
The Evolution of Economic Relations Between the Republic of Moldova and the European Union in the Period of 2007-2018

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Abstract

This paper analyses the evolution of economic relations between the Republic of Moldova and the European Union during 2007-2018, assessing the main achievements made by the Republic of Moldova in the realization of its “European dream”, as well as the major challenges that it faces in cooperation with the EU. The analysis includes a short history of relations between the parties, indicating the most important events that occurred during 2007-2018; the impact of the EU-Moldova Association Agreement, including DCFTA, upon economic development of the Republic of Moldova; the results of financial assistance offered by the European Union in different sectors of Moldovan economy, as well as the main challenges occurred in cooperation between the parties. Additionally, the paper provides an overall picture of the energy sector of the Republic of Moldova, as one of the greatest priorities for the country and presents the main strengths, weaknesses, opportunities and threats of it. The methodological base of the paper consists in the analysis of applicative methods, quantitative and qualitative research analysis, analysis of various documents that help to study in details the evolution of relations between the countries and formulate conclusions regarding the investigated topic. The study concludes that the relations between the Republic of Moldova and the European Union evolved a lot in the period of 2007-2018, but nevertheless, in order to close the ties between the parties there is a need for the Republic of Moldova to work hard on its reform agenda and solve the major problems that it faces.

Keywords: Republic of Moldova, the European Union, the EU-Moldova Association Agreement, DCFTA, evolution, energy, achievements, challenges.

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1.Introduction

The relations between the Republic of Moldova and the European Union (EU) has always been a topic of concern for many experts and analysts such as Otilia Nuțu, Sergiu Tofilat, Denis Cenușa, Vadim Gumene and many others who all over the years have pursued the evolution of the relations between the parties under various political and economic situations that impacted them.

The Republic of Moldova participates in various EU programmes and agreements which benefit the country with EU support and technical assistance and offers the possibility for Moldova to improve its business climate, institutional framework and general living conditions of Moldovan citizens. The main priorities for relations with the Republic of Moldova combine the fight against corruption, organized crime and money laundering as the biggest problems of the Republic of Moldova, as well as ensuring freedom of expression, the respect of human rights and reforms in the judicial sector.

The European Union plays a major role in creating a stronger economy, connectivity and governance in the Republic of Moldova. It promotes and calls for consolidating the rule of law and justice in the Moldovan society, as well as the fight against corruption. Additionally, the European Union supports reforms in different sectors of Moldovan economy and offers financial assistance, being Moldova's biggest investor and first trading partner. Therefore, the relations between these two countries not only are important and relevant, but are becoming even deeper and more complicated year by year.

Formally, the relations between these two countries were initiated in the Partnership and Cooperation Agreement (PCA) that was signed on 28 November 1994 and came into force on 1 July 1998 for a period of 10 years with the possibility of tacit prolongation. The purpose of this document is to set out the bilateral relations between Moldova and the European Union in the commercial, political, legal, economic, cultural and scientific field and support the Republic of Moldova in: consolidating democracy and the rule of law, respecting human and minority rights by ensuring the appropriate framework Political dialogue; sustainable development of the economy as well as completion of the transition to the market economy through the promotion of trade, investment and harmonious economic relations. Since that time, partnership between two sides started to evolve rapidly. Later on, the Partnership and Cooperation Agreement was replaced by the Association Agreement, which is the essential element of legal framework between the Republic of Moldova and the European Union and provides for stronger political and economic association.

1.2. The history of relations between the Republic of Moldova and the European Union

In the period 2007-2018 the following events occurred in the economic relations between the Republic of Moldova and the European Union which consolidated the ties between two countries, and namely:

- On 7 March 2007 was adopted the European Strategy of the Republic of Moldova for the period 2007-2013 based on the European Neighborhood Policy, the EU-Moldova Partnership and Cooperation Agreement as well as the Action Plan.

- In 2009 in Brussels, it was held the 11th meeting of the Moldova-EU Cooperation Council, which adopted a joint statement supporting the efforts of the Republic of Moldova and mentioning the perspectives of strengthening the ties between two parties. Within this meeting, EU representatives have recognized the European aspirations of the Republic of Moldova, being taken some concrete steps toward creating a deep and comprehensive free trade area.

- On January 12, 2010 were launched the negotiations on the Association Agreement with the EU, which took place in 15 rounds of negotiations, with 7 rounds dedicated to Deep and Comprehensive Free Trade Agreement (DCFTA).

- On March 17, 2010 Moldova became a full member of the Energy Community.

- On October 2011 the Republic of Moldova signed Memorandum of Understanding between the European Communities and the Republic of Moldova on the association of the Republic of Moldova to the Seventh Framework Program of the European Community for Research and Technological Development (FP7). The Republic of Moldova is the first country in the Eastern Partnership and the second in the European Neighborhood Policy after Israel, which becomes associated with FP7.

- In 2012 were launched the negotiations on the Deep and Comprehensive Free Trade Area within the negotiations on the Association Agreement.

