

# **Comparative study of foreign trade: summary**

A Joint Research of IDSI Viitorul and Coalition for Rural Economic Development

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**IDSI Viitorul**

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## Executive Summary

*This comparative research concerning foreign trade was performed by the Institute for Development and Social Initiatives "Viitorul" experts at the request of the Coalition for Rural Economic Development (CRED) within the "Advocacy Campaign for supporting Moldovan exporters of agricultural products" Project, financed by the SOROS Foundation – Moldova and the Swedish Agency for International Development (SIDA). The purpose of this research is to complete the list of activities realized by the Coalition of Rural Economic Development to facilitate export of food products from the Republic of Moldova.*

*During the 2003-2005, experts of the Coalition for Rural Economic Development have been working on 4 legislative researches, focused on identifying possibilities of decreasing negative effects of formal procedures in the process of improving the export documents in foreign transactions with perishable agricultural goods and focused on studying the results of the Government decision no.834 from July 26<sup>th</sup>, 2004. The Coalition has promoted proposals aimed at eliminating deficiencies from trade, fiscal and agricultural policies.*

*After all these efforts, the Government of the Republic of Moldova took into consideration CRED's recommendations and included them in the Government's main policy documents: Strategy for Economic Development and the Poverty Reduction for 2004-2006, Strategy for attracting investments and promoting exports for 2006-2015, Strategy for agro-food industry promotion for 2006-2015 etc. Still, some unsolved problems related to certain normative, informative impediments etc. persisted and restrained commercial transactions with agricultural products. Besides, a number of laws still in force make exporter's activity even more difficult.*

*For instance, export procedures are highly bureaucratized through many formalities, which in most cases are not synchronized, and sometimes the time estimated for the customs inspection surpasses the technological flux of some perishable agricultural products. Also, exporters have to pay a significant amount of charges. Analyzing the impact of these factors on foreign trade, we would like to assess current changes and the behavior of the most important commercial partners of our country, as well as the dynamics of bilateral trade relationships, the national and regulation framework and the regulation framework of countries, which strongly influence on the Economy of the Republic of Moldova (Romania, Ukraine and Russia). Our main goal is to offer practical recommendations to public authorities involved in regulation of foreign trade. On the other side, our purpose is to suggest ways of improving the legislation, governing foreign economic transactions of perishable agricultural products.*

### 1. Recent trends in foreign trade

In 2007, the total volume of international trade in Moldova has risen by 34.4% compared to 2006, and amounted to USD 5,031.5 million. Exports grew by 28% while imports showed an increase of 37%. In 2007, exports of Republic of Moldova constituted USD 1,341.7 million, which is USD 290.1 million above the previous year, when it amounted to USD 1,051.6 million. Imports consisted USD 3,698.8 million in 2007, which is USD 1,005.7 million more than in 2006, when it was USD 2,693.1 million.

According to the data provided by the Romanian Trade Promotion Center, the total volume of Romanian international trade, in 2007, increased by 20.7% compared to 2006: exports grew by 13.7%, while imports raised by 25.2%. In 2007 Romanian export (FOB), amounted to 29,401.8 million Euros, which is 3,551.3 million Euros more than the previous year, when it equaled 25,850.5 million. Romanian imports (CIF) constituted 50,992.6 million Euros in 2007, which is 10,246.8 million Euros higher than in 2006, when it reached 40,745.8 million Euros. Romanian Exports and Imports are mostly directed to European countries, in proportion of 88.9% and 88.6% respectively. The total volume of international trade between Moldova and Romania increased constantly during the last 5 years. In 2007 it constituted USD 660,265.5, which is USD 501,510.8 higher than in 2006 (+31.7%). This sensational increase occurred in spite of the denunciation of the Free Trade Agreement between Romania and Moldova.

The total volume of Russian international trade grew by 23.4% in 2007 compared to 2006, exports reporting an increase of 16.9%, while imports increased by 35.4%. In 2007 Russian exports amounted to USD 355.2 billion, USD 46 billion more than the previous year, when it reached USD 303.9 billion. Russian imports constituted USD 223.1 billion in 2007, which is USD 58.4 billion more than in 2006, when it reached USD 164.7 billion. The

