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The DCFTA between Moldova and the EU – A Risk Assessment

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The DCFTA between Moldova and the EU – A Risk Assessment

Executive Summary

There is widespread evidence that free trade agreements in general are beneficial in the long-term. The Deep and Comprehensive Free Trade Agreement (DCFTA) currently negotiated between Moldova and the European Union is no exception here and there is little doubt that the agreement will be positive for all sides involved. Indeed, recent studies on the economic effects suggest that Moldova's economy could grow by up to 6% when the benefits have fully materialised.

However, this does not mean that the agreement will be without risk and there will be adjustment cost. The resulting changes could require write-offs for those companies faced with falling demand, it may mean unemployment or retraining for some workers and will cause a shift in tax revenues for the government. With that in mind, the government needs to have a good understanding which products and sectors will be significantly affected and where the resulting changes could pose risk to the domestic economy or its public finances. That way it can actively manage the risks and minimise any potential adjustment costs.

We find that the initial increase in imports arising from removing tariffs on European products will be only a modest 2.2% and should cause little concern. Indeed, with 3.5% the average tariff rate on European goods is quite low already. However, goods like sugar, meat, textiles and apparel as well as fruit and vegetables still feature double digit tariff rates and are thus likely to see larger adjustments when trade barriers are removed. For example, we expect carpet imports to increase by 22%, furs by 17% and textiles and sugar both by around 13%. The highest increase in absolute terms will be for electronic equipment with a USD 6 m increase reflecting that these products already account for a large chunk of Moldova's imports from Europe.

These import increases should be only of some concern if two conditions are met: (i) the value of the expected import increase is significant compared to the size of the industry and (ii) the industry in question has a major contribution to Moldova's economy – as this may mean high adjustment costs through unemployment and retraining. Our analysis suggests that most industries of national importance are likely to easily weather the increase in foreign competition since the import increase is only marginal when compared with the size of the industry. However, producers of leather products, textiles and bricks and tiles may see an increase in imports that is significant compared to their production value. Given the size of those sectors a more detailed assessment may be warranted here.

Finally, there is the issue of government finances for which tariff income makes a considerable contribution. With estimated revenues of USD 83 m from imports on European goods, abolishing them overnight may put some strain on public finances. While the overall impact on the government budget is expected to be positive, it will take time for new income sources (such as VAT or income tax) to materialise while the tariff income would disappear almost instantly.

Overall our analysis suggests that removing tariffs on EU imports will only see a modest increase in imports. As such there are only few instances imaginable where trade liberalisation should be delayed. In those cases the government should assess thoroughly if the expected adjustment costs justify the foregone benefits from trade liberalisation.

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1 Introduction

The Republic of Moldova and the European Union are in the process of negotiating a Deep and Comprehensive Free Trade Agreement (DCFTA). Naturally, an important aspect of this agreement will be reducing and abolishing the remaining import tariffs. However, being a deep and comprehensive trade agreement, the negotiations will also attempt to remove non-tariff trade barriers and accelerate harmonisation of regulations in additional selected areas, such as specific service sectors, energy, and competition policy.

The economic impact of such an agreement will be significant. After all, exports to the European Union reached USD 1.08 bn in 2011 – accounting for almost half of Moldova’s total exports. At the same time products worth USD 2.2 bn were imported from the European Union in 2011 – 44% of Moldova’s total imports (NBS 2012).

1.1 Steps involved in the risk assessment

Research suggests that the impact is largely positive for all stakeholders - private households, companies and the government’s finances. However, there will be winners and losers and it is important for policy makers to understand which areas are affected in order to be able to ease the adjustment process where required.

To provide a basis for such a risk assessment we have carried out the first steps that should be part of assessing the risks connected to removing import tariffs on European Union imports.

