



DCFTA's Implications for Foreign Trade of the Transnistrian Region

Vadim Gumene

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Abstract

The purpose of this document is to provide a better understanding of the nature and magnitude of the processes taking place in the field of foreign trade of the Transnistrian region following the implementation of the Deep and Comprehensive Free Trade Area (DCFTA). Thus, despite continuing declarations about integrating the Transnistrian region into the economic structures coordinated by the Russian Federation, its exports show deep dependence on the European Union market. Under these circumstances, the extension of the DCFTA to the Transnistrian region was an indispensable process, which besides a number of commercial benefits, in the form of preferential access to the EU market, should also lead to the modernization of the Transnistrian economy, which still features legacies of the Soviet period. Otherwise, non-implementation of the DCFTA in the Transnistrian region could have led to an economic disaster and political failure for the Tiraspol administration. However, in order to succeed in this process, a number of efforts from all the stakeholders are indispensable, calling for consistency, perseverance and flexibility.

Vadim Gumene, Trade Policies and DCFTA Program Director "Expert-Grup."

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Abbreviations

AA	Association Agreement
DCFTA	Deep and Comprehensive Free Trade Area
EU	European Union
ATP	Autonomous Trade Preferences
MFN	Most Favored Nation Clause
HS	Harmonized Commodity Description and Coding Systems
GSP	Generalised System of Preferences

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Introduction

The Association Agreement between the Republic of Moldova and European Union has major political, social and especially economic implications (mainly its component of Deep and Comprehensive Free Trade Area (DCFTA)). The economic side of it resulted in a completely new legal framework between the parties, which directly impacted the Transnistrian region. This was one of the main uncertainties that emerged at the start of the negotiations, as the imperative rules of trade policy implied application of the DCFTA throughout the Republic of Moldova, including in the regions not controlled by the constitutional authorities.

Hoping that the Transnistrian side would be interested in the new trade regime, the Moldovan authorities invited the representatives of the Transnistrian administration to participate in the rounds of the DCFTA negotiation. Given the lack of a strong position on the subject, the representative of Tiraspol administration participated as an observer, without making any proposals. At the same time, the idea that the DCFTA would not be beneficial to the Transnistrian region economy was spread in that region. The only solution proposed was tightening relations with the Russian Federation or other regional structures (such as the Russia-Belarus-Kazakhstan Customs Union or the Eurasian Economic Community).

The reluctance of the Tiraspol administration was to some extent explicable, as the DCFTA's expansion in the region implied not only preferential export treatment, but also measures designed to ensure its effective implementation. Moreover, the DCFTA's deep and comprehensive component provides for a gradual alignment of the regulatory framework on that of the EU in many areas, which in no way was aligned on the views of the Tiraspol authorities advocating establishment of an economic system largely based on the practice of the Russian Federation. As well, the DCFTA involves a range of direct costs for the Tiraspol administration, as a result of the suppression of customs duties paid on EU goods imported into the Transnistrian region.

Tiraspol did not state any intentions regarding the DCFTA implementation in the region during the negotiations, most likely because of the confidence that they could obtain a separate agreement with the EU. However, proposals that included Tiraspol's views were made immediately after the conclusion of the negotiation process, demanding independence of the region from Chisinau in the DCFTA implementation, which were rejected by Brussels and Chisinau.

After losing any hopes of obtaining a direct agreement with the European Union, but also under the pressure of the businesses in the region (it became obvious that the Autonomous Trade

Preferences (ATPs)) would not be extended after 1 January 2016), the Transnistrian administration had to find an urgent solution that would allow for continuation of its preferential exports to the EU. At that time, the concurrent application of two trade regimes for the Republic of Moldova (ATP and DCFTA) was no longer possible, and Tiraspol strongly opposed implementation of the DCFTA as negotiated. The parties faced the challenge of finding an acceptable solution for all and compatible with the commitments undertaken by Moldova towards the EU.

Therefore, after reviewing a series of scenarios and holding numerous discussions in trilateral format, a set of 'Measures for Facilitating the Transnistrian Region's Trade with the EU' was agreed in a 'non-paper', which however has never been published. They included the minimum of EU conditionalities and a strong commitment of the Transnistrian region to implement them. Subsequently, based on these arrangements, a Decision¹ on DCFTA implementation was adopted by the Association Council on 18 December. It entered into force on 1 January 2016 for the entire territory of the Republic of Moldova, including the Transnistrian region. Although this Decision was made public, the conditionalities formulated by the EU in the underlying 'non-paper' remain unpublished for the general public. This of course impedes any monitoring by non-governmental parties of the Transnistrian region's compliance with the conditions stated in the technical agreement, signed with Chisinau during the negotiations with the EU.

1. What is the stage of DCFTA implementation in the Transnistrian region?

Once the Association Council formalised the DCFTA's application in the Transnistrian region, the Republic of Moldova became primarily responsible for finding practical solutions to effectively implement the DCFTA in the given region. Secondly, the European party ensured that the DCFTA would be implemented in the agreed terms. Otherwise, the European authorities stipulated the right to suspend any trade preferences derived from the DCFTA for the Transnistrian region.

As mentioned above, the main instrument for implementing the commitments, agreed by the three parties, were the *Measures for Facilitating the Transnistrian Region's Trade with the EU* (Non-paper), which Tiraspol undertook on the basis of EU's conditions. The declared goal of this instrument is to facilitate the access of Transnistrian enterprises to the European market. De facto, these provisions ensured the implementation of the minimum requirements that would allow the DCFTA's application in the Transnistrian region. However, since this document was not made public, we cannot express an opinion on its content.

