

DCFTA between Moldova and EU after one year

Policy Brief

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Disclaimer

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Key Messages

- As September 2015 marked one year since the implementation of DCFTA between Moldova and EU, valuable conclusions on its impact may be already formulated. However, any finding should be analyzed within the general context that strongly marked the first year of DCFTA implementation. This includes serious economic and political problems both in EU and Moldova that affected the domestic demand and business confidence, consequently affecting trade and investment activities of both sides. Moreover, these were underscored by the repercussions from Russia - who is an important trade partner both for Moldova and EU (especially, for individual countries)
- In one year of DCFTA implementation, total exports of Moldova decreased by 14.8% (Sep'14 – Aug'15 compared to Sep'13 – Aug'14). The geographical analysis reveals that trade with EU was the most stable with exports down only by 1.4%, while exports to CIS and other partners decreased more significantly.
- Moreover, in case of agri-food goods, for which the stakes and expectations related to DCFTA were higher and many opponents of European integration claim Moldova is not competitive, the evolution of exports to EU was positive. These exports to EU increased by 10.8% and partially compensated the fall in exports to other destinations (mainly to Russia, where the drop was as high as 73%).
- While some expectations regarding the exports of products subject to duty-free tariff-rate quotas and anti-circumvention mechanism within the DCFTA were high, even the most optimistic did not anticipate a great leap. Firstly, some of the goods were already subject to duty-free quotas (at lower levels) under the ATP and they were not exhausted in the previous years. Secondly, Moldova still needs to implement major reforms to comply with sanitary and phytosanitary measures in order to export to EU SPS-sensitive goods such as meat, eggs and dairy. Nevertheless, for most of the goods under duty-free tariff rate the exports increased and in case of grapes, plums and barley the increase was up to five times.
- Not only increased exports to EU, but also new trade partners were identified. Some new destination countries for Moldovan exports are: Spain, Sweden and Bulgaria for grapes, Bulgaria and Sweden for apples, Czech Republic for wheat, Cyprus, Greece and Latvia for barley, Latvia for sugar. This could be considered a starting point for further diversification of trade partners as finding and establishing relations with new partners could take longer than increasing exports to old ones. Therefore, the positive effects may amplify in medium and long term. The entrance on some highly competitive markets where many would claim Moldovan producers do not have the chance to sell (i.e. wine exported to Portugal and France) shows that national producers can find their niche in many of the EU countries if they provide goods of high and high and constant quality.
- Manufacturing exports to EU (which represent more than half of exports to EU) decreased by 6.9%, significantly lower rate compared to exports to CIS and other countries. Thus, the EU remains a leading export destination for manufacturing goods (about 68% of them goes to EU). Also, if re-exports are excluded, the domestic exports have slightly increased by 0.7%. Some of the domestic manufacturing exports as (i) carpets & other textile floor coverings, (ii) wood & articles of wood, wood charcoal and (iii) made-up textile articles have increased significantly, while most of them followed a rather equilibrate path

with small positive or negative changes. Among manufacturing exports with more significant decline are: (i) optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments & accessories, (ii) articles of apparel & clothing accessories-knitted or crocheted, (iii) raw hides & skins & leather.

- Despite some fears that EU exports to Moldova may boom, in one year of DCFTA implementation they decreased by 16.4%. Obviously, this was also facilitated by the moderate domestic demand during this period, depreciation of the national currency that made imports more expensive and surplus of domestic production banned by Russia.
- While the total agri-food imports from EU decreased by 20.4%, imports of several products increased after the DCFTA implementation: (i) birds' eggs, in the shell, fresh, preserved or cooked, (ii) meat & ed. offal of poultry, fresh, chill or frozen, (iii) cigars, cigarettes etc., of tobacco or substitutes. Even though their trade values are still low some of them enter in competition with domestic production. Therefore, Moldovan producers should aim to becoming more competitive.
- As for the manufacturing products, their imports from EU decreased by 14.7%. For many of these products Moldova does not directly compete with EU producers, therefore imports cannot be seen as a threat. Also, some of them imports are used as inputs for export-oriented domestic activity, therefore may have ultimately a positive impact on Moldovan production and export.
- The first short-term effects of DCFTA on trade in goods were positive for Moldova. In order to take full advantage of DCFTA in medium and long-term Moldova still needs to: (i) fully implement the recommendations of Association Agenda aiming to make Moldova a safer place for investors and to create a friendlier business climate; (ii) implement the recommendations of DG SANCO, provisions of DCFTA and complete the institutional reform in the area of food safety in order to be eligible to export animal origin products to EU; (iii) provide products of constant and high quality on EU markets and (iv) put more effort to diversify trade partners.

Introduction

September 2015 marked one year since the entering into force of the Deep and Comprehensive Free Trade Area (DCFTA) between Moldova and European Union (EU). This is definitely one of the greatest achievements in the EU-Moldova relations. Since early stages of the negotiation process of the Association Agreement (AA) and DCFTA, these led to high expectations for proponents of the European integration on the one side and fueled some speculations from its opponents on the other side. One year after starting the DCFTA implementation, it is the right time to see how much of these came true.

The first year of DCFTA implementation was marked by serious economic and political problems both in EU and Moldova that affected the domestic demand and business confidence with consequences for trade and investment activities of both sides. Moreover, these were underscored by the repercussions from Russia - who is an important trade partner both for Moldova and EU (especially, for individual countries in EU). All these factors certainly distort the outcomes of the first year of DCFTA implementation.

