

THE ANALYSIS OF THE ECONOMIC REFORMS IN THE AGRI-FOOD SECTOR AND THEIR IMPACT ON COMPETITIVENESS INCREASING OF THE MOLDOVAN AGRICULTURAL ENTERPRISES

Artur GOLBAN¹

e-mail: golban.artur@yahoo.com

Abstract

The competitiveness of the agricultural enterprises from the Republic of Moldova depends on the state regulation of this sector. During many years beginning with obtaining the independence of the Republic of Moldova till now, there were elaborated many laws, signed several agreements of trade cooperation between Republic of Moldova and many countries, which became economic partners of the Republic of Moldova, all of these influencing the competitiveness of the agricultural enterprises. In this scientific paper is analyzed the regulatory framework of competitiveness regulation of the agricultural sector of the Republic of Moldova, which is very vulnerable in front of the negative influence of instability factors, determining the necessity of state regulation of this sector. The scientific research is based on the data from the Ministry of Agriculture and Food Industry of the Republic of Moldova, Parliament of the Republic of Moldova and other economic literature from the analyzed domain of study.

Key words: state regulation; competitiveness; agricultural farms; economic agreements, horticultural sector

In conditions of market economy, based on economic theory and practice, the agricultural sector is the most vulnerable to the negative impact of various factors of instability, which determines the necessity of state regulation of this sector. The state regulation of the agricultural sector is oriented to overcome periodic crises in this sector and to strengthen the social sphere from the rural area.

The basic purpose of this scientific research consists of analyzing the influence of the economic reforms in the agri-food sector on increasing the competitiveness of the agricultural enterprises from Moldova, analysis of several trade agreements signed between Moldova and the partners of development and highlighting the strengths and the weaknesses on increasing the competitiveness of the agricultural enterprises.

MATERIAL AND METHOD

The analysis of the regulatory framework of competitiveness is based on information obtained from the Ministry of Agriculture and Food Industry of Moldova, the Parliament of Moldova, the Agency for Interventions and Payments in Agriculture, National Bureau of Statistics and other sources of economic literature in compliance with the analyzed field of study. As research methods were

used: analysis and synthesis, induction, deduction, comparative method, logical analysis

RESULTS AND DISCUSSIONS

The agricultural sector is the traditional branch of the national economy of the Republic of Moldova, which contributes to GDP by 11-12 percents depending on the year. In 2015 the share of the agriculture, hunting economy, forestry and fisheries in GDP constituted 11.7%, representing a decrease by 1.1% compared to 2014.

The basic purpose of the agrarian policy of the state consists of creating a competitive production potential, which will ensure the increasing of the national welfare, by intensifying the production of high valued added agricultural products, attracting Foreign Direct Investments in Republic of Moldova which will influence positively the economic growth of the country, and in this way will stimulate the application in production process the scientific know-how and the latest technologies.

Thus to increase the competitiveness of the enterprises from the agricultural sector, at the state level, were elaborated several normative acts regarding the regulation of the external trade with agricultural products, increasing the attractiveness of the Republic of Moldova in front of foreign

¹ State Agrarian University of Moldova, Chisinau, Republic of Moldova

investors, improving the measures of subsidies allocation and creating a positive business climate in the country.

A special place in increasing the competitiveness of the agricultural enterprises from the Republic of Moldova is played by the foreign trade. A great importance in the development of foreign trade was Moldova's accession to the General Agreement of Tariffs and Trade in July 2001. Following accession to this agreement, the trade policy of the Republic of Moldova is based on the trade regime and the norms established by the World Trade Organization. Thus the accession of the Republic of Moldova to the WTO represents the first step in the initiation process of negotiation and signing the Asymmetric Free Trade Agreement between Moldova and the EU.

The regulation of trade with agri-food products is based on two agreements of the WTO: Agreement on Agriculture and the Agreement on Sanitary and Phytosanitary Measures.

Also between the Republic of Moldova and the EU were signed a series of unilateral trade preferences (GSP, GSP+, Autonomous Preferences trade regime), together with other countries such as USA, Switzerland, Japan, Turkey, Norway. Since July 1, 1999, RM benefited from the Generalized System of Preferences (GSP) of the EU, under which Moldovan exports were exempted totally or partially of customs tariffs. From 1 January 2006, Moldova has benefited from GSP + granted by the EU (EU Regulation no. 980/2005 of 27 June 2005 on implementation of the generalized system of tariff preferences). GSP involves three levels of reduction the customs duties (Case, 2006):

- ❖ The standard GSP, which offers combined trade preferences, free access and reduction of custom duties;

- ❖ GSP plus which offers free access on the EU market for all the products mentioned in the directive (about 7200 groups of products from 11 000 possible)

- ❖ The initiative „Everything but arms”, presupposes free access on the EU market for all the products except munitions and import of sensitive products. This initiative is intended to the underdeveloped countries.

