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Agricultural Sector of Moldova

The following overview of the agricultural sector of Moldova including production, consumption, exports and imports has been received from the Permanent Mission of Moldova

General

Agriculture represents the basis of the economy of the Republic of Moldova, overall up to 40 per cent of GDP, providing employment for about 42 per cent of the population, where agricultural production is estimated at 90 per cent of total exports. Moldovan specialization in agricultural production is due to favorable climatic conditions and higher average soil fertility. Therefore, almost 80 per cent of the total territory consists of agricultural land, and over a half of the population lives in rural areas.

For the first half of the 1998 the agricultural output constituted 11.1 per cent of GDP in comparison with 10.0 per cent of 1997.

Production Trends

Although in 1997 total agricultural production increased by 11 per cent in comparison with the previous year, it decreased by over 40 per cent compared with the level in 1986–1990.

The agricultural output for first nine months of 1998 amounts to 3416 millions lei (current prices), which constitutes in comparable prices 97 per cent over the same period of 1997. This decrease was caused by the lower vegetal production (4 per cent less in comparison with the same period of 1997), registered over nine months of 1998. One of the factors that caused a lower vegetal production was the decrease of average yield per hectare and the other one was the decrease of yielding rhythms. The production of all vegetal products (except vegetables, which increased by 69 per cent in comparison with 1997) has decreased.

Animal overall production has decreased as well. The production of bovine animals has decreased by 9 per cent. This is because the diminution of bovine livestock within former agricultural enterprises has not been recovered by an equal increment within private farms. Milk production has decreased by 2 per cent. Poultry production has the same level as it was in 1997. Only live swine production has registered an increment of 4 per cent.

Foreign Trade

Exports of Agricultural and Food Products which amounts to 74 per cent of the total exports have decreased by 89 per cent in 1998 in comparison with the same period of the previous year. The

most significant decrease of exports was registered for sunflower seeds (by 83 per cent), wine material (by 82 per cent), sunflower oil (by 70 per cent), sugar (by 70 per cent), vermouths (by 63 per cent), sparkling wine (by 61 per cent), beef (by 54 per cent), pigmeat (by 51 per cent).

State Support

The present system of subsidization of the agricultural sector of the Republic of Moldova consists of three channels:

- cash subsidization from the State Budget;
- State guaranteed credits;
- non-cash subsidization.

Budgetary direct payments represents the smallest part of the entire subsidization system. It constitutes constantly 4 per cent of all budgetary expenditures and around 2 per cent of GDP. They are generally channelled to irrigation, environment protection activities and some product – specific subsidization such as creation of new fruit tree plantation, livestock improvement, viticulture improvement measures. As to 1999, the Budget Law provides direct payments to the private agricultural sector of the amount of 75 million lei.

During the six year period, 1992 – 1997, agricultural companies received from the Ministry of Finance guaranteed credits amounting to 360 million Lei. This included technical credits for purchasing fuel, spare parts, mineral fertilizers, and chemicals for plant protection, aiming to support producers and processing companies or employees. However, over 50 per cent of agricultural companies have not reimbursed the credits on time. Moreover (about 70 million) has now been written off by the State and thus transformed into subsidies.

So far the banking sector's contribution remains insignificant. There is a clear preference in giving loans to processing and purchasing companies rather than to agricultural enterprises. In practice such loans granted to agricultural companies are targeted towards large farms and not to new private entities.

Although there has been notable progress in creating a new intermediary system of farm financing, the availability of loans, in particular long-term loans for private farmers, is still limited and therefore represents a constraint for the rural economy.

Non-cash subsidization represents the most important way of support, given through cancellation or reduction of debts of the agricultural sector to the Budget or to the banking system. Non-cash support is much larger than direct payment support. According to the report of the World Bank non-cash allocations constituted 1,017 million lei (670 per cent more than cash support) in 1995 and 1,657 million lei (936 per cent more) in 1996.

The greatest part of these non-cash allocations was directed to wheat sector support, milk sector support and to support granted to agricultural enterprises suffering from natural calamities.