- 1) **Which products are disproportionately affected?** (Section 2.2)
- 2) **Is the increase in imports significant** compared to the size of the affected industry? (see section 2.3 of this report)
- 3) **Have the products affected economic relevance?** Specifically, do the sectors provide a significant share of output? Consequently, would a decrease in economic activity lead to high adjustment costs through, for example, unemployment or loss in economic output? (also covered in section 2.3)
- 4) **What is the fiscal impact?** What would it mean for tax and tariff income? (see section 2.4)

While not covered in this report, a suitable risk assessment should then go on to ask if the sector or product is likely to ever become competitive. Finally, policy makers need to be aware that import tariffs have high costs as they increase the prices for the goods and services affected by them. Consequently, the risk assessment should involve the following additional questions:

- 5) **How competitive is the affected product or industry?** Is the sector or product in question already subject to intensive competition or is it shielded from effective competition?
- 6) **Is there a prospect for competitiveness in the future?** What are the chances that the industry will use the any transition periods to improve competitiveness?
- 7) **What are the costs for consumers and businesses of delaying trade liberalisation?**

1.2 Interpreting the results

The results presented here are based on a simulation run with the online tariff policy simulation tool *SMART* provided by the World Bank (WITS 2012). *SMART* employs a Partial Equilibrium Model to estimate the impact from tariff changes on trade flows, tariff revenues, welfare, etc. Being based on the extensive TRAINS database it offers a wealth of data that allows analysing the impact on specific products¹. However, as a partial equilibrium model – unlike Computable General Equilibrium Models (CGEs) – the simulation tool is not able to simulate the more long-term second round effects that are likely to materialise from such a trade agreement. For example, it does not consider that lower prices will lead to higher disposable income among Moldovans which will partly be used to buy more domestic and foreign products. As such, the results presented here will very likely underestimate the full impact from the trade agreement. Nevertheless the detailed breakdown of the results is indispensable when identifying how specific industries and products are affected.

Our simulation does only consider the effects of removing import tariffs. We do not estimate the impact of any other non-tariff measure – such as aligning standards, liberalising the services sector or competition policy. In our scenario we model a full reduction of all import tariffs on imports from the European Union and Turkey – as a free trade agreement with the latter is a pre-condition for a DCFTA between Moldova and the EU (Prohnitchi 2012).

As with any other economic model, the *SMART* model greatly simplifies the way the economy works. Furthermore, the speed and extend to which people react is based on historic relationships which may not be equally true for the future. The way consumers and companies will react to changed prices is determined by various factors. With that in mind, the results need to be treated with some caution. They can only be a first indication of areas where impacts are likely to happen. Nevertheless, the simulation result will be an indispensable guide when assessing the risks connected to abolishing tariffs in EU imports.

¹ For example, the database produced for this report contained almost 5000 different product categories.

2 The impact from removing tariffs for EU imports

Clearly, removing tariffs on imports from Europe (and Turkey) will lead to increased demand for those products. In this section of the report we identify which products will be mainly affected from removing import tariffs on European products. However, to begin with it is useful to look at some of the research about the full economic impact of a DCFTA between Moldova and the EU. Indeed, as our analysis considers only the short term impact from removing tariffs² and does not look at the impact from removing other trade barriers, it is useful to see what the overall long-term impact from the DCFTA will be.

2.1 Summary of top-level results

The standard instruments to estimate the long-term dynamic impact of trade agreements are computable general equilibrium models (CGE). With Prohntchi (2012) and ECORYS (2012) two relevant and insightful studies exist which employ CGE modelling to explore the overall impact of the DCFTA on Moldova's economy. Both find that the DCFTA will be beneficial and will add between 5.4 and 6.4% to Moldova's GDP – the equivalent of one year solid economic growth.

Exports are expected to increase by 11–16% while imports are estimated to see an increase in the range of 6-8%. Consequently, both pieces of research expect exports to grow more than imports – at least in relative terms. Prohntchi (2012) expects the government to benefit as its revenues increase by around 1.6% as additional VAT, corporate and income tax revenues compensate for the losses in tariff revenues. What is more, both studies suggest that the agreement will be beneficial for private households as they benefit from lower consumer prices as well as increase wage income. The resulting increase in disposable incomes will see private consumption increasing by 7.8% (Prohntchi 2012).

While the overall impact of the trade agreement is likely to be beneficial for Moldova, it will not be without pain. Indeed, the ECORYS (2012) study suggests that most of the economic benefits will not arise from reducing the actual tariffs but from removing non-tariff measures, aligning regulation and standards and opening up of the services sector.

