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Report of the Task Force under the Project “V4 Supporting Economic Integration of Georgia and Moldova with the EU”

“Lessons Learned for Moldova - Experience of the Visegrad countries on the Economic Integration into the EU”

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For detailed information about the project, as well as information about involved experts from Georgia, Moldova, Hungary, Czech Republic, Poland and Slovakia, please visit the project website: www.sigme-eu.com

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Introduction

The present report aims at studying the experience of the Visegrad 4 (V4) countries in developing the mechanisms of government to business cooperation during their EU accession process. Based on this experience, the report draws conclusions for Moldova and identifies main priorities in the implementation process of the EU-Moldova Deep and Comprehensive Free Trade Agreement (DCFTA).

The report is structured in the following way: it first outlines the context and the status quo of EU-Moldova relations with a particular emphasis on trade and economic ties. Then it analyses existing and potential challenges associated with DCFTA implementation given Moldova's economic structure, level of development and specific context. Subsequently it studies the experience of V4 countries, Hungary, Slovakia, the Czech Republic and Poland. Hereby, the experience of the V4 countries is studied during their EU accession process and not during the signature and implementation of the Association Agreements. The reason for such an approach is that Moldova's extensive EU approximation agenda resulting from the DCFTA is comparable with obligations of accession candidates rather than associated countries in the 1990s such as the V4. Finally, based on the above-mentioned, it draws conclusions for Moldova and identifies main priorities that could serve as a guiding principle for the Government as well as the private sector in the DCFTA implementation process.

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Executive Summary

In September, Moldova is going to start the implementation of the DCFTA that was signed as part of the Association Agreement (AA) between Moldova and EU, on June 27, 2014.

The DCFTA implementation will impose a series of challenges for the Republic of Moldova. It is firstly about the capacity of the domestic producers in sectors of economic and social importance to cope with competition pressures coming from the EU (especially agriculture and light industry), budget shortfalls, as a result of the removal of customs duties, increased hostility of eastern partners to their economic relations with the Republic of Moldova.

In order to be able to cope with these challenges and turn them into benefits, Moldova would need enhanced capacities of the public institutions, as well as better information and awareness of the business community that would enable them to react promptly and adequately to the requirements imposed by the DCFTA.

The Visegrad countries that undergone through this process in the run-up of their accession to the EU can offer to Moldova valuable and useful lessons for implementing DCFTA rules in accordance with its business interests and domestic realities.

EU-Moldova DCFTA

EU - Moldova DCFTA negotiations were launched in February 2012 and were completed in June 2013.

The negotiations started after Moldova fulfilled a set of preparatory recommendations submitted by the European Commission to the Government in October 2010. The recommendations were designed to ensure continuity in the leadership of the negotiating team for the DCFTA; to strengthen the institutional and administrative capacity of Moldovan institutions; to prepare the implementation of a comprehensive and consistent plan on TBT area; to prepare the implementation of a comprehensive food safety strategy; to improve the investment climate and abolish the discriminatory measures that affect the foreign investments; to ensure enforcement of the intellectual property rights legislation; to implement a strategy for full development of the law and policy on competition etc.

In the run-up of the DCFTA negotiations, Moldova took steps towards reforming a cumbersome regulatory framework, combating corruption and adopting reforms aimed at improving the business climate. The Government adopted the 'one-stop-shop' for business registration, created an adequate legal base, including favourable tax treatment for investors. Under Moldovan law, foreign companies enjoy the same treatment as the local companies (the national treatment principle).

Nevertheless, despite the aforementioned positive developments, poor physical infrastructure, cumbersome licensing procedures, excessive permit requirements, pervasive corruption of public officials, proliferation of fee-for-services to public authorities and commercial organizations, all these phenomena continues to affect seriously the business environment that remains among the most challenging in the region.

State of Play in the DCFTA Process

The Association Agreement (AA) between Moldova and EU, which includes the DCFTA, was signed on June 27, 2014, and ratified by the Moldovan Parliament on July 2, 2014. In the aftermath of the AA and DCFTA ratification, the Russian Federation has suspended the imports of processed meat, fruits and vegetables from Moldova, has vowed to introduce new trade protection measures upon analyzing the DCFTA consequences on the Russian market and review or suspend some bilateral agreements signed with Moldova.

In the view of current Moldovan authorities, AA and DCFTA are indispensable instruments for modernizing the Republic of Moldova by strengthening its democracy, enhancing its institutions, developing its economy and increasing its trade relations with the EU.

The AA and DCFTA are opposed by the Party of Communists that is the main opposition party in the Parliament, some small non-parliamentary parties that promote the Eurasian integration vector, as well as by 47% of Moldovans who, according to the latest Public Opinion Barometer, would rather vote for Moldova joining the Customs Union with Russia – Kazakhstan - Belorussia than for joining the EU, including 75% of the ethnic minorities that represent 1/3 of Moldova's population. According to them, the AA and DCFTA will reduce our trade flows with the Russian Federation, increase the price for gas imports, limit the free movement for Moldovans travelling or working in Russia, destroy Moldova's agricultural sector by flooding the domestic market with the cheaper and competitive agricultural products from the EU member states etc.

On the other hand, Transnistrian separatist region refuses to join the implementation of the DCFTA by stating that it does not reflect its essential economic interest and runs against its desire to join the Customs Union and Eurasian Union with Russia – Kazakhstan – Belorussia. Under current circumstances, the European Commission decided to extend the Autonomous Trade Preferences (ATP) for the Transnistrian Region until 1st of January, 2016.

The DCFTA implementation will impose a series of challenges for the Republic of Moldova. It is firstly about the capacity of the domestic producers in sectors of economic and social importance to cope with competition pressures coming from the EU (especially agriculture and light industry), budget shortfalls as a result of the removal of customs duties, increased hostility of eastern partners to their economic relations with the Republic of Moldova.

To be able to cope with these challenges and turn them into benefits, it would need enhanced capacities of the public institutions, as well as better information and awareness of the business community that would enable them to react promptly and adequately to the requirements imposed by the DCFTA.

For now, the level of information provided to the public and the business community on the priorities, challenges, costs and benefits of the DCFTA is inadequate. This reality reflects an incorrect and/or insufficient use of the instruments that are available in this regard.

The inter-ministerial coordination and monitoring mechanism in charge with the DCFTA implementation is still to be developed. At present, no major institutional changes are planned. However, some relevant experts and key public officials consider that for a coherent AA and DCFTA implementation it would be appropriate to create a special Ministry of European Integration or a specialized agency/bureau directly subordinated to the Prime-minister.

Brief Description of the EU – Moldova trade and economic relations

The EU is Moldova's first trading partner with 54% of Moldova's total trade - followed by Ukraine (15%) and Russia (12%). Overall, the trade with Moldova accounts for only 0.1% of the EU's overall trade.

The EU's exports to Moldova (EUR 2 billion in 2012) are dominated by machinery, transport equipment, chemicals, fuels, mining products and agricultural products. Moldova's exports to the EU (EUR 944 million in 2012) are mainly agricultural products, clothing, textiles and machinery. Trade flows have increased by over 10 %, to a total of EUR 2.97 billion in 2012[1].

Until the DCFTA implementation, the trade relationship will continue to be based on the Autonomous Trade Preferences (ATP) that the EU has unilaterally granted to Moldova since 2008. This preferential regime (together with the Generalized Scheme of Preferences Plus regime) has offered the most favourable access to the EU market for Moldova. It has granted Moldova unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products for which tariff rate quotas were defined. Moreover, as of January 1, 2014, the EU has fully liberalized trade in wine under the ATP, after Russia has suspended the Moldovan wine imports, on the eve of Eastern Partnership Summit in Vilnius, where Moldova initialled the AA and DCFTA Agreement.

Over half of the Foreign Direct Investments came from the EU Member States and more than 10% from the Commonwealth of Independent States member countries.

Assessment of Preparedness of the Business Community for the Implementation of the DCFTA – identifying the problems

The independent experts predict that in the long-term the DCFTA will increase Moldova's annual national income by about 142 million euro, GDP by 6%, exports by 16%, imports by 8% and wages by 4.8%[2]. At the same time, it is expected that the purchasing power of the population would increase and the investors' trust into Moldova's economy would strengthen.

According to the German Economic Team Moldova[3], the DCFTA will not be without risk and there will be inevitably adjustment costs such as write-offs for those companies faced with falling demand, unemployment, retraining for some workers and shift in tax revenues for the government etc.

The EU experts estimate that the increase in imports arising from removing tariffs on the European products will be a modest 2.2%, given that the average tariff rate on those goods is already quite low (3.5%). They expect that goods like sugar, meat, textiles and apparel as well as fruit and vegetables with double digit tariff rates on imports are more likely to see larger adjustments when trade barriers are removed. Also, carpet imports could increase by 22%, furs by 17% and textiles and sugar both by around 13%. Yet, the highest increase in absolute terms could be for electronic equipment, by USD 6 million.