geographical structure of the Russian Federation Foreign Trade is strongly diversified, due to its geographical position (situated on two continents, Europe and Asia and bordering 14 states). Another positive factor stimulating foreign trade is the well-developed Russian transport infrastructure: maritime, fluvial and terrestrial, as well as the rich natural resources of this country. Latest developments in foreign trade between Moldova and Russia inspire a moderate optimism. Since the embargo on Moldovan export of vegetable, livestock products and alcoholic beverages was annulled, a slight increase of Moldovan goods delivered on the Russian market was registered, due to a fierce competition coming from companies, which took over the niches, previously detained by Moldovan products. In the same time, imports of agro-food products from Russia are rather specific. Imports of livestock and live animals recorded a significant growth in 2005 and 2006, due to the increasing number of transactions with milk, dairy products, eggs, natural honey. Paradoxically, the number of transactions increased the most during the period when the Russian Federation introduced an embargo on exports of animal products. Meanwhile, since 2004, vegetal products trade revealed a loss of positions considered traditional for Moldovan products on the Russian market of fruits, vegetables and viticulture products (grapes).

The total volume of international trade of goods with Ukraine grew by 31.8% in 2007 compared to 2006; Exports increased by 28.4%, while imports grew by 34.7%. In 2007 the Ukrainian export amounted to USD 49,248.06 million, USD 10,928.1 million more than in the previous year, when it reached USD 38,368.0 million. Ukrainian imports in 2007 constituted USD 60,669.9, which is USD 15,579.4 more than in 2006, when it reached USD 45,038.6. The geographical structure of the Ukrainian foreign trade is balanced, imports and exports diversified by types of products. In 2007, only 38% of Ukrainian exports and 43% of imports were within CIS. Traditionally Ukraine occupies an important place among Moldovan partner states in terms of international commercial transactions. Moldova's trade deficit with this neighboring state is deeply negative. However, this indicator attested a stabilization in the last few years, showing a trade deficit increase at a speed of USD 10 million annually, which is very low compared to 2003-2004, when the annual increase of Moldovan trade deficit in relations with Ukraine exceeded USD 100 million. The situation improved due to a high pace at which Moldovan exports grew, and partially due to shrinkage of imports for some specific groups of goods (raw leather, tanned skins; fur and other complementary products; chemical products).

The bilateral trade between Republic of Moldova and the states mentioned above is characterized by a negative trade balance. Meanwhile, agro-food products prevail among exported goods, and at the same time increase their share in the structure of Moldovan imports. This trend shows that local agricultural producers lose their positions on the Moldovan agro-food products market. In other words, Republic of Moldova is slowly turning into a net importer state of vegetable, animal and agro-industrial products.

## **2. The International Legal Framework of Foreign Economic Relationships of Republic of Moldova**

The fact that Republic of Moldova is part to a number of treaties and other international economic agreements led to creation of a legal framework conducive to its integration in the regional and global trade circuit. Currently, Republic of Moldova is a member of the World Trade Organization and of the World Customs Organization. Since January 1<sup>st</sup>, 2006, Republic of Moldova benefits of a new Generalized System of Preferences (GSP+) from the European Union (EU Regulation no. 980/2005 of June 27<sup>th</sup>, 2005 on application of tariff of generalized preferences). In 2008, Republic of Moldova obtained an increased access to European market under the ATP (Autonomous Trade Preferences) system. ATP offers Moldova additional commercial advantages compared to those under GSP+, extending free trade facilities to some products important for Moldovan economy, like alcoholic beverages, a range of agricultural products, sugar etc. Also, in 2006, Republic of Moldova, along with 9 other countries from Europe, signed a new free trade agreement for Central Europe (CEFTA)<sup>1</sup>. CEFTA-2006 agreement provides an extensive degree of liberalization, especially for trade with industrial products, transparent mechanisms for implementation of commercial protection measures and establishment of a proper mechanism for settling commercial disputes or use of WTO mechanism.

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<sup>1</sup> Law no. 120-XVI from 04.05.2007 for the ratification of the Amending the agreement and accession to the Central European Free Trade Agreement (CEFTA). Official Monitor no. 70-73/330 of 25/05/2007.

Republic of Moldova signed 35 bilateral agreements regarding investment promotion and protection<sup>2</sup> in 2007. In the same time, the special legal framework that regulates and promotes foreign trade involves 38 bilateral agreements on trade and economic cooperation and 16 free trade agreements within CIS and countries of the Stability Pact for South-Eastern Europe<sup>3</sup>. Current research shows the main Agreements, Treaties, and Economic Conventions, which Moldova is party to, as well as the list of agreements, memorandums, conventions, treaties and different protocols, which regulate cooperation with Romania, the Russian Federation and Ukraine in various economic aspects.