Furthermore, it will take time for the benefits to materialise. Industries that have previously been shielded from competing foreign products through high import tariffs or other trade barriers will face increased competition – which may force some inefficient companies out of the market. If everything goes well though, and according to economic theory, capital and labour will be employed in those sectors that will expand following the trade liberalisation. However, there will be costs resulting from this adjustment in the shape of write-offs of machinery and equipment for company owners; unemployment and retraining for workers as well as shifting tax revenues and social welfare expenditures for the government (Santiago Fernandez de Cordoba 2008).

Therefore, while the long-run gains from trade agreements are widely considered to be positive, it is important to understand which sectors, products and economic actors are affected so the government can take the right steps to minimise the adjustment costs.

² As a reminder, the SMART Simulation Tool only considers the direct impact from removing tariffs as opposed to any effects resulting from removing non-tariff barriers or second round effects.

2.2 Impact on demand for imports

In this chapter we look at how the reduction in tariffs on imports from the European Union (and Turkey) would affect the demand for products from this region. Naturally, lowering the tariffs on imports from Europe would lead to an increase in demand for these products. We estimate that, based on a simulation run with the *SMART* tariff change simulation tool, the removal of all tariffs with the European Union and Turkey would lead to an initial increase in the value of imports of around USD 76 m per year – a 2.2% increase compared to value of all imports in 2010.

As such, the overall increase in imports is only modest. However, it is important to note that this only reflects the impact from removing tariffs. As research by Prohntchi (2012) and ECORYS (2012) indicate, the overall and long-term impact from a DCFTA on import demand will be larger as non-tariff barriers would increase import demand further. In addition, second round effects such as income increases and changes in companies' inputs would also increase the demand for European imports further. As such the 2.2% increase is more likely to be indicative of the initial impact from removing tariffs on imports.

The headline increase also masks the considerable differences among some imported products. While the average weighted tariff rate was only 3.5% in 2010 some products are heavily taxed when crossing the border. For example, the tariff on sugar imports is 30%, tariffs on meat imports are generally above 15%, as are tariffs on most fruits and vegetables. The domestic textile industry is also heavily protected from outside competition. Table 1 provides examples of some of the products with the highest import tariffs.

Table 1

Top 20 tariff items in 2010

	Product area	Average tariff³
1	Cane sugar	30
2	Beet sugar	25
3	Hams and cuts thereof	20
4	Shoulders and cuts thereof	20
5	Pears	20
6	Other textile materials	20
7	Tomatoes, whole or in pieces	20
8	Pineapples	20
9	Citrus fruit	20
10	Other	19
11	Turkeys	18
12	Peas	17
13	Peaches, including nectarines	16
14	Carpets and other textile floor coverings	16
15	Other live animals	15
16	Animal fats	15

³ Add valorem in 2010, please note that the tariff rate charged may have changed for some of the items as tariffs, especially for agricultural products, are adjusted on a regular basis.

17	Meat and edible meat offal	15
18	Natural honey	15
19	Cut flowers	15
20	Lettuce and chicory	15

Source: UNCTAD - TRAINS (2012)

Regardless the motivation behind the tariffs, a high tariff level suggests that removing this trade barrier will reduce the prices for imports which will be visible in a demand increase.

