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A. Introduction

a) Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership, and that it would submit its first report at the end of 1998.

The European Council in Luxembourg decided that:

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” … “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Bulgaria is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Bulgaria’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Bulgaria’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Bulgaria in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Bulgaria and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Bulgaria’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Bulgaria’s capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries’ capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 Regular Report. It covers the period until 30 September 2000. In some cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Bulgaria in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Bulgaria’s administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Bulgaria’s economic performance.

The report contains also a separate section examining the extent to which Bulgaria has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, “progress” has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and
resolutions\(^1\) have been taken into account in the preparations. The Commission has also
drawn on assessments made by various international organisations, and in particular the
contributions of the Council of Europe, the OSCE and the International Financial
Institutions, as well as that of non-governmental organisations.

b) Relations between the European Union and Bulgaria

*Recent developments under the Association Agreement (including bilateral trade)*

Bulgaria has continued to implement the Europe Agreement correctly and contributed to
the smooth functioning of the various joint institutions.

The Association Council met on 16 November 1999 and on 10 October 2000. An
Association Committee meeting was held on 20 July 2000. The system of sub-
committees continues to function as a forum for technical discussions.

The Joint Parliamentary Committee comprising representatives of the Bulgarian and
European Parliaments met twice, in October 1999 and in July 2000. A second meeting of
the Joint Consultative Economic and Social Committee took place in November 1999
and a third in March 2000.

The share of the European Community in Bulgaria’s overall foreign trade rose from 49.6
% of all exports in 1998 to 52.6% in 1999. The share of the European Community rose
from 44.9% of all imports in 1998 to 48.6% in 1999. In 1999, Bulgaria's main exports to
the Community were textiles and base metals, its main import from the EU is machinery.

In March 1999 the Council mandated the Commission to open negotiations with the
associated countries with a view to new reciprocal concessions for agricultural products.
The negotiations, which form a part of the overall accession process, have been carried
out on a reciprocal basis and with the aim of leading to a fair equilibrium between the
interests of the European Community, the EU Member States and those of Bulgaria. The
negotiations have been based on the principle of neutrality with respect to the functioning
of the CAP.

The negotiations with Bulgaria were concluded between negotiators in May 2000. As a
consequence of the new agreement approximately two thirds of bilateral trade in
agricultural products will benefit from preferences. The regime entered into force on 1
July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to
the Europe Agreement. For processed agricultural products, negotiations are still
ongoing. As the current agreement on trade in wine will expire at the end of 2000,
negotiations on a new agreement are underway.

In July 2000, the Council mandated the Commission to open negotiations with the
associated countries with a view to new reciprocal concessions in the field of fish and
fisheries products.

\(^1\) For the European Parliament the rapporteur is Mr Geoffrey van Orden
In the steel sector anti-dumping complaint against Bulgaria (amongst others), relating to imports of hot-rolled coils, which was lodged in December 1998, the investigation was concluded and a price undertaking reached earlier this year.

In June 1999 Bulgaria and the Commission signed a Joint Assessment of Bulgaria's medium-term economic policy priorities. The Joint Assessment presents the major objectives of macroeconomic policy for the next three years and is closely integrated with the overall medium term economic programme of the country; it is linked to an IMF extended fund facility. Bulgaria has successfully completed its actions under the medium term economic programme, although some minor issues are outstanding.

In November 1999, agreement was reached on the early closure of Units 1-4 of the Kozloduy Nuclear Power Plant. Under the Understanding signed between the Bulgarian Government and the European Commission, the former committed to the definitive closure of Units 1 and 2 before 2003, and to early closure of units 3 and 4; the precise closure date for the latter two units, which the Commission understands will be 2006 at the latest, will be decided in 2002 in agreement with the Commission. The Commission for its part offered a substantial multi-annual aid package to Bulgaria’s energy sector, including grants and a Euratom loan. The joint working group, which was set up in 1999, has been meeting since November to ensure the timely implementation of the Understanding. The Euratom loan for the modernisation of units 5 and 6 of the Kozloduy plant was signed in May, while an International Decommissioning Support Fund under EBRD management was established in June.

**Accession Partnership / National Programme for the Adoption of the Acquis**

The Accession Partnership adopted in March 1998 was revised in December 1999. Its implementation is reviewed in section D of this Report.

In May 2000, Bulgaria presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see part D below).

**Community aid**

Since January 2000, there are three pre-accession instruments financed by the European Community to assist the applicant countries of Central Europe in their pre-accession preparations: the Phare programme; ISPA finances large-scale infrastructure projects in the fields of environment and transport; SAPARD supports agricultural and rural development.

In the years 2000-2002, the indicative annual financial allocations for Bulgaria are € 100 million from Phare, € 52 million from SAPARD, and between € 83 and 125 million from ISPA.

The Phare programme has been providing support to the countries of Central Europe since 1989, helping them through a period of massive economic restructuring and political change. Its current pre-accession focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central Europe with support for institution
building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and accompanying investment support projects, to help them in their efforts to adopt the *acquis* and strengthen or create institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for institution building, while the remaining 70% is used for financing investments in the *acquis* and economic and social cohesion. During the period 1990 to 1999, the Phare programme allocated around €1 000 million to Bulgaria.

In the year 2000, the Phare programme for Bulgaria amounts to €118 million (including exceptional allocations from the reserve) and focuses on the following priorities:

- Economic reform (€6 million): projects to restructure the state railway company, institution building at the Ministry of Economy, and post-privatisation support for enterprises.

- Adoption of the *acquis* and strengthening of the regulatory framework (€15 million): projects in the areas of conformity assessment, public procurement, the environment, maritime safety, and the energy, energy efficiency and telecoms regulatory bodies.

- Economic and social cohesion (€15 million): projects in SME development and vocational training in the two target regions identified in the National Development Plan.

- Strengthening the rule of law and protecting vulnerable groups (€22 million): projects at the public prosecutor’s office, land and maritime border control, the fight against drugs and the welfare of institutionalised children.

- Public finance and management of EU funds (€13 million): projects in the areas of public internal financial control and independent external audit, tax administration, national and agricultural statistics, the CFCU and SAPARD implementation bodies, and a Phare project preparation facility.

- Participation in EC programmes (€19 million): funding to help Bulgaria meet the costs of participating in selected EC programmes in 2000 and 2001.

An additional €28 million has been allocated for cross-border co-operation mainly concerning infrastructure projects on Bulgaria’s borders with Greece and Romania.

Bulgaria also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility.

In the framework of the enhanced pre-accession strategy and further to the respective decisions of the Association Council, Bulgaria participates in the following Community programmes: AIDS prevention, Combating Cancer, FISCALIS, Leonardo da Vinci II, Save II, Small and Medium-sized Enterprises, Socrates II, Youth. Bulgaria is also included in the Fifth Framework Programme for Research, Technological Development
and Demonstration and the 5th Euratom Framework Programme on Research, Technological Development and Demonstration. Based on a Commission proposal, the Council is in the process of adopting a decision on Bulgaria’s participation in the Media II programme. Furthermore, Bulgaria has declared its intention to participate in the Culture 2000 Community programme. Following the opening of negotiations regarding Bulgaria’s participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Bulgaria will become a member of the Agency.

In addition to its annual Phare allocation, the Commission has offered Bulgaria additional Phare funding, over and above its normal allocation, in the context of the agreement reached in November 1999 on early closure dates for units 1-4 of the Kozloduy nuclear power plant. The agreement foresees additional Phare funding of €100 million in the period 2000-2002 and a further €100 million in the period 2003-2007, subject to certain conditions being met. The funds will be used to restructure and reform the energy sector and will be largely managed by EBRD. A first tranche of €27 million is being made available in 2000.

Overall, the impact of Phare in Bulgaria has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as economic transformation and structural reform, the modernisation of public institutions and the judiciary, the adoption and implementation of the *acquis communautaire*, and important issues relating to social cohesion and the protection of human rights.

Three examples of successful Phare projects are:

- The Structural Adjustment Reform Assistance programme (€20 million) has since 1997 supported Bulgaria’s economic reform and private sector development programme. The programme has contributed to major progress in divestment and liquidation of state-owned enterprises and banks, attracting foreign investment, and strengthening the capacity of key institutions. It has been instrumental in helping Bulgaria meet its commitments under successive loan agreements with the IMF and World Bank.

- The Beautiful Bulgaria project (€3 million) aimed to alleviate poverty in a number of regions in Bulgaria by generating new employment, training unemployed people and improving urban infrastructure. 3,500 people were involved in temporary job creation schemes and over 200 buildings were rehabilitated. The project was implemented in co-ordination with the UNDP and enhanced the visibility of the Phare programme in Bulgaria.

- A Vocational Education and Training (VET) project (€3 million) has helped to develop new curricula for selected professions in vocational schools, building upon post-secondary module curricula developed in an earlier Phare programme. It also provided teacher training to apply the new technologies, as well as new technological and learning equipment.

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare’s activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can
be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare’s programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare’s projects in institution building, investment in EU compliance and economic and social cohesion.

Although implementation of the Phare programme in Bulgaria is generally satisfactory, the authorities need to improve their capacity to assist the Commission proactively and strategically with programming and developing priority projects. This is particularly the case in areas that involve inter-ministerial and donor co-ordination, and collaborating with business and civil society. Phare programming and implementation should be more closely integrated with ministerial policymaking and administrative structures. Efforts are needed to reduce staff turnover and provide adequate resources for the contracting, technical and financial aspects of project implementation.

Concerning SAPARD, the Bulgarian National Agriculture and Rural Development Plan got a favourable opinion from the STAR Committee (EC Management Committee on agricultural structures and rural development) in September 2000. The Commission approved the plan in October 2000. The plan’s main objectives are to improve the efficiency of agricultural production and promotion of a competitive food-processing sector and sustainable rural development consistent with the best environmental practices. The Decree for the establishment of the SAPARD Agency was adopted by the Council of Ministers in July 2000 and came into force immediately. The State Fund for Agriculture (SFA) has been designated as the SAPARD Agency, and has responsibility for arranging co-financing of EC projects, as well as for the management of short-term and medium-term national credits for the farmers. Bulgaria is progressing well towards establishing a functioning paying agency for SAPARD. Bulgaria’s indicative allocation under SAPARD in 2000 is € 52 million.

As concerns the ISPA programme which came into operation in 2000 to support large-scale projects in the environment and transport sectors, Bulgaria’s indicative allocation is between € 83 and 125 million a year, to be equally divided across the two sectors. Strategy papers and a project pipeline have already been established. Following discussion with the Bulgarian authorities, the Commission has agreed for 2000 to focus on two projects in the transport sector: road rehabilitation along main transport corridors and a new terminal at Sofia airport. In the environment sector, preparatory work is underway on wastewater treatment plants in Sofia and the Maritsa river basin and urban waste disposal landfills. A decree has been adopted under which the Directorate General of Regional Development and Administrative and Territorial Organisation in the Ministry of Regional Development and Public Works is responsible for the co-ordination of the preparation of regional policy, assistance in preparation of legislation, and programming and implementation of Phare economic and social cohesion projects. However, inter-ministerial co-ordination, both at national and regional levels, is still not fully effective and more attention needs to be paid to this.

Implementation of the ISPA project will follow the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of the overall financial management and a number of Implementing Agencies responsible for the technical implementation. For the programme and financial management of SAPARD, a different system will apply which reflects the EAGGF (European
Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

**Twinning**

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States’ expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all Member States are operational. Under Phare 1999 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

For Bulgaria, eleven projects under the Phare 1998 programme and eight under the 1999 programme are being wholly or partly delivered using twinning. Twinning will be again an important component under the Phare 2000 programme, contributing to the results of up to eleven projects. These span a broad range of sectors including economic reform, the adoption and implementation of the internal market and environment *acquis*, strengthening the rule of law, protecting vulnerable groups, and enhancing public sector financial control.

**Negotiations / screening**

The analytical examination of the *acquis* (screening) was concluded for Bulgaria by early 2000, including for the agricultural *acquis* and those parts of justice and home affairs not previously covered. During the first half of 2000 screening was updated on 23 chapters to take account of the latest developments in the *acquis* and recent progress. Negotiations were officially opened at the bilateral intergovernmental conference held on 15 February 2000. In March 2000, substantive negotiations started on six chapters of the *acquis*: science and research, education and training, small and medium-sized enterprises, culture and audio-visual policy, external relations, and common foreign and security policy. The Accession Conference in June 2000 decided to provisionally close 4 of these chapters (science and research, education and training, small and medium-sized enterprises and common foreign and security policy).

As recommended by the Commission, the Presidency has proposed to open negotiations for a further five chapters; free movement of capital, company law, statistics, telecoms, consumers and health protection in the second half of 2000.
B. Criteria for membership

1. Political criteria

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Bulgaria’s progress towards accession, the Commission concluded that:

“Bulgaria fulfils the Copenhagen political criteria. However, further efforts need to be undertaken to strengthen the rule of law and protect human and minority rights, particularly of the Roma population, where recent government decisions need to be followed by concrete measures with appropriate financial resources. Particular attention needs to be paid to the fight against corruption and improving the functioning of the judicial system.”

The section below aims to provide an assessment of developments in Bulgaria since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Bulgaria’s ability to implement the acquis, in particular in the domain of justice and home affairs. Specific information on the development of Bulgaria’s ability to implement the acquis in the field of justice and home affairs can be found in the relevant section (Chapter 24 – Co-operation in the field of justice and home affairs) of part B.3.1. of this report.

Recent developments

The political situation remained stable over the past year. The reform-oriented majority continues to pursue its policy of economic reforms and integration of Bulgaria into the European Union. All major political forces in the country support the policy of integration with the European Union. Progress has been achieved in building broad political support for Bulgaria’s membership of NATO, demonstrated by the Declaration of the National Assembly on the negotiating position on Common Foreign and Security Policy, adopted by consensus in May 2000. Bulgaria continues to play a positive role in all efforts for enhanced co-operation in South Eastern Europe. In 2000 it has taken initiatives to bring together Prime Ministers from the region in informal meetings to encourage co-operation. Bulgaria has also been a major supporter of EU policy in this region and an active participant in the Stability Pact.

At the end of 1999, after the decision at the Helsinki European Council that negotiations should be opened with Bulgaria, there was a major change of government ministers, accompanied by decisions on the restructuring of key ministries and the creation of a new European Integration structure.

Local elections were held in October 1999. The Council of Europe judged these well organised and satisfactory.
1.1. Democracy and the rule of law

As mentioned in the previous Regular Reports, Bulgaria has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year.

Parliament

The Parliament has continued to operate smoothly over the past year. It has played an increased role in the European integration process both at political level and at technical level.

Following the Helsinki decision on opening of negotiations, the National Assembly set up a new Council on European Integration, chaired by the Speaker. It is made up of three members from each of the five parliamentary groups, which are thus represented on an equal and non-proportional basis. To act, the Council requires consensus between these five groups. The Council will consider all draft laws related to the National Programme for the Adoption of the Acquis and can give judgements on compliance with the acquis. Where the Council members agree there is consensus on a draft law, the Council can replace the specialised committees and send a draft law straight to the plenary for a vote, thus speeding up procedures. However, should one parliamentary group object, the draft law must go through the normal procedures. The Council will also monitor, on behalf of the National Assembly, the work of the Bulgarian negotiation team and of the Chief Negotiator. A small pool of experts on EC legislation has been created to support MPs in their legislative role.

The executive

Since the adoption of the Law on State Administration and the Civil Service Law, significant further steps have been taken as concerns laying the legal framework for a modern, professional and independent public administration. Considerable progress has been made to meet the short-term Accession Partnership priority of implementing the civil service law.

In the government reshuffle at the end of 1999, the position of Minister of State Administration was abolished as a separate post, and the Prime Minister took on its functions.

In early 2000, secondary legislation was adopted on issues including the status, classification, recruitment, conduct and professional development of civil servants. The new statute for Civil Servants is intended to guarantee their status even when the political environment changes. From May 2000, all Civil Servants are appointed under the Civil Servants Act; their salaries and allowances are public and centrally controlled. The new laws also make it a civil servant’s duty to act impartially and according to the law and sets requirements for dealing with the public. A new disciplinary framework has been created. To monitor the implementation of the civil servants law, a State Administrative Commission was established in July 2000. Whilst there has been important progress since last year in particular in the granting of the new civil servant status to staff in ministries, it is as yet too early to assess fully the impact of the changes in practice.
The government has completed a review of administrative structures, roles and staffing of ministries, agencies and municipal administrations. Under the new regulations on the structure of ministries, each ministry has a special unit on EU integration. The Council of Ministers has adopted the statute for the Institute for Public Administration and European Integration and has allocated a budget for 2000. A database of civil servants trained in public administration and EU integration has been established and information on training needs collected.

These changes have increased the administration’s capacity on EU issues, which is illustrated by the work on the opening of negotiation chapters. The Prime Minister chairs a new Council on European Integration at Ministerial level. Below this, a Co-ordination Council chaired by the Deputy Foreign Minister brings together the Chairmen of 30 Working Groups (each dealing with a chapter of the *acquis*), generally at the level of Deputy Minister. Also a new Directorate for EU Integration and Relations with IFIs has been created within the Council of Ministers, to support this process.

Concerning planning and policy-making capacity, there have been some positive developments. A new procedure for preparing draft laws was established through a decree of the Council of Ministers of November 1999 which has improved the framework. The fact that ministries now have similar structures makes communication between them easier and there has been some improvement in policy co-ordination. Whilst the mechanisms have improved, the quality remains variable. In policy areas which involve several departments and sectors (e.g. those related to preparation for structural funds), the quality of inter-ministerial co-ordination needs to be further improved. Also, whilst new laws go through a mandatory impact assessment, this process often remains superficial. In the early stages of preparing a law, consultation with affected parties (e.g. social and economic partners) is insufficient. Earlier consideration needs to be given to how laws will be implemented, to the required secondary legislation or regulations, to the impact on the budget, to requirements in terms of human resources as well as to the costs to economic operators. As this is lacking, there are frequently delays between the adoption of laws and their effective implementation. After new laws enter into force, more attention needs to be paid to monitoring their implementation and enforcement, including in the court system. Whilst the capacity for policy and planning at the level of ministries has improved, there is a lack of strategic co-ordination at the centre. Further progress is needed before the short-term Accession Partnership priority of strengthening the capacity to assess the financial and institutional impact of new legislation can be considered to have been met.

It remains difficult to recruit and retain professional employees in the civil service, especially where their skills are also in demand in the private sector. Low salary levels are a factor. This is particularly acute at senior and middle management levels. There is in some ministries an unjustifiably high turnover at these levels when there are changes at ministerial level (even when there has been no change of government). The implementation of the Civil Service law should address these various issues but at this stage it is not yet possible to judge its effectiveness fully.

Further improvements in these areas are necessary to ensure that legal approximation contributes to the development of good governance and to the further success of the reform programme in Bulgaria. Approximation of Bulgaria’s legislation to the EC ‘*acquis*’ and its correct implementation will benefit the economy and society during the
pre-accession period. It will also contribute to fulfilling the Copenhagen criterion on adopting the obligations of membership.

The Police and Ministry of Interior structures are in the process of being de-militarised but this is not yet complete. The recent incident (the discovery of bugging devices in the home of the Prosecutor General in July 2000) shows the importance of further reforms in the Ministry of Interior which must be seen to have adequate control mechanisms in place to ensure it is seen to act fully on the basis of the law.

Since the creation of new decentralised institutions in the 28 new administrative regions (oblasti) in 1998, the Council of Ministers has appointed the 28 governors, in accordance with the Constitution. Regional councils for regional development have been established to assist the governors. The governors chair these councils, which consist of the mayors of the municipalities in the district and one member of each municipal council.

The judicial system

Some further reforms have been made in the judicial system. Since the last report additional amendments to the Civil and Criminal Procedure Codes have entered into force. The changes to the Civil Procedure Code are intended for example to minimise the possibilities for adjourning cases, facilitate quicker proceedings in certain cases and reduce insolvency proceedings to two judicial instances (district courts and courts of appeal). One of the short-term Accession Partnership priorities was to strengthen the independence of magistrates, judges and the efficiency of the court system; little progress can be recorded on this since the last report.

Amendments to the Criminal Procedure Code were introduced on 1 January 2000. These are intended to strengthen judicial control during all phases of a case, establish the court phase as the central stage of the process, and remove a number of unnecessary formalities during preliminary investigation. Also, investigation has been passed on to the police for all cases of minor importance (estimated at over 60% of the caseload).

With the introduction of these reforms and the introduction in 1999 of the three-instance judicial proceedings (first instance, second instance and cassation) as provided for in the Constitution, the basic legislative and organisational arrangements have been created as required by the Bulgarian Constitution.

However, whilst reform of the judiciary is recognised as a priority by the government and has started with the adoption of legal changes, significant further efforts and resources are needed if the judicial system is to become a strong, independent, effective and professional system able to guarantee full respect for the rule of law as well as for effective participation in the internal market.

Several other major issues need to be addressed if judicial reform is to produce sustainable results in the whole of the judiciary and in all parts of the country:

Firstly, there is insufficient funding for Bulgarian judicial institutions. Whilst the 2000 budget for operating expenditure was raised for most government branches, the budget for the judiciary received a relatively minor increase, despite the fact, as mentioned in last year’s report, that there are serious problems with the material conditions of the judiciary. Court buildings are often too small, and working conditions for both judges and
administrative staff are often unsatisfactory. Judges often share offices. Physical security arrangements vary between courts but they are overall very poor.

Secondly, administration in the courts is inefficient. In most courts, procedures for caseload management are cumbersome. Where computer systems are in use, they have been developed and implemented as local initiatives without co-ordination between them. The enterprise register and the criminal records register have been computerised and are kept at national level, with access available at least to each District Court. However, important public registers managed by the courts, i.e. the land register and the civil status register, are not yet computerised and are only accessible locally.

Thirdly, the situation of judges and other staff in the judiciary is unsatisfactory. Judges are appointed to a particular court by the Supreme Judicial Council upon suggestion of the President of that court. The criteria applied for their selection (except the purely formal criteria of University education and completion of a legal traineeship) are not always transparent and there is no national competition for recruitment. There does not seem to be any system for promotion or for mobility around the country, or any evaluation of judges' performance. Also, judges’ immunity needs to be clarified, notably as regards minor offences, for which they apparently cannot be charged, and offences not related to their work, where the SJC determines whether or not judicial immunity should be lifted.

There is very little training of staff within the judiciary. There is no compulsory specific training on entry into the profession, or whilst holding office. The training that is becoming available is mainly through donor-funded programmes. The Magistrates Training Centre, an NGO, is currently the central partner for national training programmes and is almost entirely funded from donor contributions. For judges, training does not yet include matters related to the functioning of a market economy or European Community law. The training centre will need to become a public training institution in the medium term with adequate financial and human resources. Provision for training of staff in the judiciary other than magistrates also needs to be made.

Also, there are no indications to suggest that there is more than a minor improvement in the level of backlogs in handling court cases or speed of execution of rulings since the last report. Likewise, there appears to be no improvement in the problems of access to legal aid.

Anti-corruption measures

Corruption continues to be a very serious problem in Bulgaria. Whilst it is hard to know its extent, the persistent rumours about corrupt practices at various levels of the administration and the public sector in themselves contribute to tainting the political, economic and social environment. They affect the capacity of the state to guarantee a predictable and lawful environment for its citizens and economic and social actors. According to several surveys since the last Regular Report, customs, the police and the judiciary are considered to be the most corrupt professions in Bulgaria. Other professions cited include University teaching personnel and public-sector officials who have close contacts with the general public.

However, a number of positive steps have been taken since last year, especially at legislative level. These include:
• A Public Register Law inviting high-ranking government officials to declare property, income and expenses was passed in April 2000;
• In June 2000, amendments to the Penal Code were adopted by the National Assembly to criminalise actual or attempted bribery;
• The Civil Service law creates tighter controls on the administration and its staff;
• The review of licensing and registration regimes finalised in October 1999 led to abolition or simplification of some regimes;
• The new Tax Procedure Code of January 2000 emphasised measures to detect corruption-generated income;
• The start of the implementation of the new public procurement law;
• A number of projects are under way through NGOs (often with the active support of the authorities) to collect information about corrupt practices, study the attitude of the public towards corruption and inform the public about legal remedies against corruption.
• Bulgaria deposited its ratification of the Council of Europe Civil Law Convention on Corruption in June 2000. Bulgaria has ratified the major anti-corruption conventions, but still needs to ratify the CoE Criminal Law Convention on Corruption.

In recent months corruption scandals have been widely reported in the press. In mid-May, the Parliament rejected a motion of no confidence against the government for implementing a policy of corruption and covering up its concrete manifestations.

Whilst allegations of corruption are rife, it is difficult to obtain concrete information on how the judicial system is dealing with corruption cases. Some information on bribery cases is available but it has not been possible to obtain clear figures for corruption-related cases for the last year.

Efforts of law enforcement bodies need to be strengthened to fight corruption. The legislative framework should be upgraded especially in financial control and areas that contribute to transparency in public life such as financing of political parties, relations between officials and business, and the private interests of civil servants and other officials. The internal control mechanisms against corruption in the various administrative bodies, including the judiciary, should be upgraded.

The government should further enhance its efforts to create an environment of zero tolerance of corruption, and to minimise the potential for corruption when drawing up new legislation. Also, whilst individual measures have been taken to combat corruption and whilst this is an element of the National Strategy on Combating Organised Crime, these would benefit considerably from the framework of a global, transparent anti-corruption strategy with overt backing from government and parliament.

1.2. Human rights and the protection of minorities

As mentioned in the previous Regular Reports, Bulgaria continues to respect human rights and freedoms. The following section concentrates on subsequent major developments.
Bulgaria has ratified most human rights conventions (see annex). In September 1999, it ratified Protocol N° 6 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty. In June 2000, Bulgaria ratified the European Social Charter (revised), however it has not yet signed the original European Social Charter. Protocols no. 4 and 7 of the European Convention for the Protection of Human Rights and Fundamental Freedoms still need to be ratified.

In January 2000, the Council of Europe Parliamentary Assembly decided to end its monitoring of Bulgaria. It concluded that Bulgaria was committed to democratic reform and had made a number of major steps forward on the road to democracy since joining the Council of Europe in 1992. It mentioned inter alia the abolition of the death penalty, adoption of the Law on Alternative Service, ratification of the Framework Convention for the protection of national minorities and the role of the President in the adoption of legislation in line with Council of Europe standards, including in the spheres of the media and the judicial system. The Bulgarian authorities were asked to take the necessary measures to solve remaining problems. Whilst there have been a number of improvements, Bulgaria needs to pay continuing attention to the issues raised and reinforce efforts to ensure commitments are fully implemented.

