

Statement of the Third Meeting of the Joint Civil Society Dialogue Forum of the Republic of Moldova and the European Union on Trade and Sustainable Development

October 17, 2017

Members of the Joint Civil Society Dialogue Forum the Republic of Moldova and the European Union on Trade and Sustainable Development met on 17 October 2017 at the Third Annual Meeting, in accordance with the provisions of Chapter 13 (Article 377) on Trade and Development of the Association Agreement between the Republic of Moldova and the European Union.

The participants at the meeting discussed the level of implementation of the recommendations mentioned in the Declaration of the Second Joint Dialogue Forum of October 2016. Overall, although some progress has been noted, the vast majority of constraints and, respectively, the previous recommendations regarding the expanding of trade and ensuring sustainable development continue to remain topical.

Among the main achievements in the field of EU-Moldova relations, which mainly concern Deep and Comprehensive Free Trade, and reflect the recommendations of the Second Forum, the following can be mentioned:

- New attempts initiated by the Government to engage in a process of structuring, coordinating and monitoring reforms through the adoption of a new Roadmap. The new document contains 51 actions, including actions relevant to DCFTA, such as improving investment climate, food safety, banking sector, with implementation scheduled for the period July-December 2017. This document complements a wider framework of platforms aimed at coordinating reforms targeted by the Agenda for Action Association - National Action Plan on the Implementation of the Association Agreement 2017-2019 and the Legislative Plan for the Implementation of the Association Agreement. Even if the executive and the legislature have a political majority sufficient to synchronize and implement the actions, an independent monitoring report shows first delays already in July-September 2017 - 7 out of 10 actions have not been achieved. The most serious concerns expressed by the evaluators are the deficiencies of public administration reform, an attempt to put under anonymity the personal data in the judiciary sector, and the delay in adopting the Strategy for Civil Society Development 2017-2020.
- Harnessing the trade potential with the EU has continued. There has been an increase in the volume of Moldovan exports to the EU, reaching 65% of total exports in the first two years of the DCFTA implementation. At the same time, it has increased the value of deliveries on the European market, from 1.25 billion in 2014 to 1.33 billion in 2016. At the same time, the value of imports diminished

from 2.57 billion to 1.97 billion USD (by 23.1%). As a result, trade balance with the EU improved in favor of the Republic of Moldova. Thus, trade deficit narrowed from 1.32 billion USD to 641.8 million USD. The positive trend is also maintained in the first half of 2017, when exports of goods to the EU increased by 16.7% over the same period of the previous year and imports - by 18.7%. Although ZLSAC creates opportunities for Moldovan producers, the structure of exports shows a major dependence on the sectors of the economy based on the extensive use of labor (agriculture, textiles, etc.). Additionally, there is a lack of production capacities, needed to fulfil the export quotas for barley, corn, sugar and sweet corn, in order to make full use of the opportunities of the circumvention prevention mechanism.

- The recent updating of the labour legislation may produce positive effects on Moldovan economy. Nevertheless, it requires improving the social dialogue and partnership in order to ensure a balanced relationship between employers and employees, and to avoid lowering the national and international standards in labour field.
- Launching the process of promoting the principles of green economy in all sectors of the economy and integrating environmental management requirements into the activity of the enterprises.
- Bureaucratic burdens for business are simplified. In this respect, the legislation on the authorization of entrepreneurial activity, which provides for the simplification of the regulations regarding the issuance of permissive acts, has been amended. Therefore, it is expected the removal of about 140 permissive acts (including 18 licenses). Following this optimization, the private sector will save about 43 mil. MDL and the public sector - about 18 mil. MDL.
- The first steps are made towards excluding duplication of state controls in the entrepreneurial activity, as result of the modifications introduced into the Law no. 131 of June 8, 2012. As a result, the number of business control bodies will reduce from 58 entities to 18. However, these efforts need to be completed and supplemented by adjusting the primary and secondary legislation related to the control activity.
- Efforts to unify the regulatory framework regulating the activity of state and municipal enterprises are shown. Creating a unique framework for the founding, administration, reorganization and liquidation procedures for these entities can play a key role in enhancing their transparency and ultimately their performance.
- The advancement of reforms in the banking sector has become more visible, largely due to its commitments to the IMF and the EU and their oversight. At the same time, the impact of reforms on actors in the sector is limited. Lending is stagnating, the issue of shareholders' transparency persists, and progress in investigating bank

fraud and restitution of stolen funds is low. At the same time, the adoption of the law establishing the macro-prudential stability mechanism and the law on preventing and combating money laundering and terrorist financing, which can increase order and transparency in the sector, is delayed.