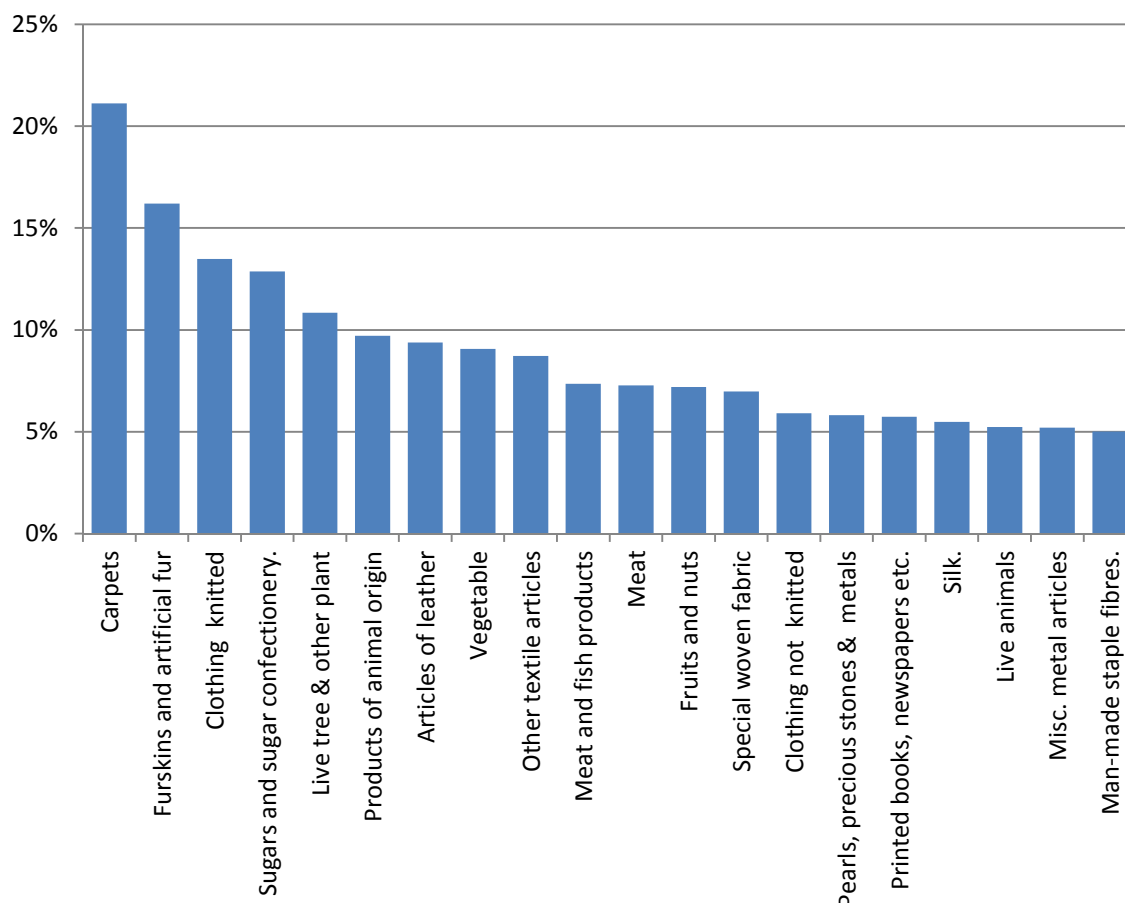
How much demand increases does not depend on the tariff level alone. It also depends on how sensitively consumers react to price changes. This is usually expressed by the so-called import demand elasticity. Products with high import demand elasticity are likely to see consumers shift demand quickly to competing imports when tariffs are reduced. This is for example the case for fruits and vegetables – for which demand increases by two per cent for each one per cent price drop. Other sensitive products are knitted and woven fabrics and pharmaceutical products. Beverages and spirits, perfumes and metals are usually less sensitive to price changes.

Together the actual tariff change and the import demand elasticity determine how much a product will react to reducing or abolishing tariffs. To determine which products and sectors are particularly affected it makes sense to look first at products which will see the highest import growth following trade liberalisation.

Figure 1 shows the results for the product categories where we expect the largest changes. The simulation results suggest that imports of carpets are expected to increase by 21% compared to 2010 levels – not surprising given that imported carpets and other floor coverings are currently subject to an average tariff rate of 12.6%. Similarly we expect imports of furs and clothing to increase by 16% and 13% respectively.

