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**2001**

**REGULAR REPORT**

**ON**

**BULGARIA'S**

**PROGRESS TOWARDS ACCESSION**

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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, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular Report. 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 standards, 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 emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. 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 Gothenburg European Council 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 and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, 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, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of Bulgaria's economic performance.

The Report contains a separate section examining the extent to which Bulgaria has addressed the Accession Partnership priorities.

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 of each country in terms of its 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<sup>1</sup>, have served as additional sources. Council deliberations and European Parliament reports and resolutions<sup>2</sup> 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.

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<sup>1</sup> As in previous years, the Report does not mention any commitments undertaken or requests made in the context of the accession negotiations.

<sup>2</sup> For the European Parliament the *rapporteur* is Mr Geoffrey van Orden.

## **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 10 October 2000. An Association Committee meeting was held on 4 October 2001. 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 three times, in November 2000, and March and October 2001. The Joint Consultative Economic and Social Committee met in November 2000, and March and November 2001.

The share of the European Community in Bulgaria's overall foreign trade dropped from 52.1 % of all exports in 1999 to 51.1% in 2000. The share of the European Community dropped from 48.4% of all imports in 1999 to 44.0% in 2000. Bulgaria's main exports to the Community were base metals, textiles and machinery, its main imports from the EC were machinery, textiles and chemical products.

Regarding agricultural products, a new agreement on reciprocal concessions with Bulgaria entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. As a consequence of this agreement, approximately 66 % of traditional EC agricultural imports from Bulgaria are duty-free while 51 % of EC agricultural exports to Bulgaria is exempted from duties. A second round of bilateral negotiations for trade liberalisation is presently being prepared and would cover more sensitive sectors, in which current trade is low, in particular due to a high degree of tariff protection.

The previous bilateral wine agreement between the Community and Bulgaria expired on 31 December 2000. In November 2000, conclusions were reached in negotiations for a wine and spirits agreement involving trade concessions and the mutual protection of wine names and spirit designations. The trade provisions were applied as from 1 January 2001 as autonomous trade measures pending the adoption of the new agreements as an Additional Protocol to the Europe Agreement.

For processed agricultural products, negotiations have been concluded at technical level and are being discussed in the Council.

Negotiations regarding a free trade agreement on fish and fisheries products are still ongoing.

An anti-dumping complaint relating to imports of urea was lodged in October 2000 against Bulgaria (among other countries). The investigation was concluded and a provisional price undertaking reached in July 2001. Definitive anti-dumping duties were imposed in September 2001 on imports of hardboard from Bulgaria (among other countries).

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

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in Part D. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.



In June 2001, 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 of the Accession Partnerships (*see part D below*).

### *Community aid*

There are three **pre-accession instruments** financed by the European Community to assist the applicant countries of Central and Eastern Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

For the years 2000-2002 total indicative financial allocations to Bulgaria amount annually to € 100 million from Phare, €53 million from SAPARD, and between €83 and 125 million from ISPA.

In addition to its annual Phare allocation, Bulgaria receives additional Phare funding in the context of the understanding reached in November 1999 on early closure dates for units 1-4 of the Kozloduy nuclear power plant. The agreement foresaw additional Phare funding of €200 million over the period 2000-2007, subject to certain conditions being met. The funds are used for nuclear decommissioning and associated measures in the energy sector, and are largely managed by the EBRD.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition 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 and Eastern Europe with support for institution building (around one third of the Phare allocation), investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* (equally around one third of the allocation), and investment in economic and social cohesion (the remaining one-third of the Phare allocation). This support comprises co-financing for technical assistance, “twinning” and investment-support projects, to help these countries in their efforts to adopt the *acquis* and strengthen the 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 (investment or grant schemes) with a regional or thematic focus.

The **Phare** programme allocated to Bulgaria commitments of around €1000 million during the period 1990-1999 and €151 million in 2000<sup>3</sup>. The **2001 Phare Programme** for Bulgaria consists of an allocation of € 82.8 million for the National Programme, concentrated on the following priorities:

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<sup>3</sup> Commitments in both 2000 and 2001 were augmented by exceptional allocations from the Reserve, together with the special Phare funding for nuclear decommissioning and associated measures. The 2000 figure includes an allocation of €28 million to Cross-Border Co-operation (CBC) Programmes.

- Economic reform and the adoption and implementation of the *acquis*: projects to strengthen the central bank, encourage equity investment in medium-sized private sector enterprises, improve phytosanitary and veterinary control, raise fisheries standards, implement the Seveso environment directive, and strengthen maritime safety. (€11 million)
- Economic and social cohesion: investment projects focusing on SME and tourism sector development, labour market measures and social inclusion, and business-related infrastructure, and an institution building project to strengthen capacity to prepare ESF-type programmes. (€37 million)
- Strengthening public administration: projects for strategic policy-making and co-ordination, implementing civil service reform, developing a recruitment and training strategy for the judiciary, combating money laundering, streamlining bankruptcy proceedings, strengthening the national customs and refugee agencies, improving the quality of agricultural statistics, and strengthening the management of EC funds. (€15 million)
- Ethnic integration and civil society: projects for integrating the Roma population, ensuring ethnic minority access to health care, combating social exclusion, developing a self-sustaining and dynamic civil society, and raising professional standards in journalism. (€7 million)

An additional €28 million was allocated for cross-border co-operation programmes mainly concerning infrastructure projects on Bulgaria's borders with Greece and Romania. A further €70 million was allocated for nuclear decommissioning and associated measures using the special funds agreed in the context of the understanding on early closure dates for units 1-4 of the Kozloduy plant, plus €7 million from the Phare horizontal nuclear safety programme.

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

Bulgaria participates, or intends to participate, in the following Community programmes and agencies: Altener, Combating Cancer, Customs 2000, IDA II, e-Content, Enterprise and Entrepreneurship, Fiscalis, Gender Equality, Health Monitoring, Leonardo da Vinci II, Media Plus, Pollution-related Diseases, Prevention of AIDS, Save, Socrates II and Youth. Bulgaria is also included in the Fifth Framework Programmes for Research, Technological Development and Demonstration Activities. Phare helps meet part of the costs of participation in most of these programmes and agencies. In order to streamline Community legal procedures and thereby facilitate future participation of Bulgaria in Community programmes, a Decision is in the process of being adopted by the EU-Bulgaria Association Council establishing the general principles for such participation.

Following the ratification and entry into force of the agreement, the formal participation of Bulgaria in the European Environment Agency will start in January 2002.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as economic and structural reform, modernisation of public institutions, strengthening the judiciary and border control, adoption and implementation of the *acquis*, and important issues relating to social cohesion and the protection of vulnerable groups. Phare support to agriculture and SME development has helped in developing sector strategies and initiating necessary institutional and financial mechanisms for enterprises in these sectors.

Examples of successful Phare projects in Bulgaria include:

- Institutional strengthening of the border police was supported by a project under the 1999 Phare programme (€3 million). Using a combination of twinning assistance and investment in new equipment, the project has already contributed significantly to strengthening the police's capacity to monitor and guard Bulgaria's borders.
- Harmonisation of customs legislation was supported by a project under the 1998 Phare programme (€ 1 million). Most EC customs directives and regulations have been successfully integrated into Bulgarian legislation, with assistance from a twinning partner.
- The creation and equipping of the SAPARD Agency in Bulgaria was supported by a succession of Phare interventions, delivered by consultants and SIGMA experts. Bulgaria was the first candidate country to secure partial accreditation of its SAPARD Agency in May 2001, allowing implementation of the SAPARD programme to commence.

The Phare Review for 2000 confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The Review foresees the possibility that management of the Phare funds can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

Concerning **SAPARD**, the Commission approved Bulgaria's National Agriculture and Rural Development Plan in October 2000. The operational programme for a total public expenditure of around €808.3 million, of which €371.2 million will be financed by EC SAPARD funds, has four priority axes: improving the production, processing and marketing of agricultural and forestry products as well as the processing and marketing of fishery products in compliance with EC *acquis*; promoting environmentally-friendly farming and environmental protection; integrated rural development aimed at protecting and strengthening rural economies and communities; and investment in human resources and technical assistance.

The Multi-annual financing agreement between the Commission and Bulgaria setting out the rules for implementing SAPARD was signed in December 2000 and the Annual financing agreement setting out the Community financial commitments for the year 2000 was signed in February 2001 and entered into force in April 2001.

The State Fund for Agriculture has been designated as the SAPARD Agency, and has responsibility for arranging co-financing of EC projects as well as managing short and medium-term national loans to farmers. In May 2001, Bulgaria became the first candidate country to gain the Commission's partial accreditation of its SAPARD implementing structures for the implementation of three measures (investments in agricultural holdings, processing and marketing and diversification of economic activities), and payments began shortly afterwards. Bulgaria's SAPARD commitment in 2000 was €53 million.

Regarding **ISPA**, the national strategies for transport and the environment were agreed in 2000 and have provided the basis for identifying priority projects. In the case of transport

infrastructure the emphasis is put on completing the main trans-European corridors, development of border connections including the new Danube bridge, electrification of railways, and the reconstruction of Sofia airport. In the case of the environment the main priorities are the water sector (drinking water supply and wastewater treatment), solid waste management, and air pollution. Administrative structures and procedures have now been put in place by the Bulgarian authorities for the implementation of ISPA projects. The whole of the available ISPA allocation for Bulgaria (€104 million) was committed in 2000, helping to support the following projects: Sofia airport reconstruction and extension, transit roads rehabilitation (sections on main trans-European corridors), urban wastewater treatment plants at Stara Zagora and Dimitrovgrad, and six regional household waste disposal sites at Montana, Rousse, Pernik, Sevlievo, Silistra and Sozopol.

Bulgaria now receives in total around €300 million a year in Community grant-financed, pre-accession assistance, equivalent to over 2% of its GDP. Programming, implementing, monitoring and evaluating such a large volume of essentially project-based assistance, and ensuring robust systems of financial management and control, represents a real challenge for Bulgaria's public administration. While there have been some notable successes in this regard, including the early accreditation of the SAPARD Agency, considerable further efforts are needed to ensure that **administrative capacity** is adequate to handle Community assistance effectively. At the programming stage, the authorities are now developing a more pro-active approach to identifying strategic priorities. But more needs to be done to ensure that these priorities are translated into mature projects, and that ministries collaborate with one another and with outside groups and co-ordinate donor assistance more effectively. At the implementation stage, there is a need to strengthen both financial management and control systems and project management capacity in many areas. Efforts are needed to reduce staff turnover and provide adequate resources for contracting, technical and financial aspects of project implementation. At the monitoring and evaluation stages, the new arrangements must be made to work effectively, so that a higher proportion of projects are steered to a successful conclusion and lessons are learned systematically from successes and mistakes in the past. Tackling all these issues will require a major and sustained investment in key parts of the public administration.

### *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 and training.

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*.

A total of 372 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But also other important

sectors of the *acquis* have been addressed through twinning, for example, social policy, fight against drugs, transport, and telecommunications regulation.

Thanks to the strong support and response from EU Member States 103 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all Member States are coming to an end or have been concluded. Under Phare 1999 a further 124 projects are being implemented and the programming exercise for Phare 2000 includes a further 145 twinning projects. The 2001 programming exercise foresees 131 twinning projects in all Phare beneficiary countries as well as Cyprus and Malta. Furthermore, the candidate countries are being offered the possibility of drawing on Member States' expertise through Twinning light in order to address well-circumscribed subjects of limited scope, which emerge during the negotiation process as requiring adaptation. It is estimated that around 250 twinning projects are operational throughout the candidate countries at any one time.

For Bulgaria, eleven projects under the 1998 Phare programme, fifteen under the 1999 programme, and fourteen under the 2000 programme are being delivered wholly or partly using twinning. Twinning will again be an important element under the 2001 project, contributing to the results of up to ten projects. These span a broad range of sectors including veterinary and fisheries control, implementation of environmental *acquis*, strengthening the central bank and customs agency, streamlining bankruptcy proceedings, combating money laundering and improving maritime safety standards.

#### *Negotiations / screening*

The analytical examination of the *acquis* (screening) has taken place in the context of meetings of the Association Committee and the sub-committees.

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* started, and by October 2001, negotiations on 21 chapters had been opened.

By the end of September 2001, the following 11 chapters had been provisionally closed: Free Movement of Capital, Company Law, Fisheries, Statistics, Small and Medium-sized Enterprises, Science and Research, Education and Training, Culture and Audio-Visual Policy, Consumers and Health Protection, External Relations, Common Foreign and Security Policy.

## B. Criteria for membership

### 1. Political criteria

#### *Introduction*

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.”<sup>4</sup>

In its 2000 Regular Report on Bulgaria’s progress towards accession, the Commission concluded that:

“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.”

The section below aims to provide an assessment of developments in Bulgaria since the 2000 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.

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<sup>4</sup> These principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

## *Recent developments*

Following the general election of 17 June 2001, a government led by the National Movement of Simeon II in coalition with the Movement for Rights and Freedoms came into power, replacing the United Democratic Forces government which had been the first to remain in office for a full term since 1989. Integration of the country into the EU remains a key priority for the new government. The consensus of all political forces in parliament towards the goal of integration into the EU and NATO remains very strong. Bulgaria continued to play a positive role in efforts for enhanced co-operation in South Eastern Europe.

The OSCE-ODIHR final report on the elections of 17 June 2001 concluded that: "While these elections met the OSCE commitments for democratic elections, there is room for further improvements in the electoral process. The election legislation contains provisions that raise concerns, including the lack of reference to the right of accredited domestic and international observers to monitor the aggregation of results. Also, the media regulations are overly restrictive." The Bulgarian government has acknowledged these recommendations.

### **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. Following the elections in June, a new Standing Committee on European Integration was created to replace the parliamentary Council on European Integration. It combines elements of the former Council on European Integration and Foreign Affairs Committee dealing with EU issues. The new committee will continue to adopt decisions on the basis of consensus between the four parliamentary groups and preserve a fast track procedure for legislation related to EU integration.

#### *The executive*

Last year, progress in laying the legal framework for a modern, professional and independent public administration was reported. This has continued through the adoption of most necessary secondary legislation and progress in implementation of the legal framework, thus making further progress towards the short-term Accession Partnership priority of implementing the civil service law. The legal framework for the Bulgarian civil service is now largely satisfactory but a number of issues still require attention. There is now a need to focus on its implementation to ensure establishment of a professional and impartial civil service.

Further steps have been taken towards the implementation of the Laws on State Administration and the Civil Service. Statutes setting out the structures for most ministries and executive bodies have been adopted by the Council of Ministers. Employees in the administration are gradually being covered by the new civil servant status. By September 2001, 17 300 people had civil servant status. This represents about 30% of those employed in state administrative structures (including national, regional and municipal administrations). These figures exclude the Interior

Ministry where about 8% of staff (5119) have been demilitarised and have Civil Servant status. People with this status received significant salary increases of approximately 20%, which is intended to contribute towards recruitment and retention of high quality personnel. Civil service salary levels and pay components (e.g. allowances and bonuses) are regulated by law.

In December 2000, the Prime Minister approved a Code of Ethics for Civil Servants in his capacity as Minister of State Administration. This offers guidance on ethical conduct in relations with the public on duty and in public and private life.

Also in December 2000, the statute of the State Administrative Commission was approved by the Council of Ministers. The State Administrative Commission's role is to ensure respect of the Civil Service Law.

As far as recruitment is concerned, competitions with selection based on merit have been organised for a limited number of posts, but not yet for the majority of appointments. In particular these are not yet the norm for internal appointments.

Several steps have been taken towards improving openness and transparency of public administration. A register of state structures and acts of the executive has been created and is published on the Internet. This contains inter alia information on the role and organisation of main ministries and agencies and information of interest to the general public. It also contains information on public procurement.

The adoption of the Law on Access to Public Information is a positive step forward. This regulates the right of citizens and legal entities to gain access to information from state and local government bodies on matters of public interest. In case of refusal, appeals can be made to the courts. However, the act contains some ambiguous legal definitions, which will make use by the administration (especially at local level) and interpretation by the courts difficult, so needs clarification.

After a decision of the Council of Ministers in June 2000 on measures for the improvement of administrative services to the public, a pilot project to organise services based on "one-stop-shops" has begun in six local administrations.

Currently there are Ombudsman-type activities in number of municipalities in the country and in Sofia. Bulgaria does not yet have an Ombudsman with national responsibilities.

The Supreme Administrative Court has continued to function and there has been an increase in the number of cases it has examined. Administrative acts of central and local government can be contested before the court. It has taken several decisions on important matters and the executive has complied with these. However, the role of the court needs to be further developed.

Concerning planning and policy-making capacity, there have been some developments. As reported last year, in policy areas which involve several departments and sectors (e.g. preparation for structural funds) the quality of inter-ministerial co-ordination needs to be further improved. Whilst new laws go through a mandatory impact assessment, this process varies in quality and is often superficial. As far as consultation with the public is concerned, the new practice of publishing draft laws on the Internet to initiate wider public debate is welcome but consultation, for example with social and economic partners, could be further improved. As



mentioned last year, there is insufficient attention to how laws will be implemented, which results in delays between adoption and actual implementation. After new laws enter into force, more attention needs to be paid to monitoring implementation and enforcement, in particular in the court system.

The new government has made a commitment that structures in charge of the European Integration process will remain intact to ensure continuity. In general the structures created for the European Integration process have functioned effectively for work on accession preparation, negotiations and implementation of the Europe Agreement. However administrative structures lack the capacity necessary for fully effective use of EC assistance and need to be strengthened.

An Institute for Public Administration and European Integration was established as foreseen in the civil service law. Its statute has been adopted and staff recruited. State funding goes towards staff salaries and premises, with work to establish training courses and training of tutors currently funded by donors. Preparation of a national strategy for training of the state administration started at the beginning of 2001.

There are no changes to report on the structures for regional and local administration.

Although some further steps have been taken towards establishment of a modern and open public administration, much remains to be done to develop the civil service and promote a new administrative culture so that it is ready to cope with EU membership. These include further efforts to implement the legal framework and strengthening procedures to ensure accountability.

### *The judicial system*

Since the 2000 Regular Report, there has been an increased debate in Bulgaria on the state of the reform in judiciary.

On 1 October 2001, the new government adopted a Strategy for Reform of the Judicial System in Bulgaria. Its aim is to develop European standards in justice to contribute to preparation for EU membership. Objectives include improvement of human resources, administration and physical infrastructure of the judiciary. The capacity of the Supreme Judicial Council to fulfil its role is to be enhanced and co-ordination between the Supreme Judicial Council and the Ministry of Justice on the management of the judiciary improved. The Magistrates Training Centre is to be transformed into a public institution. Steps are to be taken to promote equal access to justice (improving free legal aid provision) and to improve the execution of judgements to ensure more effective protection of citizen's rights. A detailed implementation plan also needs to be developed. Whilst the adoption of the strategy is a clear step forward, it does not yet address issues where constitutional change will be required, such as changes to the immunity of magistrates.

The Constitution and the Law on the Judicial System provide for the independence of the judiciary. These also give members of the judiciary (judges, prosecutors, and investigators) immunity from prosecution from all but serious crimes that carry over 5 years in prison. The fact that criminal investigators with the functions they exercise in Bulgaria (some of which are exercised by police elsewhere), are members of the judiciary, is unusual. Requests to the

Supreme Judicial Council to lift immunity are rare. Such provisions on immunity make it difficult to know the potential scale of corruption or criminal activity in the judiciary.

According to the Constitution and the Law on the Judiciary, the Supreme Judicial Council (SJC) is the highest body representing and governing the judicial system. The Council comprises representatives of judges, prosecutors, investigators and the legal profession.

According to Bulgarian law, the judiciary should have its own budget. The Supreme Judicial Council has prepared a budget for the judiciary. Nevertheless, in the last few years, the executive has submitted to the Parliament a different draft of the judiciary budget, which has been adopted. The budget allocated has been about 30% lower than proposed by the Supreme Judicial Council.

Whilst the Supreme Judicial Council has quite wide administrative responsibilities for the operation of the court system, it does not have the necessary administrative capacity to exercise them. Its secretariat is insufficiently staffed for this role.

About 80% of the budget for the judiciary goes on salaries for judges and staff, and much of what remains goes on day-to-day running costs of the judiciary, leaving little for equipment.

Procedures for funding the management of court, prosecution and investigation service premises are complicated and untransparent. The conditions in the majority of the courts, prosecution offices and investigation services remain very poor. Concerning court administration, manual registration and administrative processing of cases remain common practice. Where courts have introduced information technology, this is largely due to local initiatives or donor assistance programmes.

The unclear split of roles and responsibilities between the SJC and Ministry of Justice is an issue which contributes to the poor functioning of the judicial system.

There are often delays in administrative processing of cases. This is due to a number of factors. Poor administrative support obliges judges, prosecutors and investigators to spend a lot of time (estimated at well over 20% of judges' time) on administrative and clerical matters. This reduces time available for handling cases. Case management also lacks transparent standards for assignment. Inter-agency co-operation is weak and complicated. For example, an unusually large proportion of cases is sent back by the courts to the public prosecutor, because the courts consider that the investigation is incomplete. Return of cases to the public prosecution also occurs in EU member states, but the high level of this in Bulgaria suggests a structural weakness. Conditions for return are not transparent and there is no system for appeal against such a decision.

Concerning recruitment, there has been no progress to introduce transparent national criteria and competitions for recruitment or promotion of judges. Whilst in April 2001 the Supreme Judicial Council announced its intention to introduce selection panels for appointment of judges and prosecutors to regional courts, this has not yet been put into practice. Local initiatives in several major courts to recruit junior judges by competition continue.

Training remains inadequate. As yet no systematic training is provided for members of the judiciary. The Magistrates Training Centre, an NGO funded largely by foreign donors, focuses on the training of judges. Newly appointed judges now attend initial training. A pilot programme

for training of public prosecutors was started in April 2001. The Centre also delivers some general courses in EC law and EU institutions. Several specialised courses have been organised for magistrates on international co-operation in penal matters, extradition and insolvency proceedings. Since the last Regular Report, a consensus has emerged between the Supreme Judicial Council and the Ministry of Justice on the need to establish a national public institute for training of members of the judiciary.

