

ANNEX D. DEEPENING MOLDOVA – EUROPEAN UNION RELATIONSHIP

The Republic of Moldova lies in a geo-political area situated at the confluence of the European Union and the CIS. The current processes that are under way in Central and Eastern Europe offer a certitude that the transition towards a pluralist democracy and a market economy will be accomplished here in the foreseeable future. Moreover, the perspective of joining the EU by Western neighbors of Moldova will generate an extension of processes of political and economic integration from Western to Eastern part of the continent.

Prospective scenarios forecast an accession of the countries of the region to the EU in 3-4 waves during the next 20-25 years. Along with quantitative indexes (GDP/capita, EU share in foreign trade, share of agriculture in GDP etc.), a gradual adaptation of legislation, quality standards, transportation and trade regulations, environmental norms, social indicators is required in order to succeed.

Moldova's way to the EU will not be a simple and short one because of the crisis during the 90s that pulled back the country in social and economic terms. Still, Moldova is an European country. And, since all her neighbors, including Romania and Ukraine, have stated their commitment to European integration, Moldova has to define its own steps on this path.

The intentions and actions of Moldova towards closer relationship with EU do not contradict in any way the co-operation within the CIS. In as much as even Russia, having secured support from Germany, has declared the intention to become a "strategic partner" of the European Union (in 1997 the EU share in Russia's foreign trade was 39.6%, USA – 4%, Japan-3%). Central and East European countries' share of trade with the EU varies from 30% (Bulgaria, Lithuania) to 70-75% (Slovenia, Poland, Hungary). For Moldova this index stands at 20%.

Development of Moldova – EU relationships

Accession to the European Union is a strategic goal of the Republic of Moldova. Integration with the Union will speed up economic growth, modernization of the economic and legal systems and help to eliminate the technological gap between our country and more advanced European states.

According to latest political statements by the Presidency, leaders of political parties, Moldova intends to enhance its relations with the EU by signing an Association agreement. The Foreign Ministry of Moldova has taken necessary measures in this direction.

During 1997-1998 period a political support for this option was expressed by a number of leaders of important EU member-states and associated countries during the official visits of Moldovan President to Paris, Rome, Bucharest and the visits of Hungarian and Polish presidents to Chișinău, as well as with other occasions. During Petru Lucinschi's meeting with Jacques Santer in Brussels in February 1998 a firm support was stated for further approaching of Moldova with EU, focusing on finalizing the ratification of PCA and elaboration an free trade agreement between parts.

The relations between Moldova and European Union have entered a new phase in December 1994 by signing the *Partnership and Cooperation Agreement (PCA)*, that provides for enhancement of political dialogue through the newly established Council for Cooperation and Parliamentary Committee for Cooperation. The economic cooperation is encouraged by the most favored nation status, technical assistance in the TACIS program framework and cooperation in the field of education (TEMPUS). The Partnership and Cooperation Agreement has been signed for an initial 4 year stage, after what it is to be reviewed with the view to establish a free trade zone between Moldova and EU. Subsequently, the agreements on trade and textiles were also signed.

The revision of PCA, scheduled for 1998, constitutes a favorable opportunity to negotiate a European Agreement between Moldova and the European Union.

Since the establishment of the partnership agreement, bilateral trade was raising steadily. Currently, Moldova trades about a third of its foreign exchange with members and associated states of the EU. The dynamics of this growing exchanges indicates that their share will become predominant in Moldovan trade during the next 5-10 years. The main economic partners of Moldova within the EU are Germany, Italy; and among the associated countries – Romania, Poland, Hungary and Bulgaria.

In the period of 1991-1996, the European Union has granted Moldova credits amounting to 77 million ECU. Apart from that, through TACIS program, Moldova has received technical assistance worth of 40 million ECU for enterprise restructuring, private sector development, food industry, transportation, telecommunications, environment protection, reform of administration, social sphere and education. The new program of assistance set up for 1996-1999 grants additional 50 million ECU.

The advantages, conditions and practical steps on the way to accession of Moldova to the European Union, along with its chances of accession in the context of the evolution of the European Union in the next 20-25 years, are topics of major importance that will be discussed subsequently.