In May 2000, the European Court of Human Rights ruled against Bulgaria in the case of Velikova v. Bulgaria, relating to the death of a Roma man in policy custody in 1994. It ruled that it could be concluded beyond reasonable doubt that the man died of injuries inflicted in custody and that the state had failed to meet its obligation to conduct an effective investigation.

### Civil and political rights

In the period since the last report, some further progress has been made in the protection of civil and political rights but there continue to be problems with the effective functioning of law enforcement bodies.

Recent developments can be summarised as follows:

Following the *Refugees* Law of May 1999, a specialised Agency for Refugees has been created to ensure co-ordination of all administrative and legal proceedings related to asylum seekers and refugees. However, concerns have been raised by human rights groups about the implementation of the law and co-ordination between the Refugee Agency and the Border Police who are the first to deal with an asylum seeker. The overall administrative capacity of the Agency is limited.

*NGOs* generally play an active and important role in Bulgarian society in many sectors and at national, regional and local level. There are strong think-tank NGOs that are influential in setting the agenda for civil society and encouraging initiatives to remedy some of the most acute problems facing Bulgarian society. NGOs working in the field of protection of the Roma minority have introduced good practices and success stories that became part of the Government programme. The trend to consult NGOs on issues of concern is very positive. The legal framework for NGO activity is in the process of being modified. A significant part of funding of NGOs comes from donors outside Bulgaria, which has meant some NGOs are over-dependent on those donors. Changes to the legal framework to make donations more attractive in Bulgaria will help but there is clearly a link to the economic situation.
As concerns *freedom of expression*, whilst libel can no longer be punished through imprisonment, the level of possible fines remains very high despite having been reduced by the National Assembly after a Presidential veto on the libel law. So far the authorities have shown restraint as regards implementation, but continuing attention needs to be paid to ensure there is no undue restriction of freedom of expression.

The National Council on Radio and Television is entrusted by law with protecting freedom of speech, independence of radio and TV operators and the public interest. It examines if the principle of pluralism is observed in Bulgarian national television and radio, and it monitored the behaviour of media during the pre-election campaign for the local elections in 1999. Given these important tasks, the administrative capacity of this body still needs to be further improved.

Bulgaria has affirmed its commitment to improve conditions in *prisons* and to align itself with international requirements. However, as concerns pre-trial detention, conditions are considered particularly poor. A regulation to the effect that pre-trial detainees should have the same rights as convicted persons was adopted in April 1999 by the Ministry of Justice, but more needs to be done to ensure this is fully implemented. Conditions in prisons and labour correction hostels are reportedly better but there are still problems such as overcrowding and poor food and sanitary conditions. The legal framework for placing young offenders into “correctional boarding schools” needs to be revised to ensure cases have been heard in full conformity with the right to a fair trial before detention.

A number of human rights organisations have made critical reports in the period since the last report about *police violence* which provide cause for concern. These indicate that violence against Roma is higher than against other Bulgarians and that when complaints are made against law enforcement officials alleged to have been involved in brutal treatment, very few result in trials.

There remain problems with *trafficking* of human beings, especially women. Recent sociological surveys show that some women from more vulnerable groups are still ready to take the risk of being trafficked hoping it will provide a better future. Strengthening of border controls is not sufficient to tackle this problem. A more effective policy of prevention and information to vulnerable groups is needed. Significant steps have been made in this respect through the implementation of a joint EU-US information campaign carried out by the International Organisation for Migration with the full support of the Bulgarian authorities.

In line with the Constitution, in October 1999 the National Assembly adopted the Law on *Alternative Service*. One of the provisions of this is that alternative service is double the length of normal military service. A Commission for Alternative Service is now operational and following its approval of requests a number of young men are now undertaking alternative service. However, concern has been expressed that most alternative service jobs are positions in the Army which do not involve carrying weapons.

In practice, *freedom of religion* is considered as satisfactory by most religious denominations and NGOs. Jehovah’s Witnesses are now registered and benefit from legislative provision for alternative service. However, on the preparation of a Denominations Act, concerns have been raised that interested parties have not been consulted and that elements of the three drafts before the National Assembly in February
2000 could infringe the Bulgarian Constitution and international commitments to human rights.

The institution of the Ombudsman does not yet exist in Bulgaria, but Ombudsman offices have been set up in a number of municipalities on a voluntary basis and pilot projects are being run by a number of NGOs to examine the possibility of introducing the institution of Ombudsman in Bulgaria and precisely what the role of this would be.

**Economic, social and cultural rights**

Concerning equal opportunities, the Bulgarian Constitution enshrines the principles of equality of citizens and non-discrimination. These provisions of the Constitution are directly applicable. However, Bulgaria does not yet have a legislative framework against gender discrimination or a body responsible for implementing non-discrimination policies. In the course of 2000, a working group with representatives of ministries, trade unions, employers’ organisations and women’s non-governmental organisations was established to prepare a draft law, with the main objective of providing more guarantees against gender-based discrimination and to promote equality between women and men in all spheres of public life. Bulgaria has signed the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women.

Whilst the integration of disabled people is guaranteed by law, little progress has been made since last year for the effective integration of disabled people in the economic and social life, largely due to the lack of sufficient resources.

In June 2000, the National Assembly took a positive step forward in adopting the Child Protection Act, which creates a State Agency for Child Protection. It will be responsible for child protection programmes at national and regional level. Under the law, children may be placed in the care of special institutions only when all possibilities of remaining in a family environment are exhausted. The act covers other areas, for example a national information system on children in need, the role of municipal social assistance services in child protection, and the right of children to be heard in proceedings involving their rights or interests. Implementing regulations still need to be adopted. In July 2000, Bulgaria ratified the International Labour Organisation Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour of 17 June 1999. Bulgaria’s ratification is one of the first.

Trade unions and representatives of employers and other economic groups continue to play an active role in society. Their impact in society has been increased, but the rules concerning their consultation before the adoption of policy measures by the government are not clear and the tendency not to consult Unions remains despite formal obligations to do so.

**Minority rights and the protection of minorities**

Bulgaria has made progress in bringing its legislation into line with European standards and recognises that steps need to be taken to address problems faced by certain minorities. It is difficult to gain precise up-to-date information about the situation of different minority groups living in Bulgaria and the population census foreseen for 2001
should be an important contribution to assessing this, provided that participation of all parts of the population is facilitated.

The Roma minority, which represents about 5% of the population, continues to suffer discrimination due to the accumulation over time of factors that have worsened their living conditions. There is political commitment from the government to remedy their problems, but more effort must be put into translating this into concrete action and major efforts and resources will be required to reverse the situation of discrimination, poor living conditions, economic hardship, chronic unemployment, poor health care, appalling housing conditions and lack of effective access to education. Also there are practices in access to social support and health care where particular eligibility criteria can have a discriminatory effect, making it difficult in practice for Roma to gain access to social support. A precondition for non-contributory health services is access to social support, so this also affects access to health services.

Since the welcome adoption of the framework programme for the integration of Roma into society reported on last year, some progress has been made but in general implementation of the programme has been progressing slowly, so the short-term Accession Partnership has been only partially met. Experts of Roma origin have been appointed in 24 of 28 regions as experts on ethnic and demographic issues; 3 experts have been appointed to the Ministry of Regional and Urban Development, and 3 at the Health Ministry. Some training in administrative skills has been provided for these experts through the National Council on Ethnic and Demographic Issues (NCEDI). Cases of degrading treatment of Roma by law-enforcement bodies were referred to earlier in this chapter. The NCEDI is working on a programme against youth unemployment which includes recruiting 50 young Roma into the Police, which is a positive step. However, the administrative capacity of the NCEDI to implement the programme remains low, and the limited financial means allocated for implementation make effective performance of its task difficult, so the short-term Accession Partnership priority of strengthening the NCEDI will require considerable further efforts to be fully met.

Concerning participation in political life, in the municipal elections in October 1999, Roma-led parties achieved some significant results for the first time, gaining over 200 seats on municipal councils. This marks an important step and has motivated some towns to create departments on Roma issues. For the upcoming general elections in 2001, it is important to ensure that this trend towards participation in political life is fostered.

The Turkish minority, estimated at about 9% of the population, is better integrated into political life through elected representation at national and local levels. However, concerns exist as to the low level of representation in senior appointments in the administration or as officers in the military. Since the last report, some concrete steps have been taken to improve education in Turkish in primary and secondary schools, however further action, for example to ensure there are enough trained teachers, will be necessary. Also, a news programme in Turkish has recently been introduced on National public television. Regions where the minority is concentrated continue to suffer from low investment and high unemployment.

Concerning political representation of minorities, the Constitution forbids organisation of political parties on ethnic, racial or religious grounds. It could be desirable to clarify these Constitutional provisions with reference to the restrictions on the establishment of political parties, as it is important to ensure compatibility with international obligations.
1.3. General evaluation

Bulgaria continues to fulfil the Copenhagen political criteria.

Bulgaria has made progress in adopting secondary legislation necessary to implement the Civil Service Law, and also to implement this. The adoption of the Child Protection Act in June 2000, which creates a State Agency for Child Protection, is another positive step forward.

However, very little has been done to upgrade the judiciary, which remains weak. Also corruption continues to be a very serious problem and a global, transparent anti-corruption strategy with overt backing from government and parliament would be of benefit. Since the adoption of the framework programme for the integration of Roma last year, some progress has been made but the administrative capacity of the National Council on Ethnic and Demographic Issues to implement the programme remains low, and the limited financial means allocated for implementation make effective performance of its task difficult.

Major efforts are needed to develop a strong, independent, effective and professional judicial system. The fight against corruption needs to be strengthened. In line with the short-term Accession Partnership priority on Roma, further concrete actions and adequate financial resources are still required.
2. Economic criteria

2.1. Introduction

In its 1997 Opinion on Bulgaria's application for EU membership, the Commission concluded:

“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.”

This finding was confirmed in the 1998 and 1999 regular reports. In its 1999 regular report the Commission found that:

“Bulgaria has continued to make progress in establishing a functioning market economy but further steps are needed and it is not yet in a position to cope with competitive pressure and market forces within the Union in the medium term.”

In examining the economic developments in Bulgaria since the Opinion, the Commission’s approach was guided 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;
- the capacity to cope with competitive pressures and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion, as well as in the previous regular reports.

2.2. Economic developments

Since mid-1999 an improved external environment has been accompanied by increased economic growth. Bulgaria has maintained a sound macroeconomic performance and continues to stay on track with its medium term economic adjustment and reform programme. The currency board continues to deliver stability and low inflation. Investment in capital equipment is growing, indicating the increased confidence of the economic operators. Unemployment has increased significantly as a result of restructuring in the manufacturing sector.
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<tbody>
<tr>
<td>Real GDP growth rate</td>
<td>per cent</td>
<td>-10.1</td>
<td>-7.0</td>
<td>3.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>per cent</td>
<td>123.0</td>
<td>1,232.1</td>
<td>39.9</td>
<td>2.6</td>
</tr>
<tr>
<td>- annual average</td>
<td>123.0</td>
<td>1,232.1</td>
<td>39.9</td>
<td>2.6</td>
<td>7.6 June</td>
</tr>
<tr>
<td>- December-on-December</td>
<td>511.0</td>
<td>549.8</td>
<td>1.6</td>
<td>7.0</td>
<td>11.7 June</td>
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<tr>
<td>Unemployment rate, end-year</td>
<td>per cent</td>
<td>13.7</td>
<td>15.0</td>
<td>16.0</td>
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<tr>
<td>- ILO definition</td>
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<td>15.0</td>
<td>16.0</td>
<td>17.0</td>
<td>17.8 Sept</td>
</tr>
<tr>
<td>General government budget balance</td>
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<td>-15.3</td>
<td>-0.3</td>
<td>1.3</td>
<td>-0.9</td>
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<tr>
<td>Current account balance</td>
<td>per cent of GDP</td>
<td>0.2</td>
<td>4.2</td>
<td>-0.5</td>
<td>-5.3</td>
</tr>
<tr>
<td></td>
<td>million €</td>
<td>13</td>
<td>376</td>
<td>-55</td>
<td>-620</td>
</tr>
<tr>
<td>Foreign debt</td>
<td>per cent</td>
<td>168.9</td>
<td>165.7</td>
<td>161.8</td>
<td>180.7 E</td>
</tr>
<tr>
<td>- debt export ratio</td>
<td>168.9</td>
<td>165.7</td>
<td>161.8</td>
<td>180.7 E</td>
<td>:</td>
</tr>
<tr>
<td>- gross foreign debt</td>
<td>million €</td>
<td>8,251</td>
<td>9,200</td>
<td>8,015</td>
<td>9,292 E</td>
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<tr>
<td>Foreign direct investment in flow</td>
<td>per cent of GDP</td>
<td>1.1</td>
<td>5.0</td>
<td>4.4</td>
<td>6.3</td>
</tr>
<tr>
<td>- balance of payments data</td>
<td>1.1</td>
<td>5.0</td>
<td>4.4</td>
<td>6.3</td>
<td>:</td>
</tr>
<tr>
<td></td>
<td>million €</td>
<td>86</td>
<td>445</td>
<td>479</td>
<td>735</td>
</tr>
</tbody>
</table>

E = Estimates

*The restructuring of the economy is proceeding and privatisation is entering a second stage.* Whereas the first stage focussed on enterprises and involved about 63% of all state owned assets, the second phase of the privatisation programme concerns mainly utilities and infrastructure. Monitoring results for 154 troubled enterprises show that losses are still substantial, emphasising the urgency of further restructuring. The privatisation of the banking sector is progressing, and is expected to lead to a substantial and much needed improvement of financial intermediation. Important reforms of health insurance, social security and the pension system are underway and should further support the market orientation of the economy.

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2 PROXY HICP since 1997 (see methodological notes)

3 Moving 12 month average rate of change
<table>
<thead>
<tr>
<th>Main Indicators of Economic Structure in 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (average)</td>
</tr>
<tr>
<td>GDP per head</td>
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<tr>
<td>Share of agriculture in:</td>
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<tr>
<td>- gross value added</td>
</tr>
<tr>
<td>- employment</td>
</tr>
<tr>
<td>Investment-to-GDP ratio</td>
</tr>
<tr>
<td>Gross foreign debt/GDP</td>
</tr>
<tr>
<td>Exports of goods &amp; services/GDP</td>
</tr>
<tr>
<td>Stock of foreign direct investment (End of 1998)</td>
</tr>
</tbody>
</table>

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000 the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

There is continued support for the medium term economic programme and for EU accession related policies. The broad support for the currency board arrangement has not been shaken. While the legislative procedure is relatively smooth and allows for rapid progress in adopting legislation related to economic reform, this has not always guaranteed laws to be of sufficient quality and to be the result of a proper consultative process. There is a need to improve the co-ordination of new policy initiatives between

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4 Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

5 Agriculture, hunting, forestry and fishing.

6 Provisional figures.

6 Data refer to Gross fixed capital formation as % of GDP.

7 The 1999 data for foreign debt are estimates.
ministries. Improved consultation of interest groups is necessary to ensure broad participation and acceptance. The preparation of a new medium term programme has started. It is expected to be finalised and agreed with the government after the general elections, which are scheduled for the first half of 2001.

GDP growth in 1999 increased to 2.4%. Only the service sector experienced positive growth throughout the year. Industry contracted in the first half of 1999 as a result of the Russian and Kosovo crises. This situation was redressed in the second half, when industrial activity was driven by higher exports. Real GDP growth continued in the first part of 2000 and is forecasted to reach 4.5% in 2000. Domestic industrial sales decreased 8.6% from January to July 2000, but strong exports continued to drive overall growth.

Unemployment has been rapidly increasing since mid-1999. The unemployment rate stood at 17% in December 1999. It further increased in the spring of 2000 and reached a peak of 19% in April before declining slightly because of seasonal factors. The health reform had some impact on unemployment because it increased the incentive to register. Total employment has been reduced by 247,000. This was mainly caused by restructuring in agriculture and manufacturing. In the same period the labour force declined by 101,000. Economic growth together with active labour market policies are essential to ensure that labour resources are made available to economically viable sectors to avoid high unemployment turning into a long-term liability for the public budget.

Consumer price inflation has decreased substantially since the introduction of the currency board arrangement. During the first half of 1999, the rise in the consumer price index was particularly low, but higher energy prices and increases in administered prices topped up inflation in late 1999. End-year inflation was 7%, while average inflation was 2.6% in 1999. Annual average inflation was 7.6% in June 2000, but upward pressure appears to be developing.

The depreciation of the euro, to which the lev is pegged, has had an impact on debt service, fiscal reserves and external trade. Debt service payments denominated in US dollars are three times higher than payments denominated in euro and concern 61% of government debt. The high proportion of dollar denominated exports and the disbursements under the three-year extended arrangement with the IMF provide a hedge against some of the currency risk on the debt. In June 2000 gross official reserves (€3.2 billion) corresponded to more than 7 months of imports of goods.

Interest rates have decreased. By the end of August 2000 the base rate set by the central bank was 4.01%, down from 4.75% one year earlier. During the same period, rates on 3-month government securities fell (they actually fell below the corresponding EUROLIBOR rate, which could point to capital market imperfections or poor liquidity management by banks.) The commercial interest rates in the meantime moved little and stayed at around 16%. This indicates that business risks remain high while sovereign risk appears to be decreasing.

The Bulgarian authorities have reduced the budget deficit to 0.9% in 1999, from 12% of GDP in 1996. The deficit target for 2000 is 1.5% of GDP. Expenditure is projected to decrease to around 39.5% of GDP, while revenues are expected to be 38% of GDP. In the first half of 2000 the revenue performance was better than expected, which may leave some room for spending in the second half. For 2001 the government plans a 2% decrease in personal income taxes, a decrease in profit tax rates by 5%, a reduction of social security contributions from 35% to 32% of the wage bill and a shortening of the
time for VAT refunds to non-exporters from 6 to 4 months. These measures are supposed to stimulate private sector activity.

*The mechanism for budget execution enables effective control of government expenditure.* Whereas the Annual Budget Law allows the Ministry of Finance to limit discretionary spending to 90% of the budget allocation, if necessary, the continued reduction of tax and social security arrears and the revenue from privatisation have ensured that the fiscal reserve remains comfortably above the minimum defined in the medium term economic programme.

*In 1999 the current account deficit increased to 5.3% of GDP, the highest level since the economic reforms began.* Although the volume of trade has developed rapidly in the first half of 2000, the current account deficit was almost unchanged compared to the same period of the previous year. Due to the increase in energy prices on the world market the value of energy imports almost doubled compared to the same period in 1999. Foreign direct investments of €735 million, largely related to the privatisation programme, fully financed the current account deficit of €620 million. This coverage could well be repeated in 2000, provided that the privatisation programme proceeds as planned, but there is a risk of foreign direct investment inflows falling short of the financing needs once the current phase of privatisation fades out. The deterioration of the external balances could become a problem in the medium term.

*Substantial reforms of the pension and health systems were initiated in 1999.* The pension reform aims to establish the long-term viability of the traditional pay-as-you-go scheme. The legal basis for strengthening this scheme was adopted in 1999 and implementation has begun. This involves a gradual alignment of benefits and contributions, an increase in the average retirement age, and a limited eligibility for early retirement. The implementation of a fully funded compulsory second pillar and a voluntary scheme (third pillar) will start in 2002. The staged implementation of the reform aims to avoid a steep increase in contributions. Since July 2000 the new Health Insurance Fund has started to contract out primary health care provision to competing agencies, including both public and private providers. Employers and employees both started to make contributions to the scheme in July 1999. When fully implemented, the reforms should go a long way towards establishing the fiscal sustainability of the pension and health systems.

*There is a need for careful balancing of short and long-term objectives as regards a strategy for reducing the debt level.* The high debt burden of the country increases vulnerability to changes in the external environment. By the end of 1999 total external debt stood at 79.8% of GDP and gross foreign debt service corresponded to 7.7% of GDP. Lower external debt would help to ease the budgetary constraints of the government and reduce fiscal risks. In the short term deferring essential infrastructure investments is not helpful because this could hamper future growth. Higher investment can be stimulated, without putting the sustainability of public finance at risk, by careful priority setting and by involving the private sector. However, a reduction of public debt in line with the Maastricht criteria is not required before accession and could constrain economic policy choices unnecessarily at this stage.

*The private sector's share of value added amounted to 65.3% through 1999.* By June 2000, 51.7% of total state owned assets had been privatised, including 82.2% of assets in the industrial sector. The Privatisation Agency reported that 1,224 privatisation deals for 641 entire enterprises and 583 separate parts had been concluded in 1999. This is 13%
more than projected. Privatisation revenues amounted to 1209 million Bulgarian Leva (€618 million). While the proportion of enterprises sold to managers and/or workers has been decreasing it still represents about 40% of all cases. The slow restructuring of the enterprises privatised by this method in the manufacturing sector demonstrates the shortcomings of this approach. There have also been setbacks in the privatisation of larger companies. The sale of the telecommunication company (BTC) ran into difficulties during the summer of 2000 and is still pending. The privatisation of Bulgartabak Holding Group has also dragged on, but it is now being prepared for cash privatisation together with 6 other major companies. Furthermore, the first attempt to privatise Balkancar ended in failure and the procedure needs to be re-launched. The voucher privatisation programme is being continued and has been extended to include the state’s minority stakes in enterprises, which are being sold on the stock exchange. Attention is now turning to the second stage of privatisation, which will involve public utilities, such as power and heating plants, and some infrastructure.

Financial recovery programmes and a monitoring system have helped to impose financial discipline in loss making sectors. To contain budgetary losses arising from tax and social security arrears, 29 major state owned enterprises were required to develop financial recovery programmes that should enable them to operate without subsidies from 1 January 2002. An amendment to the corresponding government decree subjected 154 other enterprises to a monitoring exercise that should provide rapid information about their development and the possible risks to the government budget. The first results of the monitoring exercise show a mixed picture with heavy losses in certain industries in the metallurgical, energy and agricultural sectors.

The restructuring of the energy sector is delayed. A substantial reform of the energy sector is essential to establish financial control and an efficient use of resources. The legal separation of the National Electricity Company into generation, transmission and distribution entities was completed in June 2000. Problems persist in other parts of the sector. After a relative improvement in the collection of payments in 1999, Bulgargaz again began to accumulate large arrears in early 2000 due to financial problems among customers. District heating companies continue to pose particular problems, as they were unable to continue operation without additional subsidies. In June 2000 an action plan was adopted in the context of the medium term economic programme. It foresees a major rehabilitation of 8 companies while subsidies will be stopped or progressively withdrawn from 14 other companies following analyses of their long-term viability.

The liberalisation of prices has continued. (It is only due to a revision of the weightings that the share of administered prices in the CPI basket went up to nearly 20% in 2000 from 17.2% the year before.) The remaining administered prices are gradually being brought closer to cost recovery levels as part of the reform programme. Electricity prices were the subject of some controversy after the Government announced its intention to freeze prices for an extended period. The freeze was replaced by targeted assistance to the poorest households. Electricity prices will be raised to full cost recovery levels by January 2002, when the State Energy Regulatory Commission starts to monitor prices.

Entry and exit in the market place is not yet working properly although the situation is improving. There are still too many firms operating at a loss without being forced to restructure. This leads to a waste of resources and, in some cases, blocks the development of more efficient enterprises. A poorly functioning judicial system results in long procedures and weak enforcement of bankruptcy cases. While the appointed trustees may have a vested interest in this, it is not economically healthy. An increase in the number of
declared bankruptcies since mid-1999 - as well as progress in solving pending cases - indicates some improvement but much more progress is needed. Amendments to the Commercial Code, which aim to simplify and accelerate procedures, were submitted for a second reading in Parliament in September 2000.

There is a need to improve business conditions and the Bulgarian authorities are well aware of this. It is particularly important to encourage the creation and development of new firms. To lessen the weight of bureaucracy a number of licensing requirements were abandoned in the past year, but the remaining procedures are still far from business friendly. Reports by the Bulgarian International Business Association and the Foreign Investment Advisory Service identify a number of problems. Investors are often faced with heavy bureaucracy, entrepreneurs spend too much time filling out forms, which serve little other purpose than data collection, and foreign owned companies complain about unusually frequent visits from the tax authorities. Remaining licensing requirements need to be closely examined in light of the burden they impose on enterprises and the implicit incentive they create for officials to exploit their discretionary power for their personal benefit.

Unclear ownership rights are negatively affecting the land, housing and construction markets. Unclear rights and underdeveloped property markets create problems for financial intermediation. It can be difficult to establish the real value of collateral and there are potential problems in liquidating the assets. Recent amendments to the land law aimed at clarifying legal ownership have only had partial success. While 98% of agricultural land restitution had taken place by April 2000, the tracking and registration of titles still needs to be improved.

Bank privatisation is proceeding well. By the end of 1999 Bulgaria had 35 banks, more than half of the assets were state owned and 7 banks were foreign owned. The sale of Express Bank was agreed in November 1999, the contract for the sale of Hebros was signed in early 2000 and that for Bulbank, the largest Bulgarian bank, on 7 July 2000. The intended privatisation of Biochim bank has been delayed; after the Bank Consolidation Company rejected the winning bidder at a very late stage in the process. The three largest banks (Bulbank, DSK Bank, and United Bulgarian Bank) hold 52% of the assets in the banking sector. The board of the state owned DSK Bank (formerly the State Savings Bank) approved a medium term strategy for the privatisation of DSK, but a timetable for privatisation will not be worked out before 2001. The full government guarantee for its deposit liabilities has been withdrawn. There has also been progress on strengthening bank supervision.

There has not yet been a significant improvement in the ability of the banking sector to channel savings to productive investments in the private sector, despite the increased penetration of foreign banks. In 1999, the banking sector’s credit to the private sector was 13.5% of GDP, only slightly up from 12.7% in 1995. This is low by any standard. The average spread between lending and deposit rates is around 9%, which reflects the high costs of financial intermediation and the perceived risks. Longer term financing is difficult to obtain and private sector loan activity is biased towards financing of exports and other short-term projects. The lack of access to long-term financing has a negative impact on restructuring of the manufacturing sector and in particular affects industries that do not have access to foreign capital. Capital adequacy in the banking sector actually increased to 41.8% in December 1999. The currency board arrangement, which severely constrains the possibility of the central bank to act as lender of last resort can only partly explain this high level. Most assets are held in form of low risk government securities or
cash, as a reflection of high risk aversion and poor banking management techniques. The private sector’s lack of experience both as lender and as creditor, the difficulty of enforcing claims due to shortcomings in the legal system, and the lack of good projects add to the deficiencies of financial inter-mediation. In July 2000 a reduction in the minimum reserve requirement from 11 to 8% brought Bulgaria into line with international standards. This could improve the market situation somewhat, as banks will be able to increase their lending.

