

Deep and Comprehensive Free Trade Area EU-Republic of Moldova

Argumentaire

I. What is the DCFTA?

The Deep and Comprehensive Free Trade Area (DCFTA) is an arrangement between the EU and the Republic of Moldova that foresees a preferential trade relationship, based on mutually advantageous treatment, giving to each other better access to their markets than that offered to other trade partners. Free Trade Agreement (FTA) foresees a removal of import (and export, if applicable) duties on trade in goods between the parties. It further provides for removal of obstacles to trade in services and better access for companies to establish in respective markets.

The Free Trade Areas that the EU establishes with its trade partners usually include a number of disciplines which go beyond 'pure' trade. This is a 'comprehensive' approach to trade, linked to the fact that trade is no longer decoupled from domestic policies on procurement, competition, intellectual property, or sustainable development. These issues are therefore also included in the DCFTA with the Republic of Moldova.

A specific policy dimension relates to the 'deep' aspect of this FTA with the Republic of Moldova. As a member of the Eastern Partnership, the Republic of Moldova has been offered an advanced, associated partner status with the EU, aimed to forge closer political and economic ties with the EU. On this basis, the DCFTA includes several provisions aiming at reforming of the Republic of Moldova's trade and trade-related policies, in line with, and on the basis of, the EU acquis. These will provide for modernisation of the economy, anchoring of EU investment in the country, and better and more predictable policy environment.

II. Why now?

The Eastern Partnership initiative was launched in 2009, with the aim of boosting the European Neighbourhood Policy with the Eastern Partners of the EU. It foresaw, as one element, the establishment of the Association Agreement together with a deep and comprehensive free trade area as soon as conditions for its establishment are met. By setting these objectives, the EU and the Republic of Moldova recognised that the Partnership and Cooperation Agreement, which has been in force since July 1998 and provided a rather basic level of cooperation, no longer met the expectations and needs of both sides. On the other hand, the Autonomous Trade Preference that the EU has granted to the Republic of Moldova since 2008, could not achieve the objective of assisting the Republic of Moldova with further reforms and modernisation.

To create such an area, the Republic of Moldova had to ensure membership in the World Trade Organisation (achieved in 2001). Furthermore, the Republic of Moldova had to demonstrate that it has started conducting the necessary reforms, in order to enable future implementation of such a DCFTA. Following the preparatory process, the DCFTA

negotiations were launched in February 2012 and closed in June 2013. The Association Agreement, including the DCFTA component, was signed on 27 June 2014 in Brussels. It is implemented - on a provisional basis as all EU Member States, and the European Parliament still need to ratify it – since 1 September 2014.

III. What does the DCFTA provide?

A. "Trade only" rules

1. 1. Tariff duties

Complete elimination of all import duties and prohibition of export duties, on all goods on the EU side. Only some agricultural goods (mostly products of animal origin, sugars and cereal products), which are considered sensitive in the EU, will be subject to monitoring of trade flows. This monitoring will aim to ensure that imports of products classified as Moldovan do correspond to the Republic's production capacity and no tariff circumvention by products of non-Moldovan origin occurs. In addition, a limited number of fruits and vegetables, which are subject to entry prices in the EU, will be liberalised (ad valorem free) within TRQs (tariff rate quotas) covering traditional trade flows.

As regards the Republic of Moldova, an immediate elimination of all import duties is foreseen for a majority of products. A staged liberalisation process (between 3 and 10 years, depending on a product) is foreseen for certain sensitive products (mostly agricultural, such as wine, certain processed agricultural goods, certain meat products and vegetables/fruits, as well as textiles/clothing among industrial goods) for the Republic. Certain products remain non-liberalised, managed within tariff rate quotas (poultry and pork meat, certain dairy products, processed meat products or sugar and related). The TRQs cover however the traditional trade flows between the EU and the Republic.

Overall trade liberalisation in agricultural goods can be reviewed by the parties with view to accelerating it, in the third year after the Agreement's entry into force. A possibility to resort to a general safeguard measure for all products (agricultural or industrial) was requested by the Republic for the duration of 10 years. The mechanisms in place allows thus for a staged liberalisation of trade in the Republic of Moldova, with the necessary transition periods linked to the domestic reform process and strengthening of competitiveness of domestic industry before allowing full opening of the market to EU products.

1. 2. Rules of origin

The Republic of Moldova will apply the rules of origin which make it possible to join the Pan-Euro-Med (PEM) Convention, as a zone of cumulation of manufacturing processes with the EU and other PEM members, and which fosters positively regional economic integration for trade in goods. However, to smoothen the transition between the autonomous trade regime and DCFTA, until end 2015, the Autonomous Trade Preference

for the Republic of Moldova will continue to apply on the basis of the applicable rules of origin (for the purpose of benefiting from that preference, not DCFTA).

1. 3. Services and establishment

The EU and the Republic of Moldova provide to each other market access for cross-border services in a wide range of areas, beyond the commitments inscribed in GATS. Furthermore, the parties agreed on broad access for establishment in a wide variety of sectors, which are accompanied by so called ‘mode 4’ provisions, entitling qualified personnel to temporary work in the EU or the Republic of Moldova, in sectors covered by the establishment provisions.