The financial crisis affecting the whole national economy deepened agricultural problems. Ministry of Agriculture and Industrial Processing has elaborated a number of development programs, in order to improve the situation within the agricultural sector. These development programs include the amount of subsidies for each sector. A general summary of these programs is attached to this report.

Privatization

Farm restructuring began in Moldova in 1991 and it is still continuing with the assistance of different donors. In 1997, 72 former state and collective farms were subject to privatization and reorganization process. The 1998–1999 Privatization Program intended to work with 550 agricultural enterprises interested in privatization and reorganization. However, 643 large agricultural enterprises signed agreements and are currently involved in the privatization process, under the "Land Project". Farm restructuring is constrained by the indebtedness of large agricultural enterprises. Due to the currently large debts by large enterprises it is difficult to continue restructuring and privatizing these farms.

According to the data provided by the Department of Statistics, by 1 October, around 298,000 persons have applied to privatize their land share. Out of these 298,000 231,000 (or 77 per cent) have received their land share in private ownership. Over nine months period of 1998, 55,000 persons (or 24 per cent) have privatized their land share. From the total number of persons who received land shares 108,000 (or 47 per cent) have created 77,000 private farms. The total area owned by private farmers is 143,000 ha.

General Summary of the Sectorial Development Programs

Elaborated by the Ministry of Agriculture and Industrial Processing

Sector	Amount of Subsidies (per year, mil. lei)							
	1998	1999	2000	2001	2002	2003	2004	2005
Tobacco	446.83	353.61	374.46	395.42	406.31	416.22	-	-
Fruit Tree	-	36.0	396.1	436.0	508.0	400	400	-
Livestock	-	45.25	43.75	43.75	43.75	45.25	-	-
Viticulture	-	37.6	52.3	67.9	85.6	114.0	122.5	144.7
Vegetables	-	-	5.5	5.5	5.5	5.5	5.5	-
Aromatic Plants	-	-	8.72	6.84	7.36	4.62	4.28	-
Total	446.83	472.46	880.83	965.41	1056.52	985.59	532.28	144.7

Summary of the Tobacco Development Program for 1998-2003 Annexed to the
Governmental Decision No. 145 from 9 February 1998

This Program has been adopted under the Governmental Decision No. 145, article 1.

The first part of the Program illustrates the importance of growing tobacco for the Republic of Moldova. In the conditions when around 60 per cent of the labour force lives in rural areas and respectively the arable surface per capita is between 0.58 ha and 2 ha is obvious the importance of growing intensive agricultural crops, which could assure the increment of the global revenue per unit of surface and could make get involved as greater as possible number of persons in the working process.

The tobacco is the right crop, which complies with these desiderates. National tobacco growers could obtain yields between 20 and 25 cent/ha of dry leafs of tobacco and net benefits between 2,000 and 4,000 lei per cent.

The second part of the program presents the current situation within the sector and lists the factors of influence:

- loss of traditional eastern markets after the collapse of the soviet system and lack of flexibility of the economic agents and administration bodies;
- loss of motivation for growing tobacco because of the enormous gap between purchasing prices (artificially maintained by the monopolistic enterprises which process tobacco and constantly increasing input costs (fuel, fertilizers, etc.);
- impossibility to implement new technologies;
- the Government and sector administrating bodies lacked a well determined policy regarding privatization, ownership, financial support, investments.

Beginning with 1997 the situation is getting better because de Government allowed:

- tobacco producers to dispose freely of their own production even to pay suppliers of fuel, fertilizers, equipment, etc.
- the restriction to sell the tobacco abroad has been removed.

The objectives of the program are:

- Increasing the tobacco production; The program established that the demand on existing markets (including the internal market) for Moldovan tobacco is 80,000-100,000 tons per year. To produce this quantity are necessary surfaces of 80,000-85,000 Ha and investments, as is presented in the table below.