Also, some of the expected benefits are long-term and it might be too early to make a comprehensive analysis of all potential outcomes. For example, while Moldova's exports to its traditional EU partners could increase immediately, more time is needed to find and establish relations with new trade partners. Moreover, in order to make the most of the potential benefits, Moldova still needs to become a safer place for investors, to ensure a friendlier business climate, to eliminate all technical barriers to trade and to comply with sanitary and phytosanitary standards of EU. Unfortunately many of the recommendations of the Association Agenda aiming to make these changes were not present on the national reform agenda during the last year due to the governmental and political instability in Moldova.

Given the constraints mentioned and data available, at this moment it is possible to make an evaluation of the DCFTA only on trade in goods between Moldova and EU. This paper compares annual trade flows disaggregated at 4 digit codes in the Harmonized System Classification (HS-07) "after DCFTA" (Sep'14 – Aug'15) vs. "before DCFTA" (Sep'13 – Aug'14) to conclude on the following issues:

- The impact of the elimination of most tariff barriers to trade on total Moldovan exports to EU;
- Whether the duty-free tariff-rate and anti-circumvention quotas set could be a barrier to trade;
- The manner in which benefits were capitalized by the national producers;
- If fears of massive inflows of EU products on the Moldovan market came true.

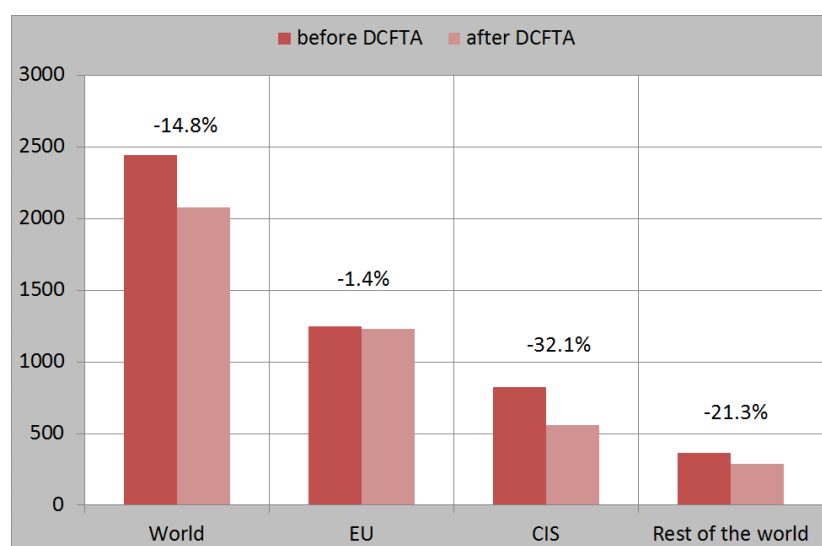
I. Moldovan export of goods to EU

Moldovan exports of goods to EU followed a positive path during the last decade. This was a natural effect of the intensification of EU - Moldova relations and of increasingly more preferential treatment offered by EU trade regimes to Moldova. This was also complemented by the effort of national producers to diversify trade partners in order to increase their revenues or to survive the losses caused by frequent bans over Moldovan production from Russia.

In one year of DCFTA implementation, total exports of Moldova decreased by 14.8% (Sep'14 – Aug'15 compared to Sep'13 – Aug'14). The general decline of exports is in line with the problems that marked this period, such as less favorable economic situation of EU and eastern trade partners of Moldova that reduced the external demand. This was aggravated by multiple Russian bans both over goods from Moldova and from EU and eastern European Neighborhood Policy (ENP) partners that reduced their demand for imported goods as they encountered difficulties in selling their own production.

The geographical analysis reveals that trade with EU was the most stable with exports down only by 1.4%, while trade with CIS and other partners decreased more significantly (Chart 1). Thus, exports to EU could be regarded in favorable terms, given the fact that the EU total imports also followed a moderate positive path. Total imports of EU from extra-EU trade partners increased by 2.4%¹ during the analyzed period, which seems to be a recover compared to 2013 and 2014 years, even though the recovery was well below the growth rates registered before 2013.

Chart 1. Moldovan Exports before and after DCFTA, mil. USD and % change

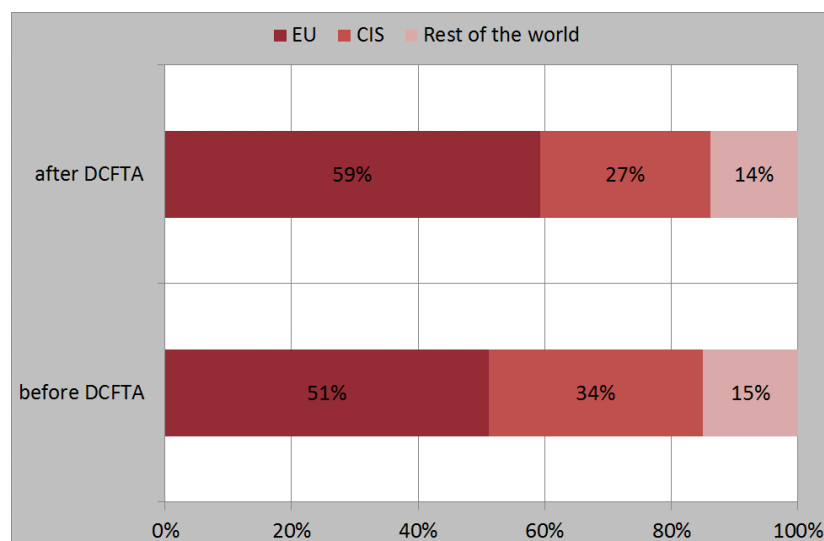


Source: Author's calculations based on NBS data;

Consequently, the geographical structure of Moldovan export changed, with EU partners being the destination for 59% of them (Chart 2). While this change reflects an arithmetic result of both a positive evolution as new phase in trade relations with EU and a negative one like fall in exports to Russia, strengthening EU position as destination for Moldovan exports is very important. Moldova needs more predictable trade partners following rules of international trade.

