

REPUBLIC OF MOLDOVA IN THE ROMANIAN AND EU EXTRA-COMMUNITY AGRI-FOOD TRADE – A COMPARISON

CAMELIA GAVRILESCU¹

¹ *Institute of Agricultural Economics, Romanian Academy, Bucharest, Romania*

Abstract: *For the last 25 years, Republic of Moldova has been among the main agri-food trade partners for Romania. The free trade agreement between Romania and Moldova boosted the trade flows which increased almost continuously since 1995. The agri-food imports from Moldova exceeded Romanian exports, resulting in a continuous trade deficit. Romania's accession to the EU meant the termination of the free trade agreement, and consequently, imports almost halved in 2007-2010. The soon expected Association Agreement between Moldova and the EU will facilitate the penetration of the Moldovan products on the Single Market, and most likely boost again the agri-food exchanges. The present paper is analyzing the recent evolutions of the agrifood trade between EU and particularly Romania on one hand, and Republic of Moldova on the other hand, in terms of value, quantity and product composition.*

Key words: *Romanian agri-food trade, Republic of Moldova, EU, Association Agreement*

INTRODUCTION

Romania's international agri-food trade flows have undergone significant changes over the last decade, moving ever more towards the EU. On the other hand, among the CIS countries, the major agri-food trading partners for Romania have been Republic of Moldova, the Russian Federation and Ukraine. Among them, Moldova has taken a privileged place due to free trade agreement with Romania enforced in 1995.

After accession, due to of the entry into force of the common customs regime, the free trade agreement with Moldova was terminated, and Romanian exports have increased, while imports diminished, but the bilateral trade balance stayed negative.

In the EU exports (2012), Moldova ranks 68, with 283 million EUR (0.2% of total), while in imports, it ranks 56 (EUR 216 million in 2012, that is 0.2% of the total).

MATERIALS AND METHODS

Calculations for this paper were based on the data extracted from Eurostat database, in the Combined Nomenclature, at two-digit level of aggregation (chapters HS 01-24). For the EU and its member countries, in the Eurostat statistical terminology, exports and imports represent trade with non-member countries (extra-EU trade). In order to make accurate international comparisons on time series covering Romania's pre-accession period (2002-2006), this separation was observed for the sake of data consistency. Trade value are analyzed, as well as the composition and ranking of export and import flows by main groups of agri-food products.

RESEARCH RESULTS

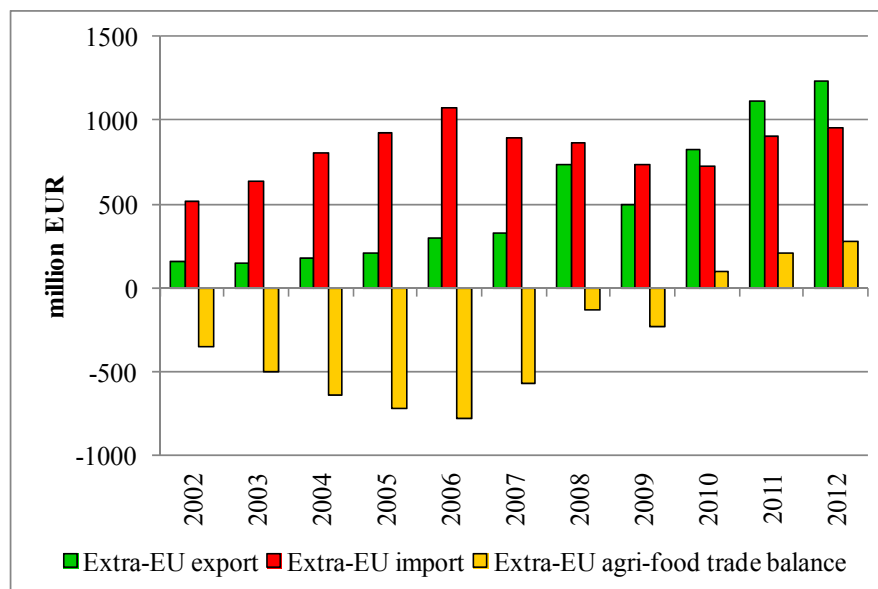
The Romanian agri-food trade with non-EU countries.

The impact of political and economic changes occurred after 1990 in Romania resulted initially, during the transition to a market economy, in a major economic crisis that lasted for almost a decade. Since 2001, the Romanian economy entered an upward trend which continued until the hit of the international economic crisis in 2008.