1 European Union, Trade in goods with Moldova, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113419.pdf

2 Valeriu Prohnitchi, Strategic comparison of Moldova's integration options: deep and comprehensive economic integration with the EU versus the accession to the Russia - Belarus - Kazakhstan Customs Union, Economic Analysis and Forecast Paper Nr. 3/2012, http://pasos.org/wp-content/uploads/2012/06/Moldova-DCFTA_versus_RBK_CU_English.pdf

3 German Economic Team Moldova, The DCFTA between Moldova and the EU – A Risk Assessment, Berlin/Chisinau 2012, http://www.berlin-economics.com/download/policypapers/GET_Moldova_PP_03_2012_en.pdf; Ecorys, Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova, Rotterdam, 27 October 2012, http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf

The same study suggests that Moldova's most important industries are set to face without major difficulties the increase in foreign competition given that the import increase will be insignificant when compared with the size of the industry. On the other hand, the leather products, textiles and bricks and tiles could experience a significant increase in imports compared to their production capacities.

DCFTA will transform the public finances too. Currently, the tariff income makes a considerable contribution to the Moldova's national budget with over USD 83 million. Therefore, an immediate elimination of tariff income could strain the public finances. In the view of the independent experts, new income sources such as VAT or income tax will sooner or later replace the tariff income that would fade away but this change will take some time to materialize.

Existing Pattern of Government – Business Coordination on DCFTA Matters

Most frequently, the communication between the Government and the Business Community is taking place on the basis of the non-formalized platforms like business symposiums, forums, conferences, and round-tables organized by the Government, the Chamber of Commerce and Industry of the Republic of Moldova, various business associations and non-governmental associations.

Institutional mechanisms of consultation and coordination between the Government and the Business Community are in place, yet insufficiently used by both parts. The most important institutional mechanisms of government – business consultations are the Economic Council under the Prime-minister Office and the Advisory Council to the Ministry of Economy.

The Economic Council under the Prime-minister Office has been conceived as the central institutionalized platform of consultations between the Government and the Business Community. It was created for the first time on July 12, 2001, but it has never become a relevant and prominent body with real influence over the governmental decisionmaking process on economic matters.

In July 2013, the Economic Council has been reinstated by the Prim-minister Iurie Leanca with the assistance of the European Bank for Reconstruction and Development (EBRD) that has pledged to provide EUR 300,000 for the Council's activities. The Economic Council includes representatives of the state institutions, academic community, associations of businessmen and investors, international donors that support the development of the private sector in Moldova and of the civil society. Its key functions are to assist the Government to draft public policies in the areas of economy, finances and trade; to monitor and evaluate the impact of public policies; to contribute to the decision- making process on economic, fiscal and trade matters.

The Advisory Council to the Ministry of Economy has been created as a consultative body without legal personality and operates as a partnership. Its goal is to ensure the participation of the civil society and the private sector in the development, implementation, monitoring, evaluation and review of policies pursued by the Ministry of Economy.

Moreover, the Ministry of Economy has set up a series of consultative platforms, groups, committees and councils that involve the representatives of the Business Community, such as:

1. Sectoral Committee for training in domestic trade;
2. – The "Diaspora for the National Development of Moldova" Communication Platform with Diaspora;
3. The institutional communication platform to assist the implementation of the economic development projects at the local and regional levels;
4. The Working Group of the State Commission for regulating the entrepreneurial activity;
5. The Sectoral Committee for Consultation and Collective Bargaining on Domestic Trade;
6. The Advisory Council in the Field of Quality Infrastructure;
7. The Sectoral Committee for Consultation and Collective Bargaining in the Area of Non-Food Industry.

EU acquis Implementation Strategies – the Hungarian Case

Summary

Hungary did not formulate a strategy for the government-business relations during the association and accession processes. Nevertheless, the decision makers gradually became more attentive to the corporate interests and the accession process was already accompanied by large-scale surveys among the business stakeholders. Hungary distinguished itself by the high proportions of foreign investments after 1989, the representatives of which constituted the most active and conscious group of the interest representation during the process. Overall, Hungarian hopes about the fast economic growth did not come true during the first 10 years of membership, but this was not due to the EU accession process itself.

General Description

Hungary has distinguished itself among the Visegrad countries by its integrationist public discourse, high approval ratings regarding the Western integration process and economic opening during the 1990s, early 2000s. Hungary had a considerable legacy of the Western economic integration prior to the association and accession processes. The Kadar-regime had built up a reformist-integrationist image in the West as early as the late 1960s. This moderate Hungarian stance, at least in comparison to the other countries of the Soviet bloc, encompassed a series of market-friendly reforms, sanctioning small-scale businesses and entrepreneurship in a large number of sectors and a strong push for accession to the Western economic and financial organizations. Hungary joined the GATT in 1973, the IMF in 1982. Budapest also pioneered the way for the Soviet Bloc to the EU by early establishment of diplomatic and trade relations with the European Community during the 1980s. This was primarily an economic must, a way of securing hard-currency revenues and loans for the failing regime.

Nonetheless this reform-Communist image had high approval ratings both at the public and political levels. The relative abundance of products in the shops and the considerable freedom of movement (regular visits were sanctioned even to the West) during the 1970s and 1980s underpinned these perceptions. Consequently, Hungary was in a strong liberal, pro-integrationist mood during the 1990s. Fast and swift integration was thought to be beneficial for the country. Thus, the successive governments publicly supported a fast and almost full integration process, the rapid adoption and implementation of the Association and later the Accession Agreements. *There had been no significant political forces opposing the integration process until the early 2010s.*

All this happened on the basis of relatively low initial custom tariff levels and few protectionist barriers and in the midst of the economic transformation. Unlike other Soviet Bloc countries, Hungary had made considerable trade concessions since its accession to the GATT in 1973. The association negotiations had started from this basis on. Budapest also pursued a faster than the other V4 countries privatization process, opening up large sectors like energy, utilities, banking to the Western investors. *Hungary had the highest share of FDI and green-field investments among the post Socialist countries in the first half of the 1990s.* Even if in those years this fast opening seemed to be reasonable and was underpinned by the pioneer role of Hungary in the transformation, today, retrospectively, it has been widely criticized.

Mechanisms, Experience and Practice of Government to Business Cooperation

The negotiation process and the administrative settings were similar in the four (with partial exemption of Slovakia) Visegrad countries. In Hungary, the Ministry of Foreign Affairs coordinated the process under the aegis of the chief negotiator. Positions were formulated in interministerial commissions at the government level.

The Government-business dialogue was not formalized during the association negotiations. Reportedly, some companies lobbied for their particular interests at the chief negotiator, but the negotiation team did not have the resources, time and energy to facilitate broader coordination. At the same time, the association negotiations were held in the years of a major economic turmoil, in the midst of the transition. In an atmosphere of uncertainty, business leaders had only limited resources to take an active part in the process. Corporate interests were to some extent non-articulated and difficult to explore.

The situation was reportedly better at the Accession talks. Having experienced the significance of the issue and the tensions at the implementation phase of the Association Agreement, both sides strived for better coordination. Business stakeholders of different levels were involved in the preparatory phase of the negotiation process. Sectoral studies and expert analyses covered almost all major issues. *Nevertheless, businesses were contacted only at the very beginning of the process, as sectoral surveys were conducted by a research institution in 1997-98. Having these results, it was the negotiation group and the Ministries, which summarized the results. No major efforts were done to engage corporate actors during or after the negotiation process or "educate" them on a large scale.* Still, during the accession, the Hungarian position showed relative cohesion and justification.

During the Visegrad integration process, particularly in the case of the open Hungarian economy[4], *the EU markets distinguished themselves as the sole option for exports.* The Post Soviet and regional economies collapsed after 1989, while the growth in the Far East was still moderate. Thus, except for the also failing domestic markets, the market opportunities lied almost exclusively within the borders of the EU. The share of exports to the EU had been growing dramatically in those years and this brought a strong adaptation call even without the accession process[5]. The dominance of the EU in exports constituted a major driving force for the Visegrad companies, partly in contrast to the Moldovan case. As for the Hungarian businesses, the costs of fast adaptation were much more acceptable due to the lack of alternative and different world economy set-up of the 1990s.

The agenda and the highlights showed significant similarities among the Visegrad countries. Competition policy was important both due to the extensive structural subsidies for large, low-efficiency plants from the Soviet era (metallurgy, heavy and machine industry, agriculture) and practices of offering broad tax exemptions for Western green-field investors (like car industry, processing industries). *Since Hungary provided the latter on a mass scale for the Western companies, it had to cancel these agreements by 2004. This issue proved to be of a distinguished significance in the government-business relations.* In many cases, Budapest had to financially compensate these investors. Agriculture and all the related issues preserved their particular significance, since this is one of the most heavily-regulated and subsidized sectors in the EU. However, issues like energy, banking remained at a low profile primarily because the acquis was relatively limited in these fields in the early 2000s.

