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**INTEGRATION OF BULGARIAN AGRICULTURE
INTO EUROPEAN STRUCTURES. PROBLEMS
AND TASKS IN AGRICULTURE AND FOOD
INDUSTRY ALONG WITH BULGARIAN
ACCESSION TO THE EUROPEAN UNION**

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STRUCTURES. PROBLEMS AND TASKS IN AGRICULTURE AND FOOD
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Introduction

The successful integration and accession of Bulgaria to the European Union (EU) is a priority in the policy of the country backed by a broad political consensus. The significance of this process goes beyond the direct economic benefit of widening the market access of Bulgarian goods. It plays a political role as a consolidator of democratic reforms and is an important factor for the whole economic development of the country.

The first real political moves towards enlargement eastwards were made by the EU at the European Summit in Copenhagen where it was officially concluded that the associated countries of Central and Eastern Europe that so desire shall become members of the EU. According to this decision and following the Europe Agreement for the association of the country to the EU came into effect on 1 February 1995, Bulgaria can already officially apply for full membership in the EU. In connection with that, the text of the Memorandum of the Republic of Bulgaria with regard to official application for membership was passed at a plenary session of Parliament on 30 November 1995. It is expected to be entered for discussion at the European Commission by the end of 1995 which will begin the process of joining united Europe.

According to the Copenhagen decisions, accession can take place as soon as the associated country is found able to fulfil the obligations implied by membership, and as long as the country conforms to certain economic and political conditions. Together with the condition for European identity, one of the demands to new members is associated with Art. F of the Maastricht Treaty which requires the existence of stable institutions, guaranteeing democracy, the rule of law, respect for human rights and protection of minorities.

Another group of criteria is linked with the acceptance and the capacity of the country to implement all achievements of the EU in the field of common legislation, the Common Policies and the principles of the three pillars of the EU. These criteria are also linked with adherence to the goals of political, economic and monetary union. All this implies:

(1) having a functioning market economy and capacity to cope with competitive pressure and market forces within the EU. Put in general terms, the goal to be reached is **economic compatibility**;

(2) harmonising Bulgarian legislation with EU legislation, i.e. accepting and implementing all achievements of the Union in the field of Community Law (the so-called "acquis communautaire"). The goal therefore is **legal compatibility**; and

(3) having the administrative structure and staff necessary to apply the Community Law and to fulfil all the obligations of EU membership.

All these requirements and criteria are fully valid for agriculture and should be viewed as formative for the overall framework of Bulgarian agricultural development. In regard to the sensitivity and the special importance of this sector to both the EU and Bulgaria, the above requirements bear specific interpretation and are generally expressed in accepting the principles of the Common Agricultural Policy (CAP) in effect within the EU.

Achieving economic compatibility with the EU in agriculture

Achieving a minimum level of economic compatibility with the EU is of major importance for true integration of the country into European structures. The lack of convergence of basic economic parameters will impede practical integration at the macroeconomic level and will reduce the country's opportunities to benefit from EU internal market advantages.

Achieving economic compatibility in farming implies steadfast and coherent effort toward a full market restructuring of Bulgarian agriculture. Establishing sustainable market structures may only come as a result of accelerating and

completing the privatisation process along the whole line from production to retail. This is how the monopolistic structures, distorting the impact of market stimuli, can be eliminated and conditions can be set for effective allocation of productive factors and resources.

An important element of restructuring in agriculture is land reform. Its completion will bring about stable economic agents in the sector, will raise investment and performance in the new structures which shall thereby work in conditions of economic security and transparency.

Economic convergence with the EU in farming would require well developed infrastructure indispensable for effective production. It is a substantial element of the system of policies aiming at increasing effectiveness and competitiveness of Bulgarian agriculture. Following the basic trends in EU farming developments, structural reform in our agriculture has to proceed along the lines of creating sustainable rural communities based on environmental farming.

One of the major problems of the economic adaptation of Bulgarian farming to EU conditions is diminishing the differences in price levels. EU agricultural market prices are substantially above world price levels. It is expected that in the coming years most European prices shall come down closer to world prices. In their turn, Bulgarian guaranteed prices tend to increase which may eventually equalise them to world price levels as well. Therefore overcoming the large gap between EU and Bulgarian prices may prove a credible prospect. The general increase in farm products prices however will result in higher consumer prices and in some social tension. There could also be problems in food industry competitiveness because of the raised production cost in the sector.

Harmonising agricultural policies and legislation with those within the EU.

One of the basic requirements to future Union members is the adoption of everything achieved so far within the Common Legislation and the Common Policies. The principles, goals and the legal basis of the CAP should provide the foundations of some future Bulgarian legislation amendments.