Currently, the Republic of Moldova obtained greater access to the EU market after signing the Autonomous Trade Preferences (ATP) since March 1, 2008, in compliance with the EU Regulation Nr. 55 of 21.01.2008, amendments to the EU Regulation Nr.980/2005 and the Decision Nr. 2005/924 of the European Commission. Signing the ATP is considered a trade advantage

the country is benefiting, based on the GSP+ system, which expands free trade facilities on several important agricultural products.

According to the Regulation, a series of agricultural products and of agricultural origin (animal products, common wheat, corn, barley etc.) can be exported in the EU with exemption from customs duties within the limits of Community tariff quotas set for Moldova. Also, for some products obtained in the vegetal sector is operated the exemption from ad valorem component of the import duty (grapes and a series of vegetable and fruit products) (Perju O. *et al*, 2010).

Also, Moldova have signed on 19 December 2006, the free trade agreement for Central Europe (CEFTA). According to this agreement was provided trade liberalization, transparent mechanisms of application trade protection measures and establishment of a proper mechanism to resolve commercial disputes. Currently members of CEFTA are: Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Croatia, Serbia, Kosovo UN-MIK.

In 2002 Moldova together with Georgia, Ukraine, Azerbaijan signed the multilateral free trade agreement of CIS - GUAM, in order to eliminate customs duties and other charges having equivalent effect and quantitative limitations in mutual trade, as well as to eliminate other obstacles to the free movement of goods and services. But from various political reasons, until now it has not actually advanced towards creating a free trade zone.

Although Moldova has signed several agreements to regulate international trade of agricultural products with both EU countries and with the countries of the CIS, nevertheless Moldova, according to a study elaborated by the World Bank is facing with one of the lowest levels of access on foreign markets, taking the 111 place out of 125 evaluated countries. The exports of fruits and vegetables on the EU markets are limited not only because of compliance difficulties on quality and food safety requirements, but also because of the lack of competitiveness (Prohnițchi V. *et al*, 2009).

In order to regulate various aspects, regarding production and trading of fresh fruits and vegetables, in Moldova were elaborated a set of normative acts, namely:

- Packaging, transportation and storage of products are performed according to the Government Decision no. 1279 of 17 November 2008 related to the adoption of the Technical Regulation "Packaging, transportation and storage of fruits, vegetables and fresh mushrooms." This

decision concerns the following issues: requirements on packaging types and packaging methods, the necessity of pre-cooling, requirements for transport trucks, etc.

- Law on organization and functioning of agri-food markets No 257-XVI from 27.07.2006, which sets the legal framework regarding the organization of agri-food markets by individuals and legal entities that produce, store, process and/or trade these products, at the national level or on a production area, on internal and/or external market as well as functioning of these markets.

- The product quality must meet technical requirements adopted by the Government Decision no. 929 of 31 December 2009.

- Law no. 78-XV of 18 March 2004 according to which, the product must be safe and the information provided to be correct. Also, the law introduces traceability requirements of products, issuance of certificates of quality, performing the security control as well as the necessity to provide correct information to consumers and control authorities.

- Law no. 105-XV of 13 March 2003, according to which, the suppliers must provide safe products on the market, possess certificates of compliance and prohibit sending incorrect information to the customers.

- Government Decision no. 996 of 20 August 2003 "refers to the labeling rules of food products and labeling rules of household preparations". For fruit and vegetables sold in big quantities, the minimum information on the label must contain the producer's name and address and the country of origin.

Although there are numerous normative acts on producing and trading fresh fruits and vegetables, the producers are not even aware that in some cases these legal requirements exist. Market players, due to the ineffective mechanisms of implementation of these requirements, often act as they wish, which leads to trading of products with low quality, containing high level of pesticides, re-used packaging, lack of accurate information about the products, lack of labels, etc.

Also for trading of high value added agricultural production on the local markets, in supermarkets, the agricultural producers must fill many tax documents, which take lots of time and many times they even don't know how to fill this documents. From this point of view the agricultural producers are very dependent of open air markets, which limits their profitability.