The elimination of the import bans since 1990, then the partial, and later, the total removal of import and export restrictions, as well as the adoption of a moderate tariff regime after 1997 have allowed for massive access of imported agri-food products on the Romanian markets. Due to the chains fracturing caused by the resettlement on private bases of the entire agri-food system, from agricultural production, continuing with

industrial processing and finishing in trade, the domestic supply could not keep pace with the quantitative and qualitative growth of domestic demand (Mateoc-Sirb et al., 2012), and was no table to face the competition pressure of the imported agri-food products.

After accession, Romanian exports to non-EU countries continued to increase in value, with an inflection point in 2009 due to the influence of the economic crisis (figure 1). The increase was significant: 3.7 times in 2012 as compared to 2007. Imports from outside the EU began to decline gradually after 2007 in favor of those from the EU, according to the principle of Community preference. The downward trend has been present from 2007 to 2009, after which the increase in value of imports resumed.



Source: calculations using Eurostat data

Figure 1 - The Romanian agri-food trade with non-EU countries (2002-2012)

The imports growth rate, however, was lower than that of exports, and as a result, in 2010, the extra-EU agri-food trade balance of Romania became positive, and the trade surplus increased further to EUR 276 million in 2012, with a degree of coverage of imports by exports of 129%.

The EU extra-community agri-food trade.

Over the past two decades, the EU has been the largest player in the global agri-food market (measured by the sum of the exports and imports values). Meanwhile, the EU has shown a permanent deficit of its agri-food trade balance, ranging from 9 to 13% of the total agri-food trade.

Consecutive EU enlargements in 2004 and 2007 from 15 to 25, then to 27 Member States had a significant impact on overall EU trade. It is yet premature to speak of an impact of the last enlargement (to EU-28), is far too early to be evaluated.

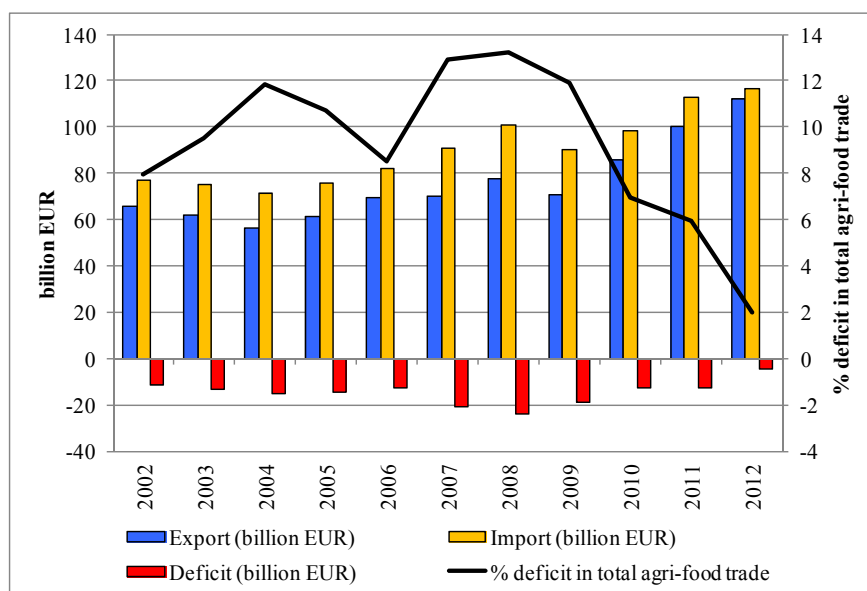
Although in absolute terms the EU agri-food international trade has increased, its share in the world markets declined due to several contradictory trends:

- When a new Member State (NMS) is joining the EU, the international trade of that state is separated into intra-Community trade (basically, trade with other Member States

(MS)), and extra-EU trade (trade with third countries). Consequently, the total extra-EU trade is reduced by the value of EU-NMS trade, and is increased by the value of trade between the NMS and third countries.

- Both the old Member States (OMS) and NMS have increased trade volumes in 2004-2007, amid the general period of economic expansion in Europe.
- NMS added the value of their trade with non-EU countries to the overall volume of extra-Community trade.
- The continuous increasing trend in exports and imports after 2001 has temporarily reversed in 2008-2009 due to the financial turmoil in late 2008 and the economic crisis that followed.

