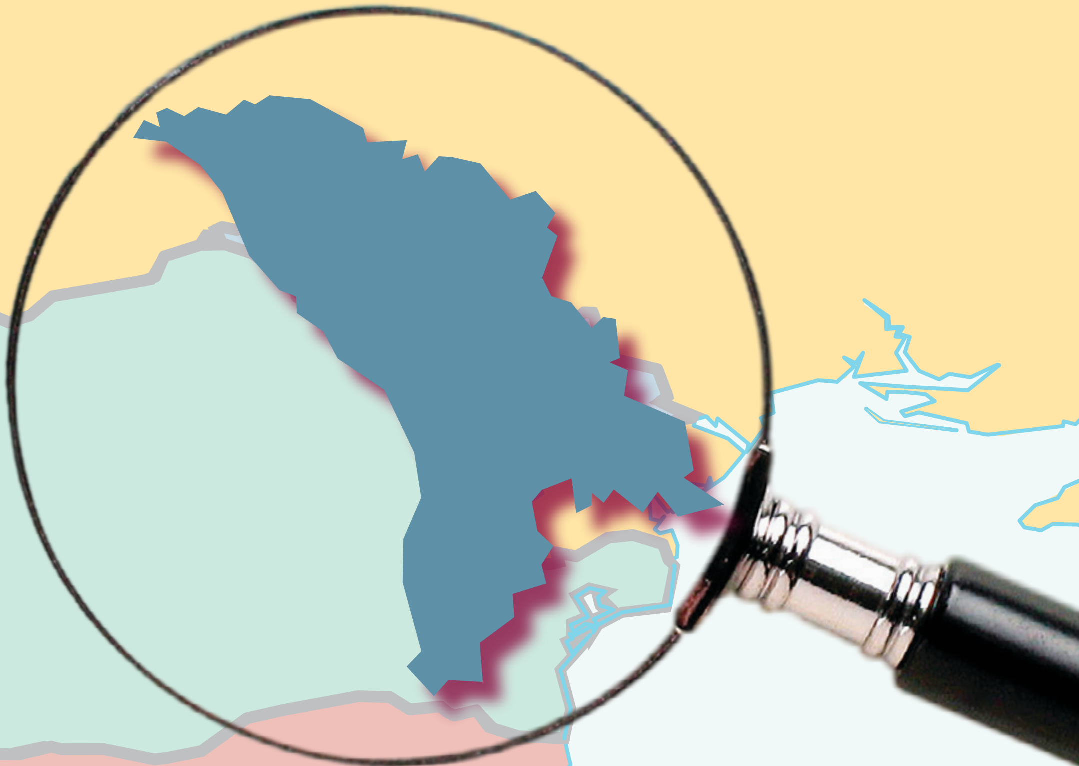
MOLDOVA

IN-DEPTH REVIEW
of the Investment Climate and Market Structure in the Energy Sector

ENERGY CHARTER



Energy Charter Secretariat
2011

Disclaimer

Information contained in this work has been obtained from sources believed to be reliable. However, neither the Energy Charter Secretariat nor its authors guarantee the accuracy or completeness of any information published herein, and neither the Energy Charter Secretariat nor its authors shall be responsible for any losses or damages arising from the use of this information or from any errors or omissions therein. This work is published with the understanding that the Energy Charter Secretariat and its authors are supplying the information, but are not attempting to render legal or other professional services.

Boulevard de la Woluwe, 56
B-1200 Brussels, Belgium
ISBN: 978-905948-104-6 (English, PDF)

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

1. INTRODUCTION

The Energy Charter Treaty (ECT) and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) were signed in December 1994 and entered into legal force in April 1998. The treaty was signed or acceded to by 51 states, the European Community and Euratom (the total number of its members is, therefore, 53).

The fundamental aim of the ECT is to strengthen the rule of law on energy issues, by creating a level playing field of rules to be observed by all participating governments, thereby mitigating risks associated with energy-related investment and trade.

Moldova ratified the Energy Charter Treaty (ECT) and the Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) in June 1996. The ECT's trade provisions, which were initially based on the trading regime of the GATT, were modified by the adoption in April 1998 of a Trade Amendment to the Treaty. For Moldova, the trade amendment entered into force on 21 January 2010 on a provisional basis.

In fulfilment of its commitments within the Energy Charter process, Moldova presents this in-depth report on the investment climate and market structure (ICMS). The report covers the period 2006-2010 and is based on the latest publicly available data for the country.

Undertaken on a peer review basis, this report serves the purpose of information sharing and cooperation among the member states. The report contains updated information on the development of the national economy, basic statistics on foreign direct investments (FDIs), an in-depth analysis of the legal framework and a review of the investment climate and market structure in the energy sector of Moldova.

The report is prepared by the Moldovan authorities with the help of the Energy Charter Secretariat, and in this respect is the product of a fruitful and close cooperation.

2. POLICY CONCLUSIONS ADOPTED BY THE ENERGY CHARTER CONFERENCE

The Energy Charter Investment Group reviewed country report of Moldova at its meeting on 5 April 2011. It agreed upon a number of policy conclusions and recommendations with regard to the report that was subsequently adopted by the Charter Conference on 29 November 2011. These conclusions read as follows[1]:

The Charter Conference,

Having heard the report from the Investment Group with respect to the Report on Investment Climate and Market Structure from Moldova

NOTED

a) *That the review has shown that Moldova honours its commitments under the ECT and has undertaken broad reforms and investment policy measures towards improving legal frameworks for investors;*
b) *That the review has helped to clarify the existence and content of nonconforming measures in accordance with Article 10 (5) of the Treaty, resulting in update of one non-conforming measures in the "Blue Book" of the Energy Charter:*
c) *In particular:*

- Took note with satisfaction that Moldova has significantly improved the business climate over the last years with notable results in simplified business registration, issue of licenses and improved judiciary system. The next challenge is simplifying procedures on construction permits;
- Welcomed the considerable progress in development of the energy sector legislation and market reforms aimed at establishment of open and competitive energy market and a level playing field for local and foreign investors;
- Noted efforts related to development of the regulatory framework, restructuring of the energy markets with disaggregation of former vertical monopoly and achieved partial privatisation;
- Encouraged to continue strengthening market-oriented energy policies, implying liberalization, application of full cost recovery tariffs conditioned to quality of energy services, increasing competition, providing investment incentives and invited to consider benefits of further privatization in the energy sector;
- Took note that the Government is working with national and international partners to further update the Energy Strategy 2020 in order to reflect new developments in the market and set new timelines;

[1] Adopted at the 22nd Meeting of the Energy Charter Conference on 29 November 2011

- Draw attention that national energy sector stakeholders underline importance of developing, adopting and implementing secondary legislation for the gas and electricity sectors;
- Underlined that extension of electricity and gas interconnections is key for increasing the security of energy supply in Moldova and in the neighboring territories of the emerging regional energy market;
- Encouraged more measures aimed at strengthening capacity of the energy sector regulator to make it fully independent, empowered and equipped to monitor compliance;
- Underlined that it is imperative to resolve the issue of historic debts in the heating and gas sectors, as a condition for a competitive energy market and attract necessary investments. The Government is invited to consider different options of district heating versus cogeneration or a combination of both;
- Draw attention that bilateral donors and major stakeholders in the country underline importance of private sector investments and recognized the need to create incentives for small and medium size enterprises to invest in energy efficiency and renewable energy;
- Encouraged to consolidate and make available to investors all available information on potential of the renewable energy sources and energy efficiency both on supply and demand sides. Taking into account social and economic implications the Government is invited to proceed with state policies to stimulate investments in renewable energy sources. The Government is advised to consider streamlining administrative procedures to allow effective allocation of agricultural and forest land title to renewable energy projects;
- Draw attention to the fact that the national economy is strongly linked to agricultural activities, the development of a higher awareness of the economic value of biomass residues from agriculture and forestry as renewable fuels for electricity, gas, and heat production should be strongly supported; and
- Emphasized that the energy efficiency work should focus on sectors holding the largest potential including loss reduction in transmission/distribution and improving energy efficiency in buildings and heating systems.

3. MAIN FINDINGS OF THE SECRETARIAT[2]

Investment Climate

As part of economic reforms, Republic of Moldova has taken significant steps towards improving the business environment in Moldova. The review of the legislative framework confirmed that there is no screening of foreign investment in Moldova and the legislation permits full foreign ownership in companies. Local and foreign investors have equal rights under the Moldavian legislation, and there is no discrimination on the basis of citizenship, home, residency, and place of business registration, state of origin of the investor or investment. There are no restrictions on the amount of capital that can be invested except for the minimum statutory capital which applies to both local and foreign investors regardless of their origin.

The review indentified that there is only one exception to non-discrimination principle related to the right to purchase and sell agricultural and forest land, which is restricted to Moldovan citizens in accordance with the art. 22 of the Law on Investments in Entrepreneurial Activity of 2004 and art. 4 of the Law on the normative price of land and the means for land sale and purchase of 1997. The exception is recorded in the Blue Book of the Energy Charter.

Some investors reported cumbersome procedures related to transfer of land title from agricultural and forest land to other land category which allows implementation of renewable energy projects (RES). On the other hand, foreigners are permitted to buy all other forms of property in Moldova, including land plots under privatized enterprises and land designated for construction.

The general assessment shows that the investment climate has been improving over the last years. It should be acknowledged that a number of obstacles to both trade and business licensing procedures were eliminated over the last several years. They included the removal of restrictions on exports as well as a simplification of customs controls as the mandatory certification of every shipment of imports was abolished. The licensing requirements for business registration were further simplified, with elimination of overlapping regulatory requirements of different state authorities. In addition all proposals for regulatory changes in the economic sphere are now required to undergo a consultation process involving the relevant stakeholders.

In recent years, the Government made significant efforts to streamline business registration. In the business registration procedure, the Government simplified document submissions by implementing a one window approach. This process reduced the number of documents and days necessary for business registration. This viewed as a very positive development for the business sector.

According to the World Bank assessment in its report Doing Business 20113, Moldova is ranked 90 out of 183 economies in terms of the overall "Ease of Doing Business" evaluation.

[2] These findings were submitted by the Energy Charter Secretariat to the regular session of the Investment Group on 5 April 2011

Notwithstanding some progress, the report makes it clear that further reforms are needed to make Moldova's economy more competitive and more attractive for local and foreign investors. For example for issue of construction permits Moldova is ranked 159, trading across border is ranked 141 and finally protection of foreign investors is ranked 109. Further streamlining of administrative procedures is required, where particular attention should be given to obtaining permits for construction.

Several legal, institutional, and administrative barriers have been identified during the review process that represents critical barriers to investments in the energy sector of Moldova:

- According to international observers, the environment for foreign investments appears to be only moderately attractive;
- No secondary legislation to guarantee the implementation of the regulatory framework (e.g. support to the development of ESCOs) has been developed;
- Public tendering process for project development by private companies has not been established;
- There is lack of dedicated funds for the development of energy efficiency and renewable energy projects;
- The new feed-in tariff has not yet become effectively operational due to economic and social consideration; and
- The lack of private project developers in the country could be explained by low awareness on potential of renewable energy sources.

Energy market

The Republic of Moldova is completely dependent on imported primary energy resources and partially on imported electricity. The country does not have any indigenous resources of fossil fuels and has a low potential for hydro power. Moreover, local electricity production is insufficient and demand is met by imports from neighbours (Romania and Ukraine). In a given situation, active use of renewable energy sources and increased energy efficiency would be essential for Moldova to decrease the dependency on imports.

The Government has taken course on opening the energy market and reforming the energy sector. Moldova became a full fledged member of the Energy Community4 as of 1 May 2010.

According to the Treaty establishing the Energy Community, Moldova has agreed to set up a legal and economic framework in relation to Network Energy which entails the adoption and implementation of acquis communautaire on energy, environment, competition and renewables. This process will inter alia imply stepwise energy market liberalization in Moldova. At present, development of the secondary legislation and its application is currently a major challenge for the authorities in Moldova.

---

[3] See for more information at http://www.doingbusiness.org/data/exploreeconomies/moldova/

[4] The Energy Community is based on a Treaty signed between the European Union and nine Contracting Parties: Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Ukraine and UNMIK.

The second priority for the development of the energy sector is strengthening energy interconnections with neighboring countries and facilitating investments into domestic energy infrastructure to ensure security and quality of supply to customers. And finally, serious consideration needs to be given to promoting the renewable energy sources (RES) which requires key decision on adopting feed-in tariffs in accordance with the Renewable Law of 2007 or looking for other possible mechanism to develop RES.

On a positive side following achievements to facilitate investments into the energy sector must be mentioned:

- Improved legal and regulatory framework;
- Functioning of professional and independent energy regulator;
- Introduction of cost-recovery tariffs;
- No current debts to electricity suppliers with collection rates reaching 100%;
- Transformation of electricity sector debts into state debts;
- Electricity and natural gas supply available 24 hours/day;
- Significant reduction of losses and thefts: from 19 to 14 % for electricity and 4 - 5% for natural gas; and
- Most energy enterprises (except heat sector) considerably improved their financial situation.

In the context of energy market reforms Moldova established an independent National Energy Regulatory Agency (ANRE) and National Agency for the Protection of competition (NAPC). It is important to continue strengthening capacity of the regulator to make it fully independent, empowered and equipped to monitor compliance. At present the regulator has limited administrative powers to impose effective sanctions in case of infringement. A recent amendment in the legislation provides that the regulator is able to withdraw the issued license only after a court decision.

It shall be noted that the regulator has strongly contributed to stabilizing the energy and municipal utility sectors. Administrative interference in the tariff-setting process has been reduced, starting in 2010 when the regulator assumed the responsibility for setting tariffs at all stages, including production, transportation and distribution of electricity, gas and district heating. The tariffs for district heating in the capital, Chisinau, are now set at cost recovery levels. However, there are some ongoing concerns and disputes on tariffs methodologies between the regulator and business sector that requires open consultations. It is essential that the energy tariffs are applied at cost and investment recovery levels. Any disagreement over the tariffs, respective methodology or other matters should be subject to transparent and open consultations.

The investment potential for energy sector of Moldova is significant thus a combination of public and private sector is required to provide the capital needed to achieve meaningful results. This in turn will require a free competitive market in which large investments can be made with low transaction costs at an acceptable risk-to-return ratio and within a reasonable period of time. At present, small and medium size private investors in Moldova do not finance energy efficiency and renewable projects because dedicated sources of financing are lacking and local banks are generally unfamiliar with such investments. Another obstacle in financing small scale energy projects is the absence of a policy and institutional support for their implementation. And finally there is lack of consolidated data on potential of RES and energy efficiency which shall be made available to investors to prepare projects.

Another significant drawback is problem connected to historical arrears of heating sector enterprises of Moldova that negatively impacts on effective functioning of the energy sector. The heating sector of Moldova requires extensive reforms. A key issue in this context is restructuring of heating enterprises, introduction of energy efficiency regulation, including installation of energy efficient equipment and optimization of heat demand. Around 80 per cent of residential buildings are equipped with collective heat meters but households do not have any incentive to reduce their consumption.

4. OVERVIEW

4.1. General Information

The Republic of Moldova is a small country, favourably located in south-eastern Europe which covers an area of 34.000 square kilometres. Being situated at a distance of only 300 km from Black Sea, Moldova extends over 350 km from North to the South and 150 km from West to the East.

Figure 1 General location of Moldova

The country has an access to the Black Sea through the Danube River and Giurgiulesti Port, which is the southerly point of the Republic of Moldova. Moldova borders two countries: Ukraine on the East and Romania on the West. Due to Romania's and Bulgaria's accession to the European Union (EU) in 2007, Moldova became a neighbour to EU.

The country's favorable geopolitical location at the cross-roads of economic and commercial links, which connect EU with the CIS countries, offers unique possibilities for developing any kind of business activity. Benefiting from developed network of transportation and communication links, Moldova has important opportunities for co-operation with the countries of the region.

Population of Moldova accounts about 3.56 million inhabitants that represent several ethnic groups. Among them are about 75.8% Moldovans, 8.4% Ukrainians, 5.9% Russians and other ethnic groups. Due to presence of several ethnic groups, Moldova is a country with several spoken languages. Official language of the country is called Moldovan and another widely spoken language in Moldova is Russian. Almost half of population lives in urban area.

Figure 2 Country map[5]

The mineral resources of the Republic of Moldova are mainly represented by sedimentary rocks, such as limestone, chalk, gypsum, sand, sandstone, bentonite, tripoli, and diatomite, which can be used in construction, cement and glass production, food processing, chemical and metallurgical industries, etc. Among other non-metallic minerals that have been identified on the territory of the Republic of Moldova are graphite, phosphorite, zeolite, fluorite, barite, iodine and bromine as well as several industrial metals such as iron, lead, zinc and copper. Moldova has small deposits of lignite, crude oil and natural gas.

The climate of the Republic of Moldova is moderately continental. It is characterized by a lengthy frost-free period, short mild winters, lengthy hot summers, modest precipitation, and long dry periods in the south. The average annual temperature increases southward from around 8-9°C in the north to around 10-11°C in the south. The average annual precipitation varies between 600-650 mm in the north and the centre, and 500-550 mm in the south and the southeast.

Administrative divisions:	32 regions, 5 municipalities, 1 autonomous territorial unit and 1 territorial unit.
Regions:	Anenii Noi, Basarabeasca, Briceni, Cahul, Cantemir, Calarasi, Causeni, Cimislia, Criuleni, Donduseni, Drochia, Dubasari, Edinet, Falesti, Floresti, Glodeni, Hincesti, Ialoveni, Leova, Nisporeni, Ocnita, Orhei, Rezina, Riscani, Singerei, Şoldanesti, Soroca, Stefan-Voda, Straseni, Taraclia, Telenesti, Ungheni.
Municipalities:	Balti, Bender, Chisinau, Comrat, Tiraspol.
Territorial unit:	Transnistria.
Autonomous territorial unit:	Gagauzia.

4.2. State Structure[6]

The Constitution

The Constitution of the Republic of Moldova is the supreme law of the country. The Constitution guarantees the inviolability of investments by all natural and legal entities, including foreigners. Key constitutional principles include the supremacy of international law, a market economy, private property, provisions against unjust expropriation, provisions against confiscation of property, and separation of powers among governmental branches.

The Republic of Moldova pledges to respect the Charter of the United Nations and the treaties to which is a party, to observe in its relations with other states the unanimously recognized principles and norms of international law. The Constitution states that "*wherever disagreements appear between conventions and treaties signed by the Republic of Moldova and its own national laws, priority shall be given to international regulations.*"

The President

The President of the Republic of Moldova as the Head of the State represents the State and is the guarantor of national sovereignty, independence, of the unity and territorial integrity of the nation. In this context the notion of "the Head of the State" means the person called to represent the state at the top level representing the entire nation and its territory (*Article 77 of the Constitution*).

---

6 http://www.moldova.md/

Any citizen of the Republic of Moldova over 40 years of age with the right to vote that has been living in the country for at least 10 years and speaks the State language can run for the office of President of the Republic of Moldova *(Article 78 paragraph (2) of the Constitution).*

The President of the Republic of Moldova shall be elected by the secret vote of the Parliament. The candidate obtaining at least three fifths of the votes cast by elected deputies shall be considered elected. If no candidate obtains the required number of votes, a second ballot shall be held to choose from the two first-placed candidates, in the order of the number of votes cast for them in the first ballot. If after the second ballot no candidate obtains the required number of votes, repeated elections shall be conducted. If after repeated elections the President of the Republic of Moldova is not elected, the acting President shall dissolve the Parliament and establish the date of new Parliamentary elections. The organic law determines the procedure of electing the President of the Republic of Moldova (*Article 78 of the Constitution*).

