

**Commission Opinion on Bulgaria's Application
for Membership of the European Union**

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A. INTRODUCTION

a) Preface

The Application for Membership

Bulgaria presented its application for membership of the European Union on 14 December 1995, and the Council of Ministers decided on 29 January 1996 to implement the procedure laid down in Article 0 of the Treaty, which provides for consultation of the Commission.

That is the framework in which the Commission submits the present Opinion, responding to the request of the European Council in Madrid in December 1995 to present the Opinion as soon as possible after the conclusion of the Intergovernmental Conference, which commenced in March 1996 and concluded in June 1997.

The Context of the Opinion

The Bulgarian application for membership is being examined at the same time as applications from nine other associated countries. Bulgaria's accession is to be seen as part of an historic process, in which the countries of Central and Eastern Europe overcome the division of the continent which has lasted for more than 40 years, and join the area of peace, stability and prosperity created by the Union.

The European Council in Copenhagen in June 1993 concluded that:

"The associated countries in Central and Eastern Europe that so desire shall become members of the Union. Accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions. Membership requires:

- that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries".

This declaration spelled out the political and economic criteria for examining the accession requests of the associated countries of Central and Eastern Europe.

The European Council in Madrid in December 1995 referred to the need, in the context of the pre-accession strategy, "to create the conditions for the gradual, harmonious integration of the applicant countries, particularly through:

- the development of the market economy,

- the adjustment of their administrative structure,
- the creation of a stable economic and monetary environment”.

In its Opinion, the Commission analyses the Bulgarian application on its merits, but according to the same criteria as the other applications, on which it is delivering Opinions at the same time. This way of proceeding respects the wish, expressed by the European Council in Madrid, to ensure that the applicant countries are treated on an equal basis.

In addition to the individual Opinions the Commission is presenting separately to the Council, in the framework of its communication “Agenda 2000”, a general assessment of the accession requests, and its recommendations concerning the strategy for successful enlargement of the Union. At the same time, it is presenting an evaluation of the impact of enlargement on the Union’s policies.-

The Contents of the Opinion

The structure of the Opinion takes account of the conclusions of the European Council in Copenhagen. It:

- describes the relations up to now between Bulgaria and the Union, particularly in the framework of the association agreement;
- analyses the situation in respect of the political conditions mentioned by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Bulgaria’s situation and prospects in respect of the economic conditions mentioned by the European Council (market economy, capacity to cope with competitive pressure);
- addresses the question of Bulgaria’s capacity to adopt the obligations of membership, that is the *acquis* of the Union as expressed in the Treaty, the secondary legislation, and the policies of the Union;
- makes finally a general evaluation of Bulgaria’s situation and prospects in respect of the conditions for membership of the Union, and a recommendation concerning accession negotiations.

In assessing Bulgaria in respect of the economic criteria and its capacity to assume the *acquis*, the Commission has included a prospective assessment; it has attempted to evaluate the progress which can reasonably be expected on the part of Bulgaria in the coming years, before accession, taking account of the fact that the *acquis* itself will continue to develop. For this purpose, and without prejudging the actual date of accession, the Opinion is based on a medium-term time horizon of approximately five years.

During the preparation of the Opinion, the Commission has obtained a wealth of information on Bulgaria’s situation from the Bulgarian authorities, and has utilised many other sources of information, including the member states and numerous international organisations.

b) Relations Between the European Union and Bulgaria

Historical and Geopolitical Context

Bulgaria, bounded by the Black Sea to the East, the Danube to the North and mountains along its frontiers with Greece and the former Yugoslav Republic of Macedonia, has an area of 111,000 km² and a population of 8.3 million. The existence of a Bulgarian state goes back to 681, and Bulgaria has contributed significantly to the evolution of Slavonic culture. It gained independence from the Ottoman Empire in 1878, and until 1946 was a constitutional monarchy. Bulgaria participated in the First Balkan War of 1912 against the Ottoman Empire; and in the Second the following year, in which the country lost a considerable part of its territory. Bulgaria sided with Germany during the First World War and lost further land in its aftermath; and again for much of the Second World War, though it successfully resisted the deportation of Jews from its territory. In 1944, Bulgaria joined the Allied Powers. In 1946 Bulgaria's pre-war borders were reconfirmed.

After the War, Bulgaria was briefly occupied by Soviet troops. In September 1946, following a referendum, the monarchy was abolished and a People's Republic declared. By 1947 the Communist Party had fully established its control. In 1956 Todor Zhivkov came to power, and was to rule the country for over thirty years. A highly centralised economic policy gave priority to nationalised industry, resulting in a rapid rise in industry's share in the economy. In agriculture, collectivisation was imposed and cooperatives were reorganised into larger agro-industrial complexes. From the 1970s onwards economic growth slowed; by the second half of the 1980s it came to a standstill.

In November 1989 communist rule in Bulgaria collapsed. The transition to democracy, inspired by similar developments in other former communist countries, was sudden and peaceful. Todor Zhivkov was removed from office and an interim government led the country to its first free elections since the War. Since then, Bulgarian political life has seen repeated changes of government and a significant degree of polarisation, but also respect for the constitutional order and a virtual absence of violence. Elections in June 1990 were won by the Bulgarian Socialist Party (BSP), successor of the Communist Party; but the BSP government was forced by economic crisis to resign in November 1990, to be replaced by a "programme" government. New elections in October 1991 resulted in a coalition government led by the Union of Democratic Forces (UDF); but that too was replaced by a non-party government the following year. Elections in 1994 gave a majority to a BSP government which, however, was forced by renewed economic troubles to resign in February 1997, to be replaced by an interim government. President Stoyanov, elected two months earlier with UDF support, played a substantial role in bringing the country through the ensuing political crisis to new elections in April 1997, which produced a majority for the UDF and its allies.

The strategic objective of integration with the EU has been maintained by consensus by all the governments since 1990. Bulgaria's application for Union membership, backed by a virtually unanimous endorsement from the National Assembly, was lodged on 14 December 1995. The Government Memorandum accompanying the application states: "Bulgaria's membership of the European Union constitutes a strategic goal and is a matter of national interest. It will consolidate the results of the democratic reforms which have been carried out since the beginning of the 1990s and will represent a political acknowledgement of their success. Membership of the

EU will be an important factor for the further economic development of the country. The stabilisation of the democratic process and the establishment of a market economy in Bulgaria correspond to the interests of the countries in the neighbouring region and of all Europe. They will have a positive impact on the security and stability of the continent. Bulgaria's aspiration for full membership of the EU reflects the will and readiness to take part in the realisation of the vision of a united Europe living in peace, prosperity and social justice".

On 29 January 1997, during his visit to the European Parliament, President Stoyanov stated: "I would like to reaffirm, before this high forum, our determination to follow the path of integration with the European Union and realisation of common European values. This is the top priority of Bulgarian policy on which ... there exists broad consensus among the political forces. The main driving forces of the dynamic development of cooperation and ever fuller integration of our country with the European Union are: the consistent implementation of the Europe Agreement and the EU-adopted strategy of preparation of the associated states for full membership as well as the recommendations of the White Paper regarding participation in the common market ...".

On 21 May 1997, in his inaugural address to the National Assembly, the new Prime Minister Kostov stated: "Bulgaria's European choice is an expression of a consensus which has taken shape in the course of a long and painful path of Bulgarian society over the last seven years".

Contractual Relations

Diplomatic relations between the European Communities and Bulgaria were established in 1988. A Trade and Cooperation Agreement was signed in May 1990. The Europe Agreement was signed on 8 March 1993 and entered into force on 1 February 1995. An Interim Agreement covering the trade aspects of the Europe Agreement came into effect on 31 December 1993, replacing the 1990 Agreement.

The Europe Agreement is now the legal basis for relations between Bulgaria and the Union. Its aim is to provide a framework for political dialogue, promote the expansion of trade and economic relations between the parties, provide a basis for Community technical and financial assistance, and an appropriate framework to support Bulgaria's gradual integration into the Union. The institutional framework of the Agreement provides the necessary mechanism for implementation, management and monitoring of all areas of relations. Sub-committees examine questions at a technical level. The Association Committee, at senior official level, provides for in-depth discussion of matters and often finds solutions to problems arising under the Agreement. The Association Council examines the overall status of and perspectives for relations and provides the opportunity to review Bulgaria's progress in preparation for accession.

In March 1995 the previous government set up an inter-ministerial coordination arrangement for promotion of the European integration policy. The arrangement involves a Ministerial Commission chaired by the Prime Minister, a committee at deputy-minister level chaired by the Government Secretary on European integration, various technical working groups and a European Integration Secretariat. The current government is considering modifications to these arrangements.

The Pre-Accession Strategy

Implementation of the Europe Agreement and the White Paper

The institutional framework of the Europe Agreement is fully operational, and functioning in accordance with the agreed timetable. Three meetings have taken place of the Association Council, and two of the Association Committee. Nine multidisciplinary sub-committees have been established and are meeting regularly. The EU-Bulgaria Joint Parliamentary Committee has met three times.

Implementation issues have occurred in respect of compensation for Bulgaria for the late entry into force of the Agreement, the alignment of tariffs and quotas for Bulgaria's exports to those applicable to the Visegrad countries, and the adaptation of the Europe Agreement following the Uruguay Round and the Union's most recent enlargement. All these issues have been solved.

The Commission's White Paper of 1995 on the Internal Market set out the legislation which the candidate countries would need to transpose and implement in order to apply the *acquis*, and identified elements essential to the implementation of the single market (known as Stage I measures) which would need priority attention. In response to the White Paper the Bulgarian Government adopted a "Strategy for implementing the recommendations of the White Paper" in May 1996. The document provides a comprehensive survey of existing Bulgarian legislation in the light of requirements emanating from the *acquis*. It also gives a timetable for the process of legislative approximation and defines the government bodies responsible. Under the auspices of the Ministry of Justice (recently renamed the Ministry of Justice and Legal European Integration) a legislative council was given the role of ensuring the compatibility of draft legislation to EU laws and practices. The new government has promised a national strategy for accelerating preparation for EU membership.

Bulgaria is making good progress under the Europe Agreement. There have been few problems on trade issues. The weakness of Bulgaria's internal coordination structures has made it difficult to exploit the Agreement fully, but the new government is committed to improving these.

Structured Dialogue

Bulgaria has participated in the Structured Dialogue, seeing it as an instrument in its preparation for accession. Bulgaria has submitted position papers to various meetings, including a paper on Bulgaria's pre-accession policy.

Phare

The total PHARE budget for 1990-1995 was 476 MECU, and the allocation for 1996 62.5 MECU. Over the past two years, the overall contracting rate has risen to 70%. Lack of momentum for reform has made assistance for enterprise restructuring, the

financial sector, privatisation and agriculture less successful, but this is changing with the new government's reform programme.

The Cross-Border Cooperation programme with Greece has faced important implementation delays due to Bulgaria's inability to match its constructive regional role with administrative and management measures. More than 40 MECU have not been used; no new budget was allocated in 1996 or 1997.

Participation in Community Programmes

In 1996 Bulgaria became eligible to participate in Community programmes under the Additional Protocol to the Europe Agreement. Discussion has started of Bulgarian participation in Youth for Europe and SAVE from 1998. Preparations are also under way for participation in Socrates and Leonardo.

Trade Relations

Economic relations between Bulgaria and the Union have developed positively over the past six years. EU imports from Bulgaria increased by 260% over those years, to 1.83 BECU in 1995. The most important products are iron, steel, base metals, textiles, agricultural and chemical products. EU exports increased by 37% over the same period, to 2.05 BECU in 1995. The most important sectors are machinery and equipment, agricultural products, textiles and chemicals. Bulgaria's four main EU trading partners are Germany, the United Kingdom, Italy and Greece. Trade between Bulgaria and its non-EU neighbours is modest.

General Evaluation

Since 1989 relations between Bulgaria and the Union have evolved positively. There have been no significant policy obstacles to overcome though Bulgaria will need to amend its Constitution so that nationals of EU Member States can acquire (other than by inheritance) land, and to tighten its border controls. But Bulgaria's progress in integration has been hampered by its political and economic problems and by the continuing weakness of its administrative structures. The new government is committed tackling these.

B. CRITERIA FOR MEMBERSHIP

1. Political Criteria

The European Council in Copenhagen decided on a number of “political” criteria for accession to be met by the candidate countries in Central and Eastern Europe. These countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities”.

In carrying out the assessment required in this connection, the European Commission has drawn on a number of sources of information: answers given by the Bulgarian authorities to the questionnaire sent to them by Commission staff in April 1996, bilateral follow-up meetings, reports from Member States’ embassies and the Commission’s delegation, assessments by international organisations (including the Council of Europe and the OSCE), reports produced by non-governmental organisations, etc.

The following assessment involves a systematic examination of the main ways in which the public authorities are organised and operate, and the steps they have taken to protect fundamental rights. It does not confine itself to a formal description but seeks to assess the extent to which democracy and the rule of law actually operate.

This assessment relates to the situation in June 1997. It does not examine in detail any changes which have taken place since the fall of the Communist regime or which may come about in the future, though it generally takes account of any stated intention to reform a particular sector. The situation of the government is mentioned here only in passing: it will be examined in greater depth in chapter 4.

1.1 Democracy and the Rule of Law

In July 1991, Bulgaria adopted a new Constitution, marking the transition to parliamentary democracy. The Bulgarian institutions work smoothly, the various authorities being mindful of the limits of their powers and of the need for cooperation.

Parliament and Legislative Powers: Structure

Parliament consists of a single house - the National Assembly. Its 240 members are elected for four years by proportional representation. There are no rules specifically ensuring the representation of minorities. At the last elections, 15 members representing the Turkish minority were elected.

Under Article 99.5 of the Constitution, the President of the Republic can dissolve the National Assembly if it fails to form a government. He cannot, however, use this power during the last three months of his term of office. These provisions were applied in January 1997.

Members of Parliament enjoy a traditional array of immunities. Under Article 79.3 of the Constitution, the National Assembly can set up parliamentary select committees with extensive powers of investigation.

The fact that there were 34 political parties and groupings in existence at the time of the April 1997 General Election campaign shows that there is a genuine multi-party system in Bulgaria. Political parties receive State funding to help finance their election campaigns. The Bulgarian Constitution prohibits the setting up of political parties on an ethnic, racial or religious basis. This ban, however, did not prevent free participation in the elections and in political life by the "Movement for Rights and Freedoms" (MRF), which largely represents the interests of the Turkish minority. In December 1996 the Constitutional Court confirmed that the creation of this party was not unconstitutional.

Legislative power lies with the National Assembly, which shares its right of initiative with the Government. The Government has regulatory power when conferred only by legislation and for the purposes of applying the law. Individual ministers also have this power.

The National Assembly can decide to hold a referendum.

Functioning of Parliament

The elections of 1994 and 1997 were free and fair, and in both cases they resulted in a different party coming to power.

Parliament operates satisfactorily. Its powers are respected and the Opposition plays a full part in its activities.

The Executive: Structure

The President of the Republic is elected by universal suffrage, with majority voting in a double ballot, for a five-year term, renewable once only. He is assisted by a Vice-President elected at the same time. The President exercises the traditional prerogatives of a Head of State. He may ask Parliament to reconsider a law which it has adopted but the Council may override his veto by a simple majority vote of its members. The President of the Republic can be dismissed from office only for high treason or for violating the Constitution (Article 103 of the Constitution). The National Assembly must, by a 2/3 majority vote of its members, refer the matter to the Constitutional Court, which must then give its judgment on the proposed dismissal from office.

The Government is accountable to Parliament, which can bring it down by a simple majority vote of MPs. The Prime Minister is appointed by Parliament, on a proposal from the President of the Republic. Parliament appoints and dismisses ministers on a proposal from the Prime Minister (Article 84 of the Constitution); the ministers are also individually answerable to Parliament.

The administrative organisation of the country depends on nine decentralised regional arms of the central government in which the regional Governor coordinates action by the State. Bulgaria has only one type of local authority, the municipality, of which there are 255. Their governing bodies - the mayors and town councils - are elected for a four-year term. The law of 1991 gives the municipalities responsibility for managing local public services.

There is no Civil Service Act or regulations, though the Bulgarian Constitution requires such regulations to be introduced.

The army, the secret services and the police are under the control of the Government. A National State Security Council was set up in 1994: it has an advisory role and is chaired by the President of the Republic.

Functioning of the Executive

The main central institutions of the State operate smoothly, in spite of a certain instability at ministerial level due to the fact that there have been seven governments since 1990. The political crisis of December 1996 - January 1997 was resolved in accordance with the procedures laid down in the Constitution.

Although the Constitution provides for the autonomy of the local authorities, this autonomy is as yet limited, particularly on the financial level, since the local authorities are largely dependent on State funding. The new government has committed itself to giving the local authorities greater economic and financial independence.

Corruption is a serious problem in Bulgaria. The new government and the new President of the Republic have given priority in their work programme to combating corruption and organised crime. The fact that there is no Civil Service Act has made it easier for political parties to gain control of the Civil Service, and changes of government have been accompanied by changes at all levels of the administration. Considerable discretionary power and a lack of clarity in allocating responsibilities and powers among Civil Service departments has allowed corruption to take hold easily. Bulgaria must therefore introduce transparent public administration procedures particularly with regard to public contracts, and must establish a professional and impartial public service.

There appears to be insufficient control of the secret services and they are not accountable to Parliament for their activities. The only body playing a positive role in this field is the National Audit Office, which exercises financial control over these services. The new government has announced its intention of tightening civilian control over the secret services.

The Judiciary: Structure

The independence of the Bulgarian judiciary is guaranteed in a number of ways. Judges are confirmed in their posts after serving a three-year probationary period. Thereafter, they can be dismissed only if they have committed a crime or become incapable of carrying out their duties. Their work is overseen by the Supreme Council of the Judiciary, an independent body consisting of 25 members (11 elected by the National Assembly; 11 designated by the judiciary; the President of the Supreme Court of Cassation; the President of the Supreme Court of Administration; the Procurator General) which also has responsibility for managing the judiciary's budget. Similarly, the presidents of the Supreme Court of Cassation and the

Supreme Court of Administration are appointed for a seven-year term, which may not be renewed, by the President of the Republic acting on a proposal from the Supreme Council of the Judiciary. Judges may not be members of political parties and they enjoy the same immunities as members of Parliament.

The Supreme Council of the Judiciary plays the same role in respect of the procurators as it does vis-à-vis the judges. The Procurator General is appointed for a seven-year term, which may not be renewed, by the President of the Republic acting on a proposal from the Supreme Council of the Judiciary. The Procurator General is the guardian of legality and gives "procedural guidelines" to the procurators as a whole (Article 126 of the Constitution).

The monitoring and review of administrative measures is the task of the ordinary courts, whose decisions may be challenged before the Supreme Court of Administration which has just been set up.

Bulgaria has no Ombudsman.

The Constitutional Court comprises 12 judges appointed for a nine-year term which may not be renewed. The National Assembly, the President of the Republic and the Supreme Court each appoint four members of the Constitutional Court. It verifies the constitutionality of laws and treaties, judges presidential and parliamentary elections, settles conflicts which may arise between the various public authorities regarding their respective spheres of responsibility, and can give legally binding interpretations of the Constitution. Matters may be referred to it by one-fifth of the members of the National Assembly, the President of the Republic, the Government, the Supreme Court of Administration, the Supreme Court of Cassation, the Procurator General and, under certain circumstances, by town councils. There is no procedure whereby citizens can refer matters directly to the Constitutional Court. This is possible only where a dispute has already been brought before the Supreme Court, and then only at the latter's initiative (Article 150 of the Constitution).

Functioning of the Judiciary

The process of dispensing justice in Bulgaria is still marked by serious shortcomings. The courts are overburdened with work and take a long time to deliver their judgments, though Bulgaria has recently introduced an accelerated penal procedure for certain crimes. A shortage of qualified judges, low salaries, the complexity of legal procedures and a plethora of new rules to be applied all contribute to this situation. It is particularly serious where penalties and sentencing are concerned, as a number of procedures are not fully completed. The new government has included in its programme for 1997 - 2001 a section on reforming the judiciary.

Moreover, Bulgaria has still not set up the Supreme Court of Cassation provided for in the Constitution. In the meantime, the functions of this institution are being performed by the Supreme Court. Bulgaria should take the necessary steps to set up these institutions as soon as possible, so as to avoid prolonging an unsatisfactory state of affairs.

In recent years, the Constitutional Court has played a constructive role in ensuring that the Constitution is complied with and that the various institutions keep to their respective spheres of responsibility. Since 1990, the Court has given about 100 rulings.

1.2 Human Rights and the Protection of Minorities

Bulgaria has introduced various internal rules designed to ensure respect for human rights and minorities' rights. Such respect may also be guaranteed by the application of certain international conventions, most notably the European Convention for the Protection of Human Rights and its main additional protocols. Under Article F of the EU Treaty, this set of provisions forms part of the *acquis*: any State wishing to join the European Union must first have ratified the said texts.

Bulgaria, which has been a member of the Council of Europe since 1992, ratified the European Convention for the Protection of Human Rights and its additional protocols Nos. 1, 2 and 11 in September 1992. It also grants private individuals the right to appeal to the European Court if they consider that their rights under that Convention have been violated.

Among the other conventions on human rights and minorities' rights, Bulgaria has ratified the European convention for the prevention of torture. It has not, however, signed the European Social Charter or the Framework Convention for the Protection of National Minorities. It has signed but not ratified the main human rights conventions concluded under the aegis of the United Nations.

Under Article 5 of the Constitution, any duly ratified international treaty is directly incorporated into Bulgarian law and takes precedence over any provisions of national law which might conflict with it.

Civil and Political Rights

The Bulgarian Constitution recognises the right of any individual to have recourse to the judicial system to defend his or her rights. A system of legal aid makes it easier to implement this right: however, the Code of Criminal Procedure does not provide for the application of this rule during the preliminary hearing, and this effectively means that the poorest individuals are unable to obtain the services of a lawyer during this stage of the proceedings. Furthermore, victims of police violence cannot bring a legal action against the police if the Procurator's Office refuses to do so.

The death penalty has not been abolished in Bulgaria, but since 1990 it has been subject to a moratorium decreed by the President of the Republic.

Protection against arbitrary arrest is enshrined in the Constitution. The police cannot make an arrest without a warrant issued by the Procurator's Office. An exception may be made in an emergency, but in that case the judicial authorities must decide within 24 hours whether the arrest is legal or not. Preventive detention cannot exceed two months, but this period may be extended to six months by order of the Procurator General. It should also be noted that the detention of juvenile delinquents

in "Labour Education Schools" does not comply with the essential rules of judicial procedure, and in particular the *audi alteram partem* principle.

All citizens over 18 years of age enjoy electoral rights.

Freedom of association and demonstration is also guaranteed by the Constitution and is exercised without difficulty. In 1997 there are nearly 4 800 associations in Bulgaria. The tax arrangements for NGOs should be improved, particularly with regard to donations and other income received by such organisations.

Freedom of expression in Bulgaria is evidenced by pluralism in the press and other media: there are some 30 radio stations, three public broadcasting networks and a private national network as well as several private local television networks. The situation and independence of the audio-visual media was threatened when, in 1996, the National Assembly adopted a new law giving greater powers to the broadcasting regulators. However, the Constitutional Court censured much of this text, and a new law is now being drafted.

The impartiality of public radio and television in Bulgaria has often been questioned, since the Opposition was given much less air time than the governing majority not only during the presidential election campaign in November 1996 but also in the run-up to the April 1997 general election.

The right of ownership is now assured, and expropriation may take place only in the public interest and with fair compensation paid in advance. Arrangements for restoring their property - or, failing that, for paying compensation - to those who had been deprived of it under the Communist regime have been introduced in respect of claims registered before June 1993. The restoration of real estate in urban areas has been completed; the restoration of land, on the other hand, has been greatly delayed and the new government has undertaken to remedy this situation. The land register is still rather inaccurate and must be updated when restoration takes place. The restoration of property confiscated from various religious communities was begun in 1991 and is continuing apace without major difficulties.

Under Article 22 of the Constitution, foreign nationals cannot own land in Bulgaria, unless they have inherited it. The government has announced its intention of putting before Parliament, by the end of 1997, a proposal to amend the Constitution so as to allow land to be owned by nationals of countries which reciprocally grant the same right to Bulgarian citizens.

Respect for private life is guaranteed in Bulgarian law: searches cannot be undertaken without a warrant. However, the effective application of this legislation is considerably reduced by numerous exceptions to the rule and frequent abuses by the police.

Although Bulgaria has ratified the Geneva Convention on asylum-seekers, its national procedures do not meet international standards. A new law is being drafted to remedy this situation and to define more precisely the status and rights of asylum-seekers and refugees.

Several organisations have reported numerous instances of the police inflicting inhuman and degrading treatment on persons in detention. Judicial proceedings are not always initiated as a result of such incidents. Prison conditions are also extremely difficult, largely because of inadequate funding.

Where children's rights are concerned, living conditions for children in orphanages are still difficult because these institutions are short of money.

Economic, Social and Cultural Rights

The right to the minimum income required for survival and to social security is enshrined in the Constitution.

Trade union freedoms are guaranteed, and are respected in practice. Between 30% and 50% of workers are members of a trade union.

The right to strike is recognised by the Labour Code adopted in 1992, except within organisations providing essential public services. Political strikes were originally banned, but the Constitutional Court censured this provision in September 1996. The government places no obstacle in the way of this right, which is freely exercised in Bulgaria.

Freedom of education and religion are guaranteed in Bulgaria. The Constitution recognises the Eastern Orthodox confession as the country's "traditional" religion, but there is separation between Church and State (Article 13 of the Constitution). The State grants financial assistance to Bulgaria's main confessional groups, in particular Muslims, Catholics and Jews.

Minority Rights and the Protection of Minorities

Between 15% and 18% of the population of Bulgaria consists of minorities, principally Turks (9.4%) and gypsies (Romanies) (3.4% to 7% depending on estimates). Mention should also be made of the Pomak minority, consisting of Slavic-speaking Muslims.

Bulgaria has not signed the Council of Europe's framework convention on minorities, but has signalled its intention of doing so shortly. It has not subscribed to recommendation 1201 of the Parliamentary Assembly of the Council of Europe, which provides for the collective rights of minorities but is not legally binding.

The situation of the Turkish minority, which had suffered considerable discrimination before 1989 under the Communist regime, has improved very appreciably in the past few years. Its relations with the rest of the population also appear more harmonious. Some members of the Turkish minority sit in Parliament (fifteen Members of the MRF elected in April 1997). In the 1995 local elections, 25 MRF mayors and more than 1000 MRF town councillors were elected. The Turkish minority receives education in its own language. There are, however, no arrangements for allowing minorities to use their own language for official communications in areas where they represent a significant percentage of the population.

The gypsies (Romanies) continue to suffer considerable discrimination in daily life and are the target of violence either directly by the police or by individuals whom the police do not always prosecute. Their social position is difficult, though here sociological factors play a part alongside the discrimination they suffer from the rest of the population. One of the particular problems facing these people is the situation of the street children (4 000 to 5 000 in Sofia), virtually all of whom belong to this minority. The government should take appropriate steps to ensure that the specific difficulties of these people are genuinely taken into account. In this connection, it would be useful to carry out a reliable survey of the numbers of gypsies resident in Bulgaria and of their social situation (levels of unemployment, statistics on their health and educational level): no precise statistics of this kind are available at present.

1.3 General Evaluation

Bulgaria has set up democratic institutions and their stability now seems secure. They must be reinforced by practices more in keeping with the rule of law at all levels of the State apparatus. Free and fair elections produced changeovers of government in 1994 and 1997.

Shortcomings remain on respect for fundamental rights but the new government elected in April 1997 has announced a series of reforms in the right direction. Considerable efforts must be made to combat corruption, improve administration of justice and provide fuller protection for individual freedoms, particularly as cases of abuse of power on the part of the police and the secret services are still all too frequent.

Although the Turkish minority seems well integrated, this is not the case with the Romany (tzigane) population.

The improvements since the new government came to power suggest that Bulgaria is on the way to meeting the political conditions set by the European Council in Copenhagen.

2. Economic Criteria

In examining the economic situation and prospects of Bulgaria, the Commission's approach is guided in particular by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires "the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union".

This part of the Opinion therefore gives a concise survey of the economic situation and background, followed by a review of Bulgaria's progress in key areas of economic transformation (liberalisation of the price and trade system, stabilisation of the economy, structural change, reforms of the financial sector) as well as its

economic and social development. It then reviews the prospects and priorities for further reform, and concludes with a general evaluation of Bulgaria in relation to the criteria mentioned by the European Council.

2.1 The Economic Situation

Background

Bulgaria, with a population of 8.3 million, had a gross domestic product (GDP) of 35 billion ECU in 1995 (expressed in purchasing power parity) with a fall in the following year. Its population is thus about 2 percent of that of the Union, while its economy is only about 0.5 percent; GDP per capita is therefore about 24 percent of the Union average.

Average monthly wages were low at the equivalent of about 80 ECU per month in 1995. Exchange rate movements in 1996 and early 1997 drastically reduced the real value of wages: the average wage fell at one stage to as little as 10 ECU per month.

Bulgaria joined the WTO in 1996 and is seeking to become a member of CEFTA.

Progress in Economic Transformation

Bulgaria started its transition to a market economy later and under more unfavourable conditions than most central European countries. Economic reforms were not launched until 1991, by which time the country was undergoing a deep economic crisis. In March 1990, the country declared a moratorium on the servicing of its foreign currency debt, effectively cutting itself off from international finance.

Additional external shocks to the economy came from the break-up of the CMEA, with which Bulgaria conducted a particularly large share of its foreign trade, and from the Gulf War: Bulgaria had important commercial relations with Iraq. In the early stages of the reform programme a further external shock came in the form of the disintegration of Yugoslavia. The subsequent embargo on Serbia-Montenegro cut Bulgaria's main overland transit route to Western markets.

Bulgaria made a late but bold start to economic reform. In February 1991, prices of most goods were liberalised, subsidies were sharply reduced, a unified floating exchange rate was introduced, the state monopoly on foreign trade was abolished, and a two-tier banking system was created. Good progress was made also in establishing the legislative basis for a market economy: by mid-1992 much of the legal framework was in place, with the notable exception, however, of a bankruptcy law.

Structural change has been the weak point of Bulgaria's reforms. Initial progress in demonopolisation and restructuring state enterprises stalled in the absence of clear political support. Privatisation has been extremely slow. In the enterprise and financial sector, market disciplines remained largely absent. Central planning was abolished, but basic institutions of a functioning market economy, such as well-defined, readily enforceable property rights, were not put in its place. Six years into

its transition to a market economy, Bulgaria is still in the early stages of structural reform. Faced with looming domestic and external financial crises, the authorities attempted to relaunch structural reforms of the financial and enterprise sectors in mid-1996.

The government which took office following the April 1997 elections is unambiguously committed to rapid reforms. Progress will depend on how effectively the limited resources of the administration are able to operate largely untested legal procedures and provisions.

Foreign Direct Investment

Reflecting the slow pace of privatisation, and an unstable political, economic and legal climate, foreign direct investment (FDI) inflows have been low. Up to the end of 1996, cumulative FDI since 1989 amounted to under 400 million ECU - little more than 40 ECU per capita - reflecting an annual inflow averaging less than 1% of GDP (SOURCE: EBRD). In the first months of 1997 there has been a significant acceleration in FDI related in particular to privatisation of a number of large state enterprises.

Economic Structure

During the period of central planning, the state came to own virtually all the means of production, distribution and exchange, and accounted for almost all of the output of the economy. In comparison with most transition economies, the subsequent growth of the private sector has been relatively slow. In 1996, about 45% of GDP was privately generated.