After the two rounds of enlargement, the extra-EU trade (both exports and imports) increased immediately (figure 2). The same thing happened with the total agri-food trade deficit of the EU, as the cumulative extra-EU trade balances of the 10 then 12 NMS were negative.



Source: calculations using Eurostat data

Figure 2 - The EU agri-food trade with non-EU countries in the decade of the 2004 and 2007 enlargements

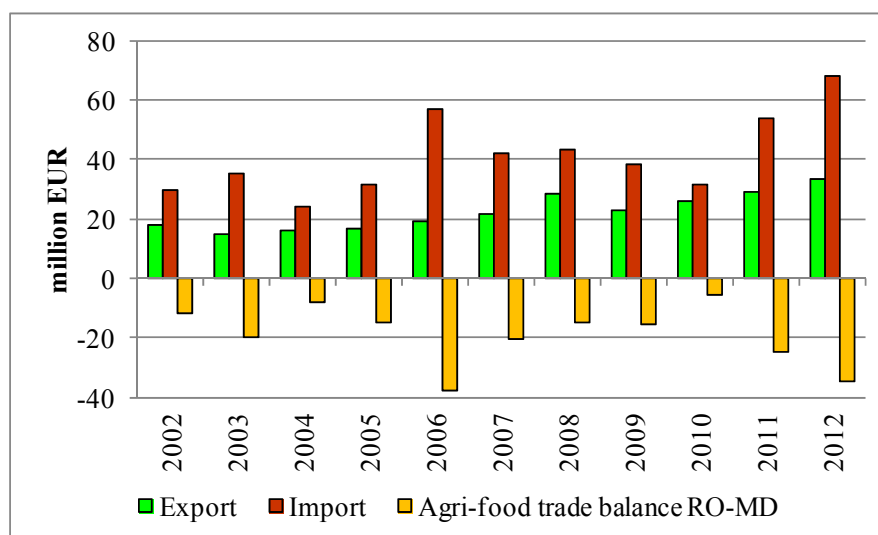
The economic crisis has shown its effects on the agri-food trade as late as 2009, by a contraction in both exports (-8.5%) and imports (-11.1%), as compared to the previous year. Since 2010, the upward trend of the trade flows resumed, and in 2011 a new peak was reached: a total agri-food trade value of EUR 212 billion, of which EUR 100 billion exports and EUR 112 billion imports. The trade deficit, which had reached a maximum of EUR 24 billion in 2008 (before the crisis) has decreased significantly due to higher growth rates of exports than of imports. The increase in imports in 2010-2012 was 18.1%, while the export growth rate was almost double (30.5%). Consequently, the agri-food trade deficit decreased 5 times: from EUR 23.7 billion (in 2007) down to EUR 4.5 billion in 2012, so that the deficit in total trade (exports + imports) fell from 13.2% in 2008 to 2.0% in 2012.

Generally, one can say that the two EU enlargements in 2004 and 2007 had an overall positive effect on the agri-food exports, imports and trade balance of the EU.

The increase in the value of exports was mainly the result of a significantly higher volume of products sold, and much less the result of price changes.

The agri-food trade of Romania and EU with the Republic of Moldova.

The Republic of Moldova was, from Romania's point of view, a privileged trading partner, and that was strengthened by the free trade agreement entered into force in 1995. Its application has stimulated trade, including in the agricultural and food sector. The exchange of goods have increased over time, in both value and quantity. Thus, in 1998-2008 exports increased 4.7 times (from EUR 6 to 28 million) and imports, after a phase of decline from EUR 35 to 18 million in 1998-2001, resumed the upward trend, reaching, during the pre-accession period, a maximum of EUR 57 million in 2006 (figure 3).



Source: calculations using Eurostat data

Figure 3 - Romanian agri-food trade with Republic of Moldova (2002-2012)

Romania's EU accession has brought changes in the customs regime with Moldova, from the free trade agreement (signed in 1995) to the status of non-EU country. This resulted in immediate decrease of agri-food imports from Moldova by 25% in 2007, along with an increase in exports. Exports have maintained their upward trend in the post-accession period, reaching a historic high in 2012 (EUR 33 million). The economic crisis has had a negative impact on Romanian imports from all non-EU trading partners, they fell by 17% between 2008 and 2010, but the imports from Moldova were more severely affected (-27%).

