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# MODERNIZATION OF THE AGRI-FOOD SECTOR OF THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF INTERNATIONAL TRADE DEVELOPMENT

ALEXANDRU STRATAN<sup>1</sup>, VICTOR MOROZ<sup>2</sup>, ANATOL IGNAT<sup>3</sup>

**Abstract:** *The purpose of this paper is to identify opportunities for modernization of the agri-food sector of the Republic of Moldova in the context of the recent developments in the international and regional trade. Participation of the Republic of Moldova in various foreign trade agreements was analyzed. The assessment of the agri-food export was performed in order to show the impact of the trade barriers introduced by Russian authorities over the most important groups of agri-food products. The impact of the recent trade barriers over the economic stability and country's food security was analyzed. The possible directions of the agro-food sector modernization in order to overcome external trade shocks were discussed.*

**Keywords:** *agriculture, agri-food export, trade barriers, commercial risks, modernization*

## INTRODUCTION

Agri-food sector represents one of the pillars of the national economic development of the Republic of Moldova. Agriculture contributed with almost 11% of the country GDP in the year 2012. About 26% of the active population of the country was engaged in agriculture in the year 2012. Agri-food exports amounts to about 45% of the total country's export.

The Republic of Moldova is part of a range of foreign trade agreements that creates opportunities for commercial relations with 93 countries. The main trade partners for export of major groups of agri-food products are Russia, Ukraine, Belarus, Romania, Italy, France and Spain. The evolution of agri-food exports during the last years has a stable increasing trend. However, the recent sanctions imposed by the Russian authorities could affect negatively country's agri-food export, economic stability and food security.

The purpose of this article is to assess the impact of restriction measures and identify possible solutions for strengthening the resilience of the agri-food sector against external trade shocks.

## MATERIAL AND METHODS

Given the challenges of the recent development in foreign agri-food trade the following research methods were used: analysis of the trade agreements signed by the Republic of Moldova which regulates country's foreign trade, analysis of the export development trends, comparative analysis of export for main groups of agri-food products, analysis of the impact over export development, country's economic stability and food security.

The main sources of primary information for this study were data from the publications of the National Bureau of Statistics of the Republic of Moldova, the data bases of the National Bureau of Statistics of the Republic of Moldova and World Integrated Trade Solutions data base. As a secondary source of information served a range of articles and studies elaborated by local and foreign experts.

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## RESULTS AND DISCUSSION

The trade policies promoted by the Republic of Moldova are mostly geared towards attracting investments in the national economy which are capable of innovation, transfer of know-how and competitive goods for domestic and foreign markets, high added value and creating efficient technical and economic infrastructures in order to maximize the existing economic potential.

Due to its favorable geographical position, Republic of Moldova is an attractive location for international organizations and transnational corporations, and becoming increasingly important as a place to conduct business between western and eastern markets.

Moldova's relations with other countries in the field of foreign trade are based on compliance with the generally recognized principles and norms of international law and obligations arising from international agreements concluded by the Republic of Moldova (Comitetul executiv al CSI, 2013).

Since March 2008, the Republic of Moldova has benefited from the new scheme of trade preferences granted unilaterally by the European Union, known as the Autonomous Trade Preferences (ATP) scheme. Trade preferences have been granted as a result of Moldova's implementation of sustainable development, good governance policies and efficient customs administration.

Under ATP the Republic of Moldova received free access to the EU market without quantitative restrictions and customs fees, the only exception being a small number of goods which are sensitive for the EU and subject to annual duty free tariff quotas. The main condition for entitlement to preferential arrangements is compliance with the EU rules of origin of products. ATP have offered a basis for increasing the competitiveness of Moldovan products exported to the EU and have also stimulated the efforts of Moldovan exporters to penetrate alternative markets to those in the CIS.

In March 2012 the European Union started negotiations to create a Deep and Comprehensive Free Trade Area (DCFTA) with Moldova. This DCFTA agreement assumes the abolition of duties and quotas in mutual trade in goods and services, as well as the elimination of non-tariff barriers (by the adoption of EU rules on public procurement, health and safety standards, and intellectual property rights, among other means). This agreement allows the integration of Moldova with the common EU market. The idea behind was to stimulate free trade between the EU and Moldova, and to improve the investment climate. Consequently, this should translate into economic growth and also open up business in EU countries to new opportunities for working with Moldova.

Moldova is also a part of the CIS Free Trade Area (FTA). The FTA Agreement entered into force on 20 September 2012 and repealed the previous bilateral free trade agreements within the CIS. The CIS FTA is currently applicable for six CIS countries.