¹¹ Based on Eurostat Trade data.

Chart 2. Geographical structure of Moldovan exports before and after DCFTA, % of total



Source: Author's calculations based on NBS data;

In the 'after DCFTA' period Romania has become the main trade partner of Moldova, being the destination country for 21.7% of total Moldovan exports. Otherwise, top 10 EU destination countries of Moldovan exports have not changed significantly (Table 1).

Table 1. Main EU destination countries before and after DCFTA, mil. USD and % of total export

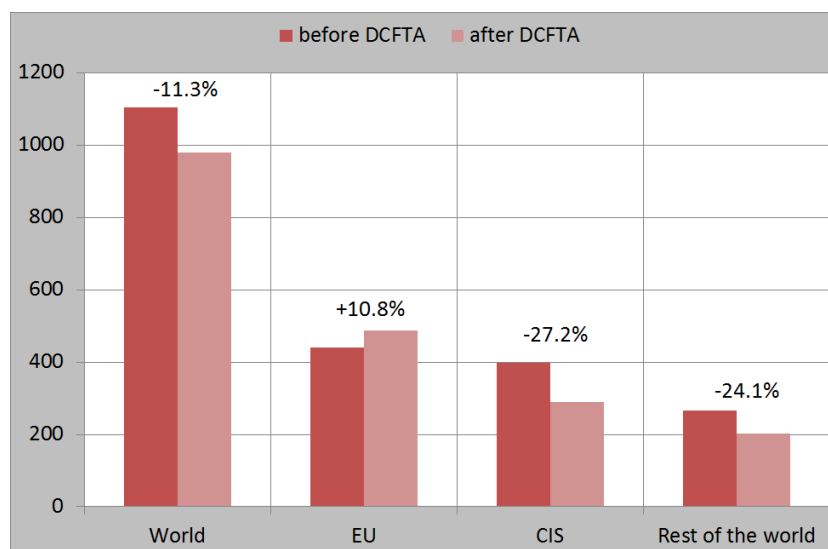
Before DCFTA			After DCFTA		
Country	Export, mil. USD	Share, %	Country	Export, mil. USD	Share, %
Romania	418.6	17.1	Romania	450.8	21.7
Italy	245.7	10.1	Italy	208.1	10.0
Germany	140.1	5.7	UK	138.8	6.7
UK	104.3	4.3	Germany	122.3	5.9
Poland	733.8	3.0	Poland	59.0	2.8
France	40.0	1.6	France	43.4	2.1
Bulgaria	39.4	1.6	Czech Republic	30.1	1.4
Greece	27.4	1.1	Bulgaria	28.8	1.4
Czech Republic	25.8	1.1	Netherlands	25.9	1.2
Austria	23.4	1.0	Greece	22.6	1.1

Source: Author's calculations based on NBS data;

Moreover, in case of agri-food goods², for which the stakes and expectations related to DCFTA were higher and many opponents of European integration claim Moldova is not competitive, the evolution of exports to EU was positive. These exports to EU increased by 10.8%, while total exports of agri-food products registered a decline due to fall in exports to other destinations (mainly to Russia, where the drop was as high as 73%), (Chart 3). Consequently, the share of agri-food exports to EU reached 49.8%.

² Agri-food exports are considered exports from groups 01-24 in the HS classification.

Chart 3. Agri-food exports before and after DCFTA, mil. USD and % change



Source: Author's calculations based on NBS data;

Exports to EU of several agri-food goods increased significantly and some of them doubled or tripled (Table 2). Among them, there are several exports with trade values exceeding USD 10 mil, such as sunflower seeds, soybeans and barley. The notable positive change in exports to EU with lower total trade value (i.e. some dried fruits and grapes) denotes a step toward diversification of trade partners.

Table 2. Agri-food exports to EU that increased after DCFTA, mil USD and % change

HS-07 code	Description	Export value before DCFTA, mil USD	Export value after DCFTA, mil USD	Change, %
1206	sunflower seeds, whether or not broken	48.2	95.5	98.1%
1201	soybeans, whether or not broken	8.2	15.3	84.5%
1003	barley	5.1	15.0	190.2%
0409	honey, natural	6.4	9.6	49.6%
1701	cane or beet sugar & chem pure sucrose,	6.1	9.0	46.8%
0813	fruit dried (nesoi), mixtures of nuts or dried	1.7	4.9	187.6%
0806	grapes, fresh or dried	1.3	3.9	207.2%
1507	soybean oil & its fractions, not chemically	2.1	2.9	40.1%
2007	jams, fruit jellies, marmalades etc, cooked	1.4	2.7	91.7%
2207	ethyl alcohol, undenat, n/un 80% alc, alcohol, denat	0.8	2.2	180.7%

Source: Author's calculations based on NBS data;

For some agri-food products, the higher exports to EU were possible due to the additional benefits of DCFTA compared to Autonomous Trade Preferences (ATP). Thus, Moldovan producers worked on enhancement of relations with existing trade partners and establishment of relationships with new partners. At the same time, some of the EU partners were open to help Moldova when it was hit by Russian embargos and encouraged imports from Moldova through public statements and informing the businesses about the new provisions of

the DCFTA. Thus, the total exports of many agri-food goods did not collapse and some of them even increased (as some fresh and dried fruits, soybeans) despite the dramatic fall in these exports to Russia by 50% up to 100% for some goods as soybeans, cane and beet sugar.

Not all agri-food exports followed a positive evolution though, and for some of them exports declined after the DCFTA entered into force (Table 3). Some of them also register high trade values that influence the overall trade flows.

