

Myths about the EU-Moldova Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA)

Setting the facts straight

Myth 1: "Signing the Association Agreement poses a threat to Moldovan culture and traditional values."

Fact: Far from it. Rather than seeking to change anyone's culture, the EU is committed to defending the diversity of European culture. The EU is an organisation which celebrates diversity; after all, its motto is "united in diversity". The European Union respects Moldovan cultural values and the Association Agreement not only recognises, but will help to protect these. In particular, the Association Agreement, just like the EU Treaty, does not impose any change with regard to religious practice. Religious convictions belong to the private sphere and as such cannot be a matter for state interference; each citizen, if she or he wishes so, is free to practice the religion of her or his choosing. The European Union respects religious diversity and promotes mutual tolerance and dialogue among religions.

Myth 2: "The Association Agreement will force Moldova to legalise gay marriage."

Fact: No. Family law is not an EU competence. All EU countries develop their own legislative framework for family relations, based on their own values, traditions and culture. The EU does ask Moldova to introduce legislation to protect citizens against discrimination. This is a requirement under the Visa Liberalisation Action Plan. The anti-discrimination law simply assures the equal treatment of all citizens, including those belonging to minorities. This protects citizens' existing rights, for example to enjoy freedom from discrimination in the workplace.

Myth 3: "If the Association Agreement is signed, the authorities will have to cut jobs and decrease wages, and people will lose their pensions."

Fact: The Association Agenda will create a wealth of new opportunities for the Moldovan economy, which will be integrated to the EU economy (more than one fourth of the world's total trade). Independent economic studies show that the impact of Association on jobs and wages will be positive, while Moldova will catch up with the rest of the world in terms of economic competitiveness.

The Association Agenda will also bring Moldova closer to the EU social protection model. Pensions will be not only guaranteed, but will progressively increase together with the living standards. In the European Union pensions are high (about 13% of GDP in 2011, compared to about 9% in the Russian Federation). This could be achieved because the EU's economy is competitive, which allows to sustain hefty social benefits in the long term.

Myth 4: "The Association Agreement will further enflame Russia-Moldova relations and could lead to the loss of the Transnistrian region."

Fact: The Association Agreement does not pit Moldova against Russia in any way; on the contrary it aims to promote regional stability and cooperation, and its DCFTA will boost the Moldovan economy, creating many opportunities from which Moldova's economic partners, including those from Russia, will also be able to benefit. Furthermore, the Agreement fully recognises and strengthens Moldova's sovereignty and paves the way for beneficial participation of the Transnistrian region and its economic agents in the DCFTA. The Agreement also refers to the commitment of the European Union to help Moldova bear the costs of reintegration, when a settlement to the Transnistrian conflict is found within the established international mechanisms.

Myth 5: "The Association Agreement brings little benefit to Moldova and just imposes extra demands."

Fact: Absolutely not; the agreement will bring many tangible benefits to Moldova. Over time, the Association Agreement will lead to a significant improvement in Moldovans' quality of life, notably through the strengthening of democracy, through increased political, economic and institutional stability, and through a stronger, more prosperous economy. Economic growth of 5.4% per year is predicted.

Myth 6: "The EU is engaged in a geopolitical competition with the Russian Federation."

Fact: No. This view is the narrative developed by Russia's state propaganda, but it does not reflect the reality or the intentions of the European Union. The EU's entire history is that of a successful search for lasting peace, political stability and economic prosperity, all being mutually linked. There is little doubt that all the citizens of the Republic of Moldova would greatly benefit from similar achievements at home. Back in 2008, the EU invited Russia to be associated as a strategic partner to the Eastern Partnership initiative, an offer which was declined by Russia. The EU later replaced its offer with that of the EU-Russia Partnership for Modernisation. The Eastern Partnership' objective is to consolidate the political stability and strengthen the economies of the EU's immediate neighbours, with a view to ensuring lasting peace and stability on the European continent. Until the recent military seizure of Crimea, which poses a direct threat to this objective, Russia also proclaimed European security as one of its main own objectives.

Myth 7: "The Association Agreement will lead to Moldova's loss of sovereignty."

Fact: The Association Agreement does not infringe on Moldova's sovereignty in any way. On the contrary, it re-affirms the EU's commitment to Moldova's sovereignty and territorial integrity, and will help strengthen these as Moldova's economy and financial status will be boosted by the DCFTA, improved public and economic governance and, ultimately, the consolidation of Moldovan society. Moldova's participation in a customs union, on the

contrary, would reduce Moldova's sovereignty as it would lead to Moldova devolving its trade policy to an external, supra-national body.

Myth 8: "The signature of the Agreement will lead Moldova to immediate economic difficulties."

