment. Important steps should be taken to ensure the full institutional and operational capacities of the National Anti-corruption Centre, National Integrity Commission and General Prosecutor's Office, as in fighting corruption in the justice sector as a whole.

Moldova's aim of obtaining visa-free access for its citizens to the EU has been achieved since April 2014. Moldovan citizens with biometric passports can now travel freely to Schengen countries. At the end of 2015, some 1,437,264 people were in possession of biometric passports. In addition, the number of those with biometric passports from the Transnistrian region has increased since visa liberalisation to more than 97,639 (representing approximately 20% of the region's population). In the first year of the visa-free regime with the EU, more than 400,000 Moldovans travelled to Schengen countries, which would have cost €14 million if Schengen visas had still been required.

### 3. FOREIGN AND SECURITY POLICY

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The Association Agreement aims to facilitate the gradual alignment of Moldova's foreign, security and defence policies with those of the EU at bilateral, regional and multilateral levels.

The Transnistrian conflict and the role of Russia have largely shaped the foreign and security policy aspects of EU-Moldova cooperation. While Moldova has consistently shown support for the EU's foreign and security policies, it has defined its own position on sensitive matters of foreign policy. For example, it has abstained from approving the EU's economic sanctions targeting Russia, and refrained from supporting the visa bans on Russian officials regarded as linked to the annexation of Crimea and the destabilisation of the eastern Donbas region of Ukraine. The Moldovan authorities did agree to join the travel bans and asset freeze sanctions against certain Ukrainian officials, however.

The most significant operational programme is the EU Border Assistance Mission, which facilitates practical cooperation over the borders of Moldova and Ukraine with the Transnistrian region, while contributing to the broader objective of settling the conflict, and implementation now of the DCFTA. The mission participates in trilateral meetings together with Moldovan and Ukrainian authorities on the assessment of common border security and customs cooperation.

Moldova participates in certain military missions of the EU, such as in Mali and the Central African Republic, with advisory personnel.

## **PART II. DEEP AND COMPREHENSIVE FREE TRADE AREA**

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## 4. MARKET ACCESS FOR GOODS

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Tariff liberalisation is the basic starting point for a free trade area. Since the start of the provisional application of the DCFTA on 1 September 2014, the EU has liberalised imports from Moldova for almost all goods, with only a limited number of exceptions in agricultural products. Liberalisation by Moldova is subject to transitional periods. This means significant opportunities for Moldovan producers to

boost their exports to the EU market before facing full competition on the home market.

While the benefits of the DCFTA can only be fully realised in the medium and long term, after one year there are already positive results from the trade in goods between Moldova and the EU.

The export of agricultural products increased immediately after the start of the DCFTA's implementation. For goods such as grapes, plums and barley, the increase was up to five times. However, the major barrier to further export growth is the non-compliance with EU food safety regulations – these would ensure access to the EU market for meat, eggs and dairy.

Agreement was reached with the Transnistrian region to allow it also to be covered by the DCFTA from 1 January 2016. Harmonising the interests of some trade-oriented sectors of the economy could help to re-unify the country.

## 5. TRADE REMEDIES

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The DCFTA includes rules on ‘trade defence’ measures that the EU and Moldova can take against imports from the other party that cause or threaten to cause injury to the domestic industry, notably anti-dumping, anti-subsidy, and safeguard measures. These DCFTA provisions essentially incorporate the relevant rules of the World Trade Organization.

The key instrument is for anti-dumping measures. If a company exports a product at a price lower than the price it normally charges on its own home market, it is considered to be ‘dumping’ the product. This allows the government of the importing country to act where there is a ‘material’ injury to the competing domestic industry. The importing country may then impose an anti-dumping duty to correct damage to its industry.

These provisions are very rarely used in EU-Moldovan trade relations, however.

## 6. CUSTOMS SERVICES

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For the DCFTA to work well there have to be high quality customs services at the frontiers with efficient and speedy facilitation of traffic, avoiding delays and corruption with long queues of heavy trucks.

The provisions of the DCFTA are substantive and detailed in terms of core principles, legislative commitments and numerous operational provisions. At a general level the EU and Moldova commit to ensure that their customs legislation and procedures are stable, transparent, non-discriminatory, applied effectively and prevent fraud. Moldova undertakes to align its customs code to that of the EU and apply relevant international instruments, including those developed by the World Customs Organisation. The rules also concern fees, penalties, and procedures guaranteeing the right of appeal against rulings and decisions of the customs services.