One of the important characteristics of CAP is its dynamism. This hampers the process of harmonisation and legal integration because future policies have many variants and final goals are not clearly identified, hence Bulgaria should be aiming at a moving target. The forthcoming EU Intergovernmental Conference should produce certain clarity upon the basic CAP directions in the context of the EU's eastern enlargement. The common trend is towards lessening protectionism and shifting the emphasis onto direct subsidies to farmers. This should provide an overall orientation to Bulgarian agricultural policies. The aim of the EU administration to restrict and optimise the Community budget could strengthen the current trend to denationalise the CAP to some extent. This may reduce external budget sources on which Bulgarian farming could rely in the future, and shall impose strict financial controls on funds given to support farmers.

Adapting Bulgarian agricultural policy to the CAP mechanisms is a process of gradual accumulation and improvement. Passing the Law for Protection of Agricultural Producers may be regarded as one of the first concrete steps in this direction since it has established a comprehensive legal structure of policies to support producers. Many of the measures provided by the Law are similar to some CAP instruments. One example is the support prices of a number of farm products, combined with government intervention purchases. A full adoption of the CAP principles is not appropriate at the moment because of budget restrictions and the possible social outcome.

Priority aspects in the process of legislative and policy harmonisation are the norms, standards and practices in veterinary and phytosanitary protection. Aiming at improving trade relations, creating an atmosphere of trust and achieving complete compatibility in the field, forthcoming is the concluding of an agreement on establishing a system of co-operation and monthly notification on changes which

have occurred in the respective legislation as well as on new veterinary and phytosanitary policies.

The basic orientation in harmonising agrarian legislation is the White Paper set out during the time of the French Presidency and designed to prepare the associated countries from Central and Eastern Europe prior to their EU Internal Market integration. The White Paper was worked out following the Copenhagen decisions and as a succession to the Essen strategy for eastern enlargement. It comprises the major policies in each sector and offers a certain sequence of steps in the harmonisation process. In its agricultural section, the White Paper contains a list of about 200 basic EU laws of primary importance to the harmonisation process. In this regard, there is work to be done in the following two directions:

(1) Harmonisation of legislation and practice in the fields of veterinary and phytosanitary protection and the requirements for feeding and breeding animals. This in practice means:

- securing unified standards in processing, transport, inspection and trade with agrarian raw materials;
- regionalisation based on established common European principles;
- unification of prophylactic measures and setting up a computerised information system to identify and control contagious animal diseases based on the EU information system; and
- creating the appropriate administrative structure to implement and maintain this system of measures, including modern test laboratories and qualified experts; as a part of the integration process **Bulgaria must be able to secure the external phytosanitary and veterinary border of the expanded Union.**

This division of measures alone includes over 1000 regulations of the EU, with 160 out of this number defined by the European Commission as key to the normal functioning of the European Internal Market. This necessitates the creation of a special team of lawyers and economists to start working as soon as possible on the introduction of the new legislation needed and on harmonising the existing legislation in agriculture.

(2) Adopting measures conforming to the EU market regulating legislation and the common commodity market regulations. They include:

- adopting and implementing the EU harmonised common classification system over the standards in carcass meat trade and the related marking and labelling system; and
- adopting and implementing the current EU compulsory quality standards, regulations for packaging, sizing, marking and labelling, and also a system for quality analyses and control.

Bulgarian full membership in the EU depends to a considerable extent on the timely adoption of these regulations and standards, since CAP support to farmers directly depends upon keeping them. Furthermore, a lot of the proposed policies have their individual importance for being able to facilitate and speed up trade between Bulgaria and the EU and to set up favourable conditions for broadening current trade relations with EU member-countries.

The harmonisation process demands setting up the appropriate legal and administrative structures to secure its implementation. In connection with this, a mandatory procedure was recently approved in the regulations of the Bulgarian Council of Ministers, requiring a statement over the compatibility with EU legislation of proposed laws, sublaws, phytosanitary and veterinary norms. Besides, in all its legislation making of recent years, Bulgaria has used Western European models. Therefore, synchronising pieces of legislation with EU counterparts is being achieved in a natural fashion, even over subjects where harmonisation is not demanded. Administrative changes are a substantial part of the harmonisation process and comprise several main directions:

(1) setting up institutions and structures needed to administer EU common policies;

(2) adopting unified administrative procedures; and

(3) training qualified staff to administer the integration process prior to and after Bulgaria's accession to the EU.

Identifying the missing units in Bulgaria's current administration and successfully installing them can be done through one of the major integration instruments - the structured relationship with the EU at institutional and expert levels, and close collaboration with individual member-countries.

Basic instruments of the integration process

The EU has provided two basic instruments to accelerate the integration process: (1) structured co-operation with EU institutions, and (2) the European Agreements.

(1) The Council of Europe in Copenhagen summarised the "Community's proposal that the associated countries should enter a process of **structured relationship with the EU institutions** in the framework of an intensive and broad multilateral dialogue discussing issues of mutual interest". This proposal is regarded as a means to progressively involve the associated countries into the EU's work; it will be carried out through meetings of a consultative nature. In the sphere of agriculture, the structured dialogue shall establish a close operative contact as well as a model of integration with the EU. It shall encourage common work over urgent problems of economic integration, in harmonising legislation and establishing the appropriate institutional structures to administer the integration process.