The advantages of association with the EU

The European Union, being primarily an economic forum, encompasses also aspects of democracy and security. Therefore, aiming at an association with the EU, Moldova counts on a number of major gains: economic convergence, political solidarity and security of the country.

The main **political advantage** is the participation in building a united Europe, where Moldova – a European democracy with the rule of law, a market economy and friendly relations with its neighbors and other European countries, based on bilateral treaties – wants to find its place. Not only this will allow for strengthening of stability of the democratic system of the country, but also for greater security of the state and its citizens. A united Europe will confer on her citizens the right of free movement, right of establishment and work in an enlarged area. In these conditions, the role of bilateral, interregional and regional relations of Moldova with the rest of the continent will increase.

Political solidarity in the international arena will contribute to strengthening of Moldova's independence, its integration into the international community, will bring about a new approach to solving the issue of foreign troops in Moldovan territory and will contribute to finding solutions to regionalist tendencies inside Moldova by modern European means.

Economic advantages brought by Moldova's involvement in the Common European Market have a tremendous importance: access to a larger market with free movement of people, goods, capital and services, access to structural funds and flows of investment capital. This way Moldova will gain free access to an enormous market (370 million consumers) and advanced technologies, which offers an opportunity of an accelerated development and catching-up with the rich countries on the continent.

Economic convergence of the associated countries is supported through the PHARE program, the pre-accession partnership, structural and cohesion funds. According to the Amsterdam summit, the transfers could amount to 4% from the destination country's GDP, which in case of Moldova will mean an annual transfer of 40 million ECU towards investment in infrastructure, enterprise restructuring and reinforcement of democratic institutions.

The **social benefits** of EU membership are real opportunities for convergence to the European standards of domestic security, healthcare and protection of workers, education, information, accompanied by an overall rise of living standards.

The implementation of ***European environmental standards*** will support the development of low-pollution technologies, rationalization of energy and resources consumption, thus paving the path for economic growth and efficient management of resources.

The obligations of associated countries

The criteria for the EU membership were made public in the summer of 1993. They are: consolidation of democracy and the rule of law, adoption of a minimum of "acquis communautaire" (EU legislation), establishment of a functioning market economy and its efficient management.

The general conditions (Essen, December 1994) for EU accession are:

Stability of democratic institutions, the rule of law, respect for human rights and minorities.

- Existence of a functioning market economy.
- Ability to meet competitive pressures and market forces of the EU.
- Capacity of taking on obligations as a member-state of the EU, including subscription to the political, economic and monetary objectives.

Any European country that complies with the above listed criteria can apply for EU membership. ***The first stage towards full membership is the associated country status*** embodied by a European Agreement. The next is ***the pre-accession stage*** that allows an associated country to approximate its legal and institutional framework to that of the European Union to get ready to enter the Common European Market (requirements enlisted in the White Paper). ***The third stage*** – the transition phase – occurs after the Accession, when the new member-state finalizes the adoption of the *Acquis* and becomes part of all EU institutions.

Association Agreement

By comparing with the Co-operation and Partnership Agreement that currently defines the Moldova – EU relationship, the European Agreement (a common name for Association Agreements) includes several new principles that render it a new qualitative dimension. It states presumption (not guarantee) that an associated country may become a EU member, the gradual establishment of a free trade zone between the signatories, approximation of legislation. This agreement also enables the development of political, economic, financial, cultural co-operation, etc.

The ***political dialogue*** aims at rapprochement between the associated country and the EU that would facilitate its integration into the community of democratic nations, support the political and economic transitional processes in the designated country, and contribute to an increasing convergence of its position in terms of international policies and security.

The ***free trade zone*** is set up gradually, in a transitional period lasting up to 10 years. It provides for free movement of goods, and has special clauses for movement of workers, rights of establishment and providing services, movement of capitals, competition and approximation of legislation. It is important that the EU eases the access to its market first, so that the associated country has the opportunity to protect its internal producers for a transitional period.

The ***economic and financial co-operation*** deals primarily with the industrial, agricultural, investment, energy, transportation policies, regional development and tourism. The Union also provides for financial assistance through grants (PHARE) and loans (European Investment Bank).

The White Paper (Pre-accession strategy)

The pre-accession strategy's main focus is on the extension of the internal market to the applicant country. The common internal market requires common rules and institutions embodied in a set of laws and regulations (commercial, contract, bankruptcy laws, clear laws on property etc.).