Accession to the EU did not pose significant problems in the case of the non-EU trading partners. The US requested some minor issues to be modified in relation to the new situation. *Only Russia declared that it will not accept the implications caused by the accession of these countries automatically and publicly, but has not formally asked for special treatment or compensation.* These demands were ignored by the CEE countries and were thought to be of a political nature. The issue was settled after the accession relatively easily at the EU-Russia level. Since the CEE countries joined the EU prior to the large-scale energy regulations, the set of concerned Russian interests was rather limited and never fully specified. Understandably this is an experience of limited value in the Moldovan case. After the accession, the Visegrad countries have not been in the position to negotiate trade policy issues with Russia bilaterally, all these questions fell into the Commission's jurisdiction. This is not the case with the Moldovan DCFTA.

Due to these characteristics, it is worth highlighting some peculiarities of the Hungarian integration process.

- *Implementation was subordinated to "rapid accession".* At the initial stage, the negotiation strategies included long transition periods, strong asymmetries and derogations. Nevertheless, due to a number of different factors, the political pressure for speedy accession, considerations stemming from the integrationist narrative, competition among Visegrad countries, in the end, both the negotiation and the implementation strategies focused on a fast accession process. It is symbolic that initially, the Hungarian government wanted to implement the whole acquis prior to the accession (in 1999, it was planned to be taken over by

4 In 2012 the total international trade (exports and imports) reached 159,8% of Hungarian GDP. For comparison this indicator was 64.5% in Georgia and 101.2% in Moldova. Internet: World Bank data http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS, 11.07.2014.

5 In 1991 the EC constituted 45.7% of all exports, in 2003 its share was already 73.6%. After the accession in 2004 the growth of the EU share was limited, in 2010 it reached 77.3%. For comparison the EU's share in Moldovan exports in 2010 was 47.3%. Source: National Statistical Offices.

2001). Thus the aspects of implementation and, in particular, the issue of corporate stakeholders' accommodation were to some extent subordinated to the accession race.

- *Focus on the net financial status.* The primary negotiation goals went beyond the adoption of the acquis in some particular cases. Due to various factors, the Hungarian negotiation strategy had focused on the issue of financial transfers in the agricultural sector from the very beginning. Nonetheless, the strong push for higher financial benefits also presupposed the limitation of the number of derogations. This resulted in a highly competitive selection process of the corporate derogation requests. The government was successful at the maximization of the CAP transfers at the cost of minimizing the derogations and the transition process. It is worth mentioning that it was the Polish position, which had an exclusively financial focus, making it very complicated for the other three candidate countries to represent a consistent Visegrad strategy. In this regard, the strategy in question was perceived as a missed opportunity by the respective chief negotiators.

- *Small implementation gap.* Due to the above mentioned "rapid implementation" strategies and the low number of derogations, the business stakeholders did not have too much time for preparation. There was no transition period in the accession process, almost the whole acquis entered into force on the first day of membership (on May 1, 2004). Consequently, the preparations started much before the end of the negotiations and they were extremely intense during the 1,5-2 years of the ratification process.

- *Corporate integration.* By the second half of the mid-1990s, large chunks of the Hungarian economy had been taken over by foreign investors. In addition to the machine industry and other, export-related sectors, which became practically EU-conform long before the accession, huge segments of other processing industries, services, banking, retail, utilities were in the hands of major European companies. In some of these sectors, the EU acquis was introduced automatically or much easier by the corporate actors. On the other hand, in some cases, these companies had a much better understanding of the expected benefits and problems of the accession than their Hungarian counterparts. These companies constituted by far the most active stakeholders and efficiently lobbied for their interests at the government. A typical case was that of the American Alcoa, which successfully applied for extensive derogations for its aluminium plants across the CEE countries. Still, the foreign investors in sectors like paper-milling, glass-working or sugar-refineries etc. often proved to be more protectionists than the Hungarian-owned companies.

- *Concentration matters.* Understandably, the more concentrated and organized a sector was, the more efficiently it could lobby for derogations during the negotiation process. Some major Hungarian-owned companies, especially in the pharmaceutical or the food-processing industries, had an approximate understanding of the challenges and successfully secured longer and more gradual adaptation periods. On the other hand, the small-scale retail, as well as agricultural actors were rather fragmented and did not have the necessary knowledge and information about the integration process.

Lessons Learned and Critical Assessment

The implementation of the Accession Agreement posed relatively different challenges to different sectors. One of the few general problems was the issue of the administrative capability gap. *The state and local administrations were primarily occupied by their own adaptation and conformity problems and little energy remained for the large-scale education campaigns.* This was particularly the case in agriculture, where the CAP put a huge capability development call on the administrations, complicating any additional activities. The dissemination of the information must be parallel to the implementation process and, given the administrative constraints, time should not be spared, even if it extends the whole process. This might be even more important for Moldova, with much smaller administrative capability reserves.

Also, the information dissemination activities were partly separated from the state administration. Chambers of commerce and industries attempted to serve as a liaison. Nonetheless, Ministries were not sufficiently involved in their activities and some of the information was lost in this dissemination chain. It is highly advised to directly integrate the bodies responsible for implementation into the dissemination pool in order to provide first hand information for the stakeholders.

In some cases there was a significant gap between the Commission's understanding of the acquis and the existing implementation practices at the member states' levels. The latter often offers a high diversity of solutions, while the Commission and other EU bodies often interpret the acquis according to their preferences. This is normal, but a successful implementation also presupposes familiarity with these national solutions. The most typical example is the issue of national trademarks and specific products, offering a high number of different legal solutions. Choosing from among different national practices – this is the maximum room for the legal adaptation left after signing the DCFTAs. In Hungary, the administration, reportedly, did not have the capabilities to monitor all the 15 member states' solutions for all the problematic points. If this is the case, it is highly advisable to mobilize resources to map out potential solutions even if this presupposes outsourcing some of these tasks to external actors, legal advisors or/and the involvement of corporate actors and experts into the problem solving process on an institutional basis.

According to the opinion polls conducted between 1996 and 2004, primarily among the SME business actors working for the domestic markets, *the EU-awareness grew gradually during the implementation process. In the negotiation phase, when issues were decided substantially, these corporate actors did not qualify the accession process as a significant matter.* It was during the implementation phase, when large number of CEOs and financial directors understood the imminent nature of the process. Still, uncertainty around the EU-accession was ranked lower than the problems on the domestic market and domestic legal regulations. In Hungary, many SME corporate actors joined the integration process at the very last stage. It is highly advisable to engage these people long before they have to face the consequences.

The biggest communication gap between the businesses, especially the SMEs and the government was, reportedly, related to the complex nature of the integration process. *The dialogue cannot be put fully on a technocratic fundament.* Even if there was a high level of clarity about the sectoral adaptation processes, future administrative procedures, the uncertainty about future competitiveness, export opportunities, implications to the labour market remained considerable. On the list of corporate stakeholders, these questions were the top priority concerns, while the answers lied much beyond the scope of the administrative capabilities. Furthermore, companies, in particular SMEs, had some sort of a "*confused concern*" about the accession process. According to the opinion polls, a high number of the CEOs were afraid of the brain-drain by the Western companies when the labour markets would be liberalized, as well as the increased competition on the domestic markets. At the same time, many, and often the same CEOs, expressed their desire to increase their export potential or/and apply for the EU funds in the new environment.

These consequences/opportunities cannot be "educated", the outcomes depend on many factors, and preparations may have only a limited value. In Hungary, the textile industry almost fully disappeared despite all sizeable efforts to adapt it to the new situation. An opposite example is the changing attitude of the small landowners, who were rather sceptical before the accession, but became its solid supporters after 2004, when they experienced the scale of the EU subsidies. Thus, both the anticipation and the perception of the implementation of the DCFTA, remain to a large extent relative, independent of the process and its technocratic interpretation.

The accession decreases the export/domestic market capability gap within some sectors. The companies, which already have EU exports segments, will have an easier way of adaptation. The new regulations may pose challenges to the companies supplying primarily domestic or non-EU consumers. These firms will be in the greatest need of additional support. Normally, this could be arranged on an intra-corporate basis within the individual sectors, even if companies rarely help each other due to competition reasons. *Nevertheless, the EC scope of monitoring will continue to follow primarily the export segments of the national economy and will only gradually extend itself to the rest.* The dual nature of the Hungarian agriculture, especially as far as the subsistence farming is concerned, had been preserved for a relatively long period after the accession.