Moreover, according to the aforementioned Decision, the Association Committee monitors the DCFTA implementation in the Transnistrian region and submits annual progress reports to the Association Council. To date, neither Chisinau nor Bruxelles (and even less Tiraspol) has revealed

¹The EU-Republic of Moldova Association Council, Decision No 1/2015 of 18 December 2015 on the application of Title V of the Association Agreement between the European Union and European Atomic Energy Community and their Member States, on one side, and the Republic of Moldova, on the other side, on the entire territory of the Republic of Moldova.

any pertinent public information about the DCFTA implementation in the Transnistrian region. The fact that the preferential trade regime is still valid for both the Moldovan and the Transnistrian parties implies fulfilment of at least the minimum requirements for the DCFTA.

This non-transparent approach towards the DCFTA implementation in the region has a geopolitical twist. There are, certain interests promoted at the declarative level by officials of the region, while its economic interests pursue entirely different objectives. Hiding the precise meaning of the DCFTA's implementation in and by the Transnistrian region prevents escalation of polemics among the main political and economic stakeholders from the region. But this is not in line with the Association Agreement principles that promote openness to the public. It would be more appropriate to establish a well-defined monitoring and communication mechanism on the DCFTA implementation in the Transnistrian region. This would impose discipline among the parties involved.

It is hence extremely difficult to quantify the DCFTA implementation in the Transnistrian region. Nonetheless, the content of the discussions in the Working Groups² suggests some progress in certain sectors, and which presumably correspond to the content of the 'non-paper' mentioned above, such as:

- **Commodities Coding.** A first step in ensuring the necessary convergence in the bilateral trade flows between the EU and the Transnistrian region was the relevant commodities coding as subjects of these transactions. Although the aim was not officially stated, the so-called Transnistrian government approved a new Commodity Coding Nomenclature by its Decision No 254 of 22 September 2016, which unsurprisingly coincides with the Harmonized Commodity Description and Coding Systems, on the basis of which the Republic of Moldova made its agreement with the EU over the DCFTA.
- **Tariff Regime.** The most pressing issue was the alignment of the tariff policy with the commitments made by the Republic of Moldova under the DCFTA, that the Transnistrian region was also supposed to apply. Thus, all import duties of the Republic of Moldova applied in relation to the EU, including the transition periods, were to be reflected in the customs tariff regime of the Transnistrian region, and import quota provisions were to be applied on the territory of the region as well. In this respect, the customs tariff of the Transnistrian region was amended by Decision No 272 of 10 October 2017, which stipulates that imports from the EU to the region are exempted from customs duties, except for products included in the annex to that decision. Although the presumption was that the products listed in that annex were to coincide with the provisions agreed between the Republic of Moldova and the EU under the DCFTA, they did not quite correspond though, as they were aggregated at a very high level (even 2 or 4 digits of the Harmonised Commodity Description and Coding System – the HS). Thus, to remove all inconsistencies (at the request of the EU, most likely), on 27 December 2017, the

² Working Groups are dedicated platforms comprising representatives from both banks of the Nistru River with a view to strengthening confidence and security in the context of the Transnistrian problem.

annex was adjusted at a more disaggregated level by Decision No 369 (8 digits according to the HS, which concerns seasonal imports, such as the imports of fruits), which was later adjusted on 3 February 2018, providing for a disaggregation that reflects fully the commitments of the Republic of Moldova under the DCFTA (9 digits according to the HS). Despite all of these efforts, the precise transition periods for reducing customs duties agreed by the Republic of Moldova were not fully taken into account in the customs duties applied by the Transnistria region.

- **Rules of origin.** Another need stemming from the preferential tariff regime has to do with the rules of origin, for which a regulatory framework already exists from the previous preferential regimes (the Autonomous Trade Preferences – ATP), but which require updating and modernisation because of the more complex requirements, including application of the Pan Euro-Mediterranean (PEM) Convention for cumulation rules. At present, ongoing discussions are taking place in working groups, the purpose of which is to ensure the implementation or updating of current procedures, considering the new trade regime.
- **Sanitary and phytosanitary requirements.** Another area requiring major involvement from the stakeholders has to do with sanitary and phytosanitary (SPS) requirements. Even when the previous trade regime was in place – the ATP, the Moldovan authorities were actually the ones conducting the certification of sanitary and phytosanitary standards. However, it is imperative to facilitate the issuance of sanitary and phytosanitary certificates for products exported to the EU. Therefore, following the discussions of the economy and trade bilateral Working Group of 15 February 2018, a protocol was signed on institutional cooperation in the area of SPS, which provides for the improvement of the system meant to protect the population against the spread of communicable diseases among animals, to fight pests and prevent crop diseases. The purpose is also to remove trade barriers to products subject to veterinary and phytosanitary control. This can also serve as an early framework for the implementation of DCFTA provisions;
- **Technical barriers to trade.** Also, the establishment of an institutional cooperation mechanism regarding technical barriers to trade (TBT) is a subject tackled by Working Groups. However, we cannot assess the prospects of establishing such a mechanism because there is no public information available in this regard.

Concurrently, a number of aspects covered by the DCFTA (such as competition, state aid, intellectual property, energy, services) require a more thorough involvement, considering that there is no regulatory framework in operation in the Transnistrian region in most areas (or if there is any, it is outdated), even less one that would be in line with EU or international rules. Concurrently, besides lengthier implementation periods that have been included in the aforementioned 'non-paper', these areas also require Chisinau and the EU authorities to be supportive and flexible towards the Transnistrian region.

Overall a full implementation of the DCFTA in the Transnistrian region is virtually impossible mission because of the many objective and subjective reasons. Nonetheless a closer relationship between the Chisinau authorities and those of the Transnistrian region could be feasible, at least as far as the key provisions are concerned, which would guarantee that on the one hand the preferential system will not be suspended, and on the other hand the EU's economic interests will not be undermined.