The Constitutional Court will validate the result of the election of the President of the Republic of Moldova. Within 45 days from the date when elections were completed the candidate whose election was validated shall take the oath before the Parliament and the Constitutional Court (*Article 79 of the Constitution*).

The President of the Republic of Moldova takes office on the oath-taking day and his term has duration of four years. The Head of the State exercises his mandate until the next President is sworn in. By organic law the mandate of the President of the Republic of Moldova may be prolonged in the event of war or catastrophe. The office of the President of the Republic of Moldova may be held by the same person for no more than two consecutive terms (*Article 80 of the Constitution*).

The Government

In accordance with the Constitution of the Republic of Moldova the Government is an executive administrative entity of the Republic and submitted to the President.

The Government settles all the questions of state governing according to the Constitution of the Republic of Moldova and the present Law of competence.

The Government, on the basis and in order to execute laws of the Republic, enactments of the Parliament of the Republic, decrees and regulations of the President of the Republic, adopts and issues orders, organizes and checks their execution. Enactments and orders of the Government are compulsory for execution in all the territory of the Republic.

The GoM consists of a prime minister, a first vice-prime-minister, vice-prime-ministers, of ministers and other ministers and other members, as determined by organic law.

The Parliament

The Republic of Moldova is a parliamentary republic. The Chairman and the Deputy Chairmen of the Parliament are elected after the legal constitution of the legislative body. According to the Regulations of the Parliament, the Chairman of the forum is elected for the entire duration of the term by a secret ballot of the majority of the elected deputies at the proposal of the parliamentary factions. Deputy Chairmen of the Parliament are elected by an open ballot of the majority of elected deputies, at the proposal of the Chairman of the Parliament, after consultations with parliamentary factions.

The working body of the Parliament –the Standing Bureau- is formed taking into consideration the proportional representation of the factions in the legislative body. The Chairman and Deputy Chairmen of the Parliament are its *ex officio* members. The number of members of the Standing Bureau is determined by the Parliament's decision.

The main and the most important documents are subject to debates within the parliamentary factions, which are practically the major political decision-makers in the Parliament. These indispensable units of the legislative body are established in compliance with the Parliament Regulations within a 10-day term after the Parliament has been legally constituted. Each faction consists of at least five deputies to form working bodies and organize the legislative activity on the basis of the lists of political formations.

The Standing Committees are the working bodies of the Parliament that have a special role in preparation of its works and in exercising the parliamentary functions, especially the legislative and control functions. The Committees are specialised according to areas of activity depending on various areas of governmental responsibilities. They are elected for the entire duration of the term of the Legislative body. The Standing Committees report to the Parliament and are subordinate to it. The Parliament decides upon the number of committees, the title, and the numerical and nominal composition of each committee at the proposal of the Standing Bureau.

To draft complex legislative acts, advisory opinions on them or for other purposes indicated in the establishing decision, the Parliament may set up special committees and inquiry committees. The Standing Bureau proposes to the legislative body for approval the nominal composition of the committee and the term within which the report has to be submitted. An inquiry committee may be established at the request of a parliamentary faction or a group of at least 5 per cent of the number of the elected deputies.

The Judiciary

The judicial system includes the Supreme Court of Justice (the highest court), the Court of Appeal, and the Constitutional Court. Courts of law adjudicate at the local level.

The Supreme Court of Justice is the highest body of judicial power in Moldova. In Article 114, the Moldovan Constitution proclaims that justice is administered in the name of law by the courts of law. The Supreme Court of Justice, as the highest court in the state, uses the general principles of law as the basis for its activity, and aims at refining judicial decisions by eliminating factual errors and by interpreting, analyzing and making judicial practice uniform. Thus, the Supreme Court must ensure correct and uniform application of the law by all courts, resolve conflicts that arise in the application of laws and guarantee the responsibility of the state to the citizen, and of the citizen to the state. The work of the Court's judges and of its specialized and auxiliary staff continues to evolve and, combined with the law and Court's procedures, is strengthened by the experience, conscience and beliefs of the people working in this area.

The Republic of Moldova has adopted a comprehensive strategy and implementation plan for reforming its judicial system. Capacities of the Supreme Council of Magistracy (the body in charge of judicial self-administration) were consolidated and a Department for Judicial

Administration, subordinated to the Ministry of Justice, was created and started operating in January 2008. The National Institute of Justice was established and started its training operations in October 2007. The code of ethics for judges was approved in November 2007 and a judicial inspection system under the aegis of the Supreme Council of Magistracy was introduced by law in July 2007.

The International Commercial Arbitration Court of the Chamber of Commerce and Industry of the Republic of Moldova was established in 1994 for the commercial arbitration administration, with the scope to settle disputes regarding foreign trade.

The Arbitration Court is a permanent, non-corporate, non-governmental and independent institution in execution of its functions. It is organized and acts in accordance with:

- Law of RM No. 23-XVI of February 22, 2008 "Regarding the Arbitration";
- Law of RM No. 24-XVI of February 22, 2008 "Regarding the international commercial arbitration";
- The Statute of International Commercial Arbitration Court approved on December 19, 2009 by a decision of the Council of the Chamber of Commerce and Industry, with his Regulations;
- European Convention of the International Commercial Arbitration of April 21, 1961;
- Convention of New York of June 10, 1958 for the recognition and execution of the foreign arbitral awards;
- The legislation of the Republic of Moldova in force and international acts, in which the Republic of Moldova participates.

The objective of the Arbitration Court is to promote the internal and international commercial arbitration as well as conciliation procedure and other ways of alternative dispute resolution within business environment of the Republic of Moldova.

4.3. Population and employment[7]

The number of resident population of the Republic of Moldova at January 1st 2009 constituted 3,567.5 thousand inhabitants, of which 1,476.1 thousand (41.4%) - urban population and 2,091.4 thousand (58.6%) – rural population. The distribution of population by sex represents: women - 52%, and men - 48%.

The structure of population by age has the characteristic of a demographic ageing process, namely the increase of the share of old women and men and the decrease of the share of person aged 0-14 years. Because of the high mortality level of men of working age, the ageing population process is more typical to women. At present, in the structure of population aged 65 years and over, women represent more than 60%.

The life expectancy at birth in 2008 was 69.4 year, including 65.6 year – men, 73.2 year– women. Compared to 2001, it increased with one year for men and approximately with half year for women.

---

[7] National Bureau of Statistics of the Republic of Moldova, population and demographic processes in the Republic of Moldova, 2009

In 2009 the economically active population (according to data of quarterly questionnaires carried out in 12,000 households) constituted 1,265.3 thousand people. The number of unemployed, according to the International Labor Office (ILO) totaled approx. 81.0 thousand people (increasing by 30.7 thousand people versus the previous year) matching to an unemployment rate of 6.4% (4.0% in 2008).

4.4. Economic Situation[8]

4.4.1. Performance of the Economy

Since 2002 - following a decade of economic decline - Moldova has achieved and maintained macroeconomic stability. Fiscal management has been prudent, with a roughly balanced budget in recent years. Inflation has decrease from average 11.1 % in the past four years to 0.4 % in 2009. Public debt has fallen sharply, from 29.2% of

GDP in 2006 to 23.2% in 2007 and 18.4% in 2008, and arrears have been cleared as part of a rescheduling agreement with the Paris Club. In 2009 the public dept has been increased to 24.4% of GDP.

The Gross Domestic Product (GDP) summed up to around $ 6 billion, current market prices, and has increased - in real terms - with 6.9% compared to 2009 and with 64.8% compared to 2000.[9]

The national budget revenues amounted to $ 2.1 billion representing decrease of 13.8% over 2008. Total industrial output amounted to $ 2.1 billion (2009) or a 22.2% increase compared to the previous year's levels.

The government's economic stabilization and structural reform programmes have made several notable and positive achievements:

- The privatisation programme has been successfully completed;
- Foreign trade sector is liberalized;
- Monetary stability has been achieved;
- Full current account currency convertibility has been introduced;
- National accounting and audit standards based on international standards have been implemented;
- The banking system has been privatized and streamlined; and
- The process of land privatization has been successfully completed.

Remittances have been a powerful anchor for the Moldovan economy (contributing to an estimated 36.2% of GDP in 2007 and estimated above 2 billion USD for salaries earned from abroad for 2008). The available data from the National Bank of Moldova confirms a continuous fall in remittances amounting to 180.8 million USD in July 2008 to USD 111 million in November 2008. The total number of Moldovans working abroad while still belonging to a household in Moldova is estimated to be around 340,000 (during the third quarter of 2008), with CIS countries accounting for two-thirds of all migrants in 2008.

---

8 National Bank of Moldova, Annual Report for 2009.
9 National Bureau of Statistics, 2011

The Gross Domestic Product (GDP) of the Republic of Moldova, estimated for 2009, declined in real terms by 6.5 percent compared to the previous year. On the supply side, the fall in GDP was supported by negative results in the goods sector, particularly from industry, and reducing taxes and net product imports. Also, reductions were recorded for items of expenditure on GDP, mainly on the account of significant reduction of the capital formation and final consumption of households.

In 2009, industrial production of enterprises of all types of real property recorded a decrease of 22.2 percent compared to the previous year and accounted for 23,266.6 million Lei in current prices.

According to the preliminary estimates, agricultural production fell in 2009 in real terms by 9.9 percent compared to the previous year. This reduction was mainly due to the sharp decrease in crop production, while livestock production increased compared to the previous year.

In 2009, in the economy has been allocated investment in fixed capital of only 65.1 percent from the level recorded in 2008. The main sources of financing investment activity remain to be the funds of economic agents and population.

The average monthly wage of an employee in the national economy in 2009 amounted to around $ 230 (local currency 2,747.6 Lei), increasing both in nominal and real terms by 8.6 percent as compared to the previous year.

In 2009, the contributions to the *state budget* revenue constituted 15.1 percent less than the amount collected in 2008, the state budget revenue constituting 4.5 percent higher compared to the last year. The state budget in 2009 resulted in a deficit amounting to 3,631.8 million Lei.

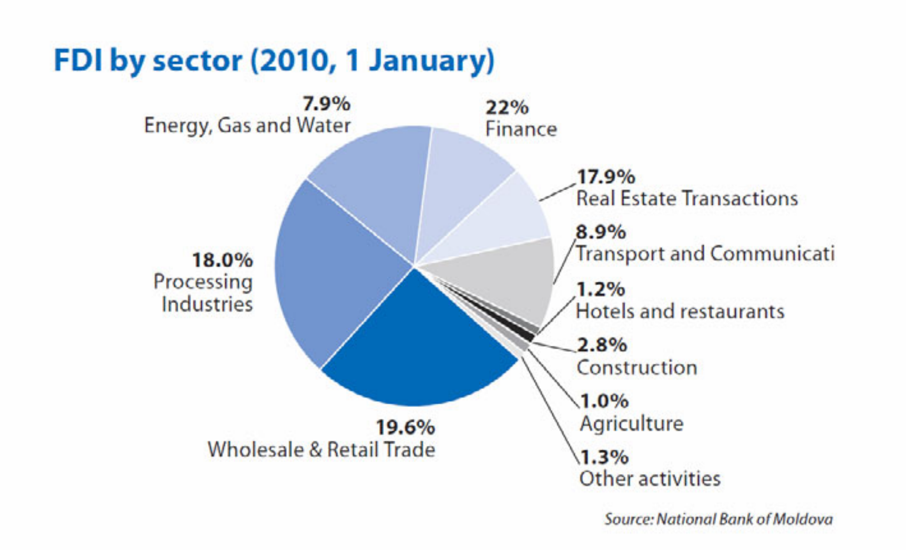
On December 31, 2009 the external public debt amounted to $ 957.5 million, increasing by USD 179.2 million compared with levels recorded at the end of 2008. The domestic public debt amounted to 5,104.9 million Lei, made entirely of public bonds.

The annual core inflation showed a downward trend since April 2008, constituting 2.1 % in October 2009, with a slight acceleration in December 2009.

4.4.2. Foreign Direct Investment

Following a decade of economic decline that ended in 2000, Moldova has maintained macroeconomic stability and achieved consistent economic growth. This period was marked by significant increases in foreign investment. FDI represented 1.6% of the country's GDP in 2009. Cumulative total FDI at the end of 2009 reached approximately $ 2,604.2 million. Presently, Moldova enjoys investments from 91 countries with the major FDI sources being the EU-27, the Commonwealth of Independent States (CIS), the USA and Canada.

Figure 3 FDI by sector as of 2010



Total FDI in Moldova amounted to more than $ 1,613.5 million at the end of 2009. The Netherlands is the largest investor with over $ 283.1 million since 1994. Other large investors between 1994 - 2009 have been Cyprus at $ 190.2 million; Italy at $ 190.2 million; Russia at € 88.2 million; Spain at $ 64.9 million; Germany at $ 124.8 million; UK at $ 84.8 million; France at $ 72.9 million; Romania at $ 106.1 million; USA at $ 49.7 million; and the other countries at $ 348.0 million.

FDI inflows reflect foreign companies' participation in the Moldovan privatization process through investing in company equity, acquiring stock, as well as utilizing loans from parent companies. An important indicator of investor trust is reflected in reinvested earnings, which grew over the last several years and are predicted to continue in the future. The share of reinvested earnings in total cumulative investments has increased from 1.9% in 2000 to 12.4% in 2009. This reflects the long-term confidence of businesses that have already invested in Moldova. The largest share of foreign investment is in the fixed assets of joint ventures and foreign companies.

Attractive for the investment projects in the sphere of industry are the free economic zones (FEZ), providing a range of tax and customs privileges and state warranties to their residents. At present, the volume of the investments, attracted in free economic zones has topped $ 76 million.

According to National Energy Regulatory Agency (ANRE), investments in the energy sector of Moldova from 2000 to 2003 were around $ 6.0 million on an annual basis. Over the last years the level of investments has increased with estimation that around $ 28 millions were invested in the energy sector in 2010.

Important factors that attract investments are free economic zones. They are parts of the customs territory of Moldova, separated economically, and strictly bounded on the entire area, where certain types of entrepreneurial activities are allowed on preferential terms to local and foreign investors. There are seven FEZ in Moldova at present: Expo-Business-Chisinau (located in the capital Chisinau), Ungheni- Business (107 km northwest of Chisinau), Tvardita (115 km south of Chisinau), Otaci-Business (220 km north of Chisinau), Valkanes (in Vulcanesti, 200 km southwest of Chisinau), Taraclia (153 km south of Chisinau) and Balti (130 km north of Chisinau).

By the end of 2009, total investments in the afore-mentioned FEZs amounted up to $ 125 million. The largest share of it has been invested in "Expo-Business-Chisinau" Zone (40 percent). The investment in Ungheni-Business FEZ over the last seven years of operation amounted to $ 35.4 million. In total there were registered over 146 companies.

Figure 4 Location of Free Economic zones

Under the Law, businesses in FEZ benefit from:

- Import of raw material exempted from all taxes, excise and VAT, if exports > 70 percent of total sales;
- Corporate tax exemption for three years –investments > $ 1 million;
- Corporate tax exemption for five years -investments > $ 5 million.

Source: Moldovan Investment and Export Promotion Organization

FDI Policy

At present one of the primary tasks of the Government is to attract investments and create a favorable business climate for all investors both foreign and local.

In this connection, necessary measures are being taken to stimulate business activity and improve investment climate focusing on geographical position of the country, skilled labour resources, fertile soils and participation of the country in free trade zones of the CIS countries and the countries of South Eastern Europe.

The investment attractiveness of Moldova is also due to the fact that since June 2001 the country is a member of WTO and of the Stability Pact. The Republic of Moldova signed the Partnership and Cooperation Agreement with European Union (EU). The country has access to the world markets through the General System of Preferences (GSP+) with the EU, Switzerland, Japan and others. Therefore, the EU has given free access, without payment of the customs duties, on their own home markets of 7,200 groups of goods.

Moldovan Investment and Export Promotion Organization is under the Ministry of Economy and has the responsibility for investment attraction and export promotion. The mission of the organization is to advise and support foreign investors and the development of external trade and cooperation among Moldovan and foreign companies.

Established in 1999, the organization contributes to attracting foreign investment and developing domestic companies through its services and development programmes. In addition, it advises and accompanies Moldovan exporters at international markets. For companies which come to the Moldovan market, it acts as a contact partner during their search for attractive and reliable opportunities/locations/business partners in the Republic of Moldova.

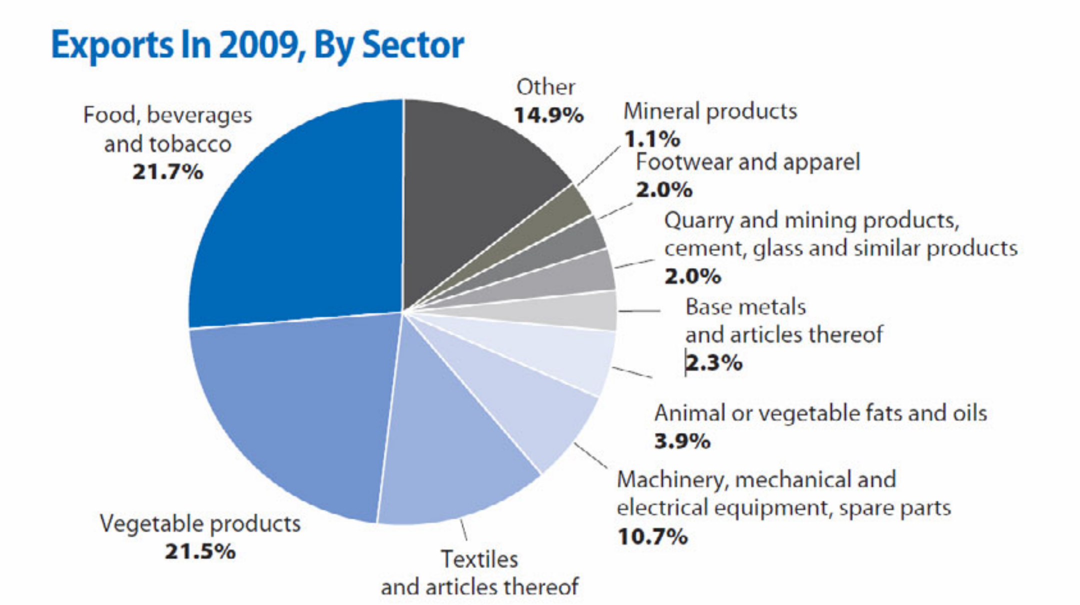
4.4.3. Foreign Trade

Moldova's foreign trade regime was liberalized in 1994. As a result, businesses may freely trade a wide range of goods with the exception of some specific product categories, such as weapons, precious metals, explosives, poisons, medicines, medical items and equipment. As mentioned before, since July 2001 Moldova has been a member of the World Trade Organisation, and thus the tariff policy of Moldova is based on the trade regime and norms established by the WTO. Moldova does not apply any prohibitions or quantitative restrictions on imports that do not conform to WTO provisions - nor does it apply any customs duties, prohibitions or other measures on exports.

Since March 1, 2008 Moldova has also benefited from the Autonomous Trade Preferences (ATP+) in its trade with the EU - trade preferences received as a result of Moldova's implementation of sustainable development, good governance policies and customs administration. It has also concluded multilateral Central European Free Trade Agreement (CEFTA 2006) and bilateral FTA's with CIS countries, except Tajikistan. Moreover, the CEFTA, entered into force on July 27, 2007. Moldova is also a member of the Organisation of the Black Sea Economic Cooperation, SECI, GUAM and other regional economic initiatives. Export volumes amounted to $ 1.29 billion in 2009. CIS countries accounted for $ 490.5 million ($ 627.9 million) or 37.8 % of total exports.

