

## CHALLENGES THAT FACE MOLDOVAN FOOD INDUSTRY TO ACCESS THE EUROPEAN UNION MARKET

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**Abstract:** *At present, Moldovan food industry faces a variety of challenges related to accessing the European Union market. While food industry go increasingly circular, more investment and more effective governance are needed to upscale promising innovations. Competitiveness on the home market and the export market needs to be strengthened. In a slowly developing circular economy, Moldovan food industry must improve operations and reduce costs while maintaining product safety and minimize produced waste. Moreover, the trends in the global food market are constantly changing. Studying the experience of German food industry will be helpful in this respect. Moldovan food industry must be able to anticipate and adapt to change in order to stay competitive. The analysis presented in this article highlights main challenges that face Moldovan food industry related to accessing the European Union market regarding productivity, consumer preferences and demand, food safety, government regulations.*

**Keywords:** *challenges, food industry, EU- Moldova market.*

**JEL Classification:** *L66, D4, Q18.*

### 1. Introduction

*Global Food Consumption and Trade.* At present, consumer perceptions regarding quality and safety are changing global food consumption due to: higher income, urbanization, and transport. It is known that among the determinants affecting trade patterns, income growth and its impact on food consumption are one of the most important in explaining changes over time. The effect of income growth differs among developed and developing countries.

Author Regmi (2001) explain that in XX-XXI century, diet diversification and increasing demand for better quality and labor-saving products have increased imports of high-value and processed food products in developed countries. In developing countries, higher income results in increased demand for meat products, often leading to the expansion of livestock production. This in turn may result in increased imports of intermediate products such as animal feed.

Given different diets, food expenditure and food budget responses to income and price changes vary between developing and developed countries. Low-income countries spend a greater portion of their budget on staple food products such as cereals and are generally more responsive to food price and income changes. The magnitude of a country's response to income and price change also differs across food items. In poorer countries, greater budget adjustments are made to higher value food items such as dairy and meat, and staple food budgets undergo little change. Middle-income countries are the most responsive to staple food price changes.

### 2. Trade between countries

There are many reasons for trade between countries, and the most important reason, the theory of competitive advantage, is that it is cost-effective for the countries to trade. According to the theory of competitive advantage, a country exports those products it can produce relatively inexpensively and imports those goods that it can produce only at relatively great expensive. The relative advantage of countries in producing food or clothing depends on the technology of each country and on each country's endowment of land, labor and other resources. A country with a lot of labor and little capital finds it to its advantage to export labor-intensive products and import capital-intensive products from countries with lots of capital and little labor (Carlton and Perloff, 2000).

### 3. EU-Moldova relations

The integration of the Republic of Moldova into the EU is one of its priorities. With this purpose, the EU and the Republic of Moldova signed the Partnership and Co-operation Agreement in 1994. It came into force four years later. The Agreement meant co-operation, and attempted to persuade the EU leadership to open a new stage in its relationship with the Republic of Moldova.

The Republic of Moldova's link to the European Union became closer in 2004, with the accession of ten states to the European Union. In 2005 the Republic of Moldova and the EU signed the Action Plan, a political document for three years laying out the strategic objectives of the cooperation between Moldova and the EU.