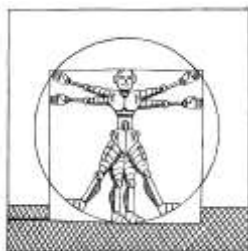
Moldova has adopted certain measures to facilitate its customs procedures in line with EU practices (a new combined nomenclature of goods, a 'blue lane', IPR protection, etc.). Efforts to improve the system include reducing the number of permissive acts required for exports, implementing the authorised economic operator (AEO) concept, electronic customs declarations, preparing for the New Computerised Transit System and introducing measures to fight corruption.

But the Customs Service faces various challenges, such as deficient customs terminals, low levels of trust and a widespread public perception of corruption, which improved slightly in 2015 but is still unsatisfactory.



## 7. TECHNICAL STANDARDS FOR INDUSTRIAL GOODS

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Since customs tariffs between the EU and Moldova are set to disappear almost completely, non-tariff barriers such as technical standards will become the main obstacle to trade. In order to tackle these barriers, Moldova will adopt the relevant EU legislation, standards and procedures. This will be a long and complex process, but one that is fundamental to modernising and making Moldova's industry internationally competitive.

The European standards system has two tiers: first, EU harmonisation laws, which cover the general methodology and institutional framework, and around 30 directives covering broad sectoral product groups, such as machinery; and second, around 5,000 product-specific 'harmonised standards' that provide the technical means to comply with the essential health and safety requirements.

Moldova is making progress in adopting a limited number of general EU directives, and in adopting detailed EU standards. But the pace of adopting sectoral EU directives is slow, and there is limited enforcement of legislation implementing European standards. The technical endowment of the testing and certification bodies has to be improved, which requires significant investments.

Transposition of European standards requires withdrawing conflicting GOST (former Soviet) standards, but this encounters some opposition, including from the enterprises using GOST standards for supplying Russian and other CIS markets.

## 8. FOOD SAFETY REGULATIONS

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Food safety standards, officially entitled ‘Sanitary and Phyto-Sanitary Measures (SPS)’ are required to facilitate trade in agricultural and food commodities and plants covered by SPS regulations, and safeguard human, animal and plant life or health.

The agreed list of SPS legislation covers 235 EU directives and regulations. These relate to veterinary requirements (78 directives), the safety of agri-food products (48 directives), animal feed (27), genetically modified organisms (10), etc. The periods for legislating these measures extend until 2020.

In view of the substantial cost of these measures the Association Agreement allows Moldova to exempt very small farms and various traditional products from comprehensive conformity.

The EU supports some major technical assistance projects to help improve the food safety control system ‘from farm to fork’.

The major outstanding challenges in the SPS field concern the activities of National Agency for Food Safety (ANSA). The agency requires serious institutional capacity building in its staffing and laboratory infrastructure. These requirements are quite far-reaching, including enhancing professionalism, with a focus on territorial units and laboratories; modernising existing laboratories to enable them to apply international and European standards. For example, the export of goods of animal origin is hampered by the poor infrastructure in laboratories and their lack of international accreditation. Boosting the capacities of the local producers and fighting corruption within ANSA should be a priority.

## 9. SERVICES

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Developing a dynamic and competitive service sector is vital to the modernisation of Moldova's economy. Over the past ten years, Moldova's economy has gone through significant structural changes and the services sector has been the largest contributor to economic growth, with a share that now represents approximately 60% of GDP.

The DCFTA requirements can lead to a more open, transparent and better functioning services market in Moldova. The provisions of the agreement are organised under three headings: i) establishment, meaning the right to set up business in the other party; ii) cross-border supply of services, for example outsourced IT software and iii) the temporary presence of individuals such as consultants for business purposes.

In general terms, parties undertake to treat service providers of each other party no less favourably than their own. Yet there are many reservations limiting the application of this rule, more so on the EU side than that of Moldova.

New investors from the EU should contribute to a higher diversification of services and also improve the know-how in service sectors. Imports of services into Moldova can improve economic performance by bringing greater competition, better skills and technologies to some sectors. But that requires improvement of the business environment in the country.