The one exception to public ownership was agriculture. In this sector private plots leased from state collectives produced close to one-half of output, although they occupied only about 28% of farmland. Agriculture now contributes about 12.6% of Gross Value Added, but over one-fifth of total employment. Agriculture is a significant net earner of hard currency for Bulgaria: about one-fifth of exports are agriculture-based products, while such goods make up under one-tenth of imports.

Main indicators of economic structure (all data for 1996 unless otherwise indicated)		
Population	<i>million</i>	8.3
GDP per head	<i>PPS-ECU (1995)</i>	4200
as % of EU-15 average	<i>per cent (1995)</i>	24
Share of agriculture in:		
gross value added	<i>per cent (1995)</i>	12.6
employment	<i>per cent (1995)</i>	22.6
Gross foreign debt/GDP	<i>per cent</i>	99
Exports of goods & services	<i>per cent</i>	45 (1)

Stock of foreign direct investment	<i>billion ECU</i>	0.4
	<i>ECU per head</i>	40
<i>Source: Commission services, national sources, EBRD</i>		
<i>(1) 1995</i>		

Agricultural output has fallen substantially during the 1990s. A number of factors have contributed to this. Asymmetric price liberalisation freed prices of inputs, but left prices of farm produce subject to government intervention aimed at limiting consumer price rises. The land reform process has not taken place smoothly. Policy aimed at restituting agricultural land to its pre-collectivisation owners. While most land was rapidly restituted, farm machinery remained in the possession of farm collectives, which disposed of their assets in a haphazard manner. Moreover, allocation of definitive titles to land has lagged, so that individuals are unable either to sell land or use it as collateral. In 1995, amendments to the land restitution law sought to restrict private land sales, and gave priority to the re-establishment of co-operatives.

The inadequacy of agricultural policy in particular, and of economic reforms in general, became acutely evident in 1996 when a wheat shortage emerged. Policy now aims at rapidly remedying past errors. Land restitution and privatisation of the food processing industry are to be accelerated. Most food prices have been liberalised again.

Bulgarian industry remains dominated by state enterprise, with private firms accounting for under one-fifth of output; overall, little progress in restructuring or privatisation has been made. A recovery in output which took place in 1994 ran out of momentum towards the end of 1995. The pick-up in output had been concentrated in branches such as chemicals and metallurgy which were particularly energy-intensive and export-oriented: these branches were able to take advantage of subsidised energy and of the boost to external competitiveness provided by the sharp depreciation of the currency which occurred in Spring 1994. However, real appreciation of the lev during 1995 eroded away this price advantage. In 1996, weak international demand for metals resulted in Bulgaria being unable to take advantage of the renewed depreciation of the lev to boost exports. Moreover, from mid-1996 onwards, prices for oil and gas have been increased to world market levels, depriving Bulgaria's energy-intensive production of much of its competitiveness.

The artificially low prices charged for energy up until mid-1996 encouraged waste: Bulgaria is estimated to use two to four times more energy per unit of output than European Union economies. Pricing energy at an economic rate should reduce this disparity, as industry (and private consumers) cut back on their energy usage.

Restitution of urban property was completed at a relatively early stage of reform. This has resulted in a relatively dynamic private retail trade sector. The services sector (excluding transport and communications) has attracted a large share of the limited flows of foreign direct investment that Bulgaria has received during the transition period.

Public services have inevitably been weakened by the cutbacks in public expenditure that have taken place in recent years. Telecommunications services are poor; the intention to sell a majority stake in the state telecommunications company has been

announced, and should be followed by much-needed investment in upgrading the system. Several existing projects are beginning to produce results.

The banking sector, which is largely state-owned, suffered a deep crisis in 1996. The causes of this are discussed in section 6.5 below.

Liberalisation

Price Regime

Far-reaching price liberalisation was undertaken in 1991, and extended in 1992. By this time, almost all prices were in principle free of state control, except for energy and goods and services provided by public utilities. The prices of 13 basic food items were subject to “price monitoring”, although in practice this did not appear to restrict price increases for these goods.

The range of goods subject to this form of indirect control was extended, to cover about 30 items during 1993 and 1994. The Prices Act adopted by Parliament in September 1995 represented a step backwards with regard to market determination of prices, which is one of the fundamental institutions of a market economy. This law empowered the government to regulate prices of goods and services. In early 1996 it was estimated that approximately 50% of goods (weighted by their share in the consumer price index “basket”) were subject to some form of official monitoring or control. The artificially low price of wheat contributed to bread shortages in 1996 and 1997. Since early 1997, prices of most goods and services have been freed again.

Trade Regime

Since abolishing the state monopoly of foreign trade in 1990 and 1991 Bulgaria has maintained a liberal trade regime. There are virtually no quantitative restrictions on trade, other than for health and security reasons. A notable exception is a ban on wheat exports, introduced in 1994 and still in force. Inadequate implementation of this ban was another factor in the bread shortage.

Bulgaria has recently been accepted as a member of the World Trade Organisation (WTO), and is seeking to join the Central Europe Free Trade Association (CEFTA). In addition to the trade liberalisation provisions of the Europe Agreement, Bulgaria also has a free trade agreement with EFTA.

Faced with a deepening economic crisis, in mid-1996 the Government announced the imposition of an import surcharge, as part of its unsuccessful attempt to meet targets for the budget deficit agreed with the IMF under a stand-by arrangement. The surcharge is to be phased out over a period of four years.

Foreign Exchange Regime

On 1 July this year, Bulgaria introduced a fixed exchange rate under a currency board arrangement, pegging the lev to the deutsche mark. This replaced the floating exchange rate regime which was introduced at the outset of Bulgaria’s economic reforms in 1991. This initial decision to allow the currency to float, rather than to peg it to a hard currency “basket” was essentially pragmatic: the central bank had no reserves with which to defend a fixed exchange rate.

Although the foreign exchange market is very free, in that there are very few formalities involved in buying or selling foreign currency, the size of the market is quite small: the daily value of transactions has typically been about \$20 million or less. Partly in consequence, the floating exchange rate tended to follow a pattern of periods of stability (resulting in real exchange rate appreciation) interrupted by sudden depreciations. Particularly violent adjustments occurred in Spring 1994, and again from April/May 1996 until February 1997.

This instability in the exchange rate clearly caused difficulty for producers, consumers, and policy makers. However, in the absence of economic policies which could achieve lasting macroeconomic stability, a floating exchange rate policy was realistically the only option open to Bulgaria. Successful implementation of the currency board arrangement crucially depends in the short-term on supportive fiscal policy. Medium- and longer-term economic stabilisation and growth requires vigorous implementation of comprehensive structural reforms.

Stabilisation of the Economy

Domestic

After the initial price jump following liberalisation, inflation stabilised at a monthly rate of between 4 to 6 percent from 1991 to 1994. This pattern was disrupted by a temporary acceleration following the rapid exchange rate depreciation in Spring 1994. In 1995 and the first months of 1996, inflation slowed: the annual rate fell below 30%, helped by a prolonged period of exchange rate stability. The collapse in the exchange rate which started in April/May 1996 brought this favourable development to an end. Consumer prices rose by 310% in 1996. A deepening of the exchange rate crisis was followed by a short burst of hyperinflation in early 1997.

Gross domestic product (GDP) fell sharply during the first years of transition. Economic growth restarted in 1994, and continued into 1995. During the latter part of the year, there were increasing signs of a renewed economic slowdown. This intensified in 1996, when GDP fell by approximately 10%. The severity of the recession in the first months of 1997 was such that Bulgaria is expected to suffer another large decline in real GDP this year. Some recovery in output is, however, likely following the stabilisation of the economy during the second quarter of 1997.

Main economic trends		1994	1995	1996
real GDP growth rate	<i>per cent</i>	1.8	2.1	-10.9
Inflation rate				
annual average	<i>per cent</i>	96	62	123
December-on-	<i>per cent</i>	122	33	311
Unemployment rate, end-year	<i>per cent</i> <i>ILO definition</i>	20.5	14.7	13.7
General government budget balance	<i>per cent of GDP</i>	-4.9	-5.2	-11.5

Current account balance	<i>per cent of GDP</i>	-0.3	-0.2	-0.2
Debt/export ratio	<i>per cent</i>	220	151	159
Foreign direct investment	<i>per cent of GDP</i>	1.0	0.8	1.6
<i>Source: Commission services, national sources, EBRD,</i>				

Unemployment rose rapidly following the end of central planning, reaching 10% of the labour force by end-1991. Ceilings on overall wage bills in state enterprises resulted in substantial reductions in employment. Registered unemployment peaked at about 14% of the labour force in early 1994. It then declined to around 10%, before again starting to rise from mid-1996.

The public finances in the 1990s have been characterised by a steep fall in the ratio of government revenues and expenditures to GDP, and the persistence of large budget deficits, which averaged well over 10% of GDP from 1990 to 1993, before falling to around 6% in 1994 and 1995. Interest payments on both foreign and domestic debt are a major drain on the public finances: in 1996, interest payments amounted to over 20% of GDP. The budget deficit could only be held at around 10% of GDP in 1996 by severe cutbacks in spending: for example, pensions and public service wages were not adjusted in the final quarter of the year, during which time prices rose by more than 60%. The adoption of the budget for 1997 was delayed until mid-year, due to the political crisis and elections in the first months of the year, and the need to ensure consistency between the budget and the operation of the currency board arrangement. The 1997 budget foresees a deficit of 6.2% of GDP.

External

Only support from the international community enabled Bulgaria to avert a default on its foreign debt in 1997.

A lack of foreign currency reserves had already obliged Bulgaria to declare a moratorium on its foreign debt service in 1990. Agreement with the London club of private creditors on a debt and debt service reduction (DDSR) in 1994, while substantially reducing the burden of foreign debt, nonetheless left Bulgaria a quite heavily indebted country: the ratio of external debt to GDP was about 80% at the end of 1995. The shrinkage of the Bulgarian economy in 1996 brought this ratio to 100% again.

Debt service will remain a significant difficulty for Bulgaria in the medium-term, even if the pick-up in FDI inflows in the early months of 1997 continues over the coming years.

Structural Change

Foreign Trade

There has been a remarkable change in the direction of Bulgaria's trade. Trade with the EU accounted for as little as 5% of exports, and under 10% of imports in 1990. By

1996, the share of Bulgaria's foreign trade conducted with the EU had risen to about 35%.

At the outset of transition, Bulgaria conducted the vast majority of its external trade with the countries of the CMEA. According to some estimates over four-fifths of trade was with these countries, and as much as 60% of total trade took place with the Soviet Union. Moreover, the majority of Bulgaria's exports to CMEA countries were investment goods, which were not in demand in the initial stages of the recession in transition countries. The collapse of the CMEA hit Bulgaria particularly hard, therefore, and was compounded with the impact of Bulgaria's unilateral moratorium on debt service declared in 1990. The latter measure left Bulgaria without access to short-term trade credits. The aggregate consequence was a steep fall in trade flows, of the order of 50%.

Changes in the commodity composition of trade are difficult to assess for statistical reasons, but also appear to have been dramatic. Machinery exports have fallen substantially in relative terms, while chemicals and base metals accounted for close to 40% of exports in 1995, compared with no more than 30% in 1992. Much of the expansion in exports of these products was due to temporary factors, such as the large exchange rate depreciation of Spring 1994 allied with continued access to subsidised energy. The raising of energy prices to world levels in mid-1996 removed this artificial and unsustainable advantage. Despite the boost to price competitiveness given to Bulgarian exports in 1996 by the sharp exchange rate depreciation, export volumes have fallen sharply, perhaps by as much as 10-15%. A contributing factor to this fall is the disruption to economic activity caused by the collapse of the banking system, which is discussed in more detail in section 6.5 below.

Labour Market

A feature of the decline in unemployment which occurred in Bulgaria in 1994 and 1995 was that those leaving the register were in general those who were younger and more skilled. On the one hand, this was encouraging, in that it suggests that new jobs were being created in the economy. On the other hand, it points to the presence among those who remain unemployed of a large group of older, less skilled or unskilled workers who can be expected to face increasing difficulties in finding employment the longer they remain unemployed.

The relaunch of structural reforms in 1997 will place considerable pressure on active labour market policies. A substantial retraining effort will be needed for those who lose their jobs, or lack of suitably qualified labour could become an obstacle to economic growth. Moreover, the effective exclusion of significant segments of society from the benefits of higher wages and living standards could result in economic and social instability.

Public Finances

The share of government revenues and expenditures in GDP has shrunk considerably in recent years. Revenues fell from 53% of GDP in 1990 to less than 35% of GDP in 1996; expenditures declined from 65.7% of GDP in 1990 to under 50% in 1996, of which two-fifths was made up of interest payments. The primary balance

of the budget - i.e., excluding interest payments - has recorded large surpluses since 1994.

The drop in the share of GDP accounted for by government revenue and expenditure has been accompanied by substantial restructuring in the make-up of taxes and spending. Profit taxes and non-tax revenues have declined in relative importance, while indirect taxation (VAT took effect in 1994) has become a more significant source of revenue. On the expenditure side, there have been severe cuts in capital investment, and in maintenance and operating expenditure. Social transfers and interest payments, although they have remained approximately constant as a proportion of GDP, each accounted for approximately 25-30% of public expenditure up to 1995. The slow pace of implementation of the structural reform measures announced in mid-1996 appears in part to be due to inadequate resources in public administration, compounded by an absence of a strong political commitment to economic reform.

Enterprise Sector: Privatisation and Enterprise Restructuring

Slow privatisation and restructuring lie at the root of the difficulties of the enterprise sector in Bulgaria. In the absence of appropriate incentives for state enterprise managers, there was widespread decapitalisation, or "profits privatisation" of state enterprises. This is part of the reason why creditors have been unwilling to initiate bankruptcy proceedings: many state enterprises are likely to have very little value in liquidation. From a creditor's perspective, it has been more worthwhile to keep the enterprise afloat, in the hope that the state would assume responsibility for the enterprise's debts.

The slow pace of privatisation resulted partly from an excessive division of responsibilities between the government, line ministries, local authorities, the Privatisation Agency, and the Centre for Mass Privatisation, and partly from a lack of political will. The mass privatisation scheme which got underway in October 1996 has the potential to strengthen the constituency in favour of market reforms. A possible weakness of the scheme is that it leaves the state with a blocking minority of shares in most of the enterprises to be sold. In a radical departure from previous years, the current Government has pledged to privatise all commercial enterprises and half of the utilities during the first half of its term in office.

In some sectors of the economy, a large number of small private enterprises has developed. Branches such as construction and retail trade are now mainly comprised of small private firms. The development of the private sector has been stifled, however, by the situation in the state enterprise and financial sector, and by the state's need for loans to finance the budget deficit. This combination of circumstances has both limited the amount of funds available for lending to private companies, and has kept interest rates unaffordably high. It was not until 1996 that a serious attempt was made to tackle the problems caused by the continued existence of large loss making state enterprises: these efforts have begun to produce clear results.

Investment has fallen to very low levels: fixed investment accounted for under 15% of GDP in 1996. This fall can be ascribed to several factors: slow privatisation, coupled with a lack of incentives for managers to run state enterprises efficiently, poor lending practices in the banking system, a lack of funds for private investment, cutbacks in public investment, and uncertainty about economic policy. Successful

implementation of the new government's programme should remove or reduce most of these obstacles.

Financial Sector

The problems of the financial sector in Bulgaria are connected with the situation of the enterprise sector. Imprudent lending, poor supervision, and an absence of "hard budget constraints" - the idea that debts have to be repaid - resulted in mounting losses in these sectors, which derailed progress towards macroeconomic stabilisation. The stock of debt owed to banks by loss-making state-owned enterprises was estimated in late 1995 to be of the order of 20% of GDP.

In common with most of the countries in transition, the inheritance of central planning in Bulgaria included a burden of non-performing loans, and an absence of experience in assessing creditworthiness of borrowers. These difficulties were exacerbated by the slow pace of structural reform, and the inadequate and partial implementation of the reforms that have been attempted. Previous recapitalisations of banks were not followed by action to prevent a recurrence of bad debts.

This created an expectation that the state would ultimately bail out insolvent banks and firms - which spread to the private sector. Weaknesses in banking supervision and in legislation have contributed to the emergence of a private sector banking and enterprise "bad loans" problem also.

The Bulgarian National Bank (BNB), the central bank, while keeping interest rates high in support of the exchange rate, adopted a broadly accommodating attitude to these practices. Gaps in the regulatory framework, ineffective banking supervision, and perhaps a certain reluctance to act in isolation of structural measures in other parts of the economy, contributed to the central bank engaging in excessive uncollateralised lending to commercial banks to prevent their collapse. This contributed to the onset of the exchange rate instability in early 1996. When the BNB then froze uncollateralised credit, the weak state of the banking and enterprise sectors quickly became apparent. The assets of several banks were frozen and their operations suspended. Liquidation or bankruptcy procedures were initiated against a number of these banks. Delays in successfully concluding these proceedings have exposed weaknesses in the legal framework.

Those banks that remained open were for the most part in fragile condition. Lack of confidence in banks, due to their poor lending practices, left them without funds for even short-term lending. This had serious spillovers onto the enterprise sector. Firms were unable to borrow to finance imports of raw material inputs for export goods. This inability to purchase imports explains a large part of the fall in Bulgaria's exports in 1996. The resultant fall in income and output was a contributing factor to the deep economic recession.

Very high inflation in 1996 and the first months of 1997 caused a huge redistribution of wealth from creditors to debtors. The real value of enterprise debts and non-performing loans held by banks was greatly reduced.

The independence of the BNB was established by law in 1991, but subsequent amendments to the legislation somewhat undermined this independence. In late 1996, and again in 1997, it was legally obliged to provide large loans to the budget. This contributed to the surge in inflation.

Prior to the introduction of the currency board arrangement, the BNB had the normal range of monetary policy instruments at its disposal. However, the effectiveness of monetary policy was hampered by lax fiscal policy, the weakness of the banking system, and delays in structural reform in general. Under the currency board arrangement introduced on 1 July the BNB's scope for conducting discretionary monetary policy is severely restricted, since it is required to ensure that the amount of domestic currency in circulation is fully backed by its own holdings of foreign reserves. Successful operation of the currency board will be a key instrument in restoring economic stability.

Capital markets are underdeveloped. The equity market is in an embryonic state and cannot be viewed as an alternative source of finance for the corporate sector. State-owned insurance companies have a dominant share of the market, although some private companies have emerged. Foreign insurers have not yet entered the insurance market. The market for short-term instruments is limited to the interbank money market. Activity has declined as a result of the current problems of the banking system.

Economic and Social Development

Social Indicators

The population of Bulgaria is about 8.3 million. In recent years, the population has declined a little. The birth rate is below 9 per thousand, and falling, while the death rate has risen to over 13 per thousand. About one-fifth of the population is aged under 15, while about 15% are aged 65 or over. In broad terms, this is similar to the population structure of the EU.

Approximately half of the population has completed secondary education; the average adult has spent 9-10 years in formal education. As a result of the economic crisis, the health system is facing severe financial problems, leading to a shortage of medicines and medical instruments.

The economic crisis of 1996 and 1997 has had a drastic impact on the population. Public sector wages and pensions fell steeply, with serious effects on living standards. The share of income spent on food increased, and accounted for over half of household purchases. While households spent relatively more on food, consumption declined: compared with the same period of 1995, in the third quarter of 1996 per capita consumption of meat, eggs, fruit and vegetables was some 15% lower; only milk and potatoes were eaten in quantities little changed compared with 1995.

In late 1996, it was estimated that 40% of the population lived below the official poverty line. With the initial economic stabilisation since March 1997, the situation has improved to some extent. However, the income position of large sections of the population will remain difficult for a considerable period.

Regional and Sectoral Differences

Approximately two-thirds of the population live in urban areas. Standards of living are significantly higher in cities and towns, at least up to mid-1996: hyperinflation may have had less severe effects on rural dwellers, who may at least be able to grow food for their own consumption. Labour force participation rates are higher, and unemployment rates lower, in urban than in rural areas, so that a much larger proportion of the urban population is employed.

Standards of education are also substantially higher in towns and cities: almost three-quarters of the rural adult population have no education beyond primary level. The equivalent figure for urban dwellers is about 35%. Women tend to have less formal education, and have lower rates of labour force participation than men, but the differences are not substantial.

By mid-1996, significant regional variations in unemployment had emerged, with rates varying from well under 10% in larger urban areas to 20% and more in some rural and mountainous regions. The large-scale industrial restructuring which is now under way is likely to cause sharp jumps in regional unemployment rates, since much industrial employment is concentrated in single plants in one location. Such unemployment will also be sectorally concentrated, raising the prospect of regional concentrations of workers with outdated skills.

2.2 The Economy in the Perspective of Membership

Introduction

The European Council in Copenhagen in 1993 defined the conditions that the associated countries in central and eastern Europe need to satisfy for accession. The economic criteria are:

- _ the existence of a functioning market economy;
- _ the capacity to cope with competitive pressure and market forces within the Union.

These criteria are linked. Firstly, a functioning market economy will be better able to cope with competitive pressure. Secondly, in the context of membership of the Union, the functioning market is the internal market. Without integration into the internal market, EU membership would lose its economic meaning, both for Bulgaria and for its partners.

The adoption of the *acquis*, and in particular the internal market *acquis*, is therefore essential for a candidate country, which must commit itself permanently to the economic obligations of membership. This irreversible commitment is needed to provide the certainty that every part of the enlarged EU market will continue to operate by common rules.

The capacity to take on the *acquis* has several dimensions. On the one hand, Bulgaria needs to be capable of taking on the economic obligations of membership, in such a way that the single market functions smoothly and fairly. On the other hand, Bulgaria's capacity to benefit fully from the competitive pressures of the

internal market requires that the underlying economic environment be favourable, and that the Bulgarian economy have flexibility and a sufficient level of human and physical capital, especially infrastructure. In their absence, competitive pressures are likely to be considered too intense by some sections of society, and there will be a call for protective measures, which, if implemented, would undermine the single market.

The capacity and determination of a candidate country to adopt and implement the *acquis* will be crucial, since the costs and benefits of doing so may be unevenly spread across time, industries and social groups. The existence of a broad based consensus about the nature of the changes to economic policy which membership of the Union requires, and a sustained record of implementation of economic reforms in the face of interest group pressure reduce the risk that a country will be unable to maintain its commitment to the economic obligations of membership.

At the level of the public authorities, membership of the Union requires the administrative and legal capacity to transpose and implement the wide range of technical legislation needed to remove obstacles to freedom of movement within the Union and so ensure the working of the single market. These aspects are examined in later chapters. At the level of individual firms, the impact on their competitiveness of adopting the *acquis* depends on their capacity to adapt to the new economic environment.

The Existence of a Functioning Market Economy

The existence of a market economy requires that equilibrium between supply and demand is established by the free interplay of market forces. A market economy is functioning when the legal system, including the regulation of property rights, is in place and can be enforced. The performance of a market economy is facilitated and improved by macroeconomic stability and a degree of consensus about the essentials of economic policy. A well-developed financial sector and an absence of significant barriers to market entry and exit help to improve the efficiency with which an economy works.

Failure to build on the promising initial start to market reforms means that in many areas Bulgaria is little advanced compared with its situation at the outset of transition six years ago. It is hard to imagine a more telling symbol of the distance Bulgaria still has to travel to a market economy than the reappearance of bread queues in the recent past.

As far as price liberalisation is concerned, early reforms were partially reversed in 1995. It is only very recently that prices have been liberalised again.

Hyperinflation in the early months of 1997 resulted in a massive redistribution of wealth from savers to borrowers. One side-effect has been to improve the health of the banking and enterprise sectors, though they remain quite weak. To a large extent, the financial system is dysfunctional. It has not fulfilled its essential market economy role of financial intermediation between savers and investors. Rather, much of the activity of banks has appeared to entail extending new loans to keep afloat enterprises which are in arrears on outstanding debt.

Part of the reason for this behaviour on the part of banks and enterprises lies in the absence of strong legal institutions. In a market economy most contentious issues in relations between economic agents can be settled without involving courts. This is possible because there is a widely shared understanding of what the rules are, as well as certainty that they will be implemented if necessary. In Bulgaria, this element of a market economy has been largely lacking. In particular, repeated state-initiated write-offs of bad debts created an expectation on the part of both borrowers and lenders that the state would continue to come to the rescue. This may explain why the bankruptcy law adopted in 1994 remained inoperative until the state moved against the most insolvent banks and enterprises in 1996.

Inadequately defined property rights resulting from delays in land restitution hampered the development of Bulgarian agriculture, and effectively prevented the emergence of a land market. Experience following energy price increases in 1996 shows that people's behaviour may respond to price changes in unexpected ways when there are no effective mechanisms to enforce payment.

Institutional and political instability, in particular the absence of a general consensus on the elementary legal basis underlying economic activity and on the general direction of economic policy, has created a climate of uncertainty.

Even in the absence of formal obstacles to private enterprise, such an economic climate will discourage new ventures. The inadequacy of the banking sector has further limited opportunities for domestic entrepreneurs.

When institutional instability is compounded with acute economic instability as was the case in Bulgaria during much of 1996 and early 1997, much activity essential for the functioning and development of a market economy stops. The uncertainty created by very high and variable inflation provides poor incentives for saving and investment, and thus weakens the future prospects of the country.

Because of the weakened state of the public finances, public administration lacks resources. Tax collection is poor. The slow pace of land restitution is in part due to administrative weaknesses. Line ministries seem unable to exercise adequate control over state enterprise managers.

The Capacity to Cope with Competitive Pressure and Market Forces

It is difficult, some years ahead of prospective membership, and before Bulgaria has adopted and implemented the larger part of Community law, to form a definitive judgement of the country's ability to fulfil this criterion. Nevertheless, it is possible to identify a number of features of Bulgaria's development which provide some indication of its potential to cope with competitive pressure and market forces within the Union.

The capacity to cope with competitive pressure and market forces within the Union requires a stable macroeconomic framework within which individual economic agents can make decisions in a climate of a reasonable degree of predictability. There must be a sufficient amount of human and physical capital including infrastructure to provide the background so that individual firms have the ability to adapt to face increased competitive pressures in the single market. Firms need to

invest to improve their efficiency, so that they can both compete at home and take advantage of economies of scale which flow from access to the single market. This capacity to adapt will be greater, the more firms have access to investment finance, the better the quality of their workforce, and the more successful they are at innovation.

Moreover, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union ahead of accession. The more integrated a country already is with the Union, the less the further restructuring implied by membership. The level of economic integration is related to both the range and volume of goods traded with member states. Direct benefits from access to the single market may also be greater in sectors where there are a sizeable proportion of small firms, since these are relatively more affected by impediments to trade.

Delays in Bulgaria's transition to a market economy have left it badly placed to cope with competitive pressure. The transformation of Bulgaria's centrally planned economy into a market economy able to prosper within the Union will require substantial investment over many years in modernising the country's productive capacity, as well as major improvements in physical infrastructure. Although Bulgaria is developing its telecommunications network, much of the equipment remains obsolete and telecommunications services need to be developed. Similarly, the rail and road systems have suffered from a lack of investment, notwithstanding major investment projects set up since 1991. Changing skill requirements, and adapting public administration to the requirements of the single market, will necessitate large investments in people. Although Bulgaria has a tradition of high standards in education, the sector today is acutely short of the resources necessary to develop a system capable of responding to society's needs.

Low levels of investment, both private and public, have been a marked feature of Bulgaria's transition. Poor economic performance in general, linked to inadequate progress in restructuring, has reduced tax receipts. Combined with lax fiscal policy, this created a large domestic government debt. Resources used in servicing this debt could not be used for public investment. The reasons for low levels of private investment are more widespread and fundamental and are grounded in the general weaknesses in key institutional features which a market economy requires.

Potential investors in Bulgaria have faced an unfavourable economic and institutional climate. With the exception of much of 1995 and the early months of 1996, inflation in Bulgaria has been high and frequently quite variable from month to month. Legislation in some areas has been subject to frequent revision, implementation of legislation incomplete. Delays in land restitution and in first the adoption and then the implementation of the bankruptcy law have already been mentioned. The law on ownership and use of farmland has been amended over 10 times. Tax treatment of foreign investment has been modified.

The frequent changes have left economic agents uncertain and unable to plan their activity. Uncertainty about whether property rights can be enforced has discouraged investment. Failure to impose "hard budget constraints" on firms, due to weaknesses in both the banking system and in public administration (tax collection), added to state interference in the determination of prices, provided managers of state enterprises with distorted incentives. Consequently, restructuring has been too slow, so that single firms dominate large segments of industry.

The overall atmosphere of uncertainty which has been created by persistent political instability and an ambiguous attitude to market reforms has helped to create a climate in which corruption can thrive. Civil servants' involvement in the management of state enterprises creates a potential conflict of interest with their responsibilities to implement government policy.

Developments in Bulgaria's economy during 1996 revealed serious weaknesses in the competitiveness of its industrial base. The sectors which contributed most to the positive export performance in 1995 were shown to depend for their competitive advantage on artificial, unsustainable conditions.

The first of these was cheap energy: the prices paid by Bulgarian enterprises for fuel and power were heavily subsidised until mid-1996. The second advantage arose from the sharp depreciation of the lev which occurred in Spring 1994. However, the real appreciation of the currency during 1995 eroded this temporary competitive boost. Other things being equal, the precipitous fall of the lev in 1996 might have been expected to give a renewed impetus to exports. That this did not happen was due to some extent to a relative slowing of economic activity in the Union. However, this should not obscure the key issue, which is that the development of sustainable international competitiveness cannot be based on a continuously and rapidly depreciating currency. This is particularly relevant in the context of potential membership of the Union.

Bulgaria's relatively weak competitive position is also linked to a narrow industrial base: exports have been unduly concentrated in a small number of basic industrial goods. This situation is related to the gaps already identified in the country's transition to a market economy.

Improvements in competitiveness have also been slowed by very low levels of foreign direct investment (FDI). In those countries which have progressed furthest in transition, FDI has played a substantial role in modernising productive capacity, thereby improving efficiency and competitiveness. In addition to the factors already identified which have discouraged investment in general, the slow pace of privatisation has reduced the supply of investment opportunities for foreign capital.

FDI can be a significant source of technology transfer and innovation. This is particularly important in transition economies, as domestic funds for Research & Development (R&D) will be limited both by cutbacks in public spending and by economic restructuring in general. Bulgaria has attracted a small amount of FDI, and reported R&D spending has fallen by a factor of almost 3 since the late 1980s. R&D activities also appear to have suffered from an uncoordinated approach to policy, including a lack of incentives for private research. There has been a significant "brain drain" from the sector.

As a consequence of the uneven progress which Bulgaria has made with market reforms, the country is now in an economically weak position. Developments in 1996 showed that even with the benefit of a dramatic improvement in price competitiveness following the steep currency depreciation, Bulgarian products were largely uncompetitive on international markets.

Prospects and Priorities

Faced with the prospect of national bankruptcy for the second time within a decade, the authorities have recently stated their firm commitment to serious and far-reaching structural reform. The fact that the temporary measures during the past six years have failed demonstrates the fundamental need for a sustained and consistent reform effort.

Bulgaria's future membership of the European Union will require that short-term stabilisation measures currently being undertaken are followed up by forceful implementation of a comprehensive strategy for the medium-term development of the country. The Commission has initiated discussions with the Bulgarian authorities which should lead to the elaboration of such an approach. Good progress in implementation of the Europe Agreement should also help smooth the transition to membership of the Union.