In May 1995, the European Commission approved the White Paper on the preparation of associated members for integration into the Common Market. The document contains recommendations for embedding into national legislation of provisions that ensure free movement of goods, services, people and capital, competition policy, along with an order of their implementation. The White Paper identifies key measures that have to be taken in each sector of the internal market and suggests the consecutive steps to be taken. A special attention is paid to the establishment of the institutional framework that has to insure the implementation of the measures of the White Paper. The laws on competition, social policy, environment are also part of this important document.

The starting point of the integration process is the consolidation of judicial reform through:

- (i) identification of key judicial measures that have to be taken;
- (ii) description of technical and administrative structures necessary for efficient implementation and enforcement of legal norms;
- (iii) recommendations on efficient use of the EU technical assistance.

The associated countries have to rely on their own resources in complying with internal market requirements, establishing their own priority sectors. The alignment to single market will reinforce the economic reform and industrial restructuring and will stimulate trade. The White Paper includes the steps to be taken by the EU Commission, the member-states and the Associated members for fulfillment of this goal.

Establishment of a free trade zone

The development of trade with the EU is a key element of the integration strategy. Due to extended ratification procedure in the EU, but also due to lack of diplomatic pressure on the part of Moldova, it took almost 4 years for the PCA to be ratified. Subsequently, it is only now when Moldovan producers have gained right of all the import quotas and tariffs' exemption for a number of goods. The future growth of exports to West European markets will have to be supported by implementation of quality certification of Moldovan products at European Standards (ISO-9000, etc.) and through easing the access to the markets. This objective requires a free trade agreement.

The Free Trade Agreement (FTA) should be negotiated as an integral part of the Association Agreement. However, due to underdeveloped state of Moldovan relations with the EU and the internal problems of the Union, it may become imperative to sign a preliminary free trade agreement. Its successful implementation will determine further conclusion of an Association Agreement. The FTA will give a free access to EU markets for the bulk of Moldovan exports, also abolishing the tariff and non-tariff barriers for EU exports to Moldova, a limited improvement of access to EU agricultural markets, reciprocal right of establishment for investors, approximation of Moldovan legislation to the EU law in the fields of competition, public procurement, subsidies, technical norms.

According to estimations, *the implementation of a free trade zone will bring important long term benefits for Moldova, but it will also have essential transitional costs to be covered by Moldova.*

The success of FTA implementation and increase of investment flows will largely depend on Moldova's capacity to restructure its industry, liberalize its trade with EU and other countries. It is necessary to mention that the benefits of Moldova deriving from trade liberalization could be important, because currently the EU share in Moldovan trade is relatively low (20%). Thus, an

increase of Moldovan exports of food, and industrial products where Moldova has comparative advantages (e.g. textiles), provided these sectors will benefit first by free access to EU markets, is expected. The benefits of Moldova will also derive from the approximation of technical standards and norms, enhanced internal competition, that will in turn encourage foreign direct investment, increasing country's "credibility" in the eyes of investors.

As to the cost of transition, the liberalization of trade with EU can have short term negative impacts for the currently protected sectors. If immediate measures for resource reallocation will not be taken this can cause unemployment. It is possible that the implementation of the agreement can bring a new deterioration of the balance of payments. The suspension of quantitative restrictions and tariff barriers of Moldova can provoke an increase in spending and create premises for diverting the local consumers to foreign goods to the disadvantage of local producers. At the same time, the increase of investment can bring a short term increase in equipment imports. However, an expansion of Moldovan exports to the EU, due to suspension of quantitative and tariff barriers currently in place, will take place, while the viability and competitiveness of numerous sectors of Moldovan economy, especially the agriculture, will come out.