The aim of this Agreement is to establish conditions for a free transfer of goods and services, to provide mutual trade balance, to stabilize domestic economic conditions and to promote growth of the economic potential of the member states on the basis of mutual cooperation. Although the FTA provides for a free tax trade regime, there are still certain exceptions, usually asymmetric in nature.

In 2002, Georgia, Ukraine, Azerbaijan and Moldova signed the GUAM agreement regarding the creation of a free trade zone. Its scope is to eliminate customs fees and other taxes with equivalent effect and quantitative limitations on trade, as well as to eliminate the barriers for free movement of goods and services.

In 2006 Moldova signed the Central European Free Trade Agreement (CEFTA), which came into force on 1 May 2007. CEFTA allows duty free access to the market of countries from the South-Eastern part of Europe. The CEFTA agreement has radically evolved since Romania and Bulgaria left and joined the EU. At this stage, the present signing parties are Moldova, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Kosovo. Although the

exports from Moldova to CEFTA countries are fairly low, they have an important role in supporting Moldova's efforts to be included in the Western Balkans perspective of joining the EU, thus reinforcing the relevance of the CEFTA agreement in achieving the objective of Moldova's accession to the EU.

The commercial relations of Moldova with CEFTA countries are governed by the preferential trade arrangements provided by CEFTA, which require almost total liberalization of imports of industrial and agricultural products from CEFTA countries, except for imports of wine from the Republic of Macedonia, which carry a 1,000 hl. duty free tariff quota. CEFTA also provides an individual mechanism for trade disputes settlement or usage of the instrument provided by the WTO.

Moldova has signed comprehensive double taxation agreements with 48 countries, of which 45 are in force. The Double Tax Treaties may provide for more favorable tax regimes than those provided by the local legislation. As guidance on the interpretation of Double Tax Treaties and, correspondingly, for tax administration purposes, the Commentaries to the OECD Model Tax Convention on Income and on Capital are used by the tax authorities and taxpayers. Additional guarantees and support to investors are offered by 40 bilateral treaties signed between Moldova and various countries for the mutual guarantee of investments.

The state policy in the sphere of foreign trade is carried out through the customs tariff (the application of import tariffs) and non-tariff regulation (in particular, through quotas and licensing), also through the introduction of special duties (special, antidumping and countervailing) for foreign trade activity in accordance with the legal framework and international treaties, signed by the Republic of Moldova.

The state is ensuring that installed protective measures, restrictions and prohibitions in the field of foreign trade activities correspond to the reasons behind the need for their introduction. The preference is given to those protective measures, restrictions and prohibitions that cause minimal damage to the implementation of this action and do not contravene to international standards.

Currently, the Republic of Moldova supports external economic relations with 93 countries. These relations are developing in many areas, particularly in the export-import operations.

The current situation in the international trade with agri-food products placed the Republic of Moldova in a difficult position. Exchange of sanctions between a number of Western countries and the Russian Federation provides multiple restrictions on the conduct of economic activities, including international trade, in fact, makes it necessary to review existing economic policies in most countries with economies in transition. Prohibitions and restrictions on the part of the Russian Federation on the import of agricultural products from the Republic of Moldova are forcing the government to urgently diversify export markets and to take measures to strengthen the economic security of the country.

In 2013, more than one quarter of Moldovan export revenues originated from Russia. Currently, Russia uses this economic leverage to exercise pressure on Moldova through a number of trade restrictions.

The most important export groups of products for Moldova agricultural sector are "Edible fruits and nuts", "Alcoholic and non-alcoholic beverages", "Oil seeds" and "Vegetable oil" (see figure 1).

The main export destination countries for these groups of products are Russia, Ukraine, Belarus, Romania, Italy, France and Spain. Out of these four major groups of products only two, namely "Oil seeds" and "Vegetable oil" were not included in the restriction list imposed by Russian authorities. While external trade with other two groups of products was seriously affected by these restrictions.

This leads to the question to what extent these restrictions threaten the stability of the Moldovan economy. Despite a drop in exports to Russia by almost one quarter during the first half of the year 2014 (compared to the same period of the year 2013), total Moldovan exports grew by 3% over the same period.