- On June 26, 2012 was signed the Agreement on the Common Aviation Area between the Republic of Moldova and the EU.

- At the end of 2013 the Republic of Moldova initialed the text of the Association Agreement, which included the creation of a Deep and Comprehensive Free Trade Area as well.

- On June 26, 2014 the EU Council approved the EU-Moldova Association Agenda which is a basic document indicating the priorities for cooperation between the two sides in the next three years, thus replacing the Action Plan.

- On June 27, 2014, in Brussels, EU leaders and Prime Minister of the Republic of Moldova, Iurie Leanca signed the Association Agreement with the European Union in Brussels.

- The abolition of short-stay visas in the Schengen area applied to Moldovan citizens holding a biometric passport from April 28, 2014.

- In 2014 of the same months the European Parliament reaffirms Moldova's European perspective and said that the Republic of Moldova may apply for EU membership. On April also, the citizens of the Republic of Moldova obtained visa liberalization.

- On July 2, 2014 the Parliament of the Republic of Moldova ratified the Association Agreement. Under the legal procedures, it has to be ratified by the legislators of all EU Member States also.

- On September 29, 2014 was signed the EU-Moldova Agreement on the Participation of the Republic of Moldova in the Program for Competitiveness of Small and Medium-Sized Enterprises.

- Two months later, it was signed the Memorandum of understanding which concerned the support offered to Moldova for the period 2014-2017 and the Agreement concerning the Financing of the Support Program for the establishment of the Free Trade Area.

- On November 13, 2014 the European Parliament ratified the EU-Moldova Association Agreement at the plenary session. To enter into force, the agreement must be ratified by the national parliaments of the EU Member States.

- On March 16, 2015 was organized the Plenary meeting of the Association Council of the Republic of Moldova - European Union. The Agenda of the meeting aimed at assessing the progress made in the implementation of the Association Agreement and the designation of tasks for the next period. The dialogue partners set the priorities for the next period at the highest political level.

- In 2015 the same month, in Brussels was signed the Agreement between the Republic of Moldova and the European Union concerning the Republic of Moldova's participation in the EU "Creative Europe" Program. The agreement provides for the eligibility of the Republic of Moldova to access annually until 2020 year, the funding for cultural projects in the cultural and creative sectors of the sub-program "Culture" and certain activities under the "Media" sub-program of the EU "Creative Europe" program.

- On May 21-22, 2015, the fourth Eastern Partnership (EaP) Summit took place in Riga. It brought together leaders of the European Union and of the EaP member states - Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The discussions in Riga aimed at revising the European Neighborhood Policy. At the Eastern Partnership Summit in Riga, the Civil Society Conference of EaP took place, involving several hundred civil society representatives and experts from the EU Member States and the EaP countries. Business people in the Eastern Partnership countries and the EU have agreed to step up business contacts between companies. To this end, the European Commission launched the Deep and Comprehensive Free Trade Area (DCFTA) facility for Small and Medium Sized Enterprises (SMEs).

- In 2015 also, the European Commission's Eastern Neighborhood Directorate and the Prime Minister of the Republic of Moldova signed the European Neighborhood Programme for Agriculture and Rural Development (ENPARD) Financing Agreement for Agriculture and Rural Development. The document provides for a budget support to the Government of the Republic of Moldova from the European Commission amounting to 64 million euros.

- 2016 year was marked by the entrance into force of the Association Agreement, as the last instrument of ratification or approval was deposited on 23 May 2016.

- In August 2017 was approved the new Association Agenda for the period 2017-2019 including short- and medium-term priorities for the EU-RM cooperation.

- On 26 February 2018, EU foreign ministers had an exchange of views on Moldova, within which the Council reaffirmed its commitment to consolidate **economic integration and political association** between the Republic of Moldova and the European Union, on the basis of the association

agreement. The Council remarked the importance of continuing the implementation of the reforms process, which started in 2016.

- In May 2018, the European Union and the Republic of Moldova held the fourth meeting of the Association council. The Association Council took stock of the implementation of progress of the EU-Moldova association agreement.

Considering all facts mentioned above, the European Union and the Republic of Moldova develops an ever-closer relationship, which is going beyond cooperation, until gradual economic integration and deepening of political cooperation between the countries. Undoubtedly, European integration remains the main and irreversible objective of the domestic and foreign agenda of the Republic of Moldova. However, the achievement of this objective depends solely on the efforts of Moldova and the realization of its commitments towards the European Union.

2. The impact of the EU-Moldova Association Agreement, including DCFTA, upon economic development of the Republic of Moldova

The Moldova–European Union Association Agreement represents a treaty between the two countries that establishes an economic and political association between them. It provides a long-term foundation for the future relations between the Republic of Moldova and the European Union and commits Moldova to reforms in the economic, judicial and financial sector.