2. Evolution of the Transnistrian trade flows after DCFTA implementation

There are three sources of data for the external trade of the Transnistrian region, none of which however give a complete picture:

- First, the official foreign trade statistics of the Republic of Moldova are gathered separately by Chisinau's customs services for the territory under control of Chisinau and for the Transnistrian region. Most of the Transnistrian region's *exports* are covered under this source (especially in case of exports within preferential trade regimes), since there is a need to get a preferential origin certificate from Chisinau custom services in order to benefit of preferential access on these markets. However, *imports* into the Transnistrian region are only partly reflected in the statistics of the Republic of Moldova, since it includes only reported transactions to the Chisinau authorities by Transnistrian economic entities (usually with the purpose of getting preferential origin certificates for further exports). However, these data are not available to the public, given also that Chisinau regards trade between the right and left banks to be internal and not international trade.
- Second, the official foreign trade statistics of the Transnistrian region comprise only the region's transactions, and the flows from/to the right bank of the Nistru river are regarded as international transactions. However, this data source is incomplete and not comparable with the data from the Chisinau authorities. These data are nonetheless given in Tables 1 and 2. Exports from left to right left banks to amount to 30% of the region's total exports and 11% of the region's total imports in 2017 (Table 1).

Table 1. Structure of Transnistrian exports and imports, by regions, 2017 (million USD)

	Value	Share, %
Exports - total	633,3	100,0
<i>including:</i>		
to CIS countries	377,9	59,7
<i>of which, to Moldova</i>	190,2	30,0
to non-CIS countries	255,4	40,3
Imports - total	982,7	100,0
<i>including:</i>		
from CIS countries	727,7	74,1
<i>of which, from Moldova</i>	107,3	10,9
from non-CIS countries	255,0	25,9

Source: Transnistria State Statistics Service

The structure of the Transnistrian trade flows reveals some important aspects. Imports of mineral fuels (mainly natural gas), which is used to produce the electricity supplied to the right bank of the Nistru River, are predominant (34% of the total). The registered exports of electricity account for an important share both in the total exports of the region (16,9% in 2017) and in total exports on the right bank of the Nistru River. Also, imports of metals, including notably raw materials for the Rybnitsa Metallurgical Plant, registered a large share in total imports, further becoming the main category of products exported by the region, with a share of 36,9% in total exports in 2017 (Table 2).

Table 2. Structure of Transnistrian exports and imports, by groups of products, 2017 (million USD)

	Imports		Exports	
	Value	Share, %	Value	Share, %
Total	982,7	100,0	633,3	100,0
<i>including:</i>				
Agri-food products	119,0	12,1	94,5	14,9
<i>of them:</i>				
Vegetables	2,6	0,3	6,3	1,0
Meat and edible meat offal	17,1	1,7	0	0,0
Milk and dairy products, bird eggs, honey	14,2	1,4	0	0,0
Oilseeds and fruits (other seeds, fruits)	3,9	0,4	37,6	5,9
Alcoholic and non-alcoholic drinks, vinegar	10,0	1,0	10,2	1,6
Non-agricultural products	863,7	87,9	538,8	85,1
<i>of them:</i>				
Mineral fuels, oil and distillates (including electricity)	333,6	33,9	107,0	16,9
Metals and products from them	188,6	19,2	233,9	36,9
Cotton, cotton fiber, cotton fabrics	25,3	2,6	28,8	4,6
Clothing and clothing accessories, textile, other made-up textile articles	3,3	0,3	42,1	6,6
Shoes, sneakers and similar products, parts thereof	4,7	0,5	38,0	6,0
Equipment and mechanical devices	38,4	3,9	4,5	0,7
Electrical machinery and equipment	32,0	3,3	13,2	2,1

Source: Transnistria State Statistics Service

- Third, there are the commercial transactions of the Transnistrian region reported in the statistics of the region's trade partners. But in these sources the transactions are qualified as trade with the Republic of Moldova and not shown separately as between right and left banks. For this reason, the data of trade partners can be used only in case of overlapping import data of these trade partners with export data of the Republic of Moldova.

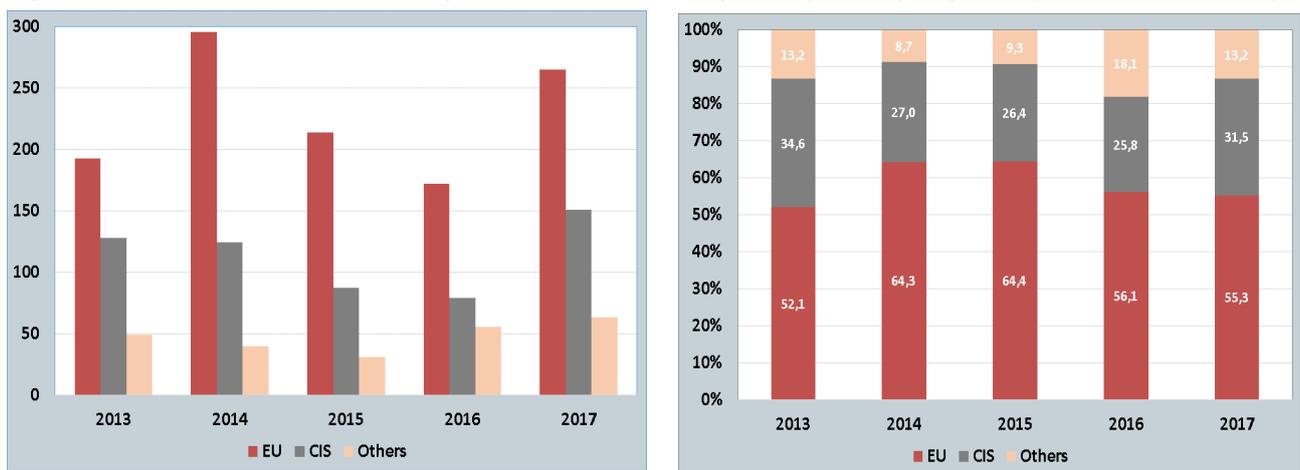
For these reasons in what follows the main source for exports of the Transnistria region is that of the Republic of Moldova.