Table 3. Agri-food exports to EU that decreased after DCFTA implementation, mil. USD and % change

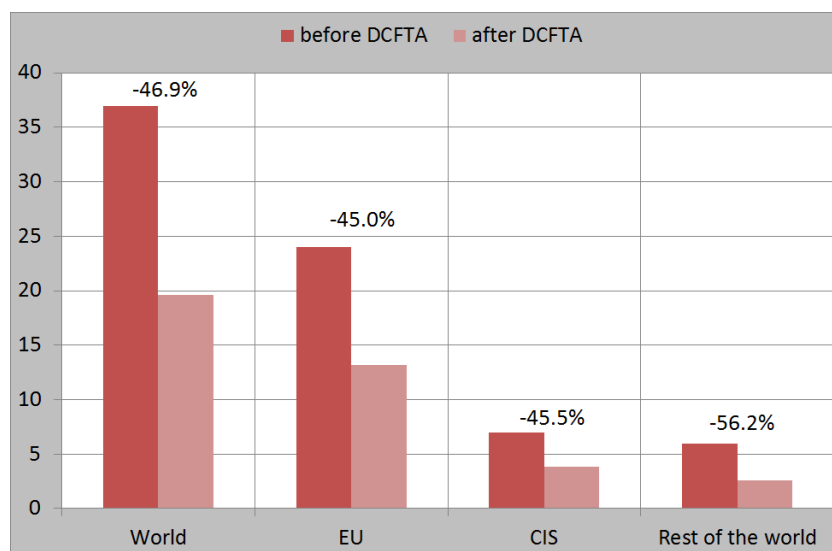
HS-07 code	Description	Export value before DCFTA, mil USD	Export value after DCFTA, mil USD	Change, %
1512	sunflower-seed, safflower or cottonseed oil	79.4	62.2	-22%
2009	fruit (&grape must) &veg juice, no spirit	40.2	25.3	-37%
1905	bread, pastry cakes etc: comm wafers, empty caps etc	14.5	11.3	-22%
1205	rape or colza seeds, whether or not broken	12.7	10.5	-17%
2208	ethyl alcohol, undenat, und 80%, spirit bev.	4.6	3.6	-22%
2306	oilcake (nesoi), from veg fats & oils (nesoi)	3.3	0.3	-92%
1704	sugar confection, no cocoa	2.9	2.2	-25%
1703	molasses from the extraction or refining of sugar	2.7	1.5	-43%
2303	residues of starch mfr or sugar mfr or brewing etc	2.6	0.8	-68%

Source: Author's calculations based on NBS data;

Exports of mineral products³ represent less than 2% of Moldovan total exports. Even though mineral exports to EU decreased by 45% after the DCFTA implementation (Chart 4), EU is still the most important partner absorbing 67% of exports in this group (65% before DCFTA). If re-exports are excluded, the decline was even less significant – only 26.2%. The two main exported product groups are: 1) gypsum, anhydrite, plasters exported to Romania and 2) oil (not crude) from petrol & bitum mainly exported to Bulgaria.

³ Mineral exports are considered exports from groups 25-27 in the HS classification.

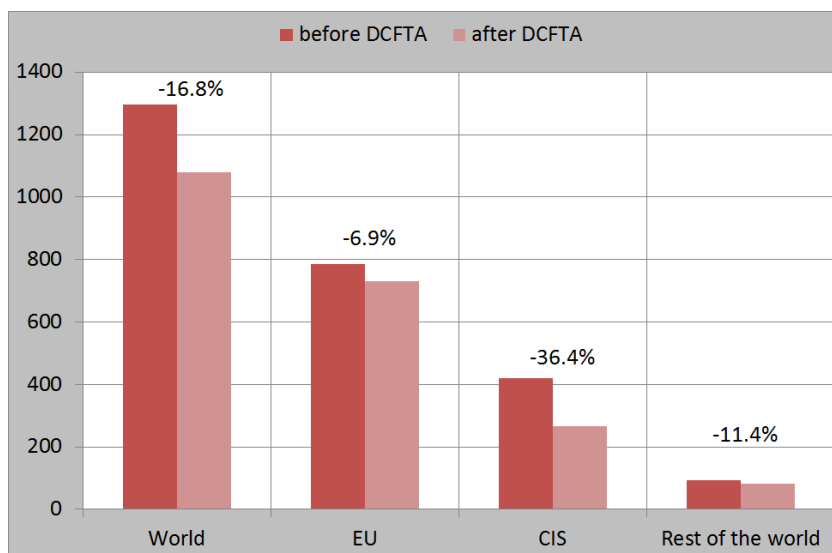
Chart 4. Exports of mineral products before and after DCFTA, mil. USD and % change



Source: Author's calculations based on NBS data;

Manufacturing exports⁴ to EU (which represent more than half of total exports to EU) decreased by 6.9%, significantly lower rate compared to CIS and other destination countries (Chart 5). Thus, the EU remains a leading export destination for manufacturing goods (about 68% of them goes to EU). Also, if re-exports are excluded, the domestic exports⁵ have slightly increased by 0.7%.

Chart 5. Manufacturing exports before and after DCFTA, mil. USD and % change



Source: Author's calculations based on NBS data;

⁴ Manufacturing exports are considered exports from groups 28-99 in the HS classification.

⁵ Domestic export = Total Export – Re-export

While domestic exports of some textile and wood products have increased significantly, revealing an existent advantage on the European markets, most of the manufactured goods exports followed a rather balanced path with small positive or negative changes. Among manufacturing exports with more significant decline are some textiles, metals, hides, skins, leather and furs and other miscellaneous products (Table 4).