According to the European External Action Service (EEAS) *“The Association Agreement (AA) aims to deepen political and economic relations between Moldova and the EU, and to gradually integrate Moldova into the EU Internal Market - the largest single market in the world. This includes the setting up of a Deep and Comprehensive Free Trade Area (DCFTA), which is a core part of the Agreement”*.

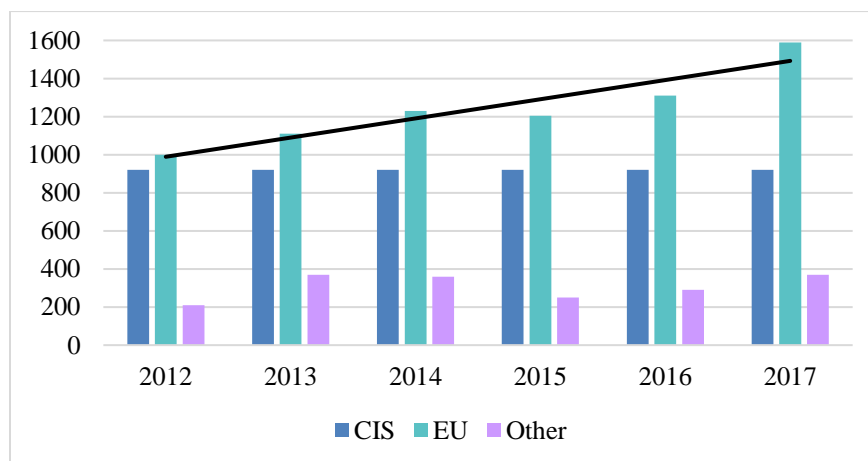
The EU Association Agreement was initialed in Brussels on November 29, 2013 and signed in June 2014. Provisionally, it entered into force starting from 1 September 2014. Since that time, the Agreement has been ratified by all member states of the European Union as well as by the Moldovan and European Parliaments. Consequently, the Association Agreement entered fully into force on July 1, 2016 (Cenusa D., 2016, p.1).

The Agreement comprises two main objectives (political and economic) for the future of the Republic of Moldova as a secure and independent European state. The political objective consists in the promoting of European values such as the rule of law, democracy and the respect of human rights which would direct the Republic of Moldova toward the realization of its “European choice”. The economic purpose, at its turn, comprises the modernization of the Republic of Moldova by expanding trade with the European Union and the world generally, by making reforms that would align with European values and through the improvement of Moldova’s institutions and business climate.

The Deep and Comprehensive Free Trade Area, as an essential part of this agreement, represents a free trade area between the European Union and Moldova, which allows Moldova access to the European Single Market in selected sectors and grants EU investors the same regulatory environment in the associated country as in the EU. The DCFTA provides better access to parties' markets than that offered to other trade partners, and presupposes an elimination of import and export obligations on trade in goods, as well as the removal of any obstacles to trade in services and to establishing in respective markets.

Analyzing the impact of the DCFTA on the *export of goods* in the first year of its implementation (2015), it is observed a negative trend in exports (-2.3%) namely because of the political instability in the Republic of Moldova, political crisis, sanctions and restrictions imposed by the Russian Federation and the European Union that had its effects on the general picture of trade. Nonetheless, a year later, Moldovan exports to the European Union increased by 9.4% if comparing to 2015, and by 6.9% if comparing to 2014, until the establishment of the DCFTA. In 2017, exports registered a surprisingly record, exceeding the 2014 level by about 28%. This tendency continued in 2018 as well, with exports increasing by 38.1% in the first six months of the year, comparing with the same period of the last year. The European Union market accounted for 68.5% of Moldova's total exports (Gumene V., 2017). The comparative evolution of the exports of the Republic of Moldova with other destinations is seen in the figure 1.

Figure 1. Comparative evolution of the exports of the Republic of Moldova by regions, mil. USD



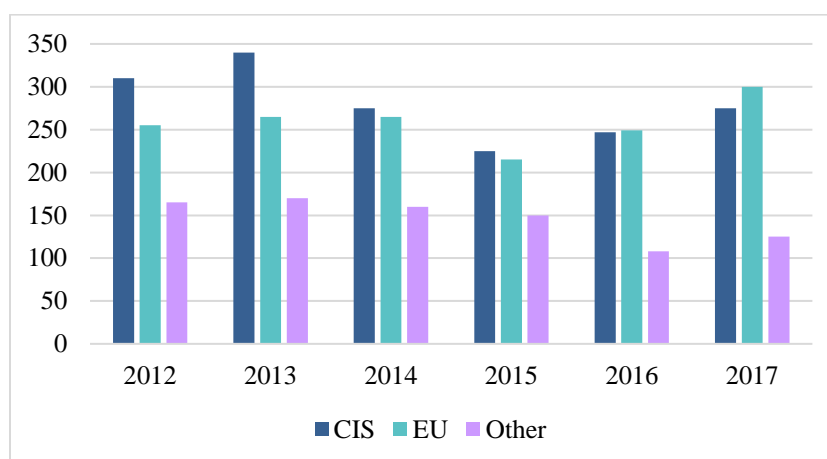
Source: Elaborated by the author on the basis of NBS data (National Bureau of Statistics)

However, the perception of data just on the basis of value evolutions is not sufficient, given particular macroeconomic factors that can alter the respective indicators. So, among the most

significant factors is founded the devaluation of the national currency in relation to the main reference currencies and the appreciation of the US dollar against the EURO.