Exports to the EU-27 went up to $ 678.5 million in 2009 represented 52.3 % of total exports. The main destinations for Moldovan exports in 2009 were Russia (22.1%), Romania (18.5%), Italy (10.5%), Ukraine (6.3%), Belarus (6.2%), Germany (5.8%), and UK (4.7%). The export products include food, beverages and tobacco, and wine in particular, at 19.6%, followed by textiles and textile products at 19.7% and vegetable products at 13.2% make up the bulk of Moldova's exports. Other exports of note are base metals, machinery and spare parts, mineral products, animal and vegetable oils and fats, and mining-related products such as glass and cement, footwear and apparel.

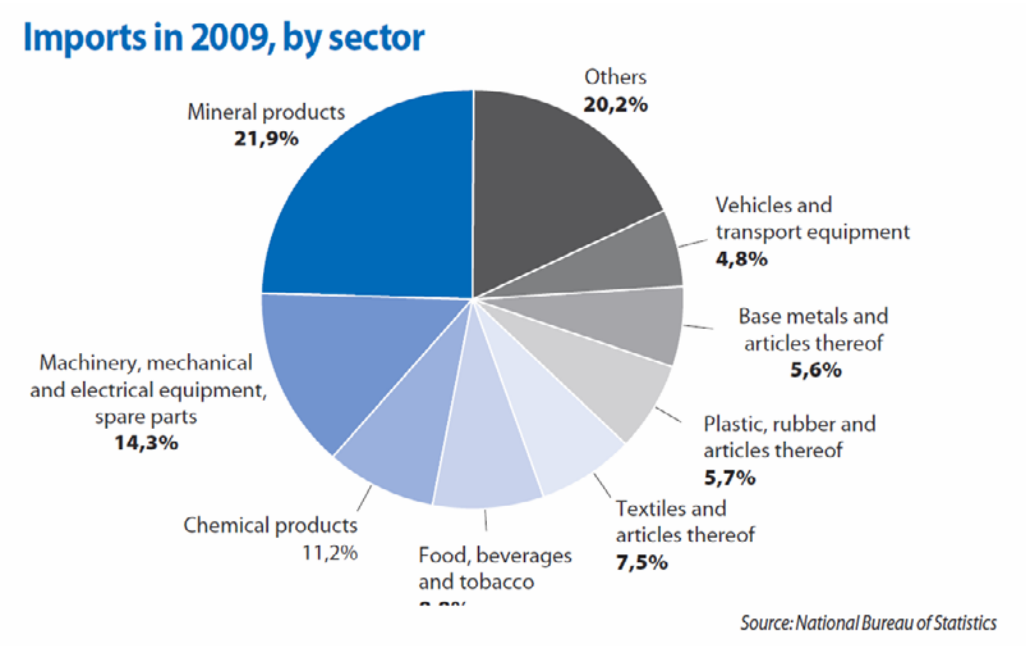
Figure 5 Exports by sector in 2009



Source: National Bank of Moldova

Moldova's imports amounted to $3.278 billion in 2009. The origins of major Moldovan imports are as follows: Ukraine (14.0%), Russia (11.4%), Romania (9.5%), Germany (7.7%), China (7.5%), Italy (7.1%) and Turkey (5.3%). Mineral products, machinery, equipment and spare parts, base metals, chemical products, vehicle and textiles account for most of Moldova's imports.

Figure 6 Imports by sector in 2009



Source: National Bank of Moldova

4.4.4. Privatization

The GoM launched the first privatization process in 1994. It has adopted three different privatization programs since that time, including privatization via National Patrimonial Bonds (foreigners were not allowed to participate); via cash transactions for both locals and foreigners; and via a program which involved only cash privatization. The third program began in 1997-1998 and was extended to 1999-2000. The program was later extended with some modifications to the end of 2006. Foreign investors have successfully participated in these privatizations. In 2007, the Parliament passed a new privatization law which introduced a new plan for privatizing and managing state-owned assets with a priority on economic efficiency. The law has a list of assets not subject to privatization. The GoM also adopted regulations on the privatization of state-owned non-agricultural land through commercial tenders. A list of assets subject to privatization has been approved.

The most state-owned enterprises have been privatized, and some sectors of the economy are almost entirely in private hands. Some large enterprises are still controlled by the government and their privatization has been either postponed indefinitely or abandoned altogether. The major government-owned enterprises are the two northern electrical distribution companies, the Chisinau heating companies, the fixed-line telephone operator Moldtelecom, the state airline company Air Moldova and the majority state-owned bank Banca de Economii. After a period of abated privatization activity consisting of a sell-off of residual governmental shares in companies originally sold during the mass privatizations of the 1990s, the GoM picked up efforts to sell a series of attractive assets. In 2008, the GoM privatized the footwear manufacturer Zorile, the former Soviet military-industrial complex Mezon, and the hotel Codru.

In Moldova, three out of five distribution utilities are sold and a long-term tariff methodology for determining the tariffs for electricity supply was agreed to. No attempts to privatize other energy sector enterprises have been done since 2005.

5. LEGISLATIVE FRAMEWORK FOR ENERGY INVESTMENTS

5.1. Constitutional provisions

The Constitution of the Republic of Moldova guarantees the inviolability of investments by all natural and legal entities, including foreigners. Key constitutional principles include the supremacy of international law, a market economy, private property, provisions against unjust expropriation, provisions against confiscation of property, and separation of powers among governmental branches.

5.2. Establishment of enterprises and licensing

Procedure of registration, operation, and dissolution of enterprise with foreign investments is identical to registration, operation, and dissolution of domestic enterprises.

Legislation such as the law on limited liability companies, which maintains the minimum registered capital of societies at the level of 5,400 Lei, was adopted in the area of company law and contributed to improving the business climate.

The Law on Business and Enterprises indicates that enterprises with foreign investment may be founded in any business form, which does not contradict the legislation of the Republic of

Moldova, by means of establishing new enterprises and reorganization (re-registration) of previously established enterprises.

The Law on Business and Enterprises provides for the following business forms of activity or commercial vehicles in the Republic of Moldova:

a) individual enterprises;
b) full partnerships;
c) limited liability partnerships;
d) limited liability companies;
e) joint stock companies;
f) production cooperatives;
g) lease enterprises;
h) state and municipal enterprises.

The Law on Business and Enterprises requires a founder(s) to register an enterprise with the State Registration Chamber of the Ministry of Justice of the Republic of Moldova before starting business activity in the Republic of Moldova.

Documents Required for Registration:

1. The founder's (foreign company's) decision of incorporation;
2. Documents certifying establishment of the foreign legal entity;
3. The extract from the national register of the investor's country of origin;
4. Identity act (passport) of the founders or of their representatives, entitled by a power of attorney authenticated as prescribed by law, as well as of the new created legal entity's administrator;
5. Criminal record of the future administrator, if foreign natural person, issued by the relevant authorities of the country of origin and of the Republic of Moldova;
6. A legal address which may be the home address of one of the founders (if one of the founders is a Moldovan resident or citizen); or the home address or office address of a resident (non-citizen), if the resident owns real estate in Moldova; or the address of the office, where the company will rent premises. In this case the landlord must provide a letter that allows the company renting his/her premises to register.

Foreign official documents drawn up on the territory of the state members of the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents, signed on October 5, 1961, and which Moldova is a party to on which an apostil is affixed in the conditions stated by this Convention, are accepted for registration without any additional extra legalization. This order can be also applied to the extracts and to the copies of these documents.

The Law on Registration of Legal Persons and Individual Entrepreneurs was revised in June 2008 in order to further ease the registration of companies. In November 2008, a one-stop shop for issuing more than 80 different licenses was established in the form of a "Licensing Agency".

A founder(s) are also required to register an enterprise with the relevant tax authorities of the Republic of Moldova and to obtain a respective fiscal number certificate.

The Law on Investment in Entrepreneurship permits investment in all sectors of the economy. Certain activities require a business license.

The Law on Enterprises and Entrepreneurship states that an enterprise may engage in any type of non-prohibited activity. The Law on Licensing Certain Types of Activities lists the activities requiring licenses. Licenses are required to be issued in no more than 15 days following submission of the license application. The documents necessary for the registration of entities and licensing and relevant incorporation, licensing and other procedures are regulated by applicable legislation.

The main act setting legal provisions concerning the types, corporate structure and the incorporation documents of a foreign company are registered by the State Chamber of Registration of the Republic of Moldova.

The law No 451-XV dated July 30, 2007 on licensing some types of activities determines juridical, organisational and economical framework of licensing some types of activities, as well as establishes the types of activities which are subject to the licensing.

The public body which elaborates and implements the state policy in the sphere of licensing is the Chamber of Licensing, subordinated to the Ministry of Economy.

With support from donors the government introduced a new Electronic Information System of the Licensing Chamber. The system includes a "One-Stop Shop" for licenses. It allows the electronic exchange of official documents between customers and the Licensing Chamber. The general public may access the Electronic Licensing System through www.licentiere.gov.md where users can check the licenses of those business entities with which they would like to conduct business. A Licensing Guide has been developed for types of activities that are regulated through licensing. It includes information regarding licensing requirements, terms of validity, fees and other details.

To obtain a license, the manager of the company or a person authorised by the company presents declaration of approved model at the licensing authority. The application shall contain:

- name, legal form of organisation (LLC, JSC, etc.), legal address,
- fiscal code of the company, type of activity for which a license is requested, and
- taking the responsibility for licence compliance and reliability of the documents.

The copy of the Registration Certificate of the company or identification card of a person and additional documents need for license activity shall be attached at the application. The documents shall be presented in original or in copies with presentation of the originals for checking. Verification of the documents is made by the use of “one stop-shop” office.

The license is concluded within 5 working days, starting with the day when the document that proves the payment of the tax for obtaining the license. For the most types of activities licenses are offered for a period of 5 years.

5.3. Investment-related legislation

Investment Legislation

International treaties and Moldovan law regulate the business activity, including foreign investments. Such laws include, but are not limited to, the Civil Code, the Law on Property, the Law on Investment in Entrepreneurship, the Law on Entrepreneurship and Enterprises, the Law on Joint Stock Companies, the Law on Small Business Support, the Law on Financial Institutions, the Law on Franchising, the Tax Code, the Customs Code, the Law on Licensing Certain Activities, and the Law on Insolvency.

The Law on Investment in Entrepreneurship came into effect on April 23, 2004, superseding the previous Law on Foreign Investment. It was designed to be compatible with the European legislative standards and defines types of local and foreign investment. It also provides guarantees for the respect of investors' rights, non-application of expropriation or actions similar to expropriation, and for payment of damages in the event investors' rights are violated.

Under Law on Investments in Entrepreneurial Activity, Moldova provides full security and protection for all investments, regardless of type, following the provisions of international treaties on mutual protection and encouragement of investments to which the state is a party. Investors may locate their investments in any part of Moldova, in any area of business activity, as long as these are not contrary to national security interests, anti-monopoly legislation, environment protection, norms, public health or public order.

Local and foreign investors have equal rights under the legislation, and there is no discrimination on the basis of citizenship, home, residency, place of business registration, state of origin of the investor or investment. Investors are guaranteed fair and equal treatment in running their businesses without discrimination that would hinder management, operation, maintenance, use, capitalisation, acquisition, growth or disposal of investments. There are no restrictions on the amount of capital that can be invested except for the minimum statutory capital which applies to both local and foreign investors regardless of their origin.

Recently adopted legislative acts (the Law on microfinance organizations, the Law on electronic document and digital signature, the Law on electronic trade, the Law on Leasing) and the new drafts of the laws in the field of economy have one single purpose – to ensure a more balanced and more predictable economic policy of the state and simplify the establishment and the operation of the enterprises, as well as stimulate new investments.

There is no screening of foreign investment in Moldova and legislation permits 100 percent foreign ownership in companies.

Investment policy

Moldova’s objective is to provide a transparent and supportive business environment. The Constitution of the country guarantees the inviolability of both foreign and domestic investors by incorporating principles protecting the supremacy of international law, the market economy, private property, provisions against unjust expropriation, provisions against confiscation of property, and separation of power among government branches.

Moldova is committed in its European integration efforts, on both the political and economic fronts, and it aims to strengthen economic relations with neighbouring Balkan countries.

On November 28, 1994 Moldova signed and ratified the Partnership and Cooperation Agreement with the EU, and in 2005, it signed the Plan of Action with the EU which calls for strengthening security; improving political, economic and cultural relations; reinforcing cross-border cooperation; and establishing joint responsibility regarding the prevention and settlement of conflicts. The document, though not explicitly mentioning accession to the EU, is in line with the pro-European ambitions of the Moldovan government, which has identified full European integration as a major national goal.

Investment promotion

Any incentives are applied uniformly to both domestic and foreign investors. Unlike the previous law, the new Law on Investment in Entrepreneurship no longer protects new investors from legislative changes for ten years. However, the new law left in effect past privileges and guarantees granted to foreign investors according to the old Law on Foreign Investment. One such privilege provides for exemptions from customs duties on imports until April 23, 2014, if the imports are used to manufacture goods bound for export.

Effective January 1, 2008, a zero percent income tax rate on re-invested corporate profits entered into force as part of a GoM initiative of "economic liberalization." The current Moldovan Tax Code also provides for a series of corporate income tax breaks. Many of these tax breaks were rendered redundant when the new zero tax rate was introduced. Companies with investments of more than $ 250,000 in charter capital enjoy a 50 percent exemption from income tax for five consecutive years. Companies with investments exceeding $ 2 million in charter capital enjoy full exemption from income tax for three consecutive years. Companies are eligible for such exemptions, if at least 80 percent of their income-tax payments were reinvested in production development or in national or sectoral development programs. For a minimum investment of $D 5 million, a company is exempt for three years from income-tax payments, if it reinvests locally 50 percent of what it would otherwise have paid in income tax. A $ 10 million investment requires only 25 percent reinvestment of income-tax payment for a full three-year exemption from income tax. Four-year exemptions are available for a $ 20 million investment with 10 percent reinvestment and for a $ 50 million investment with zero percent reinvestment.

Furthermore, upon expiration of these exemptions, eligible companies investing an additional $ 10 million can enjoy tax exemptions for an extra 3-year period. Also, fixed assets contributed in-kind to the charter capital are exempted from the value-added tax and customs duties. Full income tax exemptions may also be enjoyed by small businesses (three years), software developers (five years), agribusiness (five years), and scientific research and innovations (unspecified). Commercial banks and microfinance organizations are tax exempt on income derived from loans with maturities over three years. Other tax exemptions and deductions are also available according to the Tax Code. The loss carry-forward period was raised from three to five years.

5.4. Legislation on real estate

Moldovan law restricts the right to purchase agricultural and forest land to Moldovan citizens. Nevertheless, foreigners are permitted to buy all other forms of property in Moldova, including land plots under privatized enterprises and land designated for construction. The only option available to foreigners who desire to obtain agricultural land in Moldova at this time is to rent agricultural land. According to Article 22 of the Law on Investments in Entrepreneurial Activity:

- Land plots and other real estate can be rented to the enterprises with foreign investments for a term up to 99 years with or without the right of prolonging it.
- Renting out of state (municipal) property costing more than it is stipulated by the Parliament of the Republic of Moldova to enterprises with foreign investments is carried out with the permission of a state (municipal) control organ authorised to handle this property.
- If property rights on buildings and structures go to a foreign investor or an enterprise with foreign investments, the right to use the land plots these objects are on goes to their proprietor, too.
- If the national enterprises are given the right of ownership over land, this right will be also given to the enterprises with foreign investments. In this case the company with foreign investments has the right to own the land on which the premises (production market-place, storage, offices and selling halls) of the company are situated.

5.5. Competition-related legislation

In February 2007 the Moldavian Parliament adopted the Decision of establishing the National Agency for the Protection of Competition (NAPC), as an independent body of central public administration.

NAPC has the role of an economic “arbiter”, ensuring to all economic agents equal conditions for competing and stimulating the development of a “healthy” market economy for benefitting the entire society.

NAPC runs its activity in conformity with the provisions of the Constitution of the Republic of Moldova and the Law on the protection of competition Nr.1103 of 30 of July 2000. The main objectives are:

- Promotion of the state policy in the field of competition protection;
- Prevention, limitation and retrenchment of anti-competition activity;
- Accomplishment of state control over the observance of legislation on competition protection.

The Law on competition protection contains three important articles concerning the anti-competition activities of economic agents, as follows:

- Abuse of dominant position on the market;
- Anti-competitive agreements among economic agents;
- Unfair competition.

Another function of NAPC is the state control over the creation, expansion, reorganization, and liquidation of economic entities, their associations, holdings, transnational corporations and industrial-financial groups and state control over the procurement of stock (shares in social capital) of economic entities.

NAPC is open for cooperation with the business environment and civil society in the view of developing a favourable competition environment in the Republic of Moldova.

5.6. Taxation

Taxation in Moldova is governed by the Tax Code and officially published tax regulations which establish the general principles of taxation as well as the tax rates. Where contradictions are encountered in any other regulations passed by the Government that deal with taxation, whether this be at state or local level, the provisions of the Tax Code prevail[10].

New Government Tax Initiative- After January 1, 2008, zero percent Corporate Tax is applicable on profits that are reinvested in the company. Establishing the income tax at zero per cent means the exemption from tax if the income remains at the disposal of the undertaking and its application only in case when the income is distributed between the shareholders (associates).

The implementation of the reform will determine the investors to reinvest for the extension and development of the businesses, to invest the incomes of undertakings, including the amount of the income taxes that where not paid to the budget, in purchasing goods and services for which VAT is applicable, as well as give up on different schemes of evasion from income tax payment when importing goods or services.

Subjects of taxation are the physical and legal persons that during the fiscal period obtain income from any sources whatsoever in the Republic of Moldova, as well as the legal persons that obtain income from any sources outside the Republic and the physical persons that obtain investment or financial income from sources outside Moldova.

In general, taxes are levied both at the national and local levels[11].

The domestic tax legislation in force provides for a series of investment-related facilities concerning[12]:

a) income tax;
b) value added tax (VAT);
c) excises, and
d) customs duties.

The national taxes include: income tax, VAT, excise taxes, private tax, customs duties, and road taxes.

Local taxes include: immovable property tax, natural resources taxes, territory development tax; tax for organizing auctions and lotteries in the administrative-territorial unit; tax for advertising placement; tax for the use of local symbols; tax for trading and/or social services units; market tax; tax for temporary living; resort tax; tax for rendering of the municipal, urban and rural (communal) passenger transportation services; car parking tax; dog owners tax; tax for development of localities situated in the border zone with customs (offices) posts for border crossing.

---

[10] Foreign Investment Guide: Corporate Tax, 2010
[11] Taxation in Moldova, Information for companies operating internationally, 2008

[12] See Annex for details on Tax incentives.

Personal income tax (PIT)

- Resident individuals are taxed on their Moldovan sourced income and on financial and investment income derived from abroad.
- Non-residents individuals are taxed on income deriving from sources located in Moldova.

The PIT rates for individuals are differentiated and depend on the size of their annual taxable income. The tax law applies to the following progressive individual

Table 1 **Personal income tax rates**

Income brackets	Income tax
up to MDL 25,200 (EUR 1,527)	7%
above MDL 25,200 (EUR 1,527)	18%

Source: Taxation in Moldova, Information for companies operating internationally, 2008

Value Added Tax (VAT)

The tax law describes the supply of goods as being the transfer of ownership over goods by selling, exchanging or free (partly-paid) transfer, including in kind salary payout, transfer of goods under a financial leasing arrangement, etc.

The supply of services is defined as being the activity of providing any services, including the transfer of property under rental, usufruct, operational leasing and other arrangements, the provision of assembling and building work, etc.

VAT on imported goods is payable in customs on the amount of the customs value and import customs duties, except for VAT.