The capital markets remain underdeveloped. The turnover on the Bulgarian Stock Exchange (BSE) remains low. Market capitalisation of listed companies is estimated to be BGL 1.1 billion (€560 million) but only half of the listings are tradable and fewer actually traded. The volume traded outside the stock exchange is much larger than that on the BSE, accentuating the problem of high costs and low liquidity of official trading and the lack of transparency in the market as a whole. A deepening of the capital market will be crucial to finance investments and support the growth of the Bulgarian economy.

Bulgaria has clearly made further progress towards becoming a functioning market economy. It is establishing a satisfactory track record of macroeconomic stabilisation and performance. The speed and quality of the privatisation process has increased. The government's commitment to the structural reforms, as well as the improvement of the regulatory framework, is contributing to the proper functioning of markets. However, many reforms need to be taken further; the effective implementation and enforcement of the legal and regulatory framework for a functioning market economy will take some time and needs to operate in a transparent manner. The shortcomings of the financial markets and the bureaucratic barriers to foreign and local enterprise creation need to be removed, as they remain serious obstacles to private sector development.

The capacity to cope with competitive pressure and market forces within the Union

As set out in Agenda 2000, Bulgaria’s ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, 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 prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

The continued macroeconomic stability has contributed to Bulgaria’s track record on economic reform. It is a key element in developing the capacity to cope with competitive pressures and market forces domestically and within the single market. Pursuing reforms in the coming years, within a medium term economic framework, will be essential to complete the transition to a fully functioning market economy.

The gradual development of markets is improving the efficiency of resource use. The legislative framework for a market economy is close to completion. Yet, the lack of efficient enforcement mechanisms and the poor functioning of market institutions
continue to hamper economic development and could undermine public support for the reform process. Effective implementation suffers from functional deficiencies of the legal system and weaknesses of the public administration.

*In 1999, the investment to GDP ratio (gross capital formation) amounted to 15.9% of GDP, which is much below that of other candidate countries. It will be necessary to increase investment in order to ensure sufficient economic growth and catching up.*

*After a weak start in early 1999 foreign direct investment accelerated throughout the year. The investments are in particular linked to the privatisation programme. It is expected that the planned privatisation of banks, telecoms and Bulgartabak will increase these figures substantially before the end of the year, although delays in concluding these deals cannot be ruled out. Slightly less than a third (€212 million) of the foreign capital inflow was equity investments. There are persistent complaints by foreign investors about the difficulties of setting up business in Bulgaria. While large firms can overcome these barriers, they may discourage the establishment of foreign-owned medium-sized enterprises. Greater legal certainty, a more transparent taxation regime and a more consistent implementation of the European standards adopted by the government would be needed to attract investors.*

*Labour legislation to increase labour market flexibility is under way. Amendments to the Labour Code, which aim to bring regulation more into line with EC laws, were approved by Council of Ministers in June 2000. These amendments will make it easier for firms to adapt their workforces to changes in the economic environment and introduce greater flexibility in working hours. They also aim to ensure consistency with EC laws on non-discrimination and the protection of women.*

*The standard of education in Bulgaria is generally high, but not sufficiently focussed on the needs of an open market economy. The low level of salaries in the public sector makes it difficult to retain people with market and business skills. Low salaries also increase incentives to ignore professional standards and integrity. In the medium term, the ambitious programme of administrative reform should, in combination with economic growth, continue to alleviate such problems.*

*Physical infrastructures are not sufficiently developed to foster growth and improve economic efficiency. Large-scale investment and restructuring are necessary to enhance competitiveness. Structural support from the EC will help, but it will not be sufficient to cover all the needs and will require a considerable administrative effort from the national authorities. EC funding should be regarded as a catalyst for private sector involvement, and not simply as a means of financing national efforts that would be made anyway.*

*The Government's trade policy has continued to support increased competitiveness. The progressive lowering of trade restrictions, including new free trade area agreements, has led to a decrease in average import tariffs from 9.4% in 1998 to 5.9% in 1999. A further decrease is expected in 2000. The agreements will enable restructured enterprises to benefit from a larger market and to adjust to competitive pressures before accession. The new protocol on trade in agricultural products will mean that a majority of the EC's agricultural imports from Bulgaria will be free of tariffs from 1 January 2001. The administration of technical standards and other non-tariff issues continues to be a problem. Sampling and testing is often required even when EC-certification is documented. This is a serious barrier for exports to Bulgaria.*
Hidden state aid in the form of non-collection of receivables has decreased due to better financial discipline and monitoring. There are however still utilities where the state is providing significant operating subsidies. The isolation programme has restricted firms' access to bank credit, but not solved the problem of arrears to other creditors, including arrears on tax and social security contributions.

Trade integration with the EU is developing rather slowly. Between 1995 and 1999, the share of Bulgarian exports to the EC in total exports increased from 37.6% to 52.6%, while the share of imports increased from 37.2% to 48.6%. In the first half of 2000, the share of exports to the EC in total exports has remained roughly the same, whereas the import share has been considerably reduced as a result of the sharp increase in the value of energy imports. The integration with EC is most evident on the import side, where imports from the EC have replaced the traditional high share of imports from former CMEA countries. It is difficult to determine the development of intra-industry trade with certainty, but available indicators suggest that it has been low due to the lack of structural reforms up to 1998. Recent increases in FDI and the stabilising effect of the medium term economic programme will have a positive effect. Low relative labour cost and improvements in productivity in the restructured enterprises will also support further trade integration. Minimum and average wages are substantially below the levels at which the international competitiveness of the enterprise sector would be in danger.

The export composition remains characterised by low value added products including raw materials and semi-processed metallurgical products. The share of raw materials in total exports has increased from 42% to 44.2% between the first half of 1999 and the first half of 2000. Between 1996 and 1998, the share in exports of products that are intensive in natural resources decreased by 7 percentage points while the export share of human capital-intensive goods (e.g. information technology products) and labour-intensive products (e.g. textiles) has increased by 17 points. From the second half of 1999 exports in the categories of energy and metallurgical products have increased.

The importance of small enterprises in the Bulgarian economy remains high. Data on small and medium-sized enterprises (SMEs) is of poor quality, but more than 90% of SMEs appear to be enterprises with less than 10 employees and in 1998 more than half of total employment was in SMEs. Available data and surveys also suggest that labour productivity and wages are lower in SMEs than in the larger enterprises. Problems related to the difficult business environment, constrained access to capital and petty corruption are a particular burden for small companies. Special credit lines, supported by EC funding, are available through private sector banks to address credit constraints. However, it is too early to assess the effect of such measures (see also chapter 16 – Small and medium-sized enterprises).

Bulgaria is not yet able to cope with competitive pressure and market forces within the Union in the medium term. Progress in macroeconomic stability has helped to improve the functioning of domestic markets, thereby increasing the ability to become competitive. However, key parts of the private sector are still underdeveloped and enterprise restructuring needs to be advanced. A sustained implementation of the existing reform programme, higher levels of investment, including foreign direct investment and particular attention to implementation and enforcement of legislation and improvement of financial intermediation are key requirements for developing the enterprise sector and building up competitiveness.
2.4. General evaluation

Bulgaria has clearly made further progress towards becoming a functioning market economy. It is not yet able to cope with competitive pressure and market forces within the Union in the medium term.

Bulgaria is establishing a satisfactory track record of macroeconomic stabilisation and performance. Good progress has been made in privatisation, especially as regards banks, and a major reform of health and pension systems has begun.

However, structural reforms still need to be taken further and enterprise restructuring needs to be advanced. Financial intermediation continues to be weak, and much remains to be done in areas such as the functioning of the land market, or the enforcement of bankruptcy cases.

Measures to address the weaknesses in the implementation and enforcement of the legal and regulatory framework need to be taken to improve the business climate. Bureaucratic barriers to foreign and local enterprise creation must be eliminated. A sustained implementation of the existing reform programme and higher levels of investment are key requirements for continued growth, developing the enterprise sector, and building up competitiveness.
3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission’s 1999 regular report on Bulgaria’s ability to assume the obligations of membership - that is, the legal and institutional framework, known as the acquis, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Bulgaria’s ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Bulgaria’s administrative capacity to implement the acquis in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Bulgaria in translating the acquis into its official language.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries’ capacity to effectively implement and enforce the acquis, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Bulgaria’s administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the acquis in its various aspects.

In the 1999 regular report, the Commission concluded that:

“Bulgaria has made determined efforts in the past year to put in place the key elements of internal market legislation. For example, a new law on public procurement sets out the basic principles of the acquis and there has been legislative progress in the area of standardisation, although further legislative changes will be needed before specific new approach directives can be implemented. Substantial improvements can be noted in the fight against piracy and amendments to the copyright law widened the scope of administrative violations and increased the level of fines. Bulgaria has made significant progress in alignment of audio-visual legislation and is continuing to liberalise its telecommunications market. The new VAT and excise laws have brought the country closer to alignment with the acquis. In all of these areas there is a continuing need to pay

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9 A description of the acquis for each chapter can be found in the Commission’s 1997 Opinion on Bulgaria’s application for EU membership.
particular attention to the capacity of the administration to implement and enforce legislation.

There has been no significant improvement in the area of state aids. There is no systematic control of compatibility, the monitoring authority needs to be re-inforced and responsibility for state aid control should be further clarified. Despite some progress in alignment in agriculture there are problems of implementation, partly due to lack of funding. Veterinary inspection needs to be re-inforced, including at border posts and there is a need to speed up land restitution so as to create an active and transparent land market which can encourage investment in agriculture.

Important steps have been taken in establishing a basis for regional policy but there has been less progress in the social sector where there is widespread poverty and cause for concern in terms of public health. There has been some legislative progress in environment but the lack of an overall strategy and sectoral strategies which are needed for the identification of investment projects continues to pose problems. Bulgaria has made substantial progress in the area of justice and home affairs, particularly in immigration and justice. There is an ongoing need for investment in staff and equipment and to redouble efforts to fight against corruption.

Although Bulgaria has taken some steps in energy policy it has made no progress in committing itself to a realistic timetable for the closure of Units 1-4 at Kozloduy nuclear power plant, despite the fact that this was a short term priority of the Accession Partnership.

The adoption of a Civil Service law is a welcome indication that the government intends to pursue its efforts to strengthen administrative capacity. Important progress has been made in establishing the legal framework for setting up the institutions responsible for the application of EC legislation and many of the necessary structures have been set up. However, the shortage of human and financial resources has hampered the capacity of these institutions to effectively implement the *acquis*. It is important that progress be made in setting up financial control mechanisms and transparent public procurement systems, particularly with a view to absorbing increased EC financial resources. Bulgaria needs to sustain progress in improving border management. The overall pace of transposition has improved but this will increase the challenge of effective implementation for the administration and it is too early to assess whether there will be a corresponding increase in capacity.

Bulgaria has made progress in meeting all of the short-term priorities of the Accession Partnership except in the nuclear sector."

### 3.1. The chapters of the *acquis*

As indicated, the review of Bulgaria’s ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.
Chapter 1: Free movement of goods

Since the last Regular Report, Bulgaria has made further progress in this domain in particular with the adoption of the framework law implementing the New and Global Approach principles.

In the area of horizontal and procedural measures the adoption in September 1999 of the Law on Technical Requirements for Goods established a horizontal legal framework to take on board all the principles of the ‘New and Global Approach’. This Law, however, is not entirely in line with the acquis, an issue which will need to be resolved soon. Together with the Law on National Standardisation in force since September 1999 and the Ministerial Decree creating the Bulgarian Accreditation Service in December 1999, the legal framework has been established for the functional independence between technical regulation, standardisation, accreditation and certification (including testing and control). Mandatory prior controls of industrial goods (including border control on import) was abolished as of 1 January 2000, providing for free access and equal treatment on the basis of a voluntary standardisation regime. The adoption of European Standards is proceeding at a good pace. The State Agency for Standardisation and Metrology has been appointed as National Enquiry Point for technical regulations, standards and conformity assessment procedures.

Progress on sector specific legislation has been mixed. In the areas covered by the New Approach Directives little progress has been made on actual transposition. Only the directive on gas-burning appliances has been implemented so far. No progress can be reported in relation to legal metrology and pre-packaging, toys, mechanical devices, personal protective equipment, medical devices, pressure vessels, recreational crafts and construction products. Some limited progress can be reported in the electrical equipment sector. As regards sectors covered by the Old Approach Directives progress has been made in relation to motor vehicles, foodstuffs, chemicals, and pharmaceuticals. Transposition is still pending in relation to cosmetics, glass, textiles, and footwear.

The Law on Foodstuffs was adopted on September 1999, setting up the framework for the adoption of secondary legislation. The transposition of directives on labelling, hygiene, official controls, contaminants and material in contact with foodstuffs is under preparation. The administrative capacity of the Ministry of Health, which is in charge of preparing secondary legislation, should be strengthened.

Since the last regular report, no new developments have taken place as regards non-harmonised areas. The elimination of indirect barriers to trade, including the introduction of mutual recognition clauses in the legislation, will require continuous efforts.

Some progress can be reported in the field of public procurement, where the implementation of new legislation adopted in June 1999, has started.

Overall assessment

On the whole, the transposition of the acquis on the free movement of goods is progressing. However, major work remains to be done in order to start and complete transposition in a number of sectors. Only one New Approach Directive has been transposed so far. The adoption of European harmonised standards should be accelerated.
In the non-harmonised areas information is required on the internal legislative screening with regard to possible barriers to trade.

It is difficult to assess administrative capacity, as institutional reorganisations and transpositions have taken place only recently. However, it appears that much work remains to be done to build up and consolidate capacity. While functional separation of standardisation, certification and market surveillance activities has been provided for, it is not clear how this will work in practice and when it will be implemented to ensure appropriate independent administrative capacity. The creation of an effective network of independent certifying bodies and laboratories needs to be promoted. The abolition of border and ex ante controls calls for reinforced market surveillance, which remains weak and not yet fully established pending the approval of New Approach Directives. Work is still required for the Bulgarian Accreditation Service – created as an independent agency within the Ministry of Economy - to become a full member of the EA (European Accreditation). The Committee for Standardisation and Metrology will be the National Enquiry Point (NEP) in charge of notification of national technical rules to the Commission.

As regards safety checks on products at external borders, Bulgaria still needs to establish appropriate customs and market surveillance infrastructure as well as effective administrative co-operation between competent authorities.

In the area of public procurement the legislation is partially in line with the acquis and a number of amendments will be required, including clear rules on legal remedies for unsuccessful bidders. Substantial work is required in order to ensure that legislation is fully and properly applied by the public authorities/utilities concerned throughout the country. The administrative capacity of the Directorate responsible for public procurement needs to be strengthened in order to ensure effective implementation.

Chapter 2: Free movement of persons

Bulgaria has made moderate progress in this area since the last Regular Report.

In the area of mutual recognition of professional qualifications, further progress has been made with the amendments to the National Education Act, the Higher Education Act and the Vocational Education and Training Act. These aim inter alia to promote freedom to provide services related to regulated professions. In addition, the Lawyer’s Act has been amended to allow lawyers who are not Bulgarian citizens to practice. However, this Act cannot be considered to transpose the relevant Directives as it appears that the ability of a non-Bulgarian to practice law is submitted to a reciprocity agreement at government level.

Progress has also been made on alignment with the acquis in relation to citizens’ rights primarily with amendments to the Civil Regulation Act and the Foreigners Act. Further alignment regarding students’ rights through the Higher Education Act means that foreigners can now apply to study in higher education establishments if they have diplomas that would entitle them to access to higher education in the country where they acquired their diploma. However, these amendments do not address the discriminatory practice of applying higher academic fees to students from the European Union.

In the field of free movement of workers, Bulgaria has a bilateral agreement with Germany on workers in the hotel and catering industry which came into force in
September 1999 and an agreement with the Czech Republic, which was concluded in December 1999. With a view to the future co-ordination of social security, Bulgaria is continuing its efforts to establish the necessary administrative structures.

**Overall assessment**

Transposition on the whole is progressing but will need to be sustained in order to ensure that there are no provisions in Bulgarian legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements. In the case of the mutual recognition area, further work is required in relation to architects and health professions. Furthermore, a certain overlap remains between academic and professional recognition. As concerns citizens’ rights further alignment is required in particular with regard to family reunification.

In the area of free movement of workers, provisions will need to be put in place concerning work permits and the right to work as a self-employed person.

In terms of administration and inter-institutional co-ordination, there is a need to establish or strengthen capacity across all the areas concerned.

Steps will have to be taken to strengthen public employment services with a view to future participation in the EURES network, with particular emphasis on language training of staff.

**Chapter 3: Freedom to provide services**

Since last year’s Regular Report, Bulgaria has continued to make progress in this domain.

In the area of freedom of establishment and freedom to provide services, progress has been made in alignment with the acquis through the Law on Consumers and Rules for Trade in relation to traders that entered into force in 1999. However, this law requires non-residents to establish themselves in Bulgaria, therefore preventing the free provision of services.

In the field of financial services Bulgaria has made good progress. New regulations in the banking sector have been adopted. Procedures for the issuing of permits for performing banking activity were published in February 2000 and for the regulation of the supervision and control of large exposures in November 1999. In July 2000, provisions on consolidated supervision were issued, in line with the relevant acquis in these areas. All this legislation has given the banking supervision department of the Central Bank additional powers and expanded legal scope for action. Progress in the insurance sector includes the introduction of a legislative framework in relation to annual accounts of insurance undertakings, insurance agents and brokers, as well as a revision of rules on motor vehicles. In the area of investment services and securities markets, the entry into force of the new Public Offering of Securities Act in January 2000 provided for substantial alignment with the acquis in this area.

No new legal developments can be reported with regard to protection of personal data and free movement of such data.

As concerns the information society, no new legislative developments can be reported since the Council of Ministers adopted a Strategy on the Development of the Information
Society in October 1999 which set out the overall vision and institutional structures for the elaboration of legislation in this respect, aligned with the relevant *acquis*.

**Overall assessment**

Whilst Bulgaria has on the whole made considerable progress in aligning its legislation with the *acquis* in this area, further progress is still required. As for freedom of establishment and freedom to provide services, some modifications will be necessary in relation to legal protection of designs and biotechnological inventions. In the area of financial services, the insurance sector in particular needs the addition of measures in the field of motor insurance, while in the securities sector the introduction of an investor protection scheme is needed.

The EC directive on data protection still needs to be implemented in Bulgarian legislation with a separate legislative act.

The legal framework relating to the Information Society still needs to be developed and put in place. Bulgaria also needs to adopt and implement legislation in relation to the Community framework for electronic signature.

With regard to institution building, the accent should be placed mainly on the insurance sector, for which the creation of a stronger and independent authority would seem necessary.

**Chapter 4: Free movement of capital**

Since the last Report, Bulgaria has made significant progress in liberalising capital movements with the adoption of two new laws, the Foreign Exchange Law and the Law on Public Offering of Securities, which entered into force in January 2000.

In the field of *capital movements and payments*, the most important development has been the entry into force of the Foreign Exchange Law, adopting the general principle that all transactions involving residents and non-residents may be conducted freely unless otherwise stipulated in the Law. A limited number of transactions between residents and non-residents must be registered with the Bulgarian National Bank prior to being conducted. In turn, the Bank is required to issue a statement on the applicant's request within 10 days. The registration requirement is waived, however, in several specified cases. Import of national and foreign exchange cash by residents and non-residents is free, while export of over BGN 20,000 or its equivalent in foreign exchange requires a permit by the Bank. However, the main remaining restriction on capital movements concerns the acquisition of land by foreigners, which is forbidden by the Constitution. This prohibition does not apply to legal persons with foreign participation registered in Bulgaria since, according to the law, they are considered to be Bulgarian legal persons irrespective of the size of the foreign capital participation.

The Bulgarian National Bank and the Ministry of Finance are the authorities responsible for the implementation of the Foreign Exchange Law. Institutional adjustments have been made in order to facilitate the implementation of the new Law.

The Law on Public Offering of Securities, which stipulates all requirements for the activities of market participants, applies equally to local and foreign persons.
Furthermore, this Law explicitly provides for the admission of foreign securities to the Bulgarian capital market.

An Amendment to the Bulgarian National Bank Regulation on payments adopted in July 2000 is linked to the introduction of a modern payment infrastructure. Little progress can be reported in relation to the transposition of the *acquis* on **cross-border credit transfers** and settlement finality. The Bureau of Financial Intelligence (BFI), which was charged with the implementation of the 1998 legislation on **money laundering** and was formerly a directorate within the Ministry of Finance, is being restructured into an Agency as a separate administrative structure responsible to the Minister of Finance in order to strengthen its independence and effectiveness. A Special Supervision Directorate of the Bulgarian National Bank – supporting the work of the BFI – has undertaken organisational measures including on-site inspections in the banking system for the implementation of the law on money laundering.

**Overall assessment**

Bulgaria has already achieved substantial progress in the process of aligning to the *acquis* in capital movements. Although some uncertainties with regard to the regime still exist, the main outstanding issue concerns the constitutional ban on the acquisition of land by foreigners.

The implementation of the new Foreign Exchange Law requires the upgrading and strengthening of the present administrative framework.

Bulgaria has started preliminary activities to modernise payment infrastructure. However, substantial work is required in order to transpose and implement the *acquis* in relation to the payment and security settlement systems.

In the area of money laundering, the results achieved so far by the BFI have been limited, especially due to a number of weaknesses in the present legislation. These need to be addressed so that the BFI can play its role in full. Further institutional reinforcement is also required at the Bulgarian National Bank in this respect. The existing legislation is too recent for a valid assessment of implementation to be made.

**Chapter 5: Company law**

The past year has seen some further progress in harmonising Bulgarian law with the *acquis*.

With regard to **company law**, no new legislation has been adopted over the last year.

In the area of **protection of intellectual property rights**, new legislation implementing copyright and trademark aspects of the *acquis* came into force in 2000. This has improved alignment with the *acquis*. It also contains specific provisions on border enforcement.

The general requirements of the *acquis* with respect to **protection of industrial property rights** were largely transposed in 2000 with the adoption of a law on industrial designs. Legislation on supplementary protection certificates for pharmaceutical and phyto-sanitary products is still pending.
Overall assessment

Bulgarian legislation in the areas of company law, accounting law, industrial and intellectual property is to a large extent in compliance with the acquis, though some gaps remain.

In company law, legislation is largely in compliance with the acquis. The Commercial Law needs to be amended to implement the requirements of the 1st, 2nd, 11th and 12th Directives on Company Law. Further amendments will be needed in respect of merger and division of companies to ensure compliance with the 3rd and 6th Directives.

Intellectual property legislation is largely in compliance with acquis as far as copyright and neighbouring rights are concerned, though further alignment is needed in respect of sui generis databases and software protection.

The provisions of the Civil Procedure Code (CPC) are partially in accordance with the Lugano Convention but full implementation of the Convention will require changes in the Bulgarian procedural legislation, in particular the CPC.

As regards administrative capacity, the main authorities are the courts (company law) the police, the customs authorities, the Ministry of Culture and the Patent Office (industrial and intellectual property rights), and the Ministry of Finance and Bulgarian National Bank (accountancy law).

The main challenge now is to strengthen the bodies responsible for applying the law, so that it is enforced in an accurate, timely and transparent manner. Particular attention should be given to strengthening the effectiveness of the administrative and judicial bodies involved in enforcement and strengthening co-ordination between them.

Whilst the new Copyright Law contains specific provisions on border enforcement, further legislation on the procedure for and implementation of the border control measures is necessary. Whilst in recent years Bulgaria has made substantial progress in the fight against domestic CD piracy, further reduction in the number of pirated CDs on the Bulgarian market will require strict border controls of imported goods. Attention needs to be paid to strengthening the administrative and judicial capacity to ensure effective enforcement of legislation. Bulgaria also needs to remain vigilant with regard to its domestic market as regards “pirate” production capacity (audio- and videotapes).

Also in the field of industrial property law, further alignment is needed in particular in the form of the introduction of supplementary protection certificates. Enforcement of industrial property rights remains a matter of concern.

Chapter 6: Competition policy

Since the last Regular Report, Bulgaria has made some progress in this area, but achievements on state aid control remained insufficient.

In the field of anti-trust, the Commission for the Protection of Competition (CPC) re-organised its internal structure in May 2000 by adopting new rules of Organisation and Procedure. The number of economists and lawyers was increased from 39 to 50.

The CPC made 132 decisions in 1999, of which 63% concerned unfair competition, 15% related to abuse of dominant position, 13% were associated with merger control, and 8%
concerned agreements and concerted practices. An important trend is the increase in the number of merger notifications.

The judiciary needs to be better able to deal with competition cases. CPC decisions can be appealed before the Supreme Administrative Court but this body works slowly and does not seem well equipped to handle competition dossiers. In 1999, the Court ruled on only 11 of the 50 appeals submitted on CPC decisions.

**State aids** monitoring has been separated from state aids control. State aids monitoring is mainly the responsibility of the Ministry of Finance whereas state aids control is the responsibility of the CPC. A memorandum of understanding on co-operation between these two bodies was signed in September 1999 but practical difficulties seem to persist.

The CPC has not substantively implemented its control powers: in July 2000 it announced that it had launched only two “own initiative” cases on state aids.

An annual report on state aids in 1999 was transmitted to the European Commission in July 2000. There has been a significant improvement in the report's quality compared with the previous version. It largely fulfils the transparency requirement of Article 64 of the Europe Agreement, though further clarity is needed in respect of state aid to the financial, shipbuilding and steel sectors.

**Overall assessment**

Bulgaria needs to make significant further efforts to take on the EC *acquis* in competition.

As regards anti-trust, Bulgaria’s legislation is largely in line with the *acquis*. Further alignment is still necessary, especially in view of developments in the *acquis* on vertical restraints. Concerning administrative capacity, the independent Commission for Protection of Competition (CPC) is the body responsible for implementing and enforcing competition policy. The CPC has broad investigative powers and has examined a large number of cases, raising public awareness of the role of competition policy. The main challenge is now to apply and enforce effectively the anti-trust rules, focusing on the most serious distortions of competition.