With regard to the impact of the DCFTA on *imports of goods* from EU, in the first year after entering into force of the Association Agreement was negative, because of the decrease in imports from EU by 16.4%. The imports of agri-food products also registered a slight decline of 4% immediately after the entry into force of the DCFTA, one of the causes being the reduction of re-exports (Gumene, 2017). However, there is noticed a sharp increase in the next years, especially regarding the imports of agri-good products from the EU and CIS countries (See figure 2).

Figure 2. Comparative evolution of imports of the agri-food goods per regions, mil.USD



Source: Elaborated by the author on the basis of NBS data (National Bureau of Statistics)

In contempt of many speculation with regard to the invasion of EU agri-food goods, the picture does not indicate such a development. Therefore, imports of agri-food products from the EU registered a sharp decline immediately after the entry into force of the Deep and Comprehensive Free Trade Area and their following dynamism, although the reference period indicates a decrease of 4%.

The main imported agri-food products include food preparations not covered elsewhere, such as food additives, spreads, biologically active additives, jells etc., imported mainly from Germany and Romania. Additionally, the Republic of Moldova imports sunflower seeds for sowing, as well as preparations for animal feeding.

Even though there was no “invasion” of EU goods on Moldovan market, as expected, there are some imports of agri-food products that registered an increase during 2012-2017 (See figure 1.8). For example, the EU milk and cream imports registered an increase of 2.7 times during the reference period, as well as the sunflower and corn, whose positive evolution was determined by the imports of seeds for sowing, designated for the development of phyto-technical sector. Additionally, the import of beer also registered a positive dynamic of about 2.9 times in condition of abolition of import

obligations, as well as the import of cigarettes that increased with almost 56%, even though they had a total import share of only 9% in the reference period (Lupusor, 2018, p.6). The import of sugar rose also, by about 57% during the reference period, following the increase in deliveries from Poland. The increase of poultry meat imports by 57% in the reference period can be associated with the surplus of these products on the EU internal market in the context of restrictions imposed by Russian Federation. As regards the import of walnuts that increased by 30%, these are actually re-exports of the goods imported, under suspension regime for further being delivered to buyers, using cheaper labor.

It is important to mention that there are a lot of benefits that the DCFTA offers both for the Moldovan society and for businesses. Amat Adarov and Peter Havlik estimated that the DCFTA will contribute to the boosting of trade between the Republic of Moldova and the European Union. Imports are supposed to rise by 6% in the short run and 8% in the long run, while exports are estimated to increase by 15% and 16% respectively. It means that the DCFTA will also improve the trade balance of the Republic of Moldova in the short run. As regards the benefits in the long run, it is expected that Moldova will reap the amount of EUR 283 million, due to the reduction of non-tariff measures. Another significant input for Moldova in the short run originates from the liberalization of services trade, amounting to 28 million EUR. The consumers, at their turn, will be advantaged by the safety of products resulted from stronger domestic rules imposed by the DCFTA. The inflow of FDI from the European Union is also estimated to increase, as a result of the provision, by the DCFTA, of a more stable and certain trade regime, based on EU legislation, which will strengthen the competitiveness of the economy and will contribute to the creation of new enterprises.

3. Sectoral economic cooperation between the Republic of Moldova and the EU. The results of EU assistance for Moldovan citizens

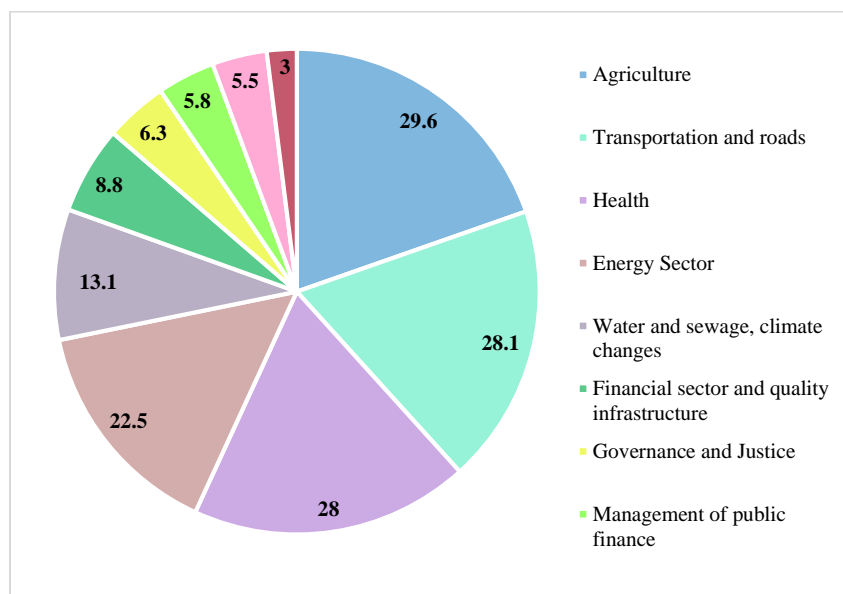
Since 2007, the Republic of Moldova has benefited from European financial assistance of at least EUR 780 million, in order to develop different sectors of the economy, and it is only the assistance provided through the European Neighborhood Instruments. Surprisingly, it is about 37 euro per capita a year, which is the highest amount paid to countries in the eastern neighborhood of the European Union. The European auditors examined how effectively was used this assistance and found that the EU's financial support for the recovery of the justice, public finances, health and water sectors had registered only little progress. According to the annual report on external assistance to the Republic of Moldova in 2016, the causes of these records are multiple and relate to the way the EU provided this assistance, to the conditionality that has been put in place, as well as to the meteorological measures within the country.