Whilst there have been developments in some areas, there is as yet no reason to change the overall assessment made last year that further efforts are needed for the judicial system to become strong, independent, effective and professional and able to guarantee full respect for the rule of law as well as effective participation in the internal market.

### *Anti-corruption measures*

Whilst there have been some improvements since last year, in particular in the legal framework, corruption continues to be a very serious problem in Bulgaria. According to several surveys since the last Regular Report, customs, the police, university teachers, business people, public sector officials who have close contact with the public and the judiciary were perceived to be among the most corrupt professions. Corruption continues to be considered as one of the main problems facing Bulgarian society. It is still seen as an efficient means of addressing private problems. However there is a decrease in public acceptance of corruption and civil society has been active in raising awareness and putting corruption on the political agenda. The new government has made a commitment to combat corruption. There is a perceived tendency towards improvement of the business and investment environment, but corruption remains a serious obstacle to business development and the improvement of the investment climate.

On 1 October, the Council of Ministers adopted a national Strategy for Combating Corruption. This has 4 main areas: creating an institutional and legal environment which will curb corruption, anti-corruption reform in the judiciary, curbing corruption in the economy and anti-corruption co-operation between government institutions, non-governmental organisations and the mass media. The strategy emphasises transparency, accountability and clarity of relations, for example between (on the one hand) government and (on the other) the private sector and the citizen. Specific measures are planned, for example to cover the Customs Agency, public financial control and local government. The National Assembly is given the role of setting an example in anti-corruption effectiveness which will be followed by other institutions.

Whilst the legal framework for combating corruption is coming into place, enforcement of the existing legal framework poses a significant challenge. There has not yet been sufficient focus on prevention of corruption. A number of new measures have been taken since last year:

- a Code of Ethics for Civil Servants has been approved, setting basic principles and rules of ethical conduct for civil servants in their relations with the public whilst on duty, and in their public and private life;
- A new Political Parties Act came into force, introducing clearer rules for financing political parties;

- The Law on Access to Public Information has come into force. This should increase transparency in the administration, however there is a need for more legal clarity (*see section on the executive*) to ensure this is fully effective in achieving this aim;
- All public procurement tenders since 1 January 2001 have been published in the Public Procurement Register. The register is accessible to the public on the Internet;
- The Government submitted amendments to 21 laws to the National Assembly aimed at facilitating or eliminating various registration and licensing regimes.

The main bodies responsible for dealing with cases of corruption are the public prosecutor's office, investigators, the courts, the police, the National Service on Combating Organised Crime and the Bureau of Financial Intelligence. However, it should be noted that many of the people in the judicial system handling cases have immunity from prosecution for certain offences (*see also section on the judiciary*).

As far as the administration is concerned, in accordance with the Public Register Law, which invites high-ranking government officials to declare property, income and expenses, first declarations of income and expenses of high-ranking government officials were submitted in summer 2000.

Bulgaria continues to participate in the monitoring of anti-corruption measures through the OECD Working Group on bribery in international commercial transactions and the Group of States against Corruption (GRECO).

## **1.2. Human rights and the protection of minorities**

As mentioned in previous Regular Reports, Bulgaria continues to respect human rights and freedoms. The following section concentrates on subsequent major developments since the last Regular Report.

Bulgaria has ratified most human rights conventions (see annex). In November 2000, Bulgaria ratified Protocol No. 4 and Protocol No. 7 to the European Convention for the Protection of Human Rights and Fundamental Freedoms. Bulgaria has ratified the Revised European Social Charter and undertaken to be bound by the Additional Protocol providing for a system of collective complaints.

The EC anti-discrimination *acquis* has not yet been transposed.

### *Civil and political rights*

Since last year, Bulgaria has made progress in the areas of human rights training of police, trafficking, pre-trial detention, and the legal framework for non-governmental organisations.

Human rights organisations continue to make critical reports about *police violence*, which provides cause for serious concern. These indicate that minorities, homosexuals and prostitutes are most likely to be subject to police ill-treatment. Investigations into police abuse remain rare and a very small number of cases come to court. Surveys also indicate no change in the situation regarding the frequent use of force in arrests. There was a reported slight reduction in the number of detainees reporting use of physical force inside police stations. As in previous years,

reports also indicate that the Roma continued to constitute a disproportionate number of the victims of this violence. One positive development is that the National Police Service has set up a specialised human rights committee which has the role of aligning police practice with international law and organising training. Regional co-ordinators, who will organise activities at local level, have been appointed and are receiving periodical training on human rights issues.

Bulgaria remains a source and transit country for *trafficking* in human beings. However, the government is making efforts to combat trafficking. Two police units are dedicated to dealing with this problem. Trafficking in human beings is not yet defined as a specific offence, which makes it harder to bring cases to court, but a proposal to remedy this is pending in parliament. Few prosecutions have yet taken place. There is also close co-operation with other governments to combat trafficking.

As concerns *pre-trial detention*, there has been some improvement. There has been a trend towards shorter preliminary proceedings, which means few defendants are detained for more than 6 months. 14 out of the total of 29 pre-trial detention centres housed underground have been closed.

*Prisons* still have problems with overcrowding, poor food and sanitary conditions. Concerning correctional boarding schools and social educational boarding schools, there has been no improvement in the legal framework for placing young people in such institutions. The legal framework still needs to be revised to ensure cases have been heard in full conformity with the right to a fair trial before detention.

On 5 October 2000, the European Court of Human Rights delivered a judgement in the case of *Varbanov v. Bulgaria*. It established a violation of Article 5 of the European Convention on Human Rights, the right to liberty and security, by ruling that his detention in a psychiatric hospital was arbitrary. Deficiencies in Bulgarian legislation were identified. The Bulgarian government has announced its intention to make changes to the Public Health Law or through a new Law on Mental Health, but has not yet done so.

Concerns have been raised that over a third of criminal case defendants do not have access to a lawyer during trial before a court of first instance. Bulgaria needs to take steps to ensure that fundamental human rights are fully respected, especially though ensuring that in practice all detained individuals who cannot afford a lawyer have access to legal aid.

Regarding freedom of *expression*, as mentioned in the last Regular Report, fines for libel remain very high but indications are that restraint is shown in implementation.

Concerning *religious freedom*, in the last Regular Report concerns were raised that interested parties had not been consulted in the preparation of the new Denominations Act. Adoption of the Act was postponed to allow for consultation. The Act has not yet been adopted.

One positive development is that a number of applications for alternative service have been granted over the last year in accordance with the law of October 1999.

Concerning the *right to privacy*, concerns have been expressed by human rights organisations at the high number of permits granted for wiretapping and the need to ensure proper judicial controls on the issuing of these.

Bulgarian law currently discriminates against *homosexuals*. Discriminatory provisions in the Penal Code need to be removed to avoid discrimination.

The Non-profit Legal Entities Act entered into force in January 2001, providing a new legal framework for *non-governmental organisations* in Bulgaria. This is a sign of progress as it established clear rules for the registration of associations of citizens and foundations. The new law also increases transparency, through a public register of organisations and the obligation to provide annual reports on activities and finances. However, the tax environment for NGOs and donations remains rather restrictive. The new National Assembly has established a parliamentary committee on civil society issues.

### *Economic, social and cultural rights*

Some limited progress was made in this area over the past year, notably in reinforcing the institutional framework for child protection.

There has been no further progress in adopting legislation on *equal opportunities* for women and men. Concerning political representation, following the June 2001 elections, women make up about 25% of the new National Assembly, a significant increase from 11% in the previous assembly.

Whilst the *Child Protection Act* (mentioned in the last Regular report) aims to reduce the number of children in institutions through placement in foster families, at the end of 2000 there was no significant change in the number of children in institutions. Conditions in social institutions for children are mixed and indicate that some orphanages offer relatively high standards of care, but in many living conditions are very poor. The situation is particularly serious in some of the homes for severely handicapped children. Poor living conditions and inadequate care are said to have contributed to especially high mortality rates in some homes for children with mental disabilities. Around 65% of children in residential accommodation come from minority groups. Staff caring for children rate amongst the country's lowest paid. An ordinance on terms and conditions of providing police protection to children has been adopted.

The Government has adopted a regulation for the establishment of the Child Protection Agency and appointed a Chairman. The Agency should improve co-ordination and implementation of policies at national and regional level, and provide guidance to and control of municipal services on child protection activities. Efforts are oriented towards preventing social exclusion and towards de-institutionalisation. Several steps are necessary if the Child Protection Agency is to become fully operational. Secondary legislation is still required to clarify its precise role, as are adequate human and financial resources. The second central body envisaged in the Child Protection Act, the National Council for Child Protection (a consultative body) has also been set up. Members come from eight government departments. Seven NGOs participate as associate members. Representatives of two international organisations are also invited as associate members. Bulgaria needs to ensure the full implementation of the UN Convention on the Rights of the Child and ensure the necessary administrative capacity is in place and is functioning efficiently.

## *Minority rights and the protection of minorities*

Bulgaria has ratified the Framework Convention of the Council of Europe for the Protection of National Minorities.

In the census conducted in 2001, 4.6% of the population identified themselves as Roma and 9.4% as of Turkish ethnic origin.

As reported in previous years, the Roma continue to suffer from social discrimination due to accumulation over time of factors that have worsened their living conditions. Many Roma live in very poor conditions in illegally built housing. According to a survey approximately 70% of houses in Roma neighbourhoods are built illegally, which means there is very limited access, and no right to public services. Very few municipalities have acted on the call in the Framework Programme to legalise such homes. Unemployment is very high, with estimates reaching 60-75% of working age Roma. The political commitment from the government to remedy their problems needs to be matched by more effort into translating this into concrete action.

Progress in improving the situation of the Roma community has been limited. As concerns the Framework Programme for Roma Integration adopted in 1999, very little progress has been made on implementation. No progress has been made in the last year in strengthening the capacity of the National Council on Ethnic and Demographic Issues (NCEDI) to implement the programme. However, the programme to appoint Roma as experts in the administration referred to last year continued.

Access to healthcare and public services remains uneven for the Roma. The Government took measures to facilitate the issuing of new identification documents to ethnic minorities. Under social programmes, people from minorities were targeted. However, there were Roma protests over non-payment of social benefits in some municipalities. The National Health Insurance Fund targeted minorities with a special campaign and added the names of the people not registered to local doctors' lists of patients. Doctors receive the standard fee for a patient plus additional funds due to the vulnerability of the population. However, there are reports of discriminatory practices in access to public health care.

Many Roma children do not attend school and for those who do, drop out rates are very high. Factors for this include poverty. Despite their formal status as regular schools, schools in Roma areas remain in practice segregated schools which offer low quality education. This puts the large majority of Roma at a disadvantage compared to their peers in mixed schools. These schools are usually overcrowded, lack basic facilities and in many cases have poorly qualified teachers. Whilst Roma tutors and teachers have been appointed in bilingual schools, further steps are needed to ensure the access of Roma children to the education system. It is a positive step that the process of desegregation of Roma schools has started, with some NGO projects testing different methodologies. But still it has to become Government policy, and the methodology and the approach have to be broadly discussed and accepted by the Roma community.

There are some projects in municipalities. Sofia and Plovdiv, for example, have started projects for Roma to build homes and generate employment. Some funding comes from international donors to support this. Sofia Municipal Council has also adopted a medium-term programme for the development of the Roma community in Sofia, which should be completed by 2005.

In the general elections in June 2001, an increased political participation by Roma was observed and there are Roma National Assembly members. The Turkish minority is better integrated into political life through elected representation at national and local levels. The Movement for Rights and Freedom, which has a large representation amongst ethnic Turks, is part of the ruling coalition in the National Assembly.

Further efforts are needed for the socio-economic integration of those ethnic Turks who live in economically underdeveloped regions.

The Parliament passed amendments to the Civil Registration Act simplifying the procedure which ethnic Turks in Bulgaria, coercively renamed under the communist regime, should follow to get their names back. This is now done through an administrative rather than court procedure which, whilst free of charge, was rather slow.

In almost all electronic media, there is minority participation through specialised programmes. Bulgarian National TV broadcasts news in Turkish and has two programmes addressing minority issues and produced by minorities' representatives. Roma Cable TV from Vidin has received a license to broadcast nationwide. Some local radio stations also broadcast programmes directed at the Roma population. There are a number of regular Roma newspapers and magazines.

As reported last year, minorities have a low level of representation in senior appointments in the administration or as officers in the military and police. Some steps are being taken to tackle this, for example through a programme to encourage police recruits.

### **1.3. General Evaluation<sup>5</sup>**

In its 1997 Opinion, the Commission concluded that Bulgaria fulfilled the political criteria. Since that time, Bulgaria has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Bulgaria continues to fulfil the Copenhagen political criteria.

Since last year, further progress has been made in public administration reform. Many employees have civil servant status and there is now a Code of Ethics for Civil Servants. The Law on Access to Public Information is a positive step, but needs further clarification to ensure effective implementation. Further steps are needed to ensure an efficient, transparent and accountable public administration.

The recent adoption by the government of two strategies, one on judicial reform and the other on combating corruption, is a significant development. The challenge now is to implement these. The judicial system remains weak and there is as yet no reason to change the assessment made last year that further efforts are needed for it to become strong, independent, effective and professional and able to guarantee full respect for the rule of law as well as effective participation in the internal market. Corruption has continued to give serious cause for concern.

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<sup>5</sup> See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.



Enforcing the legal framework effectively presents a challenge and greater focus is needed on prevention of corruption.

Some progress has been made on human rights training of police and on combating trafficking of human beings. However, there is a need to address police behaviour, notably as regards reported cases of ill-treatment. continues to give cause for serious concern.

A child protection agency and a national advisory council for child protection have been set up. Further steps need to be taken to make the Child Protection Agency operational. On child welfare, there is not yet a significant change in the number of children in institutions. Poor conditions in some homes for children with mental disabilities are cause for concern.

Roma continue to suffer from widespread social discrimination. Political commitment from the government to remedy their problems has still not been matched by concrete action. One more positive development is that some NGOs have pursued projects on desegregation of Roma schools.

Very little further progress has been made to meet the Accession Partnership priority to start implementation of the Roma Framework Programme, and to strengthen the National Council on Ethnic and Demographic Issues.

Concerning other related Accession Partnership priorities, Bulgaria has made further progress to implement the Civil Service Law. However, the priority of strengthening the judiciary has not yet been met.

## **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 2000 regular report the Commission found that:

“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.

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**

*Largely as a result of past economic reforms supported by an improved external environment, economic growth has accelerated.* The Bulgarian economy grew by 5.8% in 2000, the highest figure since the 1996-97 economic crisis. Macroeconomic stability has been preserved, and the state of Bulgaria’s public finances and the current account balance bear witness. However, inflation rose substantially, mainly due to one off factors, while unemployment slightly moved down from its high level. Private investment has remained low but rising slowly, while foreign direct greenfield investments are high and rising.

Main economic trends							
Bulgaria		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	-10.1	-7.0	3.5	2.4	5.8	4.8 H1
Inflation rate <sup>6</sup>							
- annual average	per cent	123.0	1,047.7	18.7	2.6	10.3	10.2 <sup>7</sup> June
- December-on-December	per cent	311.0	547.5	1.6	7.0	11.3	9.4 June
Unemployment rate, end-year	per cent						19.4 P Q2
- ILO definition		13.7	15.0	16.0	17.0	16.4	
General government budget balance	per cent of GDP	-15.3	-0.3	1.3	0.2	-0.7	:
Current account balance	per cent of GDP	2.7	13.2	-0.6	-6.0	-5.0	:
	million ECU/euro	208	1,187	-69	-695	-649	-319 <sup>8</sup> Jan-June
Foreign debt							
- debt export ratio	per cent	168.9	165.9	160.9	180.6	139.8	:
- gross foreign debt	million ECU/euro	8,252	9,211	7,973	9,285	10,650	:
Foreign direct investment in flow - balance of payments data	per cent of GDP	1.8	6.4	5.5	7.5	7.1	
	million ECU/euro	138	573	602	874	926	304 <sup>9</sup> Jan-June

*Progress is being made with the restructuring of the economy and privatisation. The share of the private sector in GDP rose further and the remaining assets in the state hands consist largely of utilities. The financial performance of the remaining state owned enterprises is improving and continues to be monitored closely by the Ministry of Finance. The business climate has improved but the licensing, tax and customs regimes still have shortcomings and they need to improve further. Privatisation procedures are not always open and transparent and the implementation of bankruptcy procedures needs to be improved. The banking sector is developing slowly, but remains in a state in which it has not yet contributed significantly to *inter alia* a rapid restructuring of industries and services.*

<sup>6</sup> PROXY HICP since 1997 (see methodological notes).

<sup>7</sup> Moving 12 month average rate of change

<sup>8</sup> Source: Website of National Bank

<sup>9</sup> Source: Website of National Bank

<b>Main Indicators of Economic Structure in 2000</b>		
Population (average)	thousand	8,170
GDP per head <sup>10</sup>	PPS	5,400
	Per cent of EU average	24
Share of agriculture <sup>11</sup> in:		
- gross value added	per cent	14.5
- employment	per cent	:
Investment-to-GDP ratio <sup>12</sup>	per cent	16.2
Gross foreign debt/GDP <sup>13</sup>	per cent	81.8
Exports of goods & services/GDP	per cent	58.5
Stock of foreign direct investment	Million Euro	1,960 <sup>15</sup>
	Euro per head <sup>14</sup>	239 <sup>16</sup>

P: provisional data

*Bulgaria has recently resumed its process of catching up with the EU.* Bulgaria's 2000 average per capita income in purchasing power standards was low at only 24% of the EU average. This meant a slight increase over 1999, but the relative income level was still below the pre-crisis level of 1996. Regional income differences are small in Bulgaria, ranging from 22% to 24% of the EU average (data for 1998). Employment rates for both genders are relatively low. In 2000 the overall employment rate was 51.5%. The economic activity rate has been on a declining trend over the past years, reaching a low 47.5% in 2000. Unemployment showed a small decrease to 16.4% of the labour force in the year 2000, but increased to 19.4% (2001Q2). More than half of the unemployed (58.6%) are long-term unemployed. Unemployment rates are slightly higher for men than women, but for young people (<25 years) at 34.2% much higher than for older people. Regional unemployment differences are higher than income differences: while in the two regions in and around the capital unemployment is well under the national average, in all other regions unemployment is over average (data for 1999).

<sup>10</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>11</sup> Agriculture, hunting, forestry and fishing.

<sup>12</sup> Data refer to Gross fixed capital formation as % of GDP.

<sup>13</sup> Estimated.

<sup>14</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>15</sup> Data refer to 1999

<sup>16</sup> Data refer to 1999

Average old-age pensions as a percentage of average salaries increased slightly (36.8% in 2000 against 34.6% in 1999).

## **2.2. Assessment in terms of the Copenhagen criteria**

### *The existence of a functioning market economy*

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 reform programme and for EU accession-related policies.* Following the June 2001 elections, all parties represented in parliament support the stability oriented and EU accession related policies (the currency board arrangement, sound public finances, further reforms and accession to the EU). The policy measures of the new government confirm its commitment to these goals.

In May 2001 the Bulgarian authorities submitted their pre-accession economic programme. In the summer of 2001, Bulgaria is negotiating a stand-by arrangement with the International Monetary Fund, after it successfully completed its extended fund facility that ran from September 1998.

Over the year 2000 government has improved consultation with social partners. The dialogue promotes useful ideas for economic reforms.

*GDP growth in 2000 increased to 5.8%.* Investment grew by 8% and contributed, together with net exports, most to aggregate demand. Manufacturing industry expanded most rapidly (+15%) while services expanded at half that rate. The agricultural sector contracted further along the trend of declining agriculture of the last years, reinforced by the drought that hurt farming in the summer of 2000. In the first part of 2001, these trends continued. In the first half of 2001, GDP expanded by 4.8% relative to the first half of 2000 and the manufacturing industry's growth was faster than the services' expansion; still, the agricultural sector was contracting.

*Unemployment fell over the year.* Unemployment fell to 16.4% of the labour force at the end of 2000 (from 17.0% in 1999), of which 58.9% are long-term unemployed. In the second quarter of 2001, unemployment increased to 19.4%. These job losses are due to the employment losses associated with structural reforms, which are not yet compensated by job creation because of the weak business climate and due to a skills mismatch. The lack of effective labour market policies (i.a. insufficient retraining possibilities) means that the latter aspect of unemployment is not adequately tackled. The low and steadily falling economic activity rate (47.5%) suggests that a significant number of workers have left the labour market altogether.

*Consumer price inflation rose substantially from 2.6% in 1999 to 10.3% in 2000.* Year-on-year inflation rose to over 10% from May 2000 onwards. However, since January 2001 inflation has returned to single-digit levels. Fuel and food prices – high energy prices, the high

value of the USD, a drought in the summer of 2000 – were chiefly responsible for these developments. The adjustment of administered prices contributed to the rise in inflation as well.

*Bulgaria has continued to adhere to the currency board arrangement.* Due to the inflation differential between the euro area and Bulgaria, the BGN experienced a real appreciation of more than 7% relative to the euro. At the start of 2000, the base interest rate was 4½%. It fluctuated over the year and is around 4% in the summer of 2001, which, with a higher rate of inflation than in early 2000, implies lower real interest rates. The broad monetary aggregate grew by 13.5% in real terms and by a quarter in nominal terms. As under a currency board money supply is exclusively determined by economic actors' demand for money, this shows that money demand is being re-established after its fall in the 1996-97 period of high inflation.