Despite the fact, that Moldovan legal framework for foreign economic relations is quite advanced, there still are issues to be dealt with, which diminish the advantages that can be obtained through careful exploitation of available facilities. Firstly, we refer to the ignorance by the large public (economic agents and public officials) of the contents of the treaties, agreements and other international agreements to which Moldova is party. Secondly, there are wide disparities between international and national documents. And finally, there are deficiencies related to the negotiation process, as well the implementation of documents signed by the Republic of Moldova.

As an example we can refer to the fact that after removal of the embargo on imports of animal, vegetal and alcohol products from Moldova, Russian authorities granted the right of export cattle and sheep meat to 4 Moldovan companies only: Navelina LLC (Chisinau), Mistor – Bras LLC (Calaras district, Niscani village), Tehnostel Kar (Hancesti district), Antadro LLC (Floresti district). At the same time, restrictions and prohibitions for import of the following animal products are still in force:

- Meat and offal of cattle (except products delivered by enterprises, licensed by Russian authorities), pig, horse (equine), sheep and bird (disposition ФC-EH-2\2089 of the State Veterinary Service of the RF dated 15.04.05)
- Meat and offal of horse (equine), disposition ФC-EH-2\2168 of the State Veterinary Service of the RF dated 19.04.05.
- Temporary restriction for bovine meat exported by Navelina LLC, Orhei (since 11.06.07), disposition ФC-ГK-2\5660 of the State Veterinary Service of the RF dated 14.06.07.
- Products of the Cheese Factory from Soroca (since 12.07.07) disposition ФC-EH-2\6671 of the State Veterinary Service of the RF dated 10.07.07.

Similarly, according to "Rosпотребнадзор" after removing the embargo on wine imports, 33 Moldovan enterprises obtained permission to submit samples of manufactured products to sanitary-epidemiological expertise, while de-facto only 26 wineries export their production<sup>4</sup> from over 100 operating in the Republic of Moldova.

### 3. The Domestic Legal Framework of Foreign Economic Relations of Republic of Moldova

Moldova's foreign trade is governed by a number of legislative regulatory acts adopted during the last two decades. They cover various fields and aspects of foreign trade. Examples of basic or common acts are the Civil Code, the Customs and Tax Code, the Law on State Regulation of Foreign Trade, the Law on Customs Tariffs. In parallel with adoption of basic laws, specific laws regulating certification of products commercialized in foreign trade were drafted and adopted. However, the majority of these were drafted before 2000 and did not pass a legal, anticorruption, economic, financial, scientific, or ecologic expertise, neither the expertise in terms of compatibility with European Law, by type of social relations regulated or linguistic expertise, as required by Law on Legislative Acts no.780-XV of 27.12.2001.

Presently, in parallel with legislative acts in force, an impressive number of secondary regulatory acts were adopted by Government and specialized state authorities (ministries and other central public authorities). However, approval

<sup>2</sup> Agreements signed with Austria, the Republic of Albania, Azerbaijan, Belgium, Belarus, Great Britain and Northern Ireland, Bosnia and Herzegovina, Bulgaria, Czech Republic, China, Croatia, Greece, Switzerland, the French Republic, Russian Federation, Finland, Georgia, Germany, Israel, Italy, Kuwait, Kyrgyzstan, Latvia, Lithuania, Netherlands, Poland, Romania, Spain, Slovenia, Serbia and Montenegro, the United States of America, Tajikistan, Turkey, Ukraine, Hungary and Uzbekistan.

<sup>2</sup> Agreements signed with the Republic of Armenia, the Republic of Albania, Azerbaijan Republic, the Republic of Belarus, Bosnia and Herzegovina, the Republic of Bulgaria, the Republic of Croatia, Russian Federation, Georgia, the Republic of Kazakhstan, the Republic of Kyrgyzstan, Macedonia, Romania, Serbia and Montenegro, Ukraine and Uzbekistan

<sup>3</sup> Agreements signed with the Republic of Armenia, the Republic of Albania, Azerbaijan Republic, the Republic of Belarus, Bosnia and Herzegovina, the Republic of Bulgaria, the Republic of Croatia, Russian Federation, Georgia, the Republic of Kazakhstan, the Republic of Kyrgyzstan, Macedonia, Romania, Serbia and Montenegro, Ukraine and Uzbekistan.

<sup>4</sup> <http://www.vinmoldova.md/rom/news/16117/>

and entry into force of these acts does not guarantee quantitative or qualitative results in terms of foreign trade proportionate to the number of laws, Government decisions or other documents issued by ministries and central public authorities. A lot of these have been repealed, due to absence of any regulatory impact. Other acts had a destructive impact on economic agents engaged in foreign trade transactions and entire sectors of the economy. Government Decision no.834 dated 26.07.2004 on regulation measures for acquisition and export of cereals and cereal products (in force during 2004-2006<sup>5</sup>) represents a classical example in this sense.