Denis Cenușă and Michael Emerson have stated in the book *Deepening EU-Moldova relations* that the essential macro-financial assistance offered to Moldova by the European Union until now has been a €90 million grant programme concluded in 2010 and executed in three tranches in 2010 and

2012. The main generator of this programme was the global financial crisis from 2008-2009 which had very serious consequences for Moldova.

Furthermore, the Republic of Moldova beneficiaries from regular grants from the EU budget that are programmed for the period 2014-2017. The total amount provided is about €335–410 million, offered in order to support Moldova’s reform program through technical and financial cooperation. The suggestive allocation for the 2014-2020 period is €610– 746 million with possible additional allocations which depend on the progress towards a “deep and sustainable democracy” and realization of agreed reform objectives. Also, in a memorandum signed with Moldova, the European Union had shown itself willing to provide up to EUR 400 million in 2014-2017, depending on its performance in promoting reforms. According to some statistics, the Republic of Moldova could only use half of the funds.

Figure 3. Volume of external assistance by sectors for Moldova in 2016, mil. EUR



Source: Elaborated by the author on the basis of data presented by central public authorities

The EU financial assistance offered to the Republic of Moldova, which helps it to implement many reforms nationally, also brought many positive results that benefit the Moldovan citizens in various ways.

For example, about 150 schools, nurseries and community centers from within the country were efficiently supplied with energy, with the help of the EU programme.

Approximately 5000 companies that received financial assistance from the EU, managed to develop their activity and create 1735 new jobs and support 56000 jobs in SMEs. Additionally, the European Union contributed to the recovering of roads around the country, such as the EU-funded

Ungheni bypass and also to the building of a new drinking water supply infrastructure all over the country, which provides more than 15000 people with secure and sufficient water. Moreover, in the years 2015-2017 more than 900 Moldovan academic staff and students benefited by the Erasmus+ programme thanks to the EU and were able to teach and study abroad.

Other significant results of EU assistance that favor Moldovan citizens include:

- The improvement of public transport in Balti and Chisinau;
- The modernization and endowment of the forensic center of the Police that facilitates the process of criminal inspections;
- The provision of new drinking water supply infrastructures in Nisporeni, Vărzărești and Grozești;
- The installation of biomass heating systems in more than 225 kindergartens, schools, community centers and village halls, which make heating better and cheaper. Moreover, 47 of these were also endowed with Solar Hot Water Systems, 35 new biomass enterprises were established and 400 jobs were created. Not least, these evolutions lead to the diversification of energy supply sources from within the country;
- The establishment of more than 10 business incubators in such regions as Voda, Rezina, Singerei, Cosnita, Cedir Lunga, Leova, Stefan, Nisporeni, Cimislia, Cahul and Calarasi;
- The funding of 11 capacity building projects involving universities in the years 2015-2017;
- The participation of more than 2300 young people and workers from different parts of Moldova in exchange programmes and volunteering activities;
- The setting up of businesses and creation of more than 350 jobs in both parts of the Nistru river, as a result of confidence business measures;
- The renovation of the Soroca fortress and of the historical Manuc Bey mansion in Hincesti, as well as of other major Moldovan national heritages that were restored with the financial support of the EU. This contributed to the development of the country's economy through the enhancement of tourism;

Furthermore, the Republic of Moldova gets a lot of advantages from regional programmes for the Eastern Partnership region, through receiving financial support in such fields as transport, energy and environment, the development of business, as well as the access to finance (State Chancellery of the Republic of Moldova).

