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Commentary

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Ending the cat-and-mouse embargos game. Making use of EU funds to steer West the Moldovan agriculture exports

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Agriculture in the Republic of Moldova is an important economic sector, accounting for 41% of Moldovan exports and employing 1.3 million people, a large share of the working population. The EU has surpassed Russia as Moldova's main commercial partner (54% of its exports go to the EU). It is a paradox that the Soviet inheritance still dictates economic trends: the heavy industrialised Transnistria exports, as a percentage, more into the EU than the rest of Moldova does. The right-bank Moldova was designed by Soviet planners as an agricultural basket while Transnistria, on the left bank of the Dniester River, concentrated the heavy industry. As such, from time to time, Russia strikes Moldova where it hurts, with embargos on food and agricultural products.

Signing the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU represents an opportunity for Moldova to enter a major and stable market but when it comes to agriculture there are factors which delay reorientation. The main one is the structural fragmentation of Moldovan agriculture. 80% of the Moldovan fruits are produced in farms smaller than 10 ha. In addition, the fragmented and underfinanced Moldovan agriculture is not prepared for the high administrative, quality and sanitary barriers of the EU market. While the political negotiations for DCFTA processed quite fast, the implementation phase was not properly prepared.

Most exports to the EU are primarily low value products and unprocessed raw materials: sunflower seeds, cereals, oil, while the higher value segments go to the Commonwealth of Independent States (CIS) markets: vegetables, pastries, alcoholic beverages. Animal livestock and animal-derived products were exported in 2013 in bigger quantities in CIS than in the EU. After the Russian embargo some help came from other CIS countries, especially Belarus, but this did not replace the lost Russian market. As such, it should come as no surprise that the pro-Russian and Communist parties win votes in the rural areas and in Northern Moldova, which depend heavily on fruit production and exports into CIS.

Moscow had punished Moldova before with a wine embargo in 2006. The wine industry started looking for solutions and made efforts to diversify its export markets. Nevertheless, even for this "flagship" industry for Moldova, reorientation was not fast enough: this year Belarus alone imported 55% more Moldovan wine than the EU market. The vineyards are old and need renewal, while production costs are three to four times higher than those incurred by their established competitors in Western Europe. There is only one laboratory which provides EU quality certification for the Moldovan wine sector, a monopoly which makes this service highly costly. Certifying a wine in Chisinau is more expensive than in Vienna.

Fruit, Moldova's second highly valued agricultural sector, has a worse story to tell. 97.1% of the Moldovan fruit exports went to the CIS market in 2013, which made the Russian embargo imposed in July 2014 particularly painful. Apples for example, are sold to processing units (for juices) at prices four times lower than in 2013, and the compensation provided by the government covers only half of the production sold under these circumstances.

The third sector affected by the Russian embargos this summer – meat – is even more behind in terms of possibilities to reach the European market. There are over 2.600 EU standards that Moldova should adopt, but only 20 of them have been implemented during the past year. The pace of adoption will surely increase but the administrative capacity to do so remains low. The National Agency for Food Safety was established in early 2013 but it is still not accredited to certify agricultural exports to the EU.

Romanian Official Development Assistance

Rapid and concrete measures are necessary to turn the EU market from an opportunity into a reality for the Moldovan agriculture. The Republic of Moldova needs a coherent approach, so as to achieve structural changes and develop value added agriculture. Bearing this in mind, efforts to steer exports of key agricultural sectors to the EU can only act as a traction mechanism in this process.

The EU has committed financial support of €64 million to the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) in Moldova. This programme comes in the form of budget support, which means that it will complement the national agricultural subsidies. The Moldovan government recently adopted a National Agriculture and Rural Development Strategy, and a complementary Action Plan is currently under inter-ministerial consultations.

There is a serious risk for ENPARD to continue the mistakes of the national subsidies. Moldova spends around €27 million from its budget in agricultural subsidies. The criteria for distributing this money as well as the policy objectives have been both overly ambitious and unclear. National subsidies have tried to cover everything: investment in post-harvest infrastructure, processing, greenhouses, equipment, land plots consolidation, irrigation, credit, insurance, but the impact was minimal. The paying scheme was also incongruous: the farmer was supposed to invest but only find out at the end of the year whether money was actually available. This usually led to a low compensation rate (sometimes only 20% of the investment), making the scheme both unpredictable and non-transparent.

Clearer and more straight-forward criteria are needed for the disbursement of the ENPARD budget support. Given the circumstances, this could help Moldovan farmers gain better access to the EU market.

Moreover, issues such as developing agribusinesses through farmers' associations and cooperation, quality certification, marketing and investments in renewing crops with new types of plant varieties, are transversal problems which should be addressed by the new influx of funds aimed at developing Moldovan agriculture.

Besides the ENPARD funds, support for the implementation of the National Agriculture and Rural Development Strategy 2014-2020 comes from various other sources: European Investment Bank, the World Bank, the International Fund for Agricultural Development, USAID, Poland, and the Food and Agriculture Organization of the United Nations. Each donor has specific objectives and modus operandi, but synergy among these actors is needed. Creating a donor coordination platform for rural development and agriculture would be highly recommended in order to ease the exchange of information regarding assistance, grants or training programmes.

Alexandra Toderiță is rural development expert at the Romanian Center for European Policies (CRPE). Under her supervision the Moldovan branch of CRPE recently published a comprehensive study on the impact of DCFTA on Moldovan fruits, meat and wine sectors (financed by the Dutch Embassy through the MATRA Program).

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