As regards state aids, Bulgaria is still only starting to develop and implement a legal framework and control system for state aids, and cannot yet be considered as complying with the *acquis*. The broad legal framework is contained in the Law on the Protection of Competition but proper implementation is lacking. Clarifying institutional responsibilities in order to be able to ensure effective monitoring and control of direct and indirect state aids at national and regional level must be addressed as a matter of priority.

The CPC has not yet made clear how and when it intends to align old aid measures (i.e. those cases where aid continues to be granted and which existed before Article 20 of the Law on the Protection of Competition was implemented) with the *acquis*.

A state aids notification system has been established using forms identical to those used by the European Commission. However, the extent to which the CPC actually receives notifications on a systematic basis from all planned state aids projects at national, regional and local level is unclear. In the absence of a comprehensive system, the CPC appears unable to authorise, forbid or impose conditions on state aids projects in line with the *acquis*.
With regard to the obligation to establish a comprehensive state aid inventory, Bulgaria has updated its 1996 inventory to cover the years 1996 to 1998. Rather than using such periodic updates, the inventory should be based on a system of continuous updating, thereby ensuring that information on all aid measures can be retrieved at any time from the database.

Regional state aids maps need to be adopted with a view to differentiating aid intensity levels according to the severity of the regional problems being addressed, in consultation with the European Commission.

A lack of administrative capacity underlies many of the deficiencies in state aids monitoring and control. In the CPC, a director of the state aids division has only recently been appointed, while only one person has been assigned to handle state aids cases. The state aids department at the Ministry of Finance has a staff of four people and its ability to influence policy even within the Ministry is limited.

Chapter 7: Agriculture

Since the last Regular Report, Bulgaria has made significant progress in terms of approximation of legislation, especially in the wine and cereal sectors.

Agriculture in Bulgaria accounted for 17.3% of GDP in 1999, as opposed to 21.1% in 1998\textsuperscript{10}. Employment in agriculture and forestry has slightly increased over the past year accounting for 26.6% of total employment in 1999, compared to 26.2% in 1998\textsuperscript{11}.

In 1999, EC imports of agricultural products originating in Bulgaria increased by 10% to amount to € 264 million. EC exports to Bulgaria decreased by 14% to € 211 million. Bulgaria's trade surplus amounted to € 53 million in 1999, compared to a deficit of € 7 million in 1998\textsuperscript{12}. The most important product groups in terms of EC imports (76.8\%) from Bulgaria are alcoholic beverages and oil seeds. As far as EC exports to Bulgaria are concerned, the most important products are meat and edible meat offal. Exports of Bulgarian wine represent approximately one third of the total agricultural exports of the country.

Negotiations for further liberalisation of bilateral trade with the EC were concluded in May 2000 and entered into force on 1 July 2000 through autonomous measures. As a

\textsuperscript{10} The source for all agricultural statistics is EUROSTAT unless otherwise specified.

\textsuperscript{11} In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Fuller information can be found in the Eurostat publication “Central European Countries’ Employment and Labour Market Review” available free of charge through the Eurostat Data Shops.

\textsuperscript{12} Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMEXT (see Agriculture in the European Union - statistical and economic information 1999 p. 36 for definition of the products).
consequence, two thirds of EC imports of agricultural products from Bulgaria are now exempt of duties (see also section on bilateral relations).

The share of the food-processing industry in GDP has grown slightly to almost 4% of GDP in 1999. Over-capacity remains a problem and it is estimated that the processing industry presently utilises only 40% of its capacity. About 75.8% of the fixed assets have been privatised. Investment in the food processing industry accounts for 30% of the total foreign investment in Bulgaria.

Stimulating private enterprising in agriculture, releasing credits, rural development including through use of EC SAPARD funds according to the adopted National Agriculture and Rural Development Plan for 2000-2006 (NARDP), and harmonisation of Bulgarian legislation with EC standards have been identified as main priorities of the Ministry of Agriculture and Forestry (MAF) in the updated 2001 government programme.

A National Agriculture Advisory Service (NAAS) has been established as a legal body under the MAF. It is composed of an office in Sofia and 28 regional representations. It provides support, expertise and consultancy to farmers, and ensures a close link between research, agricultural policy objectives, and agricultural activities.

A Cadastre and Property Register Act was adopted by the Parliament in April 2000. This Act allows for the creation and the administration of a unified cadastre and property register. A Cadastre Agency has been created at the Ministry of Regional Development and Public Works. As regards land reform, 98% of agricultural land is privately owned, with the remaining 2% under legal dispute. Forest ownership restitution is underway. A land market information system was created at the end of 1999 in the MAF. The land market is not yet developed and banks do not generally accept land as collateral. The constitutional prohibition on acquisition by foreigners of direct ownership of real estate (including land) remains, but 100% foreign-owned firms registered in Bulgaria may purchase land and real estate, including agricultural land.

**Horizontal issues**

Since the last Regular Report, the Council of Ministers has accepted the National Agriculture and Rural Development Plan for 2000-2006 (NARDP) and entrusted its implementation to the Minister of Agriculture and Forestry. The main objectives of the Plan are twofold: 1) Improvement of the efficiency of agricultural production and promotion of a competitive food-processing sector by better market and technological infrastructure and strategic investment policies ultimately aimed at reaching EC standards; 2) Sustainable rural development consistent with the best environmental practices by introducing alternative employment, diversification of economic activity and establishment of the necessary infrastructure. This in turn will improve the living conditions and standards of rural communities, generate fairer income and open up employment opportunities. The SAPARD plan has been formally approved by the European Commission (see section A.b – relations between the European Union and Bulgaria).

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13 Source Bulgarian National Agriculture and Rural Development Plan 2000-2006
A Co-operative Act was published in December 1999, defining a co-operative as a voluntary association of natural persons, with variable capital and variable number of members who carry out trading activities on the basis of mutual aid and co-operation. A co-operative can use the agricultural land of its members only in the framework of a written leasing and hiring contract.

Good progress has been achieved in aligning agro-statistics capacity and procedures for statistics on basic crops and land use with EC requirements. A feasibility test for farm structures has been carried out and will be repeated at the end of 2000. The structures in charge of the preparation of agro-statistics, under the MAF, need to be reinforced in order to become sustainable.

Concerning organic farming, Bulgaria adopted framework legislation in August 1999 but this has not yet been implemented.

**Common Market Organisations**

In the cereals sector, legal acts have been adopted on the warehouse register, the management of the Grain Compensatory Fund, and the new organisation rules of the National Grain Service. These rules contribute to creating the administrative capacity necessary for exercising control over domestic grain market.

A new Law on Wine and Spirits has come into force. Subsequently, five Ordinances were adopted in April 2000 concerning production, quality, licensing and commercial presentation of wines and spirits. The basic administrative structures (the Vine and Wine Agency as a State monitoring body within the MAF, and the National Vine and Wine Chambers have been established, and key personnel appointed.

The Law on Vineyard Cadaster entered into force in January 2000 and secondary legislation is under preparation.

The MAF is working on a strategy to prepare Bulgaria to apply the Common Agriculture Policy (CAP). Detailed feasibility studies on the mechanisms under some of the key common market regulations (milk and dairy, fruit and vegetables and grain) are under preparation. These studies will use cost-benefit analysis to identify options and recommend plans for gradual introduction of the agricultural acquis, policy mechanisms and practices that will create favourable economic conditions. The studies should also recommend what is best for Bulgaria in order to prepare for accession.

Substantial priority is being given by the MAF to the development of policies and support for the strengthening of the role of producers' groups and organisations with the view to implementing CAP-related measures. Measures are currently being prepared to lay down EC-related criteria for the recognition of farmers' groups and regulations providing support to producers' associations, meeting EC requirements.

**Rural development and forestry**

Since the last Report, the first stage of structural reform in the forestry sector has been completed. The institutions responsible for the implementation of the Forest Act have been established. The National Forest Board carries out state forest management and related activities. The new laws on the restitution of forests require that they should be returned to their rightful owners and, to date, about 56% of the forest stock has been...
claimed by former owners or their heirs. The first decisions on forest restitution to private owners were issued in April 2000. The Bulgarian Chamber of Forestry, established in 1998 to represent and defend the interests of private forest owners, was admitted as a member with observer status to the Confederation of European Private Forest Owners. The Chamber provides practical assistance and training to future forest owners and promotes the setting up of forestry co-operatives, which is of particular importance as small owners with an average of 0.3 ha of forest predominate.

A Code of Good Agricultural Practices has been prepared setting minimum obligations for farmers to be eligible for the SAPARD ‘development of environmentally friendly agricultural practices and activities’ measure.

**Veterinary and phytosanitary issues**

Approximation of legislation in the veterinary sector is progressing well, with the adoption of secondary legislation necessary to implement the Law on Veterinary Activity (published in May 1999), and the adoption of Ordinances concerning, in particular, minimum requirements for animal welfare, control of African swine fever, veterinary sanitary measures for prophylactics and control of zoonoses, and veterinary sanitary requirements and control on wholesale markets of animal and fishery products, and veterinary sanitary and hygiene requirements for factory vessels processing fish and fish products. Further legislative work is ongoing and will be focused on animal-waste treatment, residues and zoonosis control.

In April 2000, the National Veterinary Service (NVS) launched a general survey on all meat-processing enterprises in the country, which will determine their level of compliance with the legislation and will set deadlines to fulfil the requirements.

The NVS has also taken measures for the improvement of epidemiological control over exotic diseases by preparing annual prophylactics programs that include annual implementation of the surveillance programme on certain exotic diseases along the border with Turkey, diagnostic tests for bovine tuberculosis, bovine brucellosis, ovine/caprine brucellosis, bovine enzootic leukemia, classical swine fever, avian influenza and Newcastle disease, and obligatory vaccinations against anthrax, classical swine fever and Newcastle disease. Structures for enhanced epizootic control in the regions at risk have been set up.

Animal welfare is included in the Veterinary Law. Regional animal health units have been authorised to exercise animal welfare control. Implementation of the requirements is an important issue due to the farmers’ lack of finance for the specific investments required.

An Animal Breeding Act, setting up conditions for the sustainable development of animal breeding, efficient production of livestock and preservation and support for the national gene bank, and providing the legislative framework for the introduction of EC standards, came into force in September 2000. The Act introduces EC requirements concerning the recognition of breeding associations which establish or maintain herd books for pure bred breeding animals.

As regards administrative capacity, the NVS has stepped up its operations and is constantly improving as a result of stimulation from enactment of new legislation and for economic reasons (export ban, competition from foreign firms). However, much remains
to be done in the field of training of decentralised staff to enforce veterinary/hygiene control standards and animal welfare. Training is required for the industry to set up its own control systems and compliance with EC regulations.

A Unit responsible for animal identification and registration of animal breeding holdings has been established within the NVS. The great majority of big ruminants in the country and all small ruminants along the border with Turkey are ear-tagged and registered. The hardware needed for the information system is already installed in 12 border regions in the country. Data entry in the information system will then start. Preparation for the introduction of the Animal Disease Notification System (ADNS) and ANIMO systems are under way. A general policy on border inspection posts has been approved and plans for upgrading the Kapitan Andreevo post (main border crossing for animals with Turkey) have been prepared. Stricter controls over illegal imports of animal products are being carried out at border inspection points.

An inter-institutional Milk Commission has been established with regional links to carry out checks on the milk chain. As a result, around 187 milk-processing enterprises (mainly small operations) have been closed. Five monitoring programmes to monitor residues of harmful substances (in red meat, white meat, fish, milk and honey) are being implemented.

The National Service for Selection and Reproduction was merged into the administrative structure of the National Veterinary Service as a directorate entitled the 'Control of Breeding Activity' Directorate. Although the National Reference Laboratory of the NVS is accredited, the analysis performed cannot be considered to be reliable due to the fact that there is insufficient quality control and no validation data available. Plant passports are being introduced, and a register of producers and importers of plants and plant products is being established. These legislative and administrative acts transpose some key EC directives and regulations.

A Feed Act, adopted in September 1999, aims to preserve and improve animal productivity, to ensure the use of quality and suitable feed and to provide the legal framework for the introduction of other standards into Bulgarian legislation. It sets the conditions for production, circulation, import, export and use of products and substances intended for animal consumption, and establishes the Directorate on Feed Control within the National Grain Service. The Service includes 7 regional offices and laboratories, 3 of which are accredited. An Ordinance on registration of producers of animal feed was adopted in October 1999, but the relevant administrative structures have not been established yet.

The National Service for Plant Protection, Quarantine and Agrochemistry (NSPPQA) covers all the administrative needs for Bulgaria to meet EC requirements in the area of plant health, however further improvement of the human resource capacity as well as equipment at laboratory and Border Inspection Points are needed. In the last year the capacity of the NSPPQA has been improved through provision of necessary equipment, in particular for laboratories.

An Executive Agency on variety testing, field inspection and seed control has been established. The Agency co-ordinates the Variety Testing Directorate (testing of new plant varieties and their recording on the National Variety List) and the Field Inspection and Seed Control Directorate (certification of seeds and planting material and checks on the implementation of the marketing rules). The first stage of the restructuring of the
Field Inspection and Seed Control Directorate has been carried out, and the number of its regional structures has been reduced to from 26 to 21. Of the variety testing stations, 9 are state-owned, 12 privatised and a further 11 under privatisation.

**Overall assessment**

Bulgaria has made generally good progress in terms of approximation of legislation, especially in the wine and cereal sectors. However, further efforts are needed to address the lack of capital and investment in agriculture from the private sector.

Land restitution is close to completion and the adoption of a Cadastre Law is an achievement. However, despite the adoption of legislation and creation of administrative structures, a functioning transparent land market is still not in place, and banks still do not accept land as collateral. Much needs to be done to create a complete unified cadastre and the administrative structures need to become operational. Improvement is still needed in implementation of laws, as well as developing an adequate and transparent administration.

Preparation of agricultural statistics according to EC requirements is progressing well through the implementation of the Plan for the Development of Agricultural Statistics for the period 1997-2002, in line with EC standards.

As regards **common market organisations**, Bulgaria will need further adjustment of its agricultural policy to conform to the CAP. Conclusions on measures to implement to come into line with EC requirements will be drawn up on the basis of on-going feasibility studies.

**Forests** restitution is ongoing. An Ordinance of August 1999 laying down rules for organic production of agricultural products is currently the only basis for agro-environmental measures.

As regards **veterinary and phytosanitary issues**, significant progress has been made in terms of adoption of legislation for the sectors, but implementation capacity remains a serious problem. Veterinary and phytosanitary laboratories need further equipment and training. Animal identification and registration is progressing, however the identification system should be improved in order to assure traceability of animals back to the farm. Programmes for the improvement of hygiene requirements in slaughterhouses and processing plants have been prepared but still need to be implemented. Veterinary inspection services need to be reinforced and further trained, especially at the regional level. Animal welfare legislation needs to be implemented.

**Chapter 8: Fisheries**

Bulgaria has made some progress in this area since the last Regular Report.

As concerns **market policy**, in April 2000, Ordinances entered into force on veterinary-sanitary and hygiene requirements for production and placing on the market of fishery products, and on minimum hygiene rules applicable to fishery products processed and stored on board certain vessels. These are in line with the acquis. The National Plan for Agriculture and Rural Development (2000-2006) referred to in the agriculture chapter of
this report also covers work to reach compliance with EC requirements and standards on production, processing and marketing of fishery products.

Regarding resources management, inspection and control, since last year, the National Agency for Fisheries and Aquaculture (NAFA, formerly State Fisheries Inspectorate) has been strengthened somewhat through the start of computerisation of systems for purchase of vehicles and laboratory equipment. However, its control equipment, in particular control vessels and launch boats, is still inadequate.

In 1999, the equipment of research institutes was improved. Equipment was provided for the laboratories of the Fish Resources Institute in Varna, the Freshwater Fish-farming Institute in Plovdiv, the fisheries section at the Central Veterinary Institute, and the Fish-farming and hydro-biology Department at the Sofia State University. A laboratory for genetic tests is already functioning at the Fish Resources Institute in Varna.

In the area of structural action (including fleet registration) and state aids, the Bulgarian state does not provide financial assistance to the sector, except limited aid for the purpose of conservation of natural resources. Restructuring of the sector is taking place mainly by privatisation. The State Fund for Agriculture has been tasked with managing future aid for the fisheries sector, however it needs to be sufficiently equipped and trained to perform such functions in compliance with the EC structural action requirements.

The fishing fleet registration system does not conform to Common Fisheries Policy (CFP) requirements and needs to be reformed. Fishing vessels are registered on the general State Shipping Register (at the Maritime Administration of the Ministry of Transport and Communications). The registration is updated annually and verified by the State Shipping Inspectorate. Preparatory work for the setting up of the fishing vessel register according to EC requirements has started.

Concerning administrative capacity, the State Fisheries Inspectorate was replaced by the National Agency for Fisheries and Aquaculture (NAFA) in May 2000.

Overall assessment

Considerable further work will be needed for Bulgaria to be able to implement the Common Fisheries Policy (CFP). This concerns in particular the further adaptation of the legislative framework, the implementation of administrative reform, the upgrading of inspection and control bodies and the establishment of a fishing vessels register in conformity with the Common Fisheries Policy.

Bulgarian legislation is currently only partially compatible with the acquis communautaire. Work is underway and the new framework Fisheries and Aquaculture Act, which is currently under discussion in the National Assembly, will mark a major step ahead in incorporating EC requirements in the sector.

There is currently no market intervention in fisheries in Bulgaria. There are no state aids for the improvement of transport and storage conditions. Consistent and regular market (including price) information is lacking. Bulgarian organisations of fishermen and fish
producers, and fisheries and aquaculture associations exist, but are weak. A market survey on the demand for fish and fishery products is currently underway.

The fishing fleet registration system does not conform to CFP requirements and needs to be reformed. Fishing vessels are registered on the general State Shipping Register at the Maritime Administration of the Ministry of Transport and Communications.

The present Bulgarian administrative structures in the fisheries sector are not able to cope with the requirements of implementation of the _acquis_. Work on this has started recently but further substantial improvement of the technical capacity and human resources are necessary if compliance with the _acquis_ is to be achieved.

**Chapter 9: Transport policy**

Bulgaria has made promising progress compared to previous years on aligning its legislation to the _acquis_. Bulgaria has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999; this should form the basis for extending the trans-European networks to Bulgaria. On this basis the Bulgarian authorities have elaborated a medium-term investment programme for development of the national transport infrastructure and a Transport Sector Strategy for 2000-2006, setting out project priorities and costs of necessary investments relating in particular to the Pan-European transport corridors. The long-standing issue of a second bridge across the Danube to Romania has been resolved, with an agreement between Bulgaria and Romania in February 2000 regarding its location. A technical agreement on financing, organisation and design was signed in June 2000. The resolution of this issue was greatly facilitated through the Stability Pact process.

In addition to the Road Transport Law which entered into force in September 1999, a new Roads Law regulating ownership, operation, management, construction and repairs of road infrastructure came into force in April 2000. In the framework of the 1999 Road Traffic Law, a number of secondary acts have been issued over the last year, related to the _acquis_ on road traffic safety, drivers’ qualifications, roadworthiness tests for vehicles, registration and statistics. It should be noted that Bulgaria does not yet comply with the EC weight limits for trucks, as it provides both for lower axle weight limits and for lower total weight limits compared to those in the EC. In January 2000 the Road Transport Administration was reorganised. An inter-agency Commission on Road Traffic Safety has been established to facilitate co-ordination among the authorities involved in this area.

After several years of negotiations, a bilateral Agreement on Carriage of Goods by Road and the Promotion of Combined Transport between Bulgaria and the European Community was signed in July 2000. In April 2000, the multilateral INTERBUS agreement on occasional bus services was initialled by Bulgaria. Its implementation will result in partial alignment with road passenger transport _acquis_.

The second phase of the railway transport restructuring was completed at the end of 1999 by division and accountancy separation of the ‘Railway Infrastructure’ enterprise within the State Railway Company (BDZ), which brings Bulgaria closer to the requirements of the relevant _acquis_. As full harmonisation with the railway and combined transport _acquis_ forms part of the third phase of restructuring, which started only at the beginning of this year, no progress has been yet achieved in these fields.
As regards **inland waterways**, a law on Maritime Spaces, Inland Waterways and Ports was adopted in February 2000. The Bulgarian fleet continues to be negatively affected by the Danube being split in two parts, upstream and downstream of Novi Sad. The Commission is working with the Danube Commission on the reopening of navigation along the Danube.

Bulgaria has made considerable efforts to align legislation in **air transport** and has adopted 8 aviation regulations in the past year. Negotiations between the EC and Bulgaria on the multilateral Agreement to establish a European Common Aviation Area (ECAA), which will result in a significant progressive alignment with the *acquis* prior to accession, have been concluded by signing the bilateral protocol. This includes commitments aiming at full ECAA implementation by the end of 2005. In May 2000 the Council of the Joint Aviation Authorities (JAA) accepted the request of Bulgaria to become a candidate member. The fact that Bulgaria has not ensured that the privatisation of Balkan Air complies with the conditions of majority ownership and control as laid down in the third EC liberalisation package needs to be given further attention.

The above-mentioned Law on Maritime Spaces, Inland Waterways and Ports also provides the framework for further alignment with the *acquis* on **maritime transport**, in particular on maritime safety issues. Thus progress has been made on the short-term Accession Partnership priority of aligning legislation on maritime safety. However, the safety performance of vessels under a Bulgarian flag remains a matter of concern this year, despite some measures taken by the Maritime Administration to strengthen maritime safety. The level of Bulgarian vessels detained under the Paris Memorandum of Understanding on Port State Control system has decreased from 12.5% in 1998 to 8.1% in 1999. This is to be compared with an average of 3.6% for EU-flagged vessels.

In April 2000 a Memorandum of Understanding on Port State Control and Flag State Control implementation in the Black Sea Region was signed on Bulgaria's initiative. The Memorandum aims at gradual removal from operation of substandard vessels by strengthening the training of inspectors and creating (by 2001) an Information Centre to which all Black Sea countries will have access. Furthermore, a vessel traffic control system (VTS) is being introduced on the Bulgarian Black Sea Coast with assistance from the Phare programme.

The administrative structure comprises 3 executive agencies: the "Maritime Administration" in Sofia and its 4 regional offices at the coast and on the Danube, responsible for Port State Control, Flag State Control and Coastal State Control; the newly established "Port Administration" at the same sites and the "Study and Maintenance of the Danube" in Rousse, responsible for the navigation situation along Bulgarian inland waterways.

**Overall assessment**

Overall, Bulgaria continues to make encouraging legislative progress and take wide-ranging institutional measures in preparation for accession. However, further work will be required to complete the alignment process and strengthen institutional capacities in order to ensure compliance. Significant investments will be needed over the coming years in infrastructures and by operators to ensure conformity of their vehicle and vessel fleets.
On land transport further progress is required in relation to transparency, simplicity and equality of application of road taxes and charges. Present Bulgarian fiscal legislation still does not comply with the EC acquis: the legislation remains complicated, lacks transparency and some of its aspects appear discriminatory toward Community operators.

While Bulgaria has taken encouraging steps in rail restructuring, the delay in new legislation is slowing the speed of this.

As regards air transport further alignment is required in the fields of air safety, technical harmonisation, market access rules and tariffs. As far as the privatisation of Balkan Air is concerned, compliance with the ownership and control conditions of the acquis needs to be ensured. In terms of administrative capacity Bulgaria needs to continue the strengthening of the aviation organisation and infrastructure, including increased financial and human resources.

In maritime transport further alignment and institutional strengthening is required in order to reach full compliance with the acquis. Bulgarian vessel detention rates as a result of State Port Controls remain high.

Improving the performance of maritime safety administrative institutions firstly as a Flag State and then as Port State must be a priority. Care should be taken that there is a sufficient number of trained inspectors to apply the acquis. In addition, important secondary legislation needs to be adopted and implemented in relation to maritime safety, including rules for issuing ship certificates, carriage of dangerous goods and ship registers.

Chapter 10: Taxation

Bulgaria has continued to make legislative progress in the field of VAT since the previous Regular Report. Several important legislative amendments were introduced in January 2000, including special schemes for travel agents and investment gold, a repeal of the zero-rate on supplies of precious metals supplied to the Bulgarian National Bank, and broadening the scope of taxable persons so that public authorities who are engaged in radio and television of a commercial nature are considered taxable persons irrespective of the scope of their activities. In addition, the annual turnover threshold for voluntary VAT registration has been increased, and goods dispatched or transported outside Bulgaria by or on behalf of the purchaser have been recognised in the VAT Act as export transactions.

No further progress has been reported in the area of excise duties since the major reform at the beginning of 1999. No progress has been reported in the area of direct taxation.

Concerning administrative capacity, Bulgaria has started a process of completely modernising tax administration. In January 2000 the new Code of Tax Procedure was implemented, which allowed for a restructuring of the tax administration on functional basis, accompanied by extensive training of tax officers in the new procedures. The Code also consolidates all previous regulations regarding tax collection procedures. Under the Code, a State Receivables Agency has been established under the Ministry of Finance, with the aim of improving enforced collection of public receivables. Furthermore, a Tax Policy Directorate was established in April 2000 to co-ordinate future legislative alignments. Finally, in October 1999 the Council of Ministers took the decision to
establish a semi-autonomous Unified Revenue Collection Agency, which will be responsible for administering and collecting most taxes and social security contributions.

**Overall assessment**

Following the important legislative progress made in the field of both VAT and excise duties in January 1999, Bulgaria has continued to fine-tune its VAT legislation so as to comply even further with the acquis. However, further substantive legislative alignment is still required in the area of VAT, particularly for exempt transactions, right of deduction of input VAT, the introduction of a VAT refund scheme for foreign taxable persons not established within the country, and a special scheme for second hand goods.

Although Bulgaria is in the process of establishing a timetable for further legislative progress in the field of excise duties it is of some concern that no progress has been made in this area since the previous Regular Report. Particular attention should be addressed to the taxable scope and level of excise duties, which for most product categories remain well below the Community’s minimum levels. It is important that efforts are concentrated on a well-structured pre-accession strategy for further legislative alignment, including any intermediate steps, in the field of indirect taxation. Although some important steps have been made to start modernising Bulgaria’s tax administration, the results of these efforts have yet to be seen. Staff turnover is high, many posts are vacant and the level of tax arrears is high. In order to ensure that Bulgaria is capable of fully implementing, monitoring and enforcing the Community acquis in an adequate manner, it is necessary that it accelerate the reform of tax administration. The success of the new Unified Revenue Collection Agency will depend partly on early definition of its role, enhanced inter-ministerial co-operation and an integrated information systems strategy.