4. Moldovan challenges in the cooperation between the Republic of Moldova and the EU

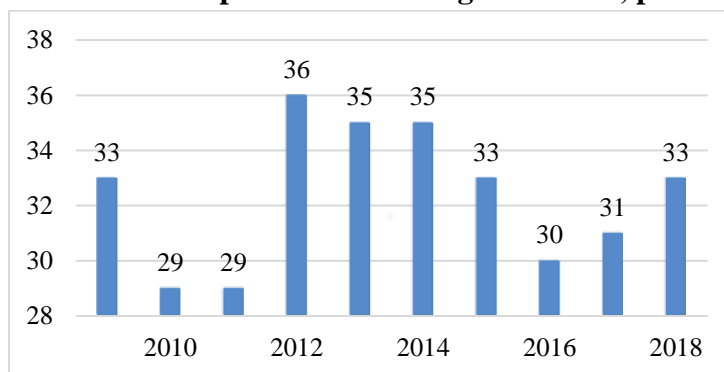
The Republic of Moldova still faces a lot of problems and challenges that influence its economic relations with the European Union, as well as the EU financial assistance. In order to overcome these problems and benefit from the EU support further, Moldova has to prove that it is working on reform agenda and its commitments, as well as to promote the European values and principles.

Even though in early 2016 was introduced direct election of the president in Moldova, which presupposes the improvement of the institutions' stability, the democracy in the Republic of Moldova at the institutional level still remains to be fragile. Despite the high competitiveness within the electoral process, there are many irregularities that hinder this procedure to be totally free and fair. This particularly refers to vote-buying practices, the excessive use of government resources as well as to inappropriate access to mass media, which obviously, affect the EU attitude towards the Republic of Moldova.

Another challenge of the Republic of Moldova that influence its relations with the European Union is the high level of corruption in all sectors of the economy. According to the Institute for Public Policies, Public Opinion Barometer from November 2017, corruption remains one of the top five issues for the population. Despite the fact that Moldovan Parliament adopted a series of anti-corruption measures in 2016-2017, in order to consolidate the capacities of anti-corruption agencies, the quality of the implementation of these reforms remains fragile. Their inefficiency resides in the unpredictability in the legislative process as well as in the long delays in approving the laws related to the fight against corruption. Moreover, the defectiveness of anti-corruption reforms evolves from legislature's efforts to sabotage the implementation of reforms via various controversial initiatives, delayed election of leadership of the National Integrity Authority register as well as inadequate financing and staffing of the Anticorruption Prosecution Office (PROHINITCHI, 2018).

According to the reports of Transparency International, in the last 10 years, the level of corruption in the Republic of Moldova averaged 32.4 points. During this time, corruption Index in Moldova reached an all-time high of 36 Points in 2012 and a record low of 29 Points in 2010-2011 (See figure 4 below).

Figure 4. Moldova corruption index during 2009-2018, points out of 100



Source: Elaborated by the author on the basis of data offered by Transparency International

The Transnistrian conflict as well as the influence of Russia also affects the foreign and security policy aspects of EU–Moldova cooperation. Although Moldova has persistently shown support for the EU's foreign and security policies, it has defined its own position on sensitive matters of foreign policy.

For instance, it has abstained from adopting the EU's economic sanctions targeting Russia, and refrained from supporting the visa bans on Russian officials regarded as linked to the annexation of Crimea and the destabilization of the eastern Donbas region of Ukraine.

The energy sector of the Republic of Moldova is also a challenge of the highest priority for Moldova, as the country is entirely dependent on the import of natural gas from the Russian Federation through Ukraine. Generally, the energy system in the Republic of Moldova is extremely inefficient, remaining underfunded and dependent on external sources of supply. When geopolitical risks are getting worse and the competitiveness of an economy is highly dependent on energy efficiency, it is critical to find the mechanism that would have a coherent approach to these issues.

5. SWOT analysis of the energy sector in the Republic of Moldova

The energy sector plays an important role in sustainable development and restructuring of the national economy. The importance of this sector increases with the level of development of a country, manifested by the rise in per capita consumption of energy due to increase population's income. However, despite the great significance of the energy sector for the Republic of Moldova, it is still not enough sufficient modernized and faces a lot of challenges that have to be encountered.

In this context, a good SWOT analysis will help to identify the main strengths, weaknesses, opportunities as well as threats of the current situation of the energy sector in Moldova, that will consequently help to plan the next steps towards its development properly.

The academician Valeriu Canter have identified the major factors that affect either positively or negatively the development of the energy sector in the Republic of Moldova. He highlighted the main challenges of this field, as well as to potential opportunities that would help to consolidate the energy security in our country. Below are listed the main of them:

Strengths. The strengths of the energy sector in the Republic of Moldova refer to the internal potential of the country that can contribute to the increase of energy security, and namely:

- Favorable geographical position, regional transmission network configuration and power generation potential that create a strategic advantage for Moldova;
- The functioning of the free market for petroleum products and their sufficient storage capacity (about 600 thousand tones);
- The implementation of concrete actions to transpose the acquis in accordance with the provisions of the Energy Community Treaty, including in the field of renewable energy;
- Strong connections of the power system with that of Ukraine;
- The ability to transit 4-5 mil. kWh / year electricity to the West (Bulgaria, Romania, 400 kV LEA) and North-South axis approx. 450-500 MW;
- Ensuring transit of approx. 20 miles of natural gas through the territory;
- The diversification of the ways of importing energy resources by building the Giurgiulesti terminal and the respective infrastructure;