General indicators of investments necessary to improve the technical base within the sector and costs to produce 80,000-100,000 tons of tobacco until year 2003 (million lei)

Structure of investments	Years					
	1998	1999	2000	2001	2002	2003
Volume of production	80.0	85.0	90.0	95.0	97.5	100.0
Costs for producing seedling material	138.49	118.86	125.87	132.92	136.37	139.91
Costs for processing soil and planting seedling material	5.0	5.3	5.61	5.92	6.7	6.23
Costs for plantations maintenance	18.0	19.1	20.23	21.36	21.91	22.48
Costs for collection and transportation	40.0	42.5	45.0	47.52	48.75	50.02
Investments for creation of material and technical base for drying, selection and packaging of tobacco	245.34	167.85	177.75	187.7	192.58	197.58
Total per year	446.83	353.61	374.46	395.42	406.31	416.22

The Program establishes the creation of a Supporting Fund constituted of excise tax and other taxes imposed for export of tobacco and import of tobacco products.

- technical and scientific works and training;
- processing tobacco leafs and producing tobacco products;
- privatization within the tobacco sector.

Summary of the Development Program of the Fruit Tree Sector.

The Ministry of Agriculture and Industrial Processing has elaborated the Development of the fruit tree sector in order to improve the situation of the sector. The Statistics presented within this Program shows a decrease of the overall production of the sector from 876,000 tons and the average production of 5.5 tons/ha in 1986–1990 down to 540,000 tons and 4.0 tons/ha in last years. The production of the grafted trees has decreased from 12 million pieces in 1987 down to 0.5 million pieces in 1996. Respectively, the share of the sector in the overall income of the agricultural sector has diminished from 16 per cent to 8 per cent.

The principles of this program are:

- keeping about 100,000 ha of fruit tree plantations and their annual renovation of 7–9 per cent;
- creation of new plantation solely on the base of renovation of the old fruit tree plantations, which have low productivity;
- maximum use of the intensive production factors: types of fruit trees resistible to local environmental conditions and diseases, optimum combinations of grafting, creation of plantations having short periods of exploitation, implementation of modern technologies of production;
- keeping 7–8 enterprises licensed in production of grafted trees and the production should be of 5.0–5.5 million grafted trees.

Investments necessary for the development of the fruit tree sector.

Program Objectives	Per Year					
	1999	2000	2001	2002	2003	2004
Creation of fruit tree plantations	-	52.2	88.5	142.7	-	-
- of which: purchasing seedling material	-	10.0	16.0	25.6	-	-
Maintenance of productive fruit tree plantations	-	338.6	340.0	356.0	-	-
- of which: purchasing pesticides and fertilizers	-	146.0	147.0	151.0	-	-
Maintenance of fruit tree seedling material	-	3.4	4.5	6.0	-	-
Production of seedling material	-	2.5	3.0	3.3	-	-
Total	36.0	396.1	436.0	508.0	400	400

Summary of the Livestock Development Program

This development program has been adopted under the Governmental Decision No. 451.

Article 1 of the Decision approves the livestock development program (which is annexed to it). Article 2 of the Decision stipulates that Ministry of Finance shall include in the Budget Law, on the base of Ministry of Agriculture indication allocations for financing the development of the livestock sector.

Paragraph 1 of the program itself makes a presentation of the current livestock sector. Thus, because of objective factors (such as natural calamities) and subjective factors (such as impediments to the agricultural sector reform), the situation in the livestock sector is getting worse. In comparison with 1990 the number of bovine animals has decreased by 466 thousand units, of live swine by 943,000 units, of live poultry by 9095.1 thousand units, of sheep and goats by 19,000 units. At the same time the overall sales of live animals decreased by 322.3 thousand tons, the sales of milk by 720,000 tons and the sales eggs by 535 million pieces. The annual overage production of milk per one cow has decreased from 4,016 kg in 1989 to 1,689 kg in 1997, while private sector has reached the level of 2,045 kg.

The paragraph 2 of the Program establishes its objectives, which are as follows:

To recover the number of livestock on the base of financial support as is stipulated in article 16 of the Law of the Republic of Moldova on Selection and Reproduction in Livestock Sector. This article says that the Government stimulates the activity of selection and reproduction in livestock sector by granting the owners of breeding resources:

- subsidies from the Budget for purchasing from abroad of the most valuable breeding resources, biological and veterinary preparations and equipment for creations of new, more productive races of animals.
- long-term credits for purchasing breeding resources and equipment for the same purposes.