Figure 1

Relative change of import demand following tariff reduction



Source: Own analysis based on WITS (2012)

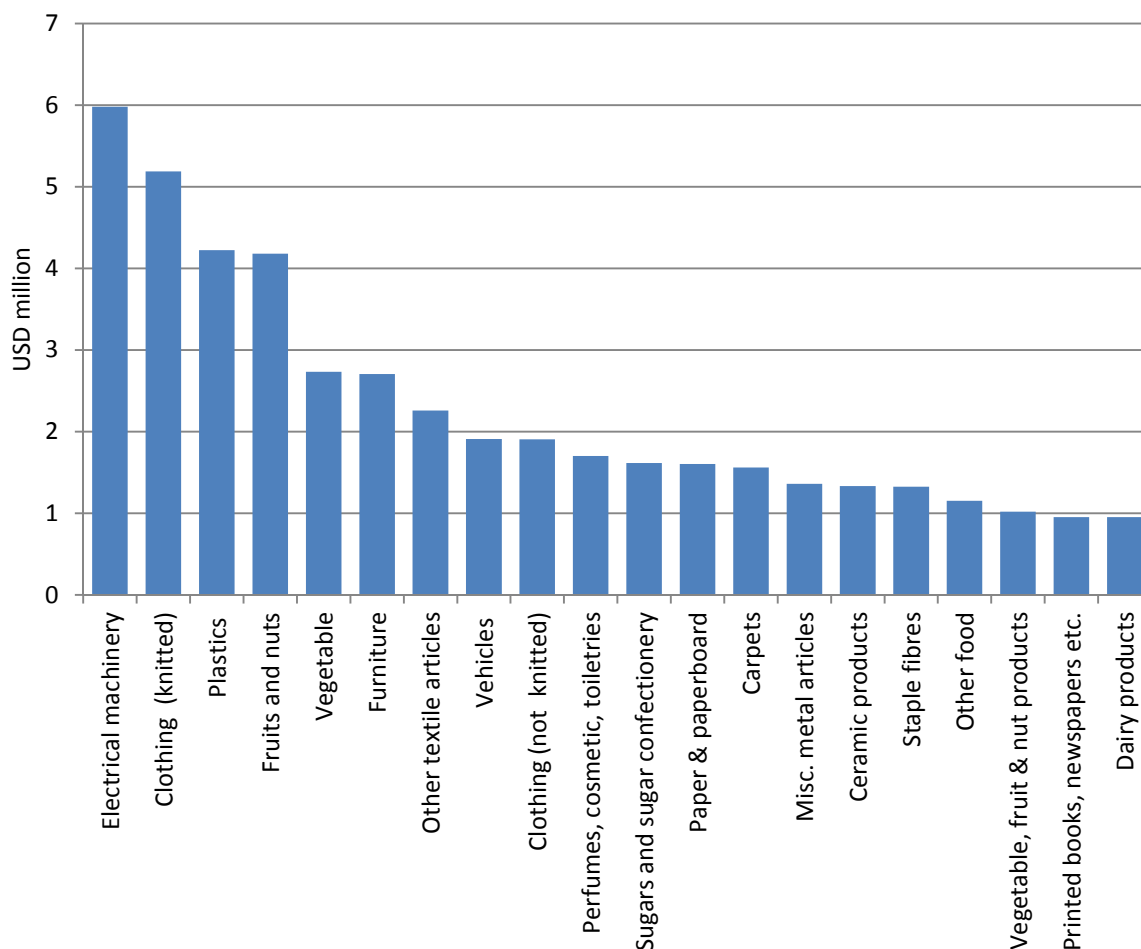
In addition to the relative increase it makes sense to consider which areas will experience the largest absolute increase in imports - that is, which products will see the highest trade increase in USD terms.

Figure 2 shows the product categories for which our simulation suggests the largest increases in the value of imports. The numbers suggests that electrical equipment will see a large absolute increase in imports of around USD 6 m if tariffs were abolished here. However, this reflects rather the fact that electrical machinery and equipment constitutes a large share (almost 10%) of Moldova's imports. In relative terms Moldova's demand for imported electrical products from Europe will only increase by 2%. The second largest absolute increase in imports is expected for imports of knitted clothing which are estimated to grow by USD 5.2 m.

A closer examination shows that several textile products are among the products affected by the simulated tariffs reduction. Indeed, taken together clothing, textiles and fibres will see an increase in the value of imports of USD 10.6 m - making it the product groups affected the most by the tariff reduction.