In order to bring maximum benefits from the establishment of the free trade zone with the European Union, Moldova needs to concentrate its efforts in several directions:

Macroeconomic stability – international experience confirms that the more a country has experienced economic instability in the past, the more difficult it is for it to regain the trust of foreign investors and to pass through the "shock" of foreign competition;

Lowering of export duties. Membership in a free trade zone is usually accompanied by a decrease in revenue from customs duties. Moldova will not bear important losses because of low starting share of trade with EU;

Limiting external debt. Foreign debt burden exercises pressure on the budget and the balance of payments. Under this circumstance, foreign investors may fear a deliberate increase of taxes to service the foreign debt. Such an image may deter investment;

Development of regulatory framework. This refers to the privatization and industrial restructuring, correlated with the necessity to prepare Moldovan economy to the restructuring of its foreign trade. It is important to concentrate efforts on strengthening the competitiveness of Moldovan private enterprises;

Development of social security. The process of establishment of a free trade zone is closely linked with the reallocation of resources from the previously protected to the exporting sectors. In the short run, this phenomenon will be inevitably accompanied by a pressure on the labor market and rise of unemployment. Concurrently, macroeconomic adjustments and liberalization bear a risk of provoking a decrease of real income of a number of professional categories. In this context, a social protection system that will include retraining of the unemployed has to be developed.

Immediate tasks in the field of legislation

In order to enable Moldova to approximate its legislation to the "acquis communautaire" and international conventions and treaties, efforts should be made in:

- improving the mechanism of incorporating international laws into the national legal framework, including ratification of international treaties and agreements;
- developing of a legal tool in solving the differences between the national and international legislation that is adopted by Moldova;
- adopting laws stimulating foreign direct investment;
- aligning Moldova's legislation to the European Union human rights provisions;

- suspending the normative barriers imposed by the economic union of the CIS in relations of Moldova with the European Union.

A particular importance in solving the above mentioned issues has the overpassing of the current uncertainty in the procedure of embedding the international treaties into Moldovan national legislation.

Scenario for the evolution of the European Union

Since the foundation in 1952, the European Union has expanded in several waves. The number of its member-states grew from 6 to 15. Currently there are 11 new applicants for membership. This number includes the 10 countries in Central and Eastern Europe and Cyprus (that is on a separate list).

On average, the member-states of the EU have gone through *a period of 20 years from the signature of an Association Agreement to a full membership in the Union*. Usually, the first half of this term the country had an associated status and the second half, after the formal accession, it passed through a transition stage (convergence) necessary to obtain full membership in the EU. Thus, if the Republic of Moldova signs an association agreement with EU until the year 2000, it has chances, provided for good economic performances, to negotiate an Accession Agreement between 2005-2010. Negotiations of an Association Agreement can last between 1 and 3 years.

Traditionally, *the new members were accepted into the European Union in groups*. This is true now more than ever, due to a large number of applicants (11) and the sensitiveness of the issue of their differentiation. Moldova intends to be included into the group of the South-eastern countries, together with Romania and Bulgaria. Even though currently all of them pass through a period of economic recession, by the moment of starting of accession talks (2005-2010) this countries, according to forecasts, will overcome the crisis and will represent the outside an integral region.

Since the enlargement of the EU is likely to occur in several waves, as the current political agenda suggests, the countries that have signed European Agreements during 1990-93 will become members of the EU in 2000-2005, with a transition period up to 2015. The European Commission Agenda 2000 has named 5 countries into the first wave of enlargement: Czech Republic, Hungary, Poland, Estonia and Slovenia. The other candidates – Romania, Bulgaria, Latvia, Lithuania and Slovakia – will run for the second wave. However, the Luxembourg summit (December 97) decided to start simultaneous talks with all 10+1 candidates, while accession will take place at different times, once the criteria for accession are fulfilled. Beside these countries, only Moldova and Croatia could sign association agreements till 2000. Thus, Moldova could qualify for the second way of Accession.

In its effort to become part of the European Union, *each applicant country search for support from certain member-states*. Germany supports Poland, Czech Republic and Hungary, France supports Romania, Nordic countries give support to the three Baltic states and Italy supports Slovenia. Each of them acts according to the historical relations, neighborhood and security considerations and specific arrangements and negotiations inside the Union (e.g. the northerners versus southerners). Moldova will have to build support for its candidacy based on the following:

Since **Germany** will reach its security goals in the first wave of enlargement, it will apply an equal treatment to next applicants, particularly focused on their economic performance. This means that Moldova must concentrate its efforts on attracting German investors.

France will not succeed to include its favorites into the first wave of enlargement and, therefore, will be the first violin in promoting the second wave. It is important to become a part of the group of associated countries in Southeastern Europe: Romania, Bulgaria, Moldova –

supported by France. In this respect more active Moldovan participation in the Francophone movement, highly appreciated in France, is important.