## 10. PUBLIC PROCUREMENT

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Public procurement is of great economic importance to both the EU and Moldova; it accounts for around 18% of GDP in the EU and offers an enormous potential market for Moldovan companies. The DCFTA provides for the gradual and reciprocal liberalisation of the parties' public procurement markets under the strict condition that Moldova implement the EU's key public procurement rules.

Moldova has to ensure that the public purchase of goods, works and services is transparent and fair, guarantees sound competition, tackles corruption and gets the best value for taxpayers' money.

The DCFTA defines basic standards regulating the award of contracts, which are derived directly from EU public procurement law and include the principles of non-discrimination, equal treatment, transparency and proportionality.

Moldova has already taken significant steps to bring its public procurement system into compliance with EU law and best international practice, with a revised law adopted in 2015. Legal, institutional and procedural changes have been made.

During 2013–14, the full implementation of a modern e-procurement system took place, following the launch of the first stage in 2012. A clear regulatory framework has been approved, with the adoption of the regulation on using the electronic auction. Its effective use depends on the adequacy of IT infrastructure in the public entities, including at local level.

Further reforms are still needed for alignment with EU standards. The main problems are ensuring the transparency of public procurement, the availability of information from public institutions and the real independence of procedures for settling complaints.

## 11. INTELLECTUAL PROPERTY RIGHTS

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In our knowledge-based economies the protection of intellectual property rights (IPRs) is important, not only to promote innovation and creativity, but also to develop employment and improve competitiveness. The DCFTA requires that Moldova modernise its IPR system. These reforms will contribute to a stable legal environment for the protection of IPR, which is crucial for attracting foreign investment.

The IPR system covers several domains: copyrights, trademarks, designs and patents and 'geographic indications' (i.e. protection of traditional brands such as champagne).

Currently, the legal framework on intellectual property is consistent with both international rules and those of the EU. However, the harmonisation of legislation must continue to follow changes at the international and EU levels. Although progress has been made to bring the promotion and protection of intellectual property rights closer to European practice, the authorities still need to do more on the following issues:

- improve coordination between the various institutions responsible for the protection of intellectual property rights;
- enhance the qualification of judges in the IPR area;
- develop a strategy to identify local products that could obtain intellectual property titles, which would include training and support (technical and financial) activities for producers, and actions to promote those products in the EU and other markets.

## 12. COMPETITION POLICY

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An effective competition policy that controls monopolistic behaviour by companies and trade-distorting subsidies by the government is essential to the sound functioning of a modern economy. It assures a level playing field for economic operators, lower prices for consumers with better quality and wider choice, and reduces scope for corruption.

Moldova is obliged to maintain comprehensive competition laws that effectively address anti-competitive cartels, mergers and the abuse of dominant position by enterprises. These competition laws should be enforced by an appropriately equipped independent authority in a transparent and non-discriminatory manner, respecting the principles of procedural fairness and the rights of defence. Moreover, they should also apply to state monopolies and state enterprises.

Since 2012, with the support of the EU and its member states, the Moldovan authorities have been strengthening the enforcement and effective implementation of the Competition Law, including capacity building in the Competition Council, which has a wide range of powers: decision, regulation, prohibition, intervention and inspection, along with the adoption of sanctions related to competition, state aid and advertising. Any piece of legislation that can affect the competition environment should receive prior approval by the Council. In 2015, the highest numbers of new violations were registered in the two following fields: abuse of dominant position and the (in)action of public authorities that restrict or distort competition.

Shortcomings identified by the Court of Auditors include a lack of prioritisation of cases, inefficient methods for identifying cartel agreements, and deficiencies in the planning of investigations.

## 13. STATISTICS

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A modern and internationally comparable statistical system is indispensable for informed policy-making and for the work of the business sector and civil society. All the post-Soviet states have had to face the same challenges of radical reform to their statistical systems, notably to move from systems that essentially served the needs of the state to systems that serve the private sector and society as a whole.

More technically, there has to be a greater use of sampling methods rather than exhaustive data collection.

The National Bureau of Statistics (NBS) produces economic, social and demographic statistics, with dissemination on a website in both Romanian and Russian, and certain information in English. In recent years, the NBS has undergone significant internal organisational changes to increase the efficiency of data collection, processing, analysis and dissemination

There is substantial cooperation between Eurostat and the Moldovan statistical agency, with seminars on statistical strategies; training courses on current developments in statistical systems; collection of selected data series in accordance with Eurostat questionnaires, allowing Eurostat to publish comparable data series; and in-depth assessment of the statistical systems of Moldova.