Table 4. Manufacturing domestic exports with significant changes after DCFTA implementation

HS-07 code	Description	Export value before DCFTA, mil. USD	Export value after DCFTA, mil. USD	Change, %	Destination
57	carpets & other textile floor coverings	4.9	7.8	+60%	Romania, Poland
44	wood & articles of wood, wood charcoal	3.5	5.1	+44%	Romania, Italy, Germany, Poland
63	made-up textile articles (nesoi), needlecraft sets, worn clothing, rags	1,7	4.7	+182%	Germany, Romania, Italy
90	optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments & accessories	21.4	16.3	-24%	Bulgaria, Latvia, Slovakia, Germany, Romani, Estonia
61	articles of apparel & clothing accessories-knitted or crocheted	11.5	6.8	-41%	Italy, Germany, Belgium
41	raw hides & skins & leather	5.5	4.2	-23%	Italy
73	articles of iron or steel	3.8	2.8	-27%	Romania, Italy, Germany

Source: Author's calculations based on NBS data;

II. Selling to EU under the DCFTA duty-free tariff-rate

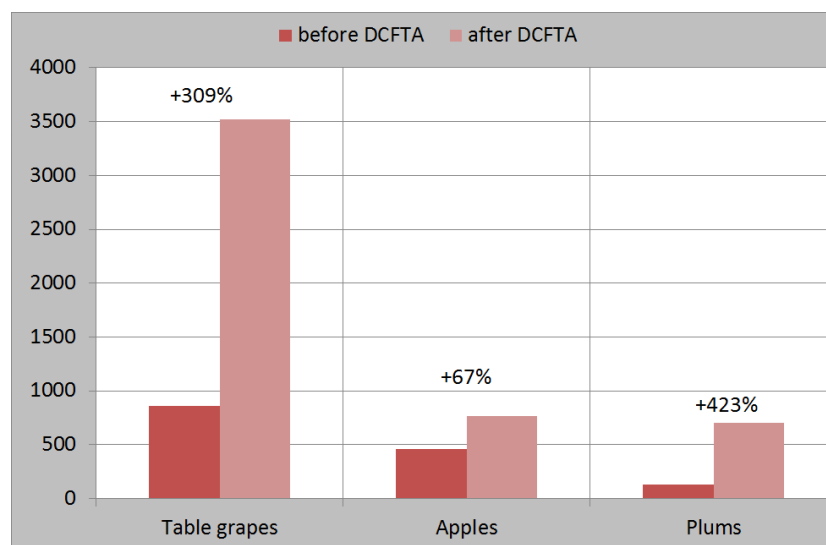
Since 2008 Moldova has benefited from ATP – a unilateral preferential trade regime offered by EU which will coexist with DCFTA until 2016. The DCFTA that entered into force in September 2014 supplemented the already existent duty-free tariff quotas with additional amounts compared to ATP and assigned to some of them a conventional character allowing for exports over the initial set quotas if the existence of production and export capacities is proven. Also, some of the products for which only the ad valorem component of the import duty was exempted under the ATP were subject to annual duty-free tariff-rate quotas under the DCFTA.

Thus, for example, the exports of products subject to annual duty-free tariff-rate quotas increased immediately after the implementation of DCFTA started. In 10 month of DCFTA implementation⁶ the exports

⁶ Due to data availability Sep'14 – Jun'15 vs Sep'13 – Jun'14 is used for comparisons in this chapter.

of table grapes, apples and plums thrive (Chart 6). This is a significant progress given the fact that some of the EU producers also had difficulties in exporting these goods. The merit was both of Moldovan producers who put more effort to promote and export to EU, but also of EU countries that were open to help Moldova to withstand trade bans from the Russian Federation. Thus, grapes were exported in larger quantities to traditional partners as Romania and Poland and lower quantities were exported to newer trade partners as Sweden and Spain. Also, apples were exported to new EU destinations, such as Bulgaria, Greece, Sweden and plums to Czech Republic, Latvia, Poland.

Chart 6. Domestic exports of products subject to the annual duty-free tariff-rate quotas before and after DCFTA, thou. USD and % change



Source: Author's calculations based on UN Comtrade data;

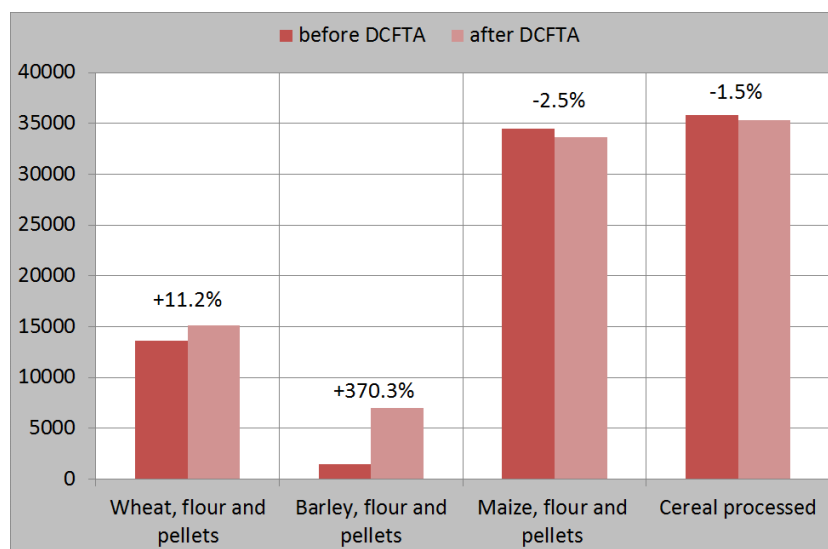
At the same time the export of wine, which was totally liberalized after the DCFTA implementation also increased by 9.3%⁷ in 10 month period (Sep'14 – Jun'15 compared to Sep'13 – Jun'14). Significantly higher amounts of wine were exported to Belgium, Bulgaria, Croatia, Estonia, Germany, Greece, Sweden, UK and Romania. Also, low quantities of wine were exported for the first time to Portugal and Denmark. Some of the countries listed have strong wine traditions and the entrance on their market could be considered a success that debunks the myth of the non-competitiveness of Moldovan wines in many EU countries. Thus, despite the strong competition, national wine producers can find their niche in many of the EU countries. Even though total exports are still very low in some of these countries, the two times increase in exports may be a start for deeper trade relations with them and higher future potential for Moldovan exports.