- The tendency to decrease the electric and thermal energy losses;
- The satisfactory energy potential of biomass for use for energy purposes;

Weaknesses. These relate to certain conditions and characteristics of the energy sector in Moldova that limit the development of it, and are as follows:

- The legislation, which has allowed and still allows the existence of a gas monopoly, the control being entirely owned by a single actor – Gazprom;
- Geographic and geo-economic factors, which has not allowed the diversification of sources of import and identification of alternative ways, which would be viable to Russian gas;
- The embryonic market, which means that Moldova does not have an energy efficiency market, and the possibility of creating it has not yet been used. Increasing this market and transforming energy efficiency into mass activity can provide significant economic benefits;
- Low level of information, related to the deficiency to access safe and relevant information on energy efficiency. Where information is available, it is usually general and not tailored to specific circumstances, or focuses on specific opportunities, meaning that citizens and businesses are unable to fully appreciate the benefits of investing in energy efficiency measures;
- Non-harmonized financial incentives and lack of financial resources, meaning that it is quite complicated to build financial partnerships for energy efficiency projects;
- The unequal location of electricity generation capacities on the territory of the Republic of Moldova and the lack of the necessary capacities for generating electricity in the right bank of Nistru to cover its own consumption;
- Advanced wear of energy equipment (approx.60-70 percent) to power plants, power lines and distribution networks.

Opportunities. The opportunities of the energy field refer to those favorable external factors that could contribute and help in developing energy sector in Moldova and increase the energy security of the country, and are the following:

- The possibility to extend the Iasi-Ungheni pipeline to Chisinau, which will consolidate the energy security and will reduce the monopoly of Moldovagaz;
- The fortification of energy interconnections with Ukraine and Romania to strengthen the role of the Republic of Moldova as an important transit country for electricity (East-West and North-South directions), including natural gas;
- Increasing competitive economic capabilities to generate electricity as far as possible, including distributed generation;
- The increase of energy efficiency in the production, transport, distribution and supply of energy and fuels through the implementation of efficient energy technologies that have a low environmental impact (combined thermodynamic cycle and cogeneration of electricity and heat, respecting the cost-benefit principle);

- The promotion of a consistent policy for the conservation and efficient use of energy at the consumer level;
- The harmonization of national legislation with the provisions of the EU legislation in the field of energy;
- The construction of an underground storage of natural gas, which corresponds to the provisions of the Energy Strategy of the Republic of Moldova until 2030;

Threats. The threats refer to outside conditions and problems in the energy sector of Moldova that slow down its development, and namely:

- Fully dependence on Russian Federation gas;
- The gas debt to Gazprom that exceeds 6.5 billion USD, which is more than 90% of Moldovan GDP, 6 billion from this debt belonging to Transnistria;
- The lack of indigenous energy resources suitable for capitalization in the necessary volumes;
- The deformed structure of the energy mix and the coverage of the primary energy resource requirement only from a single source;
- The immature character of the national energy market, the legal and regulatory framework, including tariff setting;
- The very low share of energy investments, the increase in the prices of primary energy resources and the insufficient use of its own generating capacities in the country, the non-use of the solidarity concept of players active in the energy sector to ensure the efficiency of the functioning of the energy complex at national level;
- Low responsiveness to innovation and increased energy efficiency on modern monitoring, surveillance, diagnostics, metering, real-time management and continuous lifting of the "intelligence" component to ensure the dynamic balance between supply and demand.

5.1. The main projects in the energy sector of Moldova assisted by the European Union

The Moldovan Association Agreement with the EU offers an opportunity to modernize the energy sector by implementing the third package for the electricity and gas market, which involves the separation of electricity, gas and natural gas production, transport and distribution activities, as well as free contracting of suppliers by consumers and infrastructure integration into the EU energy market.

There are a lot of reforms and projects in the energy sector of the Republic of Moldova that are financially assisted by the European Union. Below are presented the main of them:

- ***Iasi-Ungheni pipeline project***

The total value of the project is about 26.5 million euro, of which 18.2 million euro costs the pipeline on the territory of Romania and 8.3 million euro from the territory of the Republic of Moldova.

The development of the Iasi-Ungheni pipeline is one of the most important objectives for the Moldovan energy sector. Interconnecting Moldova with the gas market in Romania and Europe

represents a way to diversify energy sources and routes, that would contribute to the reduction of the monopoly of Moldovagaz and consolidate the country's energy security. Presently, the interconnector Iasi-Ungheni is still much underutilized and can be totally used only through expanding the pipeline to Chisinau, where there is a great gas demand, as well as by boosting the transport capacity on the Romanian side. The success of this project greatly depends on the stabilization of the political situation in Moldova, on the efficient implementation of the European energy legislation, on political commitment to realize the project, as well as on the availability of sufficient financial support (Bostan O., p.29).