The fiscal policy conducted by the government over the reporting period continued to be tight and consistent with the currency board arrangement. The fiscal programme was over-fulfilled in 2000. The general government deficit according to harmonised EU standards (ESA95) amounted to 0.7% of GDP, according to the national definition 1% of GDP in 2000 against a planned deficit of 1.5% of GDP<sup>17</sup>. This deficit was less than expected, while the primary surplus (the government budget balance corrected for interest payments) was 3.6% of GDP. The cause of this deficit lies in a rapidly growing central government deficit that was only partially offset by a growing social security sector surplus. Revenues increased by 4.2% in real terms exceeding by 9.3% the planned value. In the period January - May 2001 the budget revenues were higher than in the same period of 2000 despite the reduction in corporate tax rates since 1.1.2001 (from 25 to 20% for companies whose profits exceed €25 600 (BGN 50 000) and from 20 to 15% for companies whose profits are lower)<sup>18</sup>. (See also under Chapters 10 and 29).

*The current account deficit fell to 5.0% of GDP in 2000 (from 6.0%) despite unfavourable terms-of-trade developments.* It was pushed up by the rising trade deficit (8.4% of GDP in 2000), which was mainly due to the oil price rise. The increased surplus on the services account, primarily because of sharply rising tourist revenues, brought down the deficit. In any case, foreign direct investment (at nearly €1 billion) well exceeded the current account deficit so that the foreign debt did not increase.

*The macroeconomic policy mix has continued to be appropriate.* With the fiscal position turning into a small deficit and the primary surplus falling, the authorities loosened budgetary policy somewhat. The high growth of monetary aggregates was not the result of a policy choice because of the currency board arrangement. Real interest rates fell due to the unanticipated acceleration of inflation. The real appreciation of the BGN relative to the euro does imply a tightening of monetary conditions and offsets to some extent the effect of budgetary policies and real interest rate developments.

*Liberalisation of prices has continued.* The number of goods and services with administered prices has decreased but, since the weights of such goods and services in the basket of

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<sup>17</sup> Two figures are given for the government balance. One is based on the most commonly used national concept, and the other is calculated according to the European System of Accounts (ESA 95), which was reported by the candidate countries for the first time this year.

<sup>18</sup> This seems to be the case among others because of the bank restructuring company's (BCC) profits over the year 2000 due to the sale of Bulbank. However, according to ESA1995, these privatisation proceeds should not be included in the government revenues but directly affect the public debt.

consumer goods increased, their relative share increased from 20% in 2000 to 20.6% in 2001. Administered prices now cover costs, except for district heating, household electricity prices and passenger railway transport. In 2000 the overall growth of administered prices was 13.8% (end of year) and contributed some 2.8 percentage points to the overall consumer price index (CPI) increase.

*Progress has been made with privatisation.* The private sector share in GDP grew from 65.3% in 1999 to 69.3% in 2000. In 2000, 1325 privatisation deals were concluded (for an amount of over 1% of GDP). Almost 100% of manufacturing industry are in private hands. The share of privatisations through management, or management and employee, buyouts has decreased. By the end of the year 2000, 77.8% of all assets slated for privatisation (i.e. all assets of enterprises not on a shortlist for definitive public ownership) had actually been privatised. For the remaining assets (chiefly telecommunications, banking, insurance, energy and maritime transport companies, and the state-owned tobacco company), the new government is reviewing the privatisation strategy.

*Two thirds of minority shares in already privatised enterprises, out of the total 1,609, were sold by the end of 2000.* In addition, 5 packages of shares were listed on the stock exchange and some 20% were allocated for privatisation by the Centre for Mass Privatisation. In the remaining companies with state participation, this participation does not exceed 20%. The completion of the selling of state minority shares has been scheduled for end of 2001. Continuous progress in selling these has been made, but, at the same time, newly privatised enterprises lead to additions to the list with state minority shares.

*In the energy sector slow progress has been recorded.* The former electricity monopoly NEC has been split into 15 units: one owning the network, seven producers and seven distributors. Currently, NEC still owns the network, a nuclear power plant, a thermal power plant and hydro-power facilities. The other 14 units are slated to be privatised. Bulgargaz has a monopoly over gas distribution and is 100% state-owned. It continues to make losses, primarily because of its contract with Russian gas suppliers with fixed prices and quantities. Action plans for the restructuring and development of coal mining and district heating sectors have been developed. The district heating sector is still state-owned, with the exception of the Sofia district heating company, which belongs to the municipality. The sector has been heavily subsidised these past years. The authorities plan to transfer ownership to their main debtors, the municipalities.

*In the course of the year 2000, amendments to the privatisation law have been adopted.* These were aimed at increasing transparency and eliminating the bias towards management-employee buy-outs. Further measures are expected in the year 2001. Methods and quality of Bulgarian privatisation have not always been based on transparent and open procedures and include a preference for management or management and employee buyouts. Moreover, some shortcomings of the privatisation procedures also create a barrier to market entry

*Post-privatisation control has continued to slow down enterprise restructuring.* The Bulgarian authorities have continued to use the instrument of company-specific obligations on privatised companies. This approach has negatively affected the flexibility and entrepreneurial freedom of these companies. In addition, the negative effects were compounded by the, sometimes, poor enforcement of such obligations. The authorities have sought to address this issue by eliminating their preference for privatisation by management buy-out, where post-

privatisation control is mostly used, and restructuring the division of responsibilities among the bodies involved in privatisation.

*Entry and exit in the market place is still not working properly, although the situation is improving.* The central administration procedures to start operating a firm have been somewhat reduced; 63 of the existing licensing regimes were abolished and the Council of Ministers has proposed to close down or simplify 58 more through an act of the Parliament.. There remain, over 400 other licensing regimes that make difficult enterprise creation and, particular the functioning of SMEs. These remaining licensing requirements still impose a significant burden on enterprises in terms of time and money. Their non-transparent nature provides an opportunity for the public administration to use their discretionary power, leaving open opportunities for corruption. The procedures of the local administrations, which represent also a considerable burden, have not been reformed.

The number of new private firms being set up in 2000 in Bulgaria is growing, even though investors are often faced with long bureaucratic procedures. There were 60 thousand companies registered for VAT by end March 2001, a 7.2% increase over a year earlier and a quarter more than three years before (less than 10% of the total number of companies, inter alia because of the relatively high VAT threshold). This growth is an indication of the dynamism of the growing private enterprise sector. In support of enterprise creation, one-stop shops in many areas and institutions such as the Foreign Investment Agency, the regional SME agencies, etc. have been established but are still not sufficiently effective and have not made a breakthrough in helping companies to overcome entry barriers. For example, only Bulgarian legal persons are eligible for granting a concession for the operation of infrastructure. This requirement might deter foreign investors because, under Bulgarian law, in case of a conflict with another Bulgarian entity international arbitration is not permitted and in case of a conflict with the Bulgarian state, no arbitration at all. The ways the customs and tax administrations function do not encourage economic development. In particular, foreign owned companies complain about unusually frequent visits from the tax authorities.

*Unclear ownership rights are hampering the development of the land, housing and construction markets.* The reason lies in the often unclear state of ownership, even after the almost completed restitution process. Tracing historic ownership can prove difficult in many cases due to the lack of a functioning cadastre and the slow work of courts in sorting out controversial cases, resulting in slow progress. The land and real estate markets are not yet functioning effectively. Unclear property rights and underdeveloped property markets also create problems for financial intermediation. It can be difficult to establish the value of collateral and in transferring owners' property rights. With the support of international donors, progress is being made and the land registration and cadastre system is being modernised. For private houses and apartments in the major cities a market has emerged.

*Contract enforcement remains difficult.* As a result of the shortcomings of the judicial system, parties would be discouraged from taking cases to court. The extent to which contracts are respected is affected correspondingly by this lack of reliable enforcement. Whilst large foreign companies are sometimes able to bridge these shortcomings in the legal and regulatory environment by turning directly to political decision-makers, this path is not available to other companies so means there is not a level playing field for businesses.



*Market exit procedures have been improved.* The bankruptcy law has been amended and special legal chambers have been set up to deal with cases. However, it remains to be seen whether their implementation will result in an acceleration of the handling of cases. Their slowness remains a deterrent to bank lending to the private sector. Although progress has been made, a number of firms are still operating at a loss without being forced to restructure.

*Further progress has been made with bank privatisation and restructuring.* After the privatisation of the biggest Bulgarian bank, Bulbank, in July 2000, 80% of the commercial banks' assets are in private hands and over 73% are foreign-owned. Still publicly owned remain the State Savings Bank (DSK), where 25% of the capital was recently transferred from the Agriculture state Fund to the Banking Consolidation Company; Biochim, whose privatisation has been postponed since 1999; the Municipal Bank and the Central Cooperative Bank, where the state owns 34.3% of the capital. A new law on bank bankruptcy that has been drafted to facilitate the restructuring of failing banks awaits approval by Parliament. The profitability of the banking sector increased by 32.4%. The 3 biggest banks, Bulbank, UBB and DSK generated 85% of profits. Only 4 out of the 35 banks were making losses in 2000, against 6 loss-makers out of 34 banks in 1999. Over the year 2000, non-performing loans fell from 7.9%, with the three largest banks and the branches of foreign banks in best shape, to 5.4% with all groups of banks improving except for the one of the branches of foreign banks.

*Financial intermediation has remained too low and inefficient.* In 2000, credit to the private sector, represented only 14.7% of GDP, up from 13.5% in 1999, and it continues to grow in 2001. The spread between deposits and lending rates was over ten percentage points in 2000, which gives an indication of the costs of financial intermediation and the perceived risks. Banks are restricted in their lending behaviour because of the difficulty of retrieving collateral in case of default and criminal liability of the loan officers under certain circumstances. Longer-term financing is difficult to obtain and rates are higher and variable.

*The capital markets improved but remain underdeveloped.* The turnover on the Bulgarian Stock Exchange remains low. Market capitalisation of listed companies is estimated to be €0.7 billion or 4.7% of GDP (€0.8 billion in 1999) 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 stock exchange, accentuating the problem of high costs and low liquidity of official trading and the lack of transparency in the market as a whole.

The financial sector supervision has been kept strict and the indicators of the banking system's health, such as capital adequacy, liquidity, and profitability continue to be good. However, the low rate of credit to the private sector implies that there is much scope for development in all sectors of the financial markets.

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

The ability to fulfil this criterion depends on the existence of 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

*The continued macroeconomic stability has contributed further to Bulgaria's track record on economic reform.* Growth has accelerated and the current account deficit, the exchange rate and the general government deficit remain all under control. Only inflation has grown over the year 2000, but this was largely due to external circumstances, such as the rise in the world oil prices, and the adjustment of administered prices.

*The quality of infrastructure is low, but improving.* The overall quality of road, railway and port infrastructure is such that a substantial number of domestic and foreign investors see this as a major problem. Nevertheless, the infrastructure is improving through the efforts of the Bulgarian authorities and is supported by EU funds. As a result the investors' view of the level of infrastructure has steadily improved over the last years. Information and telecommunication structure is improving as well. The fixed telephone network is making some progress, while the mobile telephone network has improved rapidly (*see also chapter 19, telecommunications and information technologies*) and internet use is growing rapidly, albeit from a very low level.

*Education is not sufficiently focussed on the needs of a market economy.* The shortage of corporate management skills and a properly trained judiciary and public administration adversely affect the performance of the economy and its competitiveness prospects.

*In 2000, the investment-to-GDP ratio (gross fixed capital formation) amounted to 16.6% of GDP, up from 15.9% in 1999.* However, it will be necessary for investment to grow further, as the current rate is too low to support continued high growth.

*Foreign direct investment grew substantially in the year 2000.* Bulgaria attracted around € 1.25 billion, which means a substantial growth since 1999 (around €0.9 billion). Over half of foreign direct investments are in green field investments. Between 50 and 60% of total foreign direct investments are channelled into industry; investments in trade, finance and tourism are the next most important sectors. Clearly these developments reflect a growing confidence in the Bulgarian economy. In the year 2000 only 22% of foreign direct investment originated from outside the EU against more than half in 1999. Over the last years, the accumulated per capita foreign direct investments have increased rapidly, reaching €470 by the end of 2000. Still, portfolio investment is negligible, as capital markets are not sufficiently developed.

*There is not much progress in the restructuring of the energy sector.* In the energy sector a number of hydroelectric power stations were privatised but some of the initiated procedures were recently suspended because of the government's preference to first update the strategy for the energy sector. This move created additional uncertainty among interested foreign investors. However, negotiations on the sale of two thermal power plants, Maritsa East 1 and 3, have been completed with foreign strategic investors.

There has been some further progress in restructuring the steel industry, though the process remains incomplete. A restructuring plan for the steel sector should be implemented in line with EC requirements.

Although small and medium sized enterprises (SMEs) account for the vast majority of all companies in Bulgaria they create only one quarter of the value added in the economy and

account for 40% of the jobs. SMEs have not developed their full potential for generating growth and employment since they are suffering the worst aspects of the unfriendly business climate, including red tape, corruption, lack of access to finance, information and management skills. (see also under Chapter 16, small and medium-sized enterprises)

*State aid fell from 2.2% of GDP in 1999 to 0.37% in 2000.* Sectoral aid fell from 85% of total aid to 76%, which benefited mostly the district heating companies, the Bulgarian post services and the Bulgarian Telecommunications Company while before the steel and shipbuilding companies were the primary beneficiaries. Regional aid was approximately constant in money-terms and hence its share increased (to almost 17%). State aid for horizontal objectives fell in absolute terms. There have been several cases of state aid and the government did not follow in most of the cases the requirements of the law to notify the competition authorities prior to granting the aid.

*Financial discipline has improved.* Tax, and social securities arrears and debt to suppliers have been decreased (monitored tax arrears, i.e. only large arrears, have fallen by €94 mln. over the year 2000). This implies a lowering of an obstacle to exit and a more level playing field. Financial discipline of state-owned enterprises (SOEs) has been maintained. The Ministry of Finance monitors remaining SOEs closely. These SOEs can only obtain credits for investments, not for operational costs. For the monitored enterprises, the overall financial position improved. However, the VMZ-Sopot and Bulgartabac companies and some parts of the energy sector continue to generate losses. Several SOEs in insolvency managed to reduce their losses substantially (Varna Shipyard and two metal sector enterprises).

*Bulgaria reduced import tariff rates further.* However, compared to EU rates, Bulgarian tariffs are still high. There is room, therefore, for further tariff reduction and opening of the economy.

*The openness of the Bulgarian economy increased.* In 2000, both the volume and the price level of Bulgarian international trade increased substantially. Imports and exports as a percentage of GDP increased from 96% in 1999 to 122% in 2000 - exports 58%, imports 64%. The export volume increased by around 17%, reflecting the steady integration of the Bulgarian economy into the EU and global economy. As Bulgarian imports and exports are energy intensive, their market value rose with the increased energy prices -export prices grew by around 20%.

*Trade with the European Union expanded.* Due to an expansion of trade opportunities in the neighbouring countries, as the economic environment in the Balkans improved, trade with non-EU countries grew even more rapidly (+45% in nominal euro terms) than with EU countries (+38%). This resulted in a slightly diminished share of exports to the EU from 52.1% in 1999 to 51.1% in 2000.

Exports to the EU consist mostly of food and manufactured goods while imports from the EU are mostly machinery and transport equipment. Bulgaria is a net exporter to the EU of wine, meat, fruit and vegetables, of tobacco and leatherwear and clothes and various metals and metal products. Although the BGN experienced a real appreciation vis-à-vis the euro, Bulgaria's real effective exchange rate did not appreciate over the year 2000 so that there was no loss of competitiveness against trade partners. More technology-intensive products, ranging from optical equipment and aluminium products to manmade fibres, dominate Bulgarian imports.

### **2.3. General evaluation<sup>19</sup>**

Bulgaria is close to being a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided it continues implementing reform and intensifies the reform effort to remove persistent difficulties.

The Bulgarian macroeconomy is going into its fourth year of stable conditions, having established a satisfactory track record of macroeconomic performance. Good progress has been made in privatisation, especially as regards banks, and with structural reform, setting the microeconomic basis for sustained growth.

However, inflation has risen considerably in 2000. Investment remains insufficient. Financial intermediation continues to be low and inefficient. Specific deficiencies remaining in the land market affect the performance of this market and of other economic sectors. The authorities should give priority to strengthening the judiciary and the enforcement of the regulatory framework. Administrative obstacles to private sector development, affecting enterprise creation, their development and their closing down, including bankruptcy procedures, must be eliminated. A sustained implementation of these reform measures and higher levels of private and public investment are key requirements for sustainable growth, and building up competitiveness.

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<sup>19</sup> See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

### 3. Ability to assume the obligations of membership

#### *Introduction*

This section aims to update the Commission's 2000 Regular Report on Bulgaria 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 2000 Regular Report, this section seeks to provide an overall assessment of Bulgaria ability to assume the obligations of membership, and of what remains to be done. This section is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Bulgaria administrative capacity to implement the *acquis* in its various aspects. Bulgaria progress in translating the *acquis* into its official language is assessed in a separate section.

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 effectively incorporating Community legislation into national legislation, 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.

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Bulgaria administrative capacity provided in the 2000 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 2000 Regular Report, the Commission concluded that:

“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 EU environmental *acquis* and for the preparation of the implementation of EU 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 or no progress has been made.

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

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

As indicated, the review of Bulgaria ability to assume the obligations of membership that is 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, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

### ***Chapter 1: Free movement of goods***

Since the last Regular Report, Bulgaria has continued to make good progress in this domain.

In the area of **horizontal and procedural measures**, Bulgaria has made the first steps to transpose the principles of CE marking of the New Approach legislation by adopting a Decree on Conformity Marking in August 2000.

Good progress can be recorded regarding **sector specific legislation**. In the areas covered by *New Approach Directives*, nine directives on gas appliances, construction products, toys, low voltage, equipment used in potentially explosive atmosphere, simple pressure vessels, machinery, lifts, and electromagnetic compatibility have been transposed. The Telecommunications Act was amended in early 2001 to provide liberalisation for the market for technical devices, but it is not in line with the *acquis* regarding conformity assessment procedures.

As regards sectors covered by the *Old Approach Directives*, the situation has slightly improved compared to last year but transposition remains behind schedule. Some progress can be recorded on motor vehicles, glass, footwear, pharmaceutical products and cosmetics. However, there are some delays in transposition of legislation on chemicals, textiles, pre-packaging and on legal metrology. In the area of food safety and foodstuffs legislation (*see also chapter 7 - Agriculture*) - Bulgaria has transposed EC legislation on hygiene requirements for non-plastic materials intended to come into contact with food.

As concerns the development of administrative capacity for the implementation of horizontal and procedural measures and sector-specific legislation, the main achievement since the last Regular Report has been membership of the European Accreditation since March 2001 by the Bulgarian Accreditation Agency (BAA). So far the Agency has only accredited one certification body for machinery, electrical equipment, furs and leather. Standardisation, certification and market surveillance activities are still in the hands of the State Agency for Standardisation and Metrology, although within different directorates.

Since the last Regular Report, no new developments have taken place as regards the **non-harmonised sector**.

In the area of **public procurement**, increased efforts have been carried out to adapt the legal framework for public procurement, notably with the adoption in November 2000 of an ordinance for the Public Procurement Register. The Register publishes procurement notices, invitations to pre-qualify, contracts planned for the next year along with other information on experts, good practices, invitations to tender and contract awards.

## *Overall assessment*

Bulgaria has reached a reasonable degree of alignment with the *acquis* on free movement of goods. However, much legislation intended to transpose the *acquis* is still in the drafting stage. The *acquis* concerning pressure equipment, medical devices, legal metrology, radio and telecommunication terminal equipment, non-automatic weighing instruments, and recreational crafts has not been adopted yet. Efforts should be made to speed up the adoption of legislation.

The framework Law on Technical Requirements adopted in September 1999, which introduced into domestic legislation the New and Global Approach principles, is still not fully in line with the *acquis*. In particular, the chapter on high-risk equipment (e.g. lifts, pressure vessels) needs to be amended as it could partially affect the proper application of some New Approach directives.

As regards standardisation, the adoption rate has increased by 40% although it still has not reached the level required for membership of CEN and CENELEC.

As regards food safety legislation, considerable efforts need also to be devoted to harmonising Bulgarian legislation with the *acquis* while abolishing the pre-market approval system. Furthermore, the administration (including the laboratory network) will have to be re-structured and adapted to the principles underlying the EC food safety system.

Legislation on firearms is not yet fully aligned with the *acquis*.

It remains difficult to assess progress made on the administrative capacity of the standardisation body. The functional reorganisation of the State Agency for Standardisation and Metrology is still pending, including the separation of standardisation, certification and market surveillance activities. This agency took over market surveillance of the gas appliances sector in June 2001, thus taking the first concrete step in assuming its responsibility for market surveillance in the areas covered by the New Approach directives. Bulgaria still needs to create an effective network of independent certifying bodies and laboratories. Special attention needs to be given to the development of a national conformity assessment system, and in particular to certification bodies which supply services under the conformity assessment procedures of the Global Approach.

As regards safety checks on products at external borders, Bulgaria has still not introduced appropriate customs checks on conformity. Major efforts are required to establish appropriate customs and market surveillance infrastructure as well as effective administrative co-operation between competent authorities.

In non-harmonised areas, Bulgarian authorities should ensure that the principle of mutual recognition is integrated into every piece of relevant Bulgarian legislation on goods.

In the area of public procurement, whilst the Public Procurement Law of 1999 provides for a general framework comparable to international procurement legal standards, it is still not fully in line with the *acquis*. Modifications are still required concerning conditions for tender, inclusion of public/private utilities, the remedies system and the application of the national preference scheme. Moreover, the duties of the Public Procurement Directorate have not yet been fully defined and it is currently understaffed. The Public Procurement Register has proved to be a well-used tool and has contributed to transparency. However, there is still much progress to be



made in terms of improving knowledge of public procurement operations on the part of the contracting authorities. The current institutional capacity of the directorate responsible for public procurement needs to be reinforced in terms of resources and staffing. Both the supreme audit institution (National Audit Office) and the internal audit body (Public Internal Financial Control Agency) can decide to perform specific audits on contracts made under the Public Procurement Law. However, the current control system needs to be strengthened to ensure prevention of possible corruption in the awarding of public contracts. Many companies, especially foreign companies, have expressed complaints about the nature of public procurement transactions. The complaints review procedure is burdensome and time-consuming and should be improved. The legal regulations and procedures for the control and audit of procurement operations need revision.