Lack of progress in implementing market-oriented economic reform means Bulgaria faces challenges in a broad range of policy areas.

A first and immediate priority is to achieve solid macroeconomic stability. Once this has been realised, the Government needs to set about consistent implementation of stability-oriented economic policies, both at macroeconomic and structural level.

In agriculture, priority should be assigned to completing the land restitution process and removing any bureaucratic obstacles to the functioning of the land market. Agricultural wholesale markets and agro-food enterprises need to be privatised and opened to competition. Price and trade policies should be such as to promote investment by farmers in future production.

Previous inability to impose discipline on state enterprises and banks through non-market means suggests very strongly that rapid privatisation should be a priority. This will need to be accompanied by the completion and strengthening of market economy institutions. The current procedures for winding up banks and enterprises are lengthy. The legal framework should be examined to ensure that it provides creditors with adequate means of enforcing their claims; it will also be necessary to strengthen the capacity of the courts.

Investment is at very low levels. Correcting the circumstances which have led to this situation - essentially, an unstable political, legal and economic environment - is a pre-requisite if Bulgaria is to be able to make progress in improving its productive capacity and bringing its industry to a level where it could hope to withstand competition within the Single Market.

Investments in transport infrastructure need to be directed at enabling Bulgaria to profit from its potentially significant role as a transit country.

Attracting greater flows of foreign direct investment will be facilitated by consistent and transparent implementation and application of legislation. In this regard, removing the constitutional bar on foreign land ownership would provide a positive signal. FDI will be crucial to the substantial restructuring required in most sectors of industry. FDI, apart from its usual benefits, brings particular advantages to Bulgaria, since investors may use the bonds issued by Bulgaria as part of the DDSR as part payment in privatisation transactions; this diminishes the stock of outstanding debt, and so reduces future debt service.

Large budget deficits over the past years have represented a sizeable drain on domestic savings, thereby absorbing resources which could be used to finance productive investment. Successful implementation of the currency board arrangement will constrain the authorities' room for manoeuvre in the area of fiscal policy. Improved taxation of the private sector would help the health of the public finances. This implies increasing resources allocated to tax collection. In the short-term, rapid and successful stabilisation will lower interest rates, creating substantial savings on debt service.

If enterprises are to compete effectively they need a well-trained labour force. The large scale restructuring that the Bulgarian economy needs implies considerable changes in the nature of employment, and in the type of skills which will be demanded by employers. This poses a substantial challenge to the educational system, whose capacity to respond to the economy's needs is constrained at present.

Competitiveness would also be improved by the development of an R&D policy which encourages technical innovation and development, in particular by providing incentives in the private sector.

Active labour market policies will also have an important contribution to make in facilitating the sectoral restructuring of employment. Developing and implementing policies aimed at ensuring that the long-term unemployed do not become in effect detached from the labour force, and limiting any further increase in their numbers should be a priority area of labour market policy. This is all the more important in view of the likelihood that the relaunch of structural reform will initially result in increased unemployment.

Full implementation of the Government's economic and structural reform programme will substantially address these challenges.

2.3 General Evaluation

Bulgaria's progress in the creation of a market economy has been limited by the absence of a commitment to market-oriented economic policies. Early liberalisation of trade and prices was partially reversed, and price controls were not removed until this year. It is only since the crisis at the end of last year, and the recent change of government, that consensus about the desirability of economic reforms has begun to develop.

Bulgaria would not be able to cope with competitive pressure and market forces within the Union in the medium term. If the authorities can translate their renewed commitment to economic transition into successful and sustained action, a rapid turnaround in Bulgaria's prospects is possible. However, the country has been set back by six largely wasted years. Incomplete reform has hampered the emergence of a modern agricultural sector. Slow privatisation and economic instability has weakened state enterprises and delayed the development of a dynamic private sector.

3. Ability to Assume the Obligations of Membership

The European Council in Copenhagen included among the criteria for accession “the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union”.

In applying for membership on the basis of the Treaty, Bulgaria has accepted without reserve the basic aims of the Union, including its policies and instruments. This chapter examines Bulgaria’s capacity to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

With the development of the Union, the *acquis* has become progressively more onerous, and presents a greater challenge for future accessions than was the case in the past. The ability of Bulgaria to implement the *acquis* will be central to its capacity to function successfully within the Union.

The following sections examine, for each main field of the Union’s activity, the current and prospective situation of Bulgaria. The starting-point of the description and analysis is a brief summary of the *acquis*, with a mention of the provisions of the Europe Agreement and the White Paper, where they are relevant. Finally, for each field of activity there is a brief assessment of Bulgaria’s ability to assume the obligations of membership on a medium-term horizon.

3.1 Internal Market Without Frontiers

Article 7a of the Treaty defines the Union’s internal market as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation of the liberties enshrined in the Treaty requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national regulations - as clarified by Court of Justice rulings - but also concomitant, effective application of a series of common specific provisions. These are designed, in particular, to provide , notably in terms of safety, public health, environmental and consumer protection, public confidence in the services sector, appropriately qualified persons to practise certain specialist occupations and, where necessary, introduction or coordination of regulatory and monitoring mechanisms; all systematic checks and inspections necessary to ensure correct application of the rules are carried out on the market, not at frontier crossings.

It is important to incorporate Community legislation into national legislation effectively, but even more important to implement it properly in the field, via the appropriate administrative and judicial structures set up in the Member States and respected by companies. This is an essential precondition for creating the mutual trust indispensable for smooth operation of the internal market.

his chapter must be read in conjunction with, inter alia, the chapters on social policy, the environment, consumer protection and sectoral policies.

The Four Freedoms

A step-by-step approach is being taken to absorption of the *acquis* by the candidate countries:

- The Association Agreement between the Community, its Member States and Bulgaria entered into force on 1 February 1995. With regard to the four freedoms and approximation of legislation, the Agreement provides, in particular, for immediate or gradual application of a number of obligations, some of them reciprocal, covering, in particular, freedom of establishment, national treatment, free trade, intellectual property and public procurement.
- The Commission's 1995 White Paper (COM (95) 163 final) guidelines intended to help the candidate countries prepare for integration into the internal market gives a closer definition of the legislation concerned. It identifies the "key measures" with a direct effect on the free movement of goods, services, capital and persons and outlines the conditions necessary in order to operate the legislation, including the legal and organisational structures. Twenty-three areas of Community activity are examined, dividing the measures into two stages, in order of priority, to provide a work programme for the pre-accession phase. The Technical Assistance and Information Exchange Office (TAIEX) was set up with the objective of providing complementary and focused technical assistance in the areas of legislation covered in the White Paper. A legislative database has recently been established by the Office.
- The candidate countries will have to implement all the *acquis*. The Action plan for the single market submitted to the Amsterdam European Council gives details of the priority measures necessary to make the single market work better between the Fifteen in preparation for introduction of the single currency. This will inevitably entail changes to the *acquis*.

- General Framework

Whatever their field of activity, undertakings must be able to operate on the basis of common rules. These are important since they shape the general framework within which economies operate and, hence, the general conditions of competition. They include the rules on competition (on undertakings and State aid) and tax measures discussed elsewhere in this opinion, the opening-up of public works, supply and service contracts, harmonisation of the rules on intellectual property (including the European patent), harmonisation of the rules on company law and accountancy, protection of personal data, transfer of proceedings and recognition of judgments (Article 220 Conventions)

Descriptive Summary

Public procurement in Bulgaria is at present governed by a newly adopted Law on public and municipal procurement contracts. Concessions are regulated by a law of

1996. The enforcement is entrusted to the Council of Ministers, while supervision and monitoring is carried out by the National Audit Office. Following its accession to WTO on 1 December 1996, Bulgaria has started negotiations on accession to the WTO Agreement on government procurement.

Bulgaria has adopted legislation on the protection of intellectual and industrial property especially in patent (1993) and copyright (1993) and has acceded to nearly all relevant international conventions in this respect. Bulgaria undertook to implement the TRIPS (trade related aspects of intellectual property rights) agreement with immediate effect by its WTO accession in December 1996.

Company law is primarily governed by the Commercial Code, introduced in 1991 and subsequently amended. Bulgarian law recognises a range of enterprises falling into two broad categories: associations of persons and associations of capital. In June 1996, around 45,000 limited liability companies were registered. Companies may issue shares to raise finance; shareholders are protected by law. Minimum capital requirements are laid down by law. Creditors are adequately protected. District courts keep company registers containing the key material facts concerning each company; these data are open to the public. Annual reports are published in the Official Gazette.

With regard to accounting, rules on annual and consolidated accounts are to be found in the *Accountancy Act* (1991, last changed in 1996), the national schedule of accounts and 31 National accounting standards. All regulatory acts have been based on the EC Directives and international accounting standards. There are rules concerning auditors in the Accountancy Act as well as in a regulation. Since the last amendment of the Accountancy Act, the Institute of Certified Public Accountants represents the Bulgarian auditors. A Disciplinary Commission appointed by the Minister of Finance is responsible for supervision.

With regard to the protection of data, Article 32 of the Bulgarian Constitution provides that the privacy of citizens shall be inviolable and that they shall be entitled to protection against any illegal interference in their private or family affairs.

Current and Prospective Assessment

Further efforts will be needed to adopt all the relevant *acquis* in public procurement.

In general the new law does not provide a sufficient basis to assess whether the scope of the different directives has been respected, particularly as regards services and utilities. Furthermore, as regards technical requirements and technical/financial capacity the law is not very detailed. At present, Bulgarian firms (or EU firms with subsidiaries located inside Bulgaria) obtain preferential treatment as regards the award of public procurement contracts.

Firms located in the EU will get equal access only after the expiry of the transition period set out in the Europe Agreement (31 January 2005, at the latest). In addition, remedies and review procedures do not seem to be fully compatible with the EC requirements.

Whereas further amendments to the Law on public procurement are envisaged to be completed in 1997, the actual application is still hampered by the lack of implementation procedures and the generally low public awareness in the area of public procurement. Complete harmonisation is expected to be achieved in the medium term.

Special efforts are necessary to improve the protection of intellectual and industrial property. On patent laws some progress has been achieved; for trademarks, copyright and neighbouring right, important progress has to be made. With regard to enforcement, certain efforts, especially border enforcement for copyright, have been undertaken. However, also in this area, important progress is required, notably because of weakness of internal control and border enforcement for industrial property. Under the Europe Agreement (Art. 67) Bulgaria has to align its legislation by the end of 1997. Piracy still remains an important concern.

In relation to company law, Bulgaria's legislation appears to be to a large extent, if not entirely, in conformity with the First, Second and Third Directives. The legislation does not appear to be fully in line yet with the Eleventh and Twelfth Directives. Problems exist on the implementation of company law, due to insufficient knowledge and experience in the judiciary on company and commercial law issues. This holds particularly for company insolvency proceedings under the commercial code, which include new procedures in which the courts select and appoint trustees. Law enforcement is also hampered by deficiencies in laws relating to privatisation and concessions.

As regards accounting, a high degree of conformity with the Directives has already been achieved but the profession's compliance with the legislation needs to improve. In auditing, changes are planned in particular to raise qualification requirements.

Certain transitional problems are in evidence relating to the implementation in practice of the new rules, including a shortage of qualified accountants and auditors, an issue which requires major efforts for it to be solved in the medium term.

On the Protection of Personal Data, a draft law and a new law concerning the telecommunication sector aim to achieve compliance with Directive 95/46/EEC. An independent monitoring authority is foreseen. Accession to Convention No 108 of the Council of Europe can only be achieved after the adoption of these legislative measures.

Conclusion

In the sectors indicated above, Bulgaria has taken on several important directives and has drafted laws for several others. Important efforts on the implementation of the White Paper recommendations are still needed. Bulgaria will need to make a strong effort to align its legislation and practice to the EU requirements in the field of public procurement as well as intellectual and industrial property.

As far as company law is concerned, there would not appear to be any major problem with Bulgaria's implementing the *acquis*. As regards accounting and auditing, an important effort is needed for ensuring the practical application of the existing legislation.

Considerable efforts are still needed to adopt and implement measures to meet Community requirements on data protection.

- Free Movement of Goods

Free movement of goods can be achieved only by removing measures which restrict trade — not only customs duties and quantitative restrictions but all measures with equivalent, i.e. protectionist, effect, irrespective of whether or not they are specifically aimed at domestic or imported products. Where technical standards are not harmonised, the free movement of goods must be ensured by applying the principle of mutual recognition of national rules and accepting the rule that national specifications should be no more stringent than is required to achieve their legitimate objectives. This rule was established in the *Cassis de Dijon* judgment.

For the purpose of harmonisation, the European Community has developed the “New Approach” which introduces an approach carefully balanced between government and private autonomous bodies and in which European Community legislation and European standards play a distinct complementary role. Thus, instead of imposing technical solutions, European Community legislation is limited to establishing the essential requirements which products must meet.

Products manufactured in accordance with European standards are presumed to meet such essential requirements, but European standards are not the only way to prove such conformity. The “New Approach” works in conjunction with the “Global Approach” on product certification which governs the apposition of the “CE Mark” on the product. For other products such as pharmaceuticals, chemicals, motor vehicles, and food products, European Community directives follow the traditional regulatory pattern of providing fully detailed rules.

The free movement of goods also dictates that a number of Community harmonisation measures be transposed into national law. Implementation of health and safety harmonisation rules is particularly important and requires the establishment of appropriate mechanisms and organisations, both for businesses and the authorities.

Two of the “horizontal” directives essential to smooth running of the single market are the Directive on general product safety and the Directive on liability for defective products. The regulations concerning general product safety are covered in the section on consumer protection.

The rules on agricultural products (compliance with veterinary and plant-health standards) are explained in detail in the section on agriculture.

Descriptive Summary

Since 1990 Bulgaria has followed a general policy of trade liberalisation and recently started to fully liberalise prices. The conditions for a secure and transparent legislative environment for private economic operators are being achieved gradually. There are very few discriminatory measures in place at the moment.

No significant problems exist concerning the implementation of the conditions for the free movement of goods relating to Article 8 to 37 of the Europe Agreement. Several quantitative restrictions and measures having an equivalent effect have been

abolished by Bulgaria ahead of schedule. The customs clearance fee will be abolished as from 1 January 1998.

Concerns remain over the effectiveness of government institutions involved in the implementation of laws and regulations compatible with the Europe Agreement and the *acquis*.

The area of standardisation and conformity assessment is the responsibility of the Committee for Standardisation and Metrology, a state body under the Council of Ministers with a mix of policy and executive functions for standardisation, certification, accreditation and metrology; the Committee is an affiliate member of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC).

Current and Prospective Assessment

Despite Bulgaria's generally good record on trade issues, efforts remain needed for the full adoption and implementation of the *acquis* related to the free movement of goods within the internal market. The approximation of technical legislation has witnessed a slow start although, according to the Strategy paper submitted in May 1996, alignment of major measures is planned for 1998. While progress on the New Approach directives and the chemical sector is limited, some progress has been achieved in the fields of foodstuffs and automobiles; for the latter sector complete alignment is expected by the year 2000. Technical legislation on pharmaceuticals has attained a good degree of approximation. Secondary legislation remains necessary to implement the general legislative framework. Further efforts are also required for the full alignment of trade mark law, marking, labelling and the safety of products.

Current legislation on standardisation is not in line with the EU system.

Draft legislation exists in the fields of standardisation and conformity assessment. Once adopted, this legislation will substantially improve conformity with the EU system and clarify the voluntary nature of standards in Bulgaria.

The administrative structures for standardisation and conformity assessment need reinforcement in order to implement the future legislation. Clarifications are needed as to the future status of the Committee for Standardisation and Metrology, notably in regard to its independence in executing standardisation measures. Difficulties arising from lengthy administrative procedures have been resolved in the context of the Europe Agreement.

At the moment the concept of civil liability for damage caused by defective products does not exist in the Bulgarian civil code, which, therefore cannot meet the Community requirements in this field.

In the areas subject to national rules and not covered by Community harmonisation, there is too little information available to assess whether Community legal principles on the free movement of goods are properly applied in Bulgaria.

The situation is explained, in particular, by the fact that the reporting procedures which form part of the internal-market machinery are not yet operational and so cannot be used in the pre-accession period. The most important instruments in this

connection are: Directive 83/189, requiring governments to report draft national technical standards and regulations; Decision 3052/95 on measures derogating from the principle of the free movement of goods; procedures by which complaints can be submitted to the Commission; and Article 177 of the Treaty, enabling Member States to ask for preliminary rulings from the Court of Justice. It is also hard to assess whether Bulgaria complies with the principle of mutual recognition; more information is required on its national rules, and on administrative practices, which can have an effect on product sales.

Conclusion

Bulgaria's record on the implementation of its commitments on free movement of goods under the Europe Agreement is generally good. However, the Bulgarian authorities should also ensure that, in areas not covered by Community harmonisation, their own national laws do not hamper trade. In particular, they should check that measures are proportionate to their objectives. Although there are positive indications, a considerable effort remains needed before the *acquis* will be fully and effectively implemented by Bulgaria.

Free Movement of Capital

The Europe Agreement establishes the principle of the free movement of capital between Bulgaria and the EU. This, as far as the obligations of Bulgaria are concerned, applies from the entry into force of the Europe Agreement as regards direct investments made by companies already established in Bulgaria; and as regards branches and agencies of community companies (as well as the self employed), gradually during the transitional period.. According to the Agreement the parties shall consult each other with a view to facilitating the movement of capital between the Community and Bulgaria in order to promote the objectives of the Agreement.

The White Paper highlights the link between the free movement of capital and the free movement of financial services. It suggests a sequence of capital liberalisation, starting from long-term capital movements and those linked to commercial operations and subsequently focusing on short-term capital.

Descriptive Summary

The Bulgarian Constitution provides that foreign capital enjoys the same legal protection as capital of nationals. International capital flows between Bulgaria and the Union are still relatively modest. Foreign investment flows to Bulgaria were low up to the end of 1996 but have since picked up. Cumulative FDI inflows during 1989-96 are estimated at 400 MECU. To attract foreign investment important legislation has been put in place and a Foreign Investment Agency has been set up.

The Lev is convertible for current account transactions. Regarding capital movements, foreign direct investment is free in general. An authorisation is required if investments are undertaken in sectors that are considered sensitive. Profits and invested capital can be repatriated in convertible currency.

Restrictions exist on the acquisition by foreign physical persons or foreign legal persons of real estate in Bulgaria, except through legal inheritance. Possibility for non residents to acquire land (except agricultural land) exists through the establishment of a company in the country.

Non-residents may maintain accounts in Leva and foreign currency. The crediting and debiting of foreign currency accounts, as well as transfers abroad from these accounts, are free from restrictions. Licensed banks may borrow abroad without the authorisation of the National Bank and residents may keep foreign currency deposits in Bulgaria.

Outward capital movements require prior permission by the Bulgarian National Bank.

The establishment of branches of EU investment firms as well as access to official listings for EU issuers has not been regulated so far. The incorporation of non-domestic subsidiaries of EU investment firms is made subject to the general provisions laid down by the Securities, Stock Exchanges and Investment Companies Act.

Current and Prospective Assessment

The intention of the Government is that the removal of restrictions on capital movements will follow the approach adopted and commitments undertaken in the Europe Agreement. The latter provides for the possibility to maintain restrictions on outward direct investment during the first five years from its entry into force, and gradual liberalisation of the rest of capital transactions.

Restrictions exist regarding the acquisition of real estate by foreigners, notably resulting from the Constitutional prohibition of foreign ownership of land. While being compatible with the Europe Agreement, these restrictions hamper the free flow of capital. There are also administrative and procedural difficulties in relation to the registration of companies.

Conclusion

Bulgaria has introduced currency convertibility for most current account transactions but limited liberalisation of capital movements. The liberalised capital transactions concern exclusively inward capital movements. A relaxation of restrictions, notably on outward capital movements, can be envisaged only once durable improvement is achieved in the financial situation and performance of the banking sector and in function of the process of economic stabilisation and structural reform.

Free Movement of Services

The basis of the free movement of services is the prohibition of discrimination, in particular on grounds of nationality, and rules on the alignment of divergent national legislation. These rules often concern both the right of establishment, which comes under the heading of the free movement of persons, and the freedom to provide services. Their implementation implies the establishment of administrative structures (banking control boards, audio-visual control authorities, regulatory bodies) and greater cooperation between Member States in the area of enforcement (mutual recognition arrangements).

A substantial amount of the legislation applicable to the free movement of services relates to financial services. It also concerns the problems relating to the opening-up of national markets in the sectors traditionally dominated by monopolies, e.g. telecommunications and, to a certain extent, energy and transport. These subjects will be dealt with in the sections of the Opinion specifically referring to them.

Descriptive Summary

The Bulgarian banking sector is relatively fragmented. Seven state banks represent more than two thirds of total assets; 16 banks are under special supervision or are undergoing bankruptcy procedures demanded by the National Bank.

Most legislation for Phase I measures is considered consistent with the requirements of the relevant EC directives. The main regulatory framework consists of the Law on Banks and Credit Activity and the National Bank Regulations No 2 on bank licensing, No 8 on the Capital Adequacy of Banks and the Law on State Protection of Deposits and Accounts combined with the National Bank's Regulation No 1 on Bank Deposit Insurance. Phase II measures have been enacted only partially. A Law on measures against money laundering was adopted in 1996 but is not fully compatible.

Supervision of banks is the responsibility of the Bank Supervision Department of the National Bank.

Bulgaria's most important legislation concerning trade in securities comprises the Securities, Stock Exchanges and Investment Company Act (SSEICA) as well as the foreign persons economic activity and foreign investment companies act, which entered into force in 1996. A draft law is ready on commodity exchanges and market places.

The provision of professional investment services is subject to a licensing procedure. Investment brokers must comply with specific requirements in support of market stability and investors' interest. Credit institutions may also act as investment intermediaries on the basis of their "universal license". In fact the banks play a major role in the market as the profession of brokers/dealer is only emerging.

The establishment of branches of EU investment firms as well as the access to official listings of EU issuers has not been regulated so far. The incorporation of subsidiaries of EU investment firms is made subject to the general provisions laid down by the Securities, Stock Exchanges and Investment Companies Act.

The Commission on Securities and Stock Exchanges, established under the 1996 Securities, Stock Exchanges and Investment Companies Act, exercises control over transactions on the security market.

Legislative changes from 1989 enabled the establishment of private sector insurance companies. An Insurance Act and a Regulation on Mandatory Insurance entered into force in 1997. Together with the protection of Foreign Investment Act, the Insurance Act regulates Bulgarian and foreign insurance companies. The insurance act states that "a foreign insurer may carry on insurance only through a branch whose registered office is in Bulgaria", if he is registered pursuant to the Commerce Act and has a licence from the Insurance Supervision Department, the supervisory body with the Ministry of Finance. Foreign persons may also participate in companies and acquire shares after obtaining permission from the Supervision Department. A

majority of participation by foreign insurers is possible after a period of seven years. These measures are part of a policy for gradual liberalisation of the insurance market. The level of activity by foreign insurers has so far been limited.

Current and Prospective Assessment

During 1991-1993, a number of banking laws and prudential regulations were passed setting strict standards for the sector. While to a certain extent in accord with the Union system, the requirements for solvency and bad loan provision set out in these laws have not been achieved, largely due to the economic and banking crisis. In relation to the White Paper measures, for two out of four Stage I measures for credit institutions legislation needs to be amended, whilst all Stage II measures require new legislation.

The Government is undertaking a complete restructuring of the financial sector, including the setting up of a currency board arrangement, a rationalisation of bank licensing, a strengthening of accounting and external auditing provisions, a new law on bank insolvency, provisions for the strengthening of the National Bank's Bank Supervision Department and a review of the National Bank's regulations on capital adequacy, loan classification and liquidity. In this connection, rapid progress on legislative approximation can be expected during 1997 in such areas as bankruptcy procedures, deposit insurance and banking supervision. The enforcement of the banking laws and prudential regulations by the Bulgarian National Bank requires substantial efforts, including with regard to staff training.

The implementation of the White Paper directives as regards the securities markets is still incomplete, notably as regards most of the Stage II measures. However the Bulgarian authorities have prepared some draft regulations which should fill the gaps significantly, if not totally. The Bulgarian securities market is still at an early phase of development, and affected by deficiencies concerning organisation and regulation of the market as well as by a lack of transparency in the financial market. The existing privatisation funds are to be transformed into investment companies or in collective investment undertakings, which still have to be established. An official Bulgarian stock exchange will be set up before the end of the year. In the last year about 15 private unregulated exchanges were operating which have been closed by the Commission on Securities and Stock Exchange.

While the legal monopoly of the state insurance companies has been dismantled, a private insurance market characterised by fair competition still needs to develop. Government policies will need to include measures for guaranteeing the transparency of the private insurance market. To this end, in June 1997 the Government approved a draft amendment to the Insurance Act which will establish a National Insurance Council with the aim to introduce a stable and transparent insurance system and to provide security for clients and citizens. The Insurance Supervision Department in the Ministry of Finance will need to be given the corresponding powers; where needed adequate follow-up needs to be provided by the judiciary and law enforcement bodies.

Conclusion

While there is some progress in the financial services area and a clear commitment exists on the part of the authorities to undertake further steps, the full adoption of the *acquis* is dependent on the implementation of the economic and structural reform

programme, including the strengthening of the supervisory structure, for which several steps have recently been undertaken. The process will require a sustained effort over several years before Bulgaria's financial system will be able to sustain the impact of integration in the internal market.

Free Movement of Persons

The free movement of persons encompasses two concepts with different logical implications in the Treaty. On the one hand, Article 7a in Part One of the Treaty on 'Principles' mentions the concept in connection with the establishment of the internal market and implies that persons are not to be subject to controls when crossing the internal frontiers between the Member States. On the other hand, Article 8a in Part Two of the Treaty on 'Citizenship of the Union' gives every citizen of the Union the individual right to move and reside freely within the territory of the Member States, subject to certain conditions. The abolition of frontier checks must apply to all persons, whatever their nationality, if Article 7a is not to be meaningless. While the rights deriving from Article 8a apply in all Member States, those stemming from Article 7a have never been fully applied throughout the Union.

a) *Free Movement of Union Citizens, Freedom of Establishment and Mutual Recognition of Diplomas and Qualifications*

The Europe Agreement provides for the non-discriminatory treatment of workers that are legally employed (as well as their families). It covers the possibility of cumulating or transferring social security rights, and encourages member states to conclude bilateral agreements with Bulgaria on access to labour markets. During the second phase of the transitional period, the Association Council will examine further ways of improving the movement of workers.

The White Paper considers the legislative requirements in order to achieve a harmonious development of the labour market, whilst simultaneously preventing distortions of competition.

The free movement of workers is one of the fundamental freedoms enshrined in the Treaty; freedom to practise certain professions (e.g. in the legal and health fields) may, however, be subject to certain conditions, such as qualifications. Depending on the case, these may be dealt with through coordination or by applying the principle of mutual recognition.

Freedom of establishment is also guaranteed under the Treaty and covers the economic activity of self-employed natural persons and companies.

The free choice of place of residence may thus be subject to minimum conditions as to resources and health insurance where the person does not exercise a profession in the country concerned.

Descriptive Summary

The Constitution grants all foreigners residing in Bulgaria the same rights and obligations as those of Bulgarian citizens, with the exception of a few specific areas for which Bulgarian nationality is required. While equal treatment is guaranteed by the Constitution, in practice Bulgaria deploys a relatively restrictive immigration

policy. In general, work permits are granted for a period of one year, extendible for a further two years, and on the basis of full-time employment.

The Ministry of Education is the competent body for diplomas of higher education and for academic recognition. As regards the *acquis* concerning mutual recognition of diplomas Bulgaria has made alignment efforts in respect of the relevant directives.

Current and Prospective Assessment

There are no specific legal provisions determining the rights of entry and residence enjoyed by a worker's family, securing rights of residence in the case of voluntary or involuntary cessation of work and for the taking up of alternative employment in the case of unemployment (voluntary or otherwise). The grounds cited for the refusal of a work permit do not yet meet EU provisions governing mobility of the work force stemming from Article 48. Family employment rights appear unduly restrictive; any right of appeal needs to be dealt with at the administrative level and not in a court of law. There are only few measures seeking to encourage the occupational and social integration of the worker or his/her family; this is reflected in the restrictive conditions applying to participation in the country's educational system.

Little experience exists as to co-operation between Bulgaria and EU Member States as regards mutual recognition of diplomas and professional qualifications. For higher education qualifications, a National Accreditation and Assessment Agency was set up in 1995, preparing the ground for mutual academic recognition. A similar body for vocational qualifications does not exist. A systematic analysis of the equivalence between Bulgarian and Member State professional curricula still needs to be carried out, once the relevant information to be provided by Bulgaria has been examined. A major effort will be required to take up the *acquis* in the medium term and ensure its effective enforcement.

Conclusion

The transposition and implementation of the *acquis* are very limited. Notwithstanding progress in several areas, a major legislative, policy and administrative reform effort is required in order that Bulgaria can accomplish the full *acquis* on the free movement of persons within the medium term.

(b) Abolition of Checks on Persons at Internal Frontiers

The free movement of persons within the meaning of Article 7a of the EC Treaty, i.e. the abolition of checks on all persons, whatever their nationality, at the internal frontiers has not yet been fully implemented in the Union. Doing away with checks on persons is conditional on the introduction of a large number of accompanying measures, some of which have yet to be approved and implemented by the Member States (see separate section on Justice and Home Affairs). However, that objective has been achieved by a limited number of Member States in accordance with the Schengen Convention (seven Member States already apply it and another six are working towards implementation).

The draft Treaty aims to make that objective easier to achieve within the Union by including a new chapter on "an area of Freedom, Security and Justice" and incorporating the Schengen *acquis* into the EU.

Bulgaria has stated its desire and readiness to fulfil the provisions of the Schengen *acquis*. It has begun preparations to this end and has sought assistance in this connection from Member States, notably in regard to the strengthening of border controls.

General Evaluation

1. Bulgaria's progress in the implementation of legislation relating to the White Paper is summarised in a table annexed. According to the table, Bulgaria considers that by 30 June 1997 it will have adopted national implementing legislation for 126 of the 899 directives and regulations in the White Paper. That figure covers provisions for which Bulgaria considers it will have adopted implementing legislation or which it will have checked for compatibility with Community rules and does not prejudge actual compatibility as such, on which the Commission is not able at this stage to state an opinion.

2. In all areas of the internal market Bulgaria's legislation is only very partially in line with the *acquis*. The scale of the progress still required will call for extremely strenuous, sustained efforts, both on approximation of legislation and on the establishment of structures to implement it.

Complete restructuring of the financial sector to restore the indispensable public and investor confidence is the top priority and is recognised as such by the Government.

3. Generally, the weakness of the Bulgarian authorities is a major problem, calling into question both the pace and quality of the moves on approximation of legislation. At the moment the structures essential for implementation of the internal market legislation lack the capacity to do their job. The same reservations apply to the capacity of businesses, particularly small firms, to implement the *acquis*.

4. Leaving aside certain specific aspects relating to agriculture, checks at the internal frontiers of the Union can only be abolished once sufficient legislative harmonisation has been achieved. This calls for mutual confidence, based in particular on sound administration (e.g. the importance of safety checks on some products at the place of departure). As far as goods are concerned, the completion of the internal market on 1 January 1993 was only achieved by doing away with all the formalities and checks performed by the Member States at the internal borders of the Union. In particular these checks covered technical points (in particular, product safety), veterinary, animal-health and plant-health matters, economic and commercial matters (e.g. prevention of counterfeiting of goods), security (weapons, etc.) and environmental aspects (waste, etc.). In most cases, the abolition of checks was only made possible by the adoption and application of Community measures harmonising the rules on movement and placement on the market (particularly as regards product safety) and, where applicable, by shifting the place where controls and formalities within the Member States or on their markets are conducted (in particular as regards VAT and excise duties, veterinary and plant-health checks, and the collection of statistics). A section of Bulgaria's present borders will become the Union's external frontier and this means border checks will need to be stepped up (see separate section on customs).