**Chapter 11: Economic and monetary union**

A detailed assessment of Bulgaria’s economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union acquis—as defined by title VII of the EC treaty and the other relevant texts—which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU acquis is conditional, this aspect has been covered above, in Chapter 4 – Free movement of capital.

Since the last Regular Report, Bulgaria has not made any major moves to adopt the EMU acquis.

**Overall assessment**

Bulgaria will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.
Overall, Bulgaria is well advanced in implementing the *acquis* in this area including economic policy co-ordination, track record in terms of flexibility of fiscal policy and mechanisms in order to improve the expenditure management and control.

Bulgaria has consistently maintained (and plans to continue maintaining) the Currency Board Arrangement ensuring strict monetary, exchange rate and fiscal discipline as well as the independence of the monetary authority and the exclusion of direct financing of the public sector by the Central Bank.

The main outstanding problem concerns the composition of the Board of the central bank, which will require an amendment to the Law on the Bulgarian National Bank. There is also a need to improve the comparability and comprehensiveness of budget data.

While the administrative capacity of the authorities concerned (Council of Ministers, Ministry of Finance, Ministry of Economy and the Bulgarian National Bank) has been strengthened there is a need for further human resource development and strengthening.

**Chapter 12: Statistics**

Bulgaria has made considerable progress over the past year in this area as a result of the implementation of the new Law on Statistics of June 1999.

As regards *statistical infrastructure*, the statistical law has improved compliance with EC standards in areas including statistical confidentiality and transparency. The adoption by the National Statistical Council of a Strategy for the Development of Statistics from 2000-2006 is also a positive step in long-term programming. The National Statistical Institute (NSI) is the main body in a decentralised statistical system. It has an adequate number of staff in the Central Office, 28 Regional Statistical Offices, and a specialised training centre. The recent law on the civil service covers staff working in the NSI. Inter-institutional agreements have been made with the Agriculture Ministry and Central Bank which set out the respective tasks of these bodies in the statistical system. The statistical system works on the basis of an annual national programme set by the National Statistical Council and approved by the Council of Ministers. Two consultative bodies, the High Statistical Council and National Statistical Council, supervise the system.

Concerning *demographic and social statistics*, further progress has been made. In February 2000, a Law on a Census of Population, Housing Fund and Agricultural Farms was adopted. An experimental census was carried out in March 2000 and the census will take place in March 2001. There have been improvements in the frequency of the Labour Force Survey, which is now conducted quarterly in line with the *acquis*.

As regards availability of statistics at *regional* level, NUTS II and III are defined and efforts underway to ensure statistics are available at these levels. Some business statistics data and social data are available at regional level. GDP at regional level is now available for 1996-7.

In the field of *macro-economic statistics*, some progress has been made to bring macro-economic statistics more into line with EC methodology.

For *business statistics*, there has been progress in harmonising the scope of the business register and significant improvements to quality of data for structural business statistics have been made. As concerns tourism statistics, whilst progress has been made to ensure
definitions are compliant, improvements in monitoring long-term tourists and tourism expenditure are necessary.

A pilot project has been conducted on external trade, which has led to improvements in this area. Although exchange of data on external trade with Eurostat has started, there remain problems in coverage and quality which need to be solved in co-operation with other administrations.

For agricultural statistics considerable progress has been achieved. A survey on crop yields is underway and the first part was completed in June 2000. A new structure for collection of statistics with a central unit within the Ministry of Agriculture and 9 regional offices has been established.

**Overall assessment**

Overall, Bulgaria has made progress in statistics. The censuses and surveys planned should help further improve this. However, in a number of areas, in particular macroeconomic statistics, much more work is needed on methodology, quality and completeness of data to achieve compliance with the acquis.

Whilst the administrative organisation of the statistical system has been substantially developed and improved in the last year, further efforts are needed in areas including setting of priorities, staff training, and ensuring appropriate staffing in departments working on areas relevant for EU integration. Concerning resources, it is a positive sign that resources have been made available for the census and labour force survey but for some other more costly surveys, extra funding may be necessary. If this is sustained, full compliance should be attained in a reasonable time.

**Chapter 13: Social policy and employment**

Bulgaria has made little progress in this area since the last Regular Report.

As regards labour law, no progress in the adoption of the acquis can be reported.

Concerning equality of treatment, there is little evidence of concrete enforcement of existing legislation. An inter-institutional working group (including NGOs) is preparing further legislation including the establishment of a National Council on Equal Opportunities.

Progress has been made in the area of occupational health and safety, inter alia by the adoption of legislation in the area of minimum safety and health requirements at the workplace and for the use of work equipment. However, further legislative work is necessary, including the transposition of directives in the field of personal protective equipment, physical agents, explosive atmospheres and the amendments recently made to the work equipment directive. A General Labour Inspectorate at the Ministry of Labour and Social Policy as well as regional inspectorates have been created as enforcement bodies for both labour and occupational safety and health legislation. Furthermore, some sector and regional Councils on Working Conditions as well as a considerable number of company based Committees and groups on working conditions (including workers and employers representatives) have been established.
The Ministry of Health is undertaking major public health reform based on democratisation and decentralisation. Through the introduction of primary health care general practitioners, the number of beds in hospitals has been significantly reduced. A health insurance system is being established at national, regional and local level in order to implement important legislation adopted in this area; the National Health Insurance Fund manages relations with service providers. Amendments to the Act on Tobacco Products were adopted in April 2000 which pave the way for secondary legislation on the labelling of tobacco products and on the maximum tar content. Bulgaria is participating in the Community Programmes “Combating Cancer” and “Prevention of Aids” and has communicated to the Commission its intention to join two further programmes, namely “Health Monitoring” and “Pollution-related diseases”.

Bulgaria has ratified the European Social Charter (revised) of the Council of Europe, which includes articles related to Social Dialogue. However, social dialogue is still weak; this goes particularly for the collective bargaining ability of private sector employees. The situation does not seem to have progressed at enterprise level, either in the public or private sector (including some foreign-owned companies), especially in small and medium private enterprises, where there is frequently an absence of individual labour contracts and of collective agreements, and non-payment of overtime. A strengthened Social Dialogue would also be helpful in dealing with the social tensions caused by the privatisation and restructuring process. Through a Decree of the Council of Ministers in January 2000, a formal mechanism for the consultation of social partners as regards accession negotiations was established, but it still needs to prove its effectiveness. Moreover, there are regularly complaints about the lack of social dialogue in the public sector. More generally, at sectoral level, the development of autonomous social dialogue and collective agreements still has a long way to go before the government’s commitments in this area are fully realised and social partners are ready to assume their role in the sectoral social dialogue at European level.

As for employment and labour market policies, Bulgaria has started the process of Joint Employment Review with the European Commission and is has prepared a National Plan on Employment, which takes strong account of the EC Employment Guidelines. This is to be discussed by the National Council for Tripartite Co-operation. Although the regional set up has been improved by the establishment of Regional Employment Councils (including employment commissions) further steps need to be undertaken to effectively decentralise as well as co-ordinate employment policy and promotion, including the National Employment Service. More frequent training and retraining as well as employment programmes, particularly including socially vulnerable groups, are necessary and a functioning monitoring and assessment system for the impact of measures on the labour market has to be developed, since unemployment remains one of the main problems of Bulgaria. At the same time, mainly due to constant lack of funding, the share of unemployed people covered by active labour market measures as well as unemployed people receiving unemployment benefits is decreasing. Social dialogue and NGO involvement in this sector needs to be strengthened. Bulgaria is still facing severe problems on the labour market with rising unemployment rates (17% in 1999).

The capacity of the Ministry of Labour needs particular strengthening with a view to the implementation of future European Social Fund type measures.

Major reform has been introduced in the area of social protection. A three-pillar pension system was introduced at the beginning of the year 2000, including a public mandatory
pension system, an additional mandatory pension system, depending on the amount of the participant’s security contributions, and a voluntary pension system. The Compulsory Social Security Code which entered into force in January 2000 also strives for unified social security administration. There is a chronic lack of funding in the area of social insurance since all three insurance funds (the Social Security Tax Fund, the National Health Insurance Fund and the Professional Qualification and Unemployment Fund) have been in deficit.

**Overall assessment**

Further alignment with the *acquis* is necessary in all areas of the social *acquis*. Amendments to the labour law are currently under preparation which – if adopted - could represent progress in the adoption of the *acquis*.

In order to enforce legislation on equal opportunities and labour law, efficiently operating labour and social courts are needed. The principle of compensation for hazardous work, which is not compatible with the EC *acquis*, needs to be replaced by an approach aiming at the prevention of health risks. The General Labour Inspectorate needs further strengthening. Social partners need to be involved on a more structured basis; activities would be needed to better structure social dialogue at intermediate levels (sectoral, regional) and better prepare social partners at these levels. The government’s administrative capacity on social dialogue should be reinforced and it should better follow and motivate autonomous social dialogue, in particular at sectoral level, for instance by encouraging the development of appropriate structures, and by monitoring of collective agreements and their contents. Inter-ministerial co-ordination as well as the administrative capacity of and the relationship between national and regional administration needs to be improved with a view to future ESF type activities.

The country is still confronted with widespread poverty. Tackling this problem is not helped by persistently high unemployment levels and by large social security deficits. The National Social Security Institute – which plays a key role in the management of social security schemes – needs to reinforce its administrative structures and to establish those required for co-ordination of social security.

In the area of public health, the managerial and policy development capacity of the Ministry of Health needs to be improved. Funding allocated to the public health sector needs to be increased and further institutional strengthening of a financially viable National Health Insurance Fund is indispensable for a solid insurance system. Further steps in implementing the requirements for labelling of tobacco products and tar content in cigarettes need to be closely monitored.

A law on equal opportunities for men and women has not yet been adopted and there are no independent commissions or ombudsmen which oversee policy development in the field of equal opportunities and the fight against racism. Legislation transposing the EC Directive based on Art. 13 of the Treaty on discrimination on the grounds of race or ethnic origin will have to be introduced and implemented.

**Chapter 14: Energy**

The restructuring of Bulgaria’s energy sector has made some measured progress during 2000 on the basis of the 1999 Energy and Energy Efficiency Law, the institutional
framework accompanying it and the National Energy Strategy adopted in 1999. The overriding objective is to establish a market-based, efficient, sustainable and competitive energy sector aligned with the acquis and allowing for full integration into the internal market.

As regards security of supply, limited progress has been achieved in preparing for adopting the EC oil-stock acquis.

In terms of competitiveness and the internal energy market, the institutional restructuring of the National Electricity Company is being finalised in 2000 with the separation of production, transmission and distribution activities. New regulations on power prices have been adopted; this is considered essential for successfully completing the restructuring and privatisation process with the ultimate objective of liberalising prices by the end of 2001. Progress has been made in establishing the State Energy Regulatory Commission which was created under the 1999 law as an independent regulator subordinated to the Council of Ministers; it is responsible for permits, licenses, price regulation etc. However, this body is seriously understaffed. The market based restructuring of the gas sector is ongoing and since last year steps have been taken to implement the financial recovery plan for ‘Bulgargas’ and the ‘unbundling’ of activities. ‘Bulgargas’ has maintained the role of a transmission company while a number of regional distribution companies have been established. Cross-subsidies have been eliminated and prices are established under the same regulatory framework as for electricity.

A restructuring plan for the coal-mining sector was adopted in June 2000 aiming at accelerated privatisation and liquidation of unviable mines over the period 2000-2001. Coal prices have been liberalised since 1999 and cross-subsidies are not allowed. Production subsidies will be phased out by the end of 2001.

Progress has been made in energy efficiency. Since the policy framework was established with the 1999 law, a State Energy Efficiency Agency has been created with the task of implementing energy efficiency measures as outlined in the strategy and national plan, which are presently being updated.

As regards the issue of nuclear energy, the EU has repeatedly emphasised, most lately at the European Council in Helsinki, the importance of a high level of nuclear safety in the candidate countries in the context of the Union’s enlargement. The Union has also asked for the earliest practicable closure of candidate countries’ nuclear power plants which are deemed non-upgradeable to international safety standards at a reasonable cost.

Responding to a request by the Cologne European Council, the European Commission reported in its 1999 Regular Reports and Composite Paper on the issue of nuclear safety in the candidate countries. Concerning Bulgaria, it noted that insufficient progress had been made in reaching an agreement on a realistic timetable for the closure and decommissioning of ‘non-upgradeable’ units 1-4 of the Kozloduy Nuclear Power Plant (K 1-4), consistent with Bulgaria’s international obligations under the Nuclear Safety Account (NSA) Agreement. On that occasion, the Commission also stated that the opening of accession negotiations with Bulgaria should be conditional on a decision by the Bulgarian authorities before the end of 1999 on acceptable closure dates for K 1-4.
The 1999 Accession Partnership for Bulgaria includes as a short-term priority the adoption and implementation of a realistic timetable for closure and decommissioning of K 1-4.

Following high-level discussions between the Commission and the Bulgarian authorities, and a new mandate from the Bulgarian National Assembly to the Bulgarian government concerning the Kozloduy issue in early November, agreement was reached on the early closure of K 1-4 on 29 November 1999, on the occasion of a meeting between PM Kostov and Commissioner Verheugen in Sofia. An Understanding was signed to that effect on the same day between the Commissioner and the Bulgarian Foreign Minister. Under the Understanding, the Bulgarian Government fully endorses the conclusions of the Cologne European Council on the importance of high standards of nuclear safety in the context of the European Union's enlargement and declares its commitment to definitively closing units 1-4 of the Kozloduy Nuclear Power Plant at the earliest possible dates. Units 1 and 2 will definitively close down before 2003. Definitive closure dates for units 3 and 4 will be decided on in 2002 in agreement with the Commission and taking account of the NSA Agreement and other relevant factors. These dates will be before the presently envisaged closure dates of 2008 and 2010, respectively. The Commission’s understanding is that the definitive closure of these units will take place in 2006 at the latest.

The Commission welcomed these decisions, which it saw as a further sign of Bulgaria’s European integration efforts and as meeting the relevant condition for the opening of accession negotiations with Bulgaria stipulated in its 1999 Composite Paper. It also considered that the closure dates detailed above corresponded to a realistic closure timetable, consistent with the NSA Agreement, as requested by the EU.

Taking into account the financial implications of early closures, as well as the need of a competitive energy sector, the Commission offered under the above mentioned Understanding a multi-annual assistance package for Bulgaria's energy sector. The package includes:

a) Grant assistance from the Phare programme of € 200 million over the period 2000-2006. The provision of the second half of this amount will be confirmed by the Commission in 2002, depending on the confirmation of the understanding on definitive closure dates for units 3 and 4. This assistance could include the construction of a radio-active waste disposal unit; other nuclear safety-related projects (including for decommissioning); measures to address the social impact of closures; energy efficiency improvement measures; measures for the modernisation of the electricity sub-sector; interconnection of energy network projects; and environmental projects related to conventional energy sector, to the extent that they are not eligible for financing by ISPA.

b) A loan (Euratom) of up to € 250 million for the modernisation and safety upgrading of Units 5 and 6 of Kozloduy NPP to be signed in 2000.

The Commission also undertook to mobilise the International Financial Institutions and other international donors for additional funds in 2000.

The elements of the Understanding form an integral whole. The Bulgarian Government undertook to take all the appropriate measures so that its decisions, as well as the
Commission's assistance commitments, would be reflected in the country's energy policy and planning.

Since November 1999, the Bulgarian authorities have been co-operating closely with the Commission for the implementation of the Understanding. The Joint Working Group established in March 1999 held new meetings in February and June 2000.

In July 2000, the Bulgarian authorities established, in co-operation with the Commission, a Work Plan which identifies the activities leading to the closure of units 1 and 2 by the end of 2002, including a detailed timetable and indications on the related costs. A ‘Strategic Plan’, which provides a framework for the multi-annual assistance package, identifies priorities and measures, and includes an indicative list of projects, is being prepared by the Bulgarian authorities, in co-operation with the Commission. Preparatory work for the identification and adoption of the first projects in the areas of decommissioning, energy efficiency and institution building are well under way.

The Euratom loan of € 212.5 million for the modernisation, including safety upgrading, of K 5-6 was signed in May 2000. The Loan and the related Guarantee agreements are linked to the implementation by Bulgaria of its closure commitments for K 1-4.

The bulk of the Community grant assistance pledged under the Understanding will be channelled through an International Decommissioning Support Fund, which will be managed by the European Bank for Reconstruction and Development (EBRD). The Commission took the initiative for the establishment of such Funds for Kozloduy, as well as for Bohunice, Slovakia and Ignalina, Lithuania, for which there are similar commitments for early closure. The Kozloduy International Decommissioning Support Fund was established by decision of the EBRD Board of Directors in June 2000. Its Rules, adopted on that occasion, stipulate that financing will be conditional on the compliance of Bulgaria with its closure commitments for K 1-4. The Fund is expected to commence operations in November 2000.

In the past year, the nuclear safety authority has been strengthened and measures have been taken to enhance its independence.

**Overall assessment**

Bulgaria’s energy sector is dominated by electricity generation and accounts for some 15% of GDP. Per capita energy usage is three to four times higher than the EU average. 70% of Bulgaria’s primary energy is imported. Indigenous energy resources are limited to hydropower and coal deposits of poor quality. Total electricity generating capacity exceeds demand but inter-connection and plant inefficiency problems limit exports. Around 42% of electricity production comes from the Kozloduy Nuclear Power Plant. Gas and oil transit capacity is substantial and expansion is planned.

The energy sector restructuring process has now gained momentum. The completion of this process poses a major challenge and will require determined and consistent efforts by the Bulgarian authorities. Furthermore, an important amount of secondary legislation still needs to be put in place.

The Accession Partnership priorities relating to the energy sector on implementation of legislation, pricing policy and energy efficiency have been only partially meet.
Despite evidence of some limited preparatory legislative activity in relation to the oil-stock *acquis* considerable additional steps will be required and planned for, including access to information on stock levels (which still is considered a state secret). A crisis management law which foresees the creation of a State Agency for management of stocks in line with the *acquis* is only now under preparation.

In the electricity sector, there is a need for further implementing legislation to complement the Energy and Energy Efficiency Law if Bulgarian legislation is to be compatible with the *acquis*. The Regulator needs to define eligible customers. While prices will be liberalised from 2002 it is essential that the gradual phasing in of cost based and transparent prices be maintained. Furthermore, cross-subsidies need to be eliminated and the growing problem of unpaid bills must be seriously addressed. While Bulgaria is committed to the gradual opening of the electricity market it is essential that preparatory steps are made to this end, also including efforts to assure full interconnection to the Interconnected European Power Exchange Network (UCTE) system. The State Energy Regulatory Commission remains seriously under staffed and has difficulties fulfilling its present tasks. Reinforcement of its personnel and means is considered a matter of urgency, not least in view of its extended responsibilities in eventually applying the new price regulations. It also needs to be given sufficient independence from outside pressures to carry out its tasks.

As concerns the gas sector, secondary legislation needs to be adopted and effectively applied to regulate the implementation of pipeline operation and consumer access.

Despite some encouraging steps in *energy efficiency*, Bulgaria still has no active and well-resourced policy in this respect. The Energy Efficiency Agency has been given little support.

In the area of nuclear safety, the commitments for early closure of K 1-4 made by the Bulgarian government under the November 1999 Understanding mark an important step forward in Bulgaria’s pre-accession course. They also constitute an adequate response to a short-term priority of the Accession Partnership. Developments since November 1999 testify that progress was made in the implementation of the Understanding, but further efforts will be needed to ensure that the closure of units 1 and 2 by the end of 2002 will take place under optimal safety, technical and economic conditions. The Bulgarian authorities should also start taking all the necessary measures so that a satisfactory decision on definitive closure dates for units 3 and 4 of the Kozloduy plant will be reached in 2002, in accordance with the Understanding.

The Nuclear Safety Authority, while having largely improved its capacity over the last years, still needs further attention and support including in terms of means and resources.

Due attention should be given to preparing the implementation of Euratom safeguards.

**Chapter 15: Industrial policy**

Some progress has been made since the last Report but a number of significant gaps remain.

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14 Developments in industrial policy should be seen in relation to developments in the context of SME policy (see Chapter 16 – Small and medium sized enterprises).
**Industrial policy** is driven largely by the ambitious agenda of structural reform supported by the international financial institutions and the EU. The government’s industrial policy has been set out in the National Economic Development Plan. It aims at sustained economic growth, the completion of privatisation and restructuring, improved competitiveness and the development of small and medium-sized enterprises. However, it is unclear to what extent these statements of industrial policy act as an operational framework for policy decisions.

1999 saw the biggest wave of privatisation to date. The share of privatised long-term fixed assets reached 49% at the end of 1999 (up from 30% a year earlier), and that of privatised assets excluding infrastructure rose to 78%. However, there remains a difficult residual group of state-owned enterprises, notably the energy, transport and telecommunications sectors. The privatisation process still suffers on occasion from a lack of transparency, and some new owners of privatised enterprises have untested management skills.

There has been some progress in restructuring the steel sector, though the process remains incomplete. Majority stakes in the two largest steel plants were sold in 1999 to private investors, while a third plant remains in state ownership but is being operated with foreign participation under a court-supervised leasing arrangement. The viability plan for the largest plant foresees a significant reduction of capacity and employment over the next few years. According to the authorities, none of the plants is receiving any ongoing state aid, though the insolvent plant continues to make significant operating losses.

A factor that hinders restructuring in other sectors is the lenient financial discipline in enterprises. Some measures have been taken to improve the legislation regulating the sale of assets to ensure efficient and transparent procedures for liquidation and insolvency. Further efforts are needed to streamline these procedures. An important event of the past twelve months was the creation of the Ministry of Economy in December 1999, by merging the former Ministries of Industry and Trade and Tourism. The Minister of Economy is also Deputy Prime Minister. This administrative reform aims *inter alia* at lending new momentum to structural reform and the adoption of a coherent industrial policy that focuses on the opportunities for, and obstacles to, economic growth.

**Overall assessment**

Bulgaria continues to make good progress with the structural reform of its enterprise sector, though some difficult challenges remain to be tackled, notably with respect to state-owned utilities and the steel sector.

Further efforts need to be made to establish a coherent market-oriented industrial policy which will be in line with the concepts and principles of EC industrial policy. Other areas for improvement are the business environment, bankruptcy and liquidation procedures, enterprises’ access to loan and equity capital. Systematic and regular independent audits of the business environment would help identify the significant remaining administrative obstacles to business development and inward investment. Strong efforts also need to be made to improve corporate governance, including the stringent enforcement of international and EC accounting standards.
An important dimension of industrial policy that has so far received insufficient attention is the monitoring and control of state aids (see chapter 6, competition).

Regarding administrative capacity, as the agenda of privatisation and restructuring nears completion, the new Ministry needs to re-orient its role and equip its staff to focus increasingly on developing and implementing a pro-active and market-oriented industrial policy, creating a favourable business environment and pursuing appropriate regional and sectoral strategies. This will require the Ministry to collaborate increasingly with other ministries and develop and consult with private sector business organisations.

**Chapter 16: Small and medium-sized enterprises**

Since the last report, the Government has introduced a number of important measures to increase the impact of its SME policy, including in the area of administrative capacity.

As regards SME policy, the Agency for SMEs has been transferred from the Ministry of Industry to the Council of Ministers to act as a central point for co-ordinating and promoting SME-related policies. The Agency needs now to build on this strategic move to maximise its influence. The Agency has started to build a national SME support network including the Euro Info Centres, the European Innovation Centre, the regional development agencies, business centres and NGOs.

With a view to facilitating the access of SMEs to finance, the state-owned Encouragement Bank, which specialises in SME lending, has commenced operations. Numerous donor-supported initiatives will complement this action.

The creation of a new Ministry of Economy in December 1999 should lend fresh momentum to the government’s efforts to improve the business environment. Some administrative procedures have already been simplified; e.g. each company now has a single identification number.

**Overall assessment**

Bulgaria’s SME policy is overall in line with the principles and objectives of EC enterprise policy.

However, Bulgaria still needs to develop a more favourable business environment for SMEs. A coherent strategy for SME development should be drawn up and implemented. The government should address more systematically and energetically the major obstacles to SME development including unhelpful aspects of the tax, registration and licensing regimes, lack of business expertise among SME managers, restricted access to finance on appropriate terms, and petty corruption in public administration. The EC definition of SMEs, and notably the aspects relating to the size of micro-, small and medium-sized enterprises, should be included in Bulgarian SME legislation.

The basic administrative capacity for implementing the SME policy is in place but needs some strengthening. The Agency for SMEs now needs to receive proper funding from

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15 Developments in policy towards small and medium sized enterprises should be seen in relation to developments in the context of industrial policy (see Chapter 15 – Industrial policy).
the national budget to enable it to implement appropriate policies. The administrative capacity of the Agency for SMEs should be strengthened, and the national SME support network needs further development and better co-ordination. In general, more active consultative links need to be forged between the public sector and business representatives.

**Chapter 17: Science and research**

Further progress has been made in this area since the last Regular Report.

A number of legislative acts adopted during this reporting period have some impact on science and research: amendments to the Higher Education Act will enhance links between education and research; an Act on the Establishment of the National Centre for Agricultural Science aims at structural reform in agricultural science; and the new Law on Small and Medium-sized Enterprises favours appropriate conditions for technological transfer and the development of a modern product environment.

In November 1999, the government approved a National Strategy for High Technologies. The strategy seeks to establish and support a dynamically developing market of high technologies and related activities, and defines the role of high tech parks in their promotion.

Since its association with the Fifth Framework Programme, as well as the Euratom Framework Programme, in September 1999, Bulgaria has established the National Contact Point (NCP) system and appointed experts to the Programme Committees. Initial results for the first year indicate a very high level of participation. However, much more training and experience in exploitation of the programme is still required. Bulgaria is now also a full member of the COST programme.

**Overall assessment**

After its successful launch, participation in the Community programmes could be further enhanced through strengthening of administrative capacity and technological infrastructure, and by encouraging greater participation of the enterprise sector, including SMEs.

The level of the existing gross domestic expenditure on research and development is relatively low (0.59% of GDP in 1998). Further concrete measures are required to increase the financial support for this sector, and particularly to stimulate the business enterprise expenditure on research, and to favour fresh capital investment. Priority should be given to the development of a national strategy and programme for the development of science and technology policy. Funding mechanisms should be aligned with the redefined priorities. Measures are needed to promote and enhance the rate of research and development, to further encourage research that supplies relevant technology to small and medium-sized enterprises, and to increase European co-operation in this field. Legislation to facilitate the creation of high tech industries is necessary, in particular to attract foreign investment.
Chapter 18: Education and training

In the past year, Bulgaria has continued to participate in the Community programmes (see bilateral part A). In addition, the Association Council adopted a decision in August 2000 to allow participation in the second phase (2000-2006) of the Socrates and Leonardo da Vinci programmes. Preparations have been made for participation also from 2000 in the new Youth programme, which incorporates European Voluntary Service activities.