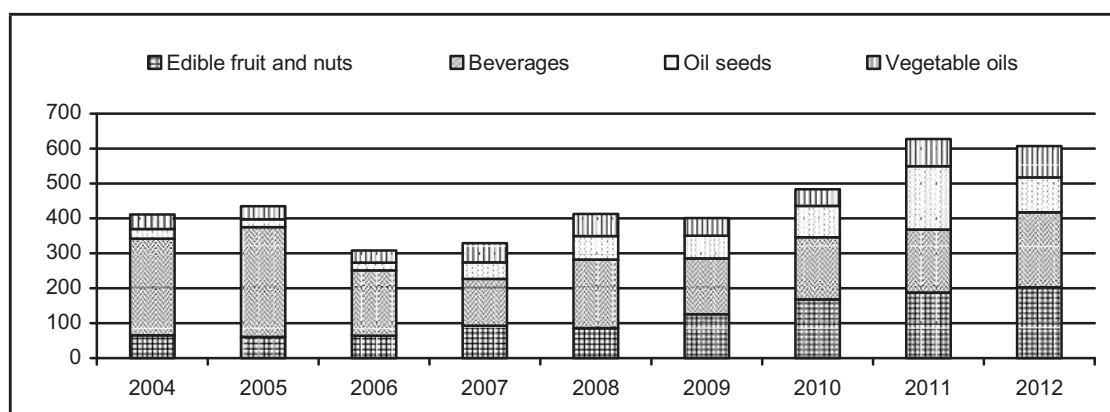


Figure 1. Most important exported groups of products in the Republic of Moldova 2004-2012, Mil. USD  
Source: National Bureau of Statistics, 2014

Moreover, comparing the level of exports for the four major groups of products in the first half of the year 2014 with the average level of these exports for the five previous years one can see a strong increase for three groups, namely “Edible fruits and nuts”, “Oil seeds” and “Vegetable oil” and a small decrease for the “Alcoholic and non-alcoholic beverages” (see figure 2).

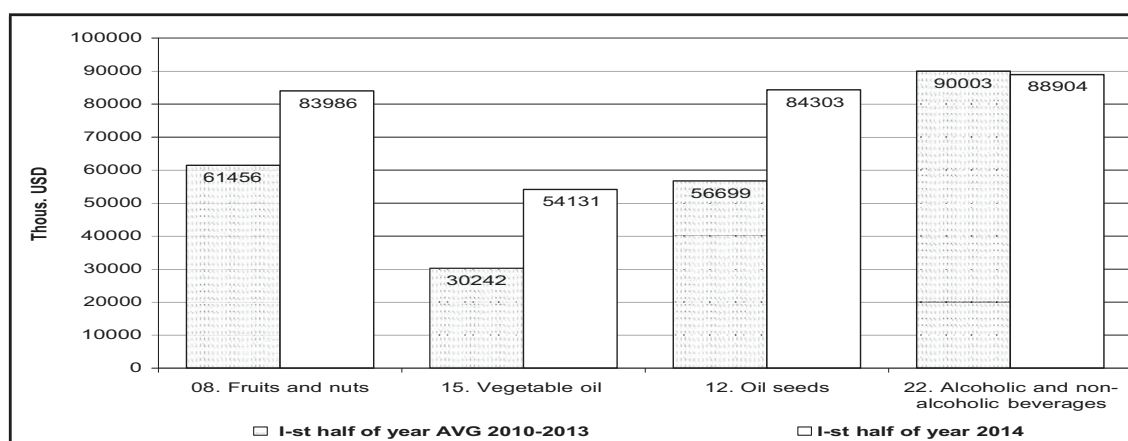


Figure 2. Comparative analysis of export for main groups of agri-food products, 1<sup>st</sup> half year average 2009-2013 and 1<sup>st</sup> half of year 2014, thousand USD

Source: National Bureau of Statistics, 2014

However, the costs are likely to rise due to new restrictions which came into force in the mid of 2014. Estimations made by a team of independent experts show that the new and existing measures together could reduce export revenues by USD 145 mil. per year. This is equivalent to 25% of exports to Russia and to about 2% of Moldovan GDP (Giucci and Radeke, 2014). These measures have the potential to reduce economic output. However, the economic stability of the country should not be affected in the mid term period, if an adequate policy response will be provided.

So far, the impact of restriction measures affected the total Moldovan exports only moderately. However one can expect these restrictions will remain in place for a longer period that could have a more serious impact on the agri-food exports and on the level of economic growth.

While all previous measures are de-facto import bans, Russia has also increased the import tariff rates for some Moldovan products. Based on the 2011 CIS Free trade agreement, Moldova currently could export almost all goods duty-free so far. In July 2014, however, Russian representatives announced a raise in the import tariffs for in total 19 product groups.

The tariff rate for the affected goods (mostly agricultural products and food) is to be increased to the higher „Most Favored Nation (MFN) Tariff Rate“ which applies to countries without preferential trade agreements. This would suggest a decline in demand for Moldovan

products. However, most products affected by the tariff increase have already been banned before. Therefore the impact of this measure will be significantly lower than existing one.

The imposed import restrictions could affect also the country's food security. However they generate a dual impact over the access to food products and livelihood of the Moldovan population. Thus, from one side it facilitates the access of the country's residents to local food products, while from other side it decrease the purchasing power of the population due to the negative impact over the economic situation.