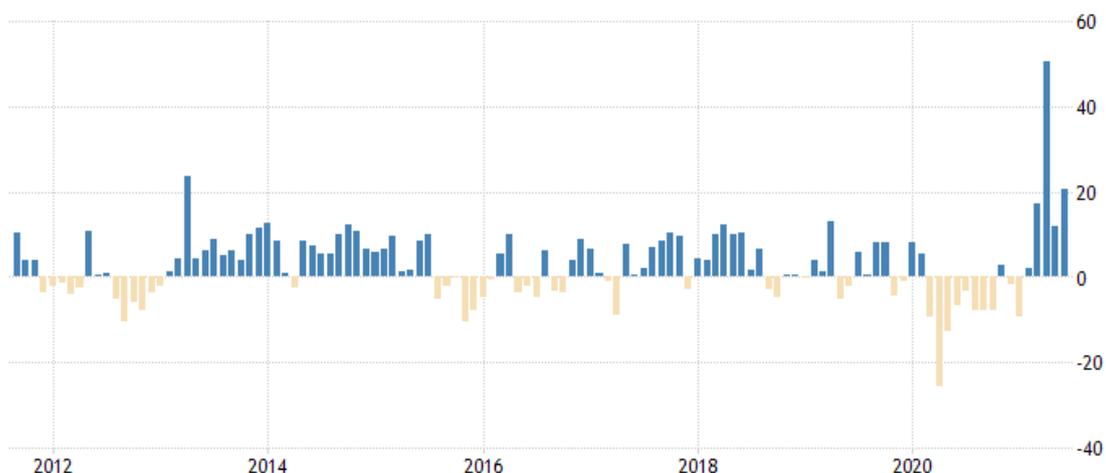
The Association Agreement is currently under negotiation between Republic of Moldova and the European Union. Relations between Moldova and EU are also shaped via the European Neighbourhood Policy (ENP), a foreign policy instrument of the EU designed for the countries it borders.

Thus, EU is developing an increasingly close relationship with Moldova, going beyond co-operation, to gradual economic integration and a deepening of political co-operation.

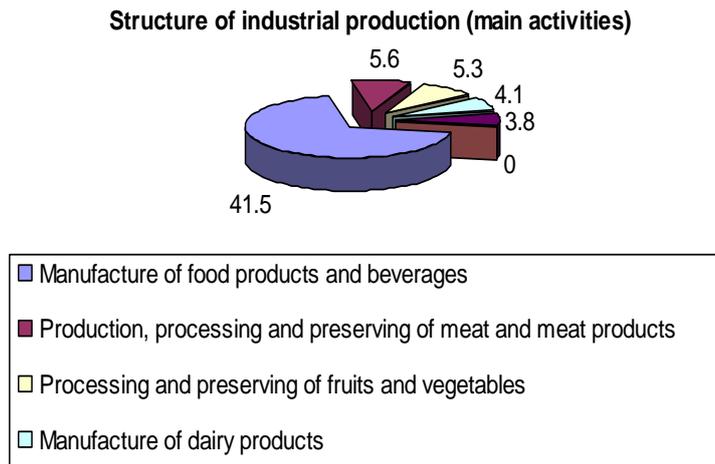
#### *EU-Moldova Relations:*

- EU-Moldova Association Agreement;
- Deep and Comprehensive Free Trade Agreement (DCFTA);
- Visa-free travel regime;
- etc;

Assessing the current state of Moldovan industry, it is necessary to note that most of them were created before 1990, and till now most of them keep their old industry specialization (fig.1 and fig.2).



**Figure 1. Moldova industrial production, 2011-2021, Moldova**



**Figure 2. Structure of industrial production, based on main activities, Moldova, 2021**

Source: compiled by the author, based on NBS data

We must mention that irrevocably changed the people, their mentality and approach to their professional duties, technical equipment of enterprises, technology and sales organization.

#### 4. Trade policies

Trade policies promoted by the Republic of Moldova are mostly based on attracting investments in the national economy, which are capable of innovation, transfer of know-how and competitive goods for domestic and foreign markets, high added value and creating efficient technical and economic infrastructures in order to maximize existing economic potential.

Due to its favorable geographical position, Moldova is a platform for placement of international organizations and transnational corporations and becomes attractive to conduct business between western and eastern markets.

*Autonomous Trade Preferences (ATP).* From 2008, Republic of Moldova has benefited from the new scheme of trade preferences granted unilaterally by the European Union, known as the Autonomous Trade Preferences (ATP). Trade preferences have been granted as a result of Moldova's implementation of sustainable development, good governance policies and efficient customs administration. ATP offer free access to the EU market without quantitative restrictions and customs fees, the only exception being a small number of goods which are sensitive for the EU and are subject to annual duty free tariff quotas. The main condition for entitlement to the preferential arrangements is the compliance with the EU rules of origin of products. ATP have offered grounds for increasing the competitiveness of Moldovan products exported to the EU and have also stimulated the efforts of Moldovan exporters to penetrate alternative markets other than those from the CIS.

