



-Moldova-
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GENERAL FEATURES OF TRADE POLICY

Since Moldova is located directly on the border of an enlarged EU, instability and poverty in this country are a matter of concern for the EU. On the political side, democracy is established in Moldova, although further progress is still needed to consolidate civil society, public governance and the rule of law.

The economic situation is characterised by extreme poverty and a very difficult social situation with problems similar to those of developing countries. Moldova's financial fragility makes it strongly dependent on external financing and/or debt rescheduling.

In July 2003, the Commission has approved a 25 mio € package of technical assistance to support Moldova's transition to a market economy. These 25 mio € are spread with € 10 mio for macroeconomic financial assistance, € 10 mio under the food security programme and € 5 mio from Tacis regional programmes. The package is funded from the Tacis budget and is valid for 2003-2004.

The EU-Moldova relations are based on a Partnership and Cooperation Agreement (PCA) which was signed in November 1994 and entered into force on 1 July 1998. Moldova is a member of the Stability Pact for South Eastern Europe.

Moldova became a full member of the WTO on 26 July 2001. However, despite its low level of economic development and the small size of its economy, Moldova did not receive the status of a developing country.

The Government of Moldova has adopted and is implementing currently a major programme of reforms for the transition from a centrally planned to a market economy, based on an open and well structured commercial policy. Also the Moldovan Government has made EU integration one of the main lines of their foreign policy, in particular the objective of strengthening political and economic relations with the EU and eventually of becoming a Member State. Moldova has an open economy, liberalized trade and no export subsidies. Currently its exports and imports, for geographical and historical reasons, are very much dependent on traditional markets.

Although industrial output has increased, agriculture continues to be in profound crisis with a continued decline in production. Acceleration of land privatisation is an imperative for reversing this trend.

The foreign trade liberalisation measures adopted in 2000 and the relative stability of the Moldovan currency (1.12 euro = 12.38 Moldovan lei end 2000) have helped bring down inflation (from 43.8% before 2000 to 18.5% in December 2000) despite the negative impact of high fuel prices in the world market. Despite these improvements, Moldova continues to have one of the lowest income per capita in Europe and ranks second lowest (before Tajikistan) among all East European and NIS economies (in the UNDP's human development index).

The Moldovan authorities, in cooperation with international financial institutions, have been working on a strategy aimed at achieving rapid and sustainable growth and at addressing the poverty and income inequality problems.

The EU is an important trading partner for Moldova. In the first months of 2000, 22.9% of Moldovan exports went to the EU and 27.7% of imports were from the EU.

Moldova's main exports to the EU are agricultural and food products, textiles and base metals and articles, its main imports from the EU are machinery and electrical products, agricultural products and textiles.

Moldova's trade balance with the EU had been increasingly negative (except in 1999). The 1999 deceleration was due to a decrease in imports from the EU following a strong depreciation of the Moldovan currency after the 1998 Russian financial crisis.

Moldova benefits from the EC General Preference System (GSP). Most Moldovan exports to the EU in the framework of the GSP fall under the categories "very sensitive" (15% reduction of customs duties) and "sensitive" (30% reduction of customs duties). Since 2000 Moldova benefits from additional reductions of customs duties under the GSP thanks to the application of an incentive scheme for countries applying certain ILO conventions.

An agreement regarding trade in textiles is in place.

The following table is an overview of the tradeflow between the European Union and Moldova