Figure 2

Absolute import change by product category



Source: Own analysis based on WITS (2012)

To sum up, while the initial increase in imports is only modest, it masks the fact that some areas will see a considerable increase in import demand. This reflects large differences in the tariff regime across product groups. The question for policy makers is if the expected change in imports poses a risk for the domestic producers and how it affects consumers or public finances.

2.3 Identifying risk areas for the domestic economy

Protecting domestic industries from international competition through high import tariffs is counterproductive and has often high costs for consumers who need to pay more and have less choice. This is especially true since Moldova is competitive in most areas that are currently protected through high import tariffs.

However, for those sectors which are currently heavily protected and also contribute significantly to economic output a too swift removal of imports may come at high adjustment costs. Consequently, it is important to understand which industries are chiefly affected through trade liberalisation and to what degree competition through imported products would affect them.

Specifically, one could argue that an industry is likely to be overwhelmed with foreign competition if the value of increased imports is large compared to the value of domestic

production. To get some indication where this may be the case, we compared the expected increase in imports with the production value of different sectors. As the results in Table 2 below suggest manufacturers of soap, detergents and cleaning products may face an inflow of foreign products worth almost 75% of their production value – the third column shows the ratio between the increase in imports and the production value of the industry in question. We have ranked the result starting with those sectors where the inflow of imports is large compared to the value of goods produced in the industry.

Table 2

How will imports affect domestic industries?

Industry name	Production value (USD m)	Expected increase in imports (USD m)	Ratio import increase/output	Economic contribution of the sector
Manufacture of soap, detergents, cleaning products	3.3	2.4	75%	0.1%
Manufacture of leather, leather products and manufacture of footwear	26.6	13.8	52%	0.7%
Manufacture of textiles	43.9	6.0	14%	1.1%
Manufacture of tiles and bricks in baked clay	10.5	1.3	13%	0.3%
Manufacture of wearing apparel; dressing and dyeing of furs	73.7	7.1	10%	1.9%
Manufacture of paper and paperboard	25.4	1.6	6%	0.6%
Manufacture of rubber and plastic products	75.7	4.8	6%	1.9%
Manufacture of machinery and equipment	40.2	1.9	5%	1.0%
Manufacture of fabricated metal products, except machinery and equipment	45.1	2.0	4%	1.1%
Publishing, printing and reproduction of informational materials	49.5	1.0	2%	1.3%
Manufacture of sugar	84.6	1.6	2%	2.2%
Chemical industry	60.7	1.1	2%	1.5%
Metallurgical industry	19.3	0.3	2%	0.5%
Production, processing and preserving of meat and meat products	117.9	2.0	2%	3.0%
Manufacture of tobacco products	54.8	0.8	1%	1.4%
Manufacture of products of flour-milling industry, of starches and starch products	12.2	0.2	1%	0.3%
Processing and preserving of fruits and vegetables	83.4	1.0	1%	2.1%
Fruits and nuts	394	4.2	1%	10.0%
Manufacture of glass and glass products	60.1	0.6	1%	1.5%
Manufacture of dairy products	99.9	1.0	1%	2.5%
Vegetable	312	2.7	1%	8.0%
Manufacture of bread and pastry products	89.2	0.7	1%	2.3%

Manufacture of articles of concrete, gypsum and cement	79.0	0.6	1%	2.0%
Manufacture of cocoa, chocolate and sugar confectionery	38.5	0.3	1%	1.0%
Malt; starches; inulin; wheat	163	0.3	0%	4.2%
Oil seed and fruits	293	0.4	0%	7.5%
Live animals	811	0.4	0%	20.7%
Manufacture of wood and wood products	12.4	0.0	0%	0.3%
Cereals	501	0.1	0%	12.8%
Manufacture of medicaments and pharmaceutical products	27.3	0.0	0%	0.7%
Manufacture of other non-metallic mineral products	195.6	0.0	0%	5.0%

Source: Own analysis based on WITS (2012), NBS (2012), FAOSTAT (2012)

However, that in itself is not a reason to delay tariff adjustments. High tariffs on imports mean additional cost to Moldovan consumers and companies as it increases the cost for the product in question. Also, it stops companies from improving their competitiveness. There is little sense in having consumers paying high prices in order to protect the interest of a few company owners.