The NBS enjoys significant donor support from the EU, Sida, and other donors. Outstanding challenges include addressing several weaknesses in the coverage and delivery of statistics, namely delays in obtaining the results of the 2014 census, including the production of data covering the Transnistrian region.

# **PART III. ECONOMIC COOPERATION**

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## 14. MACROECONOMICS AND FINANCIAL ASSISTANCE

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After the collapse of the Soviet Union and independence, Moldova suffered one of the deepest and longest economic declines among the transition countries. Despite economic growth since 2000, Moldova's GDP per capita is still one of the lowest among the Eastern European countries and those of the CIS.

There is significant financial cooperation between Moldova and the EU. The main macro-financial assistance from the EU to Moldova so far has been a €90 million grant programme decided in 2010, and executed in three tranches in 2010 and 2012. This particular programme predates the Association Agreement, but it illustrates one important instrument at the disposal of the EU.

Regular grants from the EU budget are programmed, with an indicative allocation for the 2014–20 period of €610–746 million, and supplementary allocations dependent on progress towards a “deep and sustainable democracy” and implementation of agreed reform objectives.

The European Investment Bank is a major investor in Moldova, having extended a total of €372 million in loans and investment so far. The EBRD has become an even bigger investor in Moldova, having made financial contributions amounting to €1 billion to 110 projects. The largest shares of this investment have been in infrastructure and the energy sector.

## 15. FINANCIAL MARKETS

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The Association Agreement envisages a comprehensive adoption by Moldova of the European system for regulating banks, insurance and securities markets with adoption, at least in the long run, of the entire body of EU laws in this field. The objective is for the financial markets to be safe and efficient for consumers and systemically sound for the economy.

Moldova's financial market is still underdeveloped, with a shallow non-bank segment, which hampers growth in the domestic economy. Until recently Moldova had maintained a quite sound basic banking system, but in 2014, a huge financial fraud linked to the banking sector gravely damaged its reputation, at enormous cost to the economy.

Moldova's capital market is still embryonic, with trading taking place only in shares and bonds. Trading mechanisms for derivatives and government securities (secondary market) are yet to be developed. Related to this is the substantial time delay of seven years for the insurance market to comply with EU regulatory standards, which will be difficult without prior enhanced market capitalisation.

Currently, there are no strategic planning documents for compliance with EU legislation, although the deadline for implementation is three years. Delays have been caused by recurrent political crises, in addition to the bank fraud.

## 16. TRANSPORT

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The Association Agreement aims to expand and strengthen Moldova's transport cooperation with the EU and thus to promote efficient, safe and secure transport operations and greater interoperability of transport systems. This will be fundamental to integrating Moldova's industries into the European supply chain and to boosting contact between people.

The Agreement sets out the EU's detailed standards and regulations for road, rail, inland waterways, sea and intermodal transport, which Moldova will progressively adopt. These concern the qualifications of transport operators, the technical safety of vehicles and vessels, and the activities of inspection bodies.

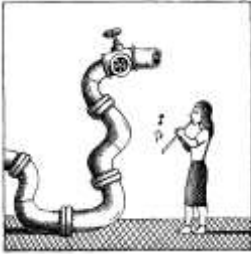
Road transport companies, operators and drivers from Moldova are expected to comply in full with EU standards if they wish to engage in 'trucking' in the EU. The case of road haulage transport is also complicated by the fact that access to the EU's market is subject to detailed quota provisions issued at the level of the member states.

Integration of Moldova's transport network into the Pan-European Corridors is important because of the routes passing through its territory, notably the M3 Chişinău-Giurgiuleşti and M14 Brest-Briceni-Tiraspol-Odesa highways that need upgrading, as do the rail connections with neighbouring countries, in particular with Romania. A limiting factor in implementation follows from a lack of control by Chişinău over the roads and railways across the Transnistrian region.

The EBRD, EIB and European Commission are funding investment in major transport infrastructure, complementing regulatory reforms.

## 17. ENERGY

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The reform and modernisation of Moldova's energy sector is a challenge of the utmost priority, for both economic and geopolitical reasons. The provisions of the Association Agreement are highly relevant for the necessary policy reforms in the energy sector.