In view of the overall assessment that can be made of progress achieved to date and the rate at which work is advancing in the various areas concerned, it is difficult at present to put a time-scale on Bulgaria's ability to take over and implement all the

instruments required to abolish internal border checks and to transfer those checks to the Union's external frontier.

5. Bulgaria has yet to adopt fundamental elements of the *acquis* relating to the single market. Considerable efforts will be necessary to enable it to adopt and implement the internal market legislation and to set up the mechanisms needed to apply it.

At the moment, it is not possible to envisage that Bulgaria could be capable of participating fully in the internal market in the medium term.

Competition

European Community competition policy derives from Art. 3 (g) of the Treaty providing that the Community shall have a *system ensuring that competition in the internal market is not distorted*. The main areas of application are anti-trust and state aid.

The Europe Agreement provides for a competition regime to be applied in trade relations between the Community and Bulgaria based on the criteria of articles 85 and 86 of the EC Treaty (agreements between undertakings/abuses of dominant position) and in article 92 (state aid) and for implementing rules in these fields to be adopted within three years of the entry into force of the Agreement. Furthermore it provides that Bulgaria will make its legislation compatible with that of the Community in the field of competition.

The White Paper refers to the progressive application of the above provisions and those of the Merger Regulation (4064/89) and of Art. 37 and 90 (Monopolies and Special Rights).

Descriptive Summary

The current legislative basis for competition legislation is the ***Law for the Protection of Competition*** (May 1991) which contains the basic clauses on restrictive practices, abuse of dominance, merger control and rudimentary provisions on procedural rules. A new draft Protection of Competition Act (PCA) aims to create with more precision the conditions for free enterprise in all sectors, free pricing and the protection of consumer interests. It will also provide protection against the abuse of a dominant market position, as well as against unfair competition and other actions that may have a restrictive effect on domestic markets.

The 1991 Law established the ***Committee for the Protection of Competition (CPC)***, which is charged with the enforcement of Bulgaria's competition policy.

On 25 October 1996, the monitoring body on state aids was established under the Ministry of Finance. But no rules have been laid down as to its functioning.

The existing state aid inventory represents a step towards transparency. Nevertheless, more information is needed as regards global amount granted, breakdown by sectors, objectives, form of aid given and more particularly the financial relations between the State and state-owned companies.

Current and Prospective Assessment

The conditions for economic competition do not fully exist for the moment. The establishment of the Committee on the Protection of Competition has been slow; its enforcement mandate and budgetary resources need to be strengthened.

As regards **public undertakings and undertakings with special and exclusive rights**, some sectors are advancing faster than others. The liberalisation of telecommunications is underway, while other sectors, such as transport, postal services, energy policies in this direction have been formulated. The power sector, alcohol, oil, salt and coal mining are still State monopolies of a commercial character.

In the field of **state aid**, Bulgaria does not, at this stage, meet the requirements of a credible state aid control. No rules for the monitoring of state aid exist for the moment and the transparency required in the granting of state aid has not yet been achieved. It is therefore not possible to examine whether the state aid granted is compatible with the Community state aid rules. Since 1996 progress has been made. State aid to the 135 main loss-making state-owned enterprises and public undertakings (representing around 78% of total losses by state-owned companies in 1995) have been substantially reduced and rendered transparent where still granted. Prices of services delivered by the public utilities for electricity, gas, liquid fuels, water and telecommunications have been raised to cost-recovery levels; state subsidies still exist for district heating and public transport. It will be necessary to set up a monitoring authority whose role and powers will be clearly defined; a substantial effort needs to be made to establish a state aid inventory in accordance with Community practice.

In addition to the adoption of legislation sufficiently approximate to that of the EC, **credible enforcement** of competition law requires the establishment of well functioning anti-trust and state aid monitoring authorities. It requires moreover that the judicial system, the public administration and the relevant economic operators have a sufficient understanding of competition law and policy.

Conclusion

In the field of **anti-trust**, Bulgaria has made some progress with the institutional and legislative requirements. Nevertheless, the implementation enforcement and control of the legislation will require sustained structural reforms.

In the field of **state aid** progress has been limited in all aspects, despite improvements since mid-1996. Considerable efforts are necessary to meet the requirements of a credible control of state aid, in particular as regards transparency in the granting of state aid and the establishment of a well-functioning monitoring authority on state aid with sufficient powers to monitor state aid and a sufficiently qualified staff.

It appears, moreover, that in certain **sectors exclusive or special rights** exist which are not compatible with the Community *acquis*. These problems should be addressed in the near future.

Close cooperation with the Commission will be necessary.

3.2 Innovation

Information Society

Present Situation

The economic and social effects made possible by the combination of information technology and telecommunications are great. Although Bulgaria played a prominent role in the Comecon's information technology production, these possibilities proved not effective due to lacking technological and manufacturing innovation. Nonetheless before 1989 general education was a priority. The result seems to be that demand for computers has spurted beyond normal expectations given the level of GDP per capita. The existence of host computers on the Internet (25,000 equivalent to 0.4 per 1000 inhabitants) as a relative measure of development towards the IS, suggests that Bulgaria has not yet reached the positions which the average EU country has reached two years ago. If Internet connections follow the same pattern of growth, the telecommunications infrastructure, which is at present about seven years behind the EU average, may remain a brake on IS developments.

Conclusion

As the approach to early liberalisation is hesitant and the GDP per capita is one of the lowest in the region, it can be expected that the Information Society potentialities will be realised later than the average CEECs.

Education, Training and Youth

Articles 126 and 127 of the EC Treaty provide that the Community shall contribute to the development of quality education and implement a vocational training policy aimed at promoting the European dimension in education and at enhancing industrial adaptation and the responsiveness of the labour market through vocational training policies.

The Europe Agreement provides for co-operation in raising the level of education and professional qualifications. The White Paper includes no measures in this field.

Descriptive Summary

Bulgaria's spending on education amounts to 4.0 % of GDP. It takes 1.6 % of the state budget.

There are 1,190,000 pupils, 240,000 students and 105,000 teachers in Bulgaria.

A main problem facing the education and training system relate to Bulgaria's severe economic problems, which have meant dwindling budgetary allocations (from 6.1% of GDP in 1992 to 4.5% in 1995) and have on occasion even led to acute cash shortages for the operation of schools, the provision of school books and the payment of teachers' salaries.

The budget problem has not prevented steps being taken to reform the educational system at all levels. Key statutory instruments have been the State Educational Requirements of 1991 (objectives and entitlements in the educational sphere), the Academic Autonomy Act of 1990 and the Higher Education Act of 1995. The latter

formed the basis for The National Agency for Assessment and Accreditation for higher education, set up in 1996, and for the transformation of semi-higher education institution to higher education establishments and their rationalisation. Curricular change within secondary and post-secondary education focuses on introducing a stronger vocational emphasis monitored by the Regional Educational Inspectorates.

A serious challenge exists in continuing vocational training, as a result of the closure of training centres within state-owned enterprises and in view of the rise in unemployment. Programmes have been established to integrate young persons into the job market and to combat the phenomenon of school drop-outs and social exclusion.

The Tempus programme has contributed to the achievement of the goals of higher education reform and created the basis for cooperation with the EU higher education institutions.

About 14 % of the total population of Bulgaria is aged between 15 and 25. Bulgarian youth organisations have been involved in European youth activities since 1990. From 1995, youth cooperation with Central Europe was included in the Youth for Europe programme.

Current and Prospective Assessment

The main challenges for the education and training system are to continue the positive structural, financial and curricular reform initiatives developed over the past years, despite the very adverse budgetary and economic environment. Specific areas requiring attention are the further reform of the financing of education and training, efforts for upgrading the knowledge and skills among teachers as well as investments in education infrastructure.

The efficiency of the vocational training system will depend on the identification of economic and labour market trends and active labour market policies based on the principles of life-long learning. A special effort remains needed to combat through training the social exclusion of young persons and of the newly unemployed. Social dialogue on education and training requires strengthening.

Bulgaria's ability to fully benefit from the relevant Community programmes will depend on the Bulgaria's economic development situation and the consequent improvement of the financial position of the education and training sector.

Conclusion

In the perspective of accession, no major problems should be expected in these fields.

Research and Technological Development

Research and Technological Development activities at Community level, as provided for by the Treaty and in the Framework Programme, aim at improving the competitiveness of European industry, the quality of life, as well as supporting sustainable development, environmental protection, and other common policies.

The Europe Agreement and its additional Protocol provide for co-operation in these areas, notably through participation in the Framework Programme. The White Paper includes no direct measures in this field.

Descriptive Summary

Government support is channelled to the institutes of the Academy of Sciences and higher education establishments and to funding schemes under the Ministry of Education, Science and Technology and the Ministry of Industry.

Total expenditure in this field was 0.62 % of GDP in 1995 (down from 1.13 % in 1993) and the number of personnel witnessed a decrease of about 18 % over the period 1990-95. A major decline occurred in the number of researchers employed in industrial research units.

Private sector initiative is limited and basic and applied research is to a predominant extent conducted in the country's Academies of Sciences, public research institutes or research units or state-owned enterprises.

Regular cooperation with the European Community started in 1992 with the 3rd Research and Technology Development Framework Programme. So far, cooperation was mainly concentrated on COPERNICUS (Specific Programme for Cooperation with CECs and NIS) and remains low for participation in the 4th Framework Programme.

The statistics in this field are not yet compatible with OECD standards.

Current and Prospective Assessment

There has been so far a lack of strategic direction of policy. The existing infrastructure and research institutions have suffered greatly from the lack of economic reforms. Policies are needed to stimulate innovation and the creation of small and medium enterprises, and to provide the fiscal environment to encourage technological innovation and development.

Bulgaria will need to reflect on the organisation of the sector, which at present is very centralised, and take the necessary administrative and financial measures to promote and further encourage participation in EU programmes.

Consideration should also be given to the criteria governing the distribution of grant funding from central government, proper evaluation and co-ordination of projects within both public and private sectors, and the production of relevant statistics.

The biggest challenge for Bulgaria is to diminish to the wide-ranging presence of the state in the economy. Unless drastic economic reforms are undertaken, the structures will continue to depend on governmental decisions and financial support. The competitiveness of the whole system remains weak and does not allow full participation of Bulgarian scientists in international cooperation activities.

Conclusion

Making Bulgarian research and technological development efficient and competitive at European level will need greater efforts. Nevertheless, in the perspective of accession, no major problems should be expected in this field.

Telecommunications

The objectives of EC telecommunications policy are the elimination of obstacles to the effective operation of the Single Market in telecommunications equipment, services and networks, the opening of foreign markets to EU companies and the achievement of universally available modern services for EU residents and businesses. These are achieved through harmonisation of the standards and conditions for service offerings the liberalisation of the markets for terminals, services and networks and the adoption of necessary regulatory instruments. The Directives and policies needed to achieve this have now been established, but the liberalisation of public voice telephony and operation of related infrastructure will be deferred for a year or two after 1998 in certain member states.

The Europe Agreement provides for co-operation aimed at enhancing standards and practices towards EC levels in telecommunication and postal policies, standardisation, regulatory approaches and the modernisation of infrastructure. The White Paper focuses on the approximation of regulation, networks and services, followed by further steps ensuring gradual sector liberalisation.

Descriptive Summary

Two state-owned companies exist, the Bulgarian Telecommunications company (BTC) and the Bulgarian Postal Company (BPC). These companies are supervised by the Committee on Posts and Telecommunications (CPT) which is a government body equivalent to a Ministry, but without representation in the Council of Ministers.

BTC has exclusive rights until 1 January 2005 over access to the telecommunications network, and until 1 January 2003 over provision of voice telephony services. There are two licensed operators for mobile telephony services (an analogue and a digital network with around 40,000 subscribers), which have to use the infrastructure owned by BTC; the bidding procedure for a second GSM network is under preparation. Three national and five regional paging operators as well as three data transmission operators have been licensed after a tender process.

Bulgaria has a relatively well developed telecommunications network, with a telephony penetration rate of 37.5% as of January 1997 (about 40% planned for the year 2000). The average waiting time for a telephone connection is 18 months. Much of the equipment is of an obsolete electro-mechanical design which now needs to be comprehensively replaced. Investment in digitalisation has begun (2.8 % digitalisation was achieved by March 1997) but tariff revenue is not sufficiently high to permit quick progress. The government plans to reach current EU levels of penetration and digitalisation within fifteen years. This can only be achieved with economic rebalanced tariff rates, further liberalisation, competition and investment. The government has decided to privatise a majority share of BTC, probably over 50% starting in early 1998.

BPC is obliged by law to deliver letters, parcels, money orders and to distribute newspapers and magazines. Several national and international operators are offering profitable international courier services and the delivery of periodicals in big towns without any obligations. This situation causes financial losses to the national

operator. Competition needs to be better regulated. BPC will need increased revenues in order to maintain a universal service and compete effectively.

Current and Prospective Assessment

Degree of Liberalisation

According to the commitments at the WTO negotiations in 1997, the Government will abolish the exclusive rights of the Bulgarian Telecommunications Company (BTC) over access to the telecommunications network by 1 January 2005 and for the provision of voice telephony by 1 January 2003. There are two licensed operators for mobile telephony, one for an analogue and one for a digital network (GSM). The award of a license for a second GSM network is planned but no time schedule has been indicated yet. Three national and five regional paging operators as well as three data transmission operators have been licensed. Furthermore, three companies are providing public pay phones and six operators are providing VSAT services. The Government has decided to partially privatise BTC for a majority share.

Approximation to EC Law

A new draft telecommunications law will be submitted to the new Parliament in July 1997 and is expected to be adopted later this year. The draft law provides for a new regulatory authority which will be under the supervision of the Committee on Posts and Telecommunications (CPT). The future law introduces a licensing regime and universal service and interconnection principles. These provisions will have to be checked for their compatibility with EU regulation after the final version of the draft has been submitted to Parliament. For the time being licenses are granted on the basis of two decisions of the previous caretaker Government giving a licensing authority to the CPT for a temporary period. Under the present conditions, simple resale of leased line capacity and the provision of voice telephony to closed user groups are not allowed.

The current administrative capacity necessary for issuing new regulation to adapt to the *acquis* and to implement this regulation in practice, in particular to monitor fair competition, seems insufficient. However, it is possible that the creation of a new regulatory authority after adoption of the law will improve the efficiency of the regulatory function.

Infrastructure

From 1991 to 1996, telephone service penetration increased from 25 lines for 100 inhabitants to 37 per 100. It is planned to reach 40 lines per 100 by the end of the year 2000. Investment in digitisation is progressing slowly and only 2.27% of the network was digitised by the end of 1996. Much of the equipment is of an obsolete electro-mechanical design which now needs to be comprehensively replaced. The number of subscribers for mobile telephony service at the end of 1995 was about 20,500 equivalent to 0.23% penetration rate. There are 75,000 cable TV subscribers served by 87 licensed regional operators, equivalent to 1.28 CATV lines per 100 inhabitants.

Foreign investment in the sector is rather limited, concentrating on the following medium sized companies: BETKOM Company (50.9% BTC and 49.1% a UK company) and BULFON Company (34% BTC and 66% a Greek company) operating public pay phones; Sprint Business Telecommunications Company for data transmission services owned 40% by BTC and 60% by a USA company Radio Telecommunication Company owned 51% by Bulgarian companies and 49% by a UK company.

Competitiveness of the Sector

In 1995 there were 9.4 employees per 1000 lines (average in Ireland, Portugal and Greece is about 6.2). In 1996 the unsatisfied applications for a telephone line stood at high level and the average waiting time is 18 months. The price of a standard line for business communications (252 ecu) is at a low level compared to the prices in the region. The revenue per line at the end of 1995 (70 ecu) was among the lowest in the region and was an obstacle to network modernisation and expansion. Since early 1997, tariffs have been set and are adjusted monthly - to achieve full cost recovery and to maintain an adequate level of investment and an inadequate operating ratio. Nevertheless it is doubtful whether BTC's targets for increase of telephone penetration and network digitisation rates can be achieved. This will also make the operator very vulnerable to a future introduction of competition in infrastructure and voice telephony.

Conclusion

Bulgaria would have difficulties in adopting the EU model of telecommunications liberalisation because of the slow development of its telecommunications sector and of delays in the field of regulatory reform. The competitiveness of the public network operator will crucially depend on a substantial increase in foreign investment and an in-depth internal restructuring, aiming in particular at improving the commercial flexibility of the company.

Audio-visual

The audio-visual *acquis* aims, in the context of the Internal Market, for the provision and free movement of audio-visual services within the EU as well as the promotion of the European programme industry. The Television Without Frontiers Directive, which is applicable to all broadcasters regardless of the modes of transmission (terrestrial, satellite, cable) or their private or public nature, contains this *acquis*, setting down basic rules concerning transfrontier broadcasting. The main points are: to ensure the free movement of television broadcasts throughout member states; to promote the production and distribution of European audio-visual works (by laying down a minimum proportion of broadcasting time for European works and those by independent producers); to set basic standards in the field of television advertising; to provide for the protection of minors and to allow for the right of reply.

The Europe Agreement provides for co-operation in the promotion and modernisation of the audio-visual industry, and the harmonisation of regulatory aspects of audio-visual policy.

The Television Without Frontiers Directives is a Stage I measure in the White Paper.

Descriptive Summary

The legal framework for the audio-visual sector is determined by the 1975 Law on Telecommunications, the 1995 Law on Concessions, and the 1996 Law on Radio and Television. The first two laws establish the conditions and procedures for the allocation of frequencies and radio distribution, whilst the latter determines the establishment and operation of the electronic media. A new law on telecommunications, including radio distribution, is under preparation. The Radio and Television Law was passed by the National Assembly in September 1996, but several of its provisions were ruled unconstitutional by the Constitutional Court. Consequently the law is currently being revised and will either be completely redrafted or significantly changed. Until this happens the electronic media are governed by the incomplete version of the law passed in September 1996.

The main television broadcaster is Bulgarian National Television, the only domestic nation-wide broadcaster. However, there is an increasing number of local private channels.

The state monopoly over film production was lifted in the late 1980s. The National Film Centre (NFC) is now charged with promoting Bulgarian cinematography, including film production and distribution. In 1996 the NFC received 547,000 ECU in state subsidies. The film distribution sector is dominated by a number of small independent companies; American and European film distributors have not yet opened local offices in Bulgaria.

Current and Prospective Assessment

The audio-visual sector in Bulgaria is attempting to re-establish itself after major upheavals in recent years, and is characterised by rapid growth and constant change. Its ability properly to adhere to the *acquis* presupposes an upgrading of the capacity of the programme-making industry to meet the important challenges of an adapted regulatory framework.

Bulgarian audio-visual legislation is not fully compatible with EU requirements; deficiencies remain over jurisdiction, the promotion of European works, and aspects concerning advertising.

Conclusion

Provided that the necessary legislative measures are pursued with sufficient urgency and are accompanied by the necessary structural adaptation of the industry, it is reasonable to expect that Bulgaria should be able to meet EU requirements in the audio-visual sector in the medium term.

3.3. Economic and Fiscal Affairs

Economic and Monetary Union

By the time of Bulgaria's accession, the third stage of EMU will have commenced. This will mark important changes for all Member states, including those that do not participate in the euro area. All Member states, including the new ones, will participate fully in the economic and monetary union. Their economic policies will be a matter of common concern and they will be involved in the coordination of

economic policies (national convergence programmes, broad economic guidelines, multilateral surveillance, excessive deficit procedure). They will be required to respect the stability and growth pact, to renounce any direct central bank financing of the public sector deficit and privileged access of public authorities to financial institutions, and to have completed the liberalisation of capital movements.

Accession means closer monetary and exchange rate co-operation with the European Union. This will require strengthening structural reforms in the area of monetary and exchange rate policies. Member states not participating in the euro area shall be able to conduct an autonomous monetary policy and participate in the European System of Central Banks (ESCB) on a restricted basis. Their central banks have to be independent and have price stability as their primary objective. Monetary policy has to be conducted with market-based instruments and has to be "efficient" in transmitting its impulses to the real economy. Therefore, reforms need to be pursued to tackle factors that hinder the efficiency of monetary policy, such as the lack of competition in the banking sector, the lack of development of financial markets and the problem of "bad loans" in the banking sector. Finally all Member states shall treat their exchange rate policy as a matter of common interest and be in a position to stabilise their exchange rates in a mechanism yet to be decided.

As membership of the European Union implies acceptance of the goal of EMU, the convergence criteria will have to be fulfilled by Bulgaria, although not necessarily on accession. While the fulfilment of the convergence criteria is not a precondition for EU membership, they remain key points of reference for stability oriented macroeconomic policies, and must in time be fulfilled by new member states on a permanent basis. Hence the successful conclusion of systemic transformation and market oriented structural reforms is essential. Bulgaria's economic situation and progress has already been analysed in preceding chapters of this Opinion.

Current and Prospective Assessment

The National Bank is formally independent from the government in terms of the appointment procedure of the Governor and the conduct of monetary policy. However, in the past the Bulgarian National Bank was influenced by the government in its commercial bank refinancing and budget deficit financing policies. The country has introduced a currency board arrangement. The currency board arrangement fixes the volume of Leva in circulation to the national bank's foreign exchange and gold reserves and thus sets the parameters for Bulgaria's monetary policy. The formal objective of the National Bank has been the stability of the Bulgarian national currency, but with the introduction of the currency board arrangement there is no discretionary scope for the central bank monetary policy. Finally, the National Bank has been deeply involved in the past in financing the budget deficit, but the currency board arrangement will set a very strict limit on this activity. In June 1997, the Law on the National Bank was amended to strengthen the Bank's independence and supervisory role and to adjust its functions to the currency board arrangements.

Past monetary policy performance has been quite discouraging. Since the outset of transition the National Bank has found it difficult to maintain price stability largely because the policy mix was never directed towards achieving a sustainable disinflationary process. However, since the government approval in March 1997 of a structural reform programme agreed with the IMF, inflation has stabilised. The programme envisages the tightening of monetary and fiscal policy as well as the privatisation of the 6 state owned banks within two years. The programme paved the

way for the introduction of the currency board arrangement in July 1997. Bankruptcy laws were not effectively implemented although court action has increased in recent months with the closure of a major bank. In June the Law on Banks was amended to rationalise bank licensing, improve accounting and audit provisions and strengthen measures on bank insolvency. The National Bank also issued a new Regulation providing for internationally accepted standards for the minimum total capital adequacy of banks. Financial markets are still quite underdeveloped and segmented. Bad loans are still a problem of the weak banking sector, though hyperinflation has reduced their significance. The currency board will resolve this problem, because the banks will no longer be able to benefit from an extensive refinancing by the National Bank.

The exchange rate regime has been a free float since 1991. Due to the lack of foreign reserves, the National Bank has often had limited scope for intervention on the foreign exchange market. Hence, the various currency crisis episodes have often been tackled by rising domestic interest rates and reserve requirements. The unsound expansionary policy mix has led Bulgaria on a depreciating exchange rate path often interrupted by severe crises. The adoption of the currency board will stabilise the exchange rate.

Conclusion

It is premature to judge whether Bulgaria will be in a position, by the time of its accession, to participate in the euro area; that will depend on the success of its structural transformation permitting to attain and to adhere permanently to the convergence criteria, which are not however a condition of accession.

Bulgaria's participation in the third stage of EMU as a non-participant in the euro area could pose serious problems, even in the medium term. The country has made only very limited progress in the transition to a market economy. The Government's economic and structural reform programme, however, is expected to make a substantial contribution to this objective. Therefore, it is hard to evaluate at this stage when Bulgaria after the eventual cessation of the currency board arrangement, will be able to have an independent Central Bank, able to target price stability by means of an efficient monetary policy based on market instruments.

Taxation

The *acquis* in the area of direct taxation mainly concerns some aspects of corporation taxes and capital duty. The four freedoms of the EC Treaty have a wider impact on national tax systems.

The indirect taxation *acquis* consists primarily of harmonised legislation in the field of Value Added Tax and excise duties. This includes the application of a non-cumulative general tax on consumption (VAT) which is levied on all stages of production and distribution of goods and services. This implies an equal tax treatment of domestic and non-domestic (import) transactions. The VAT *acquis* also contains transitional arrangements for the taxation of transactions within the European Union between taxable persons. In the field of excise duties the *acquis* contains harmonised tax structures and minimum rates of duty together with common rules on the holding and movement of harmonised excisable goods

(including the use of fiscal warehouses). As a result of the introduction of the Single Market, all fiscal controls at the Community's internal frontiers were abolished in January 1993.

The mutual assistance between Member State tax authorities is an important feature of administrative cooperation in the Internal Market; the respective Directive covers both direct and indirect taxation.

The Europe Agreement contains provisions on approximation of legislation in the area of indirect taxation.

The White Paper contains as Stage I measures those which make up the main requirements of the indirect taxation *acquis* (essentially, those measures applied in the Community up to 1993), and as Stage II measures those which are in addition necessary to implement the full indirect taxation *acquis*.

Descriptive Summary

Direct Taxation

The two company taxation Directives and the Arbitration Convention provide for a mechanism which applies on the basis of reciprocity. Respective provisions can therefore by definition not be expected to exist before accession.

Indirect Taxation

The overall contribution of VAT and excise duty revenue to the Bulgarian state budget was about 23% and 9% respectively in 1995. Before presenting the 1998 budget, the Government intends to submit a major fiscal reform plan, the implementation of which could significantly change these figures.

Value Added Tax

The current Bulgarian VAT system was introduced on 1 January 1994 replacing the previous turnover tax. Bulgaria only applies a single VAT rate of 22% which is applicable to all taxable transactions including imports. The supply of certain goods and services is exempt from VAT without the right to claim the input credit on such supplies. Some specific supplies are, however, only exempt from VAT for a period of five years from the date of the introduction of VAT, thus till the end of 1998.

Taxable persons are in principle entitled to deduct VAT incurred on their purchases for business purposes of goods and services on the condition that the taxpayer can substantiate the claim by means of a proper VAT invoice or the like. However, the Bulgarian VAT Act does not contain any provisions enabling tax to be refunded to taxable persons not established within the country.

Excise

The current system of excise duties in Bulgaria was introduced on 1 April 1994. Excise duties are levied on a wide range of products including products other than those subject to common excise duties within the Community (mineral oils, alcohol and alcoholic beverages and manufactured tobacco). Ad valorem rates on most products were introduced from 1 July 1996 in order to protect the tax yield during periods of high inflation.

Mutual Assistance

The tax administration has not yet had to develop its capacity for mutual assistance with the tax authorities of Member States, since mutual assistance is a feature which would only become applicable on accession.

Current and Prospective Assessment

Value Added Tax

The current VAT system in Bulgaria has been based on the main principles of the VAT legislation of the Community. However, it is relatively general and inconsistent in its application.

It is not possible for foreign traders to register for the purpose of VAT in Bulgaria. Since Bulgaria does not operate any arrangements for the refund of VAT to non-registered foreign taxable persons, VAT represents an increased cost to such traders. As for exempt transactions, the Bulgarian approach differs to a large extent from that of the Community which is based upon the principle of exempting certain transactions in the public interest.

Bulgaria's membership of the European Union would require substantial adjustment to bring the VAT legislation into line with the requirements of the Community *acquis*, both in respect to the general provisions of the Community VAT legislation and as regards the system of taxation necessary in a Community with no internal frontier controls.

In 1997 the present government announced important revisions to the Bulgarian national strategy plan, aimed at early implementation of the recommendations of the White Paper regarding VAT.

Excise

There are significant discrepancies between the Bulgarian excise regime and EU requirements.

Firstly, there exists no excise suspension system where goods can move between authorised tax warehouses without payment of duty.

Secondly, the ad valorem rate, such as currently applied on most excisable products in Bulgaria, tends to exaggerate price differentials between products and is open to challenge as being discriminatory against more expensive imports.

In the event of accession, excise duties on products not belonging to the above-mentioned categories could continue to apply provided, however, that they would not give rise to border-crossing formalities in trade between member states and that they complied with the principles of non-discrimination between national products and products originating in other member states.

In order to ensure a correct application of the Community excise legislation it is essential that Bulgaria sets up a warehousing system based on the Community model as soon as possible, strengthens control procedures and adapts the structure and level of its excise rates in such a way that they comply with the Community

principle of non-discrimination between national products and those originating in other member states.

The Bulgarian national strategy plan for implementing the provisions of the White Paper does not provide a clear and detailed timetable for future adjustments of Bulgarian excise legislation. It is planned to return to specific rates when there is improved price stability. Existing customs warehouses could be converted into tax warehouses when required, but provisions for this and the creation of registered traders have not yet been put into the draft law. Nonetheless, the present Bulgarian Government does envisage full harmonisation of legislation in this area in due course.

Mutual Assistance

There would also be a need, on accession, to implement the appropriate arrangements for administrative cooperation and mutual assistance between Member States. These requirements are essential for the functioning of the Internal Market.

Conclusion

The *acquis* in respect of direct taxation should present no significant difficulties.

As regards indirect taxation, although a start has been made, a sustained effort will be required if Bulgaria is to comply with the VAT and excise duties *acquis* in the medium term.

It should be possible to start participating in mutual assistance as the tax administration develops its expertise in this respect.

Statistics

The main principles of the Community *acquis* relate to the impartiality, reliability, transparency, confidentiality (of individual information) and dissemination of official statistics. In addition there exists an important body of principles and practices concerning the use of European and international classifications, systems of national accounts, business registers, and various categories of statistics.

The Europe Agreement provides for co-operation to develop effective and reliable statistics, in harmony with international standards and classifications.

The White Paper includes no provisions in this field.

Descriptive Summary

The National Statistics Institute (NSI) is the body charged with producing and disseminating official statistics in Bulgaria. It consults the Supreme Statistical Council (SSC) for guidance on methods and operations.

The legal basis for Bulgarian official statistics consists of the 1991 Statistics Act.

Current and Prospective Assessment

Bulgarian legislation is generally compatible with the current standards applied within the European Union.

Some issues of impartiality, transparency and confidentiality need clarification, and there are deficiencies in sectors such as external trade, transport and regional statistics, financial accounts, coverage of the business register and related business surveys, and the need to fully implement internationally comparable classifications.

Conclusion

Bulgaria will require a sustained effort if it is to comply with EU requirements for official statistics in the medium term.

3.4 Sectoral Policies

Industry

EC industrial policy seeks to enhance competitiveness, thus achieving rising living standards and high rates of employment. It aims at speeding up adjustment to structural change, encouraging an environment favourable to initiative, to the development of undertakings throughout the Community, and to industrial co-operation, and fostering better exploitation of the industrial potential of policies of innovation, research and technological development. EC industrial policy is horizontal by nature. Sectoral communications aim at transposing horizontal concepts into specific sectors. EU industrial policy results from an articulation of instruments from a number of Community policies; it includes both instruments related to the operation of markets (product specification and market access, trade policy, state aids and competitions policy) and measures related to industry's capacity to adapt to change (stable macro-economic environment, technology, training etc.).

In order to cope with competitive pressure and market forces within the Union, the industry of applicant countries needs to have achieved a certain level of competitiveness by the time of accession. The applicant countries need to be seen as pursuing policies aimed at open and competitive markets along the lines set out in Article 130 ("Industry") of the Treaty. Co-operation between the EC and the candidate countries in the fields of industrial co-operation, investment, industrial standardisation and conformity assessment as provided for in the Europe Agreement is also an important indicator of development in the right direction.