The export of cereals that are subject to the anti-circumvention mechanism within the DCFTA also followed an overall satisfactory evolution (Chart 7). While wheat was exported in somewhat higher quantities to Moldovan old trade partners, exports of barley flourished to old and also new trade partners as Cyprus, France, Greece, Latvia, Romania. In case of maize, the exports decreased slightly, with only one new trade

⁷ Products from HS Classification that benefited from a total liberalization of trade under the DCFTA are: 220421 - Other Wine, Grape Must (Fermentation Arrested; in Containers 2l or Less) and 220429 - Other Wine, Grape Must (Fermentation Arrested; Not in Containers 2l or Less).

partner – France. While total export of processed cereals registered a small contraction, the trade flows to Bulgaria and Cyprus increased significantly and new partners like Estonia, France and Latvia were identified.

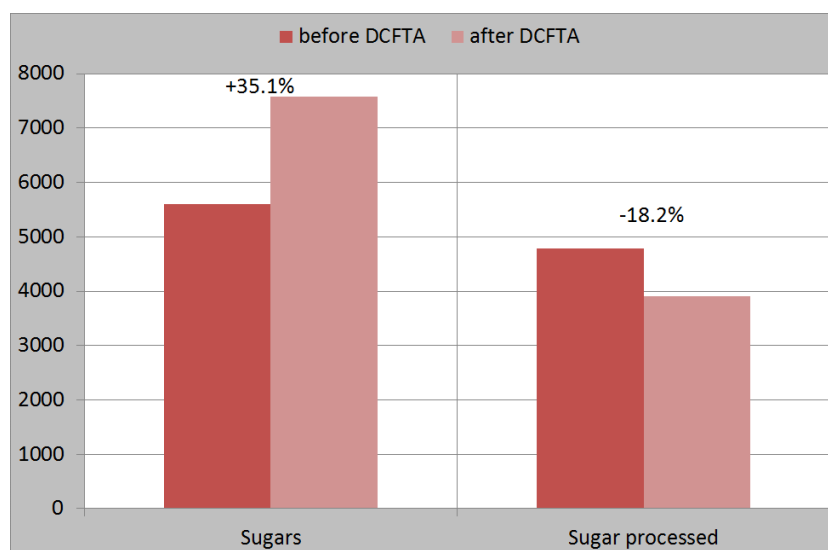
Chart 7. Export of cereals subject to anti-circumvention mechanism before and after DCFTA, thou. USD and % change



Source: Author's calculations based on UN Comtrade data;

Export of sugar and sugar processed products that are also subject to the anti-circumvention mechanism under the DCFTA followed opposite trends (Chart 8). Sugar was exported in significantly higher quantities to Romania and Poland, while exports to other EU countries decreased. In the case of processed sugar products no major changes in the composition of exports was identified.

Chart 8. Export of sugar and processed sugar subject to anti-circumvention mechanism under before and after DCFTA, thou. USD and % change



Source: Author's calculations based on UN Comtrade data;

While exports of goods subject to special treatment mechanisms within DCFTA increased immediately after its entering into force, the quotas are still far from being exhausted. According to national data, only quotas

for wheat, table grapes and maize might have been reached in 2014 and maize in the first half of 2015⁸ (Table 5). However, by the end of the year the situation might be very different as the exports on most of the goods are more intense in the second semester.

Table 5. Quantities of domestic exports to EU of goods subject to duty-free tariff-rate and anti-circumvention measures under the DCFTA

Product	DF TR	2013	2014		Jan – Jun 2015	
	quotas (tones)	Volume	Volume	Share, %	Volume	Share,%
Tomatoes, fresh or chilled	2000	0	0	0.0%	0	0.0%
Garlic, fresh or chilled	220	0	10.23	4.7%	0	0.0%
Table grapes, fresh	10000	1785	11913	119.1%	1327.3	13.3%
Apples, fresh	40000	3311	1646	4.1%	565	1.4%
Plums, fresh	10000	399	4159	41.6%	0	0.0%
Grape juice	5000	0	0	0.0%	0	0.0%
Pig meat	4500	0	0	0.0%	0	0.0%
Poultry meat	600	0	0	0.0%	0	0.0%
Dairy products	1700	0	0	0.0%	0	0.0%
Eggs in shel (thou)	7000	0	0	0.0%	0	0.0%
Eggs and albumins	400	0	0	0.0%	0	0.0%
Wheat, flour and pellets	75000	100452	106099	141.5%	30638	40.9%
Barley, flour and pellets	70000	27959	43307	61.9%	18920	27.0%
Maize, flour and pellets	130000	41338	218385	168.0%	143932	110.7%
Sugars	37400	26540	15660	41.9%	6339	16.9%
Cereal processed	2500	383	1435	57.4%	1018	40.7%
Cigarettes	1000	15	61	6.1%	14.2	1.4%
Dairy processed	500	0	0	0%	0	0%
Sugar processed	4200	2421	2985	71.1%	1474	35.1%
Sweet corn	1500	7.1	25	1.7%	101	6.7%

Source: Author's calculations based on UN Comtrade data;

The EU data show a different situation, with much lower quantities of goods entering EU under the DCFTA quotas. Therefore, it is possible that some of the exports reported by the Moldovan Customs do not have EU as final destination and did not benefitted from the special treatment when entering EU (Table 6). Despite the differences in national and EU data, it is clear that the quotas for these products were not exhausted and are not likely to be exhausted by the end of the year. At the same time, increasing exports in a time when some EU countries also faced higher supply of domestic production as a result of interdictions imposed by Russia, indicate over the potential of Moldovan products on EU markets.