The Moldovan market for gas and electricity is currently dominated by Gazprom, directly for gas and indirectly through a gas-fired power plant in Transnistria, which supplies most of Moldova's electricity. Plans and projects for diversification are developed for network connections with Romania for gas and electricity, but these will require bigger investments from European sources, which are not yet assured.

The legal provisions of the Association Agreement in the energy sphere largely consist of commitments already made under Moldova's accession to a prior treaty commitment (Energy Community) in 2010. Compliance with these provisions proceeds unevenly; among other shortcomings there are serious delays in the gas sector.

The energy efficiency law of 2010 established the required primary legislation and there have been useful developments in the reduction of energy losses in power and heat generation, transmission and distribution, the promotion of the market of Energy Services Companies, and the development of the regulatory market for energy labelling and eco-design. New gas and electricity legislation was adopted in May 2016, after delays. Responsibility for implementation of this legislation lies with Moldova's energy regulatory institution (ANRE), whose effective independence from political intervention needs to be strengthened.

## 18. ENVIRONMENT

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The environmental provisions of the Association Agreement are very ambitious and commit Moldova to cooperation over the whole landscape of environmental policy issues. Implementation will be a long and difficult process, given Moldova's starting point, but it will ultimately mean a radical transformation of environmental quality and the modernisation of key heavy industries in the country.

Moldova agrees to undertake a gradual approximation of its legislation to that of the EU within two to ten years. This covers the majority of EU environment law and policy, from environmental governance methods to air and water quality, waste management, industrial pollution and hazards, nature protection, chemicals and climate change.

Substantial reforms have been introduced at the institutional level, involving the Ministry of Environment and ministries and public bodies responsible for transport, health, education, energy and standardisation, among others. Moldova's codes and laws are being aligned with European legislation, although political instability and insufficient financial and human resources cause difficulty and delay.

Overall, there is a need to upgrade the administration of water, forestry and soil resources, and waste management. A particular issue to be addressed is the deficient management of water resources of the river Dniester, for which more efficient and inclusive cooperation is necessary between Ukraine and Moldova.

## 19. THE DIGITAL SECTOR

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The 'digital' family of provisions of the Association Agreement covers electronic communications and postal services, the information society, and audio-visual policy. Overall, this 'digital' sector inescapably becomes a strategic dimension to the challenge of creating a modern and internationally competitive economy. The Association Agreement provides for a comprehensive alignment with EU regulatory practices within one to seven years, but progress here is rather slow.

The authorities are taking action to digitise public services, with significant progress on issues like e-licensing, e-reporting, mobile signature and online payment for public services. The number of electronic services is steadily growing, with 112 services being scheduled for introduction in the period 2016-18. The authorities are working to fight corruption through electronic public services, diminishing contacts with public servants and reducing the costs of public service delivery.

The education system has increased its focus on IT with the adoption of the e-transformation agenda by the authorities. Various initiatives aiming to increase IT educational capacity and enhance youth interest in IT involve the state, business stakeholders, the non-governmental sector and the donor community.

Still, the digital sector faces the following major challenges:

- insufficient application of ICT tools by local public administrations;
- low levels of digital literacy among the public, which hinder the spread of electronic public services, particularly in the regions; and a
- high incidence of software piracy, which hinders the development of the IT sector, including local software production.

## 20. CONSUMER PROTECTION

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EU legislation is intended to ensure a high and consistent level of protection for the health and safety of consumers by means of strict common safety rules and standards for products and services circulating within the internal market.

The Moldovan government's Strategy for Consumer Protection 2013–20 represents the current framework of policies regarding consumer protection and market surveillance. The main objectives are i) diminishing the risks of transactions of dangerous goods and services and their access to the market; ii) empowering consumer decision-making through education and information; iii) improving the legal procedures for claiming consumers' rights and recovery of damages.

The Agency for Consumer Protection is the key institution, with extensive competences that include market surveillance, monitoring procedures, termination of improper economic activities, company sanctions and communication efforts. Policies covering consumer protection and market surveillance are in place. The authorities are shifting the emphasis from checks and inspections to consultations and education. Alignment with EU legislation is proceeding smoothly.

Nevertheless, the capacities of the main institutions are limited, as are their financial resources, thus raising questions about effective implementation. Irregularities in the field are numerous and consumer rights are frequently neglected. Consumers continue to be rather passive stakeholders.

## 21. COMPANY LAW

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To further support Moldova's transition to a fully functioning market economy and to create a stable environment for investment, the Association Agreement includes provisions on company law, corporate governance, accounting and auditing.