*Deep and Comprehensive Free Trade Area (DCFTA).* This DCFTA agreement assumes the abolition of duties and quotas in mutual trade in goods and services, as well as the elimination of non-tariff barriers (by the adoption of EU rules on public procurement, health and safety standards, and intellectual property rights, among other means). This allows the integration of Moldova with the common EU market. The idea is to stimulate free trade between the EU and Moldova, as well as to improve the investment climate. Consequently, this should translate into economic growth and also open up business in the EU countries to new opportunities to work with Moldova.

*CIS*. Moldova has signed 9 bilateral free trade agreements with CIS countries. About 41% of Moldova's international trade is conducted under free trade agreements with these countries,

this percentage being in a slight increase in comparison with previous years. Although the agreements provide for a general free trade regime, there is also the possibility for exceptions that are not stipulated in the texts of these agreements. Usually the exceptions are of asymmetric nature, while the customs taxes for the goods excluded from free trade regimes are applied using the most favored nation clause.

In 2002 Georgia, Ukraine, Azerbaijan and Moldova signed the GUAM agreement regarding the creation of a free trade zone. Its scope is to eliminate customs fees and other taxes with equivalent effect and quantitative limitations of trade, as well as to eliminate the barriers for free movement of goods and services.

*Central European Free Trade Agreement (CEFTA)*. In 2006 Moldova has signed the Central European Free Trade Agreement (CEFTA). CEFTA allows duty free access to the market of countries from the South-Eastern part of Europe. The CEFTA agreement has radically evolved since Romania and Bulgaria left and joined the EU. At this stage, the present signing parties are Moldova, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Kosovo.

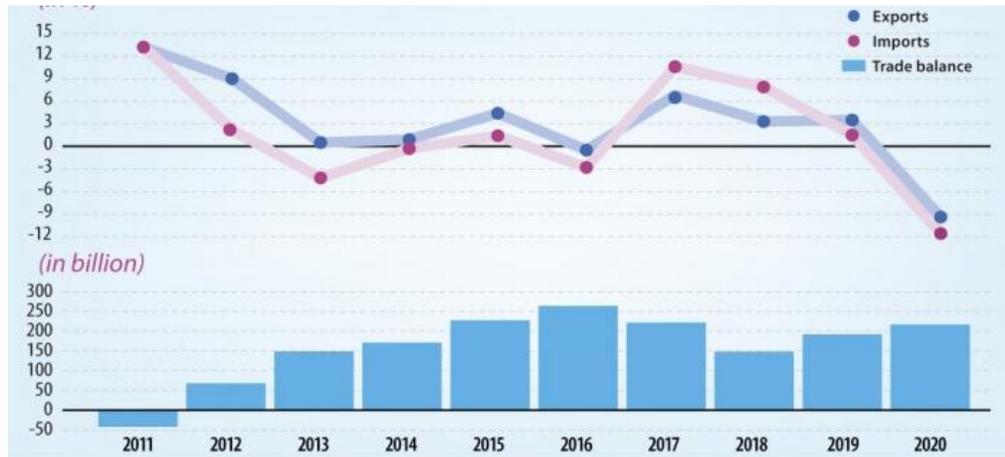
Although the exports from Moldova to CEFTA countries are pretty low, these have an important role in supporting Moldova's efforts to be included in the Western Balkans perspective of joining the EU, thus reinforcing the relevance of the CEFTA agreement in achieving the objective of Moldova's adherence to the EU.

The commercial relations of Moldova with CEFTA countries are governed by the preferential trade arrangements provided by CEFTA, which require almost total liberalization of imports

of industrial and agricultural products from CEFTA countries, except for imports of wine from the Republic of Macedonia. CEFTA also provides an individual mechanism for trade disputes settlement or usage of the instrument provide by WTO.

##### **5. Competitiveness. Share of exports in industry revenue**

In UE, wines and spirits continue to be the leading exports of the European food and drink industry. Overall, drinks accounted for nearly one third of the EU food industry export value in 2020. Those were followed by dairy and meat products which together accounted for an additional quarter of exports. In the fig.3 is presented the EU international trade in goods (yearly growth rates).