The additional cost of higher prices and less choice may only be warranted – if at all – if the industry in question is contributing significantly to the domestic economy. For example, a closer look at the data for soap, detergent and cleaning products manufacturers – the first entry in Table 2 - suggest that this is not the case. The share of output compared to the value of goods produced in the rest of the economy is only 0.1%. Consequently, tariffs are currently causing large additional cost through higher prices for every day products like soaps and washing powders while protecting the interest of a small industry.

Despite producers of soaps and other cleaning products only manufacturers of leather products, manufacturers of textiles and producers of tiles and brick are likely to see a significant increase in foreign competition. While these sectors are not large taken together they have a significant economic contribution. Furthermore, textiles and apparel producers are also traditionally labour intensive industries. For those industries a broader risk assessment which takes into account how competitive these industries are and if their main market is domestic or international would help assessing if a gradual tariff adjustment is needed.

Overall, despite those industries mentioned above, our analysis suggests that none of the large sectors (for example agricultural products such as live animals, fruits and nuts, cereals) will see a significant increase in imports that would have a lasting effect on their domestic market shares.

2.4 Impact on government finances

Tariff income is an important source of revenue for the Moldovan government generating income of around USD 133 m in 2010 (UNCTAD - TRAINS 2012)⁴. Tariffs on imports from

⁴ Depending on the source used there are considerable discrepancies in how much revenue was generated from custom import duties. While UNCTAD estimates that tariff revenues were USD 133 m in 2010, government

the EU and Turkey amounted to about USD 83 m in 2010 – over 60% of total tariff revenues. As such, a full removal of all tariffs is likely to have a significant impact on government finances. Overall revenues from import tariffs account for around 6% of government receipts – if the UNCTAD figures are considered.

Naturally, the estimated USD 83 m in revenues from tariffs on EU (and Turkish) imports will disappear once a Deep and Comprehensive Free Trade Agreement is fully implemented. Consequently, the Moldovan government will have to find ways to plug this revenues gap.

It is likely though, that the loss in government revenues will be only temporary. Indeed, both Prohnitchi (2012) and ECORYS (2012) estimate that the overall, long-term impact from a DCFTA on government finances will be positive. Nevertheless, the Moldovan government may face a liquidity problem with import tariffs disappearing overnight while increases in value added tax and receipts from income tax will take time to materialise. Therefore it is worthwhile to understand which areas will account for the largest losses in import tariff revenues.

Table 3 shows that the top 20 items account for two thirds of the expected revenue loss. While electrical machinery and equipment will account for the largest single loss of around USD 4.2 m, the data suggest that the revenue losses are spread out evenly on a number of products areas. Consequently, there is no single product category that accounts for a large share of the losses.

Table 3

Top 20 Products most affected from tariff revenue loss

Nº	Products	Loss in tariff revenues (USD m)	Share of revenue loss	Cumulated share
1	Electrical machinery	4.24	7%	7%
2	Plastics	4.15	6%	13%
3	Fruits and nuts	4.02	6%	19%
4	Vegetable	2.86	4%	23%
5	Furniture	2.63	4%	27%
6	Vehicles	2.43	4%	31%
7	Paper & paperboard	2.36	4%	35%
8	Clothing knitted	2.11	3%	38%
9	Tobacco	1.78	3%	41%
10	Other food	1.69	3%	43%
11	Clothing not knitted	1.68	3%	46%
12	Ceramic products	1.65	3%	48%
13	Bread, pastry	1.58	2%	51%

statistics only show around USD 86 m. This may be due to UNCTAD estimating theoretical revenues based on reported imports and applicable tariff rates while government statistics show the actual amount collected. Although we use the UNCTAD numbers, the finding here are equally true – although somewhat different in order of magnitude – if they were based on actual tax receipts.