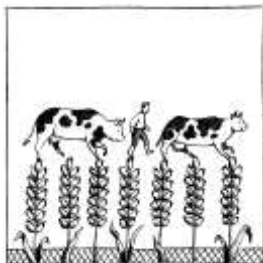
In the area of company law, Moldova aims to improve the protection of shareholders, creditors and other stakeholders by undertaking to approximate a list of EU company law directives. Yet, overall, Moldova's current legal framework for company law, corporate governance and accounting is weak and the implementation of EU regulatory standards will be a huge challenge. The need to modernise Moldova's legal framework in this area became clear when a major bank fraud was revealed in late 2014. But the problems are not limited to this sector. World Bank studies show poor performance in protecting minority investors, enforcing contracts and resolving insolvency.

Reforms in line with EU legislation in the broad area of company law should, in due course, improve Moldova's business climate and create a transparent environment for enterprises, with an appropriate level of protection for company shareholders and creditors. Currently, however, there are delays in drafting the required legislation.



## 22. AGRICULTURE

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Agriculture is a very important sector for the Moldovan economy, with huge potential for increasing the quality and volumes of its production and exports to the EU.

The country has undertaken ambitious commitments to align its farm policies to those of the EU, mostly over four or five years. There is room for debate about whether Moldova, keen to advance its EU integration, has made too many commitments too fast. Monitoring activities will inform policy-makers on this point in due course. In approximately two years, the authorities will conduct a stocktaking exercise, which might show whether there is a need to recalibrate the extent of these commitments.

The strategic policy framework is represented by the National Strategy on Agriculture and Rural Development for 2014–20. The major goals are increasing the competitiveness of the agri-food sector, ensuring sustainable management of natural resources in agriculture, and improving living standards in rural areas. Particular attention is devoted to digitising the agricultural sector, with an ‘e-agriculture’ strategy to improve IT infrastructure for public services in this domain. The EU supports agriculture and rural development in Moldova, with an important programme (‘ENPARD’) approved in 2016.

There are structural difficulties hampering the creation and functioning of agricultural producer groups, namely an outdated agricultural education system, isolated extension services and weak agricultural research. The limited availability of banking loans also complicates the situation for farmers, with insufficient supply of long-term loans and high interest rates. The agricultural sector lacks supply-chain coordination and post-harvest infrastructure. Finally, there are deficiencies related to transparent and fair access to the mechanism for agricultural subsidies.

## 23. EMPLOYMENT AND SOCIAL POLICY

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The Association Agreement seeks to promote cooperation over a large part of EU labour law and related conditions of work, much of which is closely related to the content of the ILO conventions that Moldova has already ratified.

Moldova's labour market presents a contradictory picture. On the one hand, unemployment is at its lowest historical level, at 4-5%. On the other hand, the employment rate is only about 39%, which is the lowest in the region, and reflects the significant number of Moldovan workers who have emigrated in search of work.

Despite progress in alignment with EU labour law, there are still some important issues to be addressed. The backbone of the regulatory framework is the Labour Code, approved in 2003, which is far removed from the former code of the Soviet period and has significantly improved the legislative environment of the labour market. Nevertheless, not all the aspects of Soviet legislation were repealed. Also, despite many adjustments in the last decade, there are still discrepancies between the economic reality and legislative provisions of the code. Business associations are seeking many amendments to boost the flexibility of the labour market, notably concerning fixed-term employment contracts, trial periods, terminating employment contracts, shift work, subcontracting staff and the review of arrangements to compensate for supplementary hours.

Finally, there are major problems with implementing legislation across the whole range of labour laws, notably the high level of informal employment. Also, the recent regulatory reform, including dissolution of the labour inspection service, could complicate the implementation of the employment agenda in the Association Agreement.

## 24. EDUCATION, TRAINING AND CULTURE

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The Association Agreement sets out basic aims for the education system, notably its reform, modernisation and convergence in the field of higher education on the Bologna Process, and the enhancement of the quality and relevance of higher education.

Moldova ranks lowest among European countries in terms of educational achievement. It is therefore a strategic priority to build up Moldova's human capital basis for a major strengthening of its economic performance.