The Education Degree, General Minimum Education and Curriculum Act adopted in 1999 addresses – together with the already previously adopted National Education Act - the requirements of the Directive concerning education of children of migrant workers, by regulating the conditions for learning the mother tongue as well as the acquaintance with the culture of origin of children of migrant workers. This legislation is a good starting point for full approximation with the acquis in this area.

As regards the issue of non-discrimination toward EU citizens in the field of education, the above mentioned amendments to the Higher Education Act ensure foreigners can now apply to study in higher education establishments if they have diplomas that would entitle them to access to higher education in the country where they acquired their diploma. However, these amendments do not address the discriminatory practice of applying higher academic fees to students from the European Union.

Bulgaria has made progress in reforming its education and training system and in introducing European standards. The amendments of July 1999 to the Vocational Education and Training Act introduce a legal framework for licensing vocational training institutions as well as for the de-centralisation of administration to regional, municipal and school level. The National Agency for Vocational Education and Training is responsible for the monitoring of standards in vocational education and training. However, there are financial and human resource capacity constraints which impede the implementation of this Act and the adequate functioning of the Agency.

The improvements introduced into the system for certification of professional qualifications and the accreditation of institutions for vocational training through the amendments to the Vocational Education and Training Act are an important step forward.

Overall assessment

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning. The Directive concerning the education of children of migrant workers still has to be fully transposed and implementation has to be ensured. The discriminatory practice of applying higher academic fees to EU students will have to be abandoned.

In the area of continuing vocational training, the economic crisis resulted in very restricted funding. The training infrastructure is relatively good, but the necessary legal basis which provides incentives for employers to ensure continued training for employees needs to be further strengthened. An overall coherent continuing training policy is still missing.

Despite recent progress, there is a need to further strengthen the administrative capacity of the Ministry of Education and Science, to further decentralise the educational system.
to the regions and municipalities, as well as to develop a framework for dialogue with social partners. The co-operation between the Ministry of Labour and Social Policy and the Ministry for Education and Science still needs to be improved.

A clear link between the needs of the labour market and the skills acquired by the graduates of vocational schools is needed. Further steps need to be undertaken to develop a flexible system of vocational education and training including a strategy for gradual raising of teacher’s qualifications. An overall framework for vocational qualifications and their relationship with academic professions is still missing. Moreover, policy measures need to address the issue of early school leavers.

On the whole, Bulgaria has achieved considerable progress so far, but efforts to further reform the sector and to substantially increase financial support need to be undertaken.

**Chapter 19: Telecommunications and information technologies**

During the last 12 months, progress has been made in the liberalisation of the telecommunications market through the issuing of an Order which brings Internet Service Provision under a free regime. There has also been progress in planning for the Information Society through the approval of a strategy and the establishment of a Coordination Council.

There has been progress in the development of licensing systems for Professional Mobile Radio Networks, Payphones, the Maintenance and Operation of Networks of Fixed Microwave Lines and for using “Industrial, Scientific and Medical” frequency bands. There has also been progress through the adoption of principles for a revised Numbering Plan.

At the beginning of 2000, the Committee of Posts and Telecommunications (CPT) was merged with the Ministry of Transport to form the new Ministry of Transport and Communications. The new Ministry has taken over all the tasks of the CPT, including ownership of wholly or partly state-owned enterprises in the sector and the development of sector policy.

Concerning postal services, a new Postal Services Act entered into force in August 2000. Under this Act, the Minister of Transport is responsible for regulation of the postal sector. The Act provides for liberalisation of postal services on the basis of licenses or registration, depending on the type of service (universal or non-universal). The Act introduces a temporary state monopoly until the end of 2002 over a reserved sector of the universal service for items up to 350g. This is provided by Bulgarian Posts (a 100% state-owned company), which is under an obligation to provide universal service in the territory of Bulgaria. Otherwise the postal market is de facto practically liberalised and the new legislation introduces a new framework for operation of existing firms providing postal services, obliging them to apply for a licence or for registration by the end of 2001. Full liberalisation of the postal market can therefore be expected after January 2003.

The Ministry of Transport and Communications is responsible for state management and regulation of postal services under the new act, with two Departments under the same Directorate, one for postal services and the other for market regulation.
**Overall assessment**

Although there has been little overall progress in this sector during the last year, this needs to be set in the overall context of the good progress in the previous period when a new telecommunications law was passed in which the most important developments were the reform of the institutional structure, the bringing forward of the date of full liberalisation to 1 January 2003 and the establishment of a licensing regime for the sector. Progress in the past 12 months has been affected by the attention paid to the attempt to privatise BTC and to identify a second mobile operator.

The decision to bring Internet Service Provision into a free regime is an important step forward.

Considerable further progress is needed before Bulgaria has adopted the *acquis* in this sector. The most important steps which must be taken are to review the frequency plan to make more frequencies available in conformity with European standards, to develop the independence of the State Telecommunications Commission and to implement the existing licensing regime using general authorisations in line with Community legislation. Operators with Significant Market Power should be identified and the appropriate regulations applied to them including especially the requirement for cost orientation. Transparent arrangements should be made for the provision of Universal Service.

The new administrative set up in the Ministry of Transport and Communication needs to be clarified, especially how the split between postal service management and market regulation can be ensured between two departments in the same directorate.

**Chapter 20: Culture and audio-visual policy**

During the period since the last Regular Report, Bulgaria has made further substantial progress in aligning to the Community *audio-visual acquis*. A Law Amending the 1998 Law on Radio and Television was adopted by the National Assembly in September and came into effect in October 2000. The amendments achieve a high degree of alignment with the Television Without Frontiers Directive. Bulgaria’s accession to the Council of Europe Convention on Transfrontier Television entered into force in July 1999. In March 2000, Bulgaria also ratified the Protocol amending the above Convention.

Some progress was made in strengthening the administrative capacity in this domain. The administrative staff of the National Radio and Television Council was increased from 13 to 30. Around 200 radio and television licences were issued from 500 applications. The Council adopted 40 infringement statements and 12 of them resulted in sanctions and fines.

Steps towards liberalisation of the audio-visual market have been taken and, following a tender, the first private national television operator started operations in June 2000.

**Overall assessment**

Bulgaria’s legislation has been brought into line with the audio-visual *acquis*. 
In the field of audio-visual policy, the relevant administrative bodies have a good understanding of the acquis, and the monitoring and sanctioning powers of the Radio and Television Council have been strengthened by the amended Law. However, the Council suffers from insufficient funding and infrastructures, which adversely affect its capacity to fulfil its tasks.

Bulgaria has demonstrated effective administrative capacity for implementing the acquis in the area of culture, also through its participation in the Raphael programme.

On the whole, Bulgaria has made substantial progress and reached a high degree of alignment with the Community acquis.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the last regular report, no substantial progress has been achieved.

Bulgaria has adopted a new territorial organisation, through the adoption of a decree on the territorial organisation of the country for six planning regions corresponding to level II statistical units. The Ordinance sets up 6 NUTS II-type macro-regions in Bulgaria, and defines the inter-ministerial Commissions for Economic and Social Cohesion, set up at macro-regional level. The classification has been accepted by Eurostat; this does not, however, prejudge in any way the subsequent decision concerning NUTS due to be taken at the time of accession. The relevant Commissions have a consultative role, in particular in the process of preparation of the regional operational programmes.

With regard to the legislative framework, Bulgaria adopted a decree in November 1999 which defines the structure and the functions of the Ministry of Regional Development and Public Works (MRDPW). Under the terms of this decree, the Directorate General of Regional Development and Administrative and Territorial Organisation is responsible for the co-ordination of the preparation of regional policy, assistance in preparing legislation, and programming and implementation of Phare economic and social cohesion projects.

Concerning preparation for programming, the Directorate General of Regional Development and Administrative and Territorial Reform at the MRDPW has continued its efforts to build its administrative capacity. The process of recruiting necessary staff is underway centrally and in the new structures in the six macro-regions. In addition, capacity to manage the ISPA and SAPARD pre-accession funds is being built up in the relevant Ministries, with Phare assistance.

The Bulgarian authorities submitted a Preliminary National Development Plan (PNDP) for Bulgaria 2000-2006 in October 1999. The National Plan for Regional Development as well as district development plans for level III statistical units are currently being updated.

These exercises reflect the determination of the Bulgarian authorities to improve their planning capability. However, more work will be needed to gain the necessary capacity to produce planning documents. Also, the establishment of participatory and sustainable planning processes still needs to be tackled. The integration of these various programming exercises into a comprehensive national economic development framework for Bulgaria remains a major challenge.
Concerning **administrative co-ordination**, a decree of November 1999 created a new administrative structure in the Council of Ministers and established a new Regional Co-ordination Directorate. However, not all staff foreseen for this have been recruited. An inter-ministerial co-ordination body, the Central Co-ordination Unit (CCU), was set up by decree in January 2000. The CCU is chaired by the MRDPW at Deputy Minister level. The MRDPW is responsible for the preparation and implementation of the National Development Plan with the support of the CCU. Mid-level representatives of the various line ministries involved staff the Central Co-ordination Unit. However, inter-ministerial co-ordination, both at national and regional levels, is still not fully effective and more attention needs to be paid to this. Very little progress has been achieved in the preparation of **evaluation and monitoring systems**.

The newly created Department for Economic and Social Cohesion at the MRDPW is in charge of the financial management of programmes and projects. The recruitment and training of staff is ongoing, and requires considerable effort in the coming months. With respect to allocations for co-financing in the national budget, there is as yet no clear indication of how this will be managed.

In February 2000, a separate division responsible for regional statistics was set up in the National Statistics Institute (NSI). It will carry out methodological co-ordination concerning the collection, analysis and supply of data at regional level and ensure Eurostat requirements are met.

**Overall assessment**

Substantial problems remain and Bulgaria needs to strengthen considerably its efforts to prepare for the structural funds. It should speed up the implementation of administrative reform and further develop its administrative capacity to be ready to cope with the management of the funds.

The Preliminary National Development Plan does not yet provide a sufficient development strategy for the country. It needs to be a key policy tool for Bulgaria, with a concomitant commitment of the Bulgarian authorities regarding implementation. There needs to be a closer link between the PNDP and the provisions of the National Budget. In addition, the relationship between the PNDP and other programming documents as the National Regional Development Plan and the Public Investment Plan needs to be clarified. Inter-ministerial co-ordination as well as public consultation in the preparation of the PNDP remain issues of concern.

In the administrative structures recently created under the MRDPW, there is a lack of clarity in the role and competencies of civil servants and technical experts responsible for regional administration. In particular responsibilities at regional level are not very clear. The administrative capacity of the Ministry remains very limited. Financial and budgetary management for regional policy require further improvement. Regional statistical data is poor at present in Bulgaria and the creation of a database for regional data storage will require significant investment of financial resources.

**Chapter 22: Environment**

Bulgaria has achieved further progress in terms of transposition of the EC environmental acquis and for the preparation of the implementation of EC directives.
Progress has been made towards meeting the short-term Accession Partnership priority to continue transposition of framework legislation in the water, air and waste sectors, prepare and implement detailed directive specific approximation programmes; strengthen implementation structures, particularly at the regional level.

New framework legislation or amendments to existing legislation have been enacted since the last Report. Details are given under the relevant sectors below. In September 2000, a National Programme for the introduction and implementation of EC legislation was adopted by the Council of Ministers. This aims to give an overview of the full range of issues related to taking on the environmental *acquis*. Bulgaria has also developed five national sectoral programmes: a national waste management programme, a national programme for priority construction of urban waste water treatment plants, a national biodiversity conservation strategy, a national programme for phasing out the production and use of leaded petrol and a national programme for phasing out the use of ozone depleting substances. Other strategies are under development.

Concerning **horizontal legislation**, an amendment to the Bulgarian Regulation on non-mandatory environmental impact assessments was adopted in December 1999. Further legal changes will be needed to fully transpose EC requirements on environmental impact assessments. In October 1999, the Convention on Trans-boundary Environmental Impact Assessment entered into force. However EC requirements are more stringent than the Convention, so further changes will be needed.

Since the last Report, Bulgaria has set up a Permanent Commission for the Protection of the Population, an inter-ministerial co-ordination structure to handle disasters, accidents and catastrophes. Its tasks include analysing information on potential risks, setting up a unified information system and identification of priorities for prevention of accidents.

Concerning **air quality**, good progress has been made in legislative alignment with the *acquis*. The Ambient Clean Air Act was amended in March 2000 and now includes definitions of pollution and threshold levels for emissions. A new Regulation on storage and distribution of petrol entered into force in July 2000 and is in line with the *acquis*. In addition, regulations limiting the content of harmful substances in fuel, and on regular roadworthiness testing of the motor vehicles have come into force.

In December 1999, Bulgaria signed the new UN Protocol to Abate Acidification, Eutrophication and Ground-level Ozone to the Convention on Long-range Transboundary Air Pollution.

As reported last year, Bulgaria has established a national air monitoring system but as concerns implementation, it lacks the necessary monitoring capacity at national and regional levels to monitor air quality.

Work on **waste** management has continued but gaps remain in Bulgarian legislation as concerns the definition of waste and waste hierarchy. The infrastructure for disposal and recovery of hazardous waste needs to be further developed.

Concerning **water quality**, the Water Act that came into force in January 2000 is partly in line with the Water Framework Directive. Work on secondary legislation has started; programmes at national and local levels for implementation of the legislation are being developed. Bulgaria still needs to address approximation with EC directives on different water categories.
For **nature protection**, some progress has been made both in legislation and implementation. In April 2000, the Protected Areas Act was amended, and a Medicinal Plants Act came into force. A Regulation on development plans for the management of protected areas was published.

Bulgaria has identified 140 sites, covering 12% of Bulgarian territory, as special protected areas. The requirements of the ‘Birds’ and ‘Habitats’ directives have not been fully integrated into Bulgarian legislation.

The institutional strengthening of the Directorates of the 3 national parks is continuing, and 80 additional persons have been appointed.

As regards **industrial pollution control and risk management**, the 15 Regional Inspectorates of the Ministry of Environment and Water started an inventory of enterprises and sites concerned by the directive. The directive on control of major accident hazards (Seveso) is partially transposed in the Regulation on organisation of activities for the prevention of large hazards, the Environment Protection Law, the regulation on hygiene requirements and health protection of the population, and is supplemented by the Law on chemical substances. Implementation of the IPPC and the Seveso directives is still problematic; the Ministry has developed a multi-annual implementation plan and implementation has started but an increase in provision of information, equipment and training are needed if this is to be successful. No progress has been achieved on the approximation of the large combustion plants directive.


An ordinance has been adopted partially transposing the directives on the contained use and the deliberate release of **genetically modified organisms**. A Council for safe use of genetically modified higher plants has been created in the Ministry of Agriculture and Forestry.

Concerning **nuclear safety and radiation protection**, in December 1999, the Council of Ministers adopted a Decision on a programme for the development of a basis for safe management of spent nuclear fuel and radioactive waste (see also chapter 14 on Energy). Regulations came into force in August 2000 on contributions to the Radioactive Waste Safety and Storage Fund.

As regards **administrative capacity**, the Ministry of Environment and Water is responsible for national policy in the environmental sector, the preparation of the legal basis, management of protected areas which are state property, distribution of water resources, issuing of permits for use of natural and mineral resources and EC-related matters.

Under the Ministry, 15 Regional Inspectorates for Environment and Water and 3 Directorates of National Parks have been established. The National Environment Agency, a specialised body of the Ministry, is responsible for monitoring and scientific activities. It provides methodological guidelines for Regional Inspectorates. It also collects and processes information about the state of the environment and issues information. Other state bodies with responsibilities for different aspects of environmental protection are: the Ministry of Health, the Ministry of Agriculture, Forests and Land Reform; the Ministry of
Regional Development and Public Works implements the national policy in the area of territorial planning and public works, development of the water supply and sewerage systems, develops the National Plan for Regional Development. The municipal bodies play an important role in the implementation of the policy in the environmental sector.

**Overall assessment**

Bulgaria has made progress in transposing the EC environmental *acquis*. However, the ability of the Ministry of Environment and Water to develop and promote policy and strategies is still weak.

Further progress is necessary in the field of waste, nature protection and industrial pollution. The level of transposition of EC environmental directives of a horizontal character also needs to be improved.

Implementation of legislation adopted remains a problem. Investments remain limited. The structures needed for monitoring the enforcement of legislation are not yet adequate and further training is needed to ensure staff have the necessary knowledge to implement legislation. The mechanism for data collection, analysis and reporting is also very new and not well developed. The Ministry of Environment and Water and its Regional Inspectorates are generally understaffed. The newly appointed EU Integration Unit of the Ministry needs training.

Progress has been made in the development of investment programmes for waste and waste water, but more work is needed on financing plans. Capacity to make financial and economic evaluations needs to be reinforced.

Whilst the “polluter pays” principle is generally accepted, it is not clear how it will be applied. Also, as mentioned last year, the principle of sustainable development needs to be integrated into other sectoral policies.

The industry should be further consulted and informed about its future responsibilities and obligations.

**Chapter 23: Consumers and health protection**

Bulgaria has continued to make good progress in this area.

Progress has been made in the adoption of secondary legislation following the entry into force of the Law on Consumer Protection and Trade Rules in July 1999, e.g. Regulations for consumer protection in price indication of products and services as well as on the requirements for labelling of non food products. As a consequence, as regards safety-related measures, the existing legislation introduces the main elements of the relevant *acquis* in the area of general product safety and product liability.

Also in the area of non safety related measures, notable progress has been achieved concerning the *acquis* on indication of prices on products and services; main elements of the *acquis* in the field of misleading advertising, unfair contract terms, doorstep sales and (partially) the provisions on distance selling have been transposed.

The existing legislation provides for a considerable institutional set up in the area of Consumer Protection. Although the implementation record is short, the main enforcement
body dealing with market surveillance, the Commission on Trade and Consumer Protection at the Ministry of Economy, remains largely unreformed. Data on the number and nature of checks performed by this Commission remain unclear. Further strengthening of the Conciliation Commissions (set up with nine regional units of this Commission) which have been set up for out of court dispute settlement and the consumer protection units of local authorities – which can be granted competence in the area of control and product safety of products - is necessary. There is a lack of information on the functioning of Conciliation Commissions and of the number of local consumer protection units. The National Council for Consumer Protection set up as a consultative body has so far failed to fulfil its task of being a consultative body at the Ministry of Economy and of allowing for formal consumer participation in the decision making process. Although the explicit right of independent consumer organisations to take part in the protection of consumer rights has led to a number of consumer associations (currently six) which have contributed to an increased consumer awareness, NGOs in the sector still need to be further developed.

**Overall assessment**

Although a considerable part of the relevant acquis has already been transposed, further efforts for alignment are needed in a number of areas. As regards safety related measures, the Directives on certain aspects of the sale of consumer goods and associated guarantees, Directive on injunctions for the protection of consumer interests as well as the acquis on dangerous imitations still have to be transposed. With regard to non-safety related measures, the acquis on comparative advertising, package travel, timeshare, consumer credit and distance contracts is still not transposed.

Progress in administrative capacity remains limited although considerable institutional infrastructure has been set up since the last Report. The administrative capacity of the various institutions, in particular the Commission on Trade and Consumer Protection needs to be strengthened in order to enforce the considerable acquis already adopted, to improve consultation mechanisms (including the drafting of legislation), out of court settlement and especially in order to establish and co-ordinate a functioning market surveillance system. A functioning system for an exchange of information in cases of discovery of dangerous products has to be further elaborated. More emphasis need to be put on the co-ordination of different enforcement bodies and independent consumer protection organisations.

**Chapter 24: Co-operation in the field of justice and home affairs**

Activities in terms of approximation of legislation and producing new legislation have continued but not at such a significant pace as mentioned in the last Report. However, there has been sustained progress and more focus on implementation.

An inter-ministerial working group has been created to draft a Personal Data Protection law and consultations are underway but as yet Bulgaria has not yet adopted a law, so does not have a system of protection of personal data compatible with the acquis. This means that the short-term Accession Partnership priority of adopting a law and establishing an independent supervisory body has not yet been met.

As far as visa policy is concerned, Bulgaria has continued to make progress. It has rescinded agreements on visa-free regimes with Belarus, Moldova, Kazakhstan,
Kyrgyzstan, Tajikistan and Turkmenistan with effect from January 2000. A readmission agreement was signed with Romania in June 2000. Negotiations on readmission agreements with the UK and Ireland have started. The administrative, organisational and legal measures taken by Bulgaria in the past years to counter illegal migration have been further consolidated since the last Report. The special software programme developed for visa issuing and passport control is now operational in 59 Bulgarian diplomatic and consular missions, providing an online link to the Visa Centre at the Ministry of Foreign Affairs. Bulgaria has amended the Bulgarian Identity Documents Act to accelerate the issuing of new documents, bringing forward from end March 2001 to end December 2000 the date by which documents must be replaced with new ones that cannot be forged.

Some progress has been made towards meeting the short-term Accession Partnership priority of implementing effective border management control systems. Through amendments to the Ministry of the Interior Act in April 2000, a new definition of border control was adopted, of “guarding and controlling” instead of “guarding and protecting” state borders. Demilitarisation of the border police is ongoing and since 1999, progress has been made as planned with the programme to reduce the number of conscripts by 2,000 and the procedure has been launched to replace them with 1,300 professional police officers. To compensate for the reduction of personnel, the Border Police is in a process of modernising its equipment, giving priority to the border with Turkey and the Black Sea maritime border. Progress has also been made to improve border control facilities at Sofia International Airport to prepare for compliance with Schengen requirements, and new equipment for passport control has been installed at 10 major border crossing points. Statistics from the Border Police show that the attempts to illegally cross the borders have increased from 18,329 attempts in 1998 to 22,733 in 1999. Citizens from Romania (2,933), Turkey (2,561) and Moldova (912) lead the list of attempts at illegal border crossing.

On migration and asylum, Bulgaria and the International Organisation for Migration signed a Co-operation Agreement on 12 November 1999 in Budapest. A specialised unit/sector for combating transborder networks dealing with illegal migration and trafficking in human beings was set up with the National Service for Combating Organised Crime (NSCOC) in November 1999. In the field of asylum a National Action Plan 2000 (NAP 2000) was elaborated in April 2000 during the Second Round Table in Bucharest. It envisages the opening of refugee transit centres at the busiest border checkpoints – Sofia Airport and Kapitan Andreevo and possible future legislative changes e.g. in view of setting a clearer distinction between the excluding and terminating provisions in accordance with the Geneva Convention 1951. The Foreign Nationals in the Republic of Bulgaria Act was amended in May 2000 and implementing regulations were adopted. The law regulates the conditions of entry, stay and controls on foreign nationals in Bulgaria and the implementing regulations provide more detailed regulation of the control over foreign nationals staying illegally in Bulgaria. However, several provisions are still not in accordance with the relevant acquis. The conditions for family reunification, which was already mentioned as a weakness in last year’s Regular Report, have not been clarified. The short-term Accession Partnership priority of implementing and enforcing a new legislative framework relating to migration and asylum procedures has therefore not yet been met.

In the field of police co-operation and the fight against organised crime, some more steps in international police co-operation have been taken. In June, the Council of Ministers approved and proposed to the National Assembly for ratification an agreement
on co-operation in the fight against cross-border crime signed in Bucharest in May 1999 by Albania, Bosnia-Herzegovina, Bulgaria, Greece, FYROM, Moldova, Romania, Turkey and Hungary. Sustained attention needs to be given to the problem of trafficking, especially in women. In November 1999 a new specialised unit for combating illegal trafficking in women for the purpose of sexual exploitation was created within the Border Police. Amendments to the Penal Procedure Code have brought some changes with regard to the procedure of investigation, increasing the role of the Police in investigating criminal cases. Additional training has been provided to police officers for this new task.

Concerning the fight against fraud and corruption, in June 2000, the National Assembly passed the Amendment to the Penal Code, which, inter alia, criminalises the appropriation of revenue funds or target funds for purposes other than the legal ones. The legislative change is based on the definition of “fraud” set forth in the Convention for protection of the financial interests of the European Communities of 1995.

Bulgaria ratified the Council of Europe Civil Law Convention on corruption in June 2000. Customs officers, police officers and professionals working in the judiciary are quoted as being among the most corrupt professions in Bulgaria. Since the last Report the Bulgarian Customs Administration has taken some steps to combat corruption in its ranks, improving co-operation between the General Customs Directorate and the other competent state bodies - Court, Prosecution, Investigation, Ministry of Interior, Tax Administration and others, and starting a project to fight corruption and illegal activities in the customs service in April 2000.

On money laundering, instructions for improving the internal rules of banks for control and prevention of money laundering have been developed. To ensure the actual establishment of criminal liability in cases of money laundering under the Criminal Code, a number of laws and statutory instruments have been adopted.

In the area of drugs, the Drug and Precursor Control Act entered into force in October 1999. Significant increases in drug seizures have been made since 1999. In particular, reported heroin seizures for the first 8 months of 2000 are more than the total seizures for the past 6 years. Furthermore, the Penal Code was amended in March 2000 to align Bulgarian criminal legislation to the UN Convention against the Illegal Traffic in Narcotic Drugs and Psychotropic Substances. The Amendment provides for significant changes increasing the sanctions for drug-related crimes and drug producing plants.

On judicial co-operation, in criminal and civil matters, there are no major new developments to report but on criminal matters Bulgaria has already achieved a high degree of alignment.

**Overall assessment**

Progress in the field of justice and home affairs, both with regard to further approximation of legislation and with regard to the administrative capacity to implement the acquis has continued since last year but significant further efforts are required in this area and further resources and investment in modern equipment will be needed to ensure success.

Bulgaria has not yet adopted a law on data protection, so does not have a system of protection of personal data compatible with the acquis. In 1998 Bulgaria signed Convention No 108 of the Council of Europe for the Protection of Individuals with
regard to Automatic Processing of Personal Data, but the Convention is still awaiting ratification.

Bulgaria has already largely aligned its visa regime but maintains visa-free regimes with Ukraine, FYROM, Russia, Georgia, Yugoslavia and Tunisia. Readmission agreements have now been signed with all the EU member states except the UK and Ireland, where negotiations are currently underway.

Demilitarisation of the border police is ongoing and is scheduled to be completed in April 2002.