## ***Chapter 2: Free movement of persons***

Bulgaria has made some progress in aligning with Community provisions. Preparations for complete alignment, as well as for the establishment of the required administrative structures, have also continued.

In the area of **mutual recognition of professional qualifications** some progress has been made with the development of standards for 18 professions and with the establishment of a list of professions and specialities for vocational education and training.

Bulgaria has continued approximation of legislation relating to architects by revising the notion of legally recognised technical capacity in the Act on Construction of Territory. However, further measures are required in this area in order to achieve full harmonisation.

Progress has also been made in the area of medical and para-medical activities where a number of secondary legislative acts have been adopted.

As a result of restructuring measures and additional human resources, the administrative capacity of the three line ministries and the concerned state agencies has improved.

Some progress can be reported on **citizens' rights**. By adopting the Act on amendment and supplement to the Foreigners' Act, which entered into force in April 2001, Bulgaria extended the right to family reunification for foreign long-term residents and seems to have aligned its legislation with the relevant provisions on student rights. No particular developments are to be reported in the area of voting rights. It is recalled that the Constitution will need to be amended.

No particular developments are to be reported in the area of **free movement of workers**, although a new Ordinance on Work Permits of Foreign Nationals is under preparation to ensure equal treatment for migrant workers in Bulgaria.

In the light of the future **co-ordination of social security** systems, Bulgaria has adopted secondary legislation, aimed at the completion of the social security reform.

### ***Overall assessment***

Bulgaria has partially aligned with the *acquis* in this area. Steps have been taken to align with the *acquis*, but efforts will need to be stepped up and institutional capacity strengthened in all

areas. Further legislative work is necessary to achieve full alignment in the area of mutual recognition of professional qualifications. Efforts are needed both to provide an appropriate legislative framework and to ensure alignment with the individual directives. It will need to be ensured that, by accession, there are no provisions in Bulgarian legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements. Legislation on mutual recognition needs to be monitored to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow the provision of services. It will need to be ensured that the administrative structures in place are in line with the *acquis* and that any adaptations and reinforcements needed can take place in good time.

With respect to professional qualifications obtained before harmonisation, Bulgaria will need to introduce measures to ensure that all its professionals can, as from accession, meet the requirements laid down by the *acquis*.

With the amendments to the legislation on residence rights, Bulgaria has made some progress in aligning with the *acquis* on citizens' rights. Preparations should continue and include amendments to the provisions on voting rights.

In the area of the free movement of workers, legislation is only partially aligned and substantial efforts are required to ensure complete alignment by accession, in particular with the Regulations on free movement which will apply directly and automatically upon accession. Following the proposal of the Minister of Labour and Social Policy a working group has been set up to carry out a complete review of the current national legislation.

With a view to the future co-ordination of social security systems, Bulgaria needs to complete its social security reform and to develop sufficient administrative structures, in particular to train the necessary staff. Furthermore, Bulgaria is encouraged to conclude further social security agreements, in particular with Member States, as they normally rely on the same principles as the Community rules in this field.

### ***Chapter 3: Freedom to provide services***

Since last year's Regular Report, Bulgaria has recorded some progress in most of the areas covered by this chapter.

In the field of **the right of establishment and the freedom to provide services** (other than financial services) some progress has been made to improve the situation of non-residents. The Law on Foreigners was amended in April 2001 in a view to improving the conditions for foreigners exercising free-lance activities to obtain long-term residence. However, amendments are still required to ensure alignment of the law with the right of establishment under the Europe Agreement.

In the field of **financial services**, some legislation has been adopted to align the *banking sector* further with the requirements of the *acquis*. This includes in particular a new regulation on standards of capital adequacy for banks which partially transposes the relevant Directives. However, no progress can be recorded on important legislation regarding better protection of creditors and bankruptcy of banks, which is delaying subsequent updating of the legislation on bank deposit guarantees.

Concerning the *insurance sector*, there has been no progress. The National Council on Insurance and the newly created Agency on Supervision over Insurance and Gambling are responsible for the supervision of the insurance sector. The political independence of the latter has also been put into question since its creation in early 2001. Its capacity to carry out its role is weak, its inspections are rather superficial and the rationale behind its two roles, i.e. to supervise both the insurance and the gambling sector is still inconsistent with EC practices.

With regard to *investment services and securities markets*, important secondary legislation to implement the Public Offering of Securities Act has been adopted. Between mid January and May 2001, the Bulgarian National Securities Commission was inactive because of the expiry of the term of office of the Commissioners. It was only in mid-May that the new management of the Commission was established and started performing its functions. Concerning the **protection of personal data and the free movement of such data**, Bulgaria has not yet adopted a law.

Concerning **information society directives**, Bulgaria adopted in April 2001 the E-document and E-signature Law, providing for alignment with the most recent *acquis* in this area. Regarding implementation, the State Telecommunications Commission (STC) is responsible for the supervision of provision of certification services.

### *Overall assessment*

Bulgarian legislation is quite well aligned with the *acquis* in this area. It is maintaining stability of the financial sector, although further steps are still required.

In the field of the right of establishment and freedom to provide services, some efforts have been made to reduce provisions which lead to discriminatory effects on non-nationals, but significant problems remain. Also, Bulgarian law in this area is rather complex, which makes it difficult to assess whether regulatory provisions have been aligned.

Efforts will have to be continued to create a stable and efficient financial sector. Bulgaria has maintained the stability of its banking system and developed sound banking supervision practices through the Bulgarian National Bank's Banking Supervision Directorate. The higher share of loans to private enterprises in the total lending to trade and industry (over 77%) is a positive sign, as is the declining share of loans to the public budget and state enterprises. The structure of the banking system has changed with the share of private banks reaching 81% at the end of 2000. The largest Bulgarian commercial bank, Bulbank, was privatised at the end of 2000. A number of formerly privatised banks have already changed majority ownership, attracting foreign banks. The share of foreign-owned bank assets is thus around 73%. The privatisation of the banking system has resulted in a more competitive environment which, for instance, has triggered an upgrading of information systems of commercial banks, thus creating conditions for higher quality services and modernisation of the product range. There is also a substantial increase in the demand for credit cards and international debit cards in the country. Risk evaluation capacities should however be improved. There is still a shortage of know-how in the banking sector that needs to be addressed, even though the Institute of the Bulgarian Banking Association is carrying out intensive training programmes. Despite the progress made in adopting securities legislation, the capital market has not developed further. The Securities Commission as a regulator of the capital market, will need further training, particularly since its management was renewed in May 2001.

Bulgaria also needs to complete significant further steps in alignment with the *acquis* in the insurance sector. The situation in terms of transposition of EC insurance *acquis* is still lagging behind as only the first generation Directives have been transposed so far. The privatisation of the biggest state-owned insurance company has not yet taken place. Bulgaria still needs to develop a competitive insurance market. The staff of the newly created agency for supervision over insurance and gambling is in urgent need of training to carry out its tasks. The legitimacy of this agency is in any case open to question as long as it remains responsible for supervision of both insurance and gambling. However, the Government has just announced its intention to separate these responsibilities.

Wide consultation has taken place on the protection of personal data and the free movement of such data with the public and stakeholders, and legislation is under preparation. Bulgaria still needs to adopt legislation and ensure full independence of the supervisory body for the control over activities related to personal data processing.

#### ***Chapter 4: Free movement of capital***

Bulgaria has achieved substantial alignment of its national legislation with EC legislation in the field of free movement of capital.

Almost no progress was observed in the area of **payment systems**, although the start of work to establish a real-time gross settlement system (RTGS) is a small but positive step.

In the area of **money laundering**, the amendments to the Law on Measures against Money Laundering reorganised the Bureau of Financial Intelligence into a state agency. This Bureau is entirely financed by the State Budget and reports annually to the Minister of Finance.

#### ***Overall assessment***

As regards capital movement, Bulgaria's significant degree of liberalisation was introduced through the Foreign Exchange Act, which has been in force since January 2000. This included provisions which completely liberalised inward and outward direct investment. A number of transactions, mainly outflows, are not yet fully liberalised and require prior registration with the Bulgarian National Bank.

However, the main remaining restriction on capital movements concerns the constitutional ban on the acquisition of real estate by foreigners. An amendment to the Law on Ownership was adopted in July 2000. This removes the obligation that required foreign natural and legal persons to request an authorisation from the Minister of Finance to acquire ownership rights over buildings (rights to own, use and transfer) and limited property rights over real estate in the country (the right to use, build and to add to an existing building) except in border zones and areas of importance to national security. This limitation also applies to local companies with foreign participation.

Further efforts are required on the harmonisation of the Bulgarian legislation with the Directive on settlement finality in payment and securities settlement systems and Directive on cross-border credit transfers. According to the Foreign Exchange Law, the Ministry of Finance and the Bulgarian National Bank (BNB) are responsible for its implementation and for foreign exchange control. The BNB balance-of-payment department, however, needs substantial

capacity building in order to ensure permanent and detailed monitoring of the capital inflow and outflow.

Bulgaria needs to implement the acquis on payment systems and establish adequate and effective procedures for handling customers' complaints and for the settlement of disputes between banks and customers.

Work remains to be done also in order to develop the payment systems infrastructure in accordance with European requirements and standards.

Progress has been achieved in the area of fight against money laundering. Though the new amendments have increased the legal competencies of the Bureau of Financial Intelligence, the slow pace of legal proceedings seems a considerable impediment to the fight against money laundering in Bulgaria. The lack of resources also remains a problem. Bulgaria also needs to ensure that all relevant organisations and in particular all credit and financial institutions, co-operate fully with the Bureau.

A special unit within the "Special Supervision" Directorate at the BNB is responsible for the implementation of the amendments to the Law on Measures against Money-Laundering regarding the control and prevention of money laundering with respect to banks and financial houses. The extension of the unit's functions requires organisational development and further training of its officials. Bulgaria also needs to ensure compliance with the Recommendations of the Financial Action Task Force.

### *Chapter 5: Company law*

Since last year's Regular Report, Bulgaria has made further progress in aligning company law and improving the legal framework for protecting intellectual and industrial property rights.

Regarding **company law**, amendments to the Commercial Law were adopted in October 2000. These amendments implement the requirements of the First Directive on disclosure of information, the Second Directive on capital, the Eleventh Directive on disclosure requirements in respect of branches of foreign companies, and the Twelfth Directive on single-member private limited liability companies.

A number of training initiatives have been held over the past year to improve legal practitioners' awareness of developments in commercial law.

In the field of **intellectual and industrial property rights**, the Law on Copyright and Related Rights was amended in December 2000 to protect the rights of films and strengthen border control measures against goods infringing copyright. The National Assembly ratified the WIPO Copyright Treaty and Performance and Phonograms Treaty in January 2001. The National Assembly ratified the Madrid Agreement Protocol on international registration of marks in March 2001. A regulation on border control measures for industrial property rights protection was adopted in November 2000.

Policy on and enforcement of intellectual property rights is the responsibility of the Ministry of Culture, which maintains a national copyright database, with support from the Ministry of Interior, the Customs Agency and the courts. Over the past year, the Ministry of Culture has issued numerous penal ordinances relating to violations of copyright law, and the courts have

examined many intellectual property cases. The Ministry of Interior has seized and destroyed large quantities of pirate compact discs and software. A specialised working group has been established to improve co-ordination between the various bodies involved in enforcing intellectual property rights.

Regarding the regulation replacing the **Brussels convention** on jurisdiction and enforcement of judgements in civil and commercial matters, there are no new developments to report. (*See also chapter 24, co-operation in the fields of justice and home affairs.*)

### *Overall assessment*

Bulgarian legislation in the areas of company law, accounting law, industrial and intellectual property rights is broadly in compliance with the *acquis*. However, some gaps remain, notably the need for alignment with the Third and Sixth Directives on mergers and divisions of companies, the adoption of the proposed Accounting Law, and the introduction of supplementary protection certificates for industrial property purposes. Other legislation requires adjustment, in order to ensure alignment to the Directive on the harmonisation of certain aspects of copyrights and related rights in the information society and the Directive on the resale right for the benefit of the author of an original work.

Policy responsibility for company law rests with the Ministry of Justice, and the courts are responsible for enforcement. There is an electronic commercial register, which is open to public inspection. The Ministry of Finance has policy responsibility for accounting law and takes advice from the Institute of Certified Public Accountants, which is responsible for accounting standards.

The Patent Office is the principal authority responsible for protecting industrial property. 9199 marks, 1047 invention and utility model applications and 361 industrial designs were filed at the Office in 2000. The Office received 52 requests to investigate alleged infringements. It plans to set up a specialised unit to deal with infringements and impose sanctions.

The main challenge now is to strengthen the capacity of, and co-ordination between, the various bodies responsible for applying the law in the area of intellectual and industrial property rights protection, so that it is enforced in an accurate, timely and transparent way, which provides business with the necessary confidence that legal rights are effectively protected. The enforcement of intellectual, industrial and commercial property rights remains a particular concern: the continuing trade in pirate compact discs and computer software in many cities in Bulgaria provides an indication of the gap between the letter of the law and its enforcement. Special attention should be given to the functioning of the legal system, including its capacity to enforce legislation, to streamlining administrative procedures, and to eliminating the scope for corruption. Further efforts should be made to ensure efficient co-operation among the bodies dealing with enforcement (police, customs and judiciary) and border control. Training for enforcement bodies, including judges and prosecutors, should be stepped up.

### ***Chapter 6: Competition policy***

Bulgaria has made further progress in this area since last year's Regular Report.

In the field of **anti-trust**, the main legislative development was the entry into force in June 2001 of a decision on block exemptions of certain categories of vertical agreements. This decision is based on new EC *acquis*.

The Commission for Protection of Competition (CPC) was reorganised in November 2000 and the status and remuneration of many employees improved in line with the civil service law. The number of experts dealing with anti-trust cases reached 40. A new management information system that will improve case handling should be operational by the end of 2001. The CPC made 155 decisions on cases in 2000. About a third of the CPC's cases relate to anti-trust and two-thirds to unfair competition, though latest figures suggest an increasing proportion of anti-trust cases. The CPC contributed to the design of several important pieces of new market-related legislation, including the railway transport and postal services laws.

Almost half of the CPC's decisions in 2000 were subsequently appealed to the Supreme Administrative Court (SAC). Comparable data on the outcome of appeals to the SAC are not available, though its rulings tend in most cases to confirm the CPC's decisions. Progress was made during the year in improving co-operation between the CPC and SAC, with a common training project covering both organisations.

In the field of **state aid**, a working group on state aid legislation was created in early 2001.

Staffing in the Ministry of Finance's state aid department, which is responsible for monitoring state aid, reached its full complement of six persons during the year.

As far as state aid control is concerned, the CPC has over the past year started to exercise its control responsibilities on the limited basis permitted under existing legislation, using the Europe Agreement and *acquis* as points of reference. Six state aid cases were handled by the CPC over the past year, half of them at the initiative of the CPC itself without prior notification of the aids. The state aid directorate of the CPC was upgraded during the year and now comprises ten experts.

### *Overall assessment*

Bulgaria's legislation and enforcement record on anti-trust is developing in a broadly satisfactory manner, whereas both the legislative framework, monitoring and control of state aid need to be improved as a matter of priority.

As regards **anti-trust**, Bulgaria's legislation is largely in line with and covers most of the *acquis* provisions, though further liberalisation is needed. The recent adoption of a decision on block exemption of vertical agreements was an important step. Further alignment is needed notably in the areas of the new *acquis* on horizontal co-operation agreements.

The CPC has continued to establish a reasonably good enforcement record and raised public awareness of competition policy. The CPC should develop a more deterrent sanctioning policy, and should give priority to cases concerning the most serious distortions of competition. Further efforts are needed to strengthen the CPC's administrative capacity and its retention of qualified staff.

As regards **state aid**, Bulgaria is finally starting to develop and implement a control system for state aid, but cannot yet be considered as complying with the *acquis*. The existing Law on the

Protection of Competition contains only the most basic provisions on state aid control. It is essential that Bulgaria adopts comprehensive new legislation, and acts to raise public awareness of EC state aid rules and practices. In this context, the on-going preparation of the draft state aid law should be speeded up.

Responsibility for the monitoring of state aid rests with the Ministry of Finance, while state aid control is handled by the CPC. An inter-institutional memorandum of understanding governs the relations between the two organisations, but collaboration between them on state aid cases still appears to be underdeveloped.

The current state aid notification system does not in practice ensure ex ante control of all state aid projects by the CPC. Establishing a comprehensive ex ante notification system should be a priority. The methodology and coverage of the state aid inventory and annual report need to be improved: state aids granted via the tax system, for example, should be included in a comprehensive manner. Bulgaria has not yet submitted a regional aid map. The division of state aid monitoring and control responsibilities requires a sustained collaborative effort between the relevant organisations if it is to work effectively in practice. In the absence of a sufficient enforcement record, it is too early to judge the enforcement capacity of the CPC in state aid control.

Further transparency and effective control is needed as regards any possible aid granted in the context of steel restructuring.

### ***Chapter 7: Agriculture***

Bulgaria has made generally good progress in terms of approximation of legislation. The partial accreditation of SAPARD can be considered a major success in this area.

The agriculture sector, including processed products, generated 14.5% of Bulgaria's Gross Value Added in 2000<sup>20</sup>. The sector accounted for 11.3% of employment in 2000.<sup>21</sup> Agricultural incomes are in many cases low or very low. Agricultural output fell to 90% of the previous year's level. In 2000, EC imports<sup>22</sup> of agricultural products originating in Bulgaria amounted to €15.7 million and EC exports to Bulgaria to €65.7 million, the trade balance in favour of the Community amounting to €50 million compared with the balance of €1.3 million in favour of Bulgaria in 1999. The most important products groups in terms of EC imports from Bulgaria are alcoholic beverages (24 %) with a decrease of 31 % since 1999, meat (18 %) and oilseeds (12 %). As far as EC exports to Bulgaria are concerned, the most important products are cotton (13%) with an increase of 9%, since 1999, meat (12 %) with an increase of 46 %, and tobacco (9 %) with an increase of 41 %.

Since the last Regular Report Bulgaria has taken further steps in developing its agricultural policy. The 2000 report on the state of agriculture in Bulgaria, approved by the government in

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<sup>20</sup> The source for all agricultural statistics is Eurostat unless otherwise stated.

<sup>21</sup> EUROSTAT 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. As Bulgaria only recently introduced the LFS, figures should be treated with care.

<sup>22</sup> Source of trade figures: Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see EU 12/15: Agricultural Product Trade 1988-2000, 1 Part D.G. AGRI/A.2 Quantitative analyses, forecasts, statistics, studies, 2001, p. 10-57 and 86-89).



February 2001, lists the main objectives including the further development of market structures, the stimulation of the land market, the completion of restitution of forests, improving the competitiveness of the farming and processing sectors, creating an environment favouring export-oriented agriculture and exercising effective post-privatisation control. The report envisages provision of investment aid to diversify business activities in agricultural regions and promote rural tourism, traditional crafts and the development of services and small and medium-sized enterprises in the processing industry. Preparation for EU accession is another priority area. The preparation for efficient implementation of EC farming regulations, the introduction of the common agricultural policy and of Eurostat methods are among measures planned.

In the area of land reform, following the adoption of the Cadastre and Property Register Act of April 2000, the Bulgarian Government adopted in April 2001 a programme for the establishment of a cadastre and property register. The agricultural cadastre should be ready by 2004. The programme for establishment of a property register covers 2001-2015. A working group has been created by the Council of Ministers to co-ordinate and control the activities involved in the establishment of the cadastre and the property register.

Ownership rights for 99.58% of arable land subject to restitution have been restored. Forestry restitution is almost complete and 90% of rights have been restituted. For forests and forestland, ownership rights have been acknowledged for 625 918 hectares. Of this, 534 213 hectares had been returned to previous owners by March 2001, which represents more than 90%.

### **Horizontal issues**

Being the first candidate country to have its SAPARD Agency partially accredited by the European Commission, Bulgaria has taken a considerable step towards the implementation of measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)*. This took place in May 2001. Following the approval of the Bulgarian National Agricultural and Rural Development Plan by the Commission in October 2000, and the decision to allocate Bulgaria € 53 million for the year 2000, the Commission decided on the conferral of management of aid to the Bulgarian authorities for three types of measures: investments in agricultural holdings, improvement in the processing and marketing of agricultural and fisheries products and the development and diversification of economic activities and alternative income.

Bulgaria does not yet have a system for the administration and control payments similar to Integrated Administration and Control System (IACS) but is in the process of establishing a system. Bulgaria has already created some of the databases on which IACS will be built. The obligations related to animal identification have been met for large ruminants and are underway for small ruminants. Further progress has been made on the introduction of the Eurovet system, which will be complete at the beginning of 2002.

On *organic farming*, Bulgaria adopted legislative acts on the control of organic production. These cover the certification of products and the conversion period for plants and plant products, and livestock and animal products.

Preparation for determining the typology of the agricultural farms and for the implementation of *Farm Accountancy Data Network* has started.

## **Common Market Organisations**

Bulgaria is at an early stage in the development of Common Market Organisations (CMOs). Since the last Regular Report, it has finalised three studies for the alignment and implementation of CMOs in the cereals, fruit and vegetables and milk sub-sectors, which is an important contribution to preparation for accession. Studies cover legal, institutional and economic aspects and include proposals on how to introduce CMOs in Bulgaria.

In the *cereals sector*, no new legislation has been adopted. However, the warehouse structure which is necessary for intervention purposes continued to be reinforced.

In the field of *specialised crops*, Bulgaria has adopted a number of measures regulating wine and spirit production. An Executive Vine and Wine Agency and National Vine and Wine Chamber have been established. The role of the Agency is to ensure that laws related to wine and viticulture are observed. Concerning fruit and vegetables, in April 2001 Bulgaria created an administrative structure to carry out conformity checks and quality control of fresh fruit and vegetables and to participate in the process of harmonisation with EC legislation. In July 2001, an ordinance on the conditions and procedures for recognition of producer organisations in fruits and vegetables as well as tobacco was adopted.