Services provided by non-resident suppliers to residents of Moldova, having the place of supply in Moldova, are deemed as being imported, being hence generally VAT-able in Moldova. In such cases, import VAT liabilities should be settled on the date the payment when these services are performed (i.e. external invoices are settled). The standard VAT rate is 20%. It is applied on the amount of the taxable supply of goods/services performed on the internal market of Moldova, as well as on the taxable amount of the imported goods/services. VAT payers are entitled to a refund of VAT in a specific amount if they meet the following conditions.

Natural resources Taxes

The system of natural resources taxes includes:

- Water tax;
- Geological exploration tax;
- Geological investigation tax;
- Mineral extraction tax;
- Tax on usage of underground areas for the construction of underground structures not related to mining operations;

- Tax on exploitation underground structures within the performance of entrepreneurial activity, not related to mining operations;
- Standing wood tax.

Tax on exploitation of underground structures within the performance of entrepreneurial activity, not related to mineral extraction:

- Taxpayers are legal and individuals entities, registered as entrepreneurs.
- The object of taxation is the book value of exploitation underground structures.
- The tax rate is set at 0.2 percent of the book value of underground structures.
- The tax is paid quarterly throughout the period of exploitation structures.

5.7. Legislation regulating the conditions of admission to the country, residence and work by foreign natural persons

Foreign citizens can enter the territory of the Republic of Moldova on the basis of a valid visa. The visas are issued exclusively by the Diplomatic and Consular Missions of the Republic of Moldova abroad. There are a number of countries that are exempted from visa requirements.

To invite foreign citizens and stateless persons in the Republic of Moldova for purposes of employment, the employer shall obtain approval of the National Agency of Employment (NAE) of the Ministry of Labour and Social Protection. NAE examines the approach of the employer, and no later than in 30 calendar days, it decides to issue or deny approval.

However, in the Republic of Moldova, foreign citizens and stateless persons work out their activities under a temporary residence permit for work purposes. In this regard, the head of the company/organization/institution or its authorized representative shall submit to the Department of Migration and Asylum of the Ministry of Internal Affairs, in duplicate, under provisions of law, documents to obtain the grant/ extension of labour rights and certificate for work permission of the immigrant.

The National Employment Agency examines the right to work entitlement/extension request, issues within the set deadline the decision to grant/extend/refuse the right to work and presents it to the Ministry of Internal Affairs.

The Migration and Asylum Bureau from the Ministry of Internal Affairs examines the request to obtain/extend the immigration certificate for work purposes and, based on the decision regarding entitlement to right to work, issues/extends/refuses the immigration certificate.

According to Art. 23 of the Migration Law Nr. 1518-XV, as of 06.12.2002, the immigrant is obliged to go to the population registration authority to obtain the residence permit (within 3 days from the date of receipt of the immigration certificate issued by the Migration and Asylum Bureau).

The Temporary Residence Permit is issued for foreign citizens and stateless persons who are temporary registered in the Republic of Moldova. The period of validity of a Residence Permit is not longer than 1 year with the exception of foreign citizens who come to Republic of Moldova for studies at the educational institutions according to the international treaties ratified by Republic of Moldova. For this category of persons the Residence Permit is issued for the entire period of studies in terms of annual confirmations of their studies issued by the educational institution. The period of validity of Residence Permit also cannot exceed the period of validity of national passport.

The shareholders with the high position or managers/deputy-manager of the enterprise/organization/institution, registered in the Republic of Moldova who have invested not less than $ 500 thousand may apply for Temporary Residence Permit for a period not longer than five years.

Important legal acts:

- Law of the Republic of Moldova on coming out and into the Republic of Moldova No.269-XIII dated 09.11.94
- Law of the Republic of Moldova on legal status of foreign citizens and persons without citizenship No. 275-XIII dated 10.11.1994.
- Law of the Republic of Moldova on migration No. 1518-XV dated 06.12.2002.

5.8. Legislation related to currency exchange, securities and banks

Currency regime

As regards movement of capital and current payments, the exchange rate is fully convertible for current account purposes. There are no restrictions on the free movement of capital related to direct investment made in companies in the Republic of Moldova and the repatriation of profits.

Moldova accepted Article VIII of the IMF Charter in 1995, which required liberalization of current foreign exchange operations. After the payment of taxes, foreign investors are permitted to repatriate residual funds. Residual-funds transfers are not subject to any other duties or taxes, and do not require special permission. There are no significant delays in the remittances of investment returns, since domestic commercial banks have accounts in leading multinational banks. Companies are not obliged to sell their hard currency earnings to the government. Foreign investors enjoy the right to repatriate their earnings.

The Law on foreign exchange regulations (2008) establishes the general principles of foreign exchange regulation in the Republic, the rights and the obligations of residents and non-residents related to the foreign exchange field, as well as the powers of the authorities of foreign exchange control and the competence of agents of foreign exchange control.

According to the Law, capital foreign exchange operations implying the inflow and outflow of capital into and from the Republic shall be performed without restrictions, unless otherwise provided for by the legislation of the Republic of Moldova, which regulates the field relevant to the respective capital foreign exchange operations. Art. 17 states that payments and transfers within the current foreign exchange operations shall be received /made by residents and non-residents without restrictions.

Securities

The National Commission of Financial Market is an independent body of central public administration reporting to the Parliament, which regulates and authorizes the activity of professional participants on non-banking financial market and supervises observance of legislation by them[13].

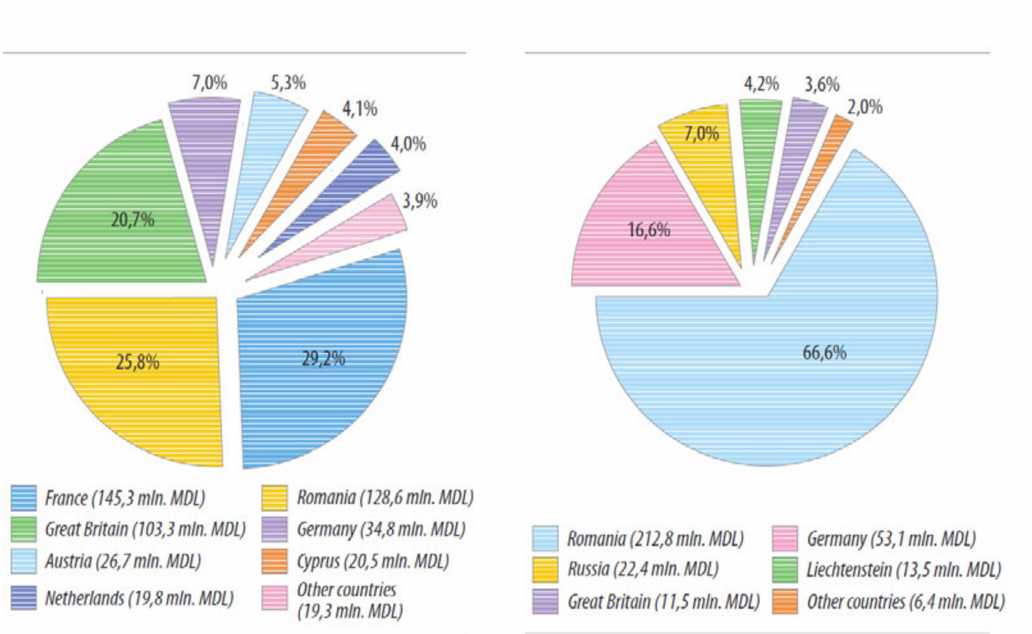
The National Commission of Financial Market is the successor of rights and liabilities of the National Securities Commission, State Inspection for Insurance and Non-state Pension Funds supervision and State Supervisory Service of Savings and Loan Associations under the Ministry of Finance.

The core objectives of the National Commission of Financial Market are: enhancing stability, transparency, security and efficiency of the non-banking financial sector, by adoption and maintenance of an adequate regulatory and supervisory framework of the participants on the financial market, to reduce systemic risks and to prevent disloyal, abusive and fraudulent practices in the financial sector with the scope of protecting the interests of clients and investors.

The authority of the National Commission refers to: the issuers of securities, investors, the participants on the non-banking financial market, defined by the legislation on securities market, insurance companies, insurance brokers, non-state pension funds, micro-financing organizations, savings and loan associations, mortgage credit organizations and credit history bureaus.

The total volume of foreign investments in 2009 attracted through the primary market of securities amounted to 319.7 million Lei. Foreign investments were attracted through additional issues only. Compared to 2008, when investors from France, Romania and Britain showed a particular interest in capital investment on primary securities market, in 2009 investors from Romania, Germany and Russia had the most significant participation through the issue of securities.

Figure 7 Structure of investments, 2008 (left) and 2009 (right)



Source: The National Commission of Financial Market

[13] National Commission of Financial Market, http://www.cnpf.md/en/about/.

5.9. Legal framework of privatisation

The privatisation process in Moldova has undergone several stages. During 1993-1994, the State Privatisation Programme has regulated the first stage. It has been approved by the Moldovan Parliament in March 1993, its implementation starting in mid-1994, immediately after setting up the Ministry of Privatisation and the creation of adequate legislative framework. The second stage (March 1995-August 1997) has been developed pursuant to the 1995-1996 Privatisation Programme.

The partial implementation of the goals of the 1995-1996 Privatisation Programme concerning the sale of small enterprises and stock of shares of some large and medium sized enterprises for cash is characterized by the auctions' initial prices defined by the market as too high, as well as the insufficient resources to inform potential foreign investors.

The 1997-1998 Privatisation Programme, has been extended by the Government until December 31, 2005. It has marked the beginning of a new stage in the privatisation process, characterized by the privatization of public property for cash, widening the types of enterprises subject to privatisation, also including the ones in infrastructure; diversification of the privatisation methods, as well as shifting the privatisation deals to the capital market and restructuring of the privatised enterprises; attracting foreign investments in the economy, etc. In Moldova, the Law on Privatization Program 1997-1998 was extended up to December 31, 2005.

Following independence, the gas and electric power distribution sectors have been partially privatized. The state has maintained full ownership in de electric power generation sector, distribution of thermal power, and is partially present in the distribution of electricity and gas. Due to privatization, the energy sector benefited from a larger volume of private investments than other sectors of infrastructure. Also, important public investments were made in the gas distribution sector (USD100 million), electric power transportation and distribution, heating supply sector.

On 10 September 2007, the Government approved resolution to establish the Public Property Agency under the Ministry of Economy and Trade.

The Agency implements the policy of the Government on management and denationalization of public property, post-privatization activities and exercises ownership functions for state owned patrimony as stipulated and within its competence.

5.10. Legislation related to industrial and intellectual property rights

Moldova adheres to key international agreements on intellectual property rights. Moldova is a signatory to the International Convention Establishing the World Intellectual Property Organization.

Moldova took measures to implement and enforce the WTO TRIPS agreement before its official accession to the WTO, and adopted local laws to protect intellectual property, patents, copyrights, trademarks and trade secrets.

Moldova further complemented its legislation on intellectual property rights (IPR) with the entry into force of legislation on trademarks and on the protection of plant varieties (September 2008), as well as on the protection of inventions and on protection of geographical indications, appellations of origins and traditional specialties (October 2008). In addition, it adopted in October 2008 a draft law on the ratification of the Singapore Treaty on the law of trademarks. In December 2008 the Government approved a draft law on Copyright and Related Rights, which remains to be adopted. The access of right holders to legal information was improved through the opening, in April 2008, of a dedicated Information and Documentation IPR Centre. The trademark database has been available, free of charge, since October 2008.

The National Commission on Intellectual Property, in charge of coordinating the relevant public institutions and advising on IPR issues, was formally established in April 2008. Moldova engaged in a twinning project to support the implementation and enforcement of IPR. It also signed in July 2008 a cooperation agreement for the years 2008-2009 with the European Patent Office.

A twinning project titled "Support to Implementation and Enforcement of Intellectual Property Rights in the Republic of Moldova" was initiated on the 1st November 2010.The overall objective of the project is to improve the implementation and enforcement of intellectual property rights in the Republic of Moldova. The project will strengthen the administrative capacity of institutions in the Republic to protect and enforce intellectual property rights, it will enhance communication between the government institutions responsible for the protection of intellectual property rights, strengthen and raise awareness about the importance of protecting intellectual property rights and assist with the development of the national system for the protection of Geographical Indications, Designations of Origin and Traditional Specialties Guaranteed.

5.11. Legislative framework in the energy sector

In the context of Moldova's accession to the Energy Community the legislation has been amended over the last several years. The Ministerial Council of the Energy Community approved Moldova's accession in December 2009, but the signature of the Accession Protocol was made subject to the adoption of a gas law in compliance with the EU relevant rules. The new Moldovan gas law was published on 12th February 2010. Following the ratification of the Treaty establishing the Energy Community and signature of the Accession Protocol, Moldova became the eighth full pledged member of the Energy Community as of 1 May 2010[14].

The Republic of Moldova and the EU substantially increased energy cooperation, in particular in the context of the adoption by the Republic, in August 2007, of a new energy strategy for the period until 2020.

Over the last several years the regulatory framework has been substantially developed. Among important regulations the following should be noted:

- Regulation on Energy Efficiency Agency;
- Regulation on Energy Auditors' Certification;
- Operational Manual for the Energy Efficiency Fund;
- National Energy Efficiency Program 2010-2020 and the
- National Communication Strategy;

[14] Energy Community, http://www.energy-ommunity.org/

- Regulation on Minimum Energy Performance;
- Requirements for Buildings (Ministry of Construction and Regional Development with EBRD support);
- Activities launched to transpose the energy labelling and eco-design directives.

In December, 2009 the Parliament adopted:

- Law on Electricity to transpose the Directive 2003/54/EC concerning common rules for the internal market in electricity;
- Law on Natural Gas to transpose Directive 2003/55/EC concerning common rules for the internal market in natural gas;
- The National Energy Regulator approved the Legal Acts Harmonization Plan for Energy Sector, Decision no. 368 of 12.02.2009. It provides for developing of other 4 normative acts and amendment of 6 existing ones by the end of 2010.

The Parliament approved the Law on Amending and Supplementing Some Laws No. 107-XVIII, which:

- conveyed the responsibility for heat tariff setting from the local public authority to the national energy regulator;
- Transferred the responsibility for the national energy regulator's budget approval and Administrative Board assignment from the government to the parliament.

More detailed list of energy sector related legislation is provided in the Annex.

5.12. Exceptions to national treatment

Current investment legislation is based on non-discrimination between foreign and local investors. Moldovan law ensures full and permanent security and protection of all investments, regardless of their form, although application of the law remains spotty. There are no economic or industrial strategies that have a discriminatory effect on foreign-owned investors in Moldova, and no limits on foreign ownership or control, except in the right to purchase and sell agricultural and forest land, which is restricted to Moldovan citizens.

The limitation of foreign ownership on agricultural and forest land has no direct application to the energy sector, but nevertheless it is an exception to the principle of non-discriminatory treatment that is recorded in the Blue Book of the Energy Charter. The full text of a potential exception is provided in the Annex.

5.13. Summary of participation in international organizations

Moldova is a member state of the United Nations, WTO, OSCE, GUAM, CIS, BSEC and other international organizations. Moldova currently aspires to join the European Union and has implemented its first three-year Action Plan within the framework of the European Neighbourhood Policy (ENP) of the EU. Moldova is a member country to the Energy Charter Treaty. The more detailed list of membership in international organizations is given in the Annex.

Moldova has ratified the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards and the 1961 Geneva Convention on International Commercial

Arbitration, adhering to internationally recognized norms in the field of commercial arbitration.

6. ENERGY SECTOR DEVELOPMENT AND MARKET STRUCTURE

1. Key institutions in the energy sector

Moldova's state energy institutions have been undergoing substantial restructuring in the period between 2000 and 2008. In 2000, Industry and Energy Ministries were structured as one single entity, in 2001 they became two separate ministries and in 2005 merged again. In 2008, the Ministry of Industry and Infrastructure previously in charge of energy was dissolved, and the Ministry of Economy and Commerce has taken over the responsibility of the energy sector.

The Ministry of Economy and Commerce (MEC)

MEC has an Energy Department that supervises the energy sector. The Energy Department is responsible for energy policy in the following context:

- development and monitoring of concepts and strategies, and program implementation in the energy sector at both national and regional level;
- participation in the elaboration and implementation of measures on energy security;
- elaboration of technical regulations;
- organisation and coordination of legislative drafts and normative acts;
- elaboration of medium term and long term programs and investment projects for the energy sector development and its departments in cooperation with energy enterprises and other stakeholders;
- definition of policies for gas pipeline development;
- definition of general import, export and transit of electric energy, gas, oil products and other fuels;
- coordination of activities for energy efficiency and supervision of the responsible bodies;
- establishing international cooperation for the energy sector.

The Agency for Energy Efficiency (AEE)

The National Agency for Energy Conservation (NAEC) was established in 1994, however it had to stop its activities in 2006 due to its restructuring. In July 2007, the Agency was re-launched and renamed as the Agency for Energy Efficiency according to the Law on Renewable Energy Sources. In 2008, the Law on Energy Conservation is in an amendment process in order to comply with the Law on Renewables. The Regulation of the EE Agency is currently under development.

Institute of Power Engineering of the Academy of Sciences of Moldova (IPE ASM)

IPE ASM is a governmental organization and performs research in the field of power end electrical engineering. The main directions of research are: energy security and efficiency of functioning of a power complex of Republic, efficient use of electric and thermal energy, installations and systems for energy conversion from renewable sources in conditions of Republic. Furthermore, it advises the government on specific energy issues, provides energy audits and is involved in the promotion of energy efficiency in buildings.

National Energy Regulatory Agency (ANRE)

ANRE was established in 1997 in order to regulate electricity, natural gas, and district heating sub-sectors and to promote competition in the energy markets. It oversees the application of energy tariffs, and its Tariff Calculation Methodology (TCM) was adopted in June 1999, using a cost-plus system. The agency's responsibilities include: licensing, tariff setting, establishing quality of service standards, consumer protection and promotion of competition and energy efficiency.

In the field of renewable energy ANRE regulates the renewable energy market; approves tariffs for each type of renewable energy, develops draft contracts for the commercialization of renewable energy and fuels through providing the producers of renewable energy and fuels with a free and non-discriminatory access to the electricity grid and district heating system, the fuel distribution network and installations, and issues licenses for the production of renewable fuels.

The members of the ANRE's Administrative Council include a Director General and two Directors that are appointed by the Government for a 6-year term and can be reappointed for the second term. The Agency is financed through revenues coming from issuing licenses.

In the proposed EU/Moldova Action the development of ANRE towards an independent body is set as a goal and is currently being formulated.

State Energy Inspectorate (SEI)

SEI has the technical oversight of all power and heat companies, irrespective of their ownership and production capacity, to assure reliable, efficient and safe power and heat supply. The Inspectorate is a separate entity within the structure of the Ministry of Economy and Commerce, but receives its budget from the state electricity enterprise Moldelectrica.

Energy related organizations

Coordination Council for the Use of Renewable Energy

The Coordination Council is an inter-ministerial entity established by the Prime Minister Order Nr. 0919-25 as of January 01, 2006. The Council is aimed to promote EE and RES in the Republic of Moldova. The Commission is presided by the President of the Academy of Science, includes representatives from key ministries such as Economy, Construction, Agriculture, Environment, and other organizations.

Agency for Innovations and Transfer of Technologies (AITT)

AITT is a public institution with the following main objectives: a) development of the interface between science and production, including renewable energy sector; b) coordination of innovation and technology transfer activities by means of financial assistance, legal and information support, consulting, and promoting international cooperation. The Agency is closely cooperating with the Coordination Council.