Conclusions and Recommendations

Looking back to the first ten years of EU memberships of the Visegrad countries, the negotiation and implementation strategies have lost much of their relevance. Today, the EU countries are divided between the categories of "capable and incapable" in terms of their interest representation in the EU decision making, rather than "old and new" members. Ten years proved to be enough to build up the necessary capabilities, accommodate to the new environment. It would be difficult to justify any shortcomings by failures at the EU-accession negotiations.

In this regard, the DCFTAs and their implementation should be put into a wider policy framework. *Preserving competitiveness and social stability, pursuing sound economic policies are much more important goals, than anything related to the DCFTA.* Integration to the EU shall remain subordinated to these goals. Despite all the similarities of the Visegrad negotiation and accession patterns, the economic performance varies widely in the region. Polish and Slovakian GDP grew by more than 41% between 2004 and 2013, while the Czech economy expanded only by 21,7%. The Hungarian performance was almost stagnant with a sheer 3,8% growth. All these differences root rather in the economic policies, than in the relations within the EU. Thus, for Moldova, the EU integration shall not be a sui generis task, but it shall constitute one of the instruments to foster prosperity and economic growth.

These are some recommendations for Moldova which should be considered to ensure proper continuation of the process:

1. Focus on the economic opening, microeconomic integration

Due to the relatively closed Moldovan and Georgian economies in particular (for data see footnote 1 in the HU text), the FDI into higher added value, export-oriented industries shall constitute one of the major goals for the local policies. In both cases, the EU markets represent the highest competitive segments of the export destinations. Industries, capable to export to the EU markets, will also have higher chances to step into other markets, may establish clusters of modernization in the local economy, as it happened in the Visegrad countries (i.e. car industries, modern processing factories, agricultural production). The microeconomic integration was a crucial, inseparable factor of success of the Visegrad EU accessions. Accordingly, the implementation should not only address lobbies, already present in the country, but also bring in new investors into the sectors of comparative advantages or green-field industries. Thus, the DCFTA implementation shall foster government accountability, improve investment climate and increase competitiveness in general and in particular in some of the potential sectors. Without positive feedback to FDI and microeconomic implications, much of the EU integration may lose its economic relevance.

2. Keeping the non-EU export segments

All European nations, including the Visegrad countries strive for the non-EU markets. Thus, the already existing export destination of Moldova is precious assets and sources of economic policies. Moldova (for data see footnote 2 in the HU text) cannot afford large-scale negative implications to these export-segments during the implementation process. EU markets shall constitute an addition to these, rather than a substitute, trigger higher competitiveness in the affected sectors. DCFTA countries shall avoid negative synergies between the two export segments and exploit the positive ones.

3. Corporate-government trust matters as much as educating the *acquis*

Corporate attitudes regarding EU accession had an amorphous and contradictory nature during the accession process. Potential consequences were uncertain and the SME's concerns went much beyond the technocratic benchmarks. Factors like the overall impacts on competitiveness, brain-drain, the scope of future export opportunities cannot be fully educated and will remain in the "grey" zone. In this atmosphere of uncertainty, the government shall show even more empathy and increase its efforts in trust-building. Corporate-government trust and cooperation, especially in the potentially affected, fragmented sectors of large social outreach is crucial if the government would like to keep the issue depoliticized and manageable in the future.

Government-Business Cooperation Mechanisms in Slovakia's Legislative Process and EU Accession Negotiations

Slovakia has negotiated membership in NATO and the European Union at the same time. The decision to join NATO was made in 2002, while the decision to join the EU was made in 2003 via a referendum. Accession to both organizations was realized in 2004. At the same time, Slovakia has undergone a process of deep economic and institutional reform improving the working of the government, business, as well as the civil society. Moldova is currently in the process of implementing a Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union, which in many ways constitutes similar challenges to its economy and policy-making bodies. What experiences does Slovakia have in building institutions for the EU accession, how does its government cooperate with business in making laws, and what recommendations can we make for Moldova?

Institutions and Negotiation Structures in Slovakia's EU Accession

The establishment of the effective negotiation structures and institutions was crucial for the successful completion of the accession talks. At the parliament level, two committees were involved in forming a **Joint Parliamentary Committee of the EU and Slovak Republic**, namely the Foreign Policy Committee and the European Integration Committee. At the Office of Government, the position of **Vice-Prime Minister for European Integration** was formed with the Institute for the Approximation of Law and the Section for European Integration working as two subordinate bodies. The Section for European Integration consisted of three departments: the Department for European Integration, the Department of Foreign Aid, and the Department for Building Institutions and Preparation of Inhabitants for Entry to the EU. At the Ministry of Foreign Affairs, the State Secretary for European Integration was put in charge as **Chief Negotiator** with the European Union.

The **Ministerial Council for European Integration** was formed to coordinate the efforts of the Ministry of Foreign Affairs and the Vice-premier for European Integration and which consisted of ministers and top officials of both bodies as well as other ministers related to the EU accession (e.g. minister of finance, minister of agriculture, and others). Subordinate to the ministerial council was a working committee headed by the Chief Negotiator and consisting of 29 working groups composed from government ministries' specialists, with each working group specialized in one chapter of the accession talks. From these 29 groups, six working groups were established at the ministry of finance, another six at the ministry of the economy.

The **Advisory Group/Consultative Committee** at the Ministerial Council was another important body. This body was composed from independent specialists and members of the interest groups. It was headed by the Vice-Premier for European Integration.

Government-Business Cooperation Mechanisms in Slovakia's Legislative Process

One of the most basic mechanisms of the government-business cooperation in Slovakia is the cooperation in the legislative process. This is, to a certain degree, formalised. A government law is always created at the respective section of a ministry responsible for that particular area of legislation. After the law has been approved by the minister, it is being put forward to the inter-ministerial review proceedings via the **Portal of Legal Enactments**, which is a public online portal administered by the Ministry of Justice. Within the proceedings, the law is sent for review to other ministries and public bodies that can put forward their objections within 15 days. The ministry proposing the law is obliged to deal with them. It is, however, not required to accept them. Within the process of inter-ministerial review, every law is also sent to the representatives of the business community and trade unions if it touches on economic and social affairs. If an objection is marked as "fundamental", the proposing ministry cannot dismiss the objection without first discussing it with the author of the objection. If the issue is not resolved, it has to be discussed at a session of the government. Objections can also be made by the general public. A fundamental objection of the public has to be discussed if the objection was signed by at least 500 citizens.

The **Economic and Social Council of the Slovak Republic** is an important consulting, negotiating and advisory body of the government. It is composed of representatives of the government, employers' associations, and trade unions. The main function of the council is to facilitate the social dialogue on the legislation affecting the economic and social affairs. The business sector is represented by AZZZ and RÚZ. The trade unions are represented by the Confederation of Trade Unions (KOZ). The negotiation of the proposed laws by the social partners is not mandatory. In the past, the government was obliged to negotiate the economic laws with the social partners. If one of the partners disagreed with the proposed legislation, it had to be negotiated again. The rule was abandoned in 2004, because of what the second Dzurinda cabinet perceived as trade unions' partisanship and overly unconstructive behaviour (KOZ had previously signed an agreement of strategic partnership with the opposition Smer party). Another reason was that the government wanted to pass key economic reforms quickly. Mandatory repetitive negotiations with the social partners were seen as an obstacle, as the trade unions usually disagreed with most reforms.

Apart from these formal channels, important yet non-binding negotiations and communication between ministries and various interest groups are often conducted on an ad-hoc basis. For example, the Section of Agriculture and Services within the Slovak Ministry of Agriculture and Rural Development normally handles relations with the Slovak Chamber of Agriculture.

Measuring the Impact of Legislation on Business

The impact of new legislation on the economy and businesses in Slovakia is measured by the Ministry of Economy, the Ministry of Finance, Ministry of Employment, and the Ministry of Environment. The system of assessment was introduced in 2008 and further improved in 2010. Every law that is put forward to inter-ministerial review proceedings must include a **specific impact clause**, which specifies the impact of the law in 5 areas (impact on public finance, social impacts, impact on business environment, ecological impacts, and impact on the society informatisation). Every one of the areas is assessed by the responsible ministry. The impact clause specifies whether the law will have positive, negative or no impact in the given areas. If the impact is either positive or negative, the impact clause provides a concise analysis.

The impact of the law on the business environment is measured by the **Ministry of Economy**. The criteria for the assessment are: the character of the expected costs and benefits of the regulation, administrative costs, impact of the regulation on businesses' behaviour in the competitive market, expected number of businesses affected, and the wider socio-economic impact of the regulation. The methodology of computing administrative costs for business is based on the **Standard Cost Model**, which is used by most member countries of the European Union. The administrative cost of regulation is computed as follows:

COST = QUANTITY x TIME x PRICE

For example, if in 2013, the number of the newly created businesses in Slovakia was 50.000, the time required to fill in a registration form at the tax authority was 1 hour, and the theoretical price of one hour's work was 6 Euros (based on the national average wage), the total administrative cost for the business sector was 300.000 Euros.