To increase global milk production through stimulation of milk producers on the base of dota'ii granted to the sales of milk.

According to the Governmental Decision No. 451 of the Law of the Republic of Moldova on Selection and Reproduction within livestock sector to achieve the objectives of this Program are necessary investments as presented in the following table:

Sectors	Per Year (mil. lei)				
	1999	2000	2001	2002	2003
Animal breeding					
Bovine animals	10.0	10.0	10.0	10.0	10.0
Swine	6.3	6.3	6.3	6.3	6.3
Sheep	0.05	0.05	0.05	0.05	0.05
Horses	0.5	0.5	0.5	0.5	0.5
Poultry	1.4	1.4	1.4	1.4	1.4
Total	18.25	18.25	18.25	18.25	18.25
Milk production	21.0	22.5	24.0	25.5	27.0
Artificial seedling centers	6.0	3.0	1.5	-	-
Total General	45.25	43.75	43.75	43.75	45.25

Summary of the Development Program of the Viticulture Sector (1998 – 2000)

The Development Program of the Viticulture Sector is being implemented under article 1 of the Governmental Decision No. 126 from 5 February 1998.

The Program will be implemented in three years (1998–2000). The first part of the Program presents the current situation within the sector. According to the Program viticulture plantations have 7 per cent of total arable area of the Republic of Moldova, but the budget revenues of this sector constitutes about 500 million lei or 50-60 per cent of the overall budget revenues of the agricultural sector.

In recent years, because of some objective factors (natural calamities) and subjective factors (impediments to the reform process) the situation within the sector has become worse. In comparison with 1981-1985 period the area planted with vineyards has decreased by 70,000 Ha and it constituted at the beginning of this year about 164,000 Ha.

In 1997 555 Ha of vineyards were planted while 10,700 Ha are to be stubbed up, the global production of grapes has decreased down to 300,000 tons.

The area devoted to production of seedling material has decreased from 10,000 Ha down to 500 Ha.

The objectives of the Program are:

- maintenance of the areas planted with vineyards at the same level as in recent years at 164,000 Ha;
- recovery of the viticulture plantations of 34,000 Ha affected by freezes of 1996-1997 winter;
- Creation of intensive viticulture plantations with a 100 per cent/Ha efficiency:
 - 1998 – 1,000 thousand Ha;
 - 1999 – 1,500 Ha;
 - 2000 – 2,000 Ha.
- Global production of grapes as follows:
 - 1998 – 500,000 tons;
 - 1999 – 600,000 tons;
 - 2000 – 700,000 tons.
- Installation of new vineyards plantations in:
 - 1998 – 8,000 Ha;
 - 1999 – 1,300 Ha;
 - 2000 – 1,700 Ha.

- The most important objective of this program is the recovery of the seedling material production on a surface of 970 Ha, as follows:
 - 1998 – 5 million pieces;
 - 1999 – 7 million pieces;
 - 2000 – 7.5 million pieces.

Governmental Decision No. 126 adopted under article 1, paragraph 2 a Special Fund for the development of the viticulture sector. The Fund will be created within the Ministry of Agriculture and will be constituted of:

- budgetary grants for the development of the viticulture sector, according to the Budget Law;
- part of excise tax imposed on sales of the wine production;
- part of the license fee for production, storage and sales of the alcoholic production. Part of this fee accounting 50 minimum salaries goes to the Budget and the rest to this Fund.

The Fund will finance measures undertaken to recover and conserve production potential of the viticulture plantations and works to create new viticulture plantations.

The Fund will also finance programs and projects for creation of private enterprises, of entrepreneurial associations of different judicial type specialized in viticulture production, training of privatized agricultural producers.

The following table presents the amount of subsidies necessary for the achievement of the objectives of the Program.