After overcoming the most difficult phase of the crisis, imports resumed their upward trend, this time at a very fast pace; so in 2012 they were over twice as high as those in the worst year of the crisis (+115% as compared to 2010).

As a result of these fluctuating evolutions, the Romanian agri-food trade balance with Moldova had also evolved in a zigzag pattern, though remaining permanently negative, with values ranging from the peak in 2006 (EUR -38 million), down to a minimum in the hardest year of crisis (EUR -5 million in 2010) and then climbing steeply in 2012 to a value (EUR -35 million) close to the historical peak.

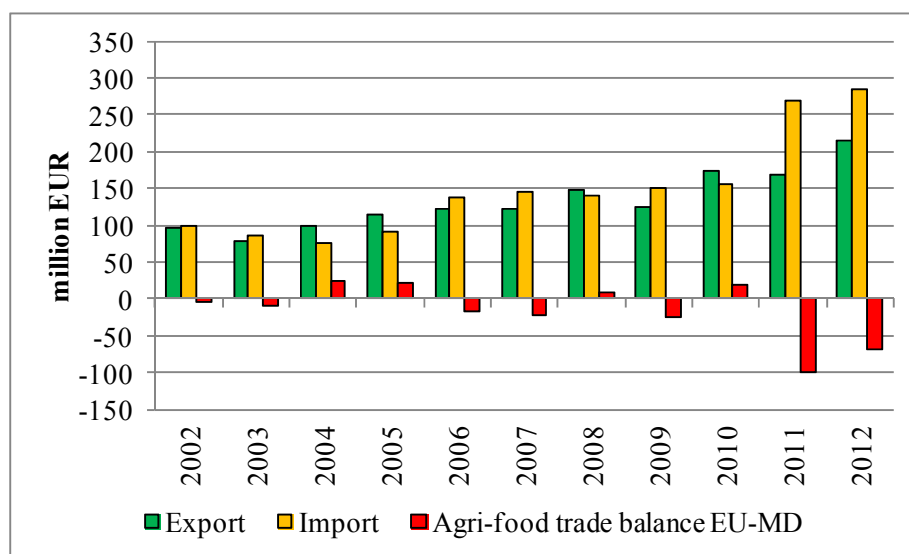
The position of Romania in the Moldovan agri-food trade is quite important; exports to Romania took 8.9% of total exports, while imports from Romania amounted 6.4% of total imports (2002-2012 averages).

After 1997, Moldova managed to expand its agri-food trade with more EU countries. As a result, Romania's share in the Moldovan exports to the EU declined from 31% to

23% in 2007-2012, while the share in the Moldovan imports from EU declined as well, from 19% to 10% in the same period.

The product composition of exports and imports in 2012 is shown in table 1. It is noted that the top 5 export products (food preparations, beverages, milk and dairy products, bakery products, and oilseeds) represent about 45% of the total exports, while the top 5 imported products (oilseeds, fats and oils, sugar, bakery products and beverages – mainly wine) are concentrating 81-87% of the total import value, denoting a very narrow product range.

The trade between the EU and Moldova had a generally upward trend (with an inflection point in 2009 due to the economic crisis) (figure 4). Exports have doubled from 2005 to 2012, while the trend in imports had a higher growth rate, especially in 2011-2012.



Source: calculations using Eurostat data

Figure 4 - EU agri-food trade with Republic of Moldova (2002-2012)

The real leap in imports occurred in 2011, when they increased by 74% over the previous year. The upward trend continued in 2012 as well, when the value of imports tripled as compared to 2005. During the period 2002-2010, trade was relatively balanced, with low balance values, below 10% of the total trade. Balance was alternately negative and positive, without showing any clear trend (Gavrilescu, 2012).

The significant increases in imports in 2011-2012 unbalanced abruptly the trade balance, and the deficit increased 5.2 times over a year time (2011/2010). In 2012, the trade balance was again severely negative, although the deficit was slightly reduced.

The trade agreement between Moldova and the EU, drafted at the end of November 2013 creates the potential for greater access of Moldovan agri-food products on the Single Market. Yet, access will not be easy, due to the severe quality, hygiene and veterinary EU requirements for all products entering and / or circulating on the Single Market.

A first step has been made in 2014: since January 1, the Moldovan wines gained free access on the Single Market. This measure came as a form of support for the Moldovan wine producers, three months after the ban imposed by the Russian Federation on the wine and spirits imports from Moldova.