Fact: On the contrary, Moldova will actually benefit from new trading opportunities and easier access to the EU market – the largest in the world. The Agreement will allow the Moldovan economy to catch up with the EU in terms of competitiveness and thereby gradually find its place in the world economy. This will open up new opportunities not only in EU-Moldova trade, but in Moldova's trade with the rest of the world, given the worldwide recognition of EU norms and standards. The most sensitive sectors will benefit from long transitional periods to ensure the smooth adaptation of Moldova's economy.

Myth 9: "The economic benefits of DCFTA for Moldova are negligible, while the costs of reform will be significant."

Fact: Independent economic research suggests that Moldova's participation in the DCFTA will boost Moldova's exports to the EU by 16%, and imports from the EU by 8%. The DCFTA as a whole is expected to boost GDP by 5.4% annually, if reforms are completed. The EU will assist Moldova and its economic agents in designing these reforms and put them in place during transition periods outlined in the Association Agreement. The above figures for expected GDP growth do not include investment growth, which is very likely to grow strongly thanks to the opening of markets through the DCFTA, which will significantly increase Moldova's attractiveness for investors.

Myth 10: "Moldovan farmers will not be able to cope with the introduction of EU SPS standards and will lose out."

Fact: Rules on food production, as well as on animal farming will be gradually introduced with the aim of increasing the security and quality of food for consumers and reducing health risks. Small farmers who do not engage in trade or other commercial activities do not have to implement the reforms. Those who sell their products in Moldova, or abroad will benefit from adequate transition periods in which to prepare for a gradual increase in expectations in terms of the security and quality of farming in their particular sector. For food producers, one of the consequences of the DCFTA will be to increase their revenue by making farming more productive.

Myth 11: "There will be no opportunities for Moldovan exporters in the EU market."

Fact: Experience has already proven that Moldovan producers are able to sell more and more to the European Union market. This will be even more true when Moldova has aligned its safety and health standards to those of the EU to easily and effectively sell to what is the

largest single market in the world. The DCFTA will enable Moldova to go through this process in an orderly and technically supported manner, and give Moldovan producers open access to the EU market.

Myth 12: "If the Association Agreement is signed, Moldova's traditional exports to Russia will be disrupted because of the adoption of European standards."

Fact: EU standards have never been an obstacle to exporting to Russia or any other country, as amply shown by the experience of EU companies and other producers using EU norms and standards. Thus, there is no objective reason why EU standards should cause problems for Moldovan companies. Moldovan companies already exporting to the Russian market can continue to do so, even after the Association Agreement is implemented – unless hindered by politically motivated bans and restrictions.

Myth 13: "By signing the Association Agreement, Moldova will lose the CIS market."

Fact: The DCFTA is compatible with all other free trade agreements that Moldova is part of, since it does not require Moldova to become member of a customs union which would deprive Moldova of its sovereignty in conducting its own trade policy. This applies in particular to the Free Trade Agreement with the CIS countries. Therefore, after signing the Association Agreement with the EU, Moldova will be able to export duty-free both to the EU and the CIS. Furthermore, the Free Trade Agreement with Turkey, which is currently the third most important market for Moldovan exports, will enter into force. Finally, because EU standards are recognised worldwide, other important global markets will automatically open up to Moldovan goods and services.

Myth 14: "Moldova-Russia trade relations are likely to worsen as a result of DCFTA."

Fact: Not true. EU and Russian markets are distinct from each other; trading with the EU does not take place at the expense of trade with Russia. Business ties grow best in a stable and predictable legal environment, and this is what makes the difference when business decides where to trade. Moldova is part of the CIS, and so is Russia, and may trade with Russia just like it does with any other partner. There is no reason for trade to stop when relevant rules are respected.

Myth 15: "Consumer prices will increase as a result of the DCFTA."

Fact: The DCFTA will make the Moldovan market more open for imports from the EU. This will bring more competition, which normally brings prices down for the consumers. According to independent research, consumer prices are expected to decrease by about 1.0 and 1.3 percent over the short and long run, respectively.

Myth 16: "Moldova will be flooded by EU goods as a result of the DCFTA."

Fact: Once the Association Agreement is in force, the market will open asymmetrically, in favour of Moldova: Moldovan exporters will have immediate and full access to European markets, while the Moldovan market will open up much more gradually to EU products. Thanks to the long transition periods in relation to sensitive products and sectors that have been negotiated, the Moldovan market will open to EU products only when its own production has become sufficiently competitive.

Myth 17: "If the Agreement is not applied in Transnistria, its companies will not be able to export to the EU anymore."