Descriptive Summary

With the economic transition accompanied by a highly unstable macroeconomic environment, the loss of traditional markets and increased competition, industrial production dropped and its share in GDP decreased from 33% in 1991 to 28% in 1995, at the level of 3.3 bn Ecu or about equal to the industrial production of Luxembourg. Total industrial employment stands at about one million or 33% of the total workforce. Small and medium sized firms account for three-quarters of all industrial firms and for 16% of industrial employment while large (and still mostly state-owned) firms have the largest share in employment. The situation in Bulgarian

industry is characterised by significant state ownership, under-utilisation of capacities, large losses and debts, declining investment and production, and overall lack of international competitiveness.

Bulgaria, main industrial sectors in 1995

Sector	% Share in industrial value added
Chemicals and oil refinery	17.0
Food industry	16.5
Mechanical engineering and metalworking	13.6
Ferrous and non-ferrous metallurgy	9.8
Textiles and clothing	6.1
Electrical and electronic engineering	5.2
Wood, pulp and paper	5.0
Building materials	2.6
Glass, porcelain	1.8
Leather, footwear	1.2
Total above	78.8
Other (incl. construction)	21.2
<i>% share industry(excl. construction)</i>	<i>28</i>
<i>in total GDP</i>	

The **chemical and oil refinery** industry did not suffer so much from the decline due to increase exports of basic chemicals products on traditional international markets, and certain subsectors (e.g. pharmaceuticals) remained profitable independently of the crisis. Main markets are Russia and other CIS countries. Exports of soda ash go mainly to the EU. New markets are developed in Asia (South Korea). Strong exporters, including two world-class producers in their respective products (calcinated soda and carbamide) are currently privatised.

Bulgaria has a strong agricultural tradition (notably in fruit and vegetables) and the **food** industry has been a logical branch for the country to develop. It attracted some foreign investors keen to develop export potential and low-cost local production possibilities.

The **mechanical engineering and machine** industry was geared toward production for the CMEA. Overall recovery will be very difficult. The sector stabilised as a whole at a very low level but many enterprises suffered badly from the crisis. They are among the heaviest loss-makers. On the other hand, there are strengths such as a highly skilled labour force and, in certain subsectors, good quality capital stocks, which attracted some FDI .

In **ferrous metallurgy** a relative stabilisation of steel output can be observed. Compared to other CEECs, the steel industry is of medium size. Weak domestic and export demand and quality problems are among the reasons for decline, along with the urgently needed modernisation, privatisation, and restructuring.

This is also the case for the **non-ferrous** sector, where most exports are destined for the EU as well as other CEECs and the Middle East. Growth will not return soon: a stricter government approach to energy pricing is removing one of the key advantages of the sector.

The position of the **textiles and clothing** industry is unstable and was among the worst hit by the transition. The industry is experiencing strong competition from Asian producers. However, the combination of low labour costs, a skilled workforce and high quality standards can be attractive to foreign investors.

The situation in **electrical and electronic engineering** is critical and urgent restructuring measures are needed. Almost all output was destined for the former USSR and apart from a few enterprises which already in the past had developed a position on Western markets, the companies in this sector did not manage to restructure and adapt to new conditions.

Due to delays in large-enterprise privatisation, privatisation in industry has been slow so far, and the private sector accounts for only about 14% of industrial production. By mid 1996 privatisation procedures had been opened for some 1400 state-owned enterprises representing 20% of state-assets, of which around 370 enterprises had been privatised by more than two thirds. The share of foreign investment is estimated at one quarter of privatisation revenues.

Current and Prospective Assessment

Bulgaria was until recently in an extremely difficult macroeconomic situation. The introduction of the currency board should lead rapidly to certain financial stability, but the solution to the underlying causes of the crisis will require fundamental and sustained reforms. Previous attempts to stabilise have been derailed by a combination of large losses in state-owned enterprises and a weak banking sector. It will take time to solve these problems.

Privatisation of some industry is difficult given that it is very energy intensive. Privatisation might at first lead to a contraction of heavy industry. The steel sector has to continue structural changes, and the largest producer has to undergo major financial restructuring. Energy pricing remains a problem. At the same time, the bad debt situation restricts the banking system's capacity to provide capital. Given this environment it is not surprising that investment is low (11% GDP) and that FDI has been modest. In turn, lack of investment capital is a major potential impediment to restructuring and diversification efforts.

Bulgaria's relatively weak competitive position is linked to the narrow industrial base with exports concentrated in a small number of basic industries. A number of the main export branches may lack long-run viability and sustainable competitiveness. Many industrial sectors face significant problems in restructuring and adapting to market conditions, including textiles, machinery and metal processing, mining, electrical engineering, electronics and shipbuilding.

Industrial sector weakness and the slow restructuring process is underlined by the heavy losses generated by public sector enterprises. Total losses of industry amounted to an estimated 4% of total sales in 1995, down from 15% in 1993. Direct budget subsidies have been drastically reduced, to large loss making enterprises and uncollateralised bank lending - which contributed to the banking crisis - and escalating arrears to the budget have greatly ceased.

With the squeeze on domestic resources - investments in industry in relation to GDP declined from 11% in 1990-93 to 6% by 1994 - attraction of foreign investment will be of paramount importance. This will require a significant improvement in the overall investment climate.

The government's 1997 structural reform programme foresees substantial privatisation and restructuring in most industrial sectors, in accordance with a strict timetable agreed with international financial institutions. This implies privatisation within two years of all state-owned enterprises operating in a commercial environment as well as a substantial part of the utilities. Implementation of the programme will be prerequisite for establishing a sustainable and competitive industrial structure in the medium-run.

Conclusions on Industrial Competitiveness

In spite of positive recent policy changes, the integration into the European market would pose serious difficulties for Bulgarian industry during the medium term. Many sectors still face important restructuring and privatisation needs. A major potential impediment to restructuring and diversification efforts is the lack of investment capital due to the low levels of foreign investment and the bad debt situation which restricts the banking system's capacity to provide capital.

An evaluation of the *acquis* specific to the free circulation of industrial goods is to be found in the separate section on the internal market.

Agriculture

The Common Agricultural Policy aims to maintain and develop a modern agricultural system ensuring a fair standard of living for the agricultural community and the supply of food at a reasonable price for consumers, and ensuring the free movement of goods within the EC. Special attention is given to the environment and rural development. Common market organisations exist to administer the CAP. These are complemented by regulations on veterinary health, plant health and animal nutrition and by regulations concerning food hygiene. Legislation also exists in the area of structural policy, originally developed primarily to modernise and enlarge agriculture, but more recently with an increasing emphasis on the environment and the regional differentiation of the policy. Since reforms in 1992, increasing contributions to farm

support have come from direct aid payments increasingly compensating for reduced market support prices.

The Europe Agreement provides the basis for agricultural trade between Bulgaria and the Community and aims to promote co-operation on the modernisation, restructuring and privatisation of Bulgaria's agriculture sector as well as the agro-industrial sector and phyto-sanitary standards. The White Paper covers the fields of veterinary, plant health and animal nutrition controls, as well as marketing requirements for individual commodities. The purpose of such legislation is to protect consumers, public health and the health of animals and plants.

Descriptive Summary

Agricultural Situation

The value of the agricultural production in 1995 was approximately 1.29% of that of the Union.

In 1995 agricultural production accounted for 12.6% of GDP, and about 22% of employment. Total agricultural area consists of ~~6.3~~ 6.2 million ha, of which ~~4.7~~ 4.0 million ha are arable land, mainly cereals (49 55 %) and pasture (18%). However a significant share of the land has remained uncultivated last years because of restitution process and low farmgate prices.

Around 5.1 million ha (~~84~~ 82 % of Bulgaria's total agricultural land area) has been claimed for restored private ownership by the heirs of the former private owners (nearly 1.7 million in number) under the heavily amended Farm Land Act of 1991. By April 1997, land claim ownership certificates had been issued for 50% of the restitutable land total (2.4 million ha) and the Government announced measures to accelerate and complete certificate issues by 30 June 1998. These certificates allow buying and selling of land although only 8% of owners have been issued with formal title by notaries. The lack of legal title is a major block to investment and development of an active land market. In September 1996 the Land Tenure Law was passed, describing the general conditions for land leasing and improving prospects for long term leases.

The majority of private farms have an area of less than 2 ha, often split into separate plots, which is generally too small for economic viability through direct farming but represents an important social buffer during the transition period. 1,600,000 household plots have less than 1 ha and represent 15% of the total area, 400,000 family farms have between 1 and 10 ha and only a very limited number of family farms have more than 10 ha. Most of the privatised land is leased to groups of farmers. (3,000 private co-operatives, averaging 700-800 ha) of other collective structure, often on an annual basis; 2,000 state farms and state registered companies are still in operation. In broad lines about 33 % of the land is under co-operatives, 12 % under individual farms and 10% under state farms.

Both arable and livestock production have declined heavily ($\pm 50\%$) since 1990, with further sharp falls in wheat and feedgrains production (barley, maize) from 1995 to 1996. (53 % wheat reduction from 3.4 million in 1995 to 1.8 million t in 1996) and in sunflower production (30% reduction from 760 000 tonnes in 1995 to 530,000 tonnes in 1996) as a result of reduced areas planted combined with very low yields. The

cereal shortages have led to accelerated destocking, the need for imports, further reductions in beef cattle and pigs and substantial price increases.

The decline in the production of perennial crops (orchards, vineyards) has also been significant, due to market difficulties during the first years of transition and then to lack of care during the land restitution process.

In 1995, Bulgaria produced 78,000t beefmeat, 257,000 pigmeat, 74,000t chickenmeat and 1,128,000t cow milk (1985 : 2,135,000t). Livestock production in 1996 did not fall by the same percentage as arable production; dairy cows and poultry actually showed a slight increase over 1995. Pig and sheep populations fell by 11.5%, with state farm reductions offsetting the 13% increase in privately owned pigs. Milk production increased by 6% over January to September 1996 compared with 1995 and meat production by nearly 70% (largely as a result of fodder shortage slaughtering).

The pace of the privatisation process in the upstream and downstream sectors has been extremely low. Less than 10% of the total number of enterprises for the agricultural and food industry have been privatised by the end of 1995. Most of the state-owned enterprises are in a critical financial situation. The government has agreed large-scale privatisation targets with the international financial institutions: of the 45 state agro-enterprise to be privatised by end May, 50 % had been privatised or liquidised by this date and tenders have been launched for a further 13 enterprises. A further 60 agro-enterprises are scheduled for privatisation by end 1997.

Bulgaria has for many years been a food exporting country and agricultural products used to account for a significant share of total exports destined mainly to the COMECON and the Middle East. The volume of agricultural trade was sharply reduced mainly because of the collapse of the Soviet Union and the consequences of the war in the former Yugoslavia. Meanwhile, trade with the EC has developed a particular significance.

In 1995, exports of agricultural products accounted for 21 % of total exports; and reached ECU 779 Million (ECU 218 million to EU). Imports of agricultural products accounted for 7.5 % of total imports and reached ECU 291 million (ECU 226 million from EU).

The main exported products (65%) are tobacco, wine, processed vegetables, fruit, and live animals. Data for 1996 are likely to be significantly reduced compared with 1995 due to lower production of these commodities.

Agricultural Policy

Agricultural policy since the beginning of the transition period has mainly been characterised by short-term measures like subsidised short-term seasonal credits, aimed at ensuring production in the turmoil of land reform, and ad-hoc temporary border measures aimed at stabilising the internal market. Price liberalisation started in February 1990, but prices of 13 essential food products were monitored by a mechanism called "projected prices" which were replaced in 1993 by "ceiling prices". These policies and other related measures have had a depressing effect on producers' output prices, which remained below world prices, but not on their input prices or on retail prices, and as a result farmers have switched production into non-

price controlled crops. Since March 1997, prices for all commodities except wheat, wheat flour, bread and cooking oil, have been liberalised.

For 1996, total budgetary expenditure on agriculture amounted to 17.3 billion Leva (100 Mecus) of which 13% were to support minimum purchase prices (wheat, tobacco, maize, sugarbeet); 23% for interest rate subsidies for the Agriculture Fund; and the remainder divided between 'standard' government functions such as agricultural education, veterinary and other state services, breeding and improvement, irrigation, research and development, etc.

In 1996 the government adopted a strategy document for the agriculture and food industry. The implementation was very slow and there were substantial changes in foreign trade policy, as the state monopolies were removed and foreign trade has been liberalised. The general licensing regime for products was abolished, and exports and imports are executed on the basis of customs declarations. Agricultural and food products are still subject to different regulations including temporary export bans, quantitative restrictions on exports and imports, export and import taxes, exemptions from import duties and, in some cases, minimum export prices, all of which have contributed to depressed farm output prices and further isolate the Bulgarian economy from international prices and competition.

Further changes in agricultural support have been introduced in 1997 to avert a further decline in production. The Government has stated that minimum wheat purchase prices will not fall below 80% of world prices for producers who take working capital loans from the Agriculture Fund with a 50% subsidy on interest rates and who agree to forward contract deliveries from their 1997 production. Similar support will be given for sunflower production. The number of commodities subject to profit margin controls have been reduced. Export restrictions will be liberalised and import tariffs will be reduced.

The farm gate prices are generally lower than world prices. The difference between Bulgarian and EC prices is significant. Bulgarian prices in 1995 were about 50 % of ruling EC prices. However, there were substantial variations within this average, e.g. tomato prices at 11 %, wheat (price control) at 44 % , maize (not controlled) at 57% and pork/poultry meat(imported items) at 80 %.

Most preferential quotas under the Europe Agreement, which were based on historic trade patterns, have not been fully utilised. Negotiations are in progress to complete the adaptations of the agreements for primary and processed agricultural products and to add economically significant traded commodities, such as wine and fish products to the formal agreements.

Bulgaria's accession to the WTO was followed by introduction of a new customs tariff at the beginning of 1997. Changes were made to 23% of the food and agriculture tariff headings: the net effect on tariff levels appears to be neutral. Most of the duties remain significantly below the level of the bindings: exceptions are butter, sugar and fresh grapes. The WTO-registered trade regime accordingly provides possibilities for Bulgarian tariff protection at levels considerably above the EC's level of protection. Negotiations to join CEFTA are in process.

The process of introducing the legislation identified in Stage I of the White Paper has just begun.

Current and Prospective Assessment

Potential exists for increasing agricultural production, but it is very difficult at this time to forecast the rate of recovery over the next few years. The process of land reform and privatisation far from complete; an active land market has not yet been established; rural financial and banking facilities must be developed.

The Bulgarian food industry sector need a major restructuring and huge investment to allow it to compete not only on the EC market, but first and foremost, on the domestic market. Without this privatisation, upstream and downstream sectors will continue to operate under non-competitive conditions, which distort price formation.

The liberalisation of agricultural prices at all levels is the most important challenge the government faces in the short term as well as speeding up the reform process, e.g. privatisation of land and of the agro-food sector. The speed with which this may be achieved depends on the implication for consumers.

The main market policy instruments applied in the EC are not applied in Bulgaria. This includes key instruments such as dairy quotas, key features of the arable crop schemes (base area, set-aside, compensatory payments and premiums in the livestock sector), as well as certain rural and structural development programmes.

Management and control of these measures would require relatively sophisticated administrative systems, including an appropriate land register and cattle identification and registration system. As a general observation, it is clear that the administrative capacity would need to be considerably developed in these areas if these measures were to be applied in Bulgaria.

It is difficult to foresee at this stage what will be the development of agricultural support prices in Bulgaria in the period before accession; this will depend on a number of factors including the domestic economy, the situation on exports markets, and the development of price support levels in the Union.

A number of price supports and associated measures operated in 1996 and previously appear incompatible with EC policies. Other important EC measures, such as rural development policies and measures remain to be legislated and supported adequately from the national budget.

Bulgaria is correctly applying the provisions of the Europe Agreement concerning trade with the Union in agricultural products.

Harmonisation of legislation with Stage I of the *acquis* according to the White Paper is at an initial stage. Negotiations on a veterinary and phytosanitary agreement have commenced. With a few exceptions, legislation in the veterinary field does not meet EC requirements, but Bulgaria has presented an ambitious timetable which should align most of the legislation to EC requirements by the end of 1998.

Bulgaria has an infrastructure for veterinary control and inspection. The structural changes in the veterinary services, together with the increased fragmentation of the livestock units, make inspection and overall disease control difficult. Because of its geographical situation and weak border controls, Bulgaria runs a high risk that animal disease enters from outside. Also Bulgaria vaccinates against classical

swine fever and a change to a non-vaccination policy is necessary but will be difficult.

The facilities at border inspection posts are still inadequate for veterinary control at Community standards. Complete facilities for the inspection of live animals and animal products at the border inspection posts are not yet available and most border checks are limited to controls on certificates and other documents with the majority of physical checks being undertaken at destination.

As regards internal measures there is a need for the Bulgarian authorities to ensure Bulgaria's animal health status in respect of certain requirements. The system of registration of holdings and identification of animals will need to be adjusted to the EC systems. Testing and diagnostic facilities are not adequately equipped to perform tests required by EC law, and welfare legislation needs to be further developed. There will be a need to upgrade certain food processing establishments in particular for the national market, to develop acceptable veterinary audit and certification procedures, also for both imports and exports, and to maintain an adequately structured, resourced, staffed and trained veterinary sector.

The recent legislation concerning seeds and propagation material is likely to need subordinate legislation and inspection and enforcement measures. Since Bulgaria enjoys Community equivalence for several major species it can be assumed that the standard of at least some of its production is equivalent to that in the EU.

In the field of plant health Bulgaria has prepared draft legislation for approximation of EC legislation. There is no timetable established for its adoption. Administrative structures and control and inspection arrangements appears to be inadequate to ensure the appropriate level of protection. Legislation in the field of animal nutrition is limited in scope and not consistent with EC legislation. The Bulgarian authorities have not given any timetable for the completion of this work.

As regards legislation on plant protection products, it appears that little, if any, approximation to Community law has been made at this stage.

Conclusion

Very limited progress has been made in adapting to the Community *acquis* and considerable sustained effort will be needed with regard to restructuring the agriculture and the agro-food sector and reform of agricultural policy to prepare Bulgaria to apply the *acquis*.

Particular efforts are needed in relation to :

- adoption, implementation and enforcement of veterinary and phytosanitary requirements and upgrading of establishments to meet EC standards; this is particularly important with regard to the inspection and control arrangements for protecting the EU external borders;
- strengthening of the administrative structures to ensure the necessary capacity to implement; and enforce the policy instruments of the CAP;

- restructuring of the agricultural and agro-food sector to improve its competitive capacity.

Fundamental reforms are necessary before Bulgaria will be able to meet the obligations of membership.

Fisheries

The Common Fisheries Policy includes common market organisations, structural policy, agreements with third countries, management and conservation of fish resources, and scientific research in support of these activities.

The Europe Agreement includes provisions concerning trade in fisheries products with the Community . The White Paper includes no measures in this field.

Descriptive Summary

In 1995 the total catch was 2,500t, all from the Black Sea. The high sea fleet consisted of 6 distant water freezer trawlers and 16 Black Sea vessels, of which five were in private ownership. No catches were registered from distant waters in 1995 compared with a catch of 5,000t in 1994. Only two distant water vessels operated on a full-time basis in 1995, on a cost-sharing basis with foreign operators catching non-Bulgarian quotas.

Production of inland fisheries was 4,000t in 1994 (mainly carp and trout) valued at 4 million ECU from 20 state farms employing 500 people plus unspecified output from 6 privately-owned aquaculture enterprises. The Bulgarian authorities did not provide statistics on ownership, production and employment for 1995, but consider that production has declined due to state enterprises financial problems and lack of investment by the newly-emerging private enterprises.

As a trading partner of the Community, Bulgaria represents 0.08 % of total EC imports (independent of origin) of fishery products and 3.2 % of EC imports of fishery products from the candidate countries alone (in term of value). As regards EC exports, Bulgaria receives 0.34 % of our total exports of fishery products and 4.1 % of our exports of these products to the candidate countries(in terms of value).

Bulgaria has concluded fisheries agreements with Mauritania (1971), Canada (1978), Mozambique (1971) and Ukraine (1993). Fisheries agreements with the former Soviet Union for the Black Sea (1959 - general; and 1978 - anchovy and shrimps) and the Barents Sea (1978) are reported to be still in force. A co-operation agreement with the Russian Federation has been suspended.

Current and Prospective Assessment

Bulgaria's production and foreign trade are low when compared to the corresponding EC figures and are therefore unlikely to have any significant impact upon the Community as a whole. According to the information given as regards fisheries agreements concluded and Bulgaria's membership of international or regional fisheries, no major problems of compatibility with EC membership is envisaged. Recent Bulgarian information on the reduction in Bulgarian capabilities to enforce

quotas and undertake research could lead to difficulties in compliance with EC and international obligations.

The adaptation of the deep sea fleet capacity to available resources and the modernisation of the sector will become the main issue.

National economic difficulties are likely to lead to complete disposal of distant water vessels and effective privatisation of the majority of state aquaculture, marine fishing and fish processing enterprises over 1997/1998. Future development is likely to be concentrated on development of freshwater aquaculture and, possibly, marine fish farming in the Black Sea. Development of these opportunities and establishment of efficient privately-owned fish processing capacity will depend heavily on export earnings.

The industry is outdated and will require modernising. It will be necessary for Bulgaria to establish a fisheries administration which is capable of implementing the Common Fisheries Policy - in particular, the management of resources, the keeping of a fishing fleet register, the application of structural policy for the sector, the management of the market scheme and the collection of all statistical data- as well as the EC's policies on health, hygiene and environmental matters.

Conclusion

The process of modernisation and *acquis* implementation will require significant efforts. In the medium term the fishery sector does not appear to present a major problem.

Energy

Main EU energy policy objectives, as reflected in the Commission White Paper "An energy policy for the EU" include enhancement of competitiveness, security of energy supplies and protection of the environment. Key elements of the energy *acquis* comprise of Treaty provisions and secondary legislation particularly concerning competition and state aids, internal energy market (including directives on electricity, price transparency, gas and electricity transit, hydrocarbons licensing, emergency response including security stock obligations, etc.), nuclear energy, as well as energy efficiency and environmental rules. Development of Trans-European Energy Networks and support for energy R&D are other important elements of energy policy. Ongoing developments include liberalisation of the gas sector, energy efficiency *acquis* and the Auto-oil programme.

In the field of nuclear energy, the Community *acquis* has evolved substantially from the original EAEC Treaty to a framework of legal and political instruments, including international agreements. At present, it addresses issues of health and safety, including radiation protection, safety of nuclear installations, management of radioactive waste, investment including EURATOM financial instruments, promotion of research, nuclear common market, supplies, safeguards, and international relations.

The Europe Agreement provides for co-operation to develop the progressive integration of the energy markets in Europe and includes provisions on assistance

within the related policy areas. The White Paper preparing CEECs for the internal energy market underlines the need for full application of key internal market directives in combination with EC competition law. As to the nuclear sector, the White Paper refers to nuclear supply safeguard and shipments of radioactive waste.

Descriptive Summary

Bulgaria is more than 70% dependent on external energy sources. Oil, gas (26% and 17% of the energy balance) and nuclear fuels are all imported mainly from Russia, and so are most of the limited coal imports.

Indigenous solid fuels, particularly low quality lignite, is extracted uneconomically and is a chief source of environmental pollution. Hydropower plays a limited role in the energy sector; uranium mining ceased in 1990.

Bulgaria's energy sector accounts for 15% of GDP. The sector is two to four times less efficient than the EU average, contributing to pollution. This situation is due to the heritage of low prices, a lack of energy efficiency policies and obsolete technologies.

Bulgaria is an important transit country for particularly gas supplies in the region including Greece. Its' regional role may increase in the longer term through oil imports via the Black Sea port of Burgas and through future gas imports from Central Asia and Iran. Bulgaria's link to the Western European UCPTE interconnected electricity system is technically feasible, but will require substantial investments and is therefore not expected in the short term. The recent synchronous connection, as a test, of the Romanian, Bulgarian, Greek, Serb and Albanian electricity networks is a preliminary step towards future connection to the UCPTE.

Bulgaria operates a nuclear power plant at Kozloduy, producing around 40% of Bulgaria's electricity. It consists of six reactors of Soviet design: units 1 to 4 are VVER 440-230 reactors and units 5 to 6 are VVER 1000-320. The design and construction standards of the VVER 440-230 reactors are considered not to meet the safety objectives generally accepted in the EU. The VVER 1000 - 320 are of more recent upgradable type. Considerable investment in these reactors has been undertaken since 1990 to help improve their safety for the remainder of their operation.

Under the 1993 Nuclear Safety Account Agreement, managed by the EBRD Bulgaria undertook to cease operating the reactors 1-4 as soon as alternatives for energy supply would become available. In 1993, it was expected that these four reactors could be closed by that time. The Bulgarian government has yet to adopt its position on a revised timetable for the decommissioning. At present there are no known plans for the closure of the Units 1-4 before the end of the design lifetime (2004, 2011).

The design and construction standards of the two VVER 1000-320 reactors are considered to be closer to meeting safety objectives generally accepted in the EU. Investment in modernising these reactors is expected to start in 1998.

The construction of two other VVER 1000 reactors at Belene was suspended in 1990 owing to lack of funds. The Government has stated that it has permanently shelved

the completion of the Belene plant. One research reactor is also in operation in the country.

The nuclear power sector is monitored by the Committee on the Use of Atomic Energy for Peaceful Purposes (CUAEPP), whose tasks are laid down in the Law on the Use of Atomic Energy for Peaceful Purposes. Over the past years, the CUAEPP has received substantial technical assistance, among others from the Union, for the strengthening of its working methods and for human resources development.

Nuclear fuel is supplied by Russia. In the past, it was partly fabricated from indigenous uranium and shipped to the then Soviet Union for processing. There is no uranium enrichment or fuel fabrication facility in the country. Spent fuel is not currently shipped back to Russia, but is stored on site in a pool. The construction of a facility for intermediate dry storage is planned. A policy on final storage of spent fuel needs to be developed. The cost of spent fuel treatment and plant decommissioning is presently not reflected in the electricity tariffs. A fund has been created for that purpose, but no payments had been made to it by early 1997. There is a need for a new national disposal facility for the radioactive wastes from Kozloduy and other producers.

Current and Prospective Assessment

A coherent overall energy policy has yet to be elaborated. The Government's 1995 "Strategy for the development of the energy sector", covering the period 1995-2010/2020 concentrated on increasing capacity for electricity production, paid little attention to the development of other energy sub-sectors and did not identify the likely sources of financing for the needed investments.

In its work programme, the current Government defines the energy sector as a national priority. The programme announces that the Government will concentrate on strengthening the legal framework for the energy sector, improving energy efficiency, the restructuring and gradual privatisation of the power utilities and the diversification of energy supply and energy usage.

The competition framework in the energy sector does not yet fulfil the directives of the internal energy market in combination with the application of EC competition law. Despite the applicability, in principle, of the 1991 "Law on Protection of Competition", to the energy sector, there is currently no legislation which addresses energy matter specifically. Adoption and implementation of the Energy Law is therefore crucial. The Concession Act foresees non-discriminatory access to hydrocarbon resources and is a good step towards matching EU rules in this respect.

The major companies which are responsible for energy production, transmission and distribution are state-owned, vertically integrated monopolies; the Government has announced privatisation. Liberalisation of oil trade should also be noted.

Energy prices have been increased significantly in the recent period. Since April 1997, gas prices appear to cover costs and electricity prices to cover operational costs but not yet investment and environmental costs, including those related to the decommissioning of nuclear power reactors and the management of nuclear waste. District heating prices are still subsidised, for social reasons. The lack of adequate prices in the past and, to a lesser extent, at the present moment have hampered the restructuring of the power sector.

There are no detailed plans known on future compliance with EC requirements on emergency preparedness, including the obligation to hold 90 days of oil stocks. The country's difficult financial situation will most likely hamper the building up these stocks in the short to medium term.

In the solid fuels sector a restructuring policy was envisaged in 1996 and will have to address the social and regional consequences. State interventions will need to be assessed against EC rules.

Bulgaria should make considerable efforts to adapt to EC energy efficiency (labelling appliances, minimum efficiency norms) and environmental norms (e.g. fuel quality). It may be difficult to adapt the country's refineries, which will have to compete in a saturated European market.

Bulgaria's accession could increase the EU's overall dependence on Russian uranium and enrichment. The nuclear materials supply policy of security through diversification of sources would however apply to supply contracts concluded after accession.

Upon accession, Bulgaria would need to comply with the provisions of the Euratom Treaty, in particular those related to supply of nuclear material, the nuclear common market, safeguards, health and safety and international agreements. Although Bulgaria is party to all of the international nuclear regimes in these fields, it has not yet implemented all of them in its national legal order. Some legislative adjustments would be necessary to permit Bulgaria to conform with the Euratom Treaty provisions on supply and property ownership. Since Bulgaria has a full-scope safeguards agreement with the IAEA, no major difficulties in applying Community legislation in this area are expected. The problem of nuclear safety needs to be dealt with and realistic programmes, including closure where necessary need to be agreed upon and implemented in due course. Continuous support to the safety authority, which has a considerable task to perform, should be foreseen in the coming years.

Conclusion

Bulgaria needs to step up considerably its efforts in the energy sector in order to prepare for integration. Particularly the following matters need close attention: the adjustment of monopolies including import and export; access to networks; energy pricing; emergency preparedness including the building up of mandatory oil stocks; restructuring and state interventions in the solid fuel sector, the development of energy efficiency and fuel quality standards. Bulgaria has to implement certain international nuclear regimes and make some legislative adjustments in order to comply with the Euratom Treaty.

Nuclear safety requires continued particular attention, with rapid implementation of agreed realistic programmes including closure where necessary. Longer term solutions for waste need to be found.

Transport

Community transport policy consists of policies and initiatives in three fundamental areas:

- Improving quality by developing integrated and competitive transport systems based on advanced technologies which also contribute to environmental and safety objectives.
- Improving the functioning of the single market in order to promote efficiency, choice and user-friendly provision of transport services while safeguarding social standards;
- Broadening the external dimension by improving transport links with third countries and fostering the access of EU operators to other transport markets(The Common Transport Policy Action programme, 1995-2000).

The Europe Agreement provides for approximation of legislation with Community law and co-operation aiming to restructure and modernise transport, the improvement of access to the transport market, the facilitation of transit and the achievement of operating standards comparable to those in the Community. The White Paper focuses on measures for the accomplishment of Internal Market conditions in the transport sector, including such aspects as competition, legislative harmonisation and standards.

Descriptive Summary

Bulgaria has a long border with Greece and is on the traditional route from the Middle East to Central and Western Europe. Three Pan-European Transport Corridors as identified at the Pan-European Conference in Crete cross Bulgarian territory, the fourth is the Danube, which forms most of Bulgaria's border with Romania. The war in former Yugoslavia led to a rise in transit traffic to and from Greece and to a diversion of transit traffic to and from the Middle East, this development caused congestion on Bulgaria's main roads, at border crossings and on the Danube river crossings.

Bulgaria's economic problems caused a sharp reduction in the demand for cargo and passenger transport for all modes. Exceptions were maritime cargo transport, resulting from a redirection of the Bulgarian fleet's operations out of the Black Sea basin, and air passenger transport. Overall transport demand has not yet recovered to its previous level, although it is now beginning to rise again. The substantial change in the modal split occurred in freight transport, with a significant increase in the share of road transport compared to other modes.