The Carbon Finance Unit (CFU)

CFU was founded by the Decision of the Government of the Republic of Moldova Nr. 899 in August 2005. The aim is to develop the institutional abilities regarding the execution of the

Parliament Law of the Republic of Moldova Nr. 29.XV from February 2003, on the adhesion of the Republic of Moldova to Kyoto Protocol on the Convention-framework of the United Nations Organization on climate change

Moldova Energy Project Implementation Unit (MEPIU)

MEPIU was created on the recommendation of the World Bank (WB) and a Government Decision in 1998 to support the energy projects financed by the WB. It is the institution which stays in permanent working contact with all players of the process, holds all information concerning the projects, helps direct beneficiaries of the projects to organize the implementation according to WB requirements, oversees the correctness of the procurement procedures and the projects' monitoring.

6.1. Energy Strategy

Main objectives of the Government in the Energy Sector[15]:

- ensuring security of energy supply;
- promoting energy and economic efficiency, and use of renewable energy sources;
- liberalization of the energy market and restructuring of the energy industry, in accordance with the requirements for the country's integration into the European energy system.
- strengthening energy interconnections with Ukraine and Romania;
- accession to ENTSO-E (UCTE);
- improving the climate for investments in energy sector; and
- diversifying the types of fuel used on the territory of the country as well as the sources of imports of energy resources.

The Energy Strategy until 2020, which was approved in 2007, deals with objectives, measures and activities orientated towards a more efficient, competitive and reliable national energy industry whilst ensuring the country's energy security, the upgrading of energy-related infrastructure, improved energy efficiency and the utilisation of renewable energy sources, and its integration into the European energy market.

One of the most important energy policy documents is the "Energy Strategy till 2020" that indicates the priority directions of developing the energy sector and the objectives for the future. Energy security remains a vital problem and one of the most difficult to assure for the Republic of Moldova. The long-term energy security of the State may be consolidated by building-up own capacities and by diversifying the import. According to the Electricity law the full liberalization of the power market will occur up to 2015.

The current priorities of the sector are to:

a) reach an acceptable level of energy security by construction of own power plants and capacity enlargement of Moldova-Ukraine and Moldova-Romania high voltage interconnections lines;
b) adhere to the Regional Electricity Market in South East Europe aiming to join to UCTE;

[15] Statement by the Prime Minister at the Moldova Business Week 2010, available at http://mbw2010.miepo.md/?page_id=120&lang=en

c) create the conditions for a real competition for the cheapest electricity;
d) liberalize the power market; and
e) strengthen the gas transport network;
f) Improve energy efficiency.

Moldova's Energy Strategy defines the extension of electricity and gas interconnections as a key priority for the development of the energy sector. Extension of electricity interconnection is a key for increasing the security of energy supply in Moldova and in the neighbouring territories of the emerging regional energy market.

In 2010, a delegation made up of representatives of the European Commission, World Bank, Swedish International Development and Cooperation Agency (SIDA), European Bank for Reconstruction and Development (EBRD), European Investments Bank visited Chisinau. The delegation members had a string of meetings with top government officials to discuss developments in the energy sector, and namely the Moldovan 2008-2011 Energy Strategy. Following the discussions, the sides agreed that Moldova will update the Moldovan 2008-2011 Energy Strategy in line with the most recent evolutions on the national and international energy market[16].

National Program on Energy Conservation for the period 2003-2010

The program acknowledges that at present the energy efficiency remains at a low level. The government aims till 2010 to reduce the energy intensity by 2-3 % annually.

National Program on Ensuring Environmental Security for 2007-2015

One of the main goals of the Program is ensuring environmental security through improving the legal framework and by building up capacity. The Action Plan of the Program provides an elaboration on the production of electrical energy from renewable energy; a national action plan on diminishing GHE; and the regulation on certifying the origin of electrical energy utilised from renewable energy.

EU/Moldova Action Plan

The EU Moldova Action Plan is a political document laying out the strategic objectives of the cooperation between Moldova and the EU. Its implementation will help fulfill the provisions in the Partnership and Cooperation Agreement (PCA) and will encourage and support Moldova's objective of further integration into European economic and social structures. The following objectives are outlined in the Action Plan in regard to energy:

- preparation of an updated energy policy converging towards EU energy policy objectives;
- gradual convergence towards the principles of the EU internal electricity and gas markets;
- progress regarding energy networks;
- improve transparency, reliability and safety of the gas transit network; and
- progress on energy efficiency and the use of renewable energy sources.

---

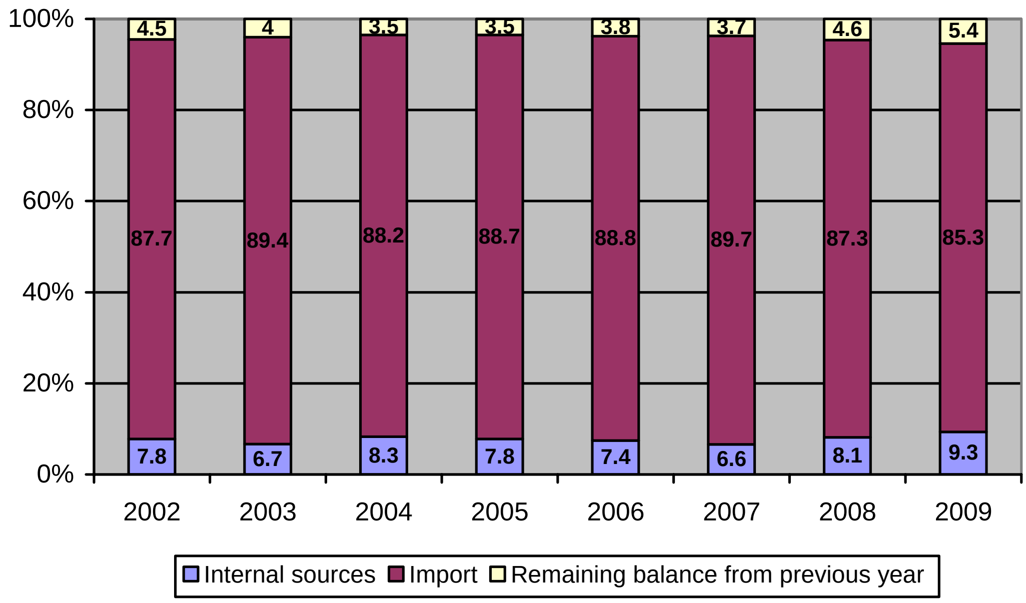
16 http://www.allmoldova.com/en/moldova-news/economics/1249046696.html; accessed on February 21, 2011

6.2. Energy Market Structure

Overview, demand and supply

The Republic of Moldova practically depends almost entirely (91%) on imported energy resources. Electricity, gas and coal come from the Russian Federation and Ukraine. In this situation, energy security can be improved by diversifying foreign suppliers of power and oil products, by developing own capacities of producing electricity, as well as by creation of strategic reserves of fuel. The country does not have any significant known mineral deposits and relies heavily on Russian energy. Since 2002 the structure of the energy balance has not changed which is represented in the figure below.

Figure 8 Energy balance of Moldova



Source: National Bureau of Statistics of Moldova

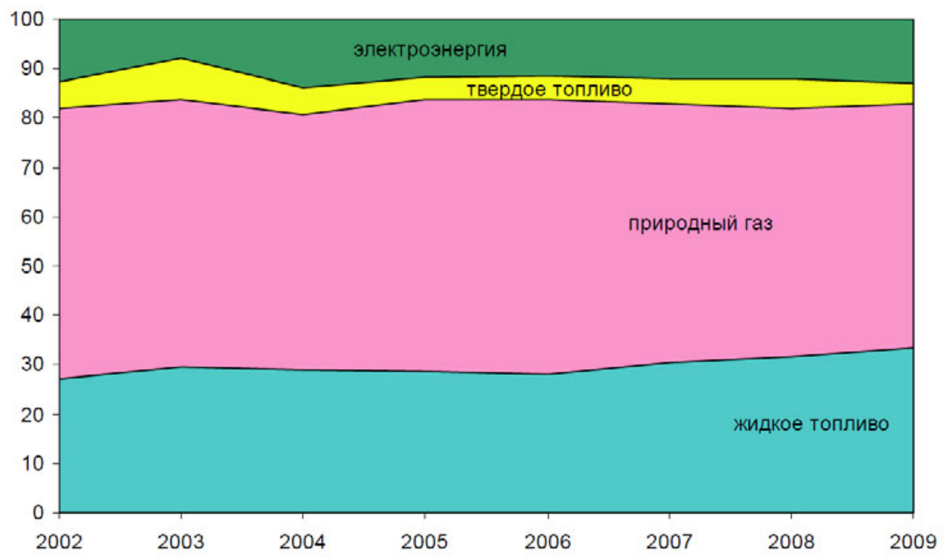
Over the last eight years the structure of imported energy resources has not significantly changed with exception to increase of oil products and decrease of natural gas which is demonstrated in the table and graph below.

Table 2 Fuel-energy balance of Moldova, by fuel (ktoe)

	2002	2003	2004	2005	2006	2007	2008	2009
Resources, total	**2036**	**2189**	**2377**	**2463**	**2430**	**2358**	**2410**	**2312**
Internal resources	92	87	84	87	92	88	110	124
Liquid fuel		2	8	10	7	16	26	38
Solid fuel	65	79	71	70	78	69	77	81
Hydro power	27	6	5	7	7	3	7	5
Imports								
Liquid fuel	1785	1956	2096	2185	2157	2115	2104	1973
Natural gas	977	1062	1083	1205	1201	1110	1057	977
Solid fuel	98	166	115	103	105	110	124	84
Electricity	225	151	289	255	248	252	255	253
Balance from previous year	159	146	197	191	181	155	196	215

Source: National Bureau of Statistics of Moldova

Figure 9 Structure of imported energy resources in the balance, in %



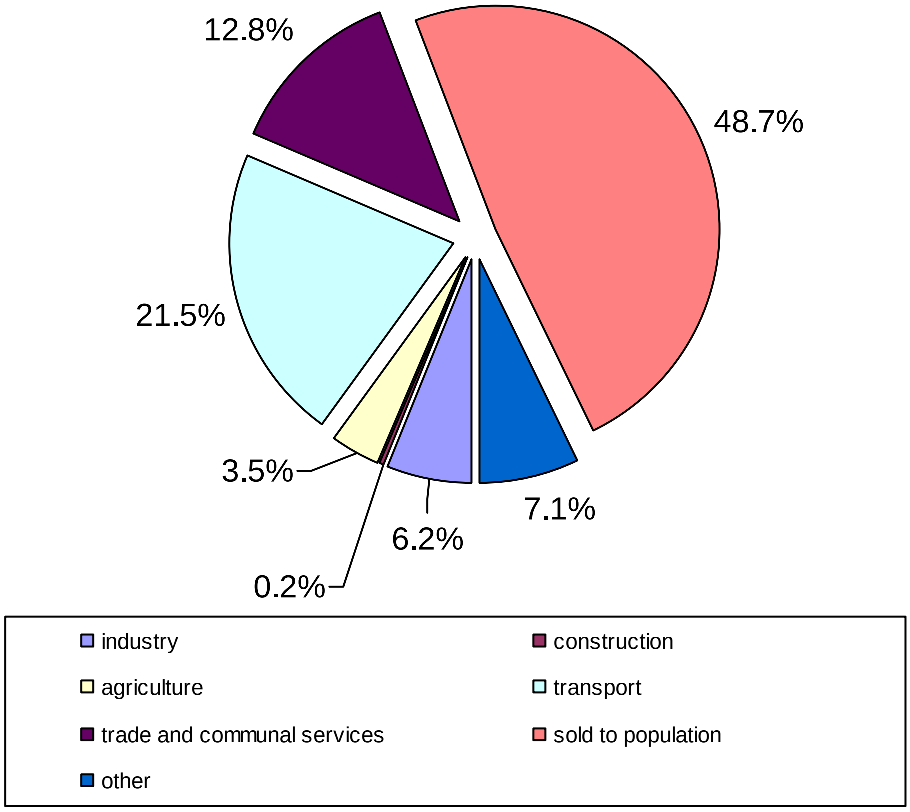
Note: Green – electricity; Yellow – solid fuel; Pink – natural gas; Emerald – liquid fuel

Source: National Bureau of Statistics of Moldova

Energy intensity in the country is about three times higher than in the EU. It is estimated that a well-planned and concerted implementation of an energy efficiency program in Moldova could reduce the financial impact of the energy sector on the GDP by 1.6-1.7 percent annually. Government of Moldova approved the draft Law on Energy Efficiency.

In 2009, energy consumption in Moldova by different sector led by population which consumes 48.7 % and followed by transport and trade and communal services as indicated in the below graph.

Figure 10 Distribution of fuel-energy sources by sectors in % in 2009



Source: National Bureau of Statistics of Moldova

6.3. Oil

The internal oil products market in Moldova is served by private business entities which are licensed for the import and sale of oil products. Such licenses are issued by the Regulatory Agency (ANRE).

The share of indigenous production in Republic of Moldova's oil and gas sector is very small. Oil reserves in Valeni, Cahul district are estimated at 0.5 million tonnes. These reserves have been explored since 2004 to an amount of 14,500 tonnes of oil, at a maximum annual extraction rate of 10,000-16,000 tonnes. Extracted oil has been processed at the Comrat mini-refinery.

Moldova does not have any oil refineries, thus it is entirely dependent on imports of petroleum products to meet its needs. Almost all of these imports are from Russia, Romania and Ukraine. Oil products comprise about 40 percent of Moldova's energy imports.

The total quantity of petrol imported to the Republic of Moldova in 2008 was estimated at 279,710 thousand litres. The table below shows oil products import from 2001 up to 2008.

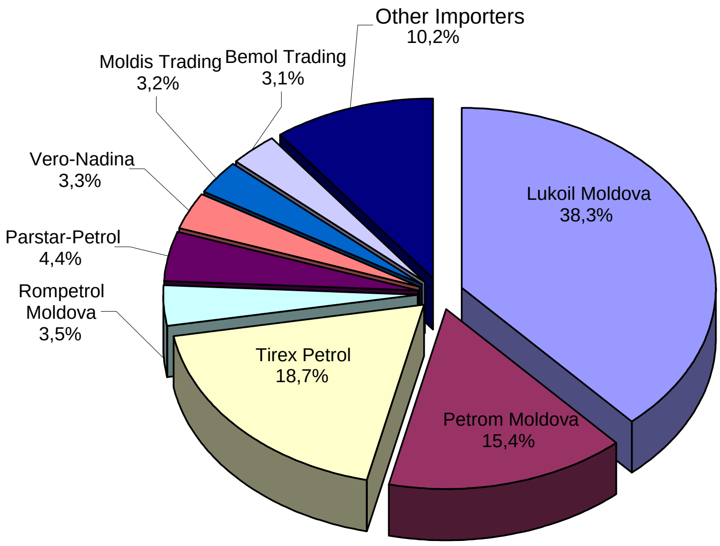
Table 3 Supply of oil products from 2001 up to 2008

		2001	2002	2003	2004	2005	2006	2007	2008
Petrol	Ths tons	131	167,7	202,5	212,3	214,2	195,1	213,6	215,2
	Mln USD	34,8	38,1	52,5	81,1	111,8	122,6	146,3	186,8
	Mln lei	446,9	519,2	727,2	994,4	1429,4	1599,1	1793,5	1930
Diesel Oil	Ths tons	221	249,1	284,8	298,6	312,3	307,7	332,8	350
	Mln USD	52,4	50,8	66,3	100,6	162,6	187,1	217,3	344,8
	Mln lei	671,5	691,4	919,6	1232,9	2059,5	2439,1	2697,6	3570,4
Liquefied Gas	Ths tons	46,3	47,9	56,2	52,6	53,5	50,2	50,5	60,1
	Mln USD	11,6	10,2	14,8	19,1	25,8	29,2	30,7	46,5
	Mln lei	148,8	137,9	204,6	235,7	329,4	381	373,2	495,7
Total	Ths tons	398,3	464,7	542,5	564,4	580	553	596,9	625,3
	Mln USD	98,8	99,1	133,6	200,8	300,2	338,9	394,3	578,1
	Mln lei	1267,2	1348,5	1851,4	2463	3818,2	4419,2	4864,3	5996,1

Source: National Agency for Energy Regulation

The biggest shares in the diesel oil import are held by companies Lukoil Moldova – 38.3 percent, Tirex-Petrol – 18.7 percent and Petrom Moldova – 15.4 percent. The new market entrant – diesel oil importer ÎCS "Bemol Trading", holds 3.1 percent of the total of imported diesel oil.

Figure 11 Share of Diesel Oil Import per companies in 2008, %



Source: National Agency for Energy Regulation

In terms of imported oil products, 3 companies are predominant on national market - Lukoil Moldova, Petrom Moldova and Tirex Petrol. The three companies account for the 76.3 percent of petrol import and 72.4 percent of diesel oil import.

Lukoil Moldova is in the leading position with respect to the three types of oil products. The company is a sub-division of Russian company Lukoil, one of Russia's largest oil company and its largest oil producer.

The existing transportation infrastructure (road and rail) of the Giurgiulesti terminal is currently being upgraded and will allow the import of oil products by inland water ways and thus avoid problems arising due to land transportation. Building a connecting pipe to the Odessa-Brody oil pipeline (Ukraine), together with an oil refinery in the Otaci-Soroca region in the Northern part of the country would make the import of crude oil to Moldova possible.

Securing consumers' supply with high quality liquid and solid fuel at reasonable prices is to be achieved by promoting competition. Strategically it is planned to implement a set of works aimed to establish infrastructure for oil products supply in Moldova. Within the Euro-Asiatic Oil Corridor Project, medium term directions for the development of oil transmission in the territory of Moldova, including building a connecting oil pipeline to the Odessa-Brody (Ukraine) artery, with an extension of this pipeline towards Romania, will be examined, together with Ukraine.

The issue of building a refinery near Otaci (or Soroca or Rezina) will be considered and so will the efforts to complete the Giurgiulesti oil terminal with related networks and gradual enhancement of the operational capacity of this facility. Access to oil sources from two directions would enhance security of oil products supply in Moldova.

The prices for oil products on the domestic market are calculated and applied in compliance with the Methodology of Oil Products Price Calculation and Application, approved by ANRE Administrative Board Decision no.263 of 05.10.2007, by which the level of profitability is limited to maximum 10 percent. ANRE exercises control over license holders' compliance with the provisions of the above-mentioned Methodology every time when the prices are adjusted, as well as at operational level, once a week, on basis of the comparative analysis conducted by PLATTS, with reference to the main oil products and prices in the neighbouring countries. In 2008, companies Lukoil Moldova and Tirex Petrol were subject to control by ANRE, with respect to their compliance with the legislation and with the Methodology of Oil Products Price Calculation and Application.

6.4. Natural gas

The share of indigenous gas production in Republic of Moldova is very small. Maximum annual rate of extraction of natural gas is 150-250 thousands m3. Natural gas demand is covered by the imports made by JSC Moldovagaz (the sole provider of natural gas is JVC Gazprom, Russian Federation). In general the market opening is mostly relevant to distribution sector, where the operations are licensed.

The gas sector structure is as follows: MoldovaGaz, a corporate entity owned 50% by Gazprom +1 "golden" share, 35.3% by the Government of Moldova, and 13.4% by Transnistria75 and 1.3% individual shareholders, owns the entire transmission and most of the distribution network in Moldova. MoldovaGaz acts as the supplier for most customers, with a small amount served by small distributors. All gas is imported; with virtually all gas imports from Russia.

These shareholders are the owners of the gas system of the Republic of Moldova, including transit upstream (high pressure) pipelines in the territory of the country. According to the Gas Market Rules, Moldovagas is designated as the national operator of the gas system.

The corporate structure of Moldovagaz includes 23 gas enterprises (16 in Right Bank and 7 in Left bank), out of which 2 gas transportation enterprises, 18 gas distribution enterprises and 3 enterprises with other functions.