## **Rural development and forestry**

Bulgaria's development of the administrative capacity for the implementation of the SAPARD programme contributes to preparation for the implementation of EC legislation in the area of rural development. SAPARD procedures are closely modelled on the payment, monitoring and financial control principles which are used in the preparation and implementation of EC rural development measures. In addition, a number of advice centres have been established for rural businessmen.

## **Veterinary and phytosanitary issues, including food safety**

Significant progress has been made in terms of adoption of legislation for the veterinary and phytosanitary sectors, but implementation capacity remains a serious problem. Further progress has been made on animal identification and registration. Ear-tagging and identification of large ruminants has been completed and is underway for small ruminants. A computer system for animal identification and registration of animal holdings has been started and the system should be fully operational in March 2002.

Concerning *animal nutrition*, there has been some progress through the establishment of a Directorate on Feed Control, which will exercise control over products and substances intended for animal nutrition. A register of producers and traders is maintained. In addition, regulations were adopted on feed additives, circulation of feed materials and control on products intended for animal nutrition.

On animal health, ordinances have been adopted covering prevention and control of a number of diseases. The National Veterinary Service (NVS) has also developed surveillance and monitoring programmes for control of diseases. Preparatory work for the introduction of the Animal Disease Notification System (ADNS) has been completed since the last Regular Report.

As regards administrative capacity, there has been some progress. The NVS adopted its statute in February 2001 which determines its staffing and organisation. It has 3,090 personnel, including 1,515 veterinarians. The NVS has a general directorate and subordinate structures for animal health, public health control of animal products, border veterinary control and animal breeding and laboratory control. Its public health control units carry out inspections and control through regional inspectorates, with the support of laboratories within the Regional Veterinary Services. These cover public health controls on raw materials and products of animal origin in production, slaughter and processing establishments, as well as on final products placed on the market.

Concerning borders, detailed surveillance programmes on some diseases have been implemented within a 10-kilometre zone on the border with Turkey. Bulgaria has also adopted measures on general requirements for veterinary checks on import and transit of live animals. There are currently 35 functioning veterinary border inspection posts, with 263 employees, including 149 veterinarians. Staff training on registration, control and trade is still required. Bulgaria has indicated that 10 locations will become long-term border inspection posts with third countries.

Concerning the **phytosanitary sector**, there has been some progress in approximation of laws. On *plant variety protection*, an ordinance on the official variety list was adopted in March 2001. A law on seeds and planting material was adopted in October 2000 and aims to create a legislative framework for the introduction of the seeds and planting material *acquis* and for the testing and inscription of varieties into the official plant variety list. In the area of plant health, a number of ordinances have been adopted on the control of plant diseases.

As regards administrative capacity in the phytosanitary field, some border inspection points, central and regional laboratories and trial stations have upgraded their equipment.

As regards **food safety** (*see also chapter 1 – free movement of goods*) the Bulgaria adopted a Food Safety Strategy in June 2001. This outlines the systems for co-ordination between the various official bodies involved, their competencies, organisation and staffing. The controls carried out by the NVS and its regional offices include laboratory analysis of food safety. However, upgrading of food processing establishments is needed.

### *Overall assessment*

Bulgaria's overall level of alignment means that meeting the *acquis* in this area still poses a very major challenge. Further efforts are needed to address the lack of capital and investment in agriculture from the private sector.

In the area of **horizontal measures** in order to accomplish full harmonisation with the *acquis*, Bulgaria envisages the adoption of amendments to the Farmers Support Act and related secondary legislation, which will regulate the establishment of an EAGGF Paying and Intervention Agency and of an Integrated Administration and Control System (IACS). However, the completion of government plans to establish market intervention institutions needed under the CAP still lie some years ahead.

As regards **common market organisations**, Bulgaria will need to adjust further its agricultural policy to conform to the CAP.

Concerning **rural development**, significant progress has been made in building up the administrative capacity for implementation of policies as a result of the accreditation of the SAPARD agency.

Whilst land restitution was virtually completed in 2000 and progress was achieved in the implementation of the Cadastre Law, Bulgaria does not yet have a functioning and transparent *land market*. With some exceptions in the richer agricultural areas, the land market is generally still under-developed due to fragmentation of property, small size of plots and undivided family co-ownership. These factors hamper both domestic and foreign investment in agriculture and limit the possibility of land to be used as collateral.

Concerning **veterinary and phytosanitary issues**, whilst progress has continued, much remains to be done to enforce veterinary/hygiene control standards and animal welfare. Human resources need to be strengthened both at central and regional level in terms of number and quality. Training is required for the industry to set up its own control systems and compliance with EC regulations.

Bulgaria still needs to revise its law on plant protection, as some provisions of the current law are not in line with the *acquis*, particularly in relation to the marketing of plant protection products, the control of organic farming and marketing of fertilisers. The National Service for Plant Protection, Quarantine and Agrochemistry covers administrative needs in line with *acquis* requirements in the area of plant health, however further improvements of human resource capacity and equipment are needed.

Concerning food safety, considerable further steps will be needed to implement the strategy. Bulgaria created a National Council for Food Safety in 2000. Upgrading of food processing establishments is needed.

## ***Chapter 8: Fisheries***

Since the last Regular Report, Bulgaria has made legal, institutional and operational progress aimed at the adoption and implementation of the Common Fisheries Policy (CFP).

The Fishery and Aquaculture Act (FAA), which replaces the 1982 Fish Farming Act, was approved by the Parliament in April 2001. The FAA incorporates the basic principles of the EC sectoral *acquis* and provides the legal basis for the implementation of all major aspects of the CFP, but much has still to be done to put these into practice.

With regard to **resource management, inspection and control**, the increase of staff in the National Agency for Fisheries and Aquaculture (NAFA) from 48 in December 2000 to 210, and the increase in the number of Regional Fisheries Inspectorates from 6 to 27, are first steps towards the reinforcement of administrative capacity which is necessary for effective implementation of the *acquis* in the fisheries sector. The NAFA, including Regional Fisheries Inspectorates, has lead responsibility for implementation of legislation in this sector. It reports to the Minister of Agriculture and Forestry (MAF) and issues licences for commercial fishing.

In the area of **structural actions**, there has been progress since the last Regular Report on the establishment of the Fishing Vessels Register as required by the CFP. The Register will be a part of the State Shipping Register and will be maintained jointly by the Executive Agency

Maritime Administration under the Ministry of Transport and Communications and the MAF (NAFA). Staff have been recruited and trained to work on the development of the register. Software has been acquired with a view to future enlargement of the system to carry out cross-checking.

Concerning **market policy**, no concrete progress has been made. However a study on the establishment of a market intervention institution is currently underway. As concerns **state aid**, there are no developments to report.

### *Overall assessment*

Despite recent progress, considerable further work and investment is still needed for Bulgaria to achieve compliance with the *acquis*. This includes in particular the adoption of secondary legislation, development of administrative capacity, training of staff, upgrading the technical resources of the inspection and control bodies, and the completion of the fishing vessels register. Bulgaria is advanced on privatisation of both the processing and marketing industry which is now almost complete.

Additional efforts are also required in the important areas of introducing producers' organisations and of improving licensing and registration of fishing and aquaculture activities. Market intervention in fisheries in Bulgaria is still at planning stage. There are no state aids for the improvement of transport and storage conditions. There is still the need for harmonised statistics and market (including price) information. At present, the NAFA lacks the required equipment and trained personnel to implement EC statistical requirements effectively.

Further commercial development of marketing and wholesale infrastructure, as well as of the markets themselves, is required before the Bulgarian government can sensibly plan the structures most suited to Bulgaria's situation.

The State Fund for Agriculture has been given the task of managing future aid and acting as paying agency for the fisheries sector, however it is not yet adequately equipped and trained to perform these functions in compliance with EC structural action requirements. Regarding administrative capacity in the area of structural funds, the SAPARD paying agency in the Ministry of Agriculture is intended as the future platform for financial management of the Financial Instrument for Fisheries Guidance (FIFG).

As regards international fisheries agreements, Bulgaria is a party to a number of conventions and international agreements: North-West Atlantic Fisheries Organisation, North Eastern Atlantic Fisheries Commission, General Fisheries Commission for the Mediterranean and various bilateral or multilateral agreements, in particular covering fishing in the Black Sea. A draft Convention on Fishing and conservation of life resources in the Black Sea is under negotiation.

### ***Chapter 9: Transport policy***

Bulgaria has continued to make reasonable progress not only in adopting the necessary laws to transpose the transport *acquis*, but also to create, for each sector, the administrative structures necessary to implement and enforce the *acquis*. Investments in transport infrastructure are increasing.

As regards **Trans-European Transport Networks**, in February 2001 Bulgaria presented its programme for transport infrastructure development, excluding road infrastructure, for the period 2001-2005, in compliance with the National Strategy for Development of the Transport Sector drawn up in 2000. This programme foresees investments of around €4,900 million of which about 31% will come from the national budget. Preparation for the construction of the second Danube bridge between Romania and Bulgaria, at Vidin-Kalafat, is well under way.

In the **land transport** sector, progress has continued with the adoption of further secondary legislation on the application of the 2000 Road Traffic Law and Road Transport Law. However, no concrete progress can be reported in the field of vehicle taxation (minimum tax levels), which forms a key element of fiscal harmonisation in this sector. The institutional framework for the *road transport* sector now relies in particular on the Road Transport Administration (RTA), the Traffic Police and the Road Executive Agency. The RTA is a legal entity funded through the budget of the Ministry of Transport and Communications. The Traffic Police is under the Ministry of Interior. The Road Executive Agency, which succeeded the General Road Administration, is funded through the Ministry of Regional Development and Works. The Road Executive Agency is responsible mainly for the design and management of the national road infrastructure and is the competent authority for issuing and controlling permits for freight transport, controlling vehicles which exceed the maximum allowed norms and collecting road charges. It has 3210 staff.

The bilateral agreement establishing certain conditions for the carriage of goods by road and the promotion of combined transport, signed last year with the EC, entered into force in May 2001. The European Agreement on International Occasional Carriage of Passengers by Coach and Bus (INTERBUS) was signed in December 2000. Its implementation will result in partial harmonisation with the road passenger transport *acquis*.

On *railways*, a new law on railway transport was adopted in November 2000 as part of the third phase of railway transport restructuring. This law is due to enter into force in 2002, and will be the basis for the sector's unbundling and the end of the state monopoly on transport of passengers and goods by rail. The law should ensure separation of railway infrastructure, administered by the state, from services operation. BDZ (Bulgarian Railways) will be transformed into a state-owned joint stock company, with its own accounts and budget, and will prepare its own business plan. The law includes measures for ensuring the independence of the resulting companies, market access, professional qualifications, liability and insurance, and safety certification. It also contains a separate chapter on combined transport. The law also resulted in the creation, in July 2001, of an executive agency, the 'Railway Administration', which employs 65 people and which is answerable to the Ministry of Transport and Communications. A regulation on the agency's structure, functions and activities was adopted.

In the *inland waterways* sector, no particular developments can be reported. The blockage of the Danube still has severe effects: 43% of the workforce has had to be cut and 82% of oil barges are not in operation.

As concerns **air transport**, over 30 acts have been adopted, including an amendment to the Civil Aviation Act and a Regulation on airports and airport procurement. This has resulted in the strengthening and more precise definition of the legal status of Air Traffic Service Authorities (ATSA). The overall situation and prospects of the national carrier, Balkan Airlines, currently in liquidation, has however affected the privatisation process across in this sector.

As regards **maritime transport**, according to 2000 statistics under the Paris Memorandum of Understanding, the percentage of Bulgarian flag vessels detained following port state control was 7.2%, a decrease compared to 1999 (8.1%) and 1998 (12.5%). This compares to an average for EU-flagged vessels of 3.9 % in 2000

### *Overall assessment*

Bulgaria's legislative framework has reached a fair level of alignment with the *acquis*. Bulgaria still needs to adopt further legislation in the field of maritime safety (Merchant Shipping Code) as well as further amendments to the road transport laws. The new administrative structure of the sector is now substantially in place as are the main administrative bodies. However, one problem is the frequent lack of experience in the new administrative structures in dealing with the obligations stemming from the new market conditions. Efforts need to be made to adopt and enforce the necessary secondary legislation. Regulatory efforts, in particular on land transport legislation, will have to focus on the transposition of the technical provisions of the EC *acquis* and its implementation. Technical, safety and in particular fiscal harmonisation will be key issues. In the road sector, for example, whilst the new laws and secondary legislation are important developments, Bulgarian road charging and taxation systems are still not compatible with EC norms. However, a calendar for developing these systems, involving a progressive reduction of the difference between charges applied to Bulgarian and to EC vehicles, has been adopted.

Bulgaria will need to prepare for the significant investments that will be needed in infrastructure (in particular to ensure that Bulgarian roads can cope with EC vehicle axle weight standards) and by operators to ensure conformity of their fleets, particularly as regards the part of the road haulage fleet which carries out national operations only. The Bulgarian road transport fleet is still divided into vehicles carrying out international transport, which conform to EC technical and safety norms, and those reserved for domestic transport only.

The inland waterways fleet will also need to be adapted to ensure conformity with EC technical and safety norms.

Rail restructuring should continue, bearing in mind that infrastructure charging and capacity allocation, as well as the managerial independence of Bulgarian railways, are issues that will need to be addressed soon in order to comply with the most recently adopted railway *acquis*.

Bulgaria is engaged in a process of legislative harmonisation in the air transport sector. Further efforts will be needed to ensure the objective of transposing most of the aviation legislation by the entry into force of the European Common Aviation Area agreement. Part of the *acquis* has been implemented including some Joint Aviation Requirements, Eurocontrol standards and EC rules on civil aviation accident investigation. An ordinance under the civil aviation act transposes some principles of the *acquis* on access to the ground-handling market although full compliance will need to be ensured.

As regards maritime safety, Bulgaria's vessel detention rates as a result of Port State controls has notably improved in the past two years, but is still well above the average for EU-flagged vessels. Bulgaria should continue with its efforts. Improving the performance of maritime safety administrative institutions, firstly as a Flag State, and then as a Port State, must be a priority.

The enforcement of EC legislation on maritime safety and prevention of pollution will require additional human resources and training for ship inspectors and associated support personnel.

### ***Chapter 10: Taxation***

Bulgaria has continued to make legislative progress in the field of taxation, although at a reduced pace compared to the previous period.

In the area of **indirect taxation**, an amendment to the VAT Act has reduced the time for tax credit refunds from 6 to 4 months. Also, a procedure for VAT refunds to foreign legal entities for services used on the territory entered into force in April 2001. According to this refund scheme, the minimum refund must exceed 500 Bulgarian Leva (€ 255.65) per year and the foreign entity must be registered in a country providing reciprocal refunds to Bulgarian entities. The introduction of a special scheme for travel agents was postponed until 2002.

As regards excise duties, Bulgaria has unified the duty on wine, regardless of the percentage of alcohol, thus aligning its legislation with the *acquis*.

On **direct taxation**, no particular developments can be reported.

In the area of **administrative co-operation and mutual assistance**, no progress can be reported.

As regards administrative capacity, Bulgaria has continued to modernise its tax administration. It has established a public web-site with information on the structure of the administration, statistics, return forms and instructions. The site also contains a public bulletin of all VAT-registered entities, in order to allow companies to verify tax registration of their counterparts. An advisory board to the General Tax Director representing different taxpayers groups has been established, which provides advice on taxpayers' issues. Furthermore, a tax fraud unit was established and is now operational. The establishment of the Unified Revenues Agency, which was mentioned in last year's report, has been postponed until the end of 2001. The agency will become operational as of 1 January 2003.

### ***Overall assessment***

Bulgaria's legislation is broadly in line with the *acquis* on VAT and excise duties, and Bulgaria has continued to align its legislation. Nevertheless, further alignment is still needed in the area of VAT, in particular with regard to exempt transactions, the right of deduction of input VAT and special schemes for travel agents and second-hand goods. As regards excise duties, the structure of the duty on cigarettes is contrary to the *acquis* as it provides different duty rates for filter and non-filter cigarettes. Moreover, the levels of the duties are still considerably below the EC minimum.

With the exception of Greece, international agreements on avoidance of double taxation have entered into force with all EU member states and most candidate countries.

Regarding **administrative capacity**, some progress has been achieved in the modernisation of the tax administration, but significant further effort is needed in order for Bulgaria to be able to implement fully and enforce the EC *acquis* upon accession. The extensive reform of the tax



administration, which began last year, has resulted in a structure consisting of 10 horizontal and 28 geographical directorates, including 121 tax offices, which, in several cases, have a number of local offices. Out of the total staff of about 9500 employees, there are currently 2300 auditors and 900 operational inspectors (who carry out inspections on compliance with VAT rules). It can be noted that the law on tax procedures, which has been in force since 1 January 2000, significantly increased the enforcement powers of the tax administration and has had a positive impact on collection figures. However, better techniques to select and implement tax audits are needed. On the whole, co-operation with other state enforcement agencies remains unsatisfactory.

It will be important to ensure that existing and future legislation complies with the principles of the Code of Conduct for Business Taxation.

In addition, work on the establishment of the Unified Revenue Agency should be pursued intensively.

### *Chapter 11: Economic and Monetary Union*

A detailed assessment of Bulgaria's economic policy in its various aspects has been given 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 before accession, 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 the section on *Chapter 4 – Free movement of capital*.

Since the last Regular Report, there have been no substantial legislative changes.

Over the reporting period, no changes have been introduced for **direct public sector financing** by the Bulgarian National Bank (BNB). Also, no further progress can be reported in ensuring the full **independence of the central bank**.

#### *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.

Bulgaria is already well advanced in implementing the *acquis*. However it has not completely aligned its legislation with the requirements of the Treaty concerning the independence of its central bank, notably in the area of personal independence of the members of the board of the bank.

Amendments to the BNB Act to explicitly prohibit the Central Bank from all forms of direct financing of the public sector still have to be adopted.

According to the Bulgarian authorities, there is no provision in the BNB Act allowing for privileged access to the public sector to financial institutions, but compliance with the acquis in this area will need to be monitored further.

## *Chapter 12: Statistics*

Bulgaria has continued to make progress over the past year.

As regards **statistical infrastructure**, in April 2001 an amendment to the statistical law was adopted. This includes provisions resulting from the Civil Service and Public Administration Laws, as well as provisions dealing with statistical data confidentiality and provision of data for statistical surveys. The National Statistical Institute (NSI) is an independent state agency attached to the Council of Ministers. The Prime Minister nominates the President and Deputy Presidents of the NSI, but once nominated they have 7-year mandates and can only be dismissed for specific reasons. On the basis of the Strategy for the Development of Statistics from 2000-2006, a detailed plan for priority tasks until 2005 was developed. This further defines tasks, objectives, and those responsible for undertaking these. A Strategy for staff training in the national statistical system for the period 2001-2006 has been prepared. This sets out training needs, the main challenges ahead, policies for staff selection and career development and training possibilities. To implement this an annual training plan for 2001 has been prepared. This emphasises training in statistics, computer skills and foreign languages.

Concerning **classifications**, national classifications, providing direct implementation of European classifications and nomenclatures such as NACE and CPA, came into force on 1 January 2001.

Concerning **demographic and social statistics**, further progress has been made. In line with the Law on a Census of Population, Housing Fund and Agricultural Farms adopted in 2000, the census was carried out in March 2001. A household budget survey was conducted in December 2000 and data has been published. The Labour Cost survey is included in the 2001 Bulgaria statistical programme.

As regards availability of statistics at **regional** level, efforts have been made to improve infrastructure for production of regional statistics. Staff from regional offices have received further training.

In the field of **macro-economic statistics**, there is little new to report but legal compliance is generally high. However, there is need for work on enforcement and practical implementation.

For **business statistics**, there has been progress with improving the quality of the business register. Further activities focused on structural business statistics. A survey on short-term construction indicators was launched.

For **transport statistics**, the register for motor vehicles has been updated and is now operational. A survey on road transport was conducted in 2000 in line with EC regulations. Inland waterways transport statistics are still incomplete and new laws are in preparation to oblige ports to compile and transmit data. Transit transport through inland waterways is not monitored.

For **external trade**, work is underway to improve the quality of primary data involving co-operation between the Customs Agency and the NSI to develop additional requirements for data control and checks. The NSI is also conducting comparisons on trade flows data with seven partner countries.

For **agricultural statistics**, during the past year, Bulgaria has made progress in testing the methodologies and questionnaires for the farm structure survey, livestock survey, slaughterhouse survey and the survey of milk processing enterprises. Good progress has been made to strengthen the administrative infrastructure and there are additional staff in the central agro-statistics department and the 9 regional offices. There is no farm register but data from the population census will be used to establish a provisional one.

### *Overall assessment*

Overall, Bulgaria is quite well advanced in the field of statistics. The population census was conducted on schedule and there have been steps to build the basis for a stronger administration for statistics. However, in a number of areas, more work is needed on methodology, quality and completeness of data to achieve compliance with the *acquis*.

Whilst some progress has been made in training of staff and improving their capacity to conduct work according to the *acquis*, turnover of staff dealing with EU matters is still very high at the NSI. Staffing of the Ministry of Agriculture and Forestry's agro-statistics department has been reinforced.

The building of IT capacity remains a priority. Whilst investments have been made under Phare projects, further training is needed in making effective use of the equipment and the software applications, in particular for staff of the regional statistics infrastructure.

### ***Chapter 13: Social Policy and Employment***

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

Progress has been made in the area of **labour law** through amendments to the Labour Code adopted in March 2001, which entered into force in April 2001. Some of the amendments aim at full or partial transposition of the *acquis* concerning certain aspects of the organisation of working time, protection of young people at work, the employer's obligation to inform employees of the conditions applicable to the contract of employment relationship, the safeguarding of employees' rights in the event of transfers of undertakings and the *acquis* on collective redundancies. A number of the amendments aim at enhancing labour market flexibility and promotion of employment through eliminating some of the more restrictive provisions of the old code, including unduly generous standards for layoffs, or the reduction of the cost of overtime work, and the introduction of the possibility to terminate contracts for economic reasons and of flexibility in working hours.