B. The ‘comprehensive’ aspects

1. Competition policy

The rules are more closely based on relevant EU disciplines to ensure proper implementation of domestic competition laws and prevention of monopolistic practices or abuse of dominant position. The EU and the Republic of Moldova aim to ensure cooperation on exchange of information and enforcement of competition rules. As regards assessment of subsidies/state aid, these rules are more closely based on the EU legislation and will apply within 5 years from the entry into force of this Agreement. The Republic is also engaged to create necessary enforcement institutions for state aid, operational within 2 years from the date of entry into force of the Agreement. There is also a transition period foreseen for alignment of state aid granted previously to entities in the Republic of Moldova.

2. Intellectual property

The parties reinforce their engagement to protect intellectual property beyond the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) provisions. These concern the extended protection of different intellectual property rights (i.e. trade marks, patents, design, plant variety) improved cooperation and stronger (civil) enforcement of IPs, including on the border. Equally, the Agreement on Geographical Indications is entirely integrated in the DCFTA.

3. Sustainable development and transparency

These two chapters foresee that economic development in the Republic of Moldova should take place in respect of environmental, social and labour legislation, in particular the relevant international agreements that the Republic of Moldova is party to, and involving the necessary transparency in policy-making. The latter disciplines relate to close involvement of civil society, relevant experts and stakeholders in policy-making, consultations and openness in designing and implementing DCFTA-related policies.

C. The ‘deep’ component

1. Food safety/sanitary and phytosanitary measures

These disciplines provide for the trade conditions in plants and plant products, as well as animals and products of animal origin. They further provide for the procedure to establish the equivalence of the food safety regime of the Republic of Moldova with the EU regime, which should enable the Republic of Moldova to export to the EU animals and products of animal origin. The reform process is established by the DCFTA and the exact timetable for its implementation will be established 1 month after the entry into force of the Agreement. Once this work is completed and assessed positively, the Republic of Moldova will gain further access to the EU market.

2. Technical regulations and standards for industrial goods

Provide for progressive (until 2018) and comprehensive alignment ('Approximation' in EU jargon) of Moldovan horizontal and sectorial legislation for industrial products with the EU laws. Once the Republic of Moldova is ready and the alignment of legislation completed, the parties shall add as a Protocol to this Agreement an Agreement on Conformity Assessment and Acceptance of industrial standards in selected industrial sectors. Such an agreement would recognise the Moldovan accreditation and market surveillance policies for industrial goods, which would lower the cost of trade in industrial products for businesses on both sides.

3. Public procurement

The EU and the Republic of Moldova aim for further and gradual (within 8 years) modernisation of the Moldovan procurement system and alignment of the legislation with the EU one. Completion of the reform process, aiming to adapt Moldovan procurement practices to the EU ones, would result in better access to the EU market on the basis of national treatment, above certain value thresholds. Once the alignment of legislation is completed, the EU and the Republic of Moldova will look into the possibility of opening their respective markets to each other below the determined value thresholds.

4. Services

The reform process will cover the areas of postal and courier services, international maritime transport, electronic communications and financial services. As a result, the EU may deepen the access to its market in the services area within the bilateral services commitments. The Republic of Moldova foresees up to 10 years for the gradual reform process in all these areas.

5. Customs and trade facilitation

The Republic of Moldova will undertake disciplines related to management of customs policy, of customs fraud and administrative cooperation to this effect, in line with EU legislation. The DCFTA foresees approximation of selected EU legislation to this effect,

within 3 years since the entry into force (such as the EU customs code or customs enforcement of intellectual property).

IV. Benefits for the Republic of Moldova

The DCFTA is expected to benefit the businesses and Moldovan society as a whole in a variety of ways.

First of all, it is expected that the DCFTA will boost trade between the EU and the Republic of Moldova: by 16% as regards the exports of the Republic of Moldova to the EU, and by 8% on imports from the EU. The prices are expected to be lowered for domestically available goods, resulting increased real purchasing power of consumers. Stronger domestic rules will improve the safety of consumer products and therefore of consumers in general. The DCFTA, by providing more stable and predictable trade regime, based on EU legislation, is expected to boost the inflow of EU FDI to the country, creating more enterprises and strengthening the competitiveness of the economy and individual sectors.

The DCFTA as a whole is expected to improve the current account balance of the Republic of Moldova and boost the GDP by 5,4% (142 million EUR growth in national income), provided that the reforms are completed.

V. Trade-related reforms assistance

The projected work on implementation of the DCFTA and related reforms will require adequate financial support by the EU and sharing of know-how with the Republic of Moldova. The EU has been assisting the Republic of Moldova in this regard since before the launch of negotiations in the framework of a special Comprehensive Institution Building programme worth €41 million (2011-2013). These efforts were part of a wider assistance package within the European Neighbourhood and Partnership Instrument worth €273 million (2011-2013). It included financial assistance as well as trainings and advisory activities (twinning, TAIEX, etc). Bilateral assistance of EU Member States also takes place in coordination with EU efforts. Further significant assistance, devoted specifically to the implementation of DCFTA, is planned in the new European Neighbourhood Instrument (2014-20).

VI. Next steps

The Association Agreement/DCFTA is in the process of implementation, since 1 September 2014.