Italy, after the accession of Slovenia, will try to extend its influence to the East and Moldova could be a favorite, because of belonging to the community of Romance languages and a peculiar geographic location. Thus, ***Italy could become Moldova's main "partner" for the European integration***. Expanding studies of Italian language and culture and amplifying the economic relations with this country could contribute to such an option from its part.

Co-operation with the countries in Southeastern Europe, where Moldova is a potential player, has to be institutionalized by creation of a common moldo-bulgaro-romanian market, open to other countries in the region (Ukraine, Yugoslavia, Macedonia). This can be done by expanding CEFTA and, after its Central European members join EU, by setting up a CEFTA South Council, whose office could be established in Chișinău. In this context, Greece, interested in new transportation corridors in the region, will undoubtedly support Moldovan efforts for European integration.

Taking into account that by the time of Moldovan candidacy being examined at the EU some of the current associated countries will be members of the Union, their attitude towards Moldova will play an important role. Thus, ***countries in Central Europe*** like Poland and Hungary – with historical interests in the region, are likely to support Moldovan bid for European Union membership. It is also important to extend economic cooperation with countries like Austria and Czech Republic that have economic interests in Central and Eastern Europe. Among the countries of ***Northern Europe***, the small countries as Holland, Denmark, Estonia etc. could show solidarity with Moldova, therefore the development of bilateral relations with them is welcome.

The accession to the EU implies a certain degree of ***economic convergence with the economies of EU countries***. For example, Greece at the moment of its accession(1981) had a GDP/capita of only 40% of the EU average (presently – 60%). For Moldova this index stays at 3% of the Union's average. The scenarios for economic development of the continent show that at an annual growth rate of 10% Moldova will reach the 40% of the EU GDP/capita in 40 years. One can assume, though, that EU will show a more flexible policy towards new applicants with such a gap in economic development, giving them a larger support. The arguments favoring such a policy would be: a small number of such states (Moldova, later Albania, Macedonia); these countries are small in size and population and therefore inexpensive to integrate; their geographical location has a geo-strategic importance for the EU.

So the scenario for Moldova becoming part of the European Union in the next 20 years is possible to become true. For that it is necessary to conclude, during the next 2 years, an Association Agreement with EU, overcome the crisis and launch a sustainable growth, extend the EU share in Moldova's trade, enhance efforts of political cooperation with the pivotal member-states and associated countries of the Union and regional economic and political groupings.

The strategy of developing relations with the European Union

Moldova's relations with the EU have to become a priority in the next 2-3 years, being reflected in foreign policy actions, foreign economic relations, national legislative activity. The strategy of Moldova of enhancing relations with the EU targets three major objectives:

- establishing profound political relations;
- encouraging advantageous economic relations aimed at a balanced growth;
- strengthening co-operation in the fields of common interests (particularly in the light of eastward enlargement of the EU) – energy, infrastructure, environment issues.

Accomplishment of these tasks requires complex mechanisms as:

- (i) Development of trade relations, which implies broadening access of Moldovan goods to European markets, removing tariff and non-tariff barriers, increasing competitiveness of Moldovan goods according to European standards and norms.
- (ii) Stimulating EU investment in Moldova, especially for production of goods and services for third markets, encouraging of cooperation and sub-contracting.
- (iii) Consolidating institutional mechanism for the political and economic dialogue.
- (iv) Attracting technical and financial assistance from EU institutions and individual member-states (development of the JOPP Program, access to European Investment Bank (EIB) programs).