Very little progress has been made concerning **equal treatment for women and men**. The amendments to the Labour Code, adopted in March 2001, introduce the concept of "indirect discrimination", but not for the self-employed. They introduce the principle of equal pay for equal work and aim to protect women's jobs during leave for pregnancy and childbirth.

Limited progress has been made since the last Regular Report concerning **occupational health and safety**. Amendments to the Labour Code which were adopted in March 2001 further transpose the *acquis* on the introduction of measures to improve the safety and health of workers at work. An ordinance of the Ministry of Social Policy and the Ministry of Health adopted in April 2001 introduces further alignment with the *acquis* on personal protective equipment. The General Labour Inspectorate has improved its administrative capacity. By the end of 2000, Regional Councils on Working Conditions were established in all 28 districts, thereby strengthening the social dialogue on occupational safety and health. By March 2001, 223 Occupational Health Services aiming at assisting employers in fulfilment of their obligations on health and safety had been registered.

Bulgaria has continued its **public health** reform, starting with outpatient health care reform on 1 July 2000 and inpatient health care reform from 1 July 2001. More than 16,000 medical specialists were transferred from the state to the private health care sector. The emergency care system regulated under the Health Care Establishments Act was further improved by upgrading the existing 28 emergency care centres and their 183 branches. Some progress has been made in strengthening the administrative capacity of the National Health Insurance Fund, the body responsible for the development, operation and management of the compulsory health insurance scheme, at central and regional level. Secondary legislation which aims at transposing the *acquis* on labelling of tobacco products entered into force in January 2001. In October 2000, the World Health Organisation approved the Bulgarian national health care strategy 2001-2010. With a view to preparation for participation in the Community Network for epidemiological surveillance and control of communicable diseases, a network for registration and reporting of communicable diseases in the Balkan region is currently being established. The implementation of a national strategy for prophylactics and control of AIDS and other sexually transmitted diseases (2001-2007) started in March 2001. Furthermore, a 5- year national programme for prevention, treatment and rehabilitation in the area of drug abuse was adopted.

The recent amendments to the Labour Code determine in which cases organisations of employees or employers can be considered as representative organisations at the national level. Furthermore, they strive for a more autonomous bipartite **social dialogue** by clarifying the conditions under which the application of a collective agreement of industry at branch level can be extended to all enterprises of that industry or branch. A law adopted in April 2001 establishes an Economic and Social Council, which is consulted on draft laws and national programmes concerning economic and social development.

The unemployment rate fell to 16.4% of the labour force at the end of 2000 (from 17.0% in 1999) of which 58.9% are long-term unemployed. In the second quarter of 2001, unemployment increased to 19.4

Bulgaria has continued, in close co-operation with the European Commission, an Employment Policy Review to examine progress made in adapting the employment system to implement the European Employment Strategy. This includes work on a Joint Assessment Paper that started in 2000. Though the government has recently started a more active employment policy, including some decentralisation of labour market policies through Regional Employment Councils, there were few measures, such as training, in enterprises threatened with redundancies. This was mainly due to the chronic deficit of the Unemployment and Vocational Training Fund; the National Employment Service still concentrates on passive labour market policies. Positive steps are the preparation of a Strategy on Human Resource Development, the adoption, in

March 2001, of a National Action Plan for Employment based on the four pillars and the guidelines of the European Employment Strategy, and the adoption of the law on the Social Investment Fund in April 2001. The latter strives to support priority projects identified in the National Economic Development Plan and the National Plan for Regional Development as well as in the National Action Plan for Employment.

Little progress has been made on preparations for administering support received through the **European Social Fund**, although a new Directorate was created by the Ministry of Labour and Social Policy in March 2001. The administrative capacity of this unit needs to be further strengthened.

As regards **social protection**, substantial progress has been made toward the introduction of a diversified multi-pillar pension system, which will gradually shift a share of contributions into a second pillar and private pension funds, thereby restoring long-term viability of the traditional pay-as-you-go scheme. The adoption of certain amendments to the mandatory social security code which entered into force in January 2001, aim to establish a stronger link between contributions and benefits. Preparations for the introduction of a fully funded second pillar from 2002 and for the creation of voluntary private contribution funds (third pillar) are underway.

Amendments to the Act on Protection, Rehabilitation and Social Integration of Disabled People were adopted in March 2001 aiming for better opportunities for disabled people. The amendments envisage *inter alia* the establishment of a National Council on Rehabilitation and Social Integration within the Council of Ministers including representatives of NGOs active in this field, the government and employers.

No progress has been made in adopting detailed and effective anti-discrimination legislation.

### *Overall assessment*

Overall, Bulgaria has advanced little in this area. It still needs to make major efforts to achieve compliance with the *acquis*.

Concerning labour law, Bulgarian legislation is partly in line with worker's rights as defined by the *acquis*. The latest amendments to the Labour Code include several provisions aiming for consistency with the *acquis*. However, further strengthening of administrative capacity is needed if the *acquis* is to be implemented. Further alignment will need to take place to achieve full compatibility with the *acquis*, including on European Works Councils, protection of employers in the event of an insolvency, part-time work and posting of workers.

Much of the *acquis* in the field of equal treatment for women and men remains to be transposed and it is a matter of concern that transposition of the *acquis* in this area is slow.

There is an urgent need to introduce a legal definition of discrimination into Bulgarian law. The current lack of such a definition significantly hinders the implementation of existing Bulgarian anti-discrimination legislation.

Adoption of legislation in the field of occupational safety and health appears rather slow: for example, no progress has been made concerning hazardous work and the application of labour and occupational safety and health regulations by employers remains weak. Further alignment of legislation is needed to cover the whole range of specific Health and Safety at Work Directives,

particularly the use and protection from hazardous agents, including chemical, biological or carcinogenic materials. In addition, administrative capacity in this area will need to be further developed to enforce health and safety at work rules. With regard to communicable diseases, further steps are needed for the development of a health monitoring system in order to obtain health data and indicators comparable to the EC system, in particular in view of the Community network for the epidemiological surveillance and control of communicable diseases.

While further progress has been achieved in continuing the public health reform, further efforts are necessary to reduce unequal access to medical care as well as to improve the relatively poor health status of the population. Alignment to the EC tobacco *acquis* requires further adoption of legislation.

Structured involvement of social partners in the decision-making process needs to be improved. While there has been some progress in developing a framework for social dialogue at sectoral level, social dialogue in general is still characterised by a high degree of centralised bargaining and direct government involvement in labour negotiations. Also local bargaining tends to apply only to specific and rather less important issues. Further progress needs to be made to improve autonomous social dialogue, particularly more decentralised bargaining to address high and persistent regional unemployment differentials and working conditions, especially in view of the implementation of the *acquis*. There is also an urgent need to improve the coverage rate of collective bargaining, especially among new private enterprises. Tripartite consultations should also be improved in order to give a real opportunity to social partners to influence policy-making. This is particularly needed on employment, enlargement issues, and social policy in general. Social dialogue in the public sector also needs to be developed.

The overall labour market situation continues to be of concern. Access to the labour market remains difficult for ethnic minorities, the disabled and young people. The Bulgarian government has started a number of employment programmes, but the skill mismatch is not sufficiently addressed through active labour market measures. Special attention should be given to developing an effective delivery system for public employment services. Temporary employment and training programs could be better targeted at vulnerable groups for which they would have the highest impact.

The timely finalisation of the Joint Assessment Paper should help focusing the national employment strategy on the main challenges for the employment policy.

As regards preparation for the European Social Fund, substantial efforts are required to improve both the administrative capacity and the mechanisms for co-ordination of ESF interventions in the context of the European Employment Strategy and the social inclusion process.

In the field of social protection, sustained efforts are required to implement the reforms introduced. Though some progress has been made, further efforts are needed to strengthen the role of NGOs in the provision of social services to people who are socially excluded, in particular for ethnic minorities and disabled people.

The combat against exclusion, as laid down in Article 136 of the Treaty establishing the European Community, is part of the objectives of EC social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed

objectives at the EU level and national action plans. The Gothenburg European Council in June 2001 invited candidate countries to translate the Union's objectives of promoting social inclusion into their national policies.

Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on Article 13 of the EC Treaty.

### ***Chapter 14: Energy***

The restructuring of Bulgaria's energy sector progressed at a very slow pace throughout 2001, following delays in the planned revision of the legislative framework. On the basis of the 1999 Energy and Energy Efficiency Law, a number of laws and secondary legislation were adopted but delays in the adoption of other key texts have hindered efficiency improvement and preparation for privatisation.

Concerning **security of supply**, there has been no progress as regards harmonisation with the *acquis* on oil stocks.

In relation to **competitiveness and the internal energy market**, the implementation of the Energy and Energy Efficiency Law (EEEL), adopted in July 1999 and which lays down the basis for the restructuring of the sector, has been slow and is still not satisfactory. Amendments to the Law, required so as to bring it into full conformity with the Electricity Directive, have not been passed. The National Electricity Company (NEK) has been split into 15 entities: as well as the Transmission System Operator, there are 7 generation and 7 distribution companies. The main existing generation branches of NEK were split off as independent producers, with the exception of the thermal power plant Maritsa East 3, the large hydropower plants and the pumped-storage hydropower plant. The performance of the Transmission System Operator has still to be checked, especially as regards economic dispatching and planning. The State Energy Regulatory Committee (SERC) has begun its licensing activity. SERC is entirely state-funded. Despite its limited experience, the authority works well and its staff have been increased to reach 70 out of the planned 85. Energy prices, which were intended to remain frozen until 2002, (when this issue was to become the responsibility of the regulatory authority) rose in October 2001. Long-term marginal costs are, however, still not being met with the current price rates.

In the *gas sector*, accounts have been unbundled. Bulgargaz has reported a significant loss for the year 2000.

Regarding *district heating*, a strategy and related action plan for the development of this sector have been prepared. Progress has been reported in the area of subsidy restructuring, by switching to subsidisation of specific needy customer groups.

Restructuring of the *solid fuels* sector is continuing with a view to privatising viable coal-mining companies and liquidating others. The Government has adopted an Action Plan for this sector which should be implemented by 2003.

As regards **energy efficiency** and the use of renewable energy sources, limited progress can be reported. There is a gap between the stated strategic policy goals and the actual support given to this matter. The State Agency for Energy Efficiency, the main government body in

charge of this policy, has not been given the appropriate means to carry out its role, despite the fact that the Energy and Energy Efficiency Law calls for an increase of its mandate to implement the national policy for energy conservation. It is still insufficiently staffed although an increase by 11 positions was granted in the 2001 budget.

In the field of **nuclear energy**, Bulgaria operates the Kozloduy Nuclear Power Plant with 4 units of VVER 440/230 design type (Units 1 to 4), and 2 units of the VVER 1000/320 design (Unit 5 and 6). In addition to the Kozloduy reactors, Bulgaria has one research reactor in Sofia, which is presently shut down pending decisions on its future. Spent fuel from the power reactors is stored at Kozloduy and spent research reactor fuel at the research reactor. Existing waste treatment and disposal facilities are being upgraded and new ones are planned.

Regarding nuclear material safeguards, Bulgaria has concluded a full scope safeguards agreement with the IAEA. An Additional Protocol to this agreement entered into force in October 2000.

As regards nuclear safety, Bulgaria has made progress on improving the legislative and regulatory framework. In particular, a decree on nuclear damage liability has been adopted. Kozloduy will be held responsible for any damages incurred by civil nuclear accidents, in compliance with the Vienna Convention. A national insurance pool was formed in June. The restructuring of the Kozloduy Nuclear Power Plant is continuing, with outsourcing and unbundling of a number of activities.

During the reporting period, Bulgaria undertook various steps to implement its below-mentioned commitment to close reactors 1 to 4 of the Kozloduy Nuclear Power Plant as set out in the Understanding signed between the Government of the Republic of Bulgaria and the European Commission in November 1999, and has proceeded with the assistance package offered by the Commission under this Understanding. A special unit has been established in the Kozloduy Nuclear Power Plant to oversee the process of decommissioning Units 1 and 2. A set of projects is currently being finalised in this respect, including the construction of a new dry storage spent fuel facility on the Kozloduy site. An ordinance, setting out the requirements of the Bulgarian nuclear safety authority for ensuring safety in the process of decommissioning activities, has been adopted. Furthermore, Bulgaria concluded a Grant Framework Agreement with the EBRD as manager of the Kozloduy International Decommissioning Support Fund, thus allowing the international grant fund to commence its operations. In June 2001, the Fund held its first meeting of the Assembly of Contributors and the first work plan was approved. The Assembly is chaired by the European Commission representing the European Community, as the main contributor to the Fund. The Fund has attracted several other donors. Regarding Units 3 and 4, which are of the same design type as units 1 and 2, Bulgaria has undertaken a programme of major investments. It is understood that these are intended to ensure their safe operation until final shut down in accordance with the early closure commitment contained in the Understanding. The modernisation of the VVER 1000 design type units 5 and 6 officially started in June 2001. The first part of the Euratom loan, which is part of the assistance package provided for under the Understanding and amounting to €212.5 Million, has been disbursed. The various elements of the Understanding form an integral whole.



## *Overall assessment*

Bulgaria has reached a certain degree of alignment with the *acquis* but this is still not sufficient notably as concerns preparation for the internal energy market and oil stock *acquis*.

Bulgaria needs to enhance its efforts to be able to comply with the energy *acquis*. Particular attention should be given to the creation of a legislative framework compatible with the *acquis* as regards emergency oil stocks. Given the costs involved, Bulgaria should begin immediately to adopt the necessary legislation, implement a comprehensive programme to harmonise the *acquis*, ensure adequate administrative capacity. It should also start to constitute the necessary storage facilities and stocks themselves. In addition, the fact that the level of oil stocks continues to be considered a state secret raises serious concern.

Also the preparation for the internal energy market (electricity and gas directives) needs attention. In this respect, Bulgaria should speed up substantially adoption of amendments to the Energy and Energy Efficiency Law of 1999 and should continue to determine an appropriate and efficient regulatory mechanism able to carry out the functions as defined in the internal energy market directives. The failure to pass these amendments further delays necessary changes, including the adoption of bylaws, creating practical problem for the implementation of this Law by entities in the sector. This could cause delays in the modification of the model of access to the network that should gradually change from that of a single buyer to regulated third party access in 2003. In particular, the “eligible customer” called for in the Law and the approach to be followed are still to be defined. Investments in the distribution network and to improve energy resources are under way, in order to make a full interconnection to the western European electricity networks (UCTE) possible, hopefully in 2002. In the gas sector, it is still unclear how market opening in accordance with the *acquis* can be ensured, given the quantities of gas Bulgaria has already contracted to buy from abroad, notably from Russia, which exceeds national consumption. The lack of financial discipline of energy companies continues to be a problem, even if improvements have been recorded in the recovery of unpaid bills. The main non-payers are state budget-funded organisations. In district heating, the collection rate varies between 40-45% and 70% depending on the region. Removal of price distortions should continue while “stranded costs” also need attention.

The National Energy Strategy is to be updated next year, taking into consideration in particular the early closure commitments for Units 1-4 of the Kozloduy Nuclear Power Plant. Forecasts for energy demand confirm that this is not growing at the rate foreseen in the previous strategy (1998). This will be taken into account in the new strategy. It must be pointed out that Bulgaria still has an energy consumption per capita three to four times the EU average. Despite plans to activate an energy efficiency fund, it is of concern that Bulgaria has not been able to put into practice an active policy on energy efficiency during the period under consideration. The lack of such an active policy, both on the production and end-user side, should be underlined. Substantial efforts must be made rapidly in this area, a first step would be substantially improved co-ordination between the State Agency for Energy Resources (SAER) and the State Energy Efficiency Agency (SEEA). Concrete steps to enhance support for energy efficiency, energy saving and the use of renewable energy sources should be taken rapidly.

In general, the co-ordination of energy sector activities, under the Ministry of Economy, has been weak. There is still uncertainty and apparent disagreement on the division of responsibilities between the State Agency for Energy and Energy Resources and the State

Energy Efficiency Agency. Nevertheless, the provisions contained in the Energy and Energy Efficiency Law give the latter a mandate to implement the national policy for energy conservation.

As regards nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries, including the need to respect closure commitments and to set precise dates for the closure of units 3 and 4 of the Kozloduy NPP. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This report contains findings on the situation and perspective of nuclear safety in each candidate country, as well as recommendations for specific improvements. In July, the Commission conveyed this report to the candidate countries.

General recommendations of the Council Report call for all candidate countries with Nuclear Power Plants to complete their plant-specific safety improvement programmes, and to ensure that their programmes include measures considered good practice within the European Union, particularly regarding various specified safety measures such as assessment practices, emergency procedures, feedback of experience, resources of the regulatory authority and other aspects.

The report recommends that all candidate countries continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

With regard to Bulgaria, the Council Report recommends twelve specific measures to ensure the safe operation of the Kozloduy NPP and other nuclear installations, including nuclear legislation, resources of the regulatory authority, national emergency exercises and other specified technical aspects.

It is recalled that reactors 1 to 4 of the Kozloduy Nuclear Power Plant are subject to early closure commitments of the Republic of Bulgaria, contained in the Understanding signed in November 1999 between the Government of the Republic of Bulgaria and the European Commission. Under the Understanding, the Republic of Bulgaria commits itself to close definitively Units 1-4 of the Kozloduy Nuclear Power Plant at the earliest possible dates. Units 1 and 2 of the Kozloduy Nuclear Power Plant will therefore be closed down before the year 2003. The definitive closure dates for Units 3 and 4, which will be before the currently envisaged closure dates of 2008 and 2010 respectively, will be decided in 2002 in agreement with the European Commission and on the occasion of the updating of the National Energy strategy. The Commission's understanding is that the definitive closure of units 3 and 4 will take place in 2006 at the latest. Bulgaria should accelerate preparations for a comprehensive decommissioning plan and start to implement it soon.

The status and the resources of Bulgaria's regulatory authority should be further strengthened in the short term and its independence should be guaranteed.

Bulgaria will need to ensure compliance with Euratom requirements and procedures. In this respect, continued attention should be given to preparing the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or undertakings operating nuclear installations or storing nuclear material.

## ***Chapter 15: Industrial policy***<sup>23</sup>

Since the last Regular Report, Bulgaria has made some further progress in its efforts to develop and implement a market-oriented industrial policy aimed at creating a competitive and dynamic market economy.

**Industrial policy** is conducted within the framework of the Strategy for Improvement of the Productive Sector, an integral part of the National Economic Development Plan 2000-2006. A revised version of the Plan was drawn up under the overall co-ordination of the Ministry of Regional Development and submitted, together with an independent *ex ante* evaluation, to the Commission in May 2001.

**Privatisation and restructuring** of state-owned enterprises and banks neared conclusion in 2000, including the sale of residual state shareholdings. The Privatisation Law was amended in November 2000 to improve the efficiency and transparency of privatisation procedures and reduce incentives favouring management and employee buy-outs.

There has been some further progress in restructuring the steel industry, though the process remains incomplete. Following the sale of a majority stake in its largest steel plant, Bulgaria submitted to the Commission in 2000 a viability plan for this plant which provided for a significant restructuring including a reduction of capacity and employment over the coming years. The authorities have emphasised that the steel industry does not receive any ongoing state aids, and will not do so in future.

Many unviable state-owned enterprises are still being liquidated. Bankruptcy and liquidation procedures were reformed during 2000, and special bankruptcy chambers established in 2001.

### *Overall assessment*

Bulgaria's policy towards industry is largely in conformity with the principles of EC industrial policy, being market-based, stable and predictable. The National Economic Development Plan, which states clearly national priorities in this field, needs to be finalised and fully embedded in national decision-making to ensure that it plays an operational role in guiding policy.

Privatisation of commercial state-owned banks and enterprises is now nearing completion, though the sales of the telecoms and tobacco companies have not yet taken place. There continue to be complaints about a lack of transparency in some privatisation procedures. Less progress has been made in placing the public utilities, notably in the energy and transport sectors, on a financially sound and competitive basis. It is uncertain whether the steps so far taken to restructure the steel industry are sufficient to assure its medium-term viability. There remain concerns about the viability of some privatised enterprises, particularly those sold by management or employee buy-out, where the new owners may lack the financial resources and management skills to run the enterprises successfully.

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<sup>23</sup> Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see Chapter 16 – *Small and medium-sized enterprises*).

It is too soon to assess whether recent changes to the legal framework and procedures for bankruptcy and liquidation have succeeded in streamlining the exit of unviable enterprises and the recycling of their assets to more productive use.

It should be noted that an important element of any industrial policy is the control of state aid and the compatibility of support schemes with EC rules, including the current rules of state aid of the ECSC Treaty, which will have to be examined. Bulgaria maintains a restrictive approach to granting state aids to industry, though the monitoring and control of state aids needs to be improved (*see chapter 6, competition*).

The Ministry of Economy is responsible for developing and implementing industrial policy, with supporting roles for the Ministries of Finance and Regional Development, the Privatisation Agency, the National SME Agency and the Foreign Direct Investment Agency.

The Ministry of Economy generally plays a pro-active approach to industrial policy for the sectors for which it has responsibility. Now that privatisation and restructuring is nearing completion, the Ministry is re-orienting its role away from the control of state enterprises and towards the wide-ranging reforms necessary to create a more favourable business environment. This will require the Ministry to strengthen its co-operation with other ministries and public agencies and to consult with business organisations on an equal and transparent basis.

While the Ministry of Finance has successfully implemented policies for macroeconomic stability, it also needs to play a more pro-active role in developing and implementing economic strategies to encourage private sector development. The capacity and profile of the Foreign Direct Investment Agency and Centre for Export Promotion could usefully be enhanced.