⁸Calculated as quantities of Domestic Export (Total Export - Rre-export).

Table 6. Quantities of EU imports form Moldova of goods subject to duty-free tariff-rate and anti-circumvention measures under the DCFTA

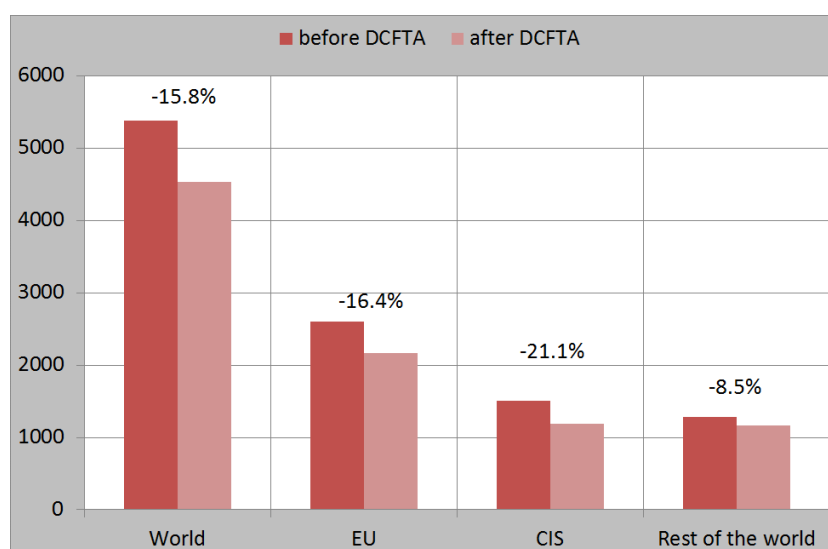
Product	2014		Jan - Oct 2015	
	Volume, tones	Share, %	Volume, tones	Share,%
Table grapes, fresh	4210	42.1%	698.5	7.0%
Apples, fresh	1034.7	2.6%	354.5	0.9%
Plums, fresh	706	7.1%	2867	28.7%
Wheat, flour and pellets	56843	75.8%	30637.8	40.9%
Barley, flour and pellets	9610	13.7%	0	0.0%
Maize, flour and pellets	41990	32.3%	18586	14.3%
Sugars	17341	46.4%	7875	21.1%

Source: Data published by European Commission available at http://ec.europa.eu/taxation_customs/dds2/taric/quota_consultation.jsp?Lang=en

III. Moldovan import of goods from EU

There were some fears regarding the evolution of imports under the DCFTA. The opponents of European integration would claim the invasion of Moldova by EU products in order to attract the electorate and promote the Custom Union Russia-Belarus-Kazakhstan (CU RBK). In fact in one year⁹ of DCFTA implementation imports from EU decreased by 16.4%, slightly faster than total imports (by 15.8%) (Chart 9). Obviously, this was also facilitated by the decline in domestic demand, depreciation of the national currency that made imports more expensive and surplus of domestic production that was subject to Russia's ban.

Chart 9. Moldovan imports before and after DCFTA, mil. USD and % change

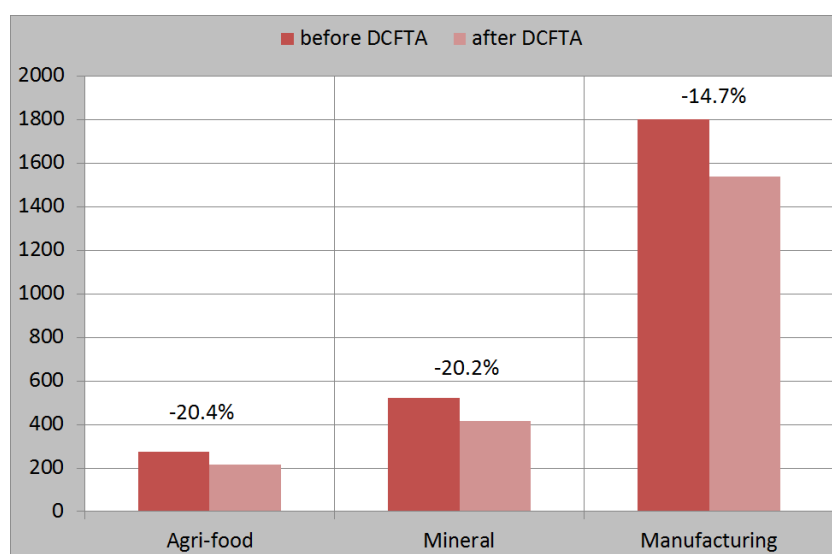


Source: Author's calculations based on NBS data;

⁹ This chapter analyses period Sep'14 - Aug'15 vs Sep'13 - Aug'14.

While all groups of imports from EU registered a negative evolution, agri-food imports had a more significant decline, roughly 20.4% (Chart 10).

Chart 10. Moldovan imports from EU before and after DCFTA, mil. USD and % change



Source: Author's calculations based on NBS data;

Imports of most of the products of significant trade value decreased, including: (i) ethyl alcohol, (i) corn (maize), (iii) fish, frozen, (iv) live plants, (v) sunflower seeds, (vi) cheese and curd. Several imports that increased significantly have much lower trade values (Table 7). Only some of them directly compete with national production: (i) birds' eggs, in the shell, fresh, preserved or cooked, (ii) meat & ed. offal of poultry, fresh, chill or frozen, (iii) cigars, cigarettes etc., of tobacco or substitutes.