Section	Year	Import(Euro)	Export(Euro)
Animals & animal products	1996	120,130	2,246,130
	1997	288,550	3,692,170
	1998	120,050	11,899,410
	1999	297,400	5,074,960
	2000	353,940	16,113,710
	2001	904,630	23,548,660
	2002	780,890	20,662,750
	2003	424,090	11,883,680
Vegetable products	1996	9,595,830	6,927,070
	1997	19,373,410	6,541,670
	1998	22,546,680	2,302,800
	1999	20,313,250	2,838,790
	2000	24,316,150	7,573,520
	2001	26,031,450	5,864,170
	2002	46,694,860	7,352,680
	2003	21,741,040	10,760,350
Animal or vegetable fats	1996	14,630	251,970
	1997	8,170	710,200
	1998	23,300	389,600
	1999	56,870	294,450
	2000	75,820	786,340
	2001	29,980	423,000
	2002	6,270	391,720
	2003	4,330	235,860
Prepared foodstuffs	1996	17,642,220	13,244,470
	1997	8,595,020	20,106,400
	1998	9,555,250	17,067,940
	1999	6,799,810	9,016,520
	2000	2,924,430	12,357,770
	2001	4,072,900	19,036,130
	2002	6,094,240	15,513,150
	2003	13,966,320	21,792,730
Mineral products	1996	30,650	979,910
	1997	160,220	1,609,820
	1998	1,183,450	1,625,490
	1999	2,782,190	1,222,410
	2000	1,322,360	1,615,170
	2001	520	1,902,760
	2002	165,310	2,249,240
	2003	19,640	2,816,690
Chemical products	1996	1,659,040	10,711,620
	1997	1,709,420	22,119,930
	1998	1,280,920	21,781,490
	1999	1,017,180	17,051,490
	2000	597,380	22,729,410
	2001	1,403,560	26,730,400

	2002	975,980	30,808,180
	2003	832,010	28,914,870
Plastics & rubber	1996	157,180	8,323,660
	1997	65,660	13,577,350
	1998	14,290	11,553,470
	1999	119,800	7,927,960
	2000	152,000	15,098,450
	2001	109,900	12,735,270
	2002	596,340	14,091,880
	2003	361,210	14,308,530
	Hides & skins	1996	6,223,090
1997		7,671,860	4,566,980
1998		3,894,920	2,727,650
1999		8,368,160	1,602,680
2000		10,044,900	2,243,620
2001		10,295,030	2,552,630
2002		24,115,300	3,985,850
2003		25,872,330	4,778,130
Wood & wood products	1996	188,120	2,630,250
	1997	201,260	4,772,880
	1998	400,520	3,997,270
	1999	778,460	1,584,020
	2000	365,120	3,467,940
	2001	746,630	5,191,280
	2002	1,022,100	4,620,170
	2003	764,360	6,868,290
Wood pulp products	1996	218,570	4,345,340
	1997	26,980	9,002,690
	1998	27,310	9,723,480
	1999	21,260	5,845,200
	2000	24,360	6,599,500
	2001	46,660	8,296,250
	2002	15,000	8,055,810
	2003	43,790	7,642,500
Textiles & textile articles	1996	8,190,160	11,027,500
	1997	10,867,720	20,489,170
	1998	21,728,230	24,746,580
	1999	24,791,120	22,400,740
	2000	37,554,270	31,658,960
	2001	41,278,250	39,757,160
	2002	33,881,340	35,897,180
	2003	29,009,500	26,927,150
Footwear, headgear	1996	2,027,670	2,417,380
	1997	2,738,740	2,803,950
	1998	968,790	1,883,310
	1999	167,050	1,353,390
	2000	977,730	1,797,370
	2001	348,630	1,703,090
	2002	8,821,720	2,572,710
	2003	15,137,740	2,725,230
Articles of stone, plaster, cement, asbestos	1996	2,150	4,540,870
	1997	66,470	5,937,260
	1998	60,800	5,357,150
	1999	11,120	5,263,410
	2000	6,790	6,786,450
	2001	34,850	7,117,710
	2002	5,540	6,905,460
	2003	49,570	9,331,350
	1996	0	468,260
	1997	372,890	426,080
	1998	48,690	181,490