2.1 Regional Export Profile

Thus, Figure 1 shows the regional profile by main trade partners (by country groups), excluding deliveries to the right bank of the Nistru River. Despite the continuing allegations that the region depends on the CIS market (especially on that of the Russian Federation), the data show the opposite, and namely, a very large dependence on the EU, the share ranging from 52% to 64% during 2013 to 2017. Exports to CIS countries have ranged between 25 to 31% of the total over the same period.

Exports to both the EU and CIS countries declined in 2015–2016, although both recovered in 2017. The evolution in 2015–2016 was caused by the interruptions in the work of the Rybnitsa Metallurgical Plant both because of problems with raw materials supply and products sales, as well as the conflict between Ukraine and the Russian Federation. On the other hand, the evolution of exports to other countries has been more stable, accounting for 13.2% in 2017.

Figure 1. Evolution and structure of the Transnistrian region exports by regions, (million USD and %)

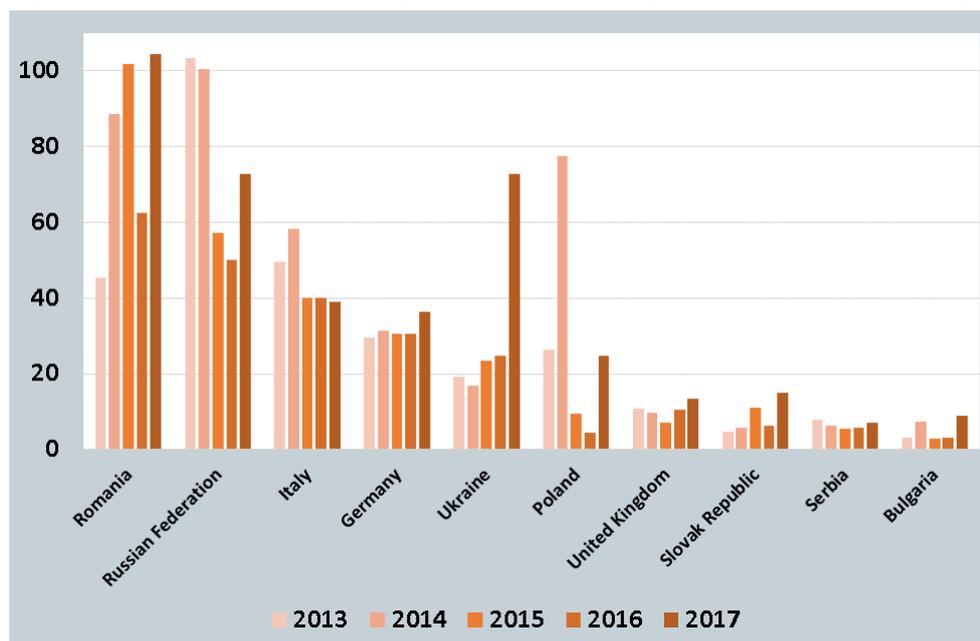


Source: UN Comtrade, National Bureau of Statistics.

A breakdown of Transnistrian exports by countries indicates mixed developments, with periods of major fluctuations for some destinations (Figure 2). While in case of Romania, Poland and Ukraine such evolutions were seen in only one category of products (cast iron, iron and steel), in case of the Russian Federation these comprised all categories of exported goods.

The EU countries dominate in the top 10 of the region's most important export destinations (7 out of 10 countries). Thus, Romania continues to be the most important trade partner from the EU and in general, with a share of 22% in the region's total exports in 2017 (or about 39% of total exports to EU). It is followed by the Russian Federation with a 15% share in 2017. Italy (in decline, due to lower exports in textile industry) and Germany (with a major momentum in the past year due to increased exports of clothing) are the third and fourth place with shares of around 8% in the total exports in 2017 each.

Figure 2. Main Transnistrian export destinations by countries, (million USD)



Source: UN Comtrade, National Bureau of Statistics.

2.2 Exports of Agri-Food Products

Agri-food products hold a modest share in the Transnistrian region's total exports – about 22% in 2017 (with a minimum of 17% in 2014 and a maximum of 30% in 2016). Similar to agri-food products exports from the right bank of the Nistru River, their evolution in case of the Transnistrian region was caused by weather conditions, as well as by the circumstances on the regional markets, determined, among other matters, by regional tensions (armed conflict in eastern Ukraine, economic sanctions between the Russian Federation and EU), and by international prices.

Against this background, exports of agri-food products to the EU had been declining since 2015, both in absolute and relative terms (Figure 3). The situation started to recover only in 2017. Moreover, the exports to CIS countries have registered a positive trend throughout the entire period under review. This is largely the result of redirecting exports, with Russia having imposed import restrictions on right bank Moldovan agri-food products, which did not apply to the Transnistrian region.

At the same time, exports to a group of other countries increased impressively, reaching a half of all of the region's agri-food exports. A more detailed analysis shows that this progress was possible due to increased exports in two categories of products: wheat and cigarettes, which together account for 80% of agri-food products exports to other countries. The wheat is destined mainly to Asian countries (Malaysia, India, Indonesia), while cigarettes are re-exported through the country's duty-free shops.