14	Perfumes, cosmetic/toiletries	1.57	2%	53%
15	Other textile articles	1.55	2%	56%
16	Soap, cleaning utensils	1.39	2%	58%
17	Rubber	1.36	2%	60%
18	Sugars and sugar confectionery.	1.25	2%	62%
19	Misc. chemical products	1.22	2%	64%
20	Dairy products	1.11	2%	65%

Source: Own analysis based on WITS (2012)

Naturally, the main share of tariff income is generated from products which are already traded intensively with its European partners and have comparatively low tariff rates. With this in mind a gradual adjustment could be justified given the already low tariff rates and would reduce the risk of liquidity problems.

3 Recommendations

There is no doubt that the DCFTA between Moldova and the European Union will be beneficial for Moldova and result in higher incomes, lower prices, increased trade and more prosperity. As such the Moldovan government is well advised to lead constructive negotiations to come to a comprehensive free trade agreement with the EU.

However, there are risks for the domestic economy which need to be assessed and managed so they do not turn into costs. Specifically, the government needs to understand which products and sectors will be disproportionately affected from removing imports tariffs on EU goods. While we find that the short-term increase in imported goods from the EU is only a modest 2.2%, there are some sectors that will see a significant increase. Indeed, although the average tariff rate is only 3.5% - there are some products that are taxed with double digit import rates.

Naturally, those are the candidates that will see the largest increase in imports if tariffs for EU products are abolished. We find that upon removal of tariffs, carpets, clothing and textiles will see a significant increase in import demand in relative and absolute terms.

So the assessment should identify if the competing imports are likely to force out domestic suppliers. A good indicator here is if the import increase would be large compared to the economic size of industry.

Secondly, there is the question if the industry affected is large enough to have serious knock-on effects for the economy. The larger the sector affected the larger the adjustment costs through unemployment, write-offs, etc. Our analysis suggests that manufacturers of leather products, textiles, wearing apparel as well as producers of tiles and bricks may see significant increase in competition. Additionally, some selected agricultural products may see a substantial increase in imports. As these sectors also account for larger shares of economic output a more thorough assessment is recommended.

Furthermore, the assessment should consider if the sector or product in question is already subject to intensive competition. In some cases removing tariffs may only remove monopoly rents of industries that have faced very little competition in the past.

In this context, there is the question if the products in question can ever be produced competitively in Moldova. Indeed, it makes only sense to grant transition periods to those industries that are likely to use the additional transition periods to improve productivity and become more competitive. Initial evidence suggests that this is especially relevant for a number of agricultural products. While Moldova has good pre-conditions for agricultural production, productivity in many areas is still much below the EU average. So there may be a case in delaying trade liberalisation and using the transition period to invest in productivity enhancing measures. Given that agricultural products are among those most protected through tariffs a detailed impact assessment should be carried out to guide the DCFTA negotiation process.

However, the government needs to bear in mind that import tariffs are not without costs. They mean higher prices for domestic consumers and producers. Furthermore, import tariffs reduce choice for consumers. So the government needs to ask whose interests it protects by delaying trade liberalisation. Protecting the interest of a few niche producers at the cost of high prices and limited choice for all Moldovan consumers is not a good proposition.

Finally, another factor to consider for the government is how abolishing tariffs will affect its revenues. European imports accounted for USD 83 m in 2010 according to the UNCTAD - TRAINS (2012) database – however actual revenue collected may have been less. Nevertheless, abolishing tariffs altogether opens a temporary gap in government finances. While the overall long-term impact on the public budget is expected to be positive, the government may face a liquidity problem as new sources of revenues take time to materialise. Typically, revenues are earned with products that have a reasonably low tariff rate and are imported already intensively. With tariffs already low for the main tariff earning products, there may be some justification for a gradual reduction in order to reduce the strain on public finances.

Overall, however, our analysis suggests that concerns of high adjustment costs are not justified. Firstly, the initial 2.2% import increase is low compared to fluctuations observed in the recent past – for example the economic slowdown following the credit crunch. It reflects that average tariff rates were low to begin with. Secondly, research suggests that the benefits will outweigh the costs. So, while some sectors that have been heavily protected in the past will experience larger shocks – there are only few instances imaginable where trade liberalisation should be delayed. In those cases the government should assess thoroughly if the expected adjustment costs justify the foregone benefits from trade liberalisation.

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