The European Union's **Action Programme for Reducing Administrative Burdens (2007-2012)** provided the impetus for a complex overhaul of the regulatory burdens in Slovakia. The member states of the EU have pledged to reduce the administrative burdens on business by 25% by the end of 2012. In 2009-2011, the Slovak Ministry of Economy conducted a series of measurements aimed at assessing the administrative costs linked to the Slovak legislation using the Standard Cost Model. During the first phase, a total of 48 laws covering 12 most burdensome areas (trade and civil law, taxation, social insurance, environmental regulations etc.) were examined. The administrative burden of these regulations for businesses was estimated at EUR 91 million, with total administrative costs of EUR 992 million. During the second phase, additional 24 laws were examined, with the estimated administrative burdens at EUR 18 million and the administrative costs of EUR 264 million.

Business Friendly Slovakia

The Slovak Ministry of Economy, in cooperation with RÚZ and AZZZ, has also created an online portal with the aim of improving the cooperation between the government and business in drafting the legislation. The primary function of ***www.businessfriendly.sk*** is to enable the businesses to inform the government about the problems arising from the national legislation. Businesses can put forward objections and initiatives directly to the ministry via the online portal. Businesses can also inform the government about the excessive administrative burdens or the administrative duplicities arising from the legislation. The second function of the portal is to act as a simpler, more business-oriented version of the Portal of Legal Enactments, as it informs the businesses about the pieces of legislation entering the inter-ministerial review proceedings.

Representatives of the Business Community in Slovakia

The interests of the business community in Slovakia (the employers) in the legislative process are represented by a variety of associations. On the highest level, there are two umbrella organizations, **AZZZ** and **RÚZ**. These consist of both individual members (the largest companies in Slovakia) as well as collective members (smaller, more specialized associations, e.g. the Slovak Banking Association). Most large enterprises in Slovakia are foreign-owned. This is especially true for companies in the manufacturing, energy, telecommunications and financial services sectors. Slovak ownership is dominant in the

SME sector. In addition, a number of domestic financial-industrial conglomerates have formed as a result of Slovakia's voucher privatization in the 1990's (Penta, J&T, Istrokapitál, Grafobal Group, etc.). The owners of groups are sometimes called "oligarchs", and they held considerable informal power in Slovak politics, especially through party finance. However, they are by far not as influential as the oligarchs in Russia or the Ukraine.

In addition to AZZZ and RÚZ, a number of smaller NGOs and associations work to promote business interests. For example, the Klub 500 association ("Club 500") consists only of large industrial enterprises with more than 500 employees. The owner of the metallurgical company Železiarne Podbrezová, who is considered to be a sponsor of the leftist Smer-SD party, holds considerable influence over the association. Unlike AZZZ and RÚZ, which use to take liberal positions, Club 500 is more inclined to support protectionist or arbitrary economic policies. The Entrepreneur's Alliance of Slovakia (PAS) is a relatively small but influential association of various businesses that works more like a think-tank than a business lobby. Its focus lies in promoting good economic policies and improving the business environment, and it cooperates closely with Slovakia's similarly oriented think-tanks.

Thus, the business community in Slovakia is not uniform. It consists of various actors with different interests. Foreign-owned businesses and domestic SME's are generally pro-integration and normally support liberal economic policies, because they are dependent on the foreign markets and because they benefit from the implementation of the European laws. Privatization conglomerates or "**oligarchs**", on the other hand, are more dependent on the domestic market and public procurement, thus their cooperation with government is less transparent and often involves corruption.

Conclusions and Final Recommendations

The integration process of Slovakia and Moldova is marked by many differences, both with respect to the political context as well as the structure of the economy. However, we would make a few clear recommendations for Moldova, based on our own experiences with the integration process:

1. **Integration without Domestic Reforms Leads Nowhere**

Do not rely on the European integration alone as round EU accession was to a large degree caused by the domestic reforms that attracted foreign direct investment in the manufacturing sector, such as the flat tax and a flexible labour code. For the same reason, make improving cooperation with business a permanent political issue, do not bind it exclusively to the DCFTA. Create from the permanent cooperation a means of fostering the economic growth. While the integration provides an improved legal environment, the domestic policies make the difference between the economies that grow and those that do not.

2. **Big Business is Great, but don't Forget the Small Ones**

Do not worry about the foreign businesses and chambers being more active and apprehensive of the integration process than the domestic ones. This is quite natural and it is in line with the experiences of Slovakia and other countries. In fact, the dominance of the foreign business in Slovakia has been more of a blessing than a curse, as otherwise the domestic oligarch interests would have prevailed. However, Moldova is advised to take action with respect to the most vulnerable segments of the Moldovan business community. Unlike Moldova, Slovakia did not have a significant small-famer community at the time of accession, as the landholdings have long been consolidated and commercialised. Although the agricultural sector in Slovakia was one of the main beneficiaries of the EU integration, there have been some shortcomings in the government policy and communication in addressing its issues. Agriculture has not counted as a large fraction of the economy at the time of accession, and so priority was put on the manufacturing sector. Some small agricultural holdings failed to comply with the EU norms and went out of business, but this was not a widespread phenomenon. Unfortunately, as a result of the rapidly falling agricultural employment, the agricultural sector in Slovakia has become somewhat anti-market and, now, it regularly lobbies the government for protectionist measures. It is important that Moldova addresses the issues of its vast agricultural sector, in order to prevent them from becoming a conservative, anti-reform force.

3. **Committed Leaders are More Important than Nice Leaflets**

Clear policy objectives and firm political leadership are more important than PR and partial communication strategies. While Slovakia did invest heavily in marketing the advantages of EU accession to its population, it was the commitment of its political leaders and strong support for integration by public opinion that ultimately defined the success of Slovakia's efforts. The European integration in Slovakia was seen not just as an economic issue, but as a civilization task too, so that even the major temporary obstacles like the isolation of the Mečiar government could be overcome quickly. The issue of returning to Europe has been the number one political agenda in Slovakia since independence in 1993, all the way to accession in 2004. High economic growth caused by the domestic reforms implemented around time of accession helped cement strong support for Slovakia's EU membership. A similar approach is recommended for Moldova, with the integration efforts going beyond signing the DCFTA.

Cooperation between Government and Business in the EU-Related Issues – Czech Republic Case

Introduction

The Czech Republic negotiated for the first time the association treaty with the EU already in 1991, as part of Czechoslovakia. This association treaty however never entered into force. Due to the split of Czechoslovakia, both newly born states, the Czech Republic and Slovakia, had to negotiate a new treaty. The Czech Republic did so in 1993, and the treaty entered into force in February 1995, after its ratification in all EU member states. The implementation of the economic part of the treaty had started already in March 1992, on the basis of the interim agreement. One of the main aims of the association treaty was the creation of a free trade zone between the EU and the Czech Republic until 2002, through asymmetric[6] lifting of tariff and non-tariff trade barriers. Although the association treaty covered a broad range of areas from the political, economic and cultural cooperation until concrete steps towards the creation of free trade area, its scope and depth was rather limited in comparison with the DCFTA treaty signed with Moldova. Drawing lessons from the association treaty is less relevant for Moldova also due to the fact that it was negotiated and implemented in a very different period of the country development. Unlike Moldova nowadays, in the nineties, the Czech Republic was a transition country without a functioning market economy. It had to build up a free market economy and set up a completely new economic system – a task that Moldova has already more or less accomplished. Similarities arise from the fact that Czechoslovakia was one of the less protectionist countries among the communist states. Hence, it was not so difficult for it to lift the tariff trade barriers with the EU. The accession negotiations that the Czech Republic opened in 1998 seem more relevant for Moldova in scope as well as due to the external circumstances such as the level of the economic development and development of the legal milieu. As the main aim of the project is to draw lessons from the cooperation between the state administration and business and to use it during the implementation of the DCFTA provisions in Moldova, the following chapter will focus not only on the cooperation during the association and accession treaty negotiations, but it will also point out positive recent examples of cooperation.