Regarding migration, the law relating to the entry, stay and controls on foreign nationals in Bulgaria still needs to be amended to comply with the relevant acquis, in particular the conditions for family reunification. The Refugees Act referred to in the last Report has still not been amended to bring it fully into line with some basic principles of the Geneva Convention. The administrative capacity of the Refugees’ Agency remains weak, and coordination between this and the Border Police needs to be improved. The infrastructure to receive asylum seekers and refugees is only partly in place and needs to be fully aligned. However, the problem of refugees and asylum seekers in Bulgaria remains very limited. In the past eight years, only 4,800 people have sought refugee status in Bulgaria.

Regarding police co-operation and the fight against organised crime, the establishment of a national information system compliant with the standards of the Schengen Information System (SIS) is necessary and has not yet been achieved. Police brutality remains a matter of concern, especially towards minority groups and the Roma in particular. Whilst Bulgarian authorities provide much training to all levels of police officers, further training in areas such as respect of human rights is needed, as are specialised training programmes to continue to build up the skills required to effectively investigate and counter new types of crime, especially economic crimes and money laundering as well as organised crime and corruption. There are shortcomings regarding police equipment where technology (modern means of communication) and motor vehicles are concerned.

Concerning the fight against fraud and corruption, Bulgaria has ratified the major anti-corruption conventions, notably the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In January 1999, Bulgaria signed the Council of Europe Criminal Law Convention on Corruption.

Regarding drugs, secondary legislation is needed in areas such as terms and conditions for seizing and destroying drugs, operation of specialised drug testing laboratories and precursor control. Bulgaria still does not have a comprehensive national strategy against drugs covering issues such as supply and demand reduction, which defines the overall policy of the country and the linkage between the agencies.

Concerning money laundering, a law was adopted in 1998, and in 1999 the Law on Banks was amended setting out the obligations of the National Bank in prevention of money laundering. However, weaknesses in the current legislation need to be addressed so that Bureau of Financial Intelligence can play its full role.

In the field of judicial co-operation and human rights, as far as the joint action on legal assistance in criminal matters is concerned, Bulgaria is encountering difficulties in
handling incoming requests and in making outgoing requests. Regarding judicial co-operation in criminal matters, Bulgaria is to a large extent aligned with the *acquis*. To date, Bulgaria has concluded 40 bilateral agreements on legal assistance: 19 agreements on legal assistance in civil and criminal matters (and extradition), 9 on legal assistance in civil matters, 4 on legal assistance in criminal matters, 2 on legal assistance in criminal matters and extradition, 5 on extradition and 1 on transfer of convicted persons. As far as judicial co-operation in civil matters is concerned, further legal amendments are needed for alignment. Efforts are still needed especially in terms of strengthening administrative capacity, including improving co-operation between different agencies. Also, staff turnover in the Ministry of Interior as been high at all levels, which could lead to a weakening of administrative capacity.

**Chapter 25: Customs union**

Bulgaria has made further progress in the field of customs since the last Regular Report.

Concerning legal alignment with the **EC Customs Code and its implementing provisions**, the Bulgarian Customs Act of January 1999 and the related implementing provisions are, to a large extent, compatible with the *acquis* but considerable further efforts are needed to ensure full compliance. During the last period, there have been further steps in approximation of legislation. The National Assembly adopted Amendments to the Customs Act. These concern issues including the application of trade measures for agricultural goods and the control of drug precursors and of counterfeit and pirated goods. The short-term Accession Partnership priority to ensure enforcement of the new customs code and its implementing provisions has been partially met.

As regards the **customs acquis outside the customs code**, Bulgaria adopted its Customs Tariff for 2000 in November 1999, including preferential rates in the framework of international agreements (including the Europe Agreement). On the basis of bilateral agreements, joint customs control at border crossings with Romania, the Former Yugoslav Republic of Macedonia and Turkey has been introduced. Regarding the pan-European system of origin, Bulgaria has agreed to the amendments to the system which will come into force in January 2001. For the system to be complete, Bulgaria needs to sign free trade agreements with Estonia, Latvia and Lithuania.

Concerning **administrative and operational capacity**, some progress has been made. The amendments to the Customs Act include the transformation of customs into an agency (Bulgarian Customs Agency) acting under the Minister of Finance. It has about 3800 employees on three levels, central, regional and local. Also, progress has been made on the use of information technology in particular as concerns computerised handling of documents, where the Bulgarian Integrated Customs Information System now covers a substantial part of the document turnover of the administration. Project planning to introduce a system which is EC compatible was done during the first half of 2000. Training of customs officers is progressing and the network of customs laboratories is being expanded. Corruption in Bulgarian Customs remains a widespread problem. The customs service has taken some steps to combat corruption. A project has been started to fight against corruption in the Bulgarian Customs Administration (**see Chapter 24 on Justice and Home Affairs**). In relation to border management, efforts have focused in particular on improving the facilities at Sofia Airport to improve monitoring and security checks and work on a strategy to rationalise national border posts in line with the requirements of EU membership.
Overall assessment

As mentioned in the last Regular Report, Bulgarian legislation is in large part identical to the Community Customs Code so a high degree of legislative alignment has already been achieved. Some further adaptation is needed, for example in customs debts appeals procedures.

Regarding the customs *acquis* outside the Customs Code, Bulgaria has concluded customs co-operation agreements with Armenia, Austria, Azerbaijan, Greece, FYROM, Mongolia, Romania, Russia, Turkey, the United Kingdom, Yugoslavia and Ukraine. Bulgaria is member of the World Customs Organisation. Bulgaria is a contracting party to the TIR Convention (since 1978) and to eight Annexes to the Kyoto Convention. Since 1990 Bulgaria has been a member of the Convention on the Harmonised System. Since 1996, Bulgaria has applied the Combined Nomenclature, as required by the Europe Agreement. Bulgaria already applies the Single Administrative Document (SAD). In most areas of the *acquis* Bulgaria has achieved a considerable degree of legislative alignment, however in some areas, such as duty relief, legislation is only partially in line with the *acquis*.

The main problem for Bulgaria concerns the administrative capacity to implement the *acquis*. As acknowledged by the Bulgarian authorities, there are insufficient resources, remuneration is not adequate, co-operation with other law enforcement bodies needs to be improved, infrastructure at borders needs to be upgraded and equipment needs to be modernised. Major efforts are needed to stabilise the staffing situation. Issues of high staff turnover, lack of adequate training and the need to introduce ethics have to be tackled, in order to increase efficiency and ensure procedures are correctly carried out. Whilst work has begun to fight corruption, this remains a matter of considerable concern as mentioned in previous Reports. Whilst more needs to be done in the introduction of computerised systems, Bulgaria is successfully using the Asycuda system.

Chapter 26: External relations

As regards the *common commercial policy*, Bulgaria has further liberalised its trade with the Customs Tariff introduced in 2000. Trade with the EC has also been further liberalised on the basis of the Europe Agreement and a unilateral decision of the Bulgarian government of 20 February 2000 giving exemption from tariff duties for 143 tariff headings covering imports in particular of industrial goods originating in the EC and EFTA needed by investors. The negotiation of the additional concessions in agricultural trade also concluded successfully and negotiations on a new wine agreement are progressing. The Bulgarian authorities are aware of the differences in the preferential treatment principles used by Bulgaria and the EC, and they are currently reviewing these differences with a view to adopting the EC GSP on accession.

Bulgaria’s tariffs currently average 15.1% on all products, 24.4% on agricultural products, 13.5% on fishery products and 12.6% on industrial products. By comparison, EC tariffs currently stand at 5.3% on all products, 9.4% on agricultural products, 12.4% on fishery products and 4.2% on industrial products.

With a view to the new round of WTO negotiations, close co-operation is taking place in order to co-ordinate standpoints with a view to ensuring convergence with the EU’s commercial policy. To this end the EU and Bulgaria have established a framework for
co-operation regarding WTO issues both at ministerial and at departmental level and Bulgaria has been supportive of EU policies and positions within the WTO framework. Bulgaria is at present an observer to the plurilateral Agreement on Government Procurement and has presented an offer on GPA. It is also preparing its accession to the Information Technology Agreement within the WTO. The EU and Bulgaria have established a framework for co-operation regarding WTO issues both at ministerial and departmental level. As regards the new round, Bulgaria concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in agenda would be less substantial in its absence.

Concerning arms export control, existing legislation needs to be revised to ensure tighter controls on trade in arms and clearer division of responsibilities between institutions to eliminate potential sources of conflict of interest. Proposals to amend and supplement the Foreign Trade in Arms and in Potential Dual-Use Goods and Technologies Act have completed the first reading in the National Assembly. The revision of the legislative framework is intended to tighten controls in both licensing arms-trading companies and clearing individual transactions.

As regards bilateral agreements with third countries, in July Bulgaria requested consultations in accordance with the Europe Agreement on the possible establishment of a Free Trade Agreement between Bulgaria and Croatia. It has also requested consultations concerning its negotiations on a Free Trade Agreement with Israel. Bulgaria has a Free Trade Agreement with FYROM, which entered into force on 1 January 2000. In April 2000, Bulgaria finalised expert level talks on an FTA with Lithuania. It is conducting negotiations with Estonia, Latvia and Morocco. Adoption of a schedule for aligning all bilateral agreements concluded by Bulgaria with the acquis is a priority of Bulgaria’s NPAA.

Within CEFTA, the member countries, including Bulgaria, signed the Additional Protocol No. 8 on the updated version of the Pan-European cumulation of origin of goods.

Overall assessment

Bulgaria’s progress over the reporting period has been generally good, particularly as far as negotiation and signature of bilateral FTAs with EC preferential partners is concerned. It is noteworthy that Bulgaria is conducting a review of all bilateral agreements with a view to bringing them into compliance with the acquis. Bulgaria has concluded an FTA with FYROM which entered into force on 1 January 2000. Bulgaria is a member of CEFTA and is in the process of conducting negotiations for free trade agreements with Lithuania, Latvia, Estonia, Israel and Morocco. Further progress will be necessary to achieve full alignment with the EC’s international trade obligations. Bulgaria should keep the Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

The progress made in the area of arms export control in both legislative improvement and implementation has been insufficient.

As regards the WTO Agreement on Trade in Textiles and Clothing, Bulgaria needs to use the third stage of integration under the ATC to align its integration programmes on those of the EC, while notably avoiding integrating products not yet integrated by the EC. As
concerns alignment with EU policy within the WTO, Bulgaria should join the two plurilateral agreements on Government Procurement and Civil Aircraft upon accession.

Attention should be paid to the importance of co-operation to ensure the alignment of Bulgaria’s GATS commitments with the EC commitments and MFN exemptions.

Where medium and long-term export credits are granted, further alignment to the *acquis* is necessary.

Bulgaria’s alignment with and future participation in the Common Commercial Policy is administered by the Ministry of the Economy (Multilateral Trade Policy Directorate), the Ministry of Foreign Affairs and the Export Insurance Agency. Co-ordination on issues relating to EU membership is ensured through the Working Group on External Relations, which is part of Bulgaria’s co-ordination mechanism for EU integration. Following a restructuring of ministries, this group is now chaired by the Ministry of Economy. Bulgaria has sufficient resources of good quality in this area including expertise in WTO and Common Commercial Policy issues. Co-ordination between the institutions has improved since the last Report. However, one area where administrative capacity is insufficient is capacity to ensure control of arms exports. Whilst authorities have stated their intention to increase staff and create a special agency for export control, this has not taken place and there is no clear timetable for the establishment of the new agency.

Administrative infrastructure, which needs to be in place as regards customs services, is addressed under the chapter relating to the Customs Union (*Chapter 25 – Customs Union*). Decisions on development and humanitarian aid are made by the Council of Ministers. At this stage no specific issues are to be highlighted in terms of administrative capacity over and above the analysis presented above in this report (*Section B.1.1. – Democracy and the rule of law – The executive*).

**Chapter 27: Common foreign and security policy**

The regular *political dialogue* established by the Europe Agreement is proceeding smoothly and Bulgaria continues to orient its foreign and security policy towards the Union. It continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Bulgaria has shown a keen interest in the development of ESDP (European Security and Defence Policy) as part of CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards *alignment with EU statements and declarations*, Bulgaria has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union’s joint actions and common positions. During the course of 1999 Bulgaria associated itself, together with the other CEECs, with a joint action of the EU concerning the contribution of the EU to the fight against accumulation and the destabilising proliferation of lightweight and small calibre firearms.

Bulgaria continues to play a positive role in all efforts for enhanced co-operation in South Eastern Europe; it was also a major supporter of EU policy in this region and an active participant in the Stability Pact.
Following the Kosovo crisis, Bulgaria has participated in the international police force of the UN civil administration by sending 48 police observers. Since February 2000, a Bulgarian Unit has been deployed within the Dutch KFOR contingent. In addition, Bulgaria provided assistance to FYROM through setting up and fully financing a refugee camp in Radusha.

Bulgaria has been an active participant in the Stability Pact from its start, presenting a number of projects. With the support of the Pact, agreement was reached between Bulgaria and Romania to build a second bridge between these countries across the Danube.

Bulgaria’s activities have not been limited to support for EU activities in the region and its active policy which aims at strengthening mutual confidence, security and stability in the region and developing all forms of regional co-operation has continued. Bulgaria’s own initiatives in the region included a second meeting of Prime Ministers of countries bordering on the FRY, in which the Secretary General/High Representative of the EU for CFSP, the Special Co-ordinator of the Stability Pact and NATO Secretary-General participated. Bulgaria remains an active participant in existing regional co-operation initiatives such as the Southeast European Co-operation Initiative (SECI), the Royaumont process for good-neighbourly relations and stability, BSEC, CEI, and CEFTA.

Concerning relations with neighbouring countries, Bulgaria is also active in bi- and trilateral co-operation and enjoys good or excellent relations with all its neighbours. Trilateral co-operation has involved Bulgaria-FYROM-Albania; Bulgaria-Greece-Turkey; Bulgaria-Turkey-Romania, and Bulgaria-Greece-Romania.

Regarding arms exports, Bulgaria has adhered to the EU Code of Conduct on Arms Exports, but there is concern that Bulgaria needs to make more effort to ensure respect for sanctions and weapons exports to conflict zones (see also Chapter 26 on External Relations.)

**Overall assessment**

Bulgaria’s overall progress in alignment with the **acquis** in the CFSP is very good. It continues to contribute actively and with its own initiative to regional stability and also to develop further the good or excellent relations with FYROM, Greece, Turkey and Romania.

As regards administrative capacity to implement the provisions relating to CFSP, Bulgaria’s capacity is satisfactory. The Ministry of Foreign Affairs, its staff and representative offices abroad as well as the broad range of relations with a large number of countries around the world mean that Bulgaria is already an active participant in this area of policy.

**Chapter 28: Financial control**

Significant progress has been achieved since the last Report, particularly in the legislative domain.
Bulgaria has partially met the 1999 Accession Partnership short-term priorities relating to the completion of the legislative framework and strengthening of internal financial control and independent external audit.

As regards **public internal financial control**, the Ministry of Finance produced a policy paper on the future development of internal financial control in February 2000. This embodied a number of key principles including proper internal audit mechanisms in line ministries and other government spending centres, the possibility of ex ante control, a central role for State Financial Control in the Ministry of Finance in harmonising audit and control methodologies, and functional independence of internal audit. On the basis of this policy paper, a new law on public internal financial control was prepared and was adopted in October 2000.

As regards **external audit**, the National Audit Office has continued to implement the Strategic Development Plan drawn up in 1998. A new National Audit Office law was prepared in consultation with the European Court of Auditors to harmonise the legal framework with EU practice and improve audit quality in conformity with INTOSAI standards, and sent to the National Assembly but it has been withdrawn by the Prime Minister for further amendments to reinforce the role of the NAO in legal aspects of accounting, economic, financial and banking matters. The main challenges remain to continue strengthening the professionalism of the National Audit Office and ensure smooth implementation of the new legislative framework.

Working relations between State Financial Control and the National Audit Office have improved, following the clearer definition of their respective roles in the new legislation.

**Overall assessment**

There has been considerable progress over the past year in strengthening the policy and legislative framework for public sector internal financial control and external audit. These achievements now need to be followed up by a prolonged and determined effort to implement the new framework, and establish the authority and institutional capacity of both State Financial Control and the National Audit Office.

Public internal financial control is performed by State Financial Control, which will be part of but functionally independent from the Ministry of Finance, and internal audit units in line ministries and other government spending centres. Independent public external audit is performed by the National Audit Office, which has a court-type structure with collegiate decision-making procedures.

The main challenge will now be to implement the new legislative framework. The priorities include developing secondary legislation and implementing regulations, organising internal audit services in line ministries and other government spending centres, introducing adequate ex ante control mechanisms, establishing a central capacity for setting audit and control methodologies, and improving the arrangements for auditing and controlling use of EC funds. The present practice of financing the State Financial Control partly out of funds recovered as a result of control and audit findings needs to be reviewed since such funding risks infringing on the functional independence of the State Financial Control. These activities will need to be supported with a substantial investment in training the staff of State Financial Control and audit bodies in line ministries.
Chapter 29: Financial and budgetary provisions

Bulgaria has made some progress in this area since the last Regular Report in particular as regards the national budget and EC co-financed measures. Work done on budgetary reform, in close co-operation with the European Commission and the IMF, is aimed at improving the structure of the state budget, enhancing the budget preparation and execution process, and strengthening reporting and control functions.

A single account treasury system has been adopted, which is planned to cover all budgetary and extra-budgetary accounts by 2003. A strategy for managing government debt has also been adopted. A new financial management information system is being set up. The Ministry of Finance has completed an internal reorganisation.

Responsibility for the management of EC funds rests with the National Fund in the Ministry of Finance. Arrangements are being made to strengthen the capacity and effectiveness of the National Fund, as well as the Central Finance and Contracts Unit that is responsible for tendering and contracting out a large proportion of Phare assistance.

Overall assessment

Whilst Bulgaria has made some progress in this area, considerable further efforts will be required. The ongoing reform of the budgetary system should allow the basic legislation, procedures and instruments required for managing public expenditure to be established in line with EC standards. This reform should be fully implemented across all budget entities. Fragmentation of budget preparation should be reduced, a multi-year budgeting approach developed, top-down mechanisms for making budget decisions in a medium-term perspective strengthened, and procedures for monitoring and evaluating programmes improved, including programmes supported by EC funds. The restructuring of the Ministry of Finance should be completed, with a particular emphasis on training of staff and developing the Ministry's capacity for strategic public expenditure management. In relation to Own Resources, there will be a need for adequate central coordination for the proper collection, monitoring and payment of funds to and from the EC budget. In addition, administrative capacity will have to be strengthened in the context of the relevant policy areas described elsewhere in this Report, such as agriculture, customs and regional policy.

3.2. Translation of the acquis into the national language

Applicant countries are required to translate the various legal texts constituting the acquis into their national languages by the time of their accession. The acquis, consisting of primary and secondary binding legislation, represents at present a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central Europe.

In Bulgaria, a Central Translation Unit was created in 1997 within the Ministry of Justice and Legal European Integration. A strategy on the priorities of translation of the acquis in the process of accession to the EU has been elaborated. This strategy provides four stages of translation: first translation, linguistic revision, legal revision and final revision.
For primary legislation, as at 15 June 2000, the following Treaties had been translated: Treaty Establishing the European Community, Treaty on European Union, Treaty Establishing the European Coal and Steel Community and EURATOM.

Of the secondary legislation, 10,646 pages of the Official Journal have been translated, 2,500 of these fully revised. It is a priority to translate a further 6,000 pages by the end of 2000. The Central Translation Unit is continuing the revision of the already translated texts.

According to the strategy, by 2001, a minimum of 17,000 pages of the OJ will be translated each year.

Further efforts are required in this area.

3.3. General evaluation

Since the last Regular Report, Bulgaria has maintained a good pace of alignment of legislation with the acquis but needs to pay more attention to how this will be implemented and enforced. Progress on public administration reform, in particular to implement the Civil Service law, is a positive sign. However, very little has been done to upgrade the judicial system, which remains weak and needs to be strengthened, in particular to ensure future effective participation in the internal market.

Regarding the internal market, Bulgaria has made further progress in most areas. In particular in free movement of goods, progress has been made in standardisation to introduce the New and Global Approach principles. Bulgaria has made good progress in liberalisation of movement of capital with the adoption of laws on foreign exchange and securities. Nevertheless, the poor functioning of the land market remains an obstacle for potential investors. Substantial progress has been made on legal alignment of industrial property rights. Good further progress has also been made in consumer protection and statistics. However, further efforts will be needed in the area of data protection, where Bulgaria lacks a framework compatible with the acquis. State aids remain a matter of concern and Bulgaria is still only starting to develop and implement a legal framework in this field, an issue that needs to be addressed as a matter of priority. Bulgaria’s progress to achieve a substantial degree of alignment on the audio-visual acquis can be commended.

In agriculture, Bulgaria has made significant progress in approximation of legislation and some progress on implementation, but as mentioned last year, this remains problematic partly due to lack of funding. Further work is needed on veterinary inspection. Bulgaria has made good progress for the start of the SAPARD programme where it has moved swiftly towards accreditation for its paying agency. Concerning regional policy, Bulgaria has adopted a new territorial organisation, for six planning regions corresponding to level II statistical units. However, more attention needs to be paid to co-ordination and implementation both at national and regional levels. Bulgaria has achieved further progress in terms of transposition of the EC environmental acquis and for the preparation of the implementation of EC environmental directives.

Progress in transport has accelerated compared to previous years. Steps have been taken in all sectors and work has started on maritime safety. The long-standing issue of a second bridge across the Danube to Romania has been resolved with an agreement between Bulgaria and Romania in February 2000.
The restructuring of the energy sector has gained momentum during 2000. Particular attention must be drawn to nuclear safety. The commitments for early closure of Kozloduy Units 1 to 4 made by the Bulgarian Government in the Understanding of November 1999 mark an important step forward in Bulgaria’s pre-accession course.

In justice and home affairs, further progress has been made on legislation and there has been more focus on implementation. Further resources and investment in modern equipment will be needed to ensure success.

In general, the capacity of the Bulgarian administration and judicial system to ensure application of the acquis is still limited. Efforts are focussed on preparation and adoption of legislation with insufficient attention on how this will be implemented and enforced. This means that in areas where an adequate legal framework has been adopted, implementation and enforcement of laws remains poor because of weak administrative and judicial capacity and lack of preparation for implementation.

Bulgaria has fulfilled partially the large majority of short-term Accession Partnership priorities relating to the acquis. Concerning administrative capacity, Bulgaria has advanced on priorities with the exception of those on building the capacity to assess the financial and institutional impact of new legislation and on strengthening the judiciary, where little progress has been made.

Bulgaria has already started to address some of the medium-term Accession Partnership priorities.
C. Conclusion

Bulgaria continues to fulfil the Copenhagen political criteria.

Bulgaria has made progress in adopting secondary legislation necessary to implement the Civil Service Law, and also to implement this. The adoption of the Child Protection Act in June 2000, which creates a State Agency for Child Protection, is another positive step forward.

However, very little has been done to upgrade the judiciary, which remains weak. Also corruption continues to be a very serious problem and a global, transparent anti-corruption strategy with overt backing from government and parliament would be of benefit. Since the adoption of the framework programme for the integration of Roma last year, some progress has been made but the administrative capacity of the National Council on Ethnic and Demographic Issues to implement the programme remains low, and the limited financial means allocated for implementation make effective performance of its task difficult.

Major efforts are needed to develop a strong, independent, effective and professional judicial system. The fight against corruption needs to be strengthened. In line with the short-term Accession Partnership priority on Roma, further concrete actions and adequate financial resources are still required.

Bulgaria has clearly made further progress towards becoming a functioning market economy. It is not yet able to cope with competitive pressure and market forces within the Union in the medium term.

Bulgaria is establishing a satisfactory track record of macroeconomic stabilisation and performance. Good progress has been made in privatisation, especially as regards banks, and a major reform of health and pension systems has begun.

However, structural reforms still need to be taken further and enterprise restructuring needs to be advanced. Financial intermediation continues to be weak, and much remains to be done in areas such as the functioning of the land market, or the enforcement of bankruptcy cases.

Measures to address the weaknesses in the implementation and enforcement of the legal and regulatory framework need to be taken to improve the business climate. Bureaucratic barriers to foreign and local enterprise creation must be eliminated. A sustained implementation of the existing reform programme and higher levels of investment are key requirements for continued growth, developing the enterprise sector, and building up competitiveness.

Since the last Regular Report, Bulgaria has maintained a good pace of alignment of legislation with the acquis but needs to pay more attention to how this will be implemented and enforced. Progress on public administration reform, in particular to implement the Civil Service law, is a positive sign. However, very little has been done to upgrade the judicial system, which remains weak and needs to be strengthened, in particular to ensure future effective participation in the internal market.
Regarding the *internal market*, Bulgaria has made further progress in most areas. In particular in free movement of goods, progress has been made in standardisation to introduce the New and Global Approach principles. Bulgaria has made good progress in liberalisation of movement of capital with the adoption of laws on foreign exchange and securities. Nevertheless, the poor functioning of the land market remains an obstacle for potential investors. Substantial progress has been made on legal alignment of industrial property rights. Good further progress has also been made in consumer protection and statistics. However, further efforts will be needed in the area of data protection, where Bulgaria lacks a framework compatible with the *acquis*. State aids remain a matter of concern and Bulgaria is still only starting to develop and implement a legal framework in this field, an issue that needs to be addressed as a matter of priority. Bulgaria’s progress to achieve a substantial degree of alignment on the audio-visual *acquis* can be commended.

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In justice and home affairs, further progress has been made on legislation and there has been more focus on implementation. Further resources and investment in modern equipment will be needed to ensure success.

In general, the capacity of the Bulgarian administration and judicial system to ensure application of the *acquis* is still limited. Efforts are focussed on preparation and adoption of legislation with insufficient attention on how this will be implemented and enforced. This means that in areas where an adequate legal framework has been adopted, implementation and enforcement of laws remains poor because of weak administrative and judicial capacity and lack of preparation for implementation.

Bulgaria has fulfilled partially the large majority of short-term Accession Partnership priorities relating to the *acquis*. Concerning administrative capacity, Bulgaria has advanced on priorities with the exception of those on building the capacity to assess the financial and institutional impact of new legislation and on strengthening the judiciary, where little progress has been made.
Bulgaria has already started to address some of the medium-term Accession Partnership priorities.
D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission’s regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership’s priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership\(^{16}\) highlighted in *italics*.