The present study pays attention to normative acts in force: the Customs Code, Government Decision no.1288 of 09.11.2006 on the strategy of investment attraction and exports promotion for 2006-2015, Government Decision no.282 of 11.03.2008 on approval of the national strategy for sustainable development of agricultural complex of the Republic of Moldova (2008-2015), Government Decision no.600 of 14.05.2002 approving the Regulation on declaring the customs value of goods entering the territory of the Republic of Moldova, Customs Service Disposition no.276-A of 24.10.2002 on customs documents related to customs clearance of goods from foreign trade transactions, State Fiscal Inspectorate Disposition no.188 of 17.11.2005. Also, the study refers to provisions of a number of normative acts with similar regulations in force in Romania, Russian Federation, and Ukraine aiming at transferring positive information and experience. Respective regulations specifically refer to export and import procedures.

### Conclusions:

- The total volume of international trade of Moldova in 2007 increased by 34.4% compared to 2006, totaling USD 5,031.5 million. Exports increased by 28%, while imports increased by 37%. The evolution of Moldovan imports compared to increase of the exports, resulted into a trade deficit of USD 2,348.07 million at the end of 2007, which is USD 706.5 million higher than in 2006, when it constituted USD 1,641.56 million. According to CEP experts of IDSI "Viitorul", at the end of 2008, the trade balance will easily exceed the threshold of USD 3 billion. The rate of coverage of imports by exports constituted 36.4% in 2007, which is the lowest level registered in Moldovan trade history, so far.
- The precarious situation in foreign trade with agricultural and food products served as a destabilization factor for Moldovan market of these products. According to the Harmonized System, Moldovan foreign trade with the great majority of groups of products has a negative trade balance.
- Moldova's foreign trade is governed by a number of regulatory acts adopted during the last two decades. They cover various fields and aspects of external trade. A great majority of laws presently in force were drafted before 2000 and did not pass a legal, anticorruption, economic, financial, scientific, or ecologic expertise, neither the expertise in terms of compatibility with European Law, by type of social relations regulated nor linguistic expertise, as required by Law on Legislative Acts no.780-XV of 27.12.2001.
- Presently, in parallel with legislative acts in force, an impressive number of secondary regulatory acts were adopted by Government and specialized state authorities (ministries and other central public authorities). However, approval and entry into force of these acts does not guarantee quantitative or qualitative results in terms of foreign trade proportionate to the number of laws, Government decisions or other documents issued by ministries and central public authorities. A lot of these have been repealed, due to absence of any regulatory impact. Other acts had a destructive impact on economic agents engaged in foreign trade transactions and entire sectors of the economy. Government Decision no.834 dated 26.07.2004 on regulation measures for acquisition and export of cereals and cereal products (in force during 2004-2006) represents a classical example in this sense.
- Investment attraction and exports promotion strategy for 2006-2015 is the third exports promotion strategy approved after the declaration of independence of the Republic of Moldova. The first two policy documents have not generated major changes in the evolution of external trade of the Republic of Moldova, and were repealed without a proper evaluation and presentation of final reports. Currently, after a year and a half since investment attraction and exports promotion strategy for 2006-2015 entered into force, a great number of measures provisioned by the action plan for policy implementation are not implemented. The following particular areas related to improvement of legislative framework can be mentioned: drafting a new edition of the law on securities market (due in 2007), drafting the law for modification of the law on Trade secret (2007), the

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<sup>5</sup> Official Monitor of Republic of Moldova no. 123-124/990 from 27.07.2004.

law on mortgage lending (due on February 1, 2007), new edition of the law on investment funds (2007), adoption and implementation of the food safety strategy.