Table 7. Agri-food products with significant increase of imports from EU after DCFTA implementation

HS-07 code	Description	Import value before DCFTA, mil. USD	Import value after DCFTA, mil. USD	Change, %
0407	birds' eggs, in the shell, fresh, preserved or cooked	3.6	4.9	36.6%
0207	meat & ed offal of poultry, fresh, chill or frozen	3.9	4.7	17.8%
2402	cigars, cigarettes etc., of tobacco or substitutes	3.4	4.0	14.6%
1517	margarine, edible mixtures etc an or veg fat & oil	1.7	2.1	24.1%
1704	sugar confection (incl white chocolate), no cocoa	1.6	2.0	24.1%
2203	beer made from malt	1.6	1.9	15.2%

Source: Author's calculations based on NBS data;

Import of the mineral products from EU declined by 20.8%. This is represented almost entirely by 2710 class - oil (not crude) from petrol & bitum mineral with 90% of imports are from Romania. While in case of mineral products Moldova is interested to increase imports from EU in order to reduce the dependency on Russian gas, recently it has been made clear that further investment and much more time is needed for the pipeline Iasi-Ungheni to be functional.

As for the manufacturing products, their imports from EU decreased by 14.7% (compared to 13.6% decrease in total manufacturing imports). For most of the imported products that registered a significant increase (Table 8) Moldova does not directly compete with EU producers, therefore imports cannot be seen as a threat. Also, some of the mentioned imports are used as inputs for export-oriented domestic activity, therefore may have ultimately a positive impact on Moldovan production and export.

Table 8. Manufacturing products with significant increase of imports from EU after DCFTA implementation

HS-07 code	Description	Import value before DCFTA, mil. USD	Import value after DCFTA, mil. USD	Change, %
7408	copper wire	25.3	41.0	61.8%
9018	medical, surgical, dental or vet inst, no elec.	14.2	15.8	10.9%
5407	woven fab of syn fil yarn, incl monofil 67 dec etc	12.4	14.3	15.5%
6217	made-up clothing access (nesoi), garment etc. parts (nesoi)	9.3	10.9	17.3%
8413	pumps for liquids, liquid elevators, parts thereof	7.7	10.2	32.6%
4205	articles of leather, (nesoi)	8.6	10.2	19.3%
3921	plates, sheets, film, foil & strip (nesoi), plastics	9.0	10.0	11.0%
8702	public-transport type passenger motor vehicles	3.2	7.1	119.6%
8436	agri etc & poultry etc equip, inc incubators	5.4	6.4	18.7%
8705	special purpose motor vehicles (nesoi)	2.3	6.3	179.5%
6001	file fabrics, knitted or crocheted	3.1	5.4	73.8%
2836	carbonates, peroxocarbonates, comm amm carbonate	2.6	5.2	102.7%
4911	printed matter (nesoi), incl print pictures & photos	2.2	5.1	132.0%
8538	parts for elec. appar. of head 8535 - 8537	4.2	5.0	20.8%

Source: Author's calculations based on NBS data;

V. Conclusions

While the benefits of the DCFTA are expected to be fully capitalized in medium and long-term, valuable results have been achieved in trade in goods between Moldova and EU after one year of its implementation that are worth to be analyzed and disseminated.

- Despite not very favourable economic and political circumstances, the evolution of Moldovan exports to EU could be considered satisfactory after the DCFTA entered into force. These decreased by 1.4% - significantly slower than exports to other destinations. Moreover, agri-food exports, where the expected DCFTA impact is the highest, increased by 10.8%. Thus, the elimination of tariff barriers had a significant and immediate positive effect on moldovan exports to EU.
- The export of products subject to annual duty-free tariff-rate quotas increased immediately after the implementation of DCFTA started. For goods as grapes, plums and barley the increase was up to five times. However, the quotas are still far from being exhausted and the major barrier in this context is the non-compliance to EU sanitary and phytosanitary standards that would ensure the access to EU market of meat, eggs and diary.
- Not only increased exports to EU, but also new trade partners were identified. This could be considered a starting point for further diversification of trade partners as finding and establishing relations with new partners could take longer than increasing exports to old ones. Therefore, the positive effects may amplify in medium and long term. The entrance on some highly competitive markets where many would claim Moldovan producers do not have the chance to sell (i.e. wine exported to Portugal and France) shows that national producers can find their niche in many of the EU countries if they provide goods of high and high and constant quality.
- EU exports to Moldova have not boomed. In fact, in one year after DCFTA imports from EU decreased by 16.4%. Several agri-food products that were imported in higher quantities from EU registered still low trade values. However, as some of them enter in competition with domestic production, Moldovan producers should aim to becoming more competitive. Also, some of the manufacturing products imported in higher quantities are used as inputs for export-oriented domestic activity, therefore may have ultimately a positive impact on Moldovan production and export.

About Expert-Grup

WHO WE ARE

Expert-Grup is a Moldovan non-governmental and not-for-profit organization specialized in economic and policy research. Expert-Grup does not represent any economic, corporate or political interests. As independent organization, Expert-Grup reflects the ideals of the young Moldovan intellectuals who have created the institution with the purpose of contributing to Moldova's development. Among other types of organizations in the Moldovan civil society, Expert-Grup positions itself as a politically and ideologically neutral think-tank.

OUR ACTIVITIES

Our core activity is economic analysis, forecasting and policy research. In this area, we offer a wide range of analytical products and services helping our beneficiaries to take decisions supporting the development path of Moldova. Our key competence consists of the ability to provide professional, high-quality and objective research in such broad areas as:

- Macroeconomic analyses and forecasts;
- Political economy;
- Public finance;
- Human development and poverty reduction;
- Labour market and consumers' behavior;
- Foreign trade;
- Financial markets;
- Economy of European integration;
- Economic analysis by sector;
- Regional and local economic development;
- Energy and economy of environment.

PARTNERS AND DONORS

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