At the national level Republic of Moldova is food secure. It produces its main food products, exports its surplus food, and imports what it needs to meet its food requirements. Food security indicators prove that in the Republic of Moldova the level of per capita food consumption have stabilized during the last years. The level of food self-sufficiency of the country is rather high, however in several years it decreases to a critical level (see table 1).

Table 1. Self-sufficiency rate for most important agri-food products in the Republic of Moldova, %, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
Cereals	99,2	70,6	143,4	105,0	117,8	115,6	60,8
Sunflower	145,0	65,5	178,0	121,4	156,6	195,9	143,8
Potatoes	91,7	67,0	93,4	89,4	100,4	116,2	66,6
Cereals	103,5	84,8	110,1	98,6	104,2	100,5	93,3
Sunflower	195,8	227,0	222,2	213,9	207,7	237,7	245,2
Grapes	102,4	106,8	102,6	104,3	104,6	102,8	103,9
Meat	67,8	84,5	67,8	86,7	86,0	86,1	81,5
Eggs	112,7	101,6	100,0	100,3	98,8	95,4	102,2
Whole milk and milk products, milk weight equivalent	97,5	95,0	97,1	95,0	94,1	92,0	84,7

Sources: National Bureau of Statistics of the Republic of Moldova, 2014

Analysis of the monthly time series for the year 2014 shows that there are not significant deviations from the typical seasonal trade fluctuation in previous years. However in order to ensure the higher resilience of the agricultural sector of Moldova to external trade shocks it is necessary to modernize the whole agri-food production chain.

Nowadays, modernization for sustainable development of the agri-food sector should foreseen three principal dimensions: economic growth, social equity and protection of the environment. Underlying the economic dimension is the principle that society's well being would have to be maximized and poverty eradicated through the optimal and efficient use of the limited natural resources. The social aspect refers to the relationship between nature and human beings, uplifting the welfare of people, improving access to basic health and education services, fulfilling food security needs and respect for human rights. The environmental dimension, on the other hand, is concerned with the conservation and enhancement of the physical and biological resource base and ecosystems.

Due to the great diversity of rural areas and the presence of the historic and contextual factors in the realization of changes and developments in agriculture, there exists a diversity of future pathways for the agri-food production chains that can prove to be useful for the assurance of the medium and long term stability of this sector. The modernization of the agricultural sector should be based on the following principles:

- An integrated, long-term approach, which corresponds to the objectives set forth in the National Strategy for Agricultural and Rural Development of the Republic of Moldova for 2014-2020;
- A comprehensive and complete framework of incorporating risk evaluation and management approach into uncertainty situations;
- Joint, partnership responsibility at all governing, economy and community levels
- Flexibility of planning mechanisms for the adaptation to possible impacts of economic, commercial and natural risks

The Republic of Moldova has made a significant effort for harmonization of technical regulations with the international standards for food that would ensure the consumer's and human health protection, the conditions for loyal competition, avoiding commercial falsifications and technical barriers.

The strategic goal of the Government is to reform the system of quality control of food. For achieving these goals it is necessary to accomplish the following strategic objectives:

- The improvement of legislation that will ensure a greater harmonization with the international legal norms and standards that reflect all aspects of food productions from the farm to the table of the consumer, including the production of animal feed;
- Fortification of the National Agency of Food Safety, which is charged with the responsibility of the implementation of several key objectives for managing all aspects of the food quality from the farm to the table of the consumer, including those of the rapid alert systems, dialogue and communication with consumers, as well as with the national agencies and scientific organizations;
- Control of food quality, which will provide a uniform procedure for the activities of the national system and inspection through the appropriate distribution of authority and responsibility among all government agencies involved in the food safety issue.

All marked problems should be solved on the basis of the need to improve the quality of management system of food, ensuring compliance with technical requirements, both for export and for domestic market.

## CONCLUSIONS

- There are positive trends in the development of the agri-food sector of the Republic of Moldova during the last years. However the vulnerability of this sector to natural, economic and commercial risks remains to be very high
- The level of country's food security for major agri-food products has stabilized during the last years. Nevertheless in several years it decreases to a critical level due to negative impact of natural hazards. Trade restrictions exacerbated by natural calamities could increase the risk of food insecurity
- The government's efforts to reform the management system of food quality had a positive impact on the development of foreign trade with agricultural and food products
- Successful implementation of the government policies in the field of agri-food development requires a support of the civil society, business community and local public authorities
- The growth of agricultural productivity, supported by investment in rural infrastructure, and technology in the presence of adequate financial mechanisms may contribute significantly to economic growth and resilience of the agri-food sector against external trade shocks.

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