Moldovan agenda for integration

In order to initiate the process of integration into the EU, Moldova will perform a large set of well tuned political and economic activities. Based on the experience of other associated countries, the following actions are imperative:

Association (1998-2000)

Setting-up a ***Department for European Integration*** in the Government (Ministry of Foreign Affairs) charged with:

- Negotiating and signing the *Association Agreement* between Moldova and the European Union (including the establishment of a Free Economic Zone);
- Elaboration of a *National Strategy for Integration*; (including promotion of Moldova inside the EU; training);
- Submitting the *Application of the Republic of Moldova for the Accession to the European Union*;

Setting-up a ***Parliamentary Committee for European Integration*** with representatives from all parties represented in Parliament charged with:

- Drafting a *Political Declaration on Integration of Moldova with the EU* that has to be signed by leaders of all political parties represented in Parliament;
- Drafting a *Strategy for Approximation of the Legislation with the EU*;

Tasks to be accomplished by the **Government** (Ministry of Foreign Affairs, Ministry of Economy, etc.):

- ***Economic integration:***

Concluding a Free trade agreement with CEFTA;

Concluding a Free trade agreement with EFTA;

- ***Political co-operation:***

More dynamic participation in regional associations: CEI, SECI,

BSEC, Danube convention etc.

Conclusion of basic treaties with neighboring countries: Romania etc.

Fostering relations with pivotal countries in the EU: Germany, Italy, France, Great Britain and Central Europe: Poland, Hungary, Romania. Establishment of a non-competitive partnership with the Ukraine.

At the recent meeting of the European Council in Luxembourg (December 1997), it was decided to launch the process of accession of the 10 countries in Central and Eastern Europe and Cyprus, naming also the 5 that will start accession talks as soon as spring 1998. Thus, first new members will join the EU by 2002-2003. The launch of the enlargement process is considered to be the beginning of a new era, bringing to an end the division of the continent and the extension of the model of European integration over the whole of the continent. It is also seen as a guarantee of future prosperity and stability in all of Europe.

The summit also decided to call a European conference, with the participation of the associated countries and Turkey – a specially created common political forum of member-states and applicants to the European Union, open to other states that subscribe to certain common values. The participants of the conference have to prove their commitment to principles of peace, security, friendly neighbor relations and respect for sovereignty of other countries, principles that laid the foundations for the European Union, along with the inviolability and integrity of frontiers and solution of territorial disputes by peaceful means, under the authority of the International Court in the Hague. ***For Moldova, it is of a strategic importance to take part in the European Conference from the very beginning.***

Pre-accession (2000-2010)

The co-operation within the European Union rests on three pillars: Common European Market, Common Foreign and Security Policy (CFSP) and the Justice and Home Affairs (III pillar). The applicant countries will be screened on the appropriation of the *acquis*, particularly the laws on common market. The applicants must prove to be able to incorporate the ecological standards, competition laws, healthcare and public administration standards. The mere adoption of laws is not considered sufficient – to prove the ability to enforce them is required.

Adaptation of the economy

To ensure a comfortable place for its economy inside the EU, Moldova will use the European experience in restructuring and privatization, will adopt new solutions for creation and managing the public funds, reduction of the budget deficit, inflation and public debts, adaptation of fiscal system to new economic realities, and will ensure the independence of the National Bank. A special emphasis in the process of European integration is placed on the preparation for the Common Market (free movement of goods, services, persons and capital), competition policy, consumer protection, environment etc. Acquiring support from the EU pre-accession funds will ensure the needed adjustments and adequate development of Moldova.

Approximation of legislation

The goal of approximation of Moldovan legislation to the EU is to suspend the barriers for trade between Moldova and the EU and to establish a coherent set of rules that will contribute to the development of trade. From the economic perspective, the most important levers are the financial regulations for economic agents and the contract law.

Foreign affairs

Integration into the European Union is the first priority of Moldovan foreign policy. The Euro-Atlantic orientation of the Republic of Moldova implies, at the same time, the establishment of best possible relations with neighboring countries, development of regional cooperation, and an active role in the international arena.

Justice and domestic affairs

In the field of justice and domestic affairs, the main policy objective for Moldova is integration in all the mechanisms of cooperation of the EU, which includes the structural dialogue, accession to EUROPOL and the Schengen space, thus allowing for free border crossing for Moldovan citizens.

Training and human resources

The knowledge of EU legislation, institutions, policies and procedures that lay the basis for the Union is vital for preparing Moldova for accession and later participation in the EU framework. In this respect, a system of training of central, regional and local authorities for better information on the European values and norms will be set up. An important activity in this direction will be to extend the study of European languages among Moldovan population – English, French, German, Italian, Spanish.

Information

The fundamental goal of the information strategy will be the creation of a favorable environment and acquiring a permanent internal and external support for Moldovan society in its integration efforts.