*Short-term priorities*

**Political criteria:** Some progress has been made to *start implementation of the Roma Framework Programme*, for example appointment of Roma experts to Ministries and regional centres as experts on ethnic and demographic issues. However, concerning *strengthening the National Council on Ethnic and Demographic Issues including provision of necessary financial support*, the administrative capacity of the NCEDI to implement the programme remains low and the lack of financial means allocated for its implementation make effective performance of its task difficult. Very little progress has been made to *implement measures aimed at fighting discrimination (including within the public administration) and foster employment opportunities*; work on a programme against youth unemployment which includes recruiting 50 young Roma into the Police is the main development. **This priority has been partially met.**

**Economic criteria:** Privatisation has not always brought with it the necessary *market-based enterprise restructuring to promote competitiveness*. Whilst some measures have been taken to start to simplify the *business environment*, (e.g. abolishing some licensing regimes) and *stimulate domestic and inward investments*, considerable further efforts are needed to support *simplification of legal and administrative procedures*. Privatisation of *state owned enterprises and banks* has progressed but lack of *transparency* in the process remains a concern. Further progress is required to *improve bankruptcy and liquidation procedures and streamline implementation*, in particular the capacity of the court system needs to be improved. A restructuring plan for Kremikovtsi has been produced, but

Bulgaria has not adopted a restructuring plan for the steel sector or for other steel plants. **Therefore, this priority has been partially met.**

**Internal Market**

- The law on Public Procurement of June 1999 is already being amended to align public procurement procedures further with EC law. Concerning intellectual and industrial property rights, Bulgaria has made good progress in the fight against domestic CD piracy but needs to remain vigilant and ensure strict border control on imported goods. Industrial property rights were largely aligned with the acquis in 2000 with the adoption of a law on industrial designs. Bulgaria has not adopted national legislation and established a monitoring body on personal data protection; consultations are still underway. **This priority has been partially met.**

- Concerning free movement of goods, Bulgaria has adopted a framework law on technical requirements and a Standardisation Law. Administrative capacity to enforce the new law is rather weak. Bulgaria has also adopted the framework laws on chemicals, foodstuffs and pharmaceuticals. Progress has been made in free movement of capital to liberalise direct investment abroad and investment in foreign securities by residents. However, Bulgaria has not established a timetable for the liberalisation of the remaining restrictions on capital movements including acquisition of real estate. Concerning free movement of services, whilst good progress has been made to strengthen supervisory bodies in the banking sector, in insurance, progress has been slower. **This priority has been met to a large extent.**

- In competition whilst the new state aid report has been improved, there remain gaps in the secondary legislation on anti-trust, and there has been little progress in establishing a state aid inventory developing and implementing policies to control state aid. **This priority has been only partially met.**

- In the field of taxation, with the new VAT Act, Bulgaria has achieved alignment of VAT legislation to a large extent. In the field of excise duties, no further progress has been made and no timetable for alignment of excise duties has been developed. Although various initiatives have been taken recently to modernise the Bulgarian Tax administration and to improve tax collection system at national and regional level, the actual effect of these initiatives has yet to be seen. In Customs, whilst legislative alignment is progressing, efforts are needed as regards the strengthening of the administrative and operational capacity to ensure enforcement of the new Customs code. **These priorities have been partially met.**

**Agriculture**

- Bulgaria’s efforts to continue alignment of the veterinary and phytosanitary legislation have progressed. However, whilst work has started, much remains to be done to complete up-grading of inspection arrangements, in particular at future external borders. As concerns modernising meat and dairy plants to meet EC hygiene and public health standards, introduction of new regulations provide for 2-year transitional period to complete the introduction of veterinary/hygiene control requirements, which has already led to the closure of many processing companies. However, investments in modernisation have not yet started. Checks by the National Veterinary Services are underway. A project to establish a vineyard register for some regions has not yet started. **This priority has been partially met.**

**Energy**
• Whilst a slow start was made, progress to implement the energy law and adopt related secondary legislation; to prepare legislation by sector and related reform plans (electricity and gas) and strengthen the regulatory bodies is underway. As concerns the establishment of a price and tariff structure leading to cost based and transparent energy prices, work has begun, with the objective of full price liberalisation by the end of 2001. Implementation of the energy strategy has started, however no progress has been made to revise energy demand forecasts on the basis of more realistic growth and energy intensity scenarios. With the Understanding reached on Kozloduy, a realistic timetable for closure and decommissioning of units 1 and 2 of Kozloduy Nuclear Power Plant was adopted and since then work has started for its implementation. Also, with the said Understanding, the framework was set for the adoption of a realistic timetable for closure of units 3 and 4 of the same plant. Work is proceeding to continue strengthening the independence and technical capability of the nuclear safety authority. This priority has been partially met.

Transport

• With the adoption of the Law on Maritime Spaces, Inland Waterways and Ports, the framework for further alignment with the acquis on maritime transport, in particular to align legislation on maritime safety issues, has been laid. This priority has been partially met.

Employment and Social Affairs

• Social dialogue is still weak and little progress has been made to support social partners’ capacity-building efforts, notably in bipartite social dialogue, to develop and implement the acquis. Structures need to be strengthened particularly at enterprise level. Bulgaria has prepared a Joint Assessment Paper with the help of the Joint Employment Policy Review. With a view to later participation in the European Employment strategy, a National Action Plan on Employment 2000-2001 has been prepared. This priority has been partially met.

Environment

• Bulgaria has made progress to continue transposition of framework legislation in the water, air and waste sectors. Bulgaria needs to strengthen the administrative capacity of the Ministry of Environment and Water and further work is needed to strengthen implementation structures, particularly at the regional level. Progress has been made to complete transposition and enforce the Environmental Impact Assessment Directive with an amendment to the Regulation on the environmental impact assessment on activities that are not subject to mandatory EIA in December 1999. However this legislation does not fully transpose the requirements of the EC directive on EIA. Capacity to implement the requirements of the EIA Regulation according to EC practice has improved. This priority has been partially met.

Justice and Home Affairs

• Further progress has been made to ensure effective border management; the Border Police is in a process of professionalisation, modernisation of equipment and improvement of checkpoints is underway. This has led to an increase in the numbers of people caught attempting illegal immigration. As concerns implementing and enforcing a new legislative framework relating to migration and asylum procedures, Bulgaria’s Law on Refugees, criticised for not being in line with some basic
principles of the Geneva Convention, has not been amended, and the capacity of the Refugees Agency remains weak. Very little has been done to upgrade the judiciary, which remains weak. Methods of recruitment, inadequate training and equipment remain problems. Police and customs authorities reinforced their co-operation as regards the combat against drugs trafficking, however, in general the co-ordination between law-enforcement bodies needs improvement. Bulgaria has not developed a national strategy to combat corruption; the strategy of the government to combat corruption consists of a number of measures in different legal and administrative areas. Instructions to improve the internal rules of banks for control and prevention of money laundering have been developed. Bulgaria has signed but still needs to ratify the Council of Europe Criminal Law Convention on Corruption. Bulgaria has signed the OECD convention on bribery. Whilst progress has been made to meet some of the JHA priorities, those on strengthening the judiciary and developing a national strategy to combat corruption have not been met.

Reinforcement of administrative and judicial capacity, including the management and control of EC funds

- Concerning PHARE, and ISPA Bulgaria has further developed the National Development Plan and ISPA strategies for environment and transport have been drafted. Some progress has been made to adopt the legal, administrative and budgetary framework to programme and manage ISPA and SAPARD funds. Inter-ministerial co-ordination at national and regional levels remains a problem. A Rural Development Plan has been adopted. Bulgaria has made good progress for the start of the SAPARD programme where it has moved swiftly towards accreditation for its paying agency. This priority has been partially met.

- Good progress has been made to complete the legislative framework and strengthen internal and external financial control bodies. As regards internal financial control, the Ministry of Finance produced a policy paper embodying key principles such as clear separation of ex-ante control and approval and internal financial control, and functional independence of internal audit. A new law on public internal financial control has been adopted. This priority has been partially met.

- Bulgaria has made progress in adopting and implementing the secondary legislation necessary to implement the Civil Service Law. This priority has been partially met.

- Little progress has been made to strengthen the independence of magistrates, judges and the efficiency of the court system; Monitoring of the implementation of the government programme and the capacity to assess the financial and institutional impact of new legislation, in particular the effectiveness of laws when implemented and the assessment of the impact of laws still need to be strengthened. These priorities have not been met.

Medium-term priorities

This section covers those medium term priorities where a degree of progress has been made.

Internal Market

- Consumer protection: where Bulgaria has made considerable steps to continue alignment. Some progress to strengthen market surveillance and enforcement
authorities has been made but the administrative capacity, in particular the Commission on Trade and Consumer Protection, needs to be strengthened.

Agriculture

- Detailed feasibility studies on CAP management mechanisms under some of the key common market regulations (milk and dairy, fruit and vegetables and grain) are being prepared. These identify options and recommend plans for gradual introduction of the acquis communautaire and policy mechanisms, and ensure the administrative structures required for the effective implementation of the CMOs under the Common Agricultural Policy will be established. Bulgaria has continued to restructure the agri-food sector and closure of enterprises which do not meet the hygiene requirements is ongoing. Monitoring programmes to check the residues of harmful substances are in place. The National Veterinary Service has prepared a specific programme including training on the implementation of the quality control system (Hazard Analysis Critical Control Point) and implementation of some components of the programme has started.

Employment and social affairs

- As regards reinforcement of related administrative structures, a General Labour Inspectorate and regional inspectorates have been created.

Justice and home affairs

- Bulgaria has continued progressive alignment of visa legislation and practice with that of the EU through rescinded agreements on visa-free regimes with certain countries; signing readmission agreements and further consolidating measures to counter illegal migration, ensure improvements in visa issuing and passport control.

Reinforcement of administrative and judicial capacity, including the management and control of EC funds

- Bulgaria has substantially developed and improved the administrative organisation of the statistical system in the last year, which contributes to strengthening statistical capacities.

2. National Programme for the Adoption of the Acquis

The revised Bulgarian National Programme for the Adoption of the Acquis was adopted by the Council of Ministers on 27 April, 2000 and then presented to the Commission. The newly created Council on European Integration in the National Assembly will give its opinion on the legislative priorities in the NPAA and compliance of drafts with EC legislation.

The NPAA is an improvement on previous years. It covers political and economic criteria in more detail than previously. All chapters of the acquis are covered in line with negotiation chapters. The new format of separation into two volumes, one textual and the second of tables, leads to greater clarity. For each area, the textual part sets out the current situation, short- and medium-term priorities and expected results. The tables list measures then deadlines to achieve these, along with administrative structures, funding needed and sources (national budget, Phare, other). Whilst the tables are well structured, these are not always complete and where they are, the quality varies. The NPAA's content is generally consistent with commitments made by Bulgaria in other fora (e.g. Europe
Agreement meetings) and generally reflects Accession Partnership priorities and comments from the 1999 Regular Report.

Concerning links to provision of budgetary resources, this remains the main weakness of the text, a fact recognised by the Bulgarian authorities, who are planning to make a closer link between this and the preparation of the National budget. This will be important if the NPAA is to become a more valuable instrument for Bulgaria in co-ordinating its preparations for membership.

As concerns the sectors, whilst the NPAA covers the political criteria in more detail, there is considerable scope for improvement, in particular on the section on the judiciary and minority rights. Regarding the acquis, there is a general improvement in quality in areas such as transport, employment, the internal market, culture and audio-visual policy, trade and CFSP, however, areas such as competition are weak.
Annexes
### Human Rights Conventions ratified by the Candidate Countries, September 2000

<table>
<thead>
<tr>
<th>Parties to following conventions and protocols</th>
<th>BG</th>
<th>CY</th>
<th>CZ</th>
<th>EE</th>
<th>HU</th>
<th>LV</th>
<th>LT</th>
<th>MT</th>
<th>PL</th>
<th>RO</th>
<th>SK</th>
<th>SV</th>
<th>TK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECHR</strong> (European Convention on Human Rights)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Protocol 1 (right of property et al.)</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Protocol 4 (freedom movement et al.)</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td>Protocol 6 (death penalty)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>O</td>
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<tr>
<td>Protocol 7 (ne bis in idem)</td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>European Convention for the Prevention of Torture</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>European Social Charter</strong></td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>X</td>
<td>O</td>
<td>O</td>
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<td>X</td>
<td>X</td>
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<tr>
<td><strong>Revised European Social Charter</strong></td>
<td>X</td>
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<td>O</td>
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<td>O</td>
<td>O</td>
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<td>O</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Additional Protocol to the ESC (system of collective complaints)</td>
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<td>X</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
<td>O</td>
</tr>
<tr>
<td><strong>Framework Convention for National Minorities</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>X</td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>ICCPR</strong> (International Covenant on Civil and Political Rights)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Optional Protocol to the ICCPR (right of individual communication)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Second Optional Protocol to ICCPR (abolition death penalty)</td>
<td>X</td>
<td>X</td>
<td>O</td>
<td>O</td>
<td>X</td>
<td>O</td>
<td>O</td>
<td>X</td>
<td>O</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>O</td>
</tr>
<tr>
<td><strong>ICESCR</strong> (International Covenant on Economic, Social and Cultural Rights)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CAT</strong> (Convention against Torture)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CERD</strong> (Convention on the Elimination of All Forms of Racial Discrimination)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CEDAW</strong> (Convention on the Elimination of All Forms of Discrimination against Women)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CRC</strong> (Convention on the Right of the Child)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

X = Convention ratified  
O = Convention NOT ratified  

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey
### Statistical data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (average)</td>
<td>8.406</td>
<td>8.363</td>
<td>8.312</td>
<td>8.257</td>
<td>8.211</td>
</tr>
<tr>
<td>Total area</td>
<td>111.011</td>
<td>110.975</td>
<td>110.975</td>
<td>110.910</td>
<td>110.910</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>National accounts</th>
<th>Mio New Lev¹⁷</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product at current prices</td>
<td>880</td>
</tr>
<tr>
<td>Gross domestic product at current prices</td>
<td>10.0</td>
</tr>
<tr>
<td>Gross domestic product per capita¹⁸ at current prices</td>
<td>1.200</td>
</tr>
<tr>
<td>Gross domestic product at constant prices (nat. currency)</td>
<td>2.9</td>
</tr>
<tr>
<td>Gross domestic product at constant prices (nat. currency)</td>
<td>4.875</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure of production</th>
<th>in % of Gross Value Added²⁰</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Agriculture</td>
<td>:</td>
</tr>
<tr>
<td>- Industry (excluding construction)</td>
<td>:</td>
</tr>
<tr>
<td>- Construction</td>
<td>:</td>
</tr>
<tr>
<td>- Services</td>
<td>:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure of expenditure</th>
<th>as % of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Final consumption expenditure</td>
<td>86.0</td>
</tr>
<tr>
<td>- household and NPISH</td>
<td>70.7</td>
</tr>
<tr>
<td>- general government</td>
<td>15.3</td>
</tr>
<tr>
<td>- Gross fixed capital formation</td>
<td>15.3</td>
</tr>
<tr>
<td>- Stock variation²¹</td>
<td>0.3</td>
</tr>
<tr>
<td>- Exports of goods and services</td>
<td>44.7</td>
</tr>
<tr>
<td>- Imports of goods and services</td>
<td>46.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inflation rate</th>
<th>% change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer price index²²</td>
<td>62.1</td>
</tr>
</tbody>
</table>

¹⁷ Note that Bulgaria has rebased their currency in July 99, dividing it by 1000. The currency is now called “New Bulgarian Lev”.

¹⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁰ Including FISIM.

²¹ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

²² Changes in Methodology: PROXY HICP since 1997 (see methodological notes).
### Balance of payments

<table>
<thead>
<tr>
<th></th>
<th>In Mio ECU/euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Current account</td>
<td>-20 13 376 -55 -620</td>
</tr>
<tr>
<td>-Trade balance</td>
<td>93 148 335 -340 -998</td>
</tr>
<tr>
<td>Exports of goods</td>
<td>4,086 3,851 4,356 3,741 3,722</td>
</tr>
<tr>
<td>Imports of goods</td>
<td>3,994 3,704 4,020 4,080 4,721</td>
</tr>
<tr>
<td>-Net services</td>
<td>117 95 147 332 298</td>
</tr>
<tr>
<td>-Net income</td>
<td>-330 -312 -315 -253 -201</td>
</tr>
<tr>
<td>-of which: government transfers</td>
<td>11 29 114 53 64</td>
</tr>
<tr>
<td>- FDI (net) inflows</td>
<td>69 86 445 479 735</td>
</tr>
</tbody>
</table>

### Public finance

<table>
<thead>
<tr>
<th></th>
<th>in % of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government deficit/surplus</td>
<td>-5,1 -15,3 -0,3 1,3 0,2</td>
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### Financial indicators

<table>
<thead>
<tr>
<th></th>
<th>in % of Gross Domestic Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross foreign debt of the whole economy</td>
<td>85,0 106,2 102,6 73,1 79,8 E</td>
</tr>
<tr>
<td>as % of exports</td>
<td></td>
</tr>
<tr>
<td>Gross foreign debt of the whole economy</td>
<td>190,4 168,9 165,7 161,8 180,7 E</td>
</tr>
<tr>
<td>Monetary aggregates</td>
<td></td>
</tr>
<tr>
<td>- M1</td>
<td>1,2 0,4 1,1 1,4 1,5</td>
</tr>
<tr>
<td>- M2</td>
<td>6,1 2,0 2,8 3,2 3,5</td>
</tr>
<tr>
<td>Total credit</td>
<td>6,8 3,3 2,6 2,2 2,2</td>
</tr>
<tr>
<td>Average short-term interest rates</td>
<td></td>
</tr>
<tr>
<td>- Lending rate</td>
<td>59,0 123,5 84,0 13,3 12,8</td>
</tr>
<tr>
<td>- Deposit rate</td>
<td>35,9 74,7 46,8 3,0 3,2</td>
</tr>
<tr>
<td>ECU exchange rates</td>
<td></td>
</tr>
<tr>
<td>- Average of period</td>
<td>0,088 0,225 1,902 1,969 1,956</td>
</tr>
<tr>
<td>- End of period</td>
<td>0,093 0,611 1,976 1,956 1,956</td>
</tr>
<tr>
<td>1995=100</td>
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<tr>
<td>- Effective exchange rate index</td>
<td>100 56,9 5,6 5,4 5,8</td>
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### Reserve assets

<table>
<thead>
<tr>
<th></th>
<th>Mio ECU/euro</th>
</tr>
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<tr>
<td>-Reserve assets (including gold)</td>
<td>1,244 690 2,257 2,615 3,234</td>
</tr>
<tr>
<td>-Reserve assets (excluding gold)</td>
<td>941 386 1,986 2,361 2,943</td>
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### External trade

<table>
<thead>
<tr>
<th></th>
<th>Mio ECU/euro</th>
</tr>
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<tbody>
<tr>
<td>Trade balance</td>
<td>-232 -143 7 -636 -1,401</td>
</tr>
<tr>
<td>Exports</td>
<td>4,093 3,819 4,355 3,847 3,697 P</td>
</tr>
<tr>
<td>Imports</td>
<td>4,325 3,962 4,348 4,483 5,098 P</td>
</tr>
<tr>
<td>previous year=100</td>
<td></td>
</tr>
<tr>
<td>Terms of trade</td>
<td>97,6 : : : :</td>
</tr>
<tr>
<td>as % of total</td>
<td></td>
</tr>
<tr>
<td>Exports with EC-15</td>
<td>37,6 39,1 43,2 49,6 52,6</td>
</tr>
<tr>
<td>Imports with EC-15</td>
<td>37,2 35,1 37,7 44,9 48,6</td>
</tr>
<tr>
<td>Demography</td>
<td>per 1000 of population</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Natural growth rate</td>
<td>-5.0</td>
</tr>
<tr>
<td>Net migration rate (including corrections)</td>
<td></td>
</tr>
<tr>
<td>Infant mortality rate</td>
<td>14.8</td>
</tr>
<tr>
<td>Life expectancy(^{23})</td>
<td></td>
</tr>
<tr>
<td>Males:</td>
<td>67.1</td>
</tr>
<tr>
<td>Females:</td>
<td>74.6</td>
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<table>
<thead>
<tr>
<th>Labour market (ILO methodology)</th>
<th>% of labour force</th>
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<tbody>
<tr>
<td>Economic activity rate</td>
<td>51.5</td>
</tr>
<tr>
<td>Unemployment rate, total</td>
<td>14.7</td>
</tr>
<tr>
<td>Unemployment rate of persons &lt; 25 years</td>
<td>37.7</td>
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<tr>
<td>Unemployment rate of persons &gt;= 25 years</td>
<td>11.6</td>
</tr>
<tr>
<td>Average employment by NACE branches</td>
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<tr>
<td>- Agriculture and forestry</td>
<td>24.4</td>
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<tr>
<td>- Industry (excluding construction)</td>
<td>27.3</td>
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<tr>
<td>- Construction</td>
<td>5.4</td>
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<td>- Services</td>
<td>42.9</td>
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<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>in km per 1000 km(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway network</td>
<td>38.7</td>
</tr>
<tr>
<td>Length of motorways</td>
<td>314</td>
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<table>
<thead>
<tr>
<th>Industry and agriculture</th>
<th>previous year=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production volume indices</td>
<td>100.0</td>
</tr>
<tr>
<td>Gross agricultural production volume indices</td>
<td>116.0</td>
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</table>

<table>
<thead>
<tr>
<th>Standard of living</th>
<th>per 1000 inhabitants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cars</td>
<td>196.0</td>
</tr>
<tr>
<td>Telephone subscribers</td>
<td>361</td>
</tr>
<tr>
<td>Number of Internet connections(^{24})</td>
<td></td>
</tr>
</tbody>
</table>

\(^{P}\)=provisional figures  \(^{E}\)= estimates

\(^{23}\) The life expectancy data are compiled on the basis of a survey carried out with three-years periodicity.

Methodological Notes

Inflation

*Consumer price inflation:* EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, as part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs which are based on national CPIs but adapted to the HICP coverage. The data in the table are these proxy HICPs. Reliable and comparable HICPs are expected to be available in CCs from January 2001 onwards.

Finance

**Note on sources:**

*General government deficit / surplus:* Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF’s Government Finance Statistics Yearbook (see explanation below).

*Gross foreign debt:* the OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

*Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates:* where possible, Eurostat’s reporting form for Candidate Countries is used. Failing this, the IMF’s ‘International Financial Statistics’ publication has been used as the source.

*Exchange rates against the ECU (euro):* European Commission data is used for ECU rates, European Central Bank data for euro rates.

**Note on methodology:**

*General government deficit / surplus:* approximation of the national accounts definition, derived from data based on the IMF’s GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

*Gross foreign debt:* of the whole economy; includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

*Monetary aggregates:* end-year stock data. M1 refers to notes and coin in circulation plus bank sight deposits. M2 refers to M1 plus savings deposits plus other short-term claims on banks. Total credit refers to domestic credit to the government (net of deposits,
including non-financial public enterprises), plus the private non-financial sector, plus
other non-monetary financial institutions.

**Interest rates:** annual average rates. Lending rates consist of the average rate charged on
loans granted by reporting banks. Deposit rates refer to average demand and time deposit
rates.

**Exchange rates:** ECU exchange rates are those that were officially notified to the
European Commission until 1 January 1999, when the ECU was replaced by the euro.
Euro exchange rates are reference rates of the European Central Bank, where available.
The effective exchange rate index (nominal) is weighted by major trading partners, and
calculated on a base period of 1995 (annual average).

**Reserve assets:** end-year stock data. They are defined as the sum of central bank holdings
of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at
end-year market price.

**External trade**

**Imports and exports (current prices):** data is based upon the special trade system,
according to which external trade comprises goods crossing the customs border of the
country. Trade data excludes direct re-exports and trade in services and trade with
customs free zones as well as licences, know-how and patents. Value of external trade
turnover includes the market value of the goods and the additional costs (freight,
insurance, etc.). The term FOB refers to all costs incurred in the course of transport up to
the customs frontier are charged to the seller. The term CIF means that the purchaser pays
the additional costs. Exports are recorded here on FOB basis. Imports are recorded on
CIF basis.

**Trade Classifications:** merchandise trade flows are recorded according to Combined
Nomenclature (CN) and the Single Administrative Document (SAD).

**Terms of trade:** external trade price indices. Up to 1994, indices are calculated from the
sample of commodities consisting of all export and import for final use only, excluding
special consignment, processing and re-exports. Since 1995, the price indices have been
calculated by "unit value" method using Laspeyre’s formula.

**Imports and exports with EC-15:** data declared by Bulgaria.

**Demography**

**Net migration rate:** crude rate of net migration (recalculated by EUROSTAT) for year X, is:
{population (X+1) - population (X) - Deaths (X) + Births (X)}. This assumes that any
change in population not attributable to births and deaths is attributable to migration.
This indicator includes therefore also administrative corrections (and projection errors if
the total population is based on estimates and the births and deaths on registers). Figures
are in this case more consistent. Further, most of the difference between the crude rate of
net migration provided by a country and the one calculated by Eurostat is caused by an
underreporting or delay in reporting of migration.

**Labour force**

**Economic activity rate (ILO Methodology):** according to the Labour Force Survey (LFS),
the economic activity rate represents the labour force as a percentage of population at
working age (15 years or more), where:
- Labour force: employed and unemployed persons (according to the ILO definitions).

- 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, and members of co-operatives or contributing family workers. Members of armed forces and women on full-paid 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:

  have no work,
  are actively seeking a job and,
  are ready to take up a job within a fortnight.

*Unemployment rate (by ILO methodology)* The data by ILO methodology are for October 1994, October 1995, November 1996, November 1997, November 1998 and November 1999. Conscripts on compulsory military services and persons, attending military school are not considered as persons in the labour force. Also considered as not in the labour force are persons on partially paid or unpaid maternity leave.

*Average employment by NACE branches:* data are not derived from LFS.

**Infrastructure**

*Railway network:* all railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

*Length of motorway:* road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

(a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;

(b) does not cross at level with any road, railway or tramway track, or footpath;

(c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

**Industry and agriculture.**

*Industrial production volume indices:* industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

The index of annual industrial production is based on the exhaustive survey of enterprises (public and private) assigned to industrial sector.

*Gross agricultural production volume indices:* data is based on SNA methodology.
Standard of living

Number of cars: passenger car, road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Sources

Total area, external trade, labour market, infrastructure, demography, industry and agriculture, standard of living (except Internet connections): National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.