(2) The Europe Association Agreement provides a general framework for the diverse forms of co-operation with the EU. Broadly taken, its goal is to gradually create a free trade zone within a 10-year transition period. One of the principles at the basis of the agreements is **asymmetry** in opening markets, both in the way of concession size and concerning the terms of liberalisation. Under this principle, within a 5-year accelerated scheme, Bulgaria receives much greater concessions for its exports into the EU than it grants to EU countries for their exports to the Bulgarian market.

Because of the delayed enforcement of the European Agreement, with an additional protocol attached to it and according to the decisions of the European Council in Copenhagen, the liberalisation scheme for Bulgarian commodities access to European markets was accelerated. As a consequence, regardless of the fact that the Interim Agreement came into effect on 31 December 1993, the fifth year of the Agreement commenced on 1 July 1995.

In farm commodities, keeping in mind their sensitivity for both parties, an improvement of market access is envisaged rather than the full trade liberalisation planned for industrial goods. At the moment, negotiations are being held between Bulgaria and the EU for adapting the European Agreement due to the GATT Agricultural Agreement's coming into effect and the accession of Austria, Sweden and Finland to the EU. These negotiations are aiming at a broader scope of the Agreement which shall encompass within the preferential regime more farm commodities and in greater amounts than previously agreed. The Agreement develops towards additional concessions and further tariff reductions of up to 80% for some Bulgarian export goods. This will considerably improve access to EU markets. In connection with Bulgaria's negative agricultural trade balance with the EU, negotiations ought to attempt to create legal and contractual conditions which may guarantee the application of the asymmetry principle in trade liberalisation.

Deepening the integration process is substantially dependent on fully utilising the opportunities laid down in the European Agreement. The preferential tariff quotas utilisation has been unsatisfactory so far. A small part of the quotas has been fully used. The basic reasons for this may be summarised as follows:

(1) The granted quota amounts have been based on the commodity structure of 1989-1991 which is already outdated.

(2) The major internal problem is the crisis in Bulgarian farming with its main symptom being the slump in farm output as a basic negative outcome of the current land reform.

(3) The frequent changes in the foreign trade regime and particularly the export bans impact negatively on farm goods exports and quota filling.

(4) Nontariff restrictions applied by the EU in the form of veterinary and phytosanitary controls often erect impenetrable barriers before our exports and eliminate the effect of concessions.

(5) Export duty levels for some commodities remains too high even after applying concessions within the quotas which renders these commodities uncompetitive on EU markets.

(6) The actual benefit Bulgaria has received from concessions is significantly less than expected. The current EU licence system in administering quotas in the EU market promotes monopolising the market by EU importers which receive part of the preferential rent.

(7) The quota administration system in practice does not allow Bulgarian exporters to get any information as to quota filling rates by the time of export, which is why they do not include quotas in negotiating prices with EU partners.

(8) The trade embargo on former Yugoslavia has blocked traditional inland routes of Bulgarian fresh farm goods.

All these shortcomings call for a number of internal measures directed towards substantial changes in the administration of quotas and preferences as a whole. Eventual measures can be summarised as follows:

(1) Setting up a quota filling information system to secure suppleness and timely reactions on behalf of exporters and administration. Bulgaria receives monthly notices on quota filling for fruit, vegetables and some other farm commodities where preferential exports to the EU are regulated through customs control rather than import licences. There is no such information¹ for meat, dairy and grain products, because the EU keeps track of issued licences rather than of actual exports. This state of affairs necessitates setting up a national information system recording preferential exports of these commodities to the EU. It may be based on keeping records of the eurocertificates crossing the border check-points of the country. The information received, centralised and summarised shall reflect the level of quota filling in these goods.

(2) Within the framework of the Agricultural Subcommittee, negotiations should start on transforming the EU licensing system which partly regulates preferential farm imports. Thereby, the relative market impact of EU importers could be diminished and more of the benefits resulting from the Europe Agreement will be likely to remain with Bulgarian exporters.

A radical solution to this issue would be to abolish quantity restrictions on concessions. This could improve quality in administering the Agreement and also eliminate the imperfections of the current EU licence system. Since the problem is shared by all associated countries, renegotiating the Agreement would be more effective if prepared and held in close co-operation with other Central and Eastern European countries.

(3) Financing and providing subsidised investment credits for modernising equipment and facilities in Bulgaria to bring them into conformity to EU quality, phytosanitary and veterinary standards. Encouraging investments for reconstruction of food industry companies, especially slaughter-houses which have been refused European Commission export licences. Establishing laboratories for quality control and licensing of export foodstuffs.

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The Ministry of Trade used to monitor only sheep and goat (live and meat) quotas which had the form of a voluntary export restriction. With GATT Agricultural Agreement enforcement, these quotas were transformed into customs duties.

The forthcoming adaptation and renegotiation of the Europe Association Agreement offers opportunities to improve the overall legal framework of the integration process in farming. Utilising these opportunities may boost trade, facilitate Bulgaria's adjustment to EU requirements and prepare the country for future accession to United Europe.

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