Concerning supply of natural gas to Moldova, Moldovagas states that Gazprom Company will supply 3,326 million cubic meters of natural gas in 2011[17]. Out of total amount 1,326 million cubic meters will be supplied for right river bank and 2,000 million cubic meters for left river bank.

It is also noted that in accordance with the agreement between two companies 18,230 million cubic meters of natural gas will be transported over the territory of Moldova towards Orlovka gas measuring station for further supply to European countries.

Supply of natural gas in Moldova is possible via two directions:

- through the upstream gas pipeline Ananiev-Cernauți-Bogorodceni (ACB), Ribnita–Chisinau (RC) and derivation Oliscani-Saharna (OS) with interconnections to international upstream gas pipelines Progress, Soyuz, Urengoy-Pomary-Ujgorod and the underground natural gas storage facility Bogorodceni;
- through the Odessa-Chisinau gas pipeline interconnected with the international upstream gas pipelines Razdelinaya–Ismail (RI), Sebelinca-Dnepropetrovsk-Krivoi Rog-Ismail (SDCRI) and Ananiev-Tiraspol-Ismail (ATI);
- in addition the Tocuz-Cainari-Mereni (TCM) pipeline has recently been developed.

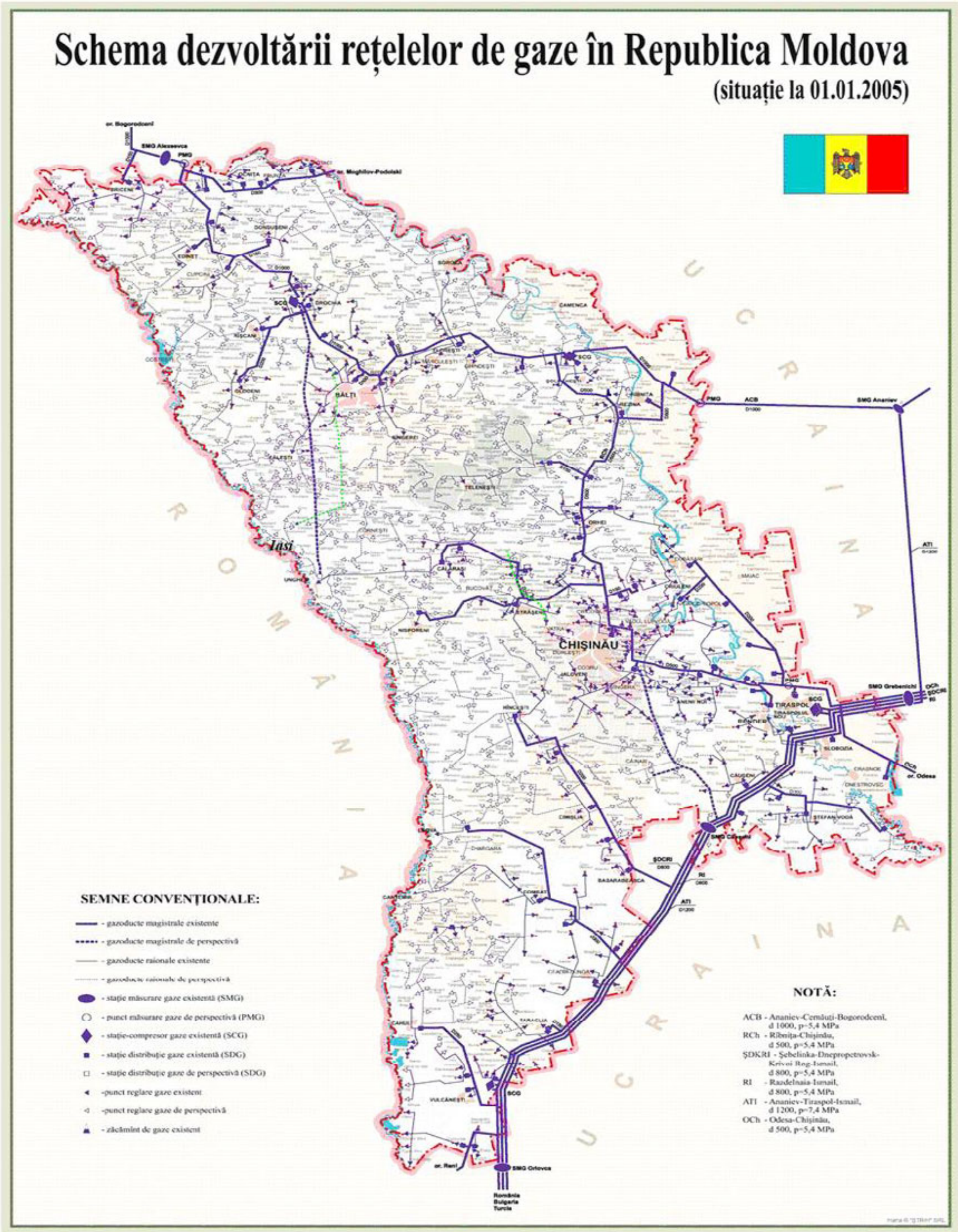
The length of the main (high-pressure) pipelines is 1,737 km. The main pipelines have a combined capacity (supply to Moldova and transit to other countries) of 44.5 billion cubic meters per year. The capacity of the main gas pipelines is utilized at about 44 percent. There are also 87 pressure-regulating stations.

The length of the medium pressure (branch) and low-pressure (distribution) lines is 1,975 km. and there are 165 gas distribution stations.

Moldova has no gas storage facilities. Opportunities for natural gas storage will be considered in the southern part of the country in the areas of explored natural gas layers near the Zagarancea-Mânzeşti-Unghenii de Jos villages and the Victorovca layers in the Cantemir district.

[17] Press release, http://www.moldovagaz.md/showNews.jsf?id=13, accessed on March 1, 2011

Figure 12 Gas supply system



Source: National Agency for Energy Regulation

The residential sector is a major consumer of imported gas. The structure of gas consumption has undergone minor changes during this period. The biggest share of consumption came from the energy sector enterprises - 40.6 percent; other economic entities represent 31.1 percent, the proportion of household consumption was 25.0 percent, and government institutions - 3.3 percent.

Table 4 Natural Gas Consumption per Consumer Categories

Consumer Categories	*2006*		*2007*		*2008*	
	Mln m^3	*%*	*Mln m^3*	*%*	*Mln m^3*	*%*
Natural gas consumption (useful supply), total	1,322.0	100.0	1,208.8	100.0	1,130.8	100.0
incl.: households	360.8	27.3	303.3	25.1	312.7	27.6
Of which: less than 30 m^3	110.6	8.4	107.0	8.9	110.0	9.7
more than 30 m^3	250.2	18.9	196.3	16.2	202.7	17.9
Cogeneration Heating Power Stations	444.2	33.6	427.6	35.4	410.9	36.3
Thermal stations for centralized energy supply	90.2	6.9	78.1	6.5	74.1	6.6
Other economic entities	394.6	29.8	372.7	30.8	304.1	26.9
Supplied directly from transportation networks, including enterprises outside JSC Moldovagas system.	32.2	2.4	27.2	2.2	29.0	2.6

Source: National Agency for Energy Regulation

Natural gas supply is highly uneven during the year; consumption during the cold season is 8-10 times higher than in the summer season. To cover seasonal consumption peaks natural gas stored at the Bogorodceni (Ukraine) natural underground storage is used, through the “Drochia” compressor station. Inability to regulate operation regimes diminishes the operation efficiency of this compressor station at low loads. One of the main tasks of the development of the gas sector of the Republic of Moldova is the provision of secure natural gas supply to the city of Chisinau and the adjacent settlements.

Liquefied petroleum gas (LPG) is imported from Ukraine, Russia, Romania, Kazakhstan and Belarus by private companies owning a large network for distribution of LPG and storage stations with a capacity of about 4,450 tones.

To assist the country’s energy supply security and enhance a competitive market, measures are to be taken towards new gas supply options, including supply from Middle Asia and the Near East by interconnection to the gas pipeline Nabucco, when constructed, and use of the Giurgiulesti terminal to import liquefied gas.

Tariffs

Adjustable tariffs for gas are calculated and applied by corresponding licensees according to approved procedure (part 1 of article 34 of the Law on Gas). The procedure of calculation and application of gas tariffs is developed and approved by the ANRE in accordance with established order for the certain term (part 2 of article 34 of the Law on Gas).

6.5. Electricity Sector

The market structure is as follows: transmission and dispatch in one government owned entity; five separate distribution companies; four separate generation capacities; and 17 suppliers.

The power sector was unbundled in 1997 (and implemented by the Government), prior to the establishment of ANRE. Legal, functional and accounting unbundling resulted in a separate state-owned enterprise that serves as the TSO (Transmission System Operator), provides transmission services, and is restricted from engaging in any supply activity. The TSO, Moldelectrica, is a state-owned company managing the assets of the power transmission system and the dispatch centre. Moldelectrica holds two licences issued by ANRE — a licence for electricity transmission services and another for central dispatch services.

Within the TSO, there is limited accounting and functional unbundling between transmission and dispatch services. There are three distribution companies, one of which is privatised and owned and managed by Spanish energy group, Union Fenosa.

In Moldova, the generation market is not regulated, except with regard to three Combined Heat and Power plants (CHP) and one hydro plant (the Power Market Rules limit regulated electricity generation sources to CHP-1, CHP-2, CHP-North and the Costesti hydro plant, which means that any other CHP or hydro plant will not be regulated by ANRE).

Activities on market opening started in March 2005. The wholesale power market is based on a number of bilateral contracts among distribution companies, customers, generators and other power suppliers (traders). Moldova does not have a spot market.

The electricity system of the Republic of Moldova operates synchronously with the Ukrainian electricity system. These systems have an interface of the following high voltage electric lines 110 kV (14 lines) and 330 kV (7 lines).

Moldova and Romania electricity systems are interconnected by: 110 kV (3 lines) and 400 kV (1 line).

Moldova is also traversed by a transit high voltage line (750 kV) between Yuzhnoukrainsk, Ukraine and Dobruca, Bulgaria. This line is owned by Ukraine, which is responsible for its safety and operation

Moldova has the high voltage transmission system of 214 kilometers of 400 kilovolts (kV), 530 kilometers of 330 kV, and 4,070 kilometers of 110 kV. There is also a lower voltage system, with 2,385 kilometers of 35 kV lines.

The electricity distribution network functions at 35 kV (i.e. 0.4 kV, 6 kV and 10 kV). Separation between transmission and distribution systems is currently poorly or inconsistently established.

In the distribution sector, there are three distribution companies: "RED Nord" Joint Stock Company, "RED Nord-Vest" Joint Stock Company - in which the State owns 100 percent of the shares, and a private company "Union Fenosa” (Spain). Electricity distribution in the Transnistria region is carried out by RED Est and RED Sud-Est. JSC. It shall be noted that on average the electricity losses have been reduced from 19 per cent in 2001 down to 14 per cent in 2008. This is represented by charts on electricity losses which are given in the Annex.

Total installed generation capacity – 3,008 MW, including:

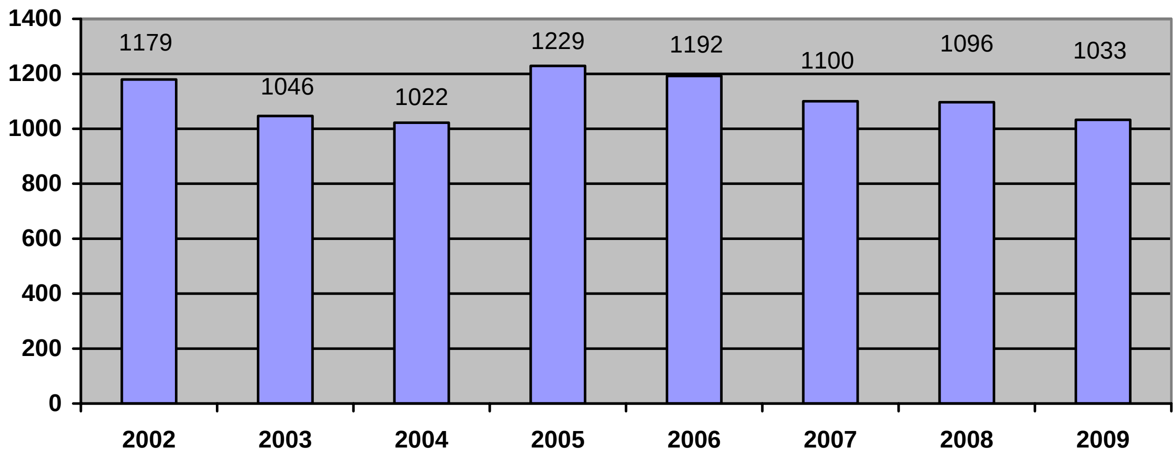
- Right side of Nistru river – 444 MW
- CHP-1, Chisinau 66 MW
- CHP-2, Chisinau 240 MW
- CHP-Nord, Balti 24 MW
- HPP Costeşti 16 MW
- CHP sugar entreprises 98 MW
- Left side of Nistru river – 2,568 MW
- EP, MOLDOVA 2,520 MW
- HPP Dubasari 48 MW

The Electricity system in the Transnistria region is operated by Dnestrenergo company, with headquarters in Tiraspol. Dnestrenergo includes Eastern electricity networks in Dubasari city, South Eastern electricity networks in Tiraspol city and the Dubasari Hydro Power Station. The dispatch for all these companies is centralized and performed by SOE Moldelectrica.

There is a tentative action plan for gradual adoption of the EU *acquis communautaire* and full opening of the retail market is anticipated by the beginning of 2015. Currently, 10 percent of the market of industrial consumers of electric energy has been opened.

Moldova produces electricity domestically but the country relies heavily on electricity imports. Total electricity production in the country has not significantly changed since 2002 and was amounted 1.03 TWh in right river bank in 2009.

Figure 13 Domestic electricity production in Moldova, mln kWh



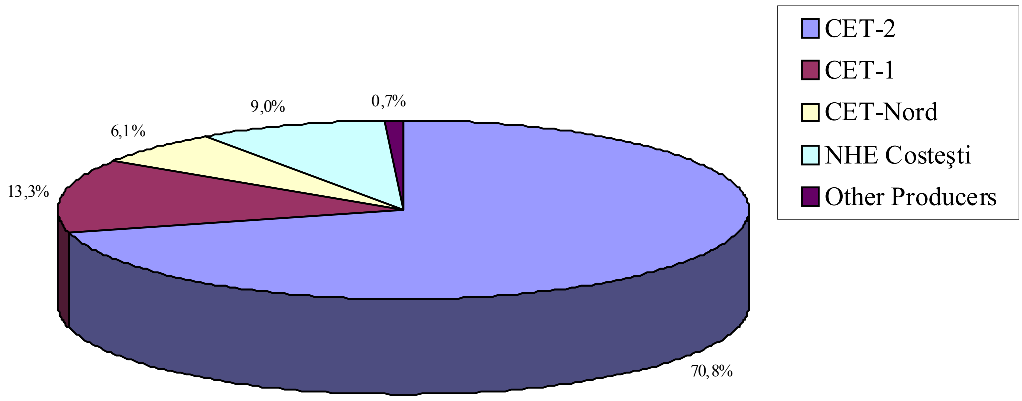
Source: National Bureau of statics of Moldova

Table 5 Electricity Production and Acquisition in 2001-2008

Indicators	2001	2002	2003	2004	2005	2006	2007	2008
Electricity Production (supplied by outgoing electric lines) – total, million kWh	1,042.9	952.9	842.3	830.7	999.8	957.7	903.7	905.0
Including: CHP-1	115.4	114.8	112.6	112.8	128.9	124.8	130.6	120.7
CHP-2	812.6	677.6	622.2	607.7	724.7	689.6	682.2	640.7
CHP-Nord	31.5	27.7	38.7	45.1	55.5	61.8	55.4	55.2
NHE Costesti	72.2	120.9	63.4	58.4	83.8	75.9	32.9	81.8
Other domestic producers	11.2	11.9	5.4	6.7	6.9	5.6	2.6	6.6
Electricity Acquisition – total, million kWh	3,194.8	3,269.0	3,364.0	3,254.7	3,465.1	3,660.3	3,826.9	3,860.1
Including: RED Nord	569.7	594.2	602.4	569.7	588.1	625.3	648.7	655.3
RED Nord-Vest	314.9	340.4	317.9	277.2	287.1	304.2	327.5	331.0
RED Union Fenosa	2,310.2	2,334.4	2,443.7	2,371.4	2,484.3	2,610.1	2,715.1	2,751.1
Eligible consumers				36.4	105.6	120.7	135.6	122.7

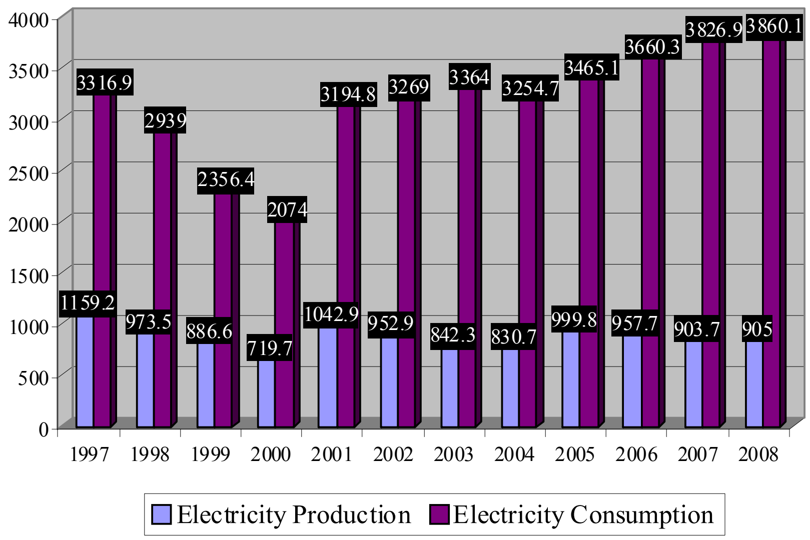
Source: National Agency for Energy Regulation

Figure 14 Electricity production in %



Source: National Agency for Energy Regulation

Figure 15 Electricity production and consumption in 1997-2008, mln kWh



Source: National Agency for Energy Regulation

In 2008 the volume of consumption was 3,680.1 million kWh. The above graph shows that there has been constant increase in electricity consumption since 2000.

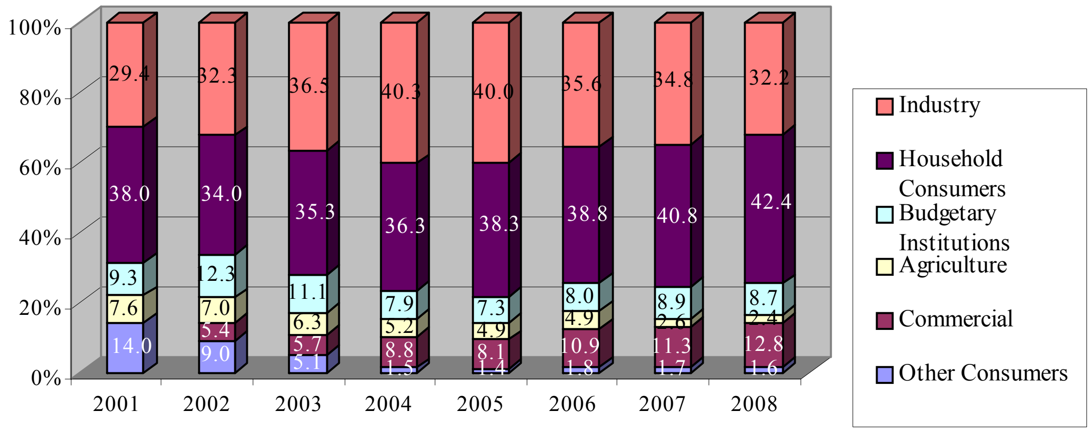
The increase in electricity consumption was attested in all the areas served by distribution companies. The area served by I.C.S. „RED Union Fenosa" JSC registered the most significant consumption increase - by 3.2 percent. The areas served by „RED Nord" JSC and „RED Nord–Vest" JSC registered, accordingly, 1.5 percent and 1.3 percent consumption increase, whereas the only eligible consumer - JSC "Cement" from Rezina reduced electricity consumption by 9.6 percent.