An important factor in increasing the competitiveness of the agricultural entities from the Republic of Moldova consists of attracting the FDI. Thus according to the Constitution of the

Republic of Moldova (art. 46), the state guarantees the right to private property and the right to inherit property, and protects the property of Moldovan citizens, foreigners and stateless persons. The Moldova's legislation in attracting investments comprises the following normative acts: Law on Foreign Investments; Law on investments in entrepreneurial activity; The law on free economic zones; The strategy of attracting investment and export promotion; Bilateral agreements on promotion and mutual protection of investments with 35 countries.

Thus from the analysis of the regulatory framework that regulates the activity of foreign investors in Moldova, we can reveal the existence of multiple facilities to promote investment in agriculture, but despite the fact, that exists numerous facilities to invest in Moldova, the majority of foreign investors avoid investing in the country because of: the high costs of obtaining permits, authorizations, licenses, complicated customs procedures, bureaucracy, corruption, frequent controls from state authorities.

One of the impediments of development high value added agriculture in Moldova is the impossibility of purchasing agricultural lands by foreign investors, who claim that they are not in safe in making investments in multiannual crops, technologies or irrigation systems, in conditions when exists high probability that the lease agreement can be terminated at any time.

An instrument of competitiveness state regulation of agricultural enterprises, can be considered - farmers subsidizing, which directly influences the increasing of competitiveness of the agricultural enterprises, because it helps to support farmers' income by covering certain costs of the production means.

According to the Regulation on the use of the fund of subsidizing the agricultural producers, there was registered 10 measures of subsidizing agricultural producers which have considerable influence on the development of agriculture and increase the competitiveness of the agricultural production.

However, analyzing the amount of allocated subsidies by EU member states and the value of the subsidy fund from Moldova, we can conclude that the subsidy fund is the lowest in the region. For example in 2013 Hungary has allocated approximately 1904 million EUR (about 450 EUR/ha), Romania - about 2620 million EUR (approximately 191 EUR/ha) (CAP, 2013), which represents considerable amounts compared to Moldova where the total value of the subsidy fund in 2013 was about 454. 03 million lei (about 24.67 million EUR or respectively 20 EUR/ha). In these

conditions Moldovan farmers are not competitive on the agricultural markets from the Region. The production costs are very high and the lack of financial resources creates difficulties in increasing the competitiveness of the agricultural production .

In the current conditions of the Republic of Moldova, we consider that subsidizing of the agricultural producers is vital for maintaining and developing the process of high value added agricultural production, giving possibility to the country to develop its export potential, in order to contribute to increasing the competitiveness of high value added agricultural production.

CONCLUSIONS

In conditions of market economy, based on economic theory and practice, the agricultural sector is the most vulnerable to the negative impact of various factors of instability, which determines the necessity of state regulation of this sector.

Although Moldova has signed several agreements to regulate international trade of agricultural products with both EU countries and with the countries from the CIS, nevertheless Moldova, according to a study elaborated by the World Bank is facing with one of the lowest levels of access on foreign markets, taking the 111 place out of 125 evaluated countries.

Also, from the analysis of the regulatory framework that regulates the activity of foreign investors in Moldova, we can reveal the existence

of multiple facilities to promote investment in agriculture, but despite the fact, that exists numerous facilities to invest in Moldova, the majority of foreign investors avoid investing in the country because of: the high costs of obtaining permits, authorizations, licenses, complicated customs procedures, bureaucracy, corruption, frequent controls from state authorities.

In this context, increasing of agricultural enterprises competitiveness must be based on the elaboration of the normative acts regarding the foreign trade regulation with agricultural products, increasing the attractiveness of the Republic of Moldova in front of foreign investors, state subsidies allocation and creation of a favorable business climate in the country.

REFERENCES

- Perju O., Chivriga V., Fala A., 2010** - *Impactul viitorului accord de liber schimb între Republica Moldova și Uniunea Europeană asupra sectorului agroalimentar din Republica Moldova*. Chisinau: IDIS „Viitorul”.
- Prohnițchi V., Popa A., Oprunenco A., 2009** - *Acordul de Liber Schimb între Republica Moldova și Uniunea Europeană: fezabilitatea, perspectivele și impactul potențial*. Chișinău: „Expert-Grup”, Fundația Soros.
- *** - www.case.com.md/upload/3/GSP%20Plus.pdf
- *** - www.europalibera.org/content/article/24698006.html
- *** - www.profit.md/articles-ro/number-10-10-ro/547417/
- *** - www.reformthecap.eu/key-data-on-the-cap