**Figure 3. EU international trade in goods (yearly growth rates), %**

*Trade and Exports' Competitiveness (in Moldovan agricultural sector).* In a rather small and open economy like that of the Republic of Moldova, better usage of agricultural trade benefits can be one of the most possible paths towards a significant economic growth, increase of population incomes and consequent reduction of poverty. Taking into account the fact that the local market is a rather small one and has a limited capacity of absorption, in the near future the agriculture would continue to be the main source for Moldovan exports, and the increase of agricultural production export will have the potential to produce a positive impact on long- and medium-term consumption and incomes. At its turn, this fact would foster the non-agricultural economy from rural area. Nevertheless, exports' increase will depend on Republic of Moldova's capacity to operate successfully and profitably its comparative advantages and to connect them rapidly to the international trade system.

Full exploitation of agricultural advantaged emerged as a result of the privatization, agricultural farms' restructuring and transition to a market economy represents the key to a significant growth in the sector, increasing thus rural incomes and creating more opportunities in rural zones. The Republic of Moldova is endowed with visible international advantages in high value crops' production, like fruits and vegetables which consume labor force and a have a higher probability to be cultivated in smaller individual households. At the same time, Moldova has fewer comparative advantages when talking about production of some conventional crops, like sunflower and wheat, which consume less labor force, but request a larger land area and equipment. These crops are cultivated by bigger farms due to a low profit margin. But, at the moment, Moldova encounters a significant impediment related to fulfillment of these advantages in the field of horticultural crops.

One of the reasons for Republic of Moldova's incapacity to bring into being its comparative advantages are the under-developed and distorted agricultural markets, this being a major barrier for trade which reduces incomes resulting from agricultural producers' activities. The local prices received by agricultural producers are much lower than the international ones and this fact affects agriculture profitableness (which at the present time is the less preferred out of the total number of agricultural sectors). Thus, as a result of policies' distortions, markets' imperfections and inefficiencies, there are important profit transfers from farmers towards other trade network subjects.

Via cumulative effect, these distortions reduce agricultural incomes, conditioning an insufficiency of circulating capital and lack of new investments, which at their turn cause reduction of productivity and a bad quality of products, which are not competitive on export markets, this limiting event more the incomes. These deficiencies may be

rediscovered in low performance of big agricultural farms, but they may be extended also over the entire sector. At the same time, due to low incomes, the agricultural sector benefits from about 5 % of total investments, while agriculture's contribution to GDP is several times higher.

Moldova's exports to the European Union remain small. Although wine, nut, 16 large fruit and vegetable processors and specialty cereal exporters have succeeded in exporting to the EU, most Moldovan companies cannot meet the requirements for quality, safety, and volume of the EU markets. For instance, Moldova was a major supplier of fresh produce to the FSU, but none of its current companies can supply the EU with the volume of fresh produce exports that would warrant investment in the comprehensive and stringent EUREP-GAP or British Retailer's Code of practice. Moreover, nearly all fresh and processed food companies in Moldova lack the infrastructure and organization needed to meet the basic requirements for Good Manufacturing Practices (GMP) as recognized in the EU or the USA.

In last years, occurs a significant decline in the proportion of major groups of goods produced in Moldova. Thus, the share of food and beverages has changed from 51.7 % in 2014 to 41.5 % in 2020, while the share of the production of wines - from 20.6 % in 2014 to 6.1% in 2020. Of the 40 manufacturing industries of food and non-food groups (2020) we can distinguish 16 industries up to 1.0 % of the industrial products, 6 to 2.0 %, 15 - 6% 2 - to 10.0 % and 1 - 42%. Changes are noted only in the group of large industries with specific weight of 20 to 50 % and above, which includes main industries.

Moldova needs to diversify its exports market to reap more benefit from trade and to reduce the impact of disruptions of trade with CIS countries. The current over-dependence on the CIS, particularly Russian, markets renders Moldova vulnerable to shocks and political interventions by the latter.