- Undertaking of the European standards is steady but still below 70%. Thus, out of 25,086 European standards (CEN, CENELEC) in force, the Moldovan authorities transposed 16,254. About 30% of the body of national standards is obsolete or conflictual, which also include GOST standards. However, the degree of application of European standards in the production process by economic agents is well below the number of standards actively taken over by the national standardization authority.
- Enhanced cooperation with Ukraine on joint border management takes place, in particular with regard to the Transnistrian segment, and with the support of the EU and the EUBAM Mission, whose mandate was extended in June 2017. A major breakthrough is the joint control at the Pervomaisk- Cuciurgan checkpoint at the Moldovan-Ukrainian border, established in June 2017 and which will be gradually completed, extending both for export and import activity, and subsequently replicated for the other 12 control points on the Transnistrian region segment. Together with the technical assistance provided by the EUBAM Mission in the field of DCFTA implementation, conducting Moldovan-Ukrainian common border control on the Transnistrian segment allows the extension of the DCFTA's applicability throughout the Republic of Moldova.

However, many of the concerns mentioned in the declaration of the second Forum, are still relevant and some of them have become more stringent and pronounced. A high priority should be given to the main problems that must be addressed by the authorities:

- Even though Moldova improved in the global competitiveness ranking (from the position 100 in 2016-2017, to 89 in 2017-2018), worsening situation in other rankings (Corruption Index, Freedom of Mass-Media) reduces the attractiveness of the country that is still affected by the banking system fraud. In this regard, we would like to reiterate the necessity of focusing the efforts on the capacity building, professionalism, moral prestige and the independence of the public institutions as well as introducing meritocracy and increased salaries to attract talent. At the same time, this implies a more stringent protection of ownership rights through justice reformation, fighting corruption in political, judiciary and generally in public sector.
- Irreversible and complete reform of the justice sector represents an essential condition for a sustainable economic development that facilitates trade relations between EU member states and the Republic of Moldova. Therefore, the recent drawbacks in the field affects not only the perception of the foreign investors

towards the existing opportunities of the Moldovan market and the access to the European funds aimed at implementing the Association Agreement.

- The attempt to adopt some controversial laws (legislative initiative regarding capital amnesty) and the failure to comply with the decisional transparency mechanisms and public consultations, and high exposure to corruption, are against the principles of good governance that should attract foreign investment and increase the capacity for exports.
- Reduced competitiveness of the Moldovan products is still relevant and seriously diminishes the export potential on the European and other external markets. Therefore, the development of the quality infrastructure is essential, through implementation of the European standards and elimination of the outdated standards especially GOSTs. The improvement of the export capacity can be achieved by equipping the certifying bodies with modern technologies and increasing the presence of the Moldovan firms at the European level. Some other incentives can be in form of tax exceptions and diversified credit opportunities that can be made available to the companies that move to the EU standards.
- In order for Moldovan products of animal origin (besides honey and caviar) to reach the European market, it is necessary to renew the primary production capacity, adopt secondary veterinary legislation, and reform the agency responsible for food security. Digitalization of the services that are engaged in issuing licences, within the Food Security Agency, would minimize the corruption and would prevent various frauds that can negatively affect the reputation of Moldovan exporters.
- There are drawbacks in the promoting of certification system and support offered for the organic (organic) agricultural production, while such goods benefit of high demand on EU market and are exported below the potential of the country. Mismanagement of public finances should be diminished by the implementation of an electronic public procurement system that would also include the National Agency for the Resolution of Appeals. Definite adjustments of the current legislation on the public procurements by the state-owned entities would ensure a robust transparency.
- The knowledge of the judges on the provisions of the Association Agreement regarding the Intellectual property rights is still insufficient. Some cases in the courts related to the Geographical Indications, as it was with the Italian brand Prosecco, show the necessity to pursue advanced property rights training for judges.
- The complete implementation of the 3rd Energy Package is a priority for the energy sector. The delayed implementation of the Energy Law, aimed at helping reforming the Moldovan Energy Regulatory Authority (ANRE), was adopted with little transparency and without public consultations. The implementation of this law on the other hand, requires appropriate supervision based on an action plan from the EU, Energy Community and civil society. It is imperative to elaborate a roadmap to unbundle activities in the natural gas sector that is highly controversial despite the

fact that the implementation deadline is 2019. This coincides with the commissioning of the Ungheni-Chisinau pipeline and the expiration of the gas procurement contract with “Gazprom” that was renewed at the end of 2016.