Bulgaria has been faced with the need to invest in significant improvements to its road network and there is a need to develop previously very limited border-crossing infrastructure. The lack of investment in infrastructure and equipment for transport during the last decade poses major problems, especially in a situation where most public transport equipment will have to be imported. Much of the existing equipment originated from the former Soviet Union, so that substantial investments are needed to replace non-standard or out of date equipment.

Current and Prospective Assessment

As regards completion of the internal market, Bulgaria has made great efforts to implement the existing Community legislation. The international transport sector in Bulgaria already applies rules similar in part to the EC rules, particularly on inland waterways and combined transport. Regarding air transport, the draft Aviation Act is being amended to comply fully with EC rules. Yet major investments and implementation efforts are needed, notably in the safety field. Safety legislation and its implementation has to be strengthened. The need for fleet renewal could also pose considerable funding problems. In the maritime sector, the principal cause of delays in implementing the existing Community legislation is safety, on which Bulgaria is still some way from Union standards.

Bulgarian road freight transport is not in full conformity with the current Community legislation. Points to be monitored during the pre-accession period include measures on road safety, weights and dimensions and user charges. Full compliance with Community rules on weights and dimensions needs to be ensured in order not to restrict the ability of the Bulgarian network to accept EU vehicles.

Rail and passenger transport by road pose fewer problems than other sectors with regard to implementation of the existing Community legislation, although clarifications are needed and further efforts must be made in the rail sector. By contrast, greater caution is called for on the actual operation of these two markets, since the structural changes (private management, opening-up to competition, etc.) are only just starting.

The Bulgarian authorities have taken account of the objective of developing an integrated and competitive transport system. The two principal constraints in this area are likely to be achieve acceptable safety standards and optimum use of the transport system. Bulgaria has made encouraging progress on safety, but is still far from Community standards, particularly for air, sea and road. As regards the objective of cohesion within the transport system, Bulgaria will probably have to face a steady increase in road's share and to concentrate its efforts on use of rail and inland waterway, given the weakness of its road network compared with the railways and inland waterways.

The transition from a controlled economy, giving precedence to the use of rail and inland waterway, to a market economy giving users a free choice of mode of transport, will lead to a shift of traffic onto roads. This has not yet been fully completed in Bulgaria. In this context, the Government programme prioritises the maximum establishment of private market principles in the transport sector, including the restructuring and privatisation of Bulgarian State Railways (BDZ) and Balkan Air and as part of the general withdrawal of the state from the ownership and management of transport companies.

To improve links with the Member States and its neighbours, between 1995 and 1999 Bulgaria plans to invest ECU 0.6 billion from its own budget in transport infrastructure used by international traffic, principally the pan-European corridors. This is equivalent to around 1.2% of GDP, but will probably not be enough to meet the needs, given the current state of the road network, particularly the deviation from the technical characteristics for heavy goods vehicles from the Community. Any cuts in this amount, as a result of budgetary constraints, could further aggravate this weakness.

Conclusion

Bulgaria has made progress with implementing the existing Community legislation on transport. Rapid alignment is necessary; in this respect, maritime, air and road freight are the sectors posing the most potential problems, particularly on safety. In the other sectors, particularly rail, implementation of the existing Community legislation in practice must still be monitored.

It will also be necessary to make sure that the resources necessary to lay the foundation for extension of the future trans-European transport network to the acceding countries are provided, and rapidly to compensate for the current shortcomings in the road network and the consequences of implementation of the existing Community legislation on fleet renewal. It would also be necessary rapidly and systematically to reinforce Bulgaria's administrative structures, including the supervisory bodies, for example for safety.

Small and Medium Enterprises

EU enterprise policy aims at encouraging a favourable environment for the development of SMEs throughout the EU, at improving their competitiveness and encouraging their Europeanisation and internationalisation. It is characterised by a high degree of subsidiarity. The complementary role of the Community is defined and implemented through a Multiannual Programme for SMEs in the EU. This programme provides the legal and budgetary basis for the Community's specific SME policy actions. The *acquis* has so far been limited to recommendations on specific areas, although legislation in other sectors also affects SMEs (e.g. competition, environment, company law).

The Europe Agreement provides for co-operation to develop and strengthen SMEs, in particular in the private sector, inter alia through provision of information and assistance on legal, administrative and tax conditions. The White Paper contains no specific measures.

Descriptive Summary

From a virtual non-existence in the late 1980s, private sector has grown to account for 38% of value added in 1995 and approximately 41% of total employment. By the end of 1996, 321,000 private companies were registered (a significant increase over the preceding three years) compared to 20,000 public owned companies. Data on the size of private companies are not collected, but all available sources suggest that the vast majority are micro-enterprises with less than five employees. The majority of the private entities are engaged in trading and the provision of services to individuals and companies.

Private companies have to face an unstable economic environment, high interest rates, high and unstable taxation and legislative uncertainty as the principal constraint to the expansion of their activities. There is no special legal framework in place for SMEs in Bulgaria. An SME Fund was established in 1991 under the auspices of Ministry of Industry to assist the setting up of small private enterprise through the provision of loans at favourable interest rates. Regional development agencies, business support centres and an SME credit line have been set up with Phare assistance. A certain SME support is also available through non-governmental organisations, such as the Chamber of Commerce and Industry.

Successive Governments repeatedly pledged their support for the set-up of a national SME Agency; a Government decree is reportedly to be adopted in the near future.

The on-going efforts to strengthen the SMEs during the pre-accession period will therefore need to be continued.

Current and Prospective Assessment

Overcoming the barriers for private sector growth in Bulgaria will require a determined effort to stabilise the macro economic environment, simplify legislation and administrative routines, strengthening of the support infrastructure, improvement of the tax environment, and development of SME access to financing. This task will take several years.

The previous economic policies and the legislative, fiscal and administrative environment have not been conducive to SME development. Given the restructuring efforts required for Bulgaria's larger state-owned enterprises, appropriate incentives and support structures for SMEs are needed. Recent Government initiatives are encouraging in that respect.

Conclusion

There are no specific problems regarding Bulgaria's integration in this field.

3.5 Economic and Social Cohesion

Employment and Social Affairs

Community social policy has been developed through a variety of instruments such as legal provisions, the European Social Fund and actions focused on specific issues, including public health, poverty and the disabled. The legal *acquis* covers health and safety at work, labour law and working conditions, equal opportunities for men and women, social security co-ordination for migrant workers and tobacco products. Social legislation in the Union has been characterised by laying down minimum standards. In addition, the social dialogue at European level is enshrined in the Treaty (Article 118B), and the Protocol on social policy refers to consultation of the social partners and measures to facilitate the social dialogue.

The Europe Agreement provides for approximation of legislation with EC law and co-operation on improving standards of health and safety at work, labour market policies and the modernisation of the social security system. It also provides for Community workers legally employed in Bulgaria to be treated without discrimination on grounds of nationality as regards their working conditions. The White Paper provides for measures of approximation in all the areas of the *acquis*.

Descriptive Summary

In Bulgaria the framework for dealing with socio-economic problems in a dialogue with the social partners is still embryonic. The social dialogue is mainly a tripartite

consultation procedure involving the trade unions, the employers and the State, which leaves the final decision with the competent government body. It takes place within the framework of the "National Council for Tripartite Co-operation". Until recently the trade unions were reluctant to participate in the tripartite co-operation structures because of the dominant role of the government. There are two major trade unions which are members of the European Trade Union Confederation (ETUC) and four other recognised trade unions, while the employers' side is made up of a number of bodies, representing the public and private sector's interests. Further progress in the privatisation process may help to create a more balanced social dialogue.

Since the transition, the decline of the state sector has been dramatic, the growth of the private sector has been moderate and unemployment has risen sharply. In 1996, it was down to 13.7% from 20.5% in 1994, according to ILO methodology.

Bulgaria has started to develop modern labour market policies, regulations and institutions. This process will have to be pursued within the framework of the government's policy for structural reforms.

Although the social security system covers the majority of social risks including sickness, accident and health care and social assistance schemes, the actual level of benefits provides inadequate protection against poverty: in late 1996, more than 40% of the population lived below the official poverty line. The number of people insured against social risks has gone down from more than four million in 1990 to less than three million in 1994, but the figures have started rising again. The share of GDP spent on social security is relatively low, at about 10% in 1995 (reduced from 12% in 1990). Continued efforts are required to ensure that measures of social protection are developed.

The overall health situation in Bulgaria is grave. The health system is faced with major difficulties, including on occasion a shortage of medicine and basic medical instruments.

Current and Prospective Assessment

While Bulgaria has started to adapt its legislation relating to specific EU practices for health and safety at the workplace, the requirements and principles of the 1989 framework Directive have not been met. It remains uncertain to what extent an independent inspection structure is in place to ensure an equal and proper application of the health and safety standards. The existing structure has neither the mandate nor the resources to ensure the proper enforcement of occupational health and safety standards.

Major adjustments are needed in the area of labour law, both at the level of legislation and the structures for enforcement. Legislation to ensure proper consultative roles for employees and their representatives in situations such as collective redundancies or transfer of undertakings is incomplete. Similarly, there are no specific provisions regarding the protection of employees in the event of the insolvency of the employer and collective dismissals. Laws and regulations relating to the conditions of employment, such as employment contracts, protection of young people at work and working time need to be completed and properly enforced.

Concerning equal opportunity, the basic provisions of EC non discrimination law between women and men are covered by Bulgarian legislation. But the laws in favour of women are not always applied in practice, and the situation of women appears to have deteriorated. Industrial tribunals do not exist, and it is not clear whether discrimination cases can be taken to the normal court.

Concerning the right to the free movement of workers, there would appear to be no obstacles to prevent Bulgaria from being able to implement the provisions of the *acquis* in this area. The introduction of the right to free movement will however require changes in the national law, particularly as regards access to employment and a treatment free from discrimination on grounds of nationality.

In the field of social security for migrant workers, accession does not, in principle, pose major problems but certain technical adaptations will be necessary. More important is the administrative capacity to apply the detailed co-ordination rules in co-operation with the other countries. Bulgaria will have to develop the necessary administrative structures to work within the co-ordination system.

Bulgarian legislation covering the EC directives on the warning labelling of cigarettes packages and the maximum tar-content has been adopted.

Conclusion

Compatibility with EC standards is low, and existing measures are not always applied in accordance with ECU practice. The social system is in need of reform, and the social dialogue needs to be improved. Very considerable efforts will be needed to ensure effective implementation. Substantive progress is required on legislation alignment and the application of the *acquis* before Bulgaria will be able to take on the obligations of membership.

Regional Policy and Cohesion

In accordance with Title XIV of the Treaty, the Community supports the strengthening of cohesion, mainly through the Structural Funds. Bulgaria will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

The Europe Agreement provides for co-operation on regional development and spatial planning, notably through the exchange of information between local, regional and national authorities and the exchange of civil servants and experts. The White Paper contains no specific provisions.

Descriptive Summary

In 1995, Bulgarian GDP per capita was around 24 % of the EC average and real unemployment was 14 %. The worst hit region Montana (19.6%) has a registered unemployment rate close to 15 percentage points higher than that of Sofia (4.5%).

The current process of structural adjustment at regional level is influenced by two main factors :

- regionally differentiated decline of industrial and agricultural activities. Most significant is the decline in manufacturing industry in the regions of Haskovo, Russe and Varna. For agriculture, the most affected regions are Bourgas, Varna and Plovdiv.

- regional disparities as regards pre-conditions to economic development due to varying endowments of among others infrastructure and human resources.

There is also some concern about the border areas, because of their depopulation and isolation.

Bulgaria is divided into nine regions which are administrative units for state governance. 255 self-governing municipalities form the basic administrative and territorial units for the implementation of self government. Bulgaria is currently elaborating an administrative reform envisaging to replace the nine regions with 12 to 21 districts to which right of self-government might be granted.

Following the "National directives for Regional development" adopted in 1994, the structural adjustment policy is developed at national level on a sectoral basis, which can include specific consideration to regional problems. Draft legislation on regional policies based on EC practices and plans to establish a Regional Development Fund is under preparation.

The Ministry of Regional Development and Construction is the leading government institution. Its role has traditionally focused on infrastructure development, in particular water resources and utilities, construction, energy connections and spatial planning.

A consultative council for cross-border policies, infrastructure and local authorities has been established to co-ordinate regional development initiatives implemented through sectoral policies.

The financial assistance to municipalities in crisis constitutes Bulgaria's main regional development measure. However, the share of Bulgaria's development related expenditure constituting potential counterpart funds to the EC structural policy cannot yet be determined. Therefore, Bulgaria's co-financement capacity cannot presently be evaluated with sufficient reliability.

Current and Prospective Assessment

Bulgaria's regional development initiatives are implemented within the framework of sectoral policies. Nevertheless, it is a growing awareness of rising regional disparities and the need for an active regional policy involving all government levels.

At present, however, there is no coherent set of strategies, administrative framework and budgetary instruments for a regional development policy and the Regional Development Fund due to operate in January 1997 has not yet been set up.

Conclusion

Bulgarian authorities manifest increased awareness of the need to counteract rising regional disparities through an efficient regional policy. However, its administrative capacity to manage integrated regional development programmes needs to be improved. In particular, administrative and budgetary procedures need to be

strengthened. Significant reforms are still necessary including the establishment of efficient inter-ministerial co-ordination and the introduction of appropriate counterpart funds before Bulgaria is able to apply Community rules and to channel effectively the funds from the EC structural policies.

3.6 Quality of Life and Environment

Environment

The Union's environmental policy, derived from the Treaty, aims towards sustainability based on the integration of environmental protection into EU sectoral policies, preventive action, the polluter pays principle, fighting environmental damage at the source, and shared responsibility. The *acquis* comprises approximately 200 legal acts covering a wide range of matters, including water and air pollution, management of waste and chemicals, biotechnology, radiation protection, and nature protection. Member states are required to ensure that an environmental impact assessment is carried out before development consent is granted for certain public and private projects.

The Europe Agreement stipulates that Bulgarian development policies shall be guided by the principle of sustainable development and should fully incorporate environmental considerations. It also identifies environment as a priority for bilateral co-operation, as well as an area for approximation of legislation to that of the Community.

The White Paper covers only a small part of the environmental *acquis*, namely product-related legislation, which is directly related to the free circulation of goods.

Descriptive Summary

Bulgaria's environmental problems are very serious, and have not been effectively addressed. Bulgaria has high emissions of air pollutants, in particular sulphur dioxide and particulates originating from thermal power plants, heavy industry, domestic heating and motor vehicles. Local air quality poses significant risks to human health. Waste is an area of major concern: waste management practices are elementary, especially for disposal activities, and incineration is not regulated. Soil pollution and erosion are also serious. Groundwater quality is generally good for drinking water supply. However, in localised areas there are problems of contamination by metals, as well as by sulphates and nitrates from fertilisers. Bulgaria enjoys an impressive bio-diversity and the protection of the country's natural heritage has traditionally been a priority.

After 1990, a Ministry of Environment was created, and an environmental framework law was passed (1990, amended subsequently), introducing *inter alia* the "polluter pays" principle and environmental impact assessment. An environmental strategy was formulated in 1992 and updated in 1994.. The strategy lays down further development of the institutional, legal and regulatory framework and identifies areas that require priority actions, namely - among others - air emissions of lead and other heavy metals and possible contamination of drinking water and food supplies. The National Environmental Protection Fund, set up in 1995 and financed principally from fines and taxes for industrial pollution and fuel, provides grants and loans to

municipalities and enterprises for environmental measures. Up to now, environmental spending in Bulgaria has been low.

Legislation, including regulations on Environmental Impact Assessment remains inadequate. *Air* emission standards are inadequate for some substances, and existing standards are not uniformly enforced. However, an air pollution law has been drafted which proposes the introduction of a system of permits. Standards for emissions to *water* are inadequate, although a new water act has been drafted. Apart from the area of hazardous waste for which some regulations exist, there is no coherent national policy or legislation for *waste* management. There is no official control of waste management practices and no specific legislation on incineration of waste. Not all types of waste are listed in a recently drafted waste law. Regulations on chemical substances and agricultural pollution are lacking or need updating. The same is true for radiation protection, where there is moreover a lack of safety culture. The Rovi Han radioactive waste repository does not meet the safety objectives generally accepted in the EU.

In its programme, the Government announces a new environmental strategy, new legislation, including laws on water and nature protection, as well as fiscal incentives for environmental investments.

Current and Prospective Assessment

Though the whole of Bulgarian environmental legislation is undergoing revision, and new legislation tends to adopt or approach EC standards (for instance the draft water act), the level of approximation is still low in most areas, including air and water quality, waste management, chemical substances, radiation protection and nature protection. Regulations on Environmental Impact Assessment need to be further developed, as recent amendments have substantially weakened its impact. Particular attention should be given to the quick transposition of framework directives dealing with air, waste, water and the Integrated Pollution Prevention Control directive (IPPC), as well as the establishment of financing strategies for legislation in the water, air and waste sectors requiring major investments.

With respect to effective compliance with EC environmental standards, Bulgaria still has to make even greater progress. The national environmental monitoring network has been strengthened in recent years, but effective enforcement of regulations also requires appropriate political will and adequate staffing in national and municipal institutions. Very important investment will be needed for effective implementation of EC standards in most areas, particularly in water quality, urban waste and in the modernisation of industry. Considerable efforts will also be necessary to build the administrative capacity that will allow the country to fully adopt, implement and enforce EC legislation. The country's' environmental accession strategy should include implementation timetables for meeting the EC environmental *acquis*, starting amongst others with implementation of the framework and IPPC directives mentioned above.

Conclusion

Compliance with the EC *acquis* presupposes a positive turn in the economic situation and will necessitate greater and consistent emphasis on environmental issues, large-scale investment, as well as development of a comprehensive, cost-effective and focused environmental strategy and of adequate implementation and

enforcement structures. If such a strategy is followed, full transposition of the *acquis* could be achieved in the medium to long term. However, effective compliance with a number of pieces of legislation requiring a sustained high level of investment and considerable administrative effort (e.g. urban waste water treatment, drinking water, aspects of waste management and air pollution legislation) could be achieved only in the very long term.

Consumer Protection

The Community *acquis* covers protection of the economic interests of consumers (including control of misleading advertising, indication of prices, consumer credit, unfair contract terms, distance selling, package travel, sales away from business premises and timeshare property) as well as the general safety of goods and the specific sectors of cosmetics, textile names and toys.

The Europe Agreement provides for approximation of legislation with EC law and co-operation with a view to achieving full compatibility between the systems of consumer protection in Bulgaria and the Community. Stage I measures of the White Paper focus on improving product safety, including cosmetics, textiles and toys, and on the protection of economic interests, notably measures on misleading advertising, consumer credit, unfair terms and indication of prices. Stage II measures relate to package travel, sales away from business premises and time share property. New EC legislation which has been adopted recently (distance selling) or will be adopted soon (comparative advertising, price indication) will also need to be taken into account.

Descriptive Summary

The Constitution refers to consumer protection and freedom of competition as fundamental economic principles. A draft law on Consumer Protection has been under discussion for some time. Meanwhile, the area is regulated by a number of specific laws.

There is no particular institution in charge of creating consumer policy and enforcing consumer protection legislation. Various ministries are involved in the preparation and monitoring of consumer legislation but there is no single co-ordinating body. Created in 1990, the Federation of Consumers is the only organisation in Bulgaria dealing specifically with the interests of consumers. It is an independent federation made up of consumer unions and clubs and responsible for providing consumer advice and information as well as campaigning and lobbying the government.

Current and Prospective Assessment

There is a need to establish an independent body overseeing consumer affairs. Although the adoption of the planned law on Consumer Protection could remedy many shortcomings, there are still a number of gaps. On the economic protection of consumers, substantial amendments will need to be made to existing legislation concerning the indication of prices, misleading advertising, unfair contract terms and consumer credit. New legislation will have to be introduced in areas such as sales away from business premises, distance selling and package travel.

Since the Bulgarian legislation does not include any general provisions on standards for product safety, the adoption of a new law on Consumer Protection would be a step further in the approximation of legislation with European law. There is no known legislation imposing labelling requirements for clothes and textile products while adjustments will be required to existing legislation on the safety of toys. Legislation on cosmetics is, in general, close to European law, but some changes are needed to ensure full compatibility.

In their national strategy paper for the implementation of the White Paper, the Bulgarian authorities announce that the transposition of consumer protection directives into national law should be completed by late 1998.

The development of a strong and independent consumer movement, sustained by public authorities, will need to accompany the introduction of the *acquis*.

Conclusion

If Bulgaria is to comply with EC standards on the protection of consumer interests, she will need to accelerate her preparation of consumer policy legislation considerably. Although she has started the approximation process under the Europe Agreements, the main principles of the *acquis* have not yet been transposed into Bulgarian law. Achieving full compatibility in the medium term will require commitment and substantial efforts.

3.7 Justice and Home Affairs

The Present Provisions

The Justice and Home Affairs (JHA) *acquis* principally derives from the framework for co-operation set out in Title VI (Article K) of the Treaty on European Union (TEU), "the third pillar", although certain "first pillar" (EC Treaty) provisions and legislative measures are also closely linked.

The EC JHA framework primarily covers: asylum; control of external borders and immigration; customs co-operation and police co-operation against serious crime, including drug trafficking; and judicial co-operation on criminal and civil matters. The TEU stipulates key principles upon which such co-operation is based, notably the European Convention on Human Rights and the 1951 Geneva Convention on the Status of Refugees. It is also based implicitly on a range of international conventions concerning its fields of interest, notably those of the Council of Europe, the United Nations and the Hague Conference. The legislative content of third pillar *acquis* is different from the first pillar; it consists of conventions, joint actions, joint positions and resolutions, (including the agreed elements of draft instruments which are in negotiation). A number of EU conventions (including the 1990 Dublin Convention, and conventions relating to extradition, fraud and EUROPOL) have been agreed by the Council and are now in the process of ratification by national Parliaments; several other conventions, including one on external frontiers are in various stages of negotiation in the Council. The JHA *acquis* involves a high degree of practical co-operation, as well as legislation and its effective implementation.

The New Treaty

For many of the above matters, the entry into force of the Treaty resulting from the Amsterdam Inter-Governmental Conference will mark the end of the current cooperation framework.

Reiterating the objective of developing the Union into an “area of freedom, security and justice”, the new Treaty brings these matters, including the free movement of persons, asylum and immigration, into the Community’s sphere of competence.

On the free movement of persons in particular, the new Treaty provides for the incorporation of the Schengen *acquis* into the framework of the European Union and binds any candidate for EU membership to accept that *acquis* in full.

With regard to matters remaining within the cooperation framework, i.e. policing and criminal justice, the new Treaty provides for the reinforcement of the cooperation system.

The Europe Agreement and the White Paper

The Europe Agreement includes provision for co-operation in the fight against drug abuse and money laundering.

The White Paper does not deal directly with third pillar subjects, but reference is made to first pillar matters such as money laundering and freedom of movement of persons which are closely related to Justice and Home Affairs considerations. Reference is also made to the Brussels and Rome conventions.

Descriptive Summary

General Preconditions for JHA Cooperation

Bulgaria joined the Council of Europe in 1992 and ratified in October 1996 the most important instruments concerning human rights, except that concerning minorities. There is provision for an independent judiciary according to the rule of law.

Some progress has been made on reform of JHA institutions but there is still much to do in tackling problems such as the need to embed respect for the rule of law, structural and staffing deficiencies, and institutional corruption. Bulgarian legislation only gives minimum guarantees for data protection and with the advice of the Council of Europe Bulgaria is beginning the preparation of a comprehensive data protection system. (See also separate section on Single Market).

Asylum

Bulgaria acceded in 1992 to the Geneva Convention of 1951 and the 1967 Protocol. At present the convention has direct effect and is implemented by decree through an ordinance regulating refugee status and asylum procedures, administered by the National Bureau on Territorial Asylum and Refugees (NBTAR). Some 850 applications for refugee status were made in 1995. Current procedures do not match international standards in a number of respects, especially in relation to interviewing and expulsion procedures. Responsible officials and NGO staff have little knowledge of foreign circumstances and legislation and there is a major shortage of resources. A new draft law designed to regulate asylum procedures more effectively is currently in preparation.

Immigration/Border Control Since 1989 many Bulgarians have sought work in EU countries, notably Germany and Greece. Bulgaria is now becoming a transit country for third country migrants, from Asia and Africa as well as the NIS, seeking to cross to the EU. Because of concerns about emigration trends, abuses of the immigration system and other relevant factors such as drug trafficking through the Balkan route, the EU decided to include Bulgaria and Romania on the list of third countries for which visas are required. The Bulgarian authorities are now seeking to put in place measures which effectively tighten the visa regime.

The admission system is also being strengthened, with rules on residence and work permits and naturalisation being tightened, especially for risk countries. In March 1997 the Bulgarian Government decided to introduce a visa free regime for citizens of EU/EEA countries. Bulgaria is also tightening up enforcement procedures, deportation procedures and penalties for illegal immigration and have put in place sanctions against carriers. Bulgaria has readmission agreements with Germany, Greece, France, Spain, Poland, Slovakia, Slovenia and Lithuania and is preparing agreements with Portugal, the Benelux countries, Denmark, the Czech Republic and Romania. It does not have such an agreement with Turkey. The Bulgarian border management system is currently being reformed, introducing common information systems, document control and improved surveillance. Responsibility is split between the military (Turkish border, reflecting arrangements during the Warsaw Pact period) and the border guard, but plans are now being implemented to create a single, civilian national border guard.

Police Cooperation

Since 1990 there has been a significant increase in organised crime in Bulgaria, covering many areas including trafficking in women, protection and other rackets, extortion, economic crime and smuggling of many items, including drugs. Most groups are of local origin but there are close connections to foreign groups. The Government is developing a national coordinated programme to counter organised crime and is aiming to revise the criminal code to tackle such crimes more effectively. The lead agency is the Ministry of the Interior's Central Agency for Combating Organised Crime. Co-ordination with other relevant services (Customs, Finance, Justice) has been poor but the Government is seeking to improve it. Bulgaria is party to the 1990 Money Laundering Convention and adopted in May 1996 a Money Laundering Act. Considerable work remains to be done, however, to enable the system to work effectively in practice. (See also separate section on Single Market). Bulgaria has ratified the main terrorism conventions. It does not consider there to be terrorist activity within the country, but there is some evidence of terrorists using the country for transit.

Drugs

Bulgaria is a major transit country for drugs trafficking and domestic demand is increasing. The main drug transiting Bulgaria is heroin, but seizures indicate an increase in cannabis transit. There is some domestic drugs production of opium poppies. Bulgaria is party to the main international drugs conventions. The Government is setting up a national council to pursue a global strategy to counter drug abuse and trafficking. It has prepared draft laws to strengthen the control of narcotic and synthetic drugs and precursors and has set up special anti-drugs units in the police and customs.

Judicial Cooperation

Bulgaria has ratified the key criminal conventions and the criminal procedure code allows for judicial cooperation, but the implementation regulations for the conventions are not in place. In the civil field the procedure code allows for certain judicial cooperation procedures and Bulgaria has ratified the commercial arbitration convention but has still to tackle the Hague Conventions. Overall the Bulgarian judicial system suffers from severe resource shortages, has little experience of judicial cooperation and has only limited expertise in foreign legal systems. The process of institution building and setting out the rules for the functioning of judicial structures is underway. A programme for the reform of the Bulgarian judicial system was approved in December 1996.

Current and Prospective Assessment

Bulgaria has begun to take the steps in all key areas of JHA to work towards EU requirements. In the legislative field most (but not all) key measures are either in place or in preparation. The difficulties Bulgaria is facing over its relations in the visa field with the EU are leading to considerable efforts on the part of the Government to strengthen the visa and admission systems to bring them more into line with EU systems, but there is still some way to go to achieve alignment with the *acquis*. Bulgaria is heavily affected by organised crime and drug trafficking. The Government response is significant and having some effect but the scale of the task is large. For the most part Bulgarian officials have little if any practical experience of working with EU counterparts and institutions. Given the transnational nature of the JHA problems facing Bulgaria (immigration policy, drugs, organised crime) as well as its Balkan neighbours there is also a need to develop more effective regional cooperation mechanisms in these fields.

Conclusion

Given the scale of the problems facing Bulgaria in the JHA field, it will be difficult to meet the *acquis* (present and future) requirements in the medium term. To achieve this a major, sustained effort will be needed, with particular emphasis on improving the efficiency and effectiveness of JHA institutions.

3.8 External Policies

Trade and International Economic Relations

The *acquis* in this field is made up principally of the Community's multilateral and bilateral commercial policy commitments, and its autonomous commercial defence instruments.

The Europe Agreement includes provisions in several areas requiring parties to act in accordance with WTO/ GATT principles, or other relevant international obligations.

The White Paper includes no provisions in this field.

Descriptive Summary

Bulgaria is a member of the World Trade Organisation (WTO), and has observer status in the Government Procurement Agreement. Upon accession Bulgaria would have to comply with the obligations of the plurilateral WTO agreements to which the Community is a party.

At present Bulgaria does not maintain quantitative restrictions on any textile or clothing products. On accession the Community textiles policy would be extended to Bulgaria; any Community restrictions still maintained at the date of accession would require adjustment by an appropriate amount to take account of Bulgarian accession.

Bulgaria maintains balance of payments restrictions which will have to be phased out prior to accession. The Bulgarian authorities have agreed to begin phasing out as soon as the balance of payments situation improves.

Current and Prospective Assessment

On accession Bulgaria would have to apply the Community's Common Customs Tariff, and the external trade provisions of the Common Agricultural Policy. The post Uruguay Round weighted average level of most favoured nation duties for industrial products will be 16.4% for Bulgaria and 3.6% for the Community. The progressive implementation of free trade between Bulgaria and the Community by the time of accession will, however, reduce the impact on the domestic industry of applying the lower Community Common Customs Tariff.

In its relations with international organisations Bulgaria should ensure that its actions and commitments respect the Europe Agreement and ensure a harmonious adoption of its future obligations as a member of the Community.

On accession Bulgaria would become party to the Community's various preferential agreements. Preferential agreements between Bulgaria and third countries would, in general, have to be terminated on accession.

Bulgaria's export restrictions on ferrous scrap are due to be eliminated by the end of 1997.

In the area of trade in services and establishment, Bulgaria is engaged in a process which should enable it to bring its multilateral commitments more closely into line with those of the Community, wherever necessary.

On accession Bulgaria would have to repeal national legislation in the field of commercial defence instruments, and EC legislation would become applicable there.

Experience from previous accessions has shown that the automatic extension of existing anti-dumping measures to new member states prompts third countries to raise problems in terms of the compatibility of this approach with relevant WTO provisions. It has also shown that accession creates a potential for circumventing measures adopted by the Community under the commercial defence instruments. This happens when, prior to accession, substantial quantities of the products subject to measures are exported to the territory of the future member state and, on accession, are automatically released for free circulation in the enlarged customs territory. These two problems would have to be addressed during Bulgaria's pre-accession phase.

Bulgaria is a member of two out of four existing regimes for the non-proliferation of weapons of mass destruction, is a candidate for admission to a third, and has expressed interest in joining the fourth one. Bulgaria is expected to shortly approve the EU control list of dual-use items. Arms export is also controlled. It is difficult to assess the extent to which export controls are effectively enforced, and whether certain reservations are justified, but Bulgaria appears to have no major problems applying EC legislation in this field.

Conclusion

Bulgaria should be able to meet Community requirements in this field in the medium term.

Development

The *acquis* in the development sector is made up principally of the Lomé Convention, which runs until early 2000.

Neither the Europe Agreement or the White Paper include provisions in this field.