Figure 3. Evolution and structure of Transnistrian agri-food products exports by regions, (million USD and %)



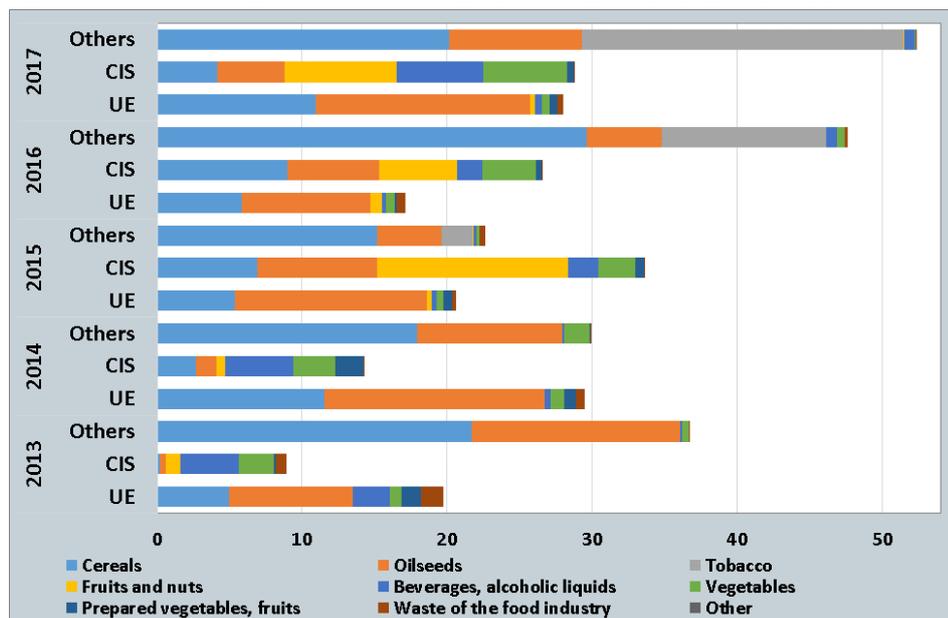
Source: UN Comtrade, National Bureau of Statistics.

At the same time, when analysing the structure of agri-food products exports in geographic terms (broken down by regions) we notice a heavy concentration in all regions of several agri-food product exports (Figure 4). In particular, two categories of products (cereals and oilseeds) account for about 90% of total agri-food exports destined for the EU market in 2014–2017.

At first sight, exports to CIS countries are more diversified: besides cereals and oilseeds these include fruit, vegetables and alcoholic beverages. However, the increase in these exports to CIS coincided with the period immediately following the trade restrictions imposed by the Russian Federation on the Republic of Moldova, especially in case of fruit and vegetables.

At the same time, exports to 'other countries', albeit growing, require some qualification, given that the oilseeds are reported to have been mainly directed to tax havens (Belize, British Virgin Islands, etc.), cigarettes and a large part of alcoholic beverages are destined for duty-free shops.

Figure 4. Structure of Transnistrian agri-food exports, by groups of products and regions, (million USD)

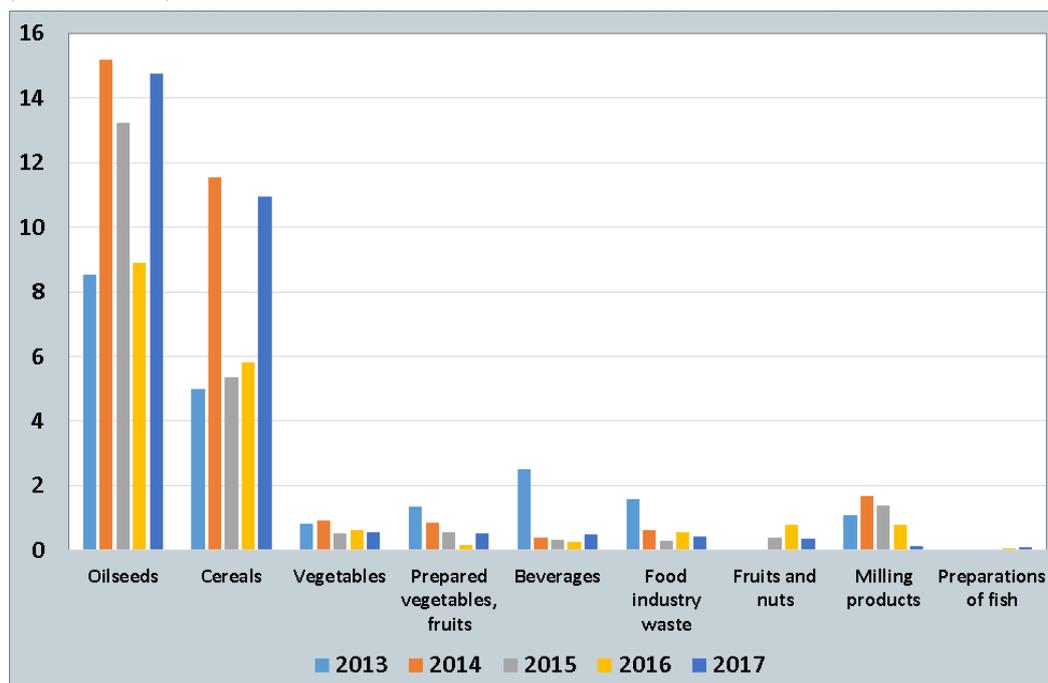


Source: UN Comtrade, National Bureau of Statistics.

The dynamics of the two main categories of products dominating the top agri-food exports have been quite unstable (Figure 5):

- Oilseed exports (particularly sunflower seeds and rapeseed) dropped dramatically in 2013 and in 2016 (because of lower exports to Romania, which used to be the main sales market), but have, however, gone up in 2017, reaching a share greater than 52% of agri-food exports to that market.
- The dynamics of cereal exports (namely wheat, corn and barley) saw similar fluctuations in relation to the United Kingdom and Romania in 2015-2016. These exports went back to large volumes in 2017, accounting for 39% of the agri-food exports to these markets. Note that these products are subject to the anti-circumvention mechanism for which trigger levels are established ('floating quotas').
- Albeit in smaller quantities, exports of other products are also subject either to the anti-circumvention mechanism, such as vegetables (sweet corn), or to the tariff quotas (exempted from paying entry prices) such as for fruits (grapes and plums). Fruits were not exported previously because of the quite harsh tariff policy on this category of produce.
- Fish products (caviar) are some of the few products of animal origin that Moldova is able to sell in the EU.