The EU's largest contributions are made through the Erasmus+ programme. Erasmus+ has a total budget for the EU plus third countries of €14.7 billion for the period 2014–20. Thanks to Erasmus, in the period 2004–14 around 1,000 students and academics from Moldova benefited from mobility projects through scholarships, teaching, training activities and study visits, and these numbers are expected to grow in coming years.

The EU also offers financial assistance for the renovation of the infrastructure of several schools in the Transnistrian region through the Support Confidence Building Measures programme implemented by the UNDP.

Cultural cooperation between Moldova and the EU is based on the promotion of exchanges and the mobility of arts and artists. Moldova participates fully in the EU's Creative Europe programme for cultural and creative sectors.

## 25. SCIENCE, TECHNOLOGY AND SPACE

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The Association Agreement sets out wide-ranging objectives for cooperation in the area of science and technology, aimed at strengthening research capacities and human potential and at sharing scientific knowledge. The Agreement encourages the EU and Moldova to implement joint projects, conduct training courses and increase the mobility of programmes and scientists through exchanges for Moldovan researchers. It also intends to facilitate the involvement of Moldovan institutions in the European Research Area.

The Horizon 2020 programme is the centrepiece of the EU's scientific research activity, endowed with very substantial funds (€80 billion) for the period 2014-20. The areas eligible for project funding cover both the natural and social sciences. Moldova's associate membership of Horizon 2020 allows it to participate on the same basis as an EU member state. Moldova participated in the predecessor of Horizon 2020, the Framework Programme 7 (FP7) for Research and Development, between January 2012 and 2014. Through this cooperation, Moldova received €3.75 million of total funding (compared with its financial contribution of €1.4 million).

Moldova has strengths in the IT field and its current research projects cover various areas (e.g. demography and product quality).

The major challenge for Moldova is to strengthen the institutional capacities of its research community (in proposal preparation, submission, project administration, etc.), especially in view of the stiff competition from other countries participating in Horizon 2020.

## 26. EU AGENCIES AND PROGRAMMES

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The EU operates as many as 46 agencies, which are semi-autonomous and specialised bodies funded and controlled by the EU, with the objective of supporting the functioning of EU policies. There are also around 45 programmes, most of which are funded and administered by the European Commission. Of these around half are open to participation by Moldova.

Such participation offers a useful means of in-depth integration of professional experts and administrative organisations with EU counterparts and aids reform processes.

Examples of agencies with which Moldova has, or is negotiating working arrangements include the following:

- European Aviation Safety Agency (EASA)
- European Union's Judicial Cooperation Unit (EUROJUST)
- European Police Office (EUROPOL)
- European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX)

Membership of an agency requires negotiation of a specific international agreement and a decision on the financial contribution of the partner. To ease the financial burdens on Moldova temporary rebates can be negotiated.

Membership of the agencies and inclusion in programmes gives full access to the infrastructure and governing bodies.

## 27. CROSS-BORDER COOPERATION

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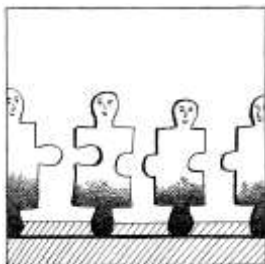
Moldova's borders with Romania and Ukraine offer important opportunities for enhanced cooperation at the regional level. The Association Agreement calls for cross-border cooperation in general terms, and in specific sectors such as transport, energy, education, tourism and health. The EU offers substantial funding for projects, notably through land border programmes between regions in Moldova, Romania and Ukraine, which have three rather general priority areas: increasing competitiveness, facing environmental challenges and people-to-people cooperation.

The links between the border regions of Moldova and Romania are naturally of great significance, given the commonalities of language, culture and history between the two countries. In 2009, the two countries signed an agreement to facilitate local border traffic. Cross-border movements have become even easier since then, however, thanks to the scrapping in 2014 of short-term visa requirements for Moldovan citizens visiting Romania and the rest of the EU.

Specific projects with Ukraine and Romania concern cross-border trade, gas and electricity network connections, cooperation over emergencies and river basin environments. In addition, the EU funds the Border Assistance Mission (EUBAM) on the Transnistrian frontiers with both Ukraine and Moldova (see chapter 2).

## 28. CIVIL SOCIETY

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Moldova's civil society has engaged in active policy dialogue with the authorities, especially since the 2009 parliamentary elections. These NGOs cover issues such as education, development, democracy and human rights, social services, youth and culture. There are no legal restrictions for citizens from the Transnistrian region to register a NGO, but those from the right bank cannot do the same in the

Transnistrian region. A limited number of NGOs function as a watchdog, monitoring reform in Moldova and pressuring the government on progress. Overall, however, civil society still lacks the resources and capacities to become a strong driver of change.