6 The EU was lifting its trade barriers at a faster pace than the Czech Republic.

Government – Business Cooperation Methods

There are several ways in which the Czech government co-operates with the business on the EU related issues. However, the process lacks any systematic features and it usually is very informal, incoherent and done on ad hoc basis. The state institutions also prefer to deal with the representatives of the business associations (such as the Chamber of Commerce, the Agrarian Chamber, the Confederation of Industry of the Czech Republic) rather than with the entrepreneurs directly. The only formal institutionalized way of cooperation is the so-called Council of Economic and Social Agreement (Tripartite body), composed of the government representatives and representatives of the employers and trade unions. The Council was created already in 1990, as a voluntary body of social partners that serves as a coordination body between the government and the social partners striving at achieving an agreement in essential issues of economic and social development. Tripartite was included also in the negotiations of accession of the Czech Republic into the EU, by discussing the draft positions of the Czech Republic for the accession negotiations. In 1998, the Working Team for the EU Integration was created within the Tripartite. This team served as a main official entry point for the businesses (through the employers' associations) to influence the accession negotiations on the governmental level. After the accession to the EU in 2004, the team was renamed to the Working Team for the European Union and, according to the representative of the Confederation of Industry of the Czech Republic (Svaz průmyslu a dopravy ČR), its importance, as well as the frequency of the meetings, diminished. It is also important to mention that the influence of the Tripartite on the government is generally rather limited (as it doesn't have a veto right on the governmental proposals) and it is dependent on the governments' attitude toward the social partners (the socialist governments tend to cooperate with the Tripartite while the right wing governments tend to ignore it).

The The Ministry of Foreign Affairs was the main coordinating body during the accession negotiations. The Deputy Minister for the EU integration was also the Chief negotiator of the accession treaty. The Department for the EU Policies within the MFA was responsible for finalizing the negotiating positions. This department served as a main entry point for influencing the Czech position for Chamber of Commerce of the Czech

Republic[7]. However, the negotiating positions were drafted within the line ministries. The relevant line ministries created their departments for the EU integration (the directors of these departments were, together with the deputy ministers, members of the Working Team for the EU Integration of the Tripartite). These departments consulted with the businesses on an ad-hoc basis draft positions of the Czech Republic for the EU accession negotiations. Usually, the representatives of the business associations were invited, but exceptionally, representatives of the individual companies that were mostly affected by the EU accession were invited too.

As far as the implementation of the commitments from the EU accession negotiations and the implementation of the EU legislation is concerned, the Czech Republic applies a standard legislative procedure. All the legislative drafts have to contain the so-called "compatibility clause" that shall state whether, in what extent and with which specific provisions the draft regulation concerned is compatible with the EU regulations. The entry point for the businesses for the implementation of the EU legislation is a consulting procedure organized by the responsible ministries.

In case of the draft legislation, this is discussed within each line ministry by the so-called Department Co-ordination Group (DCG) that is responsible for the preparation of the Czech position for the EU negotiations. These groups consist of the representatives of the ministry and of other central administration bodies affected by the legislation. Other stakeholders can be invited to the DCG, including (but not exclusively) the representatives of the businesses that have a relation to the subject discussed within each DCG. Although this is at the discretion of the head of each group (representative of the ministry), whether or not to invite the business representatives, according to the informal agreement reached in the Tripartite Working Team for the European Union, representatives of the social partners (including the businesses) have the right to attend meetings of all the DCGs. This option is thanks to the limited capacities of the businesses used very rarely, mainly when a piece of the sensitive legislation is being discussed. Some of the ministries also created special working groups discussing the important EU related issues (the EU draft legislation, the EU funds distribution, the Czech positions vis-à-vis the different trade measures decided by the EU within the Common Agricultural Policy or the Common Commercial Policy), where representatives of the sectoral business associations are invited. According to the previous research commissioned by the EUROPEUM, for example, the Ministry of Agriculture consults the businesses on a regular basis on the implementation of the EU legislation. In case, a new implementation measure is being prepared, the Ministry automatically notifies the relevant business associations (such as the Czech Moravian Poultry Producers) and they receive an invitation to provide their input. Especially in case of very specific and sensitive legislation (where even the capacity of the ministries is limited), these inputs may serve as a basis for the preparation of a Czech position or the implementing measure[8].

The representatives of different businesses are also regularly (at least 4 times a year) consulted by the Ministry of Industry and Trade through the so-called Business Panel – a forum aimed at discussing different topics related to the government – business relations (topics are not exclusively EU-related).

Government Information Activities towards the Business-related to EU Issues

The communication strategy of the country on the EU integration was adopted for the first time in 1997 – already before the start of the EU accession negotiations. The Ministry of Foreign Affairs was the institution in charge with the strategy. It created a special department responsible for its co-ordination. In 2001, the Inter-ministerial Co-ordination Committee for the Implementation of the Communication Strategy was also established. The main aim of the strategy was to provide the public with information on the essential aspects of the EU integration.

The businesses represented one of the main target groups of the strategy. The government, in co-operation with the business associations, prepared and distributed different publications, leaflets, brochures and guides informing about the different aspects of the EU integration and their impact on the businesses. The government created

7 Largest and most representative business association in the Czech Republic representing small, medium-sized and large companies, self-employed entrepreneurs, associations, unions and craftsmen organizations comprising of over 14.000 members.

8 Couple years ago investigative journalists revealed that Czech position in very sensitive energy related issue for completely prepared in a Czech Energy Company (biggest Czech energy producer) and as such adopted by the Ministry of Industry and Trade as official Czech position.

an official webpage (www.euroskop.cz) gathering information on the EU integration. Also, a special toll-free telephone information line was established to answer the questions of the broad public (including representatives of the businesses) on the EU-related issues.

In 1999, the regional European Information Centres aimed especially for the business community, were established together with the local partners. The Euro Info Centre always operated within the host organizations, which were institutions supporting the entrepreneurship - such as chambers of commerce and industry, regional development agencies, financial institutions etc. The regional information centres focused on providing information and consultancy in areas related to the EU integration, such as: internal market, trade agreements, procurement, research, development and technology transfer legislation - technical standards, taxes, customs etc.

The Chamber of Commerce of the Czech Republic created already in 1998 the Centre for European Integration that operated until 2008. Its main task was to provide businesses with the information related to the EU integration and monitoring of the EU related legislation. The Centre also organized training and educational activities. For example, during the 1998 - 2004 period, hundreds of entrepreneurs graduated a certified course called "Manager at the EU internal market". The Centre also organized tens of seminars in the regions and produced specialized brochures and leaflets covering different important changes in the legislation caused by the accession to the EU. In 2002, the Czech Business Representation to the EU (CEBRE) in Brussels was founded by the most important cross sectoral Czech entrepreneurial and employers organizations – the Confederation of Employers' and the Entrepreneurs' Associations of the Czech Republic, the Confederation of Industry of the Czech Republic and the Czech Chamber of Commerce. Its creation and operation was funded by the Ministry of Industry and Trade of the Czech Republic, together with its trade promotion agency CzechTrade. CEBRE has been providing entrepreneurs and their organizations with the information and services facilitating their operation within the European market, providing up-to-date relevant information, customized training for the managers and analyses of the EU affairs, representing at the same time the interests of the Czech businesses vis-à-vis the EU institutions.

It is also important to mention the creation of the www.businessinfo.cz webpage in 2001 aimed at providing the entrepreneurs with all the information necessary for running their business at one place. This webpage is also the main communication portal of the Czech government with the business and includes all the available information on the EU-related issues, relevant for the entrepreneurs.

Conclusions

The cooperation between the government and the businesses on the EUrelated issues was very intense during the negotiations process of the accession treaty and, also, during the first years after the accession to the EU. Since that, it seems that the cooperation has weakened in many areas. This can be explained by the fact that after 10 years of the EU membership, the businesses got used to function within the EU internal market and they also managed to establish other ways of influencing the EU decision making through their associations or representatives, present directly in Brussels (such as the above mentioned CEBRE, or the European associations). Also, the need for provision of the new EU related information diminished, as the EU internal market and its regulations became familiar for the businesses. Nowadays, the consultations with businesses are organized mainly on an ad-hoc basis and lack any systematic features.

Polish Experience of Economic Integration with the EU

As Moldova takes steps towards the European Union with the signing of their Association Agreements and now Deep and Comprehensive Free Trade Agreements, there is a natural tendency to look towards the countries of central Europe as an example of the way the ex-communist countries have dealt with the accession process. This is particularly important during the long DCFTA implementation process. In this respect, the model of the way a country like Poland was able to negotiate similar agreements during its transition away from communism and, in the end to successfully integrate into the EU could serve as a useful model for Moldova. However, before drawing on relevant lessons from Poland, it probably makes sense to take a look at how different Poland's situation was in the 1990s compared to Moldova today.

The most obvious difference is that Moldova is a functioning democracy and has a market economy with a modern regulatory structure, normal banking sector, which is dominated by the private sector.

In 1989, Poland was suffering through hyperinflation, was undertaking the first transition from communism to democracy in the Soviet empire and did not have a functioning market economy. That meant that all of its efforts to integrate with the European Community (as the EU was then known) had to be done in conjunction with building institutions like stock markets, a capitalist legal system, a parliamentary democracy and setting up the structures of a capitalist system.