Table 6 Electricity Consumption per Categories of Consumers

Categories of Consumers	***2006***		***2007***		***2008***	
	Million kWh	***%***	***Million kWh***	***%***	***Million kWh***	***%***
Electricity Consumption (Useful supply to consumers), total	**2,987.1**	**100.0**	**3,164.7**	**100.0**	**3,232.3**	**100.0**
including: households	1,159.4	38.8	1,291.5	40.8	1,369.8	42.4
Of which: urban	687.6	23.0	738.3	23.3	787.8	24.4
rural	471.8	15.8	553.2	17.5	582.0	18.0
Industrial consumers	1,064.0	35.6	1,101.1	34.8	1,039.5	32.2
Agricultural consumers	146.5	4.9	82.9	2.6	76.3	2.4
Commercial consumers	326.8	10.9	356.4	11.3	415.3	12.8
Public Institutions	237.3	8.0	280.1	8.9	280.7	8.7
Of which: state budget	120.8	4.1	128.4	4.1	126.8	3.9
Local budgets	116.5	3.9	151.7	4.8	153.9	4.8
Other consumers	53.1	1.8	52.7	1.7	50.7	1.6

Source: National Agency for Energy Regulation

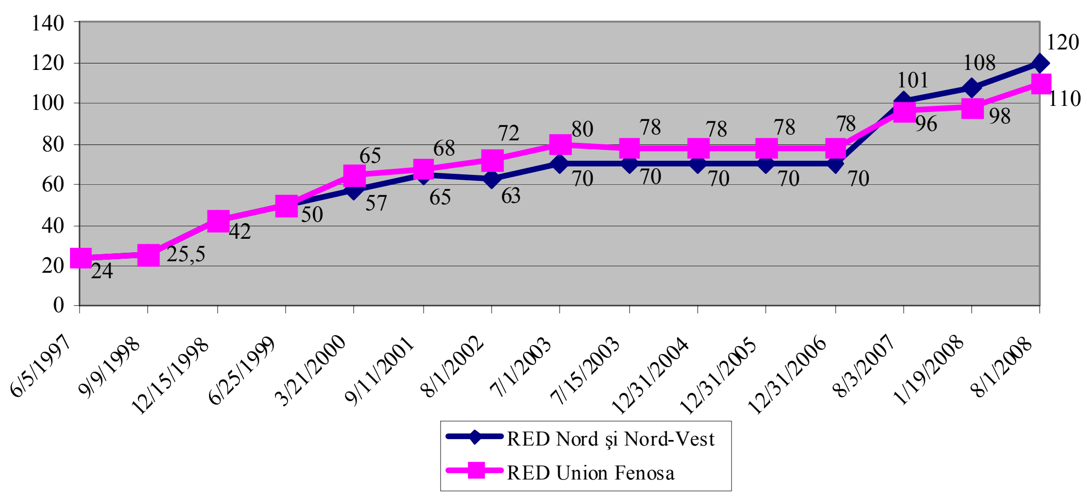
Figure 16 Structure of electricity Consumption in 2001-2008



Source: National Agency for Energy Regulation

ANRE drafts and approves the methodologies for calculation, approval and application of tariffs for transmission and dispatch and for distribution and supply of electricity. The regulatory authority provides a detailed evaluation of the tariffs and the reasons for its decision. It applies a rate of return, according to the adopted methodology set forth in tariff regulation, and applies depreciation in accordance with international accounting standards.

Figure 17 Tariffs for Electricity in 1997-2008, (bani/kWh)



Source: National Agency for Energy Regulation

6.6. Renewable sector

On July 12 2007, the Parliament of Moldova adopted the Law on renewable energy, which foresees that the share of power generation from renewable sources in the Republic will reach about 6 percent of energy generated from conventional sources by 2010 and up to 20 percent by 2020.

Moldova is implementing a state program for exploitation of renewable energy. At present renewable energies represents only 5-6 percent from the total energy consumption.

The total technical potential of the main types of renewable energy sources in Republic of Moldova is estimated at 3.65 million tons of oil equivalent, which exceeds 1.3 times the annual energy consumption in the country.

The Renewable Energy Law provides a framework for the promotion of renewable electricity, biofuel and energy efficiency. It offers various support mechanisms for renewable energy, including a preferential tariff methodology and mandatory purchase obligations. It also envisions a fund to support energy efficiency and renewable initiatives, as well as provides for financial incentives, such as favourable taxing regimes, to promote renewable energy. Furthermore, the Renewable Energy Law sets forth a feed-in tariff scheme for electricity generated from renewable energy, proof of renewable energy generated electricity status via Guarantee of Origin Certificates issued by the TSO, and non-discriminatory access to the transmission and distribution network. According to the Law the national regulator has an obligation to approve tariffs up to 15 years to stimulate investments. It should be noted that up to day the feed-in tariffs have not been yet approved and under consideration by the Government.

Government offices have developed organizational/economic measures aimed at the promotion of the generation and the use of renewable energy, including:

a) Identification of priorities in the development of renewable energy sources;
b) Ensuring the operation of economic mechanisms and incentives set forth by the law and intended to promote the development and the deployment of environmentally clean or low-waste safe technologies for the development of renewable energy sources;
c) Granting tax incentives and credit facilities, in compliance to the law, to individuals and economic entities, which produce or retrofit technical means and devices operating by using renewable energy sources.

Renewable energy projects in Moldova are eligible for financing support from the Central European Initiative and a credit line of 20 million Euros from the European Bank for Reconstruction and Development.

Wind

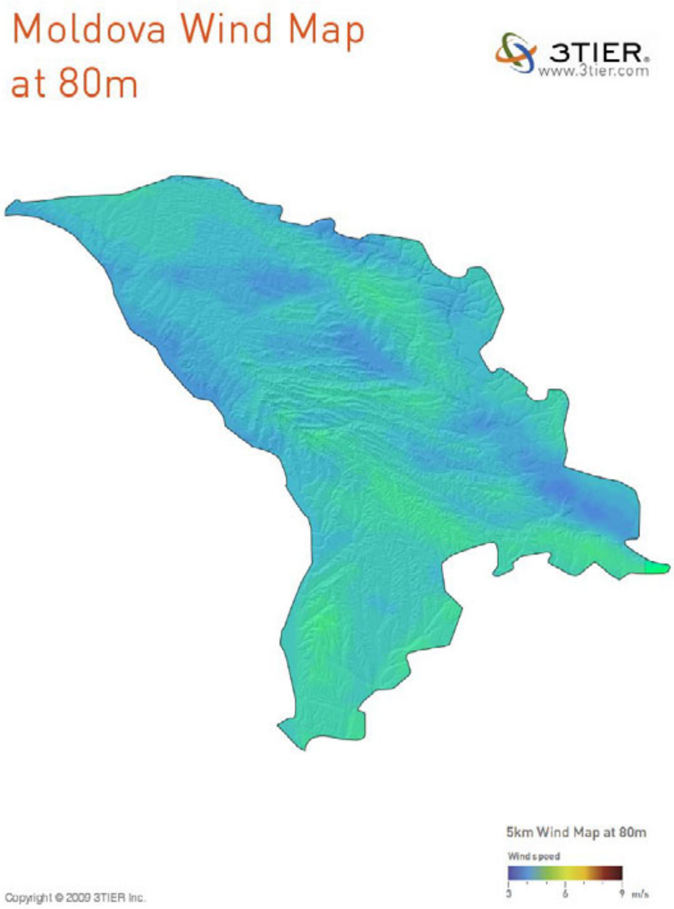
The wind power is not effectively utilised up to present time. Moldova has a technical wind potential of 1 GW of capacity. Up to date Moldova has not large scale wind power facilities. There is a potential project between Moldova and Romania on wind power. It is stated18 that "Transelectrica" company will build a 400 KV electricity transmission line on the route Smardan-Vaslui-Iasi to transfer the wind power capacity installed in Moldova (country East).

---

[18] http://www.evwind.es/noticias.php?id_not=4796. accessed on February 23, 2011

The target is to set in place a 400 KV electricity transmission line heading northwards from Smardan through the counties of Vaslui and Iasi and having the role of transferring the wind power installed in Moldova. In order to prepare the project potential investors should perform the necessary measurements for wind energy generation.

Figure 18 Moldova Wind Resource Map



Source: EBRD/3Tier

Bio fuel

Overall area of agricultural resources of Moldova is 3.85 million hectares, where 1,952 million ha – agricultural lands including, 242 thousand ha – areas of perennial plantations, 335 thousand ha – meadows (hayfields) and 1,375 thousand ha - pastures. Woodlands occupy 433 thousand ha. The black soils cover almost 80 percent of the country’s territory (2.5 million ha). These geographical and natural conditions create positive prerequisites for the development and generation of energy on the basis of biomass.

Utilization of biomass of energy cultures, agricultural, municipal, forest wastes, raw materials for the production of liquid and solid biofuel is viewed as the preferred way for reducing country’s dependence on the imports of energy resources[19].

---

19 I. Timofte, N.Timofte, Development of Bioenergy in Moldova, 2009

At present, the most feasibly applicable and cost-effective in Moldova is fuel ethanol or "bioethanol" derived from ethyl alcohol. It is planned to produce bioethanol from sweet sorghum as well as from other kinds of agricultural products – various cereals and maize.

While there is some experience with small scale rural biomass applications in Moldova, there is no experience of larger scale plants. The main generators of biomass suitable for energy purposes are forestry, agriculture, food industry and housing services. Forms of freely available heating fuel are currently used for heating, including sunflower stems, shelled maize cobs, maize stalks, and other agricultural wastes supplementing coal and wood for domestic fires and stoves (1-5KWth range). Biomass is used inefficiently due to simple and outdated technologies – domestic fires and stoves with an efficiency rating estimated not to exceed 50 percent. Statistic reported in 2001 estimated that 70 kg of wood is used for combustion per family in the rural area per year (Ceban, 2005). Some biomass materials are unused, as they are not available in a form that can be used with existing technologies.

The technical potential for biomass in Moldova is 19.4 PJ. This total includes agricultural wastes (7.5 PJ), fuel wood (4.3 PJ), wood processing wastes (4.7 PJ) and biogas (2.9 PJ). Another 2.1 PJ is the estimated potential for biofuels in the country (Ceban, 2005).

The WB is sponsoring a direct-fired biomass pilot project with a capacity between 50 and 500 kW. The plant will utilize agricultural waste (EBRD, 2008). In 1999 Moldova installed their first experimental equipment using briquettes from agricultural wastes. The installation produces 250 kg of briquettes per hour (Ceban, 2005).

Moldova has sufficient biomass resource to provide significant generation if utilized. As biomass begins to be used more efficiently in communal applications, experience should allow for large scale implementation, in the range of 5 MWth and greater. There is good potential for biomass to be included in social infrastructure and energy system development programs. There is also developing cross-border cooperation, especially with the Ukraine

Solar

In spite of absence of own traditional energy resources and the vital necessity of using alternative energy sources in Moldova, solar energy has no noticeable usage.

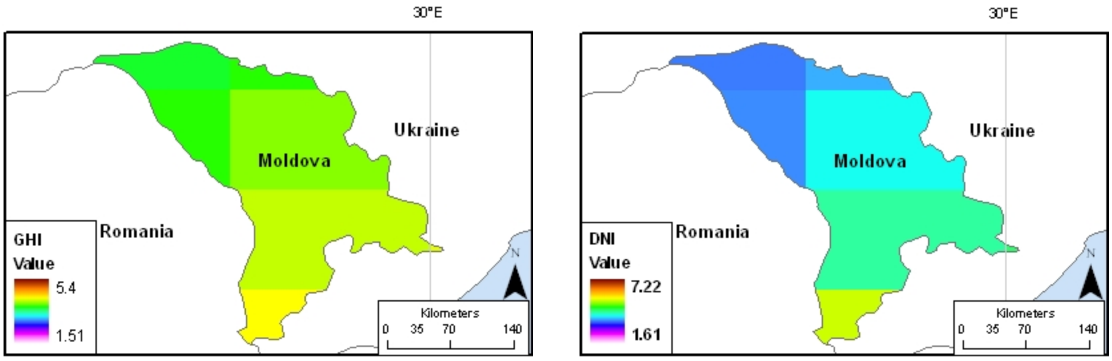
The first stage of solar energy use in Moldova will have the following priorities:

- Heating of water using solar collectors;
- Drying fruit, vegetables and medicinal plants;
- Photovoltaic conversion for pumping water and for electric energy supply of small consumers.

The intensity of total solar radiation varies during the year from 280 to 925 MJ/m^2 in piedmont regions, and from 360 to 1120 MJ/m^2 in highlands.

The figures below show that the greatest potential for solar energy is in southern part of the country.

Figure 19 Solar technical potential

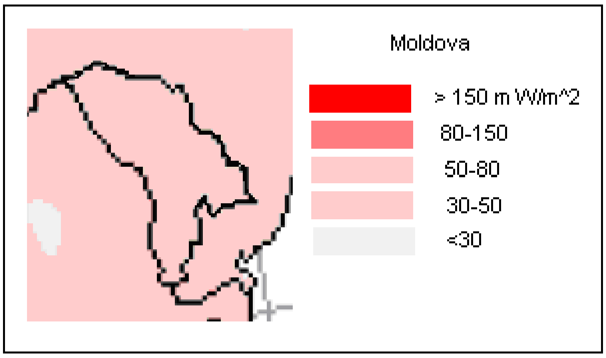


Source: NASA

Geothermal

Reservoirs of thermal water with temperature 30-50^{0}C have been found. Usage of thermal water is absent, and there is no national program for geothermal resources. Geothermal technical potential is displayed below.

Figure 20 Heat Flow (m W/m2) in Moldova



Source: EBRD

Hydropower

Despite the large number of rivers in Moldova, the potential for hydroelectric generation is relatively low, and there are only two significant-size hydroelectric power plants. The greatest potential for hydropower development in Moldova is in small hydro construction.

The Dneister River basin and the Prut and Danube river basin cover the vast majority of Moldova's territory, and technically represent the best areas for development.

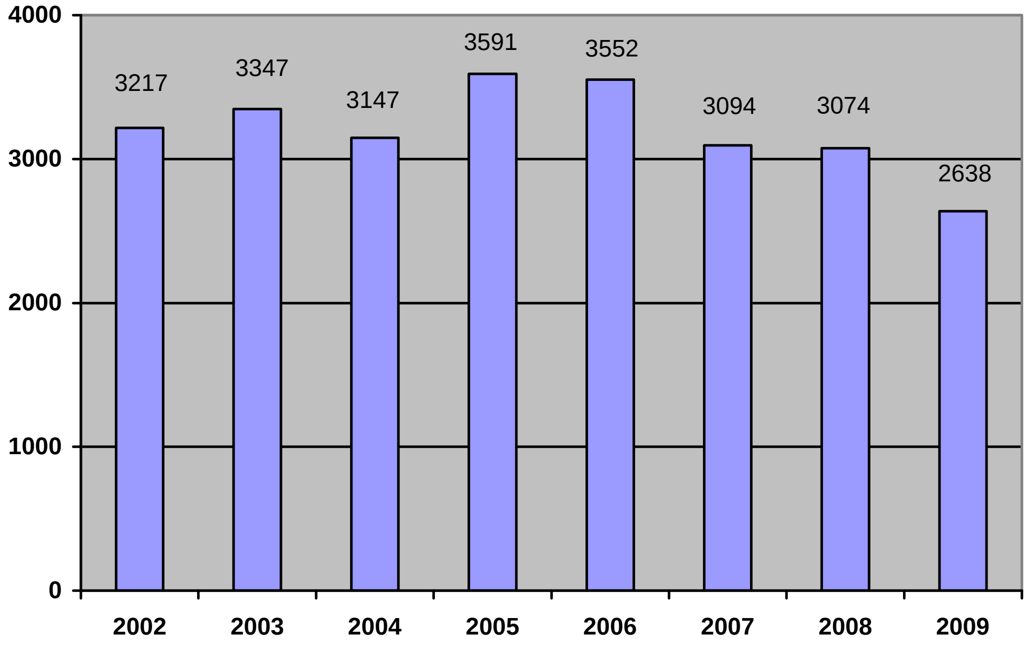
Figure 21 Rivers in Moldova

Source: EBRD

6.7. Heat Supply

About 75 percent of the urban dwellings in Moldova used to be connected to the various types of district heating systems, such a larger centralized district heating systems or smaller local networks. In the past, this industry was thereby able to satisfy the heating needs of large segment of the urban population. However, in the last years district heating companies had to reduce substantially their heat supply due to financial crisis that affected the district heating companies seriously. The graph below shows reduction in overall heat production from 3217 thousand Gcal in 2002 down to 2638 thousand Gcal in 2009.

Figure 22 Thermo-energy production in Moldova, 2002-2009, thousand Gcal



Source: National Bureau of statics of Moldova

Moldova has centralized heating systems that currently operate in Chisinau, Balti and in some district centers in the country (Aneni Noi, Cahul, Calarasi, Cimislia, Edineti, Glodeni, Stefan Voda, Ungheni). The table below shows structure of heat production by various sources in Moldova from 2002 up to 2009.

Table 7 Domestic heat production from 2002 up to 2009, thousand Gcal

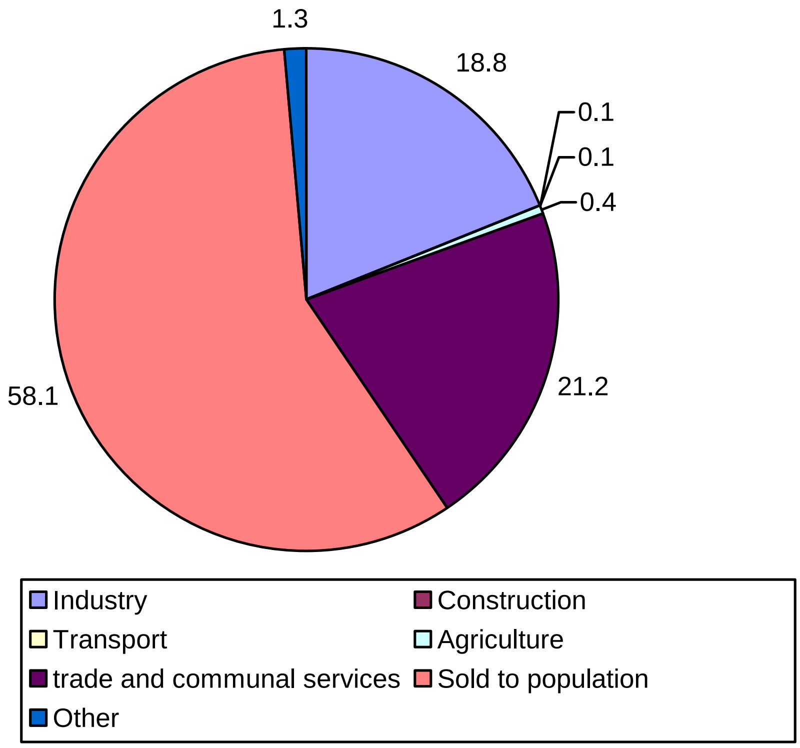
	2002	2003	2004	2005	2006	2007	2008	2009
Thermo energy, total in thousand Gcal	3217	3347	3147	3591	3552	3094	3074	2638
Thermo power stations	2128	1922	1790	2140	2165	1855	1939	1647
Boilers	1087	1423	1357	1451	1386	1238	1133	990
Other generating sources	2	2			1	1	2	1

Source: National Bureau of statics of Moldova

Transmission of heat to consumers in Chisinau is performed by JSC „Termocom”.