Descriptive Summary

Bulgaria has a number of trade agreements with ACP countries, based on Most Favoured Nation treatment. Under its GSP scheme Bulgaria grants a degree of preferential treatment in the form of reduced duties to a number of ACP countries, and grants duty free access to those ACP countries considered as Least Developed Countries.

Bulgaria has no budget for development aid, although it has participated in actions to support internationally developing countries, including the granting of humanitarian aid.

Current and Prospective Assessment

On accession, Bulgaria should apply its preferential trade regime to the ACP States and participate, together with the other member states, in financing the European Development Fund (EDF), which provides financial aid under the Lomé Convention.

Applying the Lomé trade regime should not generally be a source of difficulties for Bulgaria.

Normally, new member states accede to the Lomé Convention by means of a protocol on the date of their accession to the EU.

Conclusion

Bulgaria is well placed to be able to meet EU requirements in this field in the next few years.

Customs

The *acquis* in this sector is the Community Customs Code and its implementing provisions; the EC's Combined Nomenclature; the Common Customs Tariff including trade preferences, tariff quotas and tariff suspensions; and other customs-related legislation outside the scope of the customs code.

The Europe Agreement covers the establishment of a free trade area with the Community and the progressive removal of customs duties on a wide range of products, according to clear timetables starting from the date of entry into force of the agreement.

The White Paper includes in Stage I, measures to consolidate and streamline the free trade established under the Europe Agreement, including legislation compatible with the Customs Code, Combined Nomenclature, etc. Stage II concerns the adoption of the full Community legislation, with a view to joining the customs union upon accession.

Descriptive Summary

On accession the Bulgarian customs authorities would be required to assume all the responsibilities necessary for the protection and control of their part of the EU's external border. Besides the provisions on indirect taxation, they would be responsible for the implementation and enforcement at the external border of the Community's common commercial policy, the common agricultural policy, the common fisheries policy etc.

Bulgaria's capacity fully to apply the *acquis* presupposes the possibility to adopt and implement the Community legislation; and the existence of an adequate level of infrastructure and equipment, in particular in terms of computerisation and investigation means and the establishment of an efficient customs organisation with a sufficient number of qualified and motivated staff showing a high degree of integrity.

Bulgarian legislation in the customs field dates from 1960. With the support of the technical assistance provided by customs programmes, Bulgaria is gradually drafting legislation harmonised with the Community's customs code.

Bulgaria aligned its national goods nomenclatures to the Community's Combined Nomenclature in 1996. The Bulgarian administration does not yet have an Integrated Tariff. This will make the comparison of the Bulgarian tariff rates with the Common Customs Tariff rates difficult. Bulgaria is not yet familiar with the Community's Binding Tariff Information system.

Bulgaria adopted on 1 January 1997 the new system of cumulation of origin between European countries.

Bulgaria has applied to become a contracting party to the EC/EFTA Common Transit Convention and the Single Administrative Document Convention. A Community task force is assisting Bulgaria in this field, but development is hindered by difficulties in the area of guarantees. Accession to the Transit Convention will require a period of considerable further preparation.

Current and Prospective Assessment

Bulgaria would need to adapt its national procedures to the Community's legislation regarding suspensive arrangements and customs procedures with economic impact. At the moment of accession, some transitional arrangements would be needed, notably for operations beginning before the date of accession but which are concluded after that date.

In its trading relations with the European Community, Bulgaria will have to fully abolish the remaining charges having equivalent effect to customs duties such as the customs clearance fee still applied in spite of its being in contravention of the Europe Agreement.

It will be important that the Bulgarian customs authorities can participate appropriately in the various computerised systems necessary for the management, in the customs union/internal market, of the customs and indirect tax provisions, as well as the computerised systems for mutual administrative assistance in customs, agricultural and indirect tax matters.

Bulgaria would need on accession to dismantle customs controls at the border with EU member states and with other acceding countries. The resources needed for the reinforcement of the border posts along its frontiers with non-EU member states should be taken into account in its strategic planning.

Difficulties have arisen over possible non-compliance with the Europe Agreement, concerning re-export of sensitive products outside the EU.

Conclusion

The Bulgarian Customs Administration is in the process of reorganisation. It will be necessary to align the organisation to the duties that have to be carried out by a modern customs organisation. Low salaries make it difficult to recruit staff.

It seems unlikely that Bulgaria will be ready to fulfil the responsibilities of an EC customs administration within the next few years.

Common Foreign and Security Policy

Since 1989, Bulgaria has re-oriented its foreign and security policy towards European and Euro-Atlantic integration. Improvement of relations with neighbouring countries has also been a priority for successive Bulgarian governments. Bulgaria has been an active participant in the dialogue arrangements provided for under the Union's Common Foreign and Security Policy and when invited has supported EU actions within that framework. Bulgaria is a member of the UN, OSCE, Council of Europe and many other international organisations. It is an associate partner of WEU, a participant in NACC and PfP; and has made clear its desire to become a member of WEU and NATO as soon as possible.

It has participated in the reconstruction efforts in Bosnia and sent 50 police observers to the UN multinational force in Bosnia. It also participates in a number of regional organisations including the Black Sea Economic Co-operation, the trilateral arrangements with Romania and Greece, and the CEI. In 1996 it took the initiative in hosting a ministerial meeting in Sofia which adopted a declaration on regional co-operation.

There are no territorial disputes between Bulgaria and any member state of the Union, or with Romania.

Relations with Turkey have improved considerably in recent years with the democratic changes in Bulgaria and the reduction in ethnic tensions. But there remain a number of open issues including the demarcation of the borders and the continental shelf, defining the regions for flight information, the navigation regime through the Bosphorus straits and cultural matters. All these issues are currently under negotiation and are unlikely to pose a serious problem to bilateral relations.

Bulgaria was the first country to recognise the independence of FYROM on 15 January 1992. Since then relations have intensified and FYROM is an important trading partner of Bulgaria. Although no basic treaty has been signed because of the so called "language dispute" (Bulgaria does not recognise Macedonian as a separate language), the government recently stated its intention to resolve this matter.

Relations with the Federal Republic of Yugoslavia (FRY) stagnated during the period of armed conflict in the former Yugoslavia when Bulgaria adhered to the sanctions regime imposed by the UN Security Council. Since the agreement on trade and economic co-operation of 1995, relations between Bulgaria and FRY have gradually intensified, but the demarcation of the border remains to be settled and Bulgaria is concerned by the treatment of the Bulgarian minority in FRY.

Bulgaria has a sizeable diplomatic service which would permit it as a member of the Union to play an effective role. It maintains 87 representations abroad and employs 588 diplomatic staff.

Bulgaria supports non-proliferation of nuclear, biological and chemical weapons and is a signatory to all relevant international arms control agreements. It exercises strict control concerning the dual use of technology, being a member or candidate member of all the major existing export control regimes. The Bulgarian armed forces, which are being brought under democratic control, are being reorganised to meet NATO requirements. The defence industrial base has declined sharply in recent years and is also in the process of re-organisation in an attempt to meet NATO standards.

In the memorandum accompanying its application for membership of the Union, the Bulgarian government confirmed that it was ready and able to participate fully and actively in the Common Foreign and Security Policy.

The assessment of Bulgarian foreign and security policy to date leads to the expectation that as a member it could effectively fulfil its obligations in this field.

3.9 Financial Questions

Financial Control

The implementation of Community policies, especially for agriculture and the Structural Funds, requires efficient management and control systems for public expenditure, with provisions to fight fraud. Approximation of legislation is moreover needed to allow the system of "own resources" to be introduced, with satisfactory provision for accounting.

The Europe Agreement provides for cooperation in audit and financial control, including technical assistance from the Community as appropriate. The White Paper includes no measures in this field.

Descriptive Summary

The National Audit Office (NAO) is the highest external control body; originally established in 1880 but suspended in 1947, it was reinstated by a law in 1995; it is a legal entity funded by the budget, independent of the executive and accountable directly to Parliament. The general directorate of the NAO is established in Sofia. Its nine regional territorial offices, comprising 28 sectors, are based in the other main municipalities. The State and municipal budgets and all budget-supported organisations, foundations and funds established with budget resources or guaranteed by the government are subject to control by the NAO. Findings from inspections are legally binding on their subjects.

Within the government structures, the State Financial Control is a legal entity with its own budget within the Ministry of Finance, performing preventive and a posteriori controls. It consists of a general directorate and 28 regional offices. It effects control over the overall activities and oversees the internal control units in ministries and other public institutions.

Internal and external financial control bodies exercise documentary controls and controls of substance, including on-site inspection.

The tax administration and customs administration are both established as legal entities with their own budget within the Ministry of Finance. The tax administration effects preventive, current and a posteriori controls and it consists of a general directorate, regional and local tax offices. The customs administration exercises preventive control over imports, exports and foreign exchange valuables going through the state border. It is responsible for the establishment and the collection of import duties.

The judiciary system comprising courts, prosecutor's office and police are responsible for fighting fraud. The State Financial Control also investigates such

cases. The Central Office for Control of Organised Crime operates under the Ministry of the Interior.

Current and Prospective Assessment

The legislative basis of the NAO guarantees the institution's independence and establishes a proper basis for the autonomous development and execution of its activities, but its implementation has been slow due to budgetary and logistical constraints.

The Government's internal financial control faces the same problems as the public administration at large. It needs a thorough examination and reorganisation. The establishment of methodological guidelines for financial control would be needed as well. There is no central authority responsible for fighting fraud.

Further cooperation with the Commission will be needed to establish whether accounting procedures entirely fulfil the requirements of Regulation 1552/89. The tax and custom services need restructuring in order to ensure the effectiveness of tax collection.

The funding of agricultural policies only began fairly recently. The payment mechanism is already in place but the necessary steps in relation to controls over the payments are not in accordance with EC regulations.

Given the absence of a regional policy comparable to that of EU Member States, it is difficult to provide any assessment of the financial control tools in the field of regional development and regional development funding. Efficient monitoring, control and audit structures would need to be set up in this area.

Conclusion

Provided the current commitment continues, the National Audit Office could function in accordance to EC standards within the medium term.

Major efforts are essential to strengthen internal financial control functions.

Budgetary Implications

The communication entitled "Agenda2000" sets out the overall financial framework which should accommodate the budget impact of any future enlargements in the medium term. This is to ensure that any enlargement is compatible with proposed Community policy guidelines within reasonable budget limits.

As things stand, it would be difficult, not to say premature, to attempt precise country-by-country evaluations of the budgetary implications of each of the applicants joining the Union. Exactly what the impact would be may vary considerably depending on a whole series of factors:

- the date on which the applicant country joins;

- developments in Community policies between now and then, in particular the decisions to be taken on further reform of the common agricultural policy and new guidelines for structural measures;
- the progress made by the applicant countries in terms of growth, increasing their competitiveness and productivity and their ability to absorb the *acquis*;
- the transitional measures that will come out of the negotiations.

Only a few orders of magnitude for certain budget categories and an overall estimate can be given purely as a guide.

Expenditure

If the common agricultural policy were to be reformed along the lines suggested by the Commission, once the reforms were fully up and running and in terms of just market intervention measures, Bulgaria's accession would give rise to additional expenditure in the order of 1% in relation to likely expenditure on the present fifteen Member States.

After a phasing-in period, the allocations for structural measures in Bulgaria should total not more than around 4% of Bulgaria's GNP.

Application of the other internal Community policies in the new member countries would be likely to involve additional expenditure probably in excess of their relative proportion of Union GNP, since for certain policies the additional implementing costs also depend on the target population, the geographical area covered or the number of Member States involved in the coordination and harmonisation measures. The GNP of Bulgaria is currently 0.2% of total Union GNP.

By contrast, Bulgaria's accession should not involve significant additional expenditure as far as Union external action is concerned.

It should not be forgotten that when an applicant country joins, the Community budget will no longer have to bear the costs of grants the country was eligible for under the various pre-accession programmes, such as PHARE.

In light of the above, the estimated costs in the three areas mentioned arising from Bulgaria's accession should fall within the range of, annually, ECU 1.0 to 1.2 billion in 2005-06 (at constant 1997 prices).

Revenue

Assuming full application of the own resources system, the new members' contributions to the Community budget should, in terms of total GNP and VAT resources (taking account of the capping rules applying to VAT), be close to the proportion of the Union's GNP they account for, which in Bulgaria's case is in the order of 0.2%. Bulgaria's portion of traditional own resources will depend on the structure of its trade flows at the time of accession.

To ensure that the own resources are established, monitored and made available in line with Community regulations, Bulgaria will have to overhaul its current customs system. In addition, for the purposes of accurately calculating the GNP resource considerable improvements will have to be made to the national accounts to ensure that they are reliable, homogeneous and complete. Improving the statistics will also be essential for drawing up the VAT own resources base, which will mean bringing Bulgaria's VAT system fully into line with the Community directives.

4 Administrative Capacity to Apply the *Acquis*

The European Council in Madrid in December 1995 concluded that the harmonious integration into the EU of the central and eastern European applicant states would, in particular, require the adjustment of their administrative structures. This chapter examines the current state of the public administration in Bulgaria, including relevant aspects of the judicial system, and assesses the current and prospective ability to carry out the functions required of it in a modern, democratic state, with a particular focus on the need to administer matters related to the *acquis*.

4.1 Administrative Structures

A description of Bulgarian constitutional structures, their powers and responsibilities, including those of regional and local government, is given in Chapter 1.

At the central level there are 16 ministries, a coordinating Council of Ministers and a variety of specialised agencies charged with policy formulation and implementation in specific fields. The European Integration Department in the Ministry of Foreign Affairs coordinates EU accession related matters.

The main legal bases for the civil service are the Constitution and the Labour Code regarding the civil service. A law on the civil service was foreseen in the Constitution but has not yet been brought before the National Assembly.

Although the civil service is in principle politically independent, in practice many appointments down to middle-ranking levels in ministries and local government are changed when a new government or a new minister takes office.

In 1996, the central administration employed about 128,000 staff; major staff reductions have since taken place and are planned to continue over 1997, in the framework of the Government's structural reform programme. Salaries in the private sector are much higher than in the civil service. Officials are frequently dependent on secondary sources of income.

The present Government has made public administration reform a priority. In addition to the introduction of a civil service law, it aims to reform the state administration and create an open information culture towards the citizens. Backed by a unanimous declaration of the National Assembly adopted in May 1997, the Government has also undertaken a comprehensive fight against corruption. As regards the local administration, the Government intends to complete, by the end of 1997, a new legislative basis for local self-governance establishing a greater economic and financial independence for the municipalities.

For the improved coordination of European integration policy, the Government is considering setting up a special body, beyond existing arrangements. (See also the section of the Introduction concerning relations between the European Union and Bulgaria).

4.2 Administrative and Judicial Capacity

Bulgaria was administered under central planning during the communist period. The communist system rejected the primacy of the rule of law and subjugated the law and the administration to the implementation of Party policy. Against this background, both the administration and the rule of law itself increasingly came to be seen by the public as instruments of political control.

The administrative framework currently in place is generally adequate. However, its functioning in practice raises substantial problems. There is a need for reorganisation and the introduction of effective management and training methods. Decision making is centralised and coordination and information exchange within and between ministries is limited.

Many of the key ministries will require a major reform and reorganisation in the course of Bulgaria's progress toward EU membership. The audit and financial control organs, in particular, will require further development. A review of the division of responsibilities among Government institutions, as well as internal reforms in individual institutions, will be necessary in order to carry out policies effectively. These problems underline the importance of the Government's commitment to the reform of the administration.

The lack of a clear legal basis for the civil service is a serious defect. The introduction of a civil service law has the potential to stabilise the position of the public administration and help to promote its political independence.

The civil service is not understaffed overall. But the gap between public and private sector salaries, the absence of career perspectives and the low popular esteem and confidence in the public administration has made a civil service career unattractive to potential young entrants, and to many of the more talented of the established staff. Innovative recruitment and career planning policies will be required. Similar policies will be needed to broaden the currently limited base of highly qualified staff capable of dealing with complex European integration issues and generally to counter the problem of "brain drain" to the private sector.

Public confidence in the civil service is affected by the legacy of the past and by widespread abuses. The National Assembly and the Government recognise the seriousness of the problem of corruption. A comprehensive programme will be needed to tackle this, including the simplification of legislation and administrative procedures, accelerated privatisation of state property and other measures reducing the managerial role which the state still plays in the economy and which renders the public administration prone to opaque and improper practices.

The Government's reform plans for the public administration point in the right direction. It will be a major challenge for these policies to achieve the radical improvements in management, training and overall professionalism required

throughout the Bulgarian public administration. Nonetheless, if a sustained and concerted effort is made, significant progress should be possible. All this will need to take place against the backdrop of the Government's economic and structural reform programme, which foresees a major reduction in administrative expenditure.

The capacity of the Bulgarian administration to implement and monitor legislation that is compatible with the *acquis* is constrained by the difficulties already described. Bulgaria's policy for European integration requires a stronger institutional structure. The current structure for the coordination is fragmented. It also lacks resources, notably in terms of staffing, and has at present no permanent representation at the level of the government. Several institutions have been established or prepared to enable the enforcement of the *acquis*. At the same time, in various sectors specific bodies for the implementation of the *acquis* need to be strengthened or created.

Key Areas for the Implementation of the Acquis

The uniform application of EC law: The effective application of the *acquis* presupposes that the judicial authorities of member states are able to apply the provisions of the Treaty dealing with ensuring the unity and application of the *acquis*, and are able to ensure the proper functioning of the Single Market and Community policies in general. A high quality and well trained and resourced judiciary is necessary for the application by the courts of EC law, including cases of direct effect, and cases of referral to the European Court of Justice under the terms of Article 177 EC.

The judicial system in Bulgaria has important weaknesses, particularly concerning resources, and relevant expertise. Given this situation, the Commission has significant doubts about the ability of the system to assure the effective application of the *acquis*.

Single market: The ability of Bulgaria to ensure the correct application of Community requirements in the Single Market, particularly concerning the free movement of goods and services presupposes the existence of highly developed and effective regulatory, standardisation, certification and supervisory authorities, able to act fully in accordance with EC rules. An analysis of these points is made in Chapter 3.1 (under "The Four Freedoms").

Concerning the administrative capacity in respect of free movement of goods the situation in Bulgaria is not yet satisfactory in a number of respects, despite some recent progress. The administrative structures for standardisation and conformity assessment need reinforcement in order to implement the future legislation in this area. Clarifications are required on the future status of the Committee for Standardisation and Metrology (1,350 staff overall), particularly with regard to its independence in executing standardisation measures. Further staff training is required. Concerning free movement of services, the situation is improving but still has some way to go. The Banking Supervision Department has an adequate (and increasing) number of staff (90); there is a Securities Stock Exchange Commission (with 180 staff), and in the insurance sector a regulatory body is planned to be created soon. Some enforcement bodies need considerable strengthening, such as those dealing with intellectual property rights, despite recent improvements.

In order to meet EU requirements in this area important improvements remain necessary.

Competition: As explained in Chapter 3.1 (under "Competition") enforcement of competition law requires the establishment of anti-trust and state aid monitoring authorities, and that the judicial system, the public administration and the relevant economic operators have a sufficient understanding of competition law and policy.

In Bulgaria the central authority is the Committee for the Protection of Competition, which has 50 staff; the level of expertise needs improvement, particularly with such a relatively modest number of staff. The ability effectively to implement EC requirements in this field will require strengthening of the enforcement mandate (which in itself will require institutional reinforcement) and improvements in financial and human resources.

Telecommunications: In order to formulate and implement the many liberalisation regulations contained in the *acquis* in this field it is necessary to have a regulatory and policy making body that is effectively separated from any operating company.

In Bulgaria this body is the Committee for Post and Telecommunications (CPT) which has 120 staff. This is an adequate number. In order to ensure the effective administration of the telecommunications *acquis* the CPT's regulatory functions need to be rendered fully independent from the operating companies and the fairness of the licensing procedures needs to be ensured.

Indirect taxation: The effective administration of the indirect taxation *acquis* presupposes structures capable of implementing the EC legislation concerning the harmonisation of Valued Added Tax and excise duties in an environment in which fiscal controls at internal EU frontiers have been abolished; and the excise system is based on the tax warehouses, duty being payable at the local rate in the member state at the time the goods are consumed. This requires a highly developed and well trained and resourced service, with a high degree of integrity.

In Bulgaria the relevant authority is the Ministry of Finance. The number of staff is approximately 11,000 (including the general tax/ excise administration). Due to a large turnover of staff, resulting partly from trained staff being recruited by the private sector, it is difficult to estimate the capacities of existing staff. In order to ensure the effective administration of the *acquis* in this area it will be necessary to consolidate and improve the overall professional standards of the staff, including training measures and improvements in pay.

Agriculture: The administrative requirements in the agricultural area primarily concern veterinary and phytosanitary control, to protect public health and ensure the free movement of agricultural goods; and the ability to administer the mechanisms and requirements of the CAP, including high standards of financial control and official statistics. These points are dealt with in Chapter 3.4 (under "Agriculture"); general standards in the statistical field are examined in Chapter 3.3 (under "Statistics").

Concerning the administrative capacity in respect of veterinary and phytosanitary controls the situation in Bulgaria is unsatisfactory. Although Bulgaria has an established infrastructure in this area, structural changes in the veterinary services, together with increased fragmentation of livestock units, make inspection and disease control difficult. Also, because of weak border controls there have been several instances of disease entering from outside, indicating important risks in this area. The State Veterinary and Sanitary Service and the Border Veterinary Control

Department of the Ministry of Agriculture employ 4,900 staff, which is adequate. Concerning the administration of general CAP requirements the appropriate administrative structures are not in place.

In order to meet EC requirements in this area major improvements will be required across the board.

Transport: The application of the EC Internal Market and competition requirements to the transport sector, the development of relevant infrastructure products, and other aspects of the transport *acquis* will present administrative challenges to new member states.

The responsible government authority in Bulgaria is the Ministry of Transport with a total of 1,380 staff. This raises particular concerns with regard to the enforcement of safety controls, in a context where safety issues are already a concern.

Employment and social policy: A central administrative requirement in respect of the *acquis* in this area is adequate inspection capacity, particularly concerning health and safety at work.

In Bulgaria the Labour Inspectorate employs about 530 staff. It will require reinforcement of staff resources, expertise and its independence.

Regional policy and cohesion: The main administrative requirements in this area are the existence of appropriate and effective administrative bodies, and in particular a high degree of competence and integrity in the administration of Community funds.

In Bulgaria the principal administrative body is the Ministry of Regional Development and Construction (around 150 staff). Ministry does not have a strong record, for example on the administration of EU assistance programmes. The situation concerning financial control is not satisfactory (see the section, below, on "Financial control"). The effective administration of the *acquis* in this area will require substantial improvements, notably concerning coordination between ministries, and the different levels of government.

Environment: Because EC environmental policy, involves the integration of environmental protection into EC sectoral policies the administrative requirement is potentially very wide, affecting many bodies not normally associated with environmental protection. However, the main responsibility lies with environment ministries and various subsidiary bodies.

In Bulgaria the Environment Ministry employs 140 staff. Monitoring is carried out by the National Centre for Environment and sustainable development, and enforcement by the Ministry and 16 regional inspectorates, with a total of 2,800 staff. These arrangements provide a basis for the implementation of the *acquis*, but require a substantially stronger enforcement mandate.

Consumer protection: In this area, the effective administration of the *acquis* requires the allocation of overall responsibility to a specific State body through which the formulation, implementation and enforcement of consumer policy and consumer protection legislation can be undertaken.

In Bulgaria, the Commission for the Protection of Competition, a competition authority, has a horizontal, but not exclusive, responsibility for consumer issues. As

regards non-governmental consumer bodies these remain far too weak. There remains confusion about the exact scope and objectives of consumer policy. This in part explains difficulties in the effective enforcement of consumer laws; however, other factors which need to be addressed include a lack of expert staff, organisational deficits, and a lack of sensitivity to consumer questions among the judiciary.

Justice and home affairs: Oversight of justice and home affairs questions falls to the justice and interior ministries. The administrative structures need to be able to deal effectively with asylum and migration questions, border management, police cooperation and judicial cooperation. There is an overriding need for sufficient and properly trained staff with a high degree of integrity.

The National Bureau on Territorial Asylum and Refugees does not currently have the administrative capacity to meet EU standards, for example regarding expulsion procedures. Responsibility for border management is currently shared between the military and the border guard, which can lead to problems regarding coordination. Police cooperation with other law enforcement agencies (both inside and outside Bulgaria) needs to be improved. The effective administration of the *acquis* in this area will require reinforcement and refinement of existing administrative structures, a framework to improve coordination, a comprehensive training programme, and concerted efforts to eliminate corruption.

Customs: Applying the *acquis* in this area requires an adequate level of infrastructure and equipment, including computerisation and investigation resources, and the establishment of an efficient customs organisation with a sufficient number of qualified and motivated staff showing a high degree of integrity.

In Bulgaria the customs service employs 4,100 staff. Due to a high turnover of staff, it is difficult to estimate their efficiency, and therefore the adequacy of staffing levels. The effective administration of the *acquis* in this area will require fundamental organisational and financial reform. The problem of corruption needs to be urgently addressed.

Financial control: The protection of the Community's financial interests requires the development of anti-fraud services, training of specialised staff (investigators, magistrates) and the reinforcement of systems of specific cooperation. The implementation of Community policies, especially for agriculture and the Structural Funds, requires efficient management and control systems for public expenditure, with provisions to fight fraud. Administratively it is essential to have a clear separation between external and internal control. Police and judicial authorities need to be able effectively to handle complex transnational financial crime (including fraud, corruption and money laundering) which could affect the Community's financial interests.

In Bulgaria the main external control body is the National Audit Office. The staff is being built up to 440. This is adequate, but the effective administration of the *acquis* in this area will require a thorough examination and reorganisation of the institutions, including the establishment of methodological guidelines.

4.3 General Evaluation

Bulgaria's administrative structures will require a major, concerted and sustained effort of reform if there it is to be adequate capacity in the medium term effectively to administer the *acquis*.

Concerning the judicial capacity effectively to apply the Community law, a definite evaluation at this stage is difficult.

C. SUMMARY AND CONCLUSIONS

Bulgaria submitted its application for membership of the European Union on 14 December 1995. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Bulgaria's request for membership.

Bulgaria's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force in February 1995. The Bulgarian government has attached importance to implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy putting in place in May 1996 an implementation programme.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgement on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

1. Political Criteria

Bulgaria has democratic institutions whose stability seems now secure. They need to be reinforced by fuller respect in practice for the rule of law, at all levels of public administration. Elections are free and fair and led to alternation of power in 1994 and 1997.

Some gaps remain in respect for fundamental rights, though the new government elected in April 1997 has announced a series of positive reforms. Considerable efforts are needed to pursue the fight against corruption, to improve the operation of

the judicial system and to protect individual liberties in the face of too frequent abuses by the police and secret services.

The Turkish minority seems well integrated, but this is not so for the Roma.

The current improvement following the arrival in power of a new government permits the conclusion that Bulgaria is on the way to satisfying the political criteria set by the Copenhagen European Council.

2. Economic Criteria

Despite some first steps taken in 1991, Bulgaria is still only at the start of the process of structural transformation. The new government has clearly undertaken to the IMF, the World Bank, and the European Commission, that it will set in train rapid reforms in order to free prices and start privatisation. This policy should permit recovery from the situation created by the crisis of recent months which saw a negative growth (-10.9% of GDP in 1996), worsening public deficits, hyper-inflation (311% in 1996) and depreciation of the currency.

Bulgaria has a population of 8.3 million and its GDP per capita is 24% of the EU average. The agricultural sector employs more than 20% of the working population and provides 13% of the Gross Value Added. It still has severe structural difficulties despite recent privatisation. Trade with the EU has grown significantly and now represents 35% of Bulgaria's external trade.

On the basis of its analysis, the Commission's judgement as to **Bulgaria's ability to meet the economic criteria** established at Copenhagen is as follows:

Bulgaria's progress in the creation of a **market economy** has been limited by the absence of a commitment to market-oriented economic policies. Early liberalisation of trade and prices was partially reversed, and price controls were not removed until this year. It is only since the crisis at the end of last year, and the recent change of government that consensus about the desirability of economic reforms has begun to develop.

Bulgaria will not be able to cope with **competitive pressure and market forces within the Union** in the medium term. If the authorities can translate their renewed commitment to economic transition into successful and sustained action, a turnaround in Bulgaria's prospects is possible. However, the country has been set back by six largely wasted years. Incomplete land reform has hampered the emergence of a modern agricultural sector; slow privatisation and economic instability have weakened state enterprises and delayed the development of a dynamic private sector.

3. Capacity to take on the obligations of membership

Bulgaria's ability to take on the *acquis* has been evaluated according to a number of indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Bulgaria has made considerable efforts to meet its obligations under the Europe Agreement. The Agreement has been implemented without major problems and according to the timetable for implementation set out in it. Most of the problems related to implementation have been resolved. But the weakness of the national coordination mechanisms have prevented full exploitation of its potential. The new government has decided to reinforce these structures. Bulgaria has an unsatisfactorily low rate of transposition of the rules and the directives set out in the White Paper.

Bulgarian legislation only incorporates a small part of the *acquis* for the fundamental elements of the **single market**, except for certain aspects of free circulation of goods. The scale of progress to be achieved requires very substantial and sustained efforts both in approximation of legislation and in creation of structures enabling it to be implemented. Complete restructuring of the financial sector, in order to re-establish public and investor confidence in it, is among the highest priorities, and the government recognises this.

The weakness of public administration is a major problem, putting in question both the rate and the quality of approximation of legislation. The various structures needed to apply the legislation on the single market are not currently capable of playing their roles.

As for the **other parts of the *acquis*** Bulgaria should not have particular difficulty in applying the *acquis* in the medium term, provided it maintains its current transposition and modernisation efforts, in the following sectors: education, training and youth; research and technological development; fisheries; small and medium enterprises; international trade relations; and development.

By contrast Bulgaria will need to make substantial efforts in order to apply the *acquis* in the fields of telecommunications (particularly price structures), audio-visual, taxation, statistics, consumer protection and customs.

Integration into the European market could pose serious difficulties for Bulgarian **industry** in the medium term. Many sectors still face important re-structuring and privatisation needs.

For the **environment**, very important efforts will be needed including massive investment and strengthening of administrative capacity to enforce legislation. Full compliance with the *acquis* could be expected only in the very long term and would require increased levels of public expenditure.

Bulgaria has made some progress in meeting the **transport *acquis***, but serious recent difficulties have held this process back. It must accelerate its efforts in particular in the maritime, air and road freight sectors. Bulgaria must also provide

the investment necessary for extending the European transport network, which is an essential element for the effective operation of the single market.

Bulgaria still needs to make substantial efforts to align its procedures in **employment and social affairs** with EU standards. Progress is needed in particular on labour law and the structure of the labour inspectorate, since these have neither formal autonomy nor the necessary means to fulfil their role properly.

For **regional policy**, Bulgaria will have to achieve significant preparatory steps, in particular on financial control and the coordination of the different actors involved in policy in this field, before it can effectively use structural funds.

Bulgaria must put in place fundamental reforms of its **agricultural** sector before it can meet the obligations of accession. Considerable progress is needed on restructuring of the sector; on the agrifood industry; on agricultural policies and on health and quality controls. A particular effort will be needed on the administrative structures responsible for administering the CAP.