Figure 5. Dynamics of the exports in the main Transnistrian agri-food products to the EU, (million USD)



Source: UN Comtrade, National Bureau of Statistics.

To understanding how the DCFTA impacts exports of agri-food products from the Transnistrian region, Table 3 shows the tariff policy measures applied in general by the EU under the most favoured nation (MFN), i.e. non-preferential, regime for its agri-food product imports, in force in 2017. Thus, the Transnistrian region avoids payment of these MFN tariffs in its exports to the EU. However, it is to be noted that for some products such as oilseeds the EU's MFN tariff is zero, so in this case there would be no difference with or without the DCFTA. This applies also to alcoholic drinks and fish products.

Table 3. Customs duties applicable to imports of agri-food products into the EU under non-preferential WTO/MFN conditions, 2017

Exported agri-food products	The MFN customs duty
Oilseeds	0%
Cereals:	
Wheat	12% + 95 euros/tonne
Barley	16% + 93 euros/tonne
Corn	94 euros/tonne
Vegetables	5.1% + 9.4 euros/100 kg
Prepared vegetables, fruit	30%
Beverages, spirits	0%
Food industry waste	89 euros/tonne
Fruits and nuts	Entry prices
Products of the milling industry	172 euros/tonne
Preparations of fish	0%

Source: European Commission, DG Trade. Note: some of these rates may change from year to year.

Even if most agri-food exports (54% in 2017) would have had a zero-rate access to the EU market without the DCFTA, the remainder would have been subject to a quite harsh EU tariff policy. Thus, the amount of customs duties that the exporters of agri-food products from the Transnistrian region saved accounted for USD 16 million in 2017. As a result, the DCFTA between Moldova and the EU was beneficial to a large extent for agri-food products.

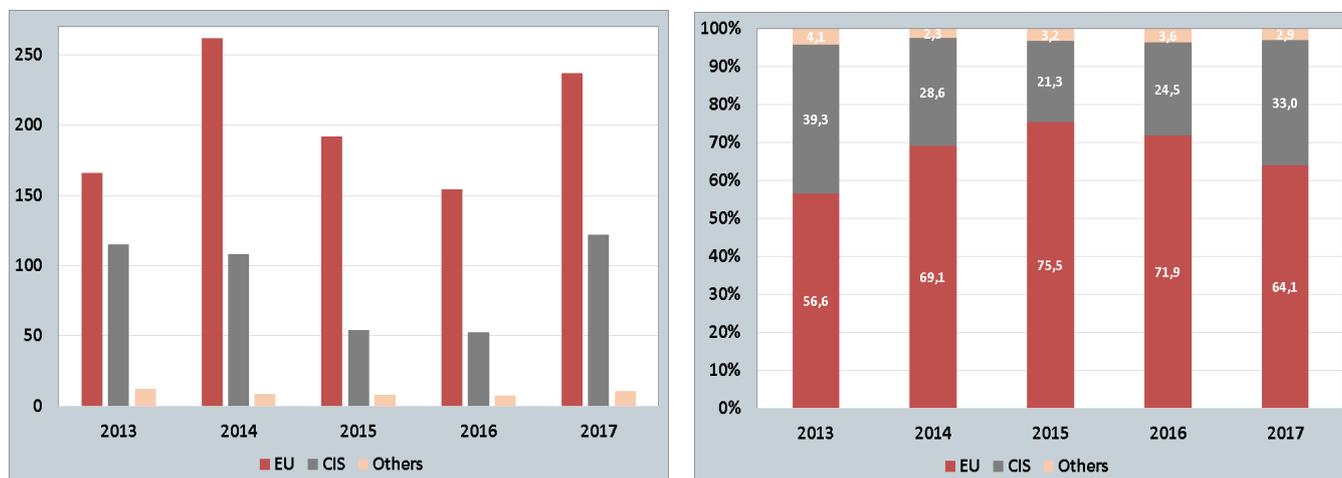
2.3 Exports of non-agricultural Products

During 2015-2016, after the DCFTA was signed, the exports of non-agricultural products decreased dramatically to both the EU and the CIS countries (Figure 6). These reductions were largely determined by fluctuations in steel and iron exports. While the decline of exports to the CIS market was dramatic (getting close to zero), the drop in exports to the EU was caused to a significant extent by the cuts in export prices for these products, following international prices. Still, exports of non-agricultural products regained momentum in 2017 thanks to the renewal of iron and steel exports. They even exceeded the 2014 volume (+40%) to the CIS, while such exports to the EU accounted for 90% of the 2014 exports.

In relative terms, the exports of non-agricultural products to the EU have a very large share in the total non-agricultural exports of the region. In 2015, they reached 76%, although in 2017

they dropped to 64%, against the background of renewed iron and steel exports to the Russian Federation.