The EU, a next-door market with a population of nearly half a billion, should be a more important destination for Moldova's food exports. An improved SPS system, particularly EU-compliant standards for products with clear comparative advantage and export potential, will greatly improve Moldova's access to the EU market. Experiences of other countries in central and Eastern Europe have shown how EU-harmonized standard and technical regulations have boosted agricultural export. For instance, Slovakia and Lithuania both had total agro-food export comparable to that of Moldova in the late 1990s. As a result of their accession to the EU – for which harmonization with the EU Acquis and the upgrading of food safety and SPS management capacity and infrastructure is a centerpiece of transition – their export to the demanding EU market tripled between 1998 and 2004. This caused their total export to more than double during the same period. By contrast, Moldova's total agricultural export grew by 15 percent over the same period and continues to rely heavily on the CIS markets. Its exports to the EU grew by 33 percent between 1998 and 2004 and that to CIS by only 13 percent. It is also worth noting that its export to CEEC declined during this period. Clearly, due to CEEC's adoption of the higher EU standards, their markets are becoming less accessible to Moldova's agricultural products.

*Ensuring Country's Food Security.* Although today food security of the Republic of Moldova is not threatened, being influenced only occasionally by negative factors, however it can be strongly undermined in a relatively short period of time.

De facto, national food security may be ensured, including, via manufacturing of sufficient and nutritive food products for all categories of the population, guaranteeing thus a healthy life and productive work capacity.

In this context, we must take into account: which of imported products groups can be replaced by competitive local production; the export of which agro-food products can

be intensified currently or in future; what kind of assistance is necessary from state's behalf so as to improve quality, increase processing volumes and develop marketing, etc.

At the same time, climate change can affect food security through erosion, drought and floods, resulting thus in a decrease or dramatic drop of agricultural production, including as a result of natural calamities. So, it is necessary to increase the reservoirs system, to rehabilitate the dams in flood risk zones, to have a more efficient irrigation, to implement agro-systems so as to increase resistance to erosions, to improve soil quality, to identify varieties of plants adjusted to Moldova's conditions (high temperatures and low humidity).

*Aligning National Standards to EU ones and Ensuring Food Quality.* At the present moment, the legislative framework regulating the development of agro and food sector for the time being is not adjusted to the European Union's requirements.

The fulfillment of the given goal provides for: revision of legislative-normative framework with abrogation, modification and adoption of respective acts that are not harmonized with the European ones (Guillotine II); development of technical regulations in agro-food field; setting up, equipping, appointing test laboratories for assessing the conformity of food products meant for internal market and export to the European community, as well as their readjustment to European standards and norms; development of national standards for agro-food field based on Codex Alimentarius Commission standards.

*Consumer empowerment through information and education.* The European Union's new strategy concept is determined primarily aiming consumer empowerment, which can be achieved primarily through its information and education.

In recent years a number of actions were carried out mainly related to consumer information and education. As the majority of authorities are empowered by law for consumer protection in their field (in particular the market surveillance) conducted seminars and consultations on matters of consumer rights are in their control. But in this respect it should be noted, however, authorities did not systematize and do not aspire to streamline and maximize the impact of the lack of clear plans in this regard, the lack of stability and tracking performance indicators.

On national level, is important to have a constant source of information in the media especially in the form of a periodical devoted exclusively to consumer protection issues, which have not worked enough for it to occur and be maintained at the appropriate level.

## 6. Conclusions

Moldovan food industry faces a variety of challenges related to accessing the European Union market, regarding productivity, food safety, government regulations, etc. Competitiveness on the home market and the export market is one of the key factors that need to be strengthened. In this order, Moldovan food industry must improve operations and reduce costs while maintaining product safety. Also, must be able to anticipate and adapt to change in order to stay competitive.

We consider that general problem of Moldovan economy is the lack of implementation innovative technologies. Development of the Moldovan food industry is impossible without achieving modernization process in the productive sector. The modernization process of Moldovan food industry needs to be created a model based on the consideration of complex phenomena and changing conditions determined by external and internal environment.

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