Pearls, (semi-)precious stones, metals	1999	21,770	48,870
	2000	1,000	138,650
	2001	12,260	85,370
	2002	15,360	3,406,240
	2003	16,040	232,890
Base metals & articles thereof	1996	10,638,520	5,927,040
	1997	6,860,680	10,416,260
	1998	12,375,370	8,069,700
	1999	13,357,310	7,920,890
	2000	30,992,650	10,632,560
	2001	42,261,640	12,938,190
	2002	47,873,280	9,118,640
Machinery & mechanical appliances	2003	63,154,910	12,804,580
	1996	3,446,710	54,201,960
	1997	2,754,690	59,794,570
	1998	1,751,230	66,076,210
	1999	1,359,360	54,941,510
	2000	2,601,580	78,778,130
	2001	3,069,730	74,386,250
	2002	3,472,530	92,682,780
Transportation equipment	2003	3,004,060	112,029,290
	1996	38,220	12,868,270
	1997	539,760	20,130,410
	1998	62,370	23,927,420
	1999	1,028,650	9,608,180
	2000	716,600	15,117,030
	2001	136,990	33,975,170
	2002	768,930	38,611,300
Instruments - measuring, musical	2003	318,840	48,213,840
	1996	60,920	8,743,700
	1997	116,740	8,500,130
	1998	259,010	7,310,070
	1999	68,670	13,545,320
	2000	327,930	5,569,880
	2001	262,330	7,173,560
	2002	70,520	8,201,590
Arms & ammunition	2003	440,630	10,107,520
	1996	0	40,700
	1997	0	22,780
	1998	0	51,130
	1999	0	19,700
	2000	880	61,750
	2001	0	272,880
	2002	0	54,330
Miscellaneous	2003	0	34,490
	1996	108,290	3,692,750
	1997	37,550	4,279,030
	1998	97,630	5,637,060
	1999	100,400	4,528,600
	2000	2,057,780	5,617,420
	2001	6,431,300	5,754,370
	2002	962,550	5,806,870
Works of art	2003	1,078,010	5,820,570
	1996	4,800	3,180
	1997	9,150	3,430
	1998	2,400	14,520
	1999	18,520	0
	2000	350	0
	2001	56,120	11,620
	2002	8,170	82,660
2003	127,690	1,280	

Other	1996	286,850	2,437,860
	1997	477,710	4,386,130
	1998	796,620	4,675,550
	1999	362,900	3,696,660
	2000	364,940	8,413,760
	2001	468,250	10,476,510
	2002	1,214,890	3,300,760
	2003	1,390,820	2,342,260

Agriculture and Fisheries
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Moldova enjoys a favorable climate and good farmland but has no major mineral deposits. As a result, the economy depends heavily on agriculture, featuring fruits, vegetables, wine, and tobacco. Moldova must import all of its supplies of oil, coal, and natural gas, largely from Russia.

As part of an ambitious reform effort, Moldova introduced a convertible currency, freed all prices, stopped issuing preferential credits to state enterprises, backed steady land privatization, removed export controls, and freed interest rates.

In 1998, the economic troubles of Russia, by far Moldova's leading trade partner, were a major cause of the 8.6% drop in GDP. In 1999, GDP fell again, by 4.4%, the fifth drop in the past seven years; exports were down, and energy supplies continued to be erratic. GDP declined slightly in 2000, with a serious drought hurting agriculture. Growth should turned positive in 2001.

Agriculture is the mainstay of the economy, accounting for about 25 % of GDP, 40 % of employment and 65 % of exports (if agribusiness is included). Over the last decade Moldova has experienced significant and continued declines in agricultural production, productivity and exports. However, it appears that economic conditions in Moldova bottomed out in 1999. Agricultural performance led to positive growth in production in 2001. Projections for the coming years give hope that economic growth will continue in the agriculture sector.

The Government gives the highest priority to the attraction of foreign investment in energy, agriculture, transport, social commodities, and construction and building materials sectors.

Foreigners are permitted to buy all forms of property in Moldova, including land plots under privatized enterprises and land designated for construction. The only exception is ownership of the agricultural land.

Services - Energy
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As the other five CIS countries, Moldova is rather poor in natural resources, in particular energy, and adjustments of imported energy prices to world levels were equivalent to terms-of-trade shocks of up to 15% of GDP.

With the collapse of the former Soviet Union and the beginning of the transition to market relations, the energy sector, like the economy of the Republic in general, plunged into a severe crisis due to both the difficult financial situation, resulting from consumer's debts and a lack of local and foreign investments.

The energy debt in Moldova accounts for a large share of the total debt, mostly because the authorities have given untargeted subsidies, thus increasing the debts and decreasing the efficiency of the system. As other neighbour countries, like Ukraine and Belarus, Moldova depends to a large extent, on energy supplies from Russia, Turkmenistan and, to a lesser extent, Uzbekistan, with no real alternative available.