Poland made clear its intentions to rejoin the West almost immediately after the appointment of Tadeusz Mazowiecki as the country's first post-war non-communist prime minister in August 1989. On September 19, 1989, Poland signed an agreement for trade and cooperation with the EC. By early 1990, Poland applied for the beginning of negotiations on an association agreement with the EC, which was signed in December 1991. By 1993, the European Council decided that "the associate member states from Central and Eastern Europe, if they so wish, will become members of the EU." This is a status which, largely for political reasons, Moldova hasn't yet managed to achieve.

Because of Poland's relatively primitive level of market institutions, not many useful lessons can be drawn for a significantly more advanced economy like Moldova's during its own DCFTA process. Of more relevance is Poland's EU accession process, ending in December 2002, when Poland was already a market economy.

Moreover, Poland's geopolitical situation was significantly different than that of Moldova. Poland made its successful run for the West at a time of historic Russian weakness. Moscow was unable to halt Poland joining NATO and later the EU. Poland was also the undisputed master of all its national territory. Moldova is not in the same situation. Russia's aggression against Ukraine also creates dangers that the implementation process will be hampered by Moscow's opposition.

"Events in Ukraine have shown that the signing of the association agreements with the EU by Eastern Partnership countries is regarded by Russia as a threat to its plans for the reintegration of the former Soviet states," writes Konrad Zasztowt of the Polish Institute of International Affairs. "The Kremlin … is increasingly reaching for hard power means such as direct military intervention or destabilization of the situation in post-Soviet states aspiring to political rapprochement with the EU or NATO."

Yet, there are also relevant steps Warsaw took during its decade of negotiations with Brussels that could serve as a useful model for Chisinau, particularly in the effort Poland made to include business in the long negotiation process. During negotiations, the Polish government set up a three-level structure to ensure a two-way flow of information between business and the state.

The first was a broad based body looking at issues of the European integration with places for negotiators, experts and business and social groups. This body, called the Narodowa Rada Integracji (The National Council for Integration) operated under the authority of the prime minister and was an organization for discussions on a very general level. The Council was supposed to act as an information channel between the government and the society.

One of the recommendations of this report will be for Moldova to set up a similar body, as in Poland it served a very useful purpose in diffusing knowledge about the integration process and in directing concerns from business to key officials.

Crucially, the government did not discriminate against business organizations that wanted to join in. If a broad-based group organized itself, it would be invited to attend meetings. However, the Polish experience was that many of these business groups were not particularly representative, at least in the early years of the transformation. As Poland became more sophisticated, organizations that were little more than personal vehicles for individual businessmen tended to fall away, while broader based groupings with real representation in the business community grew in strength.

Poland also had sectoral bodies where every separate negotiating area would interact with a business grouping directly concerned with that area, for example, agriculture or pharmaceuticals.

Finally, the ad hoc problems were resolved on an one-on-one basis with specific companies. For example, talks over applying the EU directives on the emissions involved only Poland's largest electrical utilities.

The high level of consultation with business served a useful role during Poland's talks with Brussels. The Polish negotiators said that having a strong business opinion on a given issue allowed Warsaw to strengthen its position with the EU, demonstrating that it was not just the government talking, but that it was reflective of a broader social position.

The Polish negotiators found that the accession process actually drove the effort to formalize business and sectoral organizations. Prior to the negotiations, there had been very few business groups. Instead, lobbying was often a chaotic effort by the individual companies and businessmen who tried to directly influence politicians and the legislative process.

A very good example of that kind of behaviour was seen in the early 1990s, when businesses seized leading positions in often obscure market segments like gelatine production and used their wealth and influence to effectively lobby for the trade restrictions that benefited their own products.

As Poland's economy became more civilized and more formal, thanks in large part to the drawn-out accession process, egregious examples of attempts at directly influencing the government policy became rarer. While giving business a voice served a very useful purpose during the talks with Brussels, Poland did notice that there was a severe asymmetry between the local and foreign companies.

For the local business, concentrated on the local or at most, on the national markets, and with relatively little international exposure, the very language used by the negotiators, dense with unfamiliar bureaucratic terms, is off-putting and unfamiliar. Many entrepreneurs see little sense in investing time and energy learning the complicated EU negotiating language, often feeling they have little potential gain through the opening of more sophisticated EU markets to their products. However, the foreign businesses are usually much more aware of the gains to be made through the FTA agreements, and are more sophisticated about lobbying the politicians than their local rivals.

The Polish officials found that the foreign companies often formulated very clear demands, while the local business was much quieter. The foreign businesses can also try to take advantage of the inexperienced governments, trying to push through proposals that would never gain traction in Western Europe.

One example of this kind of behaviour comes from Romania, during the privatization of the car industry. Initially, the potential foreign investors pressed the government to ban the import of all cars as part of the deal to take over the ailing sector. Examples like this made the Polish officials very careful about taking business advice at face value. "For negotiators, the advice was often harmful, either to the country or to the local business," a Polish negotiator says. The Polish officials had to devote time and energy to find companies who would have been harmed by some of the proposals being pushed by the foreign firms in order to find some balance.

The sectoral organizations were also often divided between the local and foreign businesses. The pharmaceuticals were one good example. There, large foreign companies investing in Poland were very keen for Poland to quickly sign on to the EU's patent regulations, which would protect their production. However, smaller local companies tended to have few original drugs and were instead focused on the generic production. That meant that they were in favour of delaying the adoption of the patent protection for as long as possible in order to keep their businesses operating.

Other sectors like agriculture were very difficult to organise. Like Moldova, Poland had a very large class of peasant small holders, essentially subsistence farmers, with a very small number of larger commercial operations.

One issue that arose with agriculture was changing the standards as Poland approached the EU accession. Earlier, during the Poland's modernization process, the country had imported enormous numbers of chicken cages sold by West European producers who were being forced to adapt to more stringent EU rules. But when Poland had to, in turn, adopt those same standards, it had to negotiate a transition period in order to change cages and get rid of the ones Polish farmers had bought from Germany and France. Some of those same cases could well now be in use in Moldova.

In agriculture, the Polish government tended to adopt regulatory solutions more suited to large producers, while leaving smaller farmers producing just for the local market less affected by the sanitary and other requirements of producing for the more demanding EU market. However, the Polish experience was that the higher EU standards tended to infiltrate through the industry due to the changing consumer tastes and demands.

In one such example from the dairy sector, the white cheese destined for export had to be made according to the EU standards, while the local cheese was not subject to the same regulations. However, the local farmers used methods like collecting the milk from small producers that was left in unrefrigerated cans by the side of the road, warming for hours before being picked up by distributors. As consumers became aware of the differences in standards between cheese destined for export and that produced for the local use, they simply bought the cheese made to export standards. In a relatively short time, the whole market was brought into conformity with the EU standards, despite the exemption initially carved out for smaller producers.

As the negotiation process continued, Poland set up a system of informing the business about progress in specific areas and industries. This was largely done through the internet, to make the process as transparent as possible and to make the business aware of what was going on at the talks with Brussels. The government would also send circulars to interested parties to ensure that they were aware of negotiations. However, there was often no response from the business community.

What did tend to happen years later is that businesses negatively affected by particular decisions would complain strongly, but long after the negotiating process was over. A further recommendation of this panel is for the government to ensure it has an active outreach to try to avoid such an outcome in Moldova.

One of the most time-consuming areas for the government was to screen every proposed EU regulation to see if it existed in Polish law or if it had to be passed through parliament. As part of that process, the officials would also try to determine the impact the regulations would have on specific parts of the economy and on individual businesses.

Here, the Polish negotiators noted a paradox. They felt it was their duty to be up front with the business about the potential regulatory changes. However, their experience was that businesses, especially the local ones, tended to be quite conservative. If business had been better organized during the accession process, it would have actually ended up causing major problems for the Polish government by delaying the talks. "The business could have torpedoed the talks because of the demands being placed on them by the negotiators," says a former Polish official.

As a final note, the overall accession process in Poland was an enormous success. Poland has seen its best quarter century in about 300 years, with the economy growing at an average of slightly more than 4 per cent a year since 1992.

After joining the EU in 2004, the flood of structural funds pouring into the country has seen the construction of a modern highway system, modern airports and a massive improvement in rural living standards. As the EU non-members, that impact will not be as apparent in Moldova, but the country could see a surge in foreign investment due to the adoption of tighter ties with the EU – something that started to transform Poland by the mid-1990s.

The Polish companies, represented by the well-functioning groups like Lewiatan, the employers' confederation, are now able to operate according to the EU standards. Some are creating brands and penetrating the West European markets on their own, while many others have become the crucial component and sub-assembly suppliers to the German and other West European producers. All that is largely a result of the successful FTA and later EU accession process.