Fact: The Association Agreement aims to apply to the whole territory of Moldova. In order to allow for proper preparation for its implementation, the Transnistria region will continue to benefit from the current Autonomous Trade Preferences (asymmetrical opening of the EU markets to products manufactured in the Transnistrian region) until the end of 2015. From that moment, if conditions allowing the implementation of the DCFTA have been put in place in the region, exports will benefit from free access to the EU market. If these conditions are not yet met, exports from Transnistria to the EU will benefit from the 'most favoured nation' regime of the European Union (i.e. non-preferential tariffs will apply); in other words, there will be no EU ban on exports from Transnistria-based companies.

Myth 18: "The Transnistrian economy will suffer after Moldova signs the Association Agreement."

Fact: For Transnistria, the benefits of participating in the Agreement would substantially exceed the possible custom tariff-related costs. These benefits include:

- Increased access to the EU market for Transnistrian producers (the EU market currently absorbs about 45% of exports made by companies from this region).
- Diminishing the non-tariff barriers on the EU market after implementing the minimum quality standards.
- Improving the business climate in the region and, as a result, stimulating the investment activity, among others.

Myth 19: "Not applying the Association Agreement in the Transnistrian region would further divide the country."

Fact: The objective of the Association Agreement is to engage in political association and economic integration, which will benefit the entire, internationally recognised, territory of the Republic of Moldova; the EU has never excluded Transnistria from those prospects. The authorities of the Transnistrian region have been invited to join the negotiating process and to engage in discussions about the practical preparations for implementing the DCFTA in the best possible conditions, to the benefit of the region's economy.

Myth 20: "Moldova has several free trade agreements in force which the EU considers incompatible with DCFTA."

Fact: Untrue. The EU does not impose any restrictions on Moldova's free trade agreements with other countries, and this will not change when the DCFTA is in force. On the contrary, free trade agreements, with a country such as Turkey boost trade, as companies can integrate production processes and import components more cheaply. DCFTA will be a further, very significant boost to Moldova's growth, not a threat to it or to relations with other countries. With the DCFTA, Moldova can trade with Russia, Turkey, and other current or future FTA partners just as it does today. The DCFTA applies only to the trade relations between the EU and Moldova.

Myth 21: "The EU will benefit from DCFTA immediately, while Moldova needs to implement reforms."

Fact: No. Trade conditions for goods and services, as well as with regard to wide establishment conditions for companies will be immediately improved for both the EU and Moldova, facilitating trade and investment. This is particularly important for Moldova, which needs more investment to boost its economic growth. When the DCFTA enters into force, Moldova's enterprises will immediately have access to the EU market, which will make Moldova a more attractive place for domestic and foreign investors. A number of additional benefits that Moldova will take from the Agreement depend on the completion of reforms that will enable the country to implement EU standards and boost its competitiveness, thus making its economic agents able to fully participate in the EU market.

Myth 22: "The DCFTA ties Moldova's hands and limits its sovereignty."

Fact: The DCFTA fully respects Moldova's sovereignty and policy choices, including the right to sign free trade areas with other countries. Moldova remains entirely free to decide on its trade relations with other countries. The DCFTA is in Moldova's interests – currently the EU is Moldova's primary trading partner, comprising 40% of all Moldovan trade. It is in Moldova's to make this trade less costly, and expand it. Increased exports to the EU means increased income and, therefore, the growth of the Moldovan economy.

Myth 23: "Russia is afraid of an influx of goods from the EU as a result of DCFTA with Moldova. This will harm Russia-Moldova relations."

Fact: EU goods cannot just enter Russia as Moldovan goods simply because there is an Agreement between the EU and Moldova. It's not that simple. A mere transit of a European product will not make it Moldovan and will not qualify it for preferential treatment in Russia. This is an international common principle, which Russia knows very well.

Myth 24: "Only businesses will benefit from the DCFTA, not the Moldovan people."

Fact: Export companies will indeed probably be among the immediate beneficiaries of the Association Agreement. But citizens at large will also immediately benefit from the Agreement, since imported goods from the EU will be cheaper. In the medium to longer term, the Agreement will boost investment and lead to the creation of new companies and the modernisation of several sectors of the economy, through reforms with which the EU will assist Moldova. Food safety standards and consumer goods will also be safer for Moldovan citizens. Jobs will be created thanks to an expected increase in investment in Moldova, which should have a positive impact on salaries as well. Finally, citizens and businesses alike will benefit from more transparency in rule-making and will have the ability to enquire about any matter related to the implementation of the Agreement with the Moldovan authorities.

Myth 25: "Moldova has to engage in ambitious reforms like the EU's new Member States but it does not have membership perspective."