Figure 6. Evolution and structure of Transnistrian non-agricultural exports by regions, (million USD and %)



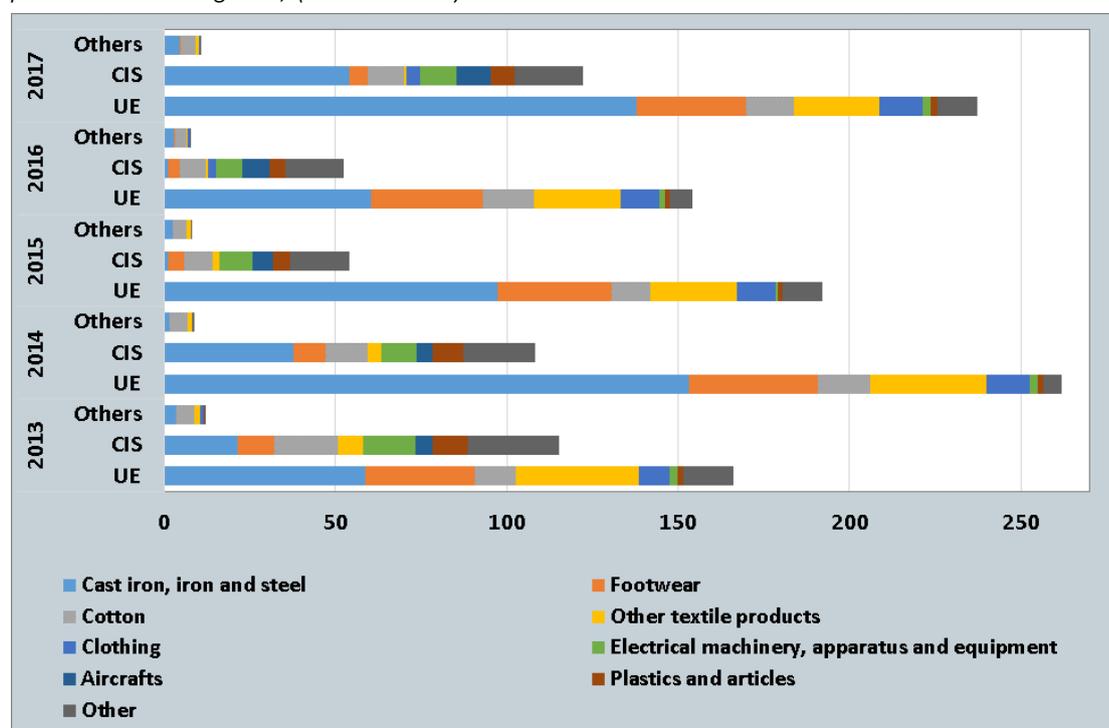
Source: UN Comtrade, National Bureau of Statistics

From a structural point of view, there is a very high concentration of non-agricultural exports to all destinations (by groups of countries) and a stronger increase over time (Figure 7). The main category of products exported over the last years remains cast iron, iron and steel, accounting for a share of 53% of non-agricultural exports in 2017 (29% in 2013). The volatility of these exports is quite high, especially as regards exports to the CIS countries (the Russian Federation in particular), as the Russian Federation's interventions in Ukraine put these exports at risk (during 2015-2016, these exports virtually dropped to zero). Also, the exports to the EU were fluctuating more in value terms rather than in quantitative terms, being determined by the changes in the export prices.

Footwear exports are of particular importance too. They acquired a share of 10% in total exports of non-agricultural products in 2017 but experienced a drop over the last period of time. Although footwear exports to the EU developed at a stable pace, as 85% of all footwear exports were directed to the EU in 2017, they decreased substantially to the CIS. The same structural developments were recorded for cotton, other textile products (bed linen) and clothing (accounting for 8%, 7% and 5% respectively in total non-agricultural exports in 2017), with the EU strengthening its position as main sales market. The EU market takes in half of the cotton exports (33% in 2013), 94% of other textile exports (79% in 2013) and 75% of clothing exports (92% in 2013).

At the same time, exports of machinery and electric appliances (especially electric engines) and of plastics that have a share of 3% and 2%, respectively of total non-agricultural exports in 2017, go mostly (80%) to CIS countries. The main sales market is the Russian Federation (over 90%). Similarly, exports of components for aircraft, accounting for a 3% share of total non-agricultural exports, were exclusively directed to the Russian market.

Figure 7. Structure of Transnistrian non-agricultural exports, broken down by groups of products and regions, (million USD)

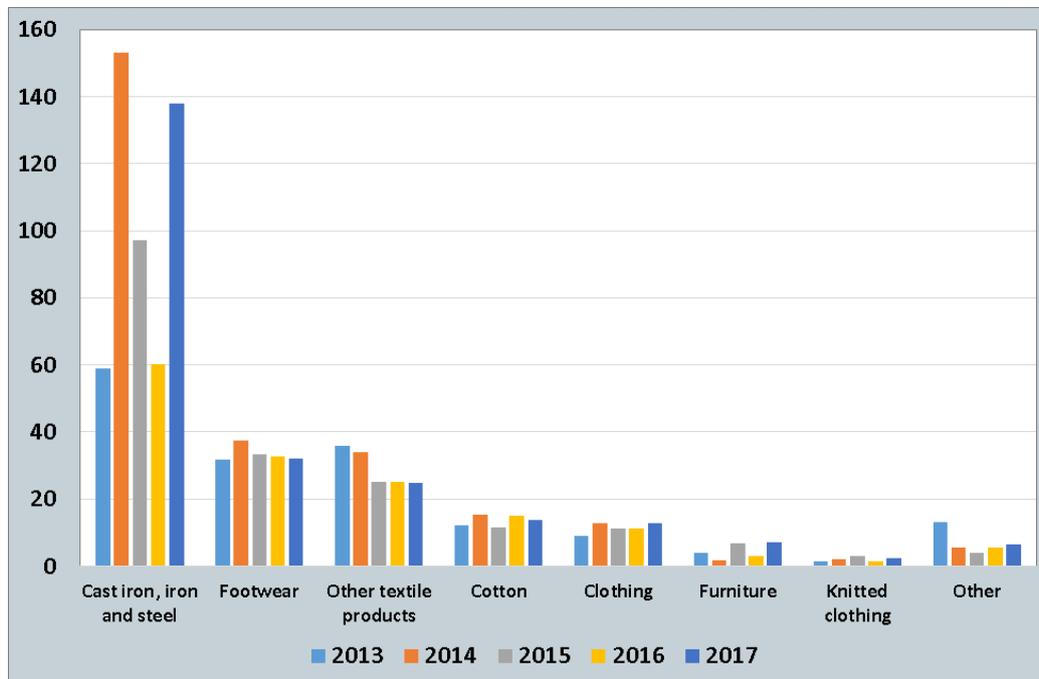


Source: UN Comtrade, National Bureau of Statistics.