- To ensure convenient contracts and pieces for the electricity import it is mandatory to improve the electricity procurement mechanism. This mechanism requires technical updates and should enter into force for the contracts negotiated with “Energcom”. At the same time, in order to stimulate a fair competition of the supply offers, the European observers (EU Energy Community) should become very efficient and the access of the Ministry of Economy and Infrastructure to conduct tenders should be limited or excluded.
- The situation in the renewable energy sector is unchanged. There is a list of specific actions elaborated through the declaration of the Second Forum that includes the following actions: 1) elaboration of the secondary legislation under the new Law on renewable energy; 2) simplification of the permits for building the capacity to generate and connect transport and distribution networks; 3) promote the expansion of midsize factories (below 20 MW) of co-generation, which works with bio-fuel and waste; 4) promote the use of renewable energy in public institutions (kindergartens, schools, hospitals, etc.); 5) develop companies that offer energy services (ESCO); 6) explore agriculture potential in the field of bio-fuels, etc.. The proper use of the 3rd Energy Package and taking advantage of the renewable energy will strengthen national energy security, which will also positively influence the opportunities offered by the Deep and Comprehensive Free Trade Areas (DCFTAs).
- Green Growth Indicators show very modest progress in the areas of energy efficiency and intensity, physical intensity of the economy, organic farming, sustainable transport, waste recycling, wastewater treatment, sustainable public procurement.
- There is still little progress in biodiversity conservation, even if the area of state-protected natural areas has increased almost threefold over the past 15 years (up to 5.61% of the country's territory). It is crucial to improve management of public institution management (creating the Environment Protection Agency, Moldsilva Agency, fortifying the State Environmental Inspectorate, etc.), increase funding and ensure clear cadastral delimitation of the protected areas. At the same time, it requires a proper management of the Nistru and Prut rivers.
- Although the expansion of water supply systems is accelerated, this is disproportionate compared with the construction of sewage systems. This disproportion leads to elimination of wastewater into the natural environment without any purification. Thus, 96% of the urban population and 81% of the rural population have access to improved drinking water sources. At the same time, only 761 thousand people have access to sewerage systems or 22.2% of the country's population - 42% of the urban population and only 3% of the rural population. There is a very poor correlation between the water supply and sanitation sector and the development of adequate wastewater treatment systems.

- Incorrect management is also recorded in household waste management, which does not ensure uniform and integrated waste recycling, mainly due to the assumption that the state is competent to ensure the management of the packaging waste. The discriminatory application of the packaging fee on domestic and imported products creates tariff barriers to trade and reduces the state's financial ability to create a sustainable waste management system. As a result, the country's ecological security is in a vulnerable state, affecting the quality of soil and raw materials, as well as public health, all of which are inalienable to the successful implementation of DCFTA. Therefore, there is a stringent necessity to implement EU best waste management practices, such as the principles of "extended producer responsibility" and "polluter pays"
- The level of awareness of the public authorities on the implementation of the association agenda is strongly affected by the politicization of the institutions, the approaching electoral year 2018 and uncertainties about the eventual change of the external vector. To make the implementation of DCFTAs more efficient, it is necessary to improve the monitoring tool used to evaluate the implementation of the Association Agreement and enhance monitoring and surveillance capabilities of the civil society to ensure the accountability of the government towards those commitments. In this context, the Republic of Moldova and the EU should ensure the functionality of the internal Advisory Groups that deal with trade and sustainable development by offering financial support to encourage active and full participation of the members at the annual gatherings. Developing the operational capacity of these Groups by establishing secretariats would intensify communication between those members, consulting process and the power of reaction against the actions carried out by the Government in the field of DCFTA, thereby preventing possible errors.
- Institutionalization and strengthening of the Domestic Advisory Groups on trade and sustainable development will allow to involve its members to a direct and permanent consultations with evaluation missions of the European partners concerning the EU external assistance, aimed at implementing the Association Agenda concerning the Title V.

The objective of the members of those Groups of internal consultations between the Republic of Moldova and the European Union is to foster international trade and sustainable development, and monitor the efforts made by the government to eliminate constraints that undermine the opportunities offered by the Deep and Comprehensive Free Trade Areas. They should also follow the assumed commitments and stimulate international trade and sustainable development of the Republic of Moldova.

This joint Declaration will be sent to relevant authorities.