Fact: The EU and Moldova will engage in reforms in order to bring Moldova and its governance standards closer to those of the EU. This is not yet an accession process and the reforms agreed do not have the same breadth and depth as in the EU's pre-accession process. The agreed reforms are tailored for Moldova and do not encompass the entire EU legislation – only the selected parts which are necessary to address trade-related issues.

The Association Agreement itself "leaves open the way for future progressive developments in EU-Moldova relations".

Myth 26: "Moldova has to implement all the reforms in less time than EU Member States."

Fact: No, it does not. It would be unrealistic to expect this and the Agreement does not require it. Reforms must be planned over time as they cover different aspects of economic life and transition periods are the best tool to introduce them gradually. The EU itself uses this gradual approach when its Member States need to enact new legislation. Moldova itself decided how much time it needs to complete its adaptation process, sector by sector.

Moldova negotiated several transition periods, which vary from area to area, depending inter alia on the existence and content of national legislation and market developments.

Myth 27: "The cost of reform will amount to [any figure], which is beyond our means."

Fact: There is no 'cost' – these are investments in the country's future. To that end, the EU has already been providing Moldova with very substantial financial assistance to assist the reform process for a number of years. This included €135 million of assistance just in 2013 (to be implemented starting from 2014) and this amount is very likely to remain stable, if not to increase, in the coming years.

Myth 28: "EU assistance is not enough to cover the reform needs."

Fact: The EU has already been assisting Moldova with the reform process for a number of years. In the trade area, reform assistance was launched well before negotiations on the Association Agreement began – starting from the signing of the EU-Moldova European Neighbourhood Policy Action Plan in February 2005. Trade reforms benefitted from assistance through a special Comprehensive Institution Building programme worth €41 million (2011-2013). These efforts were part of a wider assistance package to Moldova within the European Neighbourhood and Partnership Instrument worth €135 million only in 2013. It included financial assistance as well as training and advisory activities to the central institutions. Bilateral assistance from EU Member States is also given in coordination with, and in addition to, the European Commission's efforts. Further significant assistance, devoted specifically to the implementation of the DCFTA, is planned in the new European Neighbourhood Instrument (2014-2020).

Myth 29: "The EU will be the only true beneficiary of the Agreement as it does not need costly reforms to access the Moldovan market."

Fact: The EU is entering into the Association Agreement with Moldova because it believes in Moldova strongly benefitting from the EU model of lasting peace, political governance and stability, and economic prosperity. Moldova is an important partner for the EU, despite being small in economic terms (the EU represents about one fourth of the world's trade). An independent study suggests that the overall effects of the Agreement for the EU – given Moldova's size and modest participation in the EU's total trade with the world (0.1%) - will be negligible. In contrast, Moldova stands to gain almost €142 million of annual income, or 5.4% of its GDP, if the reforms are completed. So, Moldova's benefits from the Agreement also depend on the completion of reforms.

Myth 30: "Moldova will face sanctions and its products will be banned from the EU market if it does not respect the reform deadlines."

Fact: The implementation of reforms and related deadlines will be discussed regularly in the different institutional bodies of the Agreement/DCFTA. Eventual problems with adherence to the timetable will also be discussed there, including appropriate solutions to remedy the situation. However, it is expected that the timeframes were thoroughly considered by Moldova during negotiations, and deemed feasible in light of various domestic constraints.

Myth 31: "The EU must do something to help SMEs, as small businesses will be hit the hardest by the reform process."

Fact: The EU has been paying increasing attention to the needs of SMEs and businesses at large in the process of forming the DCFTA, to ensure ownership of the reforms and mitigate their impact on small businesses. This is also reflected in the corresponding implementation

project focusing on SMEs' competitiveness in Eastern Neighbourhood countries. The East Invest project directly targets Business Support Organisations and SMEs which have the potential to develop mutual cooperation and investment relations with similar businesses in the EU. The project will soon enter into its second phase. SMEs in Moldova are also helped through the SME Finance Facility which provides loans to SMEs which would otherwise have difficulties in accessing funding for its operations in a commercial bank.

Myth 32: "The DCFTA with the EU is not better for Moldova than participation in the Customs Union."

Fact: Not true, for two main reasons. Firstly, the DCFTA is a free trade area: this means that the EU and Moldova trade with each other more easily (by removing tariffs and aligning norms and standards). In contrast to a Customs Union, a free trade area does not align import and export duties of the partners and does not oblige them to have the same trade policy. In consequence, in a free trade area Moldova and the EU will maintain their sovereign choices over their policies. In a customs union, such sovereignty is handed over to a supranational institution which implements the customs union agreement. An individual member of the customs union can no longer freely decide on its trade relations with third countries.