### ***Chapter 16: Small and medium-sized enterprises***<sup>24</sup>

Bulgaria has made some further progress in encouraging the creation and development of SMEs.

While no particular developments can be reported regarding the overall **SME policy** as such, efforts continued to create a more favourable **business environment**, and some of the reforms will benefit small enterprises in particular. The work of an inter-institutional working group resulted in the actual or proposed simplification or abolition of 121 licensing and other requirements by the end of 2000. At the beginning of 2001, a number of tax reforms were implemented to encourage incentives and business development, including a 5-percentage point reduction in the rate of profit tax and a reduction of the VAT reclaim period. Dialogue between the public administration and the business community intensified, with the Ministry of Economy holding regular consultative meetings with business associations.

As far as access to finance is concerned, several new initiatives were launched with the encouragement of the National SME Agency. The state-owned Promotional Bank increased its lending activities to SMEs, while a variety of other state-owned and commercial banks stepped up their SME lending, some with the support of donor credit lines. There remains a dearth of venture capital for the provision of external equity finance to small businesses.

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<sup>24</sup> Developments concerning SME policy should be seen in relation to the overall enterprise policy, including the industrial policy (*see Chapter 15 - Industrial policy*).

The Ministry of Economy and the National SME Agency in the Council of Ministers, with its six regional offices, are responsible for developing and implementing SME policy. The Agency's staff rose to 34 persons during the past year, of which 12 are employed in the six regional offices.

No development can be noted regarding the alignment of the **SME definition**.

#### *Overall assessment*

Bulgaria's SME policy is in line with the principles and objectives of EC enterprise policy, though the Bulgarian definition of SMEs, notably as regards medium-sized enterprises, still differs from the EC definition and should be aligned.

Bulgaria needs to persist with and intensify its efforts to develop a more favourable business environment, and to address the administrative, financial, fiscal and managerial obstacles to SME creation and development. Despite the removal and streamlining of numerous licensing procedures, there remain significant administrative barriers to setting up and running a business in Bulgaria. The slow and unpredictable functioning of the judicial system and the prevalence of petty corruption are also cited by business people as deterrents to economic activity. Much activity still takes place in the informal economy. Further efforts are required to develop the capacity of business associations and ensure they are consulted in an even-handed and transparent manner.

Greater resources for policy development and particularly implementation are required at the Ministry of Economy and National SME Agency, at both central and regional levels. The respective responsibilities of these two organisations for SME policy could usefully be clarified. Co-ordination of both national and donor-supported activities in the area of SME development should be improved.

### ***Chapter 17: Science and research***

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

Amendments to the Act on Higher Education were adopted in March 2001; they aim at improving the system of institutional accreditation. A National Centre for Agricultural Science was established in December 2000 and includes a national network with approximately 30 branches.

During the reference period, Bulgaria continued to be fully associated with the Fifth Framework Programme, as well as with the Euratom Framework Programme. As for other candidate countries associated with the Fifth Framework Programme, Bulgaria has been granted observer status to CREST (*Comité pour la Recherche Scientifique et Technique*).

#### *Overall assessment*

Though the framework for co-operation in the field of science and technology is well established, the research-related administrative capacities and infrastructure should be further reinforced, *inter alia* to ensure successful association of Bulgaria to the Fifth Framework Programme. For the further development of the sector and for an effective integration of

Bulgaria into the European Research Area, it is important to increase the gross domestic expenditure on research and technological development. The promotion of science and research in Bulgaria will particularly need a further increase of business expenditure on research and development (BERD), i.e. of expenditure on science and research activities from the industry, small and medium-sized enterprises and the private business sector in general. Furthermore, there is a need to foster research activities in universities and to introduce proper risk capital legislation. Emigration of young and experienced specialists continues to hamper the development of this sector.

An overall framework strategy for the development of research – although under- preparation – is still missing. The same goes for legislation dealing with promotion of scientific research as well as with high-tech parks and activities. The fact that almost no legislative developments have taken place in the reference period, combined with the lack of an effective policy maker for this sector (the National Council for Research and Technological Development lacks administrative structure and support) and the still low percentage of GDP spent on science and research, indicates that improvement of research and technological development has not been given particular attention by the government in the reference period. The Ministry of Education and Science lacks staff to deal effectively with research-related issues.

### ***Chapter 18: Education and training***

Some further progress has been made in this area over the past year.

During the reference period, Bulgaria started to participate in the second generation of the **Community programmes** Leonardo da Vinci and Socrates (*see section A.b – Relations between the European Union and Bulgaria*). Procedures for participation in the new Youth programme (which incorporates European Voluntary Service activities) are underway.

No particular developments can be reported regarding the **Directive concerning education of children of migrant workers**.

Bulgaria has made little progress in **reforming its education and training system** and in further introducing European standards. Secondary legislation was adopted which introduced some state requirements for education and qualification of teachers as well as standard conditions for progressive decentralisation concerning the admission of pupils to general secondary schools. Concerning vocational education and training, expert groups have been established on curricula reform and the National Agency for Vocational Education and Training has drawn up a new list of vocations which has been approved by the Ministry of Education and Science. Furthermore, a number of criteria and specific procedures for licensing have been worked out for vocational education and training, as well as national educational programmes for children (September 2000) and young people (September 2001).

Some measures were taken to improve equal access to higher education. Secondary legislation on the organisation and activities of the National Evaluation and Accreditation Agency as well as on the recognition of higher education in some foreign universities was adopted.

### *Overall assessment*

Participation in the Community Socrates and Leonardo da Vinci programmes is satisfactory and the established national agencies are functioning. However, co-operation between the Ministry of Education and Science and the National Agency for Socrates needs to be improved.

The Directive concerning the education of children of migrant workers still has to be fully transposed and implementation ensured.

Though legislation for a mobile and adaptable vocational education and training system is in place, including the regulation governing the organisation, management and financing of vocational education and training, progress in implementing this comprehensive reform of the vocational education and training system has not progressed significantly. There is no clear strategy for and linkage between the planned optimisation and decentralisation of the vocational education and training system. Capacity-building and development of vocational education and training at regional level as well as teacher training reform should be given higher priority. Co-operation between companies and schools remains limited. Investment in active labour market measures, including workforce participation in continuing training, needs to be further enhanced. Structured involvement of social partners in vocational education and training issues – though in principle legally enshrined in existing legislation - is still insufficient and has resulted *inter alia* in the absence of any national standards for acquiring vocational qualifications. The National Agency for Vocational Education and Training – the body *inter alia* responsible for accreditation and licensing in the area of vocational education and training - lacks human and financial resources. Co-operation with the Ministry of Education and Science needs to be improved.

Co-operation between enterprises, universities, the Ministry of Education and Science and social partners needs to be further enhanced to overcome the existing (partial) skills mismatch in the area of higher education. The current system of institutional evaluation and accreditation lacks transparency.

### ***Chapter 19: Telecommunications and Information Technology***

Some progress has been made since the last regular report.

Concerning the **liberalisation of the telecommunication market**, Bulgaria's second GSM licence, valid for 15 years was awarded in January 2001 after a transparent international open tender.

As regards the **regulatory framework**, the Ministry of Transport and Communications holds ownership rights of the current main operator the Bulgarian Telecommunications Company (BTC), but also performs some regulatory functions. In order to achieve a more effective separation between ownership and regulatory functions, the Ministry of Transport and Communications has undertaken to transfer ownership rights to another state body if BTC has not been privatised by 1 January 2005.

The National Frequency Plan was updated in November 2000 and in May 2001. The frequency allocation for GSM is now in line with the *acquis*. Amendments to the telecommunications law were adopted in April 2001. They further transpose the Licensing

Directive and update the definition of Universal Service, although this still does not include explicitly data and facsimile services in line with the *acquis*. The amendments provide the State Telecommunications Commission (STC) with the possibility *inter alia* to withdraw licenses of any mobile operator that presents a threat to national security. The regulation of Voice Over Internet Protocol was brought into line with the *acquis*.

A number of pieces of secondary legislation were adopted in 2001 thereby revising the licensing arrangements for different telecommunication activities and establishing licensing regimes for private mobile radio, fixed relay lines and VSAT services.

In 2001, Bulgaria revised its sector policy in telecommunications and its National Programme for the development of the information society.

Concerning **postal services**, in December 2000 Bulgaria adopted a strategy for the development of this sector. Priorities include the upgrading of the national postal infrastructure, the creation of proper conditions for attracting investments and the promotion of fair competition among postal operators in view of planned liberalisation by 1 January 2003.

### *Overall assessment*

Bulgaria has achieved a reasonable degree of alignment with the *acquis* but further efforts are required on both transposition and enforcement in a number of areas.

Competition has finally been introduced into the GSM market in Bulgaria although there is probably room for more operators in the market.

However, further transposition and enforcement of the *acquis* is required particularly in the areas of cost orientation for operators with significant market power, and in carrier selection, number portability and unbundling of the local loop. Progress needs to be made in improving the efficiency of BTC so that the company can withstand competition after liberalisation envisaged for 2003. It is still unclear how necessary investments to modernise fully BTC's fixed line network will be attracted. Consideration should be given to bringing forward the date for the introduction of UMTS services which is envisaged for 2006 at the latest. The proposed regulatory regime in Bulgaria needs to be reviewed to ensure that national security concerns do not distort the civilian market.

Further steps will be necessary to strengthen the administrative capacity of the National Regulatory Authority to enforce the *acquis*, including an upgrading of its frequency management capabilities. Several bodies share the responsibility for frequency allocation with the STC, including the National Radio Frequency Council. Their respective roles need to be clarified. In view of liberalisation on 1 January 2003 and the need to attract investments, consideration should be given to bringing the date of 1 January 2005 forward for separation of ownership from regulatory responsibilities.

Concerning postal services, further steps need to be taken to ensure that service quality does not suffer from the lack of a fully independent regulatory authority after the planned full liberalisation on 1 January 2003. Also, attention needs to be paid to ensuring the provision of Universal Service.



Although Bulgaria attaches some importance to the development of the information society, consideration should be given to the allocation of greater financial resources to this area.

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

Some developments have taken place in this area as concerns administrative capacity.

Concerning the **audio-visual** area, the administrative capacity of the National Council on Radio and Television has improved in terms of human resources: staffing has increased from 30 in 2000 to 45 in 2001 (nine members of the Council and 36 in the secretariat).

A number of activities have been conducted in the area of monitoring, particularly as far as prevention of violations of the Law on Radio and Television is concerned. The sanctioning powers of the National Council on Radio and Television have been significantly strengthened through the amendments to the Law on Radio and Television adopted in October 2000. Sanctions on broadcasters can now be imposed without the involvement of the State Telecommunication Commission.

No significant developments are to be reported in the field of **culture**.

#### *Overall assessment*

Bulgaria has achieved substantial alignment with the *acquis* under this chapter.

Bulgaria has signed and ratified the Council of Europe Convention on Transfrontier Television and its Protocol.

Though the administrative capacity, budget allocation and infrastructure of the National Council on Radio and Television have somewhat improved in the reference period, further efforts in these areas will be necessary. The premises, staff and infrastructure of this body are still insufficient: for instance, monitoring activities are under-resourced, with inadequate equipment and a base away from the main building. Proper monitoring structures still need to be developed and particularly proper technical equipment will need to be at this body's disposal. Given the high number of license applications (525 license applications were received in 2000 and 320 licenses granted), the National Council on Radio and Television still needs to strengthen the human resources it allocates to this activity. Only two people are currently dealing on a full-time basis with licensing. Both the capacity and transparency of this body need to be strengthened, in particular the transparency of the criteria used in licensing procedures. The current way in which both the National Council of Radio and Television and the State Telecommunications Commission are involved in the licensing process does not provide adequate transparency.

In the field of culture, the Directorate for International Cultural Policy at the Ministry of Culture is responsible for Bulgarian cultural centres abroad as well as for cultural relations with the EU, the Council of Europe, UNDP and other organisations.

### ***Chapter 21: Regional Policy and co-ordination of structural instruments***

Since the last Regular Report, little progress has been achieved in preparing for the implementation of structural policies.

No new developments can be reported concerning the **territorial organisation**.

With regard to the **legislative framework**, a Council of Ministers decision was adopted in December 2000 which creates a Regional Development and Sector Monitoring Sub-Committee for cross border co-operation at central level. The Law on the Social Investment Fund entered into force in April 2001. The Fund will provide financial assistance for the implementation of projects given priority in the National Economic Development Plan. A law on spatial planning was adopted in March 2001. Secondary legislation was adopted in June 2001 which revises the structure and functions of the Ministry of Regional Development and Public Works. This aims to improve the **institutional structure** of the ministry by defining more precisely the functions and responsibilities as regards planning, programming, management, control, monitoring and evaluation of the relevant pre-accession programmes. New units dealing with strategic planning and co-ordination are created. There has been some administrative strengthening of the inter-ministerial Commissions for Economic and Social Cohesion set up in 2000 in the six planning regions corresponding to NUTS II level.

**Programming** capacity remains very limited. There has been some progress at the regional level, where Commissions for Economic and Social Cohesion have started to participate in the programming process. Sector strategies have been established for the relevant pre-accession instruments. A revised version of the National Economic Development Plan was forwarded to the Commission in May 2001 after an evaluation by consultants.

Very little progress has been made in setting up **evaluation and monitoring systems**. This is the responsibility of the Ministry of Regional Development. The secondary legislation of June 2001, which revises the structure and functions of the Ministry of Regional Development and Public Works, addresses this issue for the first time by envisaging the creation of a new monitoring committee for the implementation of the National Economic Development Plan.

With a view to **financial management and control**, recently adopted secondary legislation also creates a new structure for payment and accounting within the Ministry of Regional Development. No developments can be reported concerning the preparation for a multi-annual budgeting system.

No developments can be reported in the area of regional **statistics**.

### *Overall assessment*

Bulgaria has advanced little in developing the necessary structures for the implementation of the Structural Funds. Bulgaria needs to strengthen and accelerate considerably its efforts to be able to manage these successfully upon EU accession.

Concerning territorial organisation, Bulgaria has six planning regions corresponding to NUTS II.

There is a need to define clearly the responsibilities of the ministries and all other bodies involved in the preparation for future Structural Funds both at national and regional level. Bulgaria needs to ensure that the structures for inter-ministerial co-ordination are efficient and based on political consensus.

While administrative structures at regional level have been established, their role in programme development, implementation and evaluation needs to be further clarified. Genuine partnership

structures need to be established at regional level, including the regional and local authorities and economic and social partners. This would ensure a more transparent involvement of the regions in programming, implementation, monitoring and evaluation of EC assistance in line with the partnership principle.

The existing legal framework does not provide clear provisions for institutional arrangements. Recently passed legislation lacks a structured approach.

Administrative capacity on projects for regional development and economic and social cohesion in key ministries remains a substantial problem. Capacity on preparation, implementation, financial management and control, monitoring and evaluation is weak. Better-qualified and better-trained staff are needed at all levels. The poor performance of the Ministry of Regional Development in co-ordination and implementation of these projects is a matter of concern. The experience from various preaccession programmes indicates that insufficient administrative co-ordination between the Ministry of Regional Development and relevant line ministries has a negative effect on the quality of programming, management and implementation of programmes. The identification and development of projects continues to rely heavily on technical assistance. Consequently, substantial improvement in the technical preparation of projects is necessary.

As regards programming, the significant number of programming documents results in the lack of an integrated development framework. The National Economic Development Plan is not yet fully embedded in national policy-making, including the preparation of the budget. Consequently, it does not serve as an integrated and operational development tool. The quality of this plan, which will serve as a programming document for pre-accession instruments prior to accession, has somewhat improved compared to the previous version. However, it still contains a number of inconsistencies. There is a lack of selectivity and prioritisation of measures envisaged, notably in terms of coherence between the different development axes. This stems from a lack of inter-ministerial co-ordination and consultation of relevant stakeholders, including economic and social partners.

In the field of financial management and control, Bulgaria has made some progress. The legal basis for adequate public internal financial control has been established. However, the newly established internal audit departments still need to be strengthened. The training of internal auditors should be a priority. To fulfil the specific requirements of the Structural Funds regulations, appropriate systems and procedures for financial management and control need to be established in relation to the structure of the managing and paying authorities. The mechanism for the allocation of co-financing in the national budget is still not clear.

Significant work to ensure compliance with the *acquis* requirements for monitoring and evaluation is still necessary, in particular as regards the ex-ante evaluation of the National Development Plan and the collection of the relevant statistical information and indicators. The timely availability and functioning of an effective monitoring and evaluation system will be of crucial importance for the effective and efficient implementation of the Structural Funds.

In relation to the European Social Fund, substantial efforts are required to improve both the administrative capacity and the mechanisms for co-ordination of European Social Fund interventions in the context of the European Employment Strategy and the Inclusion Process.

As to regional statistics, further efforts are necessary to bring these up to the level required for regional policy planning and programming, in particular for ex-ante evaluation. Bulgaria still needs to improve the system for the collection and processing of relevant statistical information.

## ***Chapter 22: Environment***

Since the last Regular Report, Bulgaria has made some significant progress in terms of transposition of the EC environmental *acquis*. The development of approximation programmes and implementation strategies has continued. Implementation and cost of alignment remain, however, challenges.

Efforts have been maintained towards the **integration of the environment into other policies**, notably at local level.

In the field of **horizontal legislation**, no progress has been made in the reporting period, as the delay in the adoption of the new Environmental Protection Act, designed to improve compliance with a number of EC directives, has postponed the transposition of the *acquis* on environmental impact assessment and access to environmental information.

As regards **air quality**, there was progress with transposition. The law on ratification of the Protocol on persistent organic pollutants to the Convention on long-range transboundary air pollution was adopted.

In the area of **waste**, harmonisation of legislation continued with the adoption of new Regulations on batteries and accumulators, waste oils and sewage sludge. The Regulation regarding permission for import, export and transit of waste was amended to align with the *acquis*. In the field of **water quality**, secondary legislation was adopted regarding drinking water, bathing water, fish and shellfish, groundwater and water management based on river basins. Authorities responsible for water management have been designated.

In the field of **nature protection**, progress to align with the Directives on birds was made through adoption of a law on hunting and game protection. In terms of administrative capacity, directorates of the three national parks have been significantly reinforced.

As regards **industrial pollution control and risk management**, the transposition of the Directives on integrated pollution prevention and control and on control of major accident hazards has been delayed. An inventory of enterprises and sites covered by the Directive on control of major accident hazards was commenced. As regards administrative capacity, the Ministry of Environment and Water has developed a multi-annual implementation plan.

As regards **genetically modified organisms**, there was no new development. Regarding **chemicals**, a number of laws and secondary legislation were adopted in order to align with the *acquis*. Bulgaria ratified the Rotterdam Convention on international trade in certain dangerous chemical substances and pesticides and the Cartagena Protocol on bio-safety.

There were no new developments as regards **noise** from vehicles and machinery.

In the field of **radiation protection** (*see also chapter 14 - Energy*), there were no further developments in the reporting period.

Whilst it is difficult to give a precise figure on investment and expenditure on environment, there has been an increase in funding from the national budget, national environmental protection fund and other sources (e.g. municipalities, donor funding and private investors). The total amount is over 2.0% of GDP for 1999.

### *Overall assessment*

Bulgaria has reached a fairly good level of alignment with the *acquis*. Efforts will however continue to need strengthening, in particular in relation to transposition of the *acquis* on environmental impact assessment, air quality, waste management, water quality, nature protection, industrial pollution control and risk management and radiation protection.

Achieving full implementation continues to be a challenge. Particular emphasis needs to be put on the development of implementation plans, including financing strategies, and institutional strengthening to ensure proper implementation. This is relevant for all sectors.

The environmental situation has generally improved in Bulgaria, also as an effect of the economic restructuring and the closure or modernisation of polluting enterprises. There are still environmental hot spots which should be treated, for example the air quality in big cities such as Sofia and Plovdiv. Major efforts are still needed, as was pointed out last year, in terms of consultation with, and information for, industry on its responsibilities and obligations, notably as regards the preparation of necessary investments. The national programmes for investments that have been finalised to date must be followed by concrete results on the ground. Further progress is needed, however, regarding transposition and implementation, in particular as regards landfill and incineration of waste. Bulgaria benefits from a well-preserved nature and wild life that is attracting more and more visitors in many areas of the country. Further transposition is still needed on the habitats directive and certain aspects of the birds' directive, and concrete implementation measures are still needed. The attention that has been paid to nature protection should be maintained and enhanced.

In the field of radiation protection, delays in adopting the new act on protection of the environment have postponed the adoption of a legislative basis for radiation background monitoring.

Meeting the requirements of the environment sector requires enhanced efforts and co-operation between the various ministries and with the other relevant organisations. Most European issues are centralised in the European Integration Unit in the Environment Ministry. Co-ordination with other ministries remains strongly dependent on the resources allocated, in particular by the Ministries of Agriculture and Health. The Ministry of the Environment needs to be strengthened. Administrative capacity at local level also remains a matter of concern. Implementation of environmental policy is entrusted to the regions and municipalities, a level at which there are still major weaknesses. Training is needed on the requirements of the *acquis*. Regional inspectorates need to be reinforced, notably as regards waste management and nature protection. Awareness at regional and local levels should also be improved. Dialogue and co-operation with NGOs and local populations remains limited, especially in terms of access to information and of the environmental impact assessment procedure.

Bulgaria should pay increasing attention to the integration of environmental protection requirements into the definition and implementation of all other sectoral policies with a view to promoting sustainable development.

### ***Chapter 23: Consumer and health protection***

During the reference period little progress has been made in terms of legal alignment.

Some progress was made on **safety-related measures**. Secondary legislation was adopted in May 2001, which is intended to transpose the *acquis* on dangerous imitations.

No major progress can be reported as regards **non-safety related measures**.