The graph below shows heat consumption by different economy sectors in 2009.

Figure 23 Structure of heat consumption by economy sectors in %, in 2009



Source: National Bureau of statics of Moldova

Among important directions for development of the heating sector is further promotion of energy efficiency and introduction of co-generation for heat and electricity production. A major constrain of the sector is systemic debts from the consumers.

The Government drafted the following documents to address the heat sector debts:

- Concept on Energy Sector Restructuring addressing the debts settlement and companies' economic and financial improvement.
- Memorandum on Addressing the Crisis of Thermal Sector in Chisinau municipality, (Ministry of Economy, mun. Chisinau, CHP-1, CHP-1, „Termocom" heat supplier, „Moldovagaz" JSC, „Chisinau-gaz" Ltd.)
- Negotiations are carried with WB for financial support for development of the heat sector restructuring plan.

Through the Energy II Project, the Moldovan Government, supported by the World Bank, is working to improve heating and lighting systems in public buildings across the country. Among other results, so far the project has improved heating in 23 schools and 12 medical institutions, benefiting 8,399 students and about 1 million patients, staff and visitors.

In 2011-2014, replication of these pilot projects will follow in up to 20 percent of communities undertaking public building development projects. This initiative will benefit to 200,000 - 400,000 persons.

In addition, the biomass project (EUR 14 million) will improve heating in rural public sector buildings, including schools and community centres (about 130 entities) by using readily available waste straw supplied from local agricultural enterprises[20].

Regulatory measures planned for 2010/Heat Sector:

- Transposing EC Directive 2004/8/EC of 11 February 2004 on promotion of cogeneration based on a useful heat demand in the internal energy market and amending Directive 92/42/EEC
- Transposing Decision of 21 December 2006 establishing harmonized efficiency reference values for separate production of electricity and heat in application of Directive 2004/8/EC of the European Parliament and of the Council.

6.8. Investments needs

Gas

- Ungheni-Iasi (18 mln Euro), length 18 km, 530 p.d
- Geological research in the South for local gas

Heat

- Modernization of CHP 2 - Investment needs - 4,8 mln. EURO

Electricity

- Electricity interconnection, 400 kV line, "Suceava-Balti" between Romania and Moldova Length: 115 km (55km -Moldovan (cost: 35,1 mln Euro (15,2 mln Euro – Moldovan part) planned construction: 2010-2015
- 330 kV voltage line "Balti-Novodnestrovsk" between Moldova and Ukraine.
- 330 kV voltage line Balti –Straseni-Ungheni Length: 121,5 km (88km - Moldovan territory) (Cost: 28,5 mln Euro, planned construction: 2010-2015
- Ungheni–Iasi, plus a power station, 360 Mw (coal) (Czech investment company

CHP-2 Plans

Partial modernization of CHP 2 equipment is targeted to reach the following objectives:

- improved energy efficiency and decreased specific consumption by 9.6 g/kWh for production of electricity;
- decreased impact on environment;
- increased reliability;
- annual saving of 534 tons conventional fuel;
- additional production of 0.3 TWh of electric energy each year;
- reduction by an annual 17 GWt of the electricity consumption for own needs;
- improved efficiency of the thermodynamic cycle;
- approximately 1,000 MWh increase in electricity supply during summer period.
- Investment needs – 4.8 million Euro;

[20] http://ec.europa.eu/delegations/moldova/

7. REFERENCES

An Energy Overview of the Republic of Moldova, The INOGATE Programme, http://www.inogate.org/

Austrian Energy Agency, Country profile on Moldova, http://www.enercee.net/moldova

Doing Business in Moldova, 2010

Energy Community, http://www.energy-ommunity.org/

EBRD, Renewable Energy Initiative, Moldova country profile

Government of Moldova, http://gov.gov.md

I. Timofte, N.Timofte, Development of Bioenergy in Moldova, 2009

National Strategy for development of the Republic of Moldova for 2008-2011

National Bank of Moldova, Annual Report for 2009

National Bureau of Statistics of the Republic of Moldova, Population and demographic processes in the Republic of Moldova, 2009

National Bureau of statics of Moldova, Bulletin on the state of energy balance in the Republic of Moldova, 2009

National Agency for Energy Regulation, Annual Report for 2008

National Bank of Moldova, "Monetary policy strategy of the national bank of Moldova for 2010-2012"

National Commission of Financial Market, http://www.cnpf.md/en/about/.

Moldova, Foreign Investment Guide: Corporate Tax, 2010

Moldova Energy Project Implementation Unit (MEPIU) http://www.mepiu.moldnet.md/market.html

Moldovan Investment and Export Promotion Organisation, http://www.miepo.md

Moldova Business Week 2010, presentation by the Ministry of Economy

Institute of Power Engineering of the Academy of Sciences of Moldova, Reports

Taxation in Moldova, Information for companies operating internationally, 2008

World Bank, "Keeping Warm with the Lights on" 2009

World Bank, Moldova: Renewable Energy from Agricultural Waste Biomass, 2004

Annex 1 Exception for the Blue Book

LAND/REAL ESTATE

COUNTRY: **MOLDOVA**

MEASURES

Law of the Republic of Moldova on Investments in Entrepreneurial Activity, Article 22, Official Monitor of the Republic of Moldova No. 64-66, as of 23.04.2004

SECTOR

National Economy

LEVEL OF GOVERNMENT

National

DESCRIPTION

Foreign investors shall have the right to take possession, in compliance with legislation of the Republic of Moldova, of real estate on the territory of the Republic of Moldova to carry out business activity, except for agricultural lands and forestry fund lands.

PHASE-OUT

Not planned

OTHER EXCEPTIONS

None

Annex 2 Key legislation related to the energy sector

Current Legal framework in the energy sector of Moldova

- Law no. 160, July 12, 2007 "Renewable Energy"
- Law no. 138-XVI, June 21, 07 "On Scientific and Technological Parks and Innovation Incubators"
- Law no. 144-XVI, June 22, 07 "On Completing some Legal Acts" (about incentives for residents of scientific and technological parks and innovation incubators)
- Law No. 81-XV, March 18, 2004 "On Investments in Entrepreneurial Activity"
- Law no. 137-XIV, September 17, 1998 "Electricity Law"
- Law no.1525-XIII, February 19, 1998 "Energy Law"
- Law on Privatization Program 1997-1998
- Law on Amendments and Supplements to the Law, no. 233-XIV, December 23, 1998 "On Individual Privatization Project for the Electric Power Sector Enterprises"
- Law no. 336-XIV, April 1, 1999 "On Restructuring Debt of Electricity Sector Enterprises"
- Law no. 613-XIV, October 1, 1999 "On Amending Article 10 of Individual Plan for Privatization of Electricity Sector Enterprises"
- Law no. 63-XIV of June 25, 1998 "On Concept of Electricity Sector Enterprises Privatization"
- Law no. 1136-XIV July 13, 2000 "On Energy Conservation"

Government Decisions

- Prime Minister Decision No. 0919-25 as of January 04, 2006 on Creating a Coordination Council for the Use of Renewable Energy
- RM Government Decision No.899, August 25,2005 “On Creating Carbon Trade Office”
- RM Government Decision No. 713, as of June 23, 2004"On Construction of Power Plant Next to Burlaceni Village, Cahul Region"
- RM Government Decision, no. 113, February 7, 2000 "On Ensuring Conditions of Sale and Purchase of State Shares in
- RM Government Decision, no. 520 dated June 7, 1999 "On Measures to Implement Law on Restructuring Debt of Electricity Sector Enterprises"
- RM Government Decision, no. 1059, November 13, 1997 "On Restructuring the State Company "Moldenergo"

Annex 3 Tax incentives

TAX INCENTIVES ADOPTED IN 2006			
Beneficiaries	**Content**	**Type**	**Period**
Legal entities	Share capital is formed or increased in an amount exceeding the equivalent of: - USD 250 000 - USD 2 million	Income tax exemption 50% 100%	 5 years 3 years
Business entities	Fixed assets used as contributions to the owner's equity of a business entity	Exemption from VAT and customs duties	Unlimited
Business entities	Goods imported under an international leasing agreement and placed under customs regime of temporary admission	Exemption from VAT and customs duties	Unlimited
Business entities carrying out leasing activity	Movable goods imported to honour contractual obligations	Exemption from customs duties	Unlimited
Small business entities	Average number of employees not exceeding 19 persons and annual revenue from sales not exceeding MDL 3 million	Income tax exemption 100% 35% income tax rate reduction (15%)	3 years 2 years
Business entities with software development	Main activity is software development	Income tax exemption 100%	5 years
Commercial banks	Loans granted for a period: - from 2 to 3 years - exceeding 3 years	Income tax exemption 50% 100%	 Unlimited Unlimited
Agricultural producers	Main activity is exclusively manufacturing of agricultural products	Income tax exemption 100%	5 years
Scientific and innovations entities	Amount of the income tax, calculated but not paid to the budget, is directed to finance projects in the field of science and innovations	Income tax exemption 100%	Unlimited

ADDITIONAL TAX INCENTIVES IN 2007			
Beneficiaries	**Content**	**Type**	**Period**
Legal entities	Share capital is formed or increased or capital investments (expenses) made in an amount exceeding the equivalent of: - USD 250 000 - USD 2 (5, 10, 20, 50) million	Income tax exemption 50% 100%	 5 years 3 (3, 3, 4, 4) years
Legal entities	Interest on bank deposits placed for a period of more than 3 years and interest from corporate rights in the form of bonds issued for a period of more than 3 years	Income tax exemption 100%	Until 1 January 2010
Micro-finance organizations	Loans granted for a period: - from 2 to 3 years - exceeding 3 years	Income tax exemption 50% 100%	 Unlimited Unlimited

TAX INCENTIVES GRANTED TO FREE ECONOMIC ZONES (FEZ)		
Content	**Type**	**Period**
Export of goods, services originating from the FEZ outside the customs territory of the Republic of Moldova	50% of the income tax rate (15%)	Unlimited
Residents' activity within the FEZ	75% of the income tax rate (15%)	Unlimited
Residents that have invested in fixed assets of their enterprises and/or in the infrastructure development of the FEZ a capital equivalent to at least: - USD 1 million - USD 5 million when exporting goods, services originating from the FEZ outside the customs territory of the Republic of Moldova	Income tax exemption 100% 100%	 3 years 5 years
Goods, services imported to FEZ from outside the customs territory of the Republic of Moldova, from the FEZ outside the customs territory of the Republic of Moldova, imported to FEZ from the rest of the customs territory of the Republic of Moldova, as well as those delivered by the residents of FEZs of the Republic of Moldova to each other	The zero VAT rate and exemption from customs duties	Unlimited
Excisable goods imported in a FEZ from outside the customs territory of the Republic of Moldova, from other FEZs, from the rest of the customs territory of the Republic of Moldova, as well as goods originating from this FEZ and exported outside the customs territory of the Republic of Moldova	Exemption from excise taxes	Unlimited

Annex 4 Bilateral Investment Treaties

Total number of Bilateral Investment Treaties concluded by Moldova as of 1 June 2010

Partner	Date of Signature	Date of entry into force
Republic of Albania	11-Jun-04	23-Dec-04
Austria	6-Jun-01	1-Aug-02
Azerbaijan	27-Nov-97	28-Jan-99
Belarus	28-May-99	19-Nov-99
Belgium and Luxembourg	21-May-96	20-Apr-02
Bosnia and Herzegovina	9-Apr-03	9-Jun-08
Bulgaria	17-Apr-96	11-Jun-97
China	6-Nov-92	1-Mar-95
Croatia	5-Dec-01 ----	
Czech Republic	2-Sep-08 ----	
Finland	25-Aug-95	21-Jun-97
France	8-Sep-97	3-Nov-99
Georgia	5-Dec-97	25-Feb-99
Germany	28-Feb-94	15-Jun-06
Greece	23-Mar-98	27-Feb-00
Hungary	19-Apr-95	19-Aug-96
Iran, Islamic Republic	30-May-95 ----	
Israel	22-Jun-97	16-Mar-99
Italy	19-Sep-97	24-Dec-97
Kuwait	29-Mar-02	6-Apr-04
Kyrgyzstan	7-Nov-02	16-Jan-04
Latvia	22-Sep-99	14-Apr-00
Lithuania	20-Sep-99	29-May-03
Netherlands	26-Sep-95	1-May-97
Poland	16-Nov-94	27-Jul-95
Romania	14-Aug-92	15-Jun-97
Russian Federation	17-Mar-98	18-Jul-01
Slovakia	7-Apr-08	15-Nov-09
Slovenia	10-Apr-03	1-Jun-04
Spain	11-May-06	17-Jan-07
Switzerland	30-Nov-95	29-Nov-96
Tajikistan	5-Nov-02	20-Oct-03
Turkey	14-Feb-94	16-May-97
Ukraine	29-Aug-95	20-May-96
United Kingdom	19-Mar-96	30-Jul-98
United States	21-Apr-93	25-Nov-94
Uzbekistan	21-Nov-95	17-Jan-97

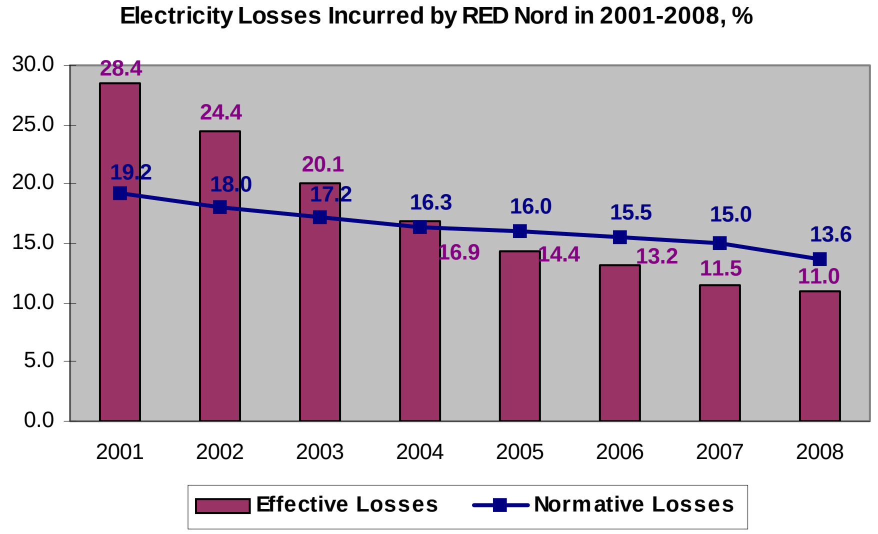
Source: UNCTAD

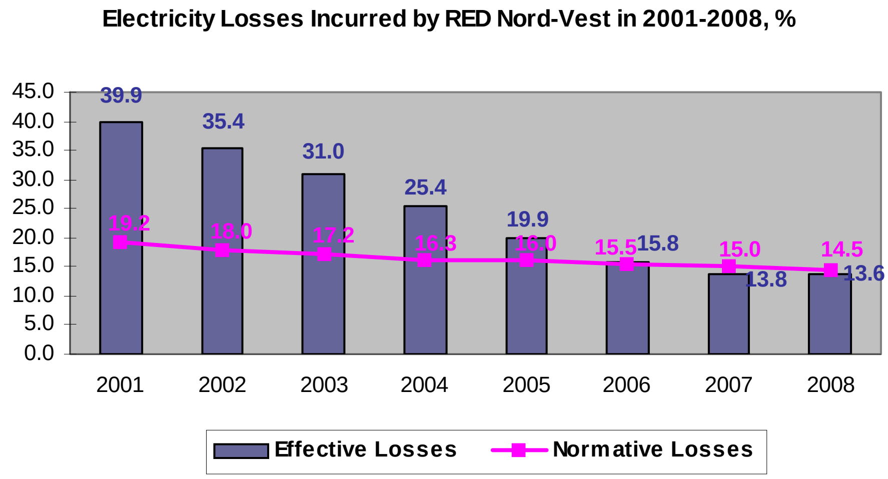
Annex 5 Membership in International Organizations

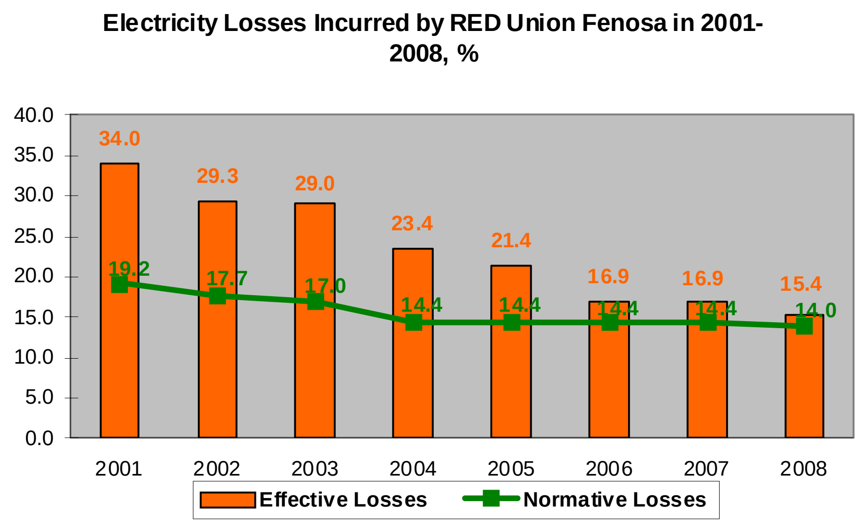
The Republic of Moldova is a member of following organizations (not full list)

- Black Sea Economic Cooperation Zone (BSEC)
- Central European Initiative (CEI)
- Commonwealth of Independent States (CIS)
- Council of Europe (CE)
- Energy Charter
- Eurasian Economic Community (EAEC) (observer)
- Euro-Atlantic Partnership Council (EAPC)
- European Bank for Reconstruction and Development (EBRD)
- Food and Agriculture Organization (FAO)
- International Atomic Energy Agency (IAEA)
- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- International Monetary Fund (IMF)
- International Organization for Standardization (ISO) (correspondent)
- Multilateral Investment Guarantee Agency (MIGA)
- Organisation internationale de la Francophonie (OIF)
- Organization for Democracy and Economic Development (GUAM)
- Organization for Security and Cooperation in Europe (OSCE)
- Organization for the Prohibition of Chemical Weapons (OPCW)
- Partnership for Peace (PFP)
- Southeast European Cooperative Initiative (SECI)
- United Nations (UN)
- United Nations Conference on Trade and Development (UNCTAD)
- United Nations Educational, Scientific, and Cultural Organization (UNESCO)
- United Nations Industrial Development Organization (UNIDO)
- United Nations Mission in Liberia (UNMIL)
- United Nations Mission in the Sudan (UNMIS)
- United Nations Observer Mission in Georgia (UNOMIG)
- United Nations Operation in Cote d'Ivoire (UNOCI)
- Uniunea Latină
- Universal Postal Union (UPU)
- World Customs Organization (WCO)
- World Federation of Trade Unions (WFTU)
- World Health Organization (WHO)
- World Intellectual Property Organization (WIPO)
- World Meteorological Organization (WMO)
- World Tourism Organization (UNWTO)
- World Trade Organization (WTO)

Annex 6 Electricity Losses







Source: National Agency for Energy Regulation