As regards the development of exports of the main non-agricultural products to the EU alone, we can see big fluctuations in exports of cast iron, iron and steel. The latter reached their peak values in 2014, which was followed by a drop in the following years and a recovery in 2017 (Figure 8). These dynamics were determined, on the one hand, by the evolution of international prices for these products and, on the other hand, by the dramatic reduction in exports to Poland (almost all exports being redirected towards Romania). Their share in total non-agricultural exports was dominant during the analysed period. It went from 35% in 2013 up to 58% in 2017.

At the same time, the dynamics of other categories of exported textile products was more or less stable during the entire analysed period. Their share in total non-agricultural exports depended wholly on the fluctuations of exports of cast iron, iron and steel, and went from 54% in 2013 down to 36% in 2017. Most of these exports were directed to the markets of Italy and Germany.

Figure 8. Dynamics of the exports in the main Transnistrian non-agricultural products to the EU, (million USD)



Source: UN Comtrade, National Bureau of Statistics.

Illustrating the value of trade preferences granted by the DCFTA, Table 4 contains the customs duties rates under EU’s WTO/MFN tariff regime for countries not having preferential access to the EU market. The data are for the main non-agricultural exports from the Transnistrian region. The highest customs duties are set for light industry products – varying from 8% for footwear and cotton to 12% for clothing, compared to which the preferential zero tariff regime under the DCFTA is quite useful. At the same time, exports of cast iron, iron and steel are exempted from customs duties under the EU’s WTO/MFN tariffs, so for these products the DCFTA makes no difference.

Table 4 Customs duties applicable to imports of non-agricultural products into the EU under non-preferential WTO/MFN conditions, 2017

Exported non-agricultural products	The MFN customs duty
Cast iron, iron and steel	0%
Footwear	8%
Other textile products	12%
Cotton	8%
Clothing	12%
Furniture	3.7%
Knitted clothing	12%

Source: European Commission, DG Trade.

Thus, even if a majority of non-agricultural exports (58% in 2017) would have had a zero-tariff access to the EU market without the DCFTA, the remainder would have been subject to a quite harsh EU tariff policy. The amount of customs duties that the exporters of non-agricultural products from the Transnistrian region managed to save amounted to USD 8 million in 2017.

Conclusions and recommendations

Needless to say, the DCFTA brings about several advantages that are not only about tariff preferences, but also about modernisation and economic development of the Transnistrian region. Without the DCFTA the administration of the Transnistrian region would be on the verge of an economic catastrophe and political failure. Some estimates showed that the amount of customs duties not paid by the business operators exporting to the EU alone totalled about USD 24 million in 2017. Besides these gains, there are of course also challenges coming along with certain commitments.

When DCFTA negotiations began, the Transnistrian administration showed little interest in it, was rather passive during negotiations, and hoped to enjoy a separate regime for itself (without the consent of the Moldovan administration). Later, however, after all hopes to settle a direct agreement with the EU without the Republic of Moldova were lost, but also under the pressure made by the business community in the Transnistrian region (risking to lose the possibility to export under preferential conditions), the Transnistrian administration had to accept the conditions imposed by the EU and the Republic of Moldova, which were put down in a non-paper that the Tiraspol authorities committed to comply with.

These conditions have been laid down in a 'non-paper', but since this is not published there is no transparent mechanism to monitor its implementation by the Transnistrian party. Thus, the DCFTA is being implemented in the Transnistrian region with a lot of secrecy because of its sensitiveness for the Tiraspol administration.

The most convincing evidence of the impact of the DCFTA are provided by the export statistics. Despite the persistent political rhetoric about the value of economic integration with the structures coordinated by the Russian Federation, such as the Eurasian Economic Union, the exports from the Transnistrian region show that it depends deeply on the EU market, which absorbs 55-65% of the total exports of the region, with Romania taking a leading share of the EU total.

However, the dynamics of exports in all directions are vulnerable to external shocks, especially given the high level of concentration by product structure and geographic destinations. The sensitive nature of Transnistrian exports is caused by the massive focus on particular industrial sectors (metallurgy and textile), which is a structure inherited from the Soviet Union (one single metallurgy company and several textile companies).

Under these circumstances, the implementation of the DCFTA in the Transnistrian region turns out to be even more relevant, since on the one hand it provides producers with direct trade advantages and preferential access to the EU market, and on the other hand it involves the

modernization of the Transnistrian economy. However, to succeed, several efforts need to be made by all the parties involved in the process, by showing consistency, perseverance and flexibility. These include:

- Provide technical and financial assistance for the development and implementation of reforms in the Transnistrian region in priority sectors (e.g. rules of origin, customs procedures, sanitary and phytosanitary standards, technical barriers for trade, competition policy, public procurement);
- Reflect in full the tariff concessions of the Republic of Moldova in the tariff of the Transnistrian region, particularly regarding the period of transition to importing from the EU;
- Support initiatives aimed at communicating the opportunities the DCFTA offers the Transnistrian region;
- Support information and awareness-raising campaigns about the opportunities to participate in EU programs for entrepreneurs meant for the business community of the Republic of Moldova.
- Make it clear that the failure to observe minimum requirements can result in the suspension of the preferential regime for Transnistrian enterprises;
- Involve representatives of Transnistrian institutions in DCFTA implementation with those on the right bank of Nistru River as much as possible in order to foresee potential tensions in the economic relations between the two banks of the river.