- Along with delays in implementation of the investment attraction and exports promotion strategy for 2006-2015, creation of marketing centers is also delayed, as well as establishment of Mail Euro Info Center (website) and a network of regional centers with national coverage, creation of foreign markets databases, simplification of visa granting and other authorization procedures, stimulation of imports of new technologies, industrial machinery and equipment by providing fiscal and customs incentives for their import, preparation and carrying out social surveys regarding compliance to procedures for registration, certifications, licensing and obtaining of permits on behalf of public authorities and effectiveness of public policies concerning the investment climate, etc<sup>6</sup>.
- Measures provisioned by the strategy in terms of agriculture development, aimed at cardinal improvement of the situation with Moldovan foreign trade of agricultural and agro-industrial products, are not implemented so far, but appear ineffective. In addition, most measures included in the action plan, are not covered financially and thus, there are high risks that the final results after completion of the current strategy will be similar to those obtained in achieving EGPRSP, Strategy of agro-food sector development for 2006-2015, Strategy of promotion of export of goods from Republic of Moldova for 1999-2001 and for 2002-2005<sup>7</sup>.
- The mechanism of value added tax refund for exported goods implemented in accordance with the instruction regarding repayment of value added tax approved by SFI Disposition no.188 dated 17.11.2005 represents a zero-interest credit mechanism through which exporters credit the Government.
- Documents necessary for clearances of goods from foreign trade transaction are not explicitly provisioned in the Customs Code, but are regulated by acts approved for law enforcement. They constitute the object of an order of the Custom Service issued „with the purpose to increase the level of documentary control and exclude cases of falsification of document presented to the customs authorities by economic agents” and (with some inclusions or omissions) are regulated by the Government Decision no.600 dated 14.05.2002 regarding Regulation on declaring the value of goods entering the territory of Republic of Moldova<sup>8</sup>.

### Recommendations

- In order to optimize the process of drafting legislative documents and implementation of Law on legislative acts (no.780-XV dated 27.12.2001), we consider that drafts of laws, as well as their legal, anticorruption, economic, financial, scientific, ecological and other kind of expertise, should be published.
- In order to have a more effective system of strategic planning and rationalizing the normative-legal documents on policies, we suggest inclusion of representatives of civil society and private sector in the Commission for review of policy documents, established by the Government Decision no. 691 of 11.06.2008 on establishment of the Commission for review of policy documents.
- Cooptation of civil society and private sector representatives in the intergovernmental committee for economic, trade, scientific and technological cooperation, provisioned Government Decision no. 725 of 17.06.2008 on the intergovernmental committee for economic, trade, scientific and technological cooperation.
- Creation and implementation (MEC, Customs Service, civil society) of tools similar to those used by EU ("Trade Barriers Regulation", TBR) to identify and eliminate barriers and unfair trade practices encountered by Moldovan exporters on third markets.
- Creation and implementation of interactive tools to support exporters in Moldova (databases supporting Moldovan companies in accessing third markets: statistics, legislation, customs tariff, providing free education, consultation).
- Drafting and approval of regulations regarding simplified procedures for customs clearance, after the example of European rules (incomplete declaration procedure, simplified declaration procedure, customs clearance at home procedure).
- Establishing a one-wicket system for processing foreign trade documents in all customs offices.

<sup>6</sup> Chivriga V., Furdui V. Current developments in external trade with agricultural products. National Farmers Federation of Moldova (FNFM), Chisinau, 2008.

<sup>7</sup> Government Decision no. 554 from 16.06.99 on the strategy for promoting the export of goods from Moldova during 1999-2001. Official Monitor of Republic of Moldova no.65-66/585 from 24.06.1999.

GD. 80 of 29.01.2002 on the strategy for promoting exports during 2002-2005. Official Monitor of the Republic of Moldova no. 21-22/156 of 05.02.2002. Law no. 398-XV of 02.12.2004 on the Strategy of Economic Growth and Poverty Reduction (2004-2006). Official Monitor of the Republic of Moldova no.5-12/44 of 14.01.2005.

<sup>8</sup> Official Monitor of Republic of Moldova no. 66-68/697 from 23.05.2002.

- Extending the system of exemptions from import customs duties, by means of exempting means of production and other equipment imported due to transfer of activities in the Republic of Moldova, products obtained by Moldovan farmers from properties located in a third country, seeds, fertilizers and products for treatment of soil, crops imported by agricultural producers, and goods imported for trade promotion.
- Improving the existing system of Export VAT refund. Eventually, elaboration and approval of a regulation, provisioning Export VAT refund after repatriation of funds collected by Moldovan companies after completion of export operations.
- Exclusion or modification of art. 199 of the Customs Code "Deadline for verification of customs declaration, documents, inspection of goods and means of transportation".
- Harmonization of normative acts that contain rigors with regards to documentation in foreign trade transactions (Customs Code, Government Decision no.600 dated 14.05.2002 regarding Regulation on declaring the value of goods entering the territory of Republic of Moldova, Customs Service Order No. 276-A of 24.10.2002 on the documents for customs clearance of goods from foreign trade transactions) and adoption through legislative acts of clear rules regarding the mandatory set of documents required for customs clearance and impossibility of arbitrary requirements for additional acts.