In conclusion, the recommendations for Moldova are to:

1. Design a system of consultative bodies to better channel the business concerns to the negotiators. This should include a broad based organization that unites the government officials, experts, social groups and business organizations. The social groups may often be wary of the aims of business, but, if brought on board, they may provide for greater public acceptance of any agreement and erode the suspicion that the government and business have sewn up a deal that does not benefit the broader public. The organizations should not be chosen by the government but should be genuine representatives of the business.

2. Encourage the formation of sectoral groupings, taking particular care to ensure that both local and foreign companies have a voice so that the views expressed are as broad as possible.

3. Ensure that the government is clear about what is happening during the phases of negotiation and implementation, with an effort to communicate this to interested parties. The language used should avoid Brussels-speak and use clear terms, comprehensible to local business.

4. Efforts should be made to canvas business opinion, so that companies are able to express their views with enough time to affect the process.

5. Not to worry too much about drafting regulations that encompass every aspect of a given industry, especially in socially important but fragmented sectors like agriculture. The adoption of the strict EU standards by larger producers will tend to pull along smaller producers in their wake due to the shifts in the consumer demand. An effort should be made to explain that even the small producers of the niche products like fruits and cheese could benefit from the access to the EU market. The example of the success of the central European farmers, such as the Polish apple, milk and pork producers, who have done very well out of the EU, could buttress that argument.

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Conclusions and Recommendations for Implementing EU-Moldova DCFTA

DCFTAs and their implementation should be put into a wider policy framework. Preserving competitiveness and social stability, pursuing sound economic policies are much more important goals, than anything related to the DCFTA. The integration into the EU shall remain subordinated to these goals.

Moldovan authorities have to set clear policy objectives and show firm political leadership. These two key ingredients are more important than DCFTA PR and partial communication strategies. While Slovakia did invest heavily in marketing the advantages of the EU accession to its population, it was the commitment of its political leaders and strong support for integration by the public opinion that ultimately defined the success of Slovakia's efforts. The European integration in Slovakia was seen not just as an economic issue, but as a civilization task, so that even the major temporary obstacles like the isolation of the Mečiar government could be overcome quickly.

Do not implement blindly the DCFTA rules. The successful DCFTA implementation presupposes familiarity with various national solutions of the EU member states. Choosing from among different national practices offers maximum room for the legal adaptation left after signing the DCFTAs. The Moldovan institutions do not have the capabilities to monitor all the EU member states' solutions at all problematic points. Therefore, it is highly advisable to mobilize resources to map out potential solutions even if this presupposes outsourcing some of these tasks to external actors, legal advisors or/and the involvement of corporate actors and experts into the problem solving process on an institutional basis.

Moldovan authorities are advised to measure the potential impact of the new legislation on business. In the case of Slovakia, the impact of new legislation on the economy and businesses is measured by the Ministry of Economy, the Ministry of Finance, Ministry of Employment, and the Ministry of Environment. The system of assessment was introduced in 2008 and further improved in 2010. Every law that is put forward to the inter-ministerial review proceedings must include a specific impact clause, which specifies the impact of the law in 5 areas (impact on the public finance, the social impacts, impact on the business environment, the ecological impacts, and impact on the informatization of the society). The methodology of computing administrative costs for business is based on the *Standard Cost Model*, which is used by most member countries of the European Union (COST = QUANTITY x TIME x PRICE).

Integrate the ministries & agencies responsible for the DCFTA implementation into the dissemination campaign in order to provide first hand information for the stakeholders. In the case of Hungary, the information dissemination activities were partly separated from the state administration. Chambers of commerce and industries attempted to serve as a liaison. Nonetheless, Ministries were not sufficiently involved in their activities and some of the information was lost in this dissemination chain.

Government should devise a Communication strategy on EU integration that would comprise as well the DCFTA implementation. The Czech Republic has adopted such a strategy in 1997, before the start of the EU accession negotiations. The Ministry of Foreign Affairs, which created a special department responsible for its coordination, was the institution in charge with the strategy. In 2001, an Inter-ministerial Co-ordination Committee for the Implementation of the Communication Strategy was also established. The main aim of the strategy was to provide the public with information on the essential aspects of the EU integration

The Ministry of Economy is advised to set up an online portal with the aim of improving the communication and interaction between the government and the businesses. For instance, in the process of the EU accession, the Slovak Ministry of Economy created an online portal with the aim of improving the cooperation between the government and the business in drafting the legislation. The primary function of ***www.businessfriendly.sk*** is to enable businesses to inform the government about the problems arising from the national legislation. The businesses can put forward objections and initiatives directly to the ministry via the online portal. The businesses can also inform the government about the excessive administrative burdens or the administrative duplicities arising from the legislation.

Engage the SME corporate actors in the DCFTA process long before they have to face

the consequences. In the case of the Visegrad countries, the EU-awareness grew gradually during the implementation process. In the negotiation phase, when issues were decided substantially, these corporate actors did not qualify the accession process as a significant matter. It was during the implementation phase, when large number of the CEOs and financial directors understood the imminent nature of the process.

Moldovan authorities should open the EU integration regional information centres that would provide information and consultancy in areas related to the DCFTA implementation & the EU integration, such as: internal market, trade agreements, procurement, completion rules, research, development and technology, transfer legislation, technical standards, taxes, customs etc. For example, in 1998, the Chamber of Commerce of the Czech Republic established the Centre for European Integration that operated until 2008. Its main task was to provide businesses with information related to the EU integration and monitoring of the EU related legislation. The Centre also organized training and educational activities. For example, during the 1998 - 2004 period, hundreds of entrepreneurs graduated a certified course "Manager at the EU internal market".

Do not put the DCFTA dialogue with businesses on a technocratic fundament. Even if there is a high level of clarity about the sectoral adaptation processes, future administrative procedures, the uncertainty about future competitiveness, export opportunities, implications to the labour market remained considerable. On the list of corporate stakeholders, these questions are the top priority concerns, while the answers lie much beyond the scope of the administrative capabilities.

Do not try to "educate" the DCFTA consequences/ opportunities, they cannot be "educated". The outcomes depend on many factors; preparations may have only a limited value. In Hungary, the textile industry almost fully disappeared despite all sizeable efforts to adapt it to the new situation. An opposite example is the changing attitude of the small landowners, who were rather sceptical before the accession, but they became solid supporters after 2004, when they experienced the scale of the EU subsidies. Thus, both the anticipation and the perception of the implementation of the DCFTA remain to a large extent relative, independent of the process and its technocratic interpretation.

Strengthen the corporate-government trust and cooperation, especially in the potentially affected, fragmented sectors of large social outreach. This is crucial if the government would like to keep the issue depoliticized and manageable in the future. Factors like the overall impacts on competitiveness, brain-drain, the scope of future export opportunities cannot be fully educated and will remain in the "grey" zone. In this atmosphere of uncertainty the government shall show even more empathy and increase its efforts in trust-building.

Moldovan authorities have to address the issues of its vast agricultural sector, in order to prevent them from becoming a conservative, anti-reform force. Although the agricultural sector in Slovakia was one of the main beneficiaries of the EU integration, there have been some shortcomings in the government policy and communication in addressing its issues. The agriculture has not counted as a large fraction of the economy at the time of accession, and so, priority was put on the manufacturing sector. Some small agricultural holdings failed to comply with the EU norms and went out of business. Unfortunately, as a result of the rapidly falling agricultural employment, the agricultural sector in Slovakia has become somewhat anti-market and now regularly lobbies the government for protectionist measures.

Export-oriented industries shall constitute one of the major goals for the state policies. Industries, capable to export to EU markets, will have higher chances to step into other markets, may establish clusters of modernization in the local economy, as it happened in the Visegrad countries (i.e. car industries, modern processing factories, agricultural production). Microeconomic integration was a crucial, inseparable factor of success of the Visegrad EU accessions.

Moldova is advised to establish a broad based national body looking at issues of the European integration that would include negotiators/ officials, experts, business and social groups. In the case of Poland, this body was called the Narodowa Rada Integracji (The National Council for Integration), operated under the authority of the prime minister and was an organization for discussions on a very general level. The Council acted as an information channel between the government and the society.

The Government has to undertake regularly

high level consultation with the businesses. According to the Polish negotiators, having a strong business opinion on a given issue, allowed Warsaw to strengthen its position with the EU, thus demonstrating that it was not just the government talking, but it reflected a broader social position.

The Moldovan authorities should encourage the formation of sectoral business groupings, taking particular care to ensure that both local and foreign companies have a voice and the expressed views are as broad as possible.

The DCFTA implementation needs a champion, a responsible agency that would lead and guide the process. It is essential that there is a team of business-minded individuals in the civil service, who are in charge of coordinating the implementation of the economic package of the DCFTA.