For **energy**, increased efforts must be achieved to prepare for accession, in particular on monopoly operations, price fixing and state intervention in the solid fuel sector. Bulgaria has a nuclear power station at Kozloduy, which produces around 40% of the country's electricity. It must in the medium term modernise the units for which this is possible, so that they meet internationally accepted standards; and keep its undertaking to close those which cannot be modernised according to the conditions set in the 1993 Agreement. Bulgaria must make a number of modifications to its legislation to comply with Community rules in the nuclear sector and to respect international regimes.

On the basis of the analysis of its capacity to apply the *acquis*, it is not yet possible to be sure when Bulgaria could become able to take and implement the measures necessary to remove the controls at **borders** between Bulgaria and member states of the Union.

Bulgarian participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, poses serious problems in current circumstances, given the substantial structural reforms which still need to be achieved. It is premature to judge whether Bulgaria will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

Bulgaria faces a particular challenge in **justice and home affairs**, given the serious difficulties which it faces in these sectors. Only by considerably improving the efficiency of the institutions responsible for action in these fields will Bulgaria become able to apply the *acquis*.

Bulgaria should be able to fulfil its obligations under the **common foreign and security policy**.

It has considerably improved its relations with its neighbours and settled almost all its disputes with them.

4. Administrative and legal capacity

Bulgaria's administrative structures will need a major and sustained effort of reform if it is to become able to apply the *acquis* effectively.

The capacity of the judicial system to ensure uniform application of Community law is of importance for achieving the single market. It is difficult in current circumstances to judge Bulgaria's prospects in this sector.

CONCLUSION

In the light of these considerations, the Commission concludes that :

- the current improvement in Bulgaria, following the arrival in power of a new government, indicates that Bulgaria is on its way to satisfy the political criteria;
- Bulgaria's progress in the creation of a market economy has been limited by the absence of a commitment to market-oriented economic policies; it would not be able to cope with competitive pressure and market forces within the Union in the medium term; but it would still face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;
- despite the progress that has been made, Bulgaria has neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. It is therefore uncertain whether Bulgaria will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, energy, justice and home affairs as well as agriculture. More generally, substantial administrative reform will be indispensable if Bulgaria is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Bulgaria as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Bulgaria to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Bulgaria has achieved.

ANNEX

COMPOSITION OF PARLIAMENT

38th National Assembly (following the general elections of 19 April 1997)

Party	Seats	% of votes
United Democratic Forces	137	57.1
Democratic Left (main party: Bulgarian Socialist Party)	58	24.2
Alliance for National Salvation	19	7.9
Euroleft	14	5.8
Bulgarian Business Block	12	5.0
	240	100.0

SINGLE MARKET: WHITE PAPER MEASURES

This table is based on information provided by the Bulgarian authorities and confirmed by them as correct as at the end of June 1997. It does not indicate the Commission's agreement with their analysis. The table includes directives and regulations cited in the White Paper which total 899. These have been listed in accordance with the categorization used in the White Paper and in relation to the policy areas covered. The table shows the number of measures for which the Bulgarian authorities have notified the existence of adopted legislation having some degree of compatibility with the corresponding White Paper measures.

(i)	White paper chapters	Directives		Regulations		Total
		Stage I	Stage II/III	Stage I	Stage II/III	
1.Free Movement of Capital	Bulgaria	3	1	0	0	4
	Number of White Paper measures	3	1	0	0	4
2.FM and Safety of Industrial Products	Bulgaria	17	1	0	1	19
	Number of White Paper measures	56	104	4	1	165
3.Competition	Bulgaria	0	0	0	0	0
A.	Number of White Paper measures	3	0	1	0	4
4.Social policy and action	Bulgaria	3	6	2	0	11
	Number of White Paper measures	12	15	0	2	29
5.Agriculture	Bulgaria	18	7	16	0	41
1.	Number of White Paper measures	93	46	62	2	203
6.Transport	Bulgaria	1	0	0	0	1
1.	Number of White Paper measures	19	15	8	13	55
7.Audiovisual	Bulgaria	1	0	0	0	1
1.	Number of White Paper measures	1	0	0	0	1
8.Environment	Bulgaria	1	0	1	0	2
1.	Number of White Paper measures	31	7	7	0	45
9.Telecommunication	Bulgaria	1	0	0	0	1
1.	Number of White Paper measures	9	7	0	0	16
10.Direct Taxation	Bulgaria	2	0	0	0	2
1.	Number of White Paper measures	2	2	0	0	4
11.Free movement of goods	Bulgaria	0	0	0	0	0

1.	Number of White Paper measures	0	0	0	0	0
12.Public Procurement 1.	Bulgaria Number of White Paper measures	4 5	0 1	0 0	0 0	4 6
13.Financial services 1.	Bulgaria Number of White Paper measures	6 13	3 8	0 0	0 0	9 21
14.Protection of personal data 1.	Bulgaria Number of White Paper measures	0 0	0 2	0 0	0 0	0 2
15.Company Law 1.	Bulgaria Number of White Paper measures	2 2	2 3	0 0	0 1	4 6
16.Accountancy 1.	Bulgaria Number of White Paper measures	3 3	2 2	0 0	0 0	5 5
17.Civil law 1.	Bulgaria Number of White Paper measures	0 1	1 1	0 0	0 0	1 2
18.Mutual rec. of prof. Qual. 1.	Bulgaria Number of White Paper measures	2 2	0 16	0 0	0 0	2 18
19.Intellectual property 1.	Bulgaria Number of White Paper measures	3 5	2 3	0 0	1 3	6 11
20.Energy 1.	Bulgaria Number of White Paper measures	2 10	0 2	0 3	0 0	2 15
21.Customs law 1.	Bulgaria Number of White Paper measures	0 2	0 1	0 14	0 184	0 201
22.Indirect Taxation 1.	Bulgaria Number of White Paper measures	8 15	2 54	0 0	0 6	10 75
23.Consumer Protection 1.	Bulgaria Number of White Paper measures	1 8	0 3	0 0	0 0	1 11
Total	Bulgaria Number of White Paper measures	78 295	27 293	19 99	2 212	126 899

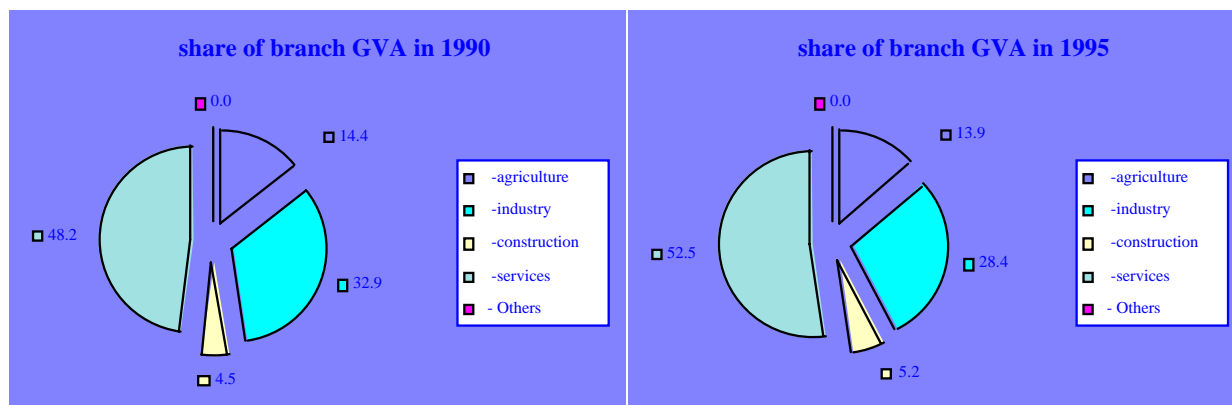
STATISTICAL DATA

If not explicitly stated otherwise, data contained in this annex are collected from "National Statistical Institute" with whom Eurostat and Member States' statistical offices are co-operating since several years in the framework of the Phare programme. Regular data collection and dissemination are part of this co-operation process with the aim to enable the application of EU laws and practices in statistics. The data presented below have been compiled as far as possible using EU definitions and standards which in some cases differ from national practices. This may occasionally give rise to differences between the data presented here and those shown elsewhere in the opinion, which are generally based on the individual applicant countries' updated replies to the questionnaire sent to them in April 1996. The exact compatibility with EU standards on statistics and thus the comparability with EU figures can still not be guaranteed, particularly those statistics that have not been supplied through Eurostat, but have been delivered directly by the countries concerned. Wherever available, methodological notes are given describing content and particularities of statistical data presented in this annex. Data correspond to the information available as of May 1997.

BASIC DATA

	1990	1993	1994	1995	1996
Total Area	1000 hectares				
		11099.0	11099.0	11099.0	11099.0
Population (end of the period)	in 1000				
- Total		8460.0	8427.0	8385.0	8340.0
- Females		4308.0	4297.0	4281.0	
- Males		4152.0	4130.0	4104.0	
Population density	per 1 km ²				
	78.1			75.5	75.1
Urban Population	in % of total population				
	67.1			67.8	
Deaths rate	per 1000 of population				
		12.9	13.2	13.6	14.0
Births rate		10.0	9.4	8.6	8.7
Income and GDP per capita	European Currency Unit				
-Average monthly wage and salary per employee				76	
-GDP per capita					
Structure of production: share of branch GVA	in % of Total Gross Value Added				
-agriculture	14.4			13.9	

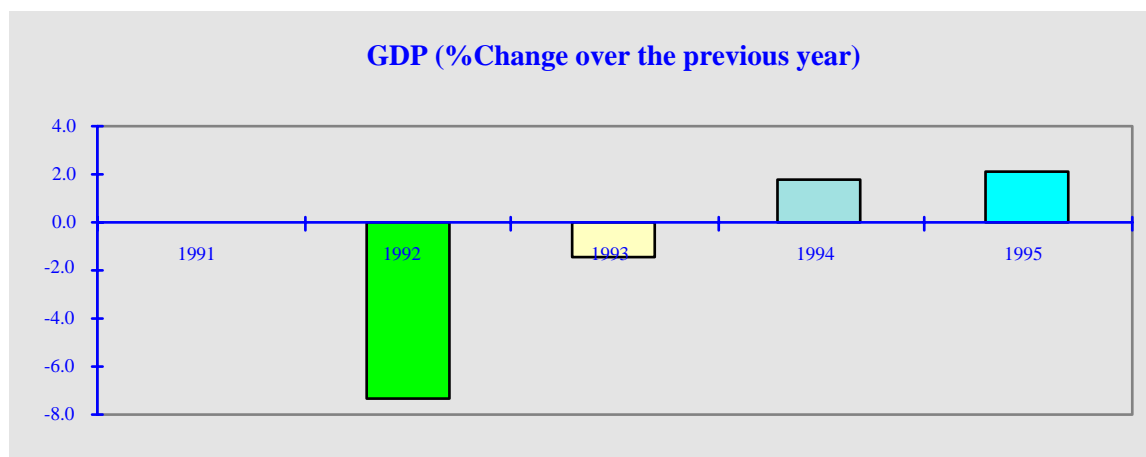
-industry	32.9			28.4
-construction	4.5			5.2
-services	48.2			52.5



Structure of production: share of branch of GVA: Data for 1990 refers to 1991.

NATIONAL ACCOUNTS

	1991	1992	1993	1994	1995
	in Millions of National currency				
Gross Domestic Product (Current Prices)	135711	200832	298934	548015	867691
	in Billions of ECU				
Gross Domestic Product (Current Prices)	5.8	6.6	9.2	8.5	9.9
	in Purchasing Power Standard per capita				
Gross Domestic Product			3886.8	4129.5	4209.8
	% change over the previous year				
Gross Domestic Product		-7.3	-1.5	1.8	2.1
Final consumption expenditure		-3.1	-3.6	-4.5	-2.9
-of households and NPISH		1.0	-0.8	-2.6	-1.6
-of general government		-14.9	-12.5	-11.9	-8.2
Gross fixed capital formation		-7.3	-17.5	1.1	8.8
Exports of goods and services					
Imports of goods and services					
	in % of Gross Domestic Product				
Final consumption expenditure	73.1	85.9	92.3	91.2	85.8
-of households and NPISH	54.1	65.6	73.5	74.0	70.3
-of general government	19.0	20.3	18.9	17.2	15.5
Gross fixed capital formation	18.2	16.2	13.0	13.8	14.2
Exports of goods and services	43.5	47.1	38.2	45.1	44.7
Imports of goods and services	39.2	52.9	45.8	45.7	44.9



MAIN ECONOMIC INDICATORS

	1990	1991	1992	1993	1994	1995	1996
Inflation rate	percentage change over the previous year						
	23.8	338.5	79.4	56.1	87.1	62.1	123
	previous year = 100						
Industrial production volume indices				89.1	108.5	105	99.0
Gross agricultural production volume indices				80.6	107.1	116	86.7
Unemployment rate (ILO methodology)	in % labour force						
- Total				21.4	20.5	14.7	13.7
- less than 25 years				47	44.9	37.7	33.5
- 25 years and more				17.3	16.8	11.6	11.3
Gross Foreign debt	in Billions of USD						
Balance of payments							
	in millions of USD						
-Exports of goods	6113	3737	3956	3727	3935	5345	
-Imports of goods	-7427	-3769	-4169	-4612	-3952	-5224	
-Trade balance	-1314	-32	-212	-885	-17	121	
-Services, net	237	-86	-95	-57	11	153	
-Income, net	-758	-28	-96	-192	-193	-432	
-Current account balance	-1710	-77	-360	-1098	-32	-26	
-Capital and fin. acc.(excl. reserves)	762	157	981	834	303	120	
-Reserve assets	878	-311	-591	247	-344	-234	

Inflation rate: Percentage change of yearly average over the previous year - all items index (data are based on national CPIs which are not strictly comparable).

Industrial production volume indices: Industrial production covers mining and quarrying, manufacturing and electricity, gas and water supply (according to the NACE Classification Sections C,D,E). Index of industrial production annually is based on exhaustive survey of enterprises (public and private) assigned to industrial sector..

Gross agricultural production volume indices: Data are based on the System of National Accounts (SNA) methodology. Data are revised data and for 1996 are provisional data.

Unemployment rate (by ILO methodology): - Percentage of the unemployed labour force This rate is derived from LFSS (Labor Force Survey) observing the following ILO definitions and recommendations

Labor force employed and unemployed persons in the sense of the ILO definitions stated below.

The employed all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees,

entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

The data relate to employees under labour contract in the public sector (comprehensive survey).

Gross foreign debt : Debt is extracted from the OECD's External Debt Statistics.

Balance of payments: Data is derived from IMF database, their comparability with respective EU statistics can not be guaranteed, but balance of payments is compiled mainly in accordance to IMF standards. Balance in trade of goods in accordance with balance of payments principles. Exports and imports are both in f.o.b. values. Net income includes direct, portfolio and other investment income, compensation of employees. Current account balance by definition of IMF 5th Manual, capital transfers are excluded. Reserve assets: it means changes in reserve assets during the year; (+) signifies an increase, (-) a decrease in reserve assets.

FOREIGN TRADE

	1993	1994	1995	1996
Imports and exports (current prices)	in millions of National Currency			
- Imports	131523. 1	227010. 3	380012. 1	
- Exports	102877. 4	216194. 4	359663. 6	
- Balance of trade	-28645.7	-10815.9	-20348.5	
External trade volume indices	previous year = 100			
- Imports	114.3	160.9	152.6	
- Exports	94.6	181.9	148	
Structure of Import by SITC (current prices)	in % of total Import			
- (0+1) food and live animals, beverage and tobacco	8.8	9.8	7.3	
- 2 crude materials, inedible	4.4	5.6	6.2	
- 3 mineral fuels and lubricants	37.4	28.3	27	
- 4 animal and vegetable oils etc.	0.3	0.3	0.2	
- 5 chemicals and related products	10.1	10.4	12.8	
- 6 manufactured goods classified chiefly by material	13.2	16.9	18.1	
- 7 machinery and transport equipment	19.6	20.3	19.3	
- 8 miscellaneous manufactured articles	5.9	5.4	5.8	
Structure of export by SITC (current prices)	in % of total Export			
- (0+1) food and live animals, beverage and tobacco	18.1	19.5	19.8	
- 2 crude materials, inedible	5.7	5.6	5	
- 3 mineral fuels and lubricants	8.7	7.1	6.1	
- 4 animal and vegetable oils etc.	0.8	0.5	0.9	
- 5 chemicals and related products	14.8	14.7	16.9	
- 6 manufactured goods classified chiefly by material	25.1	27.2	28	
- 7 machinery and transport equipment	17.2	12.2	11.3	
- 8 miscellaneous manufactured articles	9.5	9.4	9.3	
External trade price indices	previous year = 100			
- Imports	96.5	164.4	149.1	
- Exports	105	165.7	145.5	

Imports and exports (current prices), External trade volume indices and Structure of external trade by SITC (current prices): Trade data exclude direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. The data are based upon the special trade system and are regularly updated. **Trade Classifications:** Merchandise trade flows are recorded according to Combined Nomenclature (CN) and the Single Administrative Document (SAD). **Imports** are reported on a CIF- basis. **Exports** are reported on a FOB-basis. The customs statistics is utilized for monitoring of foreign trade data.. Eurostat has converted National Currencies

to the US dollar by applying the International Monetary Fund annual average exchange rates.

External trade price indices: The price indices have been calculated by “unit value” method on Laspeyre formula - since 1995. Up to 1994 - by Paasche formula indices are calculated from the sample of commodities consisting of all export and import for final use only, excluding special consignment, processing, re-exports.

FOREIGN TRADE PARTNERS

	1993	1994	1995	1996
Structure of imports by main countries (current prices)	in % of total imports			
1st partner	RU 29.3	RU 26.4	RU 28.1	
2nd partner	DE 11.6	DE 12.8	DE 12.4	
3rd partner	UA 5.3	IT 5.4	IT 5.8	
4th partner	IT 4.6	GR 4.8	GR 4.4	
5th partner	US 3.9	UA 4.2	UA 3.3	
others	45.3	46.4	46	
Structure of exports by main countries (current prices)	in % of total exports			
1st partner	RU 13.6	RU 13.5	RU 10	
2nd partner	DE 6.6	MK 10.3	DE 8.6	
3rd partner	GR 6.2	DE 8.9	IT 8.1	
4th partner	MK 6.1	GR 7.8	MK 8.1	
5th partner	IT 5.9	IT 7.6	GR 6.9	
others	61.6	51.9	58.3	



DE	German	RU	Russian
	y		Federation
IT	Italy	UA	Ukraine

GR	Greece	US	United States
MK	The Former Yugoslav Republic of Macedonia		

SOCIAL INDICATORS

	1991	1992	1993	1994	1995
Population on 1 January	thousand				
	8669.3	8595.5	8484.9	8459.7	8427
Proportion of population by age 1 January 1995	in % of total population				
y0_14					18.6
y15_24					14.6
y25_44					27.2
y45_64					25.0
y65_max					14.6
	total number				
Live births	95910	89134	84400		
Deaths	110423	107998	109540		
Infant deaths					
- Less than 1 year	1624	1420	1310		
- Still birth	612	654	587		
Marriages	48820	44806	40022		
Divorces	11044	9465	7104		
	per 1000 of population				
Crude marriage rate	5.44	5.26	4.7	4.5	4.4
Crude divorce rate	1.23	1.11	0.8	0.9	1.3
Natural growth rate	-1.68	-2.21	-2.96		
Net migration rate	-6.87	-10.74	-0.01		
Total population growth rate	-8.55	-12.95	-2.97		
Total fertility rate	1.57	1.53	1.46		
Infant mortality rate	16.93	15.93	15.52	16.3	14.8
Late foetal mortality rate	6.34	7.28	6.91		
Life expectancy	at birth				
- Males					67.1
- Females					74.9
Life expectancy	at 65 years				
- Males					12.6
- Females					15.5

Population on 1 January: Figures for 1989-1992 have been recalculated according to the 1992 Census results.

Proportion of population by age on 1 January 1995: Data only available for 1994.

Net Migration rate: No comprehensive migration survey carried out: residual category including statistical discrepancies. Figures for 1989-1992 have been recalculated according to the 1992 census results.

Total population growth rate: Net migration and population figures for 1989-1992 have been recalculated according to the 1992 Census results

LABOUR MARKET

	1993	1994	1995	1996
Economic Activity Rate (ILO methodology)	in % of population age +15			
	55.4	52.4	51.5	51.8
Average employment	in thousand			
	3221.8	3241.6	3282.2	3279.5
Unemployment rate (ILO methodology)	in % of labour force			
- Total	21.4	20.5	14.7	13.7
- less than 25 years	47	44.9	37.7	33.5
- 25 years and more	17.3	16.8	11.6	11.3
Registered unemployment (end of period)	in % of economically active population			
	16.4	12.8	11.1	12.5

	1993	1994	1995	1996
Average paid employment indices by NACE classes	previous year = 100			
- Agriculture, hunting, forestry and fishing	60.8	68.1	76.1	94.2
- Mining and quarrying	96.6	93.9	95.6	100.2
- Manufacturing	86.8	90.7	94	87.7
- Production and distribution of electricity, gas and water	104.6	101.3	101	102
- Construction	75.8	81.4	85.2	94.7
- Transport, storage and communication	92.4	93.3	93.3	100.3
Monthly wages and salaries indices				
- real				
- nominal	157.8	153.5	153.2	174.7

Economic activity rate (ILO Methodology): - Percentage of labor force in the total population aged 15+. This rate is derived of LFSS (Labor Force Survey) observing the following ILO definitions and recommendations:

Labor force employed and unemployed persons in the sense of the ILO definitions stated below.

The employed all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

The data by ILO methodology are for September 1993, October 1994, October 1995 and November 1996.

Unemployment rate (by ILO methodology): - Percentage of the unemployed labour force. This rate is derived from LFSS (Labor Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

The data relate to employees under labour contract in the public sector (comprehensive survey).

Average employment: Annual data only (comprehensive survey, covers all employees in public and private sector).

Average paid employment indices by NACE classes: The data relate to employees under labour contract in the public sector (comprehensive survey). The national branches classification is different from NACE classification, that is why the figures are estimated data.

Registered unemployment (end of period): Registered unemployment in per cent - percentage of unemployed registered in civil economically active population, based on Labour force sample survey (LFSS).

PUBLIC FINANCE

	1990	1991	1992	1993	1994	1995
Government budget	in millions of national currency					
-Government revenue	22265	49497	71554	99875	209321	314624
-Grants	471	450	209	92	117	920
-Consolidated central government expenditure	25028	54497	81591	133877	235905	360607
-Consolidated general government expenditure	29228	65052	98315	152181	261775	398725
-Consolidated central government deficit/surplus	-2292	-4550	-9828	-33910	-26467	-45063
-General government deficit/surplus	-2040	-4156	-11454	-33652	-27066	-44951
Government budget	in % of Gross Domestic Product					
-Consolidated central government expenditure		40.2	40.6	44.8	43.0	41.4
-Consolidated general government expenditure		47.9	49.0	50.9	47.8	45.8
-Consolidated central government deficit/surplus		-3.4	-4.9	-11.3	-4.8	-5.2
-General government deficit/surplus		-3.1	-5.7	-11.3	-4.9	-5.2

Government budget: These data relate to central and general government as published in the IMF's *Government Finance Statistics Yearbook (1996)* (*GFSY*); included also is the country's presentation in the *GFSY*.

Because the *GFSY* does not present statistics for general government, but for individual levels of government separately, the consolidated series presented here were obtained from central and local government data and adjusted in consolidation for the identified intergovernmental transfers.

Even though the statistics cover the central and local government published in *GFSY*, the coverage may not be exhaustive if some central or local government units are not included in that coverage. A measure of the exhaustiveness of the coverage can be obtained by comparing in the *GFSY* the note on the coverage of data for individual countries with the list of central and local government units provided.

It should be noted that the deficit/surplus used here is equal to revenue and grants minus expenditure, and does not take lending minus repayments into account (see further below).

The netting of inter-government transfers carried-out in the attached tables is limited to the current and capital transfers consisting of the identified grants and current and capital subsidies between the levels of government. Other types of transactions occurring between government levels, such as the payments of taxes and employers' social security contributions, and the reciprocal

purchases of goods and services are not normally classified as inter-governmental transfers have not been eliminated in the consolidation process. Finally, whether the absence of data for current and capital transfers should be attributed to the absence of transfer or to lack of data is unclear; in all cases absence of information on transfers have been deemed to represent zero-transfers.

a. Government expenditure consists of general government cash expenditures on current and capital goods and services, interest payments and current and capital transfers but excludes non-cash transactions.

b. Deficit/surplus equals cash revenue and cash grants minus cash expenditure. This measure of the deficit/surplus differs from that used in GFS which equals cash revenue and cash grants, minus cash expenditure, minus net lending. This exclusion of net lending (consisting, in the *GFS* methodology, of operations in financial assets and liabilities carried out for specific policy purposes, rather than for liquidity purposes) brings the measure of the deficit/surplus presented here closer to the national accounts concept of net borrowing/net lending. Also, as a result of this exclusion, receipts from privatisation (classified as repayments in the *GFS* methodology) do not enter in the determination of the deficit/surplus presented in the attached tables (and therefore do not reduce the deficit).

FINANCIAL SECTOR

	1990	1991	1992	1993	1994	1995	1996
Monetary aggregates	Billions (10 ⁹) of National Currency						
- Monetary aggregate M1				48.30	75.13	107.89	177.28
- Quasi money				181.62	333.98	463.42	787.33
Total reserves (gold excluded, end of period)	Millions (10 ⁶) of US Dollars						
Average short term interest rates	% per annum						
- lending rate							
- deposit rate							
Official discount rate (end of period)				52	72	34	180
USD exchange rates	1 USD = ...BGL						
Average of period							
End of period							
ECU exchange rates	1 ECU = ...BGL						
Average of period							
End of period							

Monetary aggregates (end of period): *Money (M1):* Includes demand deposits and currency outside banks. *Quasi money:* Include time, savings and foreign currency deposits. Data for 1996 refer to November 1996.

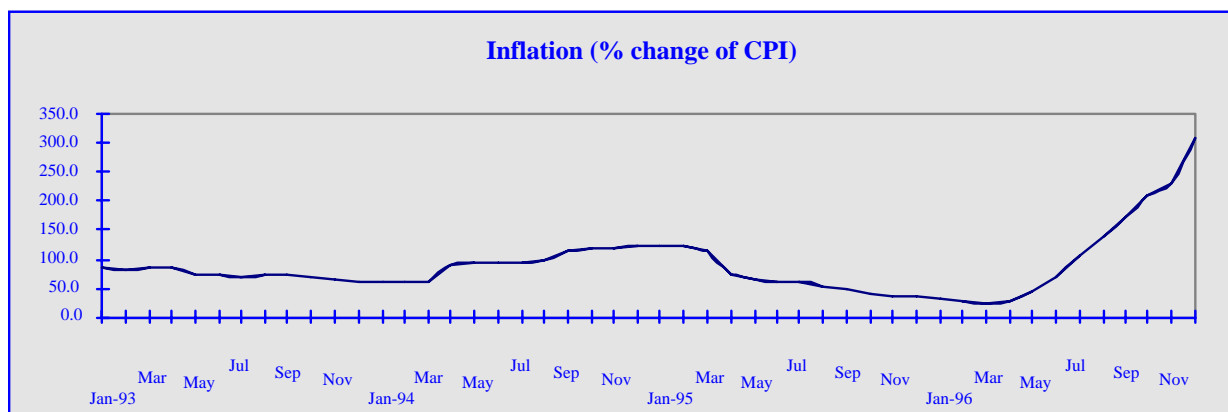
Official discount rate (end of period): Data for 1996 refer to November 1996. From december 1996 Bulgarian National Bank denotes monthly interest rate.

USD exchange rates: International Monetary Fund exchange rates as present in the publication: "Statistiques Financieres Internationales".

INFLATION (12 months changes)

Percentage change of the CPIs with the current month compared with the corresponding month of the previous year (t/t-12)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1993	83.1	81.3	84.1	85.3	74.4	71.6	68.5	70.8	71.6	68.3	64.9	63.9
1994	59.1	58.8	61.6	89.3	93.9	94.0	93.3	98.4	112.	117.	119.	122.
									1	6	7	0
1995	122.	120.	112.	76.1	66.2	60.5	61.9	54.7	46.0	40.0	36.0	32.9
	1	4	1									
1996	30.9	28.5	26.4	28.8	42.2	70.2	106.	140.	172.	210.	232.	310.
							7	7	9	5	0	8



Inflation (12 months changes): Inflation rates (12 months changes) are percentage changes of the CPIs with the current month compared with the corresponding month of the previous year. Inflation rates are based on national CPIs which are not strictly comparable between candidate countries or with those based on EU HICPs (different methods, concepts, practices in the calculation of CPIs).

INDUSTRY

	1993	1994	1995	1996
Structure of GDP by economic activities (NACE, current prices)	in % of Gross Domestic Product			
- Mining and quarrying				
- Manufacturing				
- Production and distribution of electricity, gas and water				
Industrial production volume indices by NACE classes	previous year = 100			
- Total	89.1	108.5	105	99
- Mining and quarrying	104.5	101.6	103	
- Manufacturing	86.8	111	105.1	
- Production and distribution of electricity, gas and water	100.8	92.9	105.4	

Industrial production volume indices by NACE classes: Industrial production covers mining and quarrying, manufacturing and electricity, gas and water supply (according to the NACE Classification Sections C,D,E). Index of industrial production annually is based on exhaustive survey of enterprises (public and private) assigned to industrial sector. Data for 1996 are provisional data.

INFRASTRUCTURE

	1985	1990	1995	1996
Railway network	in Km per 1000 Km2			
	38.7	38.7	38.7	38.7
Length of motorways	Kilometre			
	221	273	314	314
Number of inhabitants per 1 passenger car	inhabitants			
	8.4	6.6	5.1	

AGRICULTURE

	1992	1993	1994	1995	1996
Land area by land-use categories	in 1000 Hectares				
- total	11099	11099	11099	11099	11099
- agricultural land	6159	6159	6159	6164	6164
- forest	3873	3877	3876	3876	
- arable land	4047	4063	4001	3998	4203
- permanent meadows and pastures	1833	1852	1942	1962	1761
Agricultural land by legal status	in % of agricultural land				
- state enterprise		69	45	28	21
- Cooperatives		8	21	33	
- others		23	34	39	79

	1992	1993	1994	1995	1996
Share of GDP	in % of Gross Domestic Product				
- Agriculture, hunting, forestry and fishing (Nace A+B)					
Gross agricultural production volume indices	Previous year = 100				
		80.6	107.1	116	86.7
Main crops by area	in 1000 Hectares				
- Cereals	2182	2315	2341.3	2185.8	1841.2
- of which: wheat	1108	1266	1319.8	1181.1	957.7
- Potatoes	48	39	47	56	40
- Sugar beet	18	11	8	9	8
- Fodder beet	5				
Main crops by yield	in 100 kg/Hectares				
- Cereals	29.8	24.7	27.6	30.2	18.8
- of which: wheat	31.1	28.6	28.5	29.1	18.7
- Potatoes	117.9	91.5	105.6	115.9	80.7
- Sugar beet	168.9	86.4	140.0	174.4	108.9
- Fodder beet	342.0				

	1992	1993	1994	1995	1996
Sales or procurement of animal for slaughter	in 1000 tons of live weight				
- pigs					
- cattle					
- poultry					
Livestock breeding intensity (end of period)	heads per 1000 Ha of agricultural land				

- cattle	158.1	121.8	103.5	102.5
- of which: cows	79.4	68	56.9	60.2
- sheep	781.7	611	551.2	548.8
heads per 1000 Ha of arable land				
- pigs	659.6	517.7	496.8	509.2

Gross agricultural production volume indices: Data are based on a System of National Accounts (SNA) methodology.