- ***Moldova Energy and Biomass Project***

The EU-funded Moldova Energy and Biomass Project (MEBP) has the purpose to advance the country's most applicable and available local sources of renewable energy-biomass from agricultural waste. This will provide competitive and viable energy production. Until now, the project managed to bring significant changes to the local biomass market and at the moment aims to strengthen these results by installing additional biomass heating systems and expanding these across the country.

Overall, the project contributes to the creation of a safe, competitive and sustainable system for the production of energy from renewable sources, especially biomass and agricultural waste. It aims to increase the use of renewable energy sources, especially for heating public buildings and individual households in rural areas.

- ***Moldovan Sustainable Energy Financing Facility (MoSEFF)***

The project represents a 42-million-euro credit line, combined with a grant component of 5-20% granted to Moldovan companies through the EBRD partner banks. Mo-SEFF also provides technical assistance for projects through a leading German engineering and consulting company. Funding is geared towards investments to promote energy efficiency and renewable energy production. The main objective of these grants is to ensure the economic viability and feasibility of good quality projects. Another objective of the project is to stimulate the application of advanced technologies in Moldova. This is done by providing larger grants for BTD projects.

- ***INOGATE Program***

The Republic of Moldova has been an INOGATE Partner Country since 1996 and has benefited from 30 of INOGATE's 69 projects. INOGATE continues to assist Moldova in different areas of the energy sector.

The EU is committed to support cities in Eastern Europe and Central Asia in the Mayors' Pact. The Covenant of Mayors aims to increase renewable energy efficiency by contributing to the European Union's 20% reduction target for CO2 emissions by 2020.

For example, with the help of INOGATE support, the National Bureau of Statistics of Moldova established its Energy Statistics Action Plan for 2012-14 concentrating on the development of a quality energy balance. INOGATE promoted the development of a tailor-made methodology and user-friendly tool for energy data collection as well as the energy balance compilation (Creanga I., p.30).

- ***Energy Sector Policy Support Programme (SPSP)***

The general objective of this programme is to support the Government of the Republic of Moldova in implementing energy sector reforms with a special emphasis on security of supply, energy efficiency and renewable energy. The project provides financing, technical assistance and political dialogue on priority activities of major importance to the population of the Republic of Moldova and the development of the energy sector. The Financing Agreement was signed between the Government of the Republic of Moldova and the EU in December 2011.

The period of implementation is 2011-2013 and the total budget allocated by the European Union (30 million USD in assistance).

6. Conclusions

Analyzing the economic relationship between the Republic of Moldova and the European Union in the period 2007-2018, may be drawn the conclusion that the relations between these two countries are intensifying all over the years and this, fortunately, affect positively the economy of the Republic of Moldova.

Both the Association Agreement and the DCFTA bring a lot of benefits and are, in fact, vital for the Republic of Moldova and its development. The Association Agreement helps at strengthening economic and political ties between the countries, as well as sets out a plan of reforms in areas that are essential for good governance and economic development of Moldova. Moreover, in the realization of its commitments and implementation of domestic reforms, the Republic of Moldova is financially supported by the European Union, which results not only in positive impact on the economic growth of the country, but also on Moldovan citizens, through the creation of jobs, the modernization of public transport, the improvement of infrastructure, the provision of mobility studies and exchange programs for students and teachers etc.

With regard to the economic cooperation between the parties, as well as to technical and financial assistance offered by the European Union, it should be mentioned that the impact of the EU support is of great significance. By providing substantial amounts of money and supporting the implementation of domestic reforms, a number of great results were achieved, such as: the creation of jobs through opening diverse enterprises; the provision of efficient energy supply in schools, nurseries and community centers around the country; the possibility to implement various projects in different sectors of Moldovan economy, the development of infrastructure and building of roads all around Moldova, including the EU-funded Ungheni bypass etc.

However, the attitude of the Republic of Moldova is also of great importance in this sense. The country should promote the European values and make much effort in order to solve the major problems that it faces with regard to Moldovan governance, corruption, low level of transparency and problems in judicial sector. Otherwise, the European Union will reduce its financial support or even

will stop helping Moldova, pending some tangible progress in taking urgent actions for rectifying the situation.

Overall, the economic relations between the European Union and the Republic of Moldova in the period 2007-2018 were consolidated through the implementation of various reforms and through the significant progress registered by Moldova in this sense, but at the same time, these relations were stagnated because of the banking fraud from 2014 and the remaining unsolved problems of the Republic of Moldova. Therefore, in order to close the ties between the parties and benefit continuously by the EU support, it is recommended for Moldova to work hard on its reform agenda, ensure the transparency of elections, fight against the high level of corruption, as well as to recover the misappropriated funds and bring all responsible persons to justice, irrespective of any political affiliations. Only in a such way, through making great effort and by continuously promoting European values and principles, as well as by respecting them, the relations between the Republic of Moldova and the European Union will prosper.

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