Objectives	Per Year						
	1999	2000	2001	2002	2003	2004	2005
Plantations (ha)	1,500	2,000	2,500	3,000	3,500	4,000	4,500
Minimum level of subsidies (mil. lei)	33.6	47.3	61.9	77.6	94.5	112.5	131.7
Eventual subsidies (freezes, etc., mil. lei)	4.0	5.0	6.0	8.0	9.5	11.0	13.0
Total	37.6	52.3	67.9	85.6	114.0	122.5	144.7

Summary of the Development Program of the Vegetables Sectors.

The Ministry of Agriculture and Processing Industry has elaborated this development program to improve the situation with the vegetables sector.

Recent years, surfaces planted with vegetables constituted about 50–55,000 Ha. In 1998 have been planted 50,000 Ha and the overall yield was 485 thousand tones which less by 600,000 tons in comparison to 1990.

For 1999–2004 period it was foreseen a constant increment of the area planted with vegetables and an increment of the overall production of vegetables up to 1million tons.

The main factors that have lead to this situation are:

- change of ownership for production factors;
- lack and high costs of material and energy resources;
- loss of former soviet markets;
- the situation within the processing industry.

The development program elaborated by the Ministry of Agriculture foresees an increment of the overall production up to 1 million tones. The development of the vegetables sector requires the optimization of surfaces planted with vegetables, minimization of losses for yielding, transportation, processing and storage.

Measures to be undertaken in order to accomplish the objective of this program are:

- production of seeds;
- production of seedling material;
- creation of association processing vegetables.

The investments necessary to implement this program are as presented in the following table:

Measures to accomplish the program	Total investment	Per year				
		2000	2001	2002	2003	2004
Production of seeds	7.5	1.5	1.5	1.5	1.5	1.5
Production of seedling material	15.0	3.0	3.0	3.0	3.0	3.0
Scientific assistance	5.0	1.0	1.0	1.0	1.0	1.0
Total	27.5	5.5	5.5	5.5	5.5	5.5

Summary of the Development Program of the Aromatic Plants Sector

This Development Program was elaborated by the Ministry of Agriculture and Industrial Processing and determines the necessity for subsidization of the aromatic plant sector, which provides raw material for volatile oils processing industry.

The raw material and volatile oils of lavender and clary sage produced in the Republic of Moldova correspond to international quality standards. Noncompliance with agrotechnical and technological norms had a negative effect on the quality of the final product. The technology and equipment is the same as it was forty years ago. The losses of the traditional markets as a result of the USSR collapse, to long transition period and other factors have led to deterioration of this sector. In 1998 the production of this sector counts for 7–10 per cent of the production generally available last decade. To recover this sector are necessary investments for creation of industrial plantation and production of the raw material, as well as for implementing modern processing technologies.

Lavender and clary sage constitutes a priority for the Republic of Moldova. According to this program, by 2004 no less than 3,500 ha of lavender and 4,000 ha of clary sage are foreseen to be planted. In 1998 150 ha of lavender and 125 of clary sage were planted. But even these areas are enough to start the implementation of this program. This requires the implementation of advanced technologies for creation of the industrial plantation, growing and processing raw material of aromatic plants and obtaining high quality final product.

The tasks of this program are:

- the implementation of the advanced technologies for growing seedling material and creation of industrial plantations of lavender and clary sage.
- implementation of technologies of a medium processing capacity (500–1,000 tons per season) distillation through water steam, specially for obtaining volatile oil of lavender.
- implementation of modern equipment for processing raw material of aromatic plants using solvent extracts, especially for obtaining clary sage concrete.

Investments for the development of the production of volatile oils in the Republic of Moldova.

Program objectives	Total investments (million US\$)	Per Year				
		2000	2001	2002	2003	2004
Creation of lavender plantations	2.260	0.720	0.500	0.560	0.240	0.200
Creation of clary sage plantation	1.500	0.300	0.300	0.300	0.300	0.300
Equipment for processing through steam	1.680	0.300	0.300	0.360	0.360	0.360
Equipment for processing through solvents	6.600	0.720	1.420	1.600	1.420	1.420
Total	12.040	2.040	2.500	2.840	2.040	2.040