It is equally important, because, for Moldova, EU is a major export destination, averaging 30% in 2002-2012, as well as a major source for imports (34% in average for 2002-2012).

The product composition of the trade between the EU and Moldova in 2012 is shown in Table 1.

Table 1

Composition of the Romanian and EU agri-food trade flows with Republic of Moldova (2012)

Trade flows Romania – Republic of Moldova				Trade flows EU – Republic of Moldova			
HS code	Product group	Value (1000 EUR)	% of the total value of exports/ imports	HS code	Product group	Value (1000 EUR)	% of the total value of exports/ imports
Exports							
21	Miscellaneous edible preparations	3.355,4	10,1	08	Fruits	28.608,6	13,2
22	Beverages, spirits and vinegar	3.264,7	9,8	22	Beverages, spirits and vinegar	26.409,6	12,2
04	Milk and dairy products; eggs; honey	3.144,4	9,5	02	Meat and edible offal	18.735,5	8,7
19	Bakery and pastry products	2.562,9	7,7	12	Oilseeds	14.923,6	6,9
12	Oilseeds	2.407,1	7,3	21	Miscellaneous edible preparations	14.390,9	6,7
Imports							
12	Oilseeds	21.035,9	31,0	15	Animal or vegetable fats and oils	65.402,3	23,0
15	Animal or vegetable fats and oils	14.043,9	20,7	08	Fruits	57.499,2	20,3
17	Sugars and sugar confectionery	13.713,3	20,2	12	Oilseeds	47.554,2	16,8
19	Bakery and pastry products	6.826,2	10,1	20	Canned fruit and vegetables	26.399,0	9,3
22	Beverages, spirits and vinegar	3.607,5	5,3	17	Sugars and sugar confectionery	23.143,2	8,2

Source: calculations using Eurostat data

The top 5 export products (fruits, beverages, meat, oilseeds and food preparations) is accounting for about 45% of the total exports, while in the EU imports from Moldova the range of products is far less diversified: the first 5 groups of imported products (oils and fats, fruits, oilseeds, vegetables, fruit preparations and sugar) are cumulating 75% of the total imports.

CONCLUSIONS

Romania's EU accession has significantly boosted the country's agri-food trade, despite a brief period of decline (2009-2010) due to the international economic crisis.

After accession, Romanian exports to non-EU countries continued to increase significantly: 3.7 times in 2012 as compared to 2007). The imports growth rate, however, was lower than that of exports, and as a result, in 2010, the extra-EU agri-food trade balance of Romania became positive, for the very first time after 1989.

The Republic of Moldova was, from Romania's point of view, a privileged trading partner, and that was strengthened by the free trade agreement entered into force in 1995, which was subsequently terminated in 2007, due to of the entry into force of the common customs regime. Accession partly modified the previous general trends of the agri-food

trade with Moldova by increasing exports and reducing imports, but the bilateral trade balance stayed negative. The product composition of the export flows (top 5 products are accounting for less than half of the total exports) indicates a wide product range, sold on pre-existing markets. Imports of sugar is a constant fact for more than a decade, and the opportunities in the international market caused significant imports of sunflower seeds and crude oil (51% of total imports in 2011).

The position of Romania in the Moldovan agri-food trade is quite important; exports to Romania took 8.9% of total exports, and 27.7% of the exports to the EU, while imports from Romania amounted 6.4% of total imports and 14.8% of the imports from EU (2002-2012 averages).

Republic of Moldova has not been among the favorite destinations of the EU exports, since it was ranking 68 in 2012, neither among major origin for the EU imports (ranked 56 in 2012). Yet, the agri-food trade value between the EU and Moldova has expanded significantly in the last two years, and the trade balance deficit increased 5.2 times in just one year (2011/2010); oils, fruits and oilseeds accounted for 60% of the imports (2012).

The expected trade agreement between Moldova and the EU, part of the Association Agreement, will facilitate a greater access of Moldovan agri-food products on the Single Market. This is extremely important, since the share of the EU in the total Moldovan agri-food exports has been 30%, respectively 34% in imports (2002-2012 averages). It is a good opportunity to support the Moldovan producers, because lately, for political reasons, the Russian Federation is increasingly blocking the access on the CSI markets, which have been traditionally the largest destinations for the Moldovan agri-food products.

In the future, it would be desirable for Romania to intensify and diversify its trade with Moldova, taking into account the opportunities, as well as the advantage of geographical proximity.

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