The EU has long supported Moldovan civil society, which for the period 2014–17 will receive 5% of the EU's financial support to Moldova. The formal frameworks of cooperation between Moldova's civil society and the EU consist of three parallel but overlapping platforms. These are the multilateral Civil Society Forum of the Eastern Partnership, the bilateral Civil Society Platform established under the Association Agreement and the DCFTA-related Advisory Group. The overlap creates some confusion and may hinder their efficiency.

Overall, the dialogue between authorities and civil society lacks trust, and is fragmented by frequent political instability. The biggest challenges for Moldovan civil society are the scarcity of human resources in specific areas (such as social assistance and e-governance) and its high degree of dependence on external assistance, which raises questions about their credibility as 'consumers of grants'.

**PART IV. LEGAL AND INSTITUTIONAL  
PROVISIONS**

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## 29. DISPUTE SETTLEMENT

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The Association Agreement has well-developed legal mechanisms to handle disputes that may arise over implementation of the Agreement. Since there will be much political and economic business conducted between the two parties it is inevitable that issues will arise over interpretation of specific provisions of the Agreement and its implementation.

There are two basic dispute settlement mechanisms: a 'general' one applicable to all parts of the Agreement except the DCFTA and a second one applicable to the DCFTA itself.

The general mechanism relies on the two parties finding a mutually agreed solution in the Association Council, failing which the aggrieved party may take 'appropriate measures'.

For DCFTA-related disputes there is a more elaborate system that provides two alternative tracks: either binding arbitration, or softer mediation for consensual solutions.

There is also provision for the special case of violation of the 'essential elements' of the Agreement (i.e. basic political principles), which can lead to suspension of the entire Agreement.

In practice, these procedures are rarely used, as the EU for its part generally tries to find diplomatic solutions to problems that arise.

## 30. INSTITUTIONAL PROVISIONS

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The Association Agreement establishes a comprehensive institutional framework to oversee its monitoring and implementation process.

The key institution is the Association Council, composed of members of the EU Council and Commission, on the one hand, and members of the government of Moldova at ministerial level, on the other. The Association Council has broad powers to amend many details to the Agreement (in its annexes), but it cannot change the main body of the Agreement since, being a treaty, this would require the complex procedures of ratification.

The Association Council is assisted by an Association Committee at senior official level, with other specialised committees such as for trade matters, and sub-committees. These joint institutions are also responsible for the continuous updating of the Agreement, in particular in light of the relevant legislative developments in the EU itself.

The Agreement established a Parliamentary Association Committee, consisting of Members of the European Parliament, and the Parliament of Moldova, as well as a Civil Society Platform (see chapter 28).

The Handbook on which this booklet is based is entitled *Deepening EU-Moldovan Relations: What, why and how?*, edited by Michael Emerson and Denis Cenuşa. It is available for free downloading at [www.3dcftas.eu/](http://www.3dcftas.eu/) in English, Romanian and Russian. The English version can be purchased in paperback, hardback or electronic form from the publisher, Rowman and Littlefield International at [www.rowmaninternational.com/books/the-eu-Moldova-association-agreement-and-dcfta](http://www.rowmaninternational.com/books/the-eu-Moldova-association-agreement-and-dcfta)

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The new relationship between Moldova and the European Union is the focus of this accessible, non-technical short guide. This relationship is based on a complex treaty: an Association Agreement with extensive political, economic and legal content, signed in 2014 and entering fully into force on 1 July 2016. The Agreement includes a Deep and Comprehensive Free Trade Area (DCFTA).

This booklet is a summary of the Handbook entitled *Deepening EU-Moldovan Relations – What, why and how?*, which explains the contents of the treaty in much greater depth. The Handbook, like the present booklet, is freely available at [www.3dcftas.eu](http://www.3dcftas.eu) in English, Romanian and Russian. Both publications follow the same chapter structure, which allows readers who wish to dig deeper into the subject to readily find their way in the longer Handbook.

This short guide is produced as part of a project supported by the Swedish International Development Agency (Sida) and is one of a trilogy, with comparable companion texts also published on Georgia and Ukraine.