As a result of the poor financial situation in the energy sector, and with declining public investment in state-owned energy enterprises, the latter's asset value has eroded and the quality of services has deteriorated.

CIS countries mainly import energy resources, with Russia being the largest supplier. Electricity is mainly produced by Moldovan power plants using imported fuel inputs, although the country has high-voltage interconnections with Ukraine, Romania and Bulgaria. Structural reforms in the energy sector are underway in the Republic of Moldova and the electricity sector is now open to private participation by the sale of a significant share of the energy distribution companies to strategic investors, with the participation of the EBRD. Administrative capacity is still very weak.

The energy sector offers foreign investors a large number of projects for investing capital:

- rehabilitation of the coal dust facilities at the Moldovan Public Regional Electric Power Plant (over 150 mln USD)
- expansion of production facilities at the TPP-II in the city of Chisinau (150 mln USD)
- reconstruction and expansion of production facilities at the HPP in Dubassary (50 mln USD)
- re-equipment of TPP-I in the city of Chisinau (44 mln USD)
- construction of pipelines
- construction of integrated small and medium scale power plants, etc.

In Moldova, distribution companies covering 70 % of supply (RE Chisinau, RED Centru and RED Sud) have been sold and the sale of the remainder is currently under negotiation.

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TARIFFS AND DUTIES

Moldova has established a relatively open trade regime : abolished export quotas and lifted most important tariffs. The average tariff rate stood at 7.5% in 2001.

Moldova has a free trade agreement (FTA) with Romania which the latter should denounce upon accession.

A large proportion of imports in Moldova come from CIS countries that already have duty free access to the Moldovan market.

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NON TARIFF BARRIERS

Agriculture and Fisheries

Sanitary and phytosanitary measures

040024-Moldova- Live bovines, bovine products and derivatives [2004-12-20]

Import ban on live bovines, bovine products and derivatives due to BSE;
EU countries banned: DE, DK, ES, PT, UK, ..

- General statement on BSE to all Third Countries on 17/03/2004 in reaction on the statement of the USA. During the XXXI SPS Committee in October 2004 the Commission has given a general statement on BSE (Bovine Spongiform Encephalopathy). Some WTO members started to lift the ban due to BSE for some EU live ruminants and ruminant derived products (e.g.: China, New Zealand, Brazil, Philippines). The EC requested other WTO members to follow the same line and to respect guidelines as set up by international organizations (OIE).

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INVESTMENT RELATED BARRIERS

Foreign direct investment remains low. The legal and administrative environment is difficult.

Companies might be established with both foreign and Moldovan capital; with exclusively foreign capital and in which a foreign party acquires a holding in an already operational Moldovan company. Companies are

subject to the Foreign Investment Law of Moldova. They have the right to establish subsidiaries, both in Moldova and in other countries. They may also acquire parts of already existing firms.

New investors need to obtain confirmation with regard to the safety of new proposed technology from the Ministry of Environmental Protection and the sanitary-epidemiological service.

Enterprises with a foreign equity participation of 5.61 mio euros or more need approval by the Anti-monopoly Commission. Formation of an enterprise with foreign investments in the sectors of limited access for foreign investors require a special permission.

Moldova has become a member of the Investments Guarantees Agency (AGI). Membership of the country in this organisation makes it possible for foreign investors to receive compensation in case of losses incurred as a result of war or political shocks, actions by the government or the introduction of any restrictions on the repatriation of capital and profits.

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IPR

In theory, Moldova provides copyright protection for works that are in the public domain only after December 31, 1994.

Moldova applies the Law on Trademarks and Appellations of Origin (1996), the Law on Patents for Invention (1995) and the Law on the Protection of Industrial Designs (1996).

Although Moldova is a member of the major international conventions, piracy rates are reported to be close to 90%. Moldova has also been reported to be a major exporter of pirated goods to its neighbouring countries.

According to the PCA, by the end of 2003, Moldova should provide for a level of IPR protection similar to that provided in the Community and accede to a number of international conventions in this area.