Some progress has been made in implementing the Law on Consumer Protection and Trade Rules of 1999, which creates the general framework for consumer protection in Bulgaria. Some efforts have been made to enhance the administrative capacity and infrastructure of the Commission on Trade and Consumer Protection, which is the main enforcement body in the field of consumer protection and **market surveillance**. The Commission on Trade and Consumer Protection has concluded some agreements with other controlling bodies (e.g. Standardisation Agency, Ministry of Interior, Ministry of Health, Ministry of Ministry of Agriculture and Forests, Customs Agency) in 2000, aiming at better co-ordination and co-operation in the area of market surveillance.

Following checks carried out, the Commission on Trade and Consumer Protection issued 7063 penalty acts in 2000. An information system has been established. This contains consumer claims a register of sites checked and the result of the checks. Progress has been made in the handling of consumer complaints. A number of out of court settlements have been made through the nine Conciliation Commissions.

The National Council on Consumer Protection, a consultative body to the Minister of Economy, has been more active in this period. A step forward is that this body has triggered a public discussion on how to deal with consumer rights to provision of public utilities, even though these issues are not yet specifically mentioned in existing legislation. A plan of priorities for 2001 has been developed and partly implemented, including continued efforts to strengthen the market surveillance system, the information exchange system for dangerous products and the administrative capacity of Conciliation Commissions. Some measures were taken to develop the system for exchange of information on dangerous goods, both at national level and through the TRAPEX system, which operates in countries of central and eastern Europe.

### ***Overall assessment***

Bulgaria has already transposed a considerable part of the *acquis*. The adoption of the Law on Trade and Consumer Protection in 1999 has been followed by the adoption of a number of implementing regulations. However, further alignment is needed particularly as concerns certain aspects of the sales of consumer goods and associated guarantees, injunctions for the protection of consumer interests, package travel, timeshare and consumer credit, which have not been transposed into national legislation or, as it is the case for distance contracts, are only partially transposed.

Full adoption and implementation of the *acquis* is hampered by a number of factors. Effective co-ordination between market surveillance authorities and other control bodies with regard to product safety is still lacking. This is partly due to existing legislation which indicates that the Commission on Trade and Consumer Protection is responsible for market surveillance in all areas where sector specific legislation has not been issued. While implementation of the Law on Trade and Consumer Protection has improved, market surveillance continues to be conducted on an ad hoc basis and lacks a proper strategy and is not co-ordinated. The quality of checks of the Commission on Trade and Consumer Protection is limited due to the lack of funding for testing laboratories. The consumer protection department in the Ministry of Economy works in relative isolation. Though the National Council for Consumer Protection has been slightly more active, no legislative proposals have been made concerning consumers interests in the area of public utilities.

Municipal consumer protection units envisaged by existing legislation are only partly established. However, the major municipalities are already covered by the structures of the Commission of Trade and Consumer Protection.

Insufficient attention has been paid to misleading advertising and to the protection of consumers' interests in cases of unfair contract terms.

Overall, further strengthening of the market surveillance and enforcement capacity of the Commission of Trade and Consumer Protection is necessary. Effective consumer access to justice with a view to individual redress remains limited since relevant courts lack proper capacity to deal with consumer protection legislation. The capacity of Conciliation Commissions needs to be further strengthened. A number of out of court dispute settlements have been suspended, partly due to a lack of understanding as to which issues are to be dealt with by these bodies.

Though consumer associations are relatively numerous and have in general a good working relationship with the government, they lack proper capacity themselves which results in a relatively low impact on the development of a culture of consumer protection within the population. Currently, seven consumer associations are operational in Bulgaria. Six of them participate in the National Council on Consumer Protection. However, none of them takes on the role of an umbrella organisation.

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

Since the last report, Bulgaria has continued to make progress in most areas in terms of aligning its legislation to the *acquis*. Substantial efforts to strengthen administrative capacity will need to continue.

The adoption of a **personal data protection** act has been delayed several times, but is in Parliament. No progress is to be reported as regards the ratification of the Council of Europe Convention for the protection of individuals with regard to Automatic Processing of Personal Data.

Significant efforts over the past few years have brought Bulgaria's **visa** policy largely into line with the policy of the EU. As a result, since 10 April 2001 Bulgaria has enjoyed a visa-free regime with all Schengen member states. From October 2001, Bulgaria introduced visa

obligation for citizens from Russia, Ukraine and Georgia. At the end of 2000, a new Training Centre for Consular officers was established. The equipment of the Visa Centre in the Ministry of Foreign Affairs is being updated with the introduction of a new visa control computer system.

Bulgaria has introduced a visa classification that is in line with the Schengen classification. The provisions of the Bulgarian Identity Documents Act and the Regulation on the Terms and Conditions for Issuing Visas by the Diplomatic and Consular Missions of the Republic of Bulgaria are in line with the requirements for a uniform visa format. Border police officials have access to the database on all visas issued by the visa centre, thereby reducing the possibilities for misuse or falsification. The Automated Fingerprint Identification System (AFIS) has been operational since October 2000 at the main border check points.

The preparation for future participation in **Schengen** is partially underway. Border police officials operate an automated information system, which contains categories of information similar to those of the Schengen Information System. However, some of the legal framework is still missing.

The process of replacing the identity documents of Bulgarian citizens and long-term residents, which started in 2000, continued and is due to be completed by the end of 2001. The new Bulgarian passports and identity documents are considered to be of very high quality from the point of view of document security.

Some progress has been registered in alignment with, and implementation of, the *acquis* in the field of **external border** control. Demilitarisation of the border police has continued, but at a slower pace than envisaged last year. The Bulgarian border police is being transformed into a modern agency with increasing focus on human resource policy. The first specialised border police training centre was established in October 2000. However, there is still room for improvement as regards co-operation with other national agencies working in the field of border security.

According to statistics from the National Border Police Service, 6,071,759 border crossings were registered in the period 1 January - 20 June 2001. This is about the same number as the previous period. However, 862 people were denied exit, which is 25.62% more than in the first half of 2000. 2,602 foreign nationals were denied entry for violating the passport and visa regime (2.47% less compared to last year). Over the reference period, 859 foreign nationals were expelled from Bulgaria and the number of readmitted persons was 1,268 (40.62% less than last year). The latter figure does not take into account the high number of Bulgarian citizens returned from Norway over the summer of 2001.

As regards **migration**, the 1998 Foreign Nationals Act, which regulates the conditions of entry, stay and control of foreigners in Bulgaria, has been brought further into line with the *acquis*. Amendments entered into force in April 2001 in areas such as family reunification, travel facilities for school pupils from third countries residing in a Member State, marriages of convenience and admission of self-employed persons. Since November 2000, the border police at Sofia airport has been checking identity documents of persons coming from countries representing a risk whilst the passengers are still on board aeroplanes.

A readmission agreement between Bulgaria and Ukraine was signed in September 2001. In May 2001, Bulgaria and Croatia approved a readmission agreement. Bulgaria also submitted



draft readmission agreements to Latvia, Estonia, Georgia, Russia, Tunisia and Lebanon, and signed a readmission agreement with FYROM in June 2001. Bulgaria and Turkey have exchanged readmission agreement drafts. A readmission agreement with the Federal Republic of Yugoslavia entered into force in August 2001.

As regards administrative capacity, in May 2001, the Ministry of Interior established a Human Trafficking Task Force. This comprises representatives from different ministries and the judiciary. It started working on the preparation of a Memorandum of Co-operation, which should lead to a common action framework against trafficking. A permanent working group has been established to solve urgent migration problems in Bulgaria.

The National Action Plan on **asylum** policy has been followed by a report on further harmonisation of national legislation with the *acquis*. An interdepartmental working group chaired by the Agency for Refugees has been formed to ensure full compliance of the Refugees Act, with the 1951 Geneva Convention (e.g. as regards the non-refoulement principle) and the *acquis*.

Apart from the ratification of the Agreement between Bulgaria and Belgium on **police-co-operation** in March 2001, no progress can be reported in the area of police co-operation. Bulgaria is still negotiating a co-operation agreement with Europol.

Also, with regard to the **fight against organised crime**, little progress can be reported. Proposed amendments to the Penal Code were rejected by the last National Assembly before the recent elections took place. In September 2001, Bulgaria and Ukraine signed an agreement on co-operation in combating crime and a protocol on co-operation between the respective Ministries of Interior.

As far as the **fight against fraud and corruption** is concerned, (*see also Section B.1.1. - Democracy and the rule of law*) little progress can be reported. However, in October 2001, Bulgaria adopted a national anti-corruption strategy, which is a positive step.

In the area of **drugs**, some progress can be noted as regards approximation of legislation through the adoption of several legal instruments to make the 1999 narcotic drugs and precursors control act operational, but the legislation is not yet fully harmonised with the *acquis*. In 2000, the Bulgarian Customs Agency intercepted a total of 2,620 kg of narcotics. 71% of this was heroin originating from the Middle East. Between January 2001 and August 2001 the Bulgarian Customs authorities seized a total of 1,260 kg of narcotic substances, including 948 kg of heroine.

Regarding **money laundering**, the Bureau of Financial Intelligence was established as a separate agency by virtue of a law adopted in the beginning of 2001. The bureau collects, inspects, analyses and reveals information related to money laundering activity. It may use inter-service, banking or commercial confidential information, as well as protected personal data. The new provisions widen the range of legal entities under an obligation to identify their clients in case of operations over €15 320 to include for example the Bulgarian National Bank, pension funds and sports organisations. Entities obliged to provide relevant information to the bureau must adopt internal rules of control and submit these to the agency for approval.

In the area of **customs co-operation**, in July 2001 Bulgaria adopted a strategy for rationalising border operations performed by Bulgarian Customs. Bulgaria included the provisions of the

Istanbul Convention on temporary admission in the Customs Act and its implementing regulation, so that it can join the convention in 2002. It also concluded a bilateral customs co-operation agreement with the USA and entered into arrangements with Slovenia, Slovakia and the Czech Republic, through CEFTA. As to administrative capacity, the Customs Agency adopted a strategy on organisation and management of human resources.

As regards **judicial co-operation in criminal and civil matters**, some progress has been made. In April 2001, Bulgaria ratified the UN Convention against trans-national organised crime including the Protocol to prevent, suppress and punish trafficking in persons, especially women and children, and the Protocol against smuggling of migrants by land, sea and air. In March 2001, it adopted a law on withdrawal of Bulgaria's reservation on article 12 of the European Convention on Extradition. This reservation allowed Bulgaria to retain its right to request evidence of crime from the country claiming extradition, which hampered the quick examination of the extradition requests.

### *Overall assessment*

Overall, Bulgaria is quite well advanced in alignment in the areas of visa policy, migration, border control, customs co-operation and judicial co-operation. However, in all these areas, efforts to upgrade the administrative capacity will need to continue. Shortcoming remains in implementation capacity, training and equipment.

Bulgaria has not yet adopted a law on **data protection**, so it does not yet have a system of protection of personal data compatible with the *acquis*.

Bulgaria has already largely aligned its **visa** policy with that of the European Union. It maintains visa-free regimes with FYROM, Romania, Tunisia, and Yugoslavia. Despite recent efforts, the capacity of the visa centre will need to be strengthened to deal efficiently with the large increase in the number of requests for visas.

Bulgaria has established an automated information system, which contains categories of information similar to those of the **Schengen** Information System, and has introduced a visa classification in compliance with the Schengen classification, but needs to adopt the necessary laws in order to have a comprehensive legal framework in this field. It still needs to bring the procedure for issuing transit visas for Turkish citizens at the Bulgarian border into line with the *acquis*. Bulgaria should continue its overall preparation for future participation in the Schengen area and develop and present a Schengen Action Plan.

As regards **external borders**, demilitarisation of the border police continues and a border management strategy has been developed. However there is a need to widen it towards an integrated border management strategy whereby all agencies active in the border region - in particular the future external border of the EU - are involved.

Although the border police has started the process of modernising its mobility, communication and surveillance equipment, the equipment used at the green and blue borders is to a large extent outdated and not fully operational, in particular as concerns radio communication. Regarding administrative capacity, the current structure comprises a central directorate with ten main divisions and 13 regional border sectors. The central directorate directs and controls 28 border checkpoints. As of March 2001, the strength of the National Border Police Service was

8,168 , of whom 4,468 were professional police officers and sergeants, 3,013 military conscripts and 687 technical personnel.

With regard to **migration**, there are now readmission agreements with all EU member states (except the United Kingdom and Ireland) and with Norway, the Czech Republic, Poland, Hungary, Slovakia, Slovenia, Romania, and Yugoslavia. Bulgaria is negotiating with the United Kingdom and Ireland. Bulgaria should continue its current efforts and sign further agreements with candidate countries and third countries.

Bulgarian legislation on **asylum** is already to a large extent aligned with the *acquis* and the main international instruments such as the UN Geneva Convention on the Status of Refugees of 1951, the New York Protocol on the Status of Refugees of 1967, and the European Convention on the Protection of Human Rights and Fundamental Freedoms of 1950. However a number of gaps in the legislation exist and will need to be addressed in the amendments to the Refugees Act. The current role of the police, in particular the border police, in the accelerated procedure for asylum applications, as well as the lack of a fully independent appeal procedure against these decisions, is not in line with EU standards and provisions. This needs to be addressed. The number of asylum seekers in Bulgaria remains limited, although a sharp increase in the number of applications lodged in the past year can be noted. According to the Agency of Refugees, 1,513 filed for asylum in Bulgaria between January and August 2001. Refugee status has been granted to 292 people, and humanitarian status to 750 in this period. From March 1993 to the end of August 2001, 7,451 asylum request were filed in Bulgaria. Refugee status was granted in this period to 1,188 persons.

Infrastructure remains to a certain extent underdeveloped; there is one refugee centre in Sofia with a capacity of about 500 persons and another centre in Banya with a capacity of 60 persons. In addition, a temporary transit centre for refugees has been opened at the Kapitan Andreevo border checkpoint with the assistance of the UNHCR and a non-governmental organisation. The Government has adopted a decree establishing two registration centres at Sofia airport and the Kapitan Andreevo border checkpoint, but work is still at a preparatory stage. In this perspective, Bulgaria needs to make substantial efforts to have sufficient capacity in refugee transit centres and administrative screening. Additional efforts are needed also to better integrate recognised asylum seekers and refugees into Bulgarian society.

In the field of **police co-operation and the fight against organised crime**, Bulgaria has signed intergovernmental agreements on combating international organised crime with Austria, Belgium, Greece, Italy and Spain, as well as with the Czech Republic, Hungary, Poland, Romania and Slovakia.

As regards administrative capacity, the Bulgarian Police Services are handicapped by a complicated organisational structure which results in a significant overlap of responsibilities (e.g. between the Criminal Police and the National Service to Combat Organised Crime), services with unclear roles (e.g. the Gendarmerie) and a lack of communication between different police forces (especially at local and regional level). Despite the fact that police officers are comparatively well paid (above the national average), the police force suffers from a poor image linked to perceived corruption. The main reason for this is the lack of transparency and accountability in the Bulgarian Police. The introduction of a modern human resources policy is indispensable to improve the efficiency within the Police services.

Bulgaria is a source of, and transit country for, trafficking of human beings. Women from Romania, Moldova, Russia, Ukraine, Armenia, Azerbaijan, and Georgia are trafficked for sexual exploitation to FYROM, Greece, Turkey, Kosovo, Bosnia, Italy, Poland, and other countries in western Europe. Although Bulgaria is making significant efforts to combat trafficking, these need to be strengthened. Bulgaria does not have a specific anti-trafficking law but uses other provisions to prosecute trafficking, which makes taking cases to court more difficult. Bulgaria does investigate trafficking, encourages victims to testify, and has two police units dedicated to the problem. Statistics on prosecutions are unavailable, but it appears that few traffickers have been prosecuted yet. Bulgaria also needs to adopt a programme for prevention and for the protection of victims.

As regards the **fight against fraud and corruption**, significant further efforts need to be undertaken. A new strategy to combat organised crime needs to be developed. With regard to the protection of the financial interests of the European Communities, Bulgaria needs to complete aligning its legislation with the *acquis*, and in particular with the 1995 Convention on the Protection of the Financial Interests of the European Communities and its protocols.

In the area of **drugs**, Bulgaria has adopted several legal instruments to make the 1999 narcotic drugs and precursors control act operational, but needs to make further efforts to harmonise its legislation with the *acquis*. It also needs to elaborate a comprehensive national anti-drugs strategy, covering not only the law enforcement side but also the prevention and health aspects, and to strengthen the administrative capacity in this area. Regarding administrative capacity, the National Council on Narcotic Drugs has set up a secretariat, which should become the National Focal point for co-operation with the European Monitoring Centre for Drugs and Drug Addiction in Lisbon. However, the Focal Point is not operational yet.

The Bureau of Financial Intelligence (BFI) still lacks the capacity to deal efficiently with the documents submitted by the numerous entities and thus additional resources should be provided. Co-operation between the BFI and other law enforcement agencies and the judiciary in particular remains an issue of great concern. The BFI is a modern agency with a small but highly motivated staff. However, an anti-**money laundering** policy can only be successful if co-operation between BFI and all other law enforcement agencies is successful and in particular if all cases brought to the attention of the court by the BFI are also treated with the attention they deserve.

Bulgaria is party to the major international agreements in the area of **customs** co-operation and is preparing for accession to the EC conventions in this area upon accession. It has concluded bilateral agreements with Armenia, Austria, Azerbaijan, Greece, FYROM, Mongolia, Romania, Russia, Turkey, the United Kingdom, Ukraine, the USA and Yugoslavia. Intelligence and investigation services within the Bulgarian customs are being established but do not yet meet EU standards. They are in need of both administrative strengthening and specialised training, including in covert surveillance techniques. The effectiveness of their work will depend on the further development of risk analysis and modern methods to fight fraud and corruption. As regards the fight against fraud and corruption, significant further efforts need to be undertaken.

As regards **judicial co-operation** in criminal and civil matters, Bulgaria has signed 37 bilateral agreements on judicial co-operation and multilateral agreements with its neighbours to combat transnational organised crime. Judges and practitioners still face major difficulties in extradition cases. Bulgaria's existing reservation on article 23 of the European Convention on Extradition,

which requires an extradition request to be submitted to the court with a translation into one of the official languages of the Council of Europe, causes delay and loss of procedural time.

The capacity to deal with international legal cases, and in particular for extradition matters, needs to be reinforced in order to deal rapidly with incoming requests. The Directorate responsible for this in the Ministry of Justice needs to be strengthened. The appropriate level of co-operation as regards mutual recognition and enforcement of judicial decisions, and direct court-to-court dealings in cross-border situations also needs to be ensured.

The **human rights** legal instruments covered by the Justice and Home Affairs *acquis* have been ratified by Bulgaria, with the exception of the 1981 Council of Europe Convention on the protection of individuals with regard to automatic processing of personal data.

### ***Chapter 25: Customs Union.***

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

As regards alignment with the **EC Customs Code and its implementing provisions**, it can be noted that Bulgaria has already achieved a high degree of alignment. Bulgaria made further progress in aligning its legislation on free zones, transit, recovery of customs debt and customs regimes with economic impact.

As far as the **customs *acquis* outside the Customs Code** is concerned, legislation was adopted which further aligns Bulgaria's legislation in the field of duty reliefs and cultural goods with the *acquis*. A more detailed procedure for administering tariff quotas, defining the responsibilities of the customs offices and the central customs directorate was introduced.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, little progress can be reported. Rules of procedure for the National Customs Agency were adopted and an ordinance on the procedures related to the customs declaration was amended.

In order to prevent corruption among customs officials, Bulgaria formalised ethics rules, provided training, introduced a rotation system, strengthened control of employees and their secondary income, and increased sanctions.

The legal framework has improved with the adoption of the law on the civil service, which applies to customs officers and which stipulates that civil servants shall be recruited through general selection tests only. However, transitional rules are being applied, and recruitment is often done by local offices on the basis of diverging criteria. Only about 750 customs officers, out of a total of about 3,750, are likely to be employed as civil servants, as opposed to employment under a fixed-term contract. Salaries are low and staff turnover is high.

A regulation determining the organisation of the central administration of the customs administration has been adopted, but the rules for the organisation of the 5 regional directorates have not yet been published. Compared to the previous structure, it can be noted that a post-clearance control directorate in charge of preventing and collecting customs debts has been added.

## *Overall assessment*

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

As far as the customs *acquis* outside the Customs Code is concerned, further alignment is required. Bulgaria's integrated customs tariff contains a number of elements of the EC Integrated Tariff (TARIC), however, some elements such as anti-dumping and countervailing duties, reference and minimum prices, export and import restrictions and prohibitions are not yet included in the integrated tariff.

Regarding the administrative and operational capacity to implement the *acquis*, Bulgaria needs to strengthen substantially its administrative capacity and capacity to combat fraud. Communication between the various directorates should be improved as regards analysis and discussion of regulatory changes. A basic declaration processing system has been set up, but the issue of interconnectivity and compatibility with systems used by EU customs administrations will need to be addressed. Many border crossing points still lack modern equipment, in particular laboratory and detection equipment, e.g. for container screening.

Considerable further efforts are needed in order to combat corruption among customs officials. Apart from improving detection mechanisms, Bulgaria will have to ensure that sufficient numbers of its customs staff benefit from the statutory protection offered by the status of civil servant, in particular with regard to staff performing clearance operations or post-clearance audits. The rules on recruitment have to be more coherent and transparent, and the criteria of dismissal must be made much more precise. Salaries remain low and career management needs to be improved. Moreover, officials need strengthened investigative powers.

Training is necessary to ensure that customs offices apply the rules in a uniform way. There is also a need for better co-ordination with other border-related services, especially the border police and the other police forces.

## ***Chapter 26: External relations***

Since the previous Regular Report, Bulgaria has continued to align with the *acquis* with regard to the common commercial policy and to co-ordinate positions and policies within the World Trade Organisation with those of the EU. Bulgarian policy in this area follows the path of further liberalisation of global trade, notably its trade relations with preferential partners, in particular with the EU.

As regards the **common commercial policy**, upon accession Bulgaria will be required to align its tariffs with those of the EU. Bulgaria's applied MFN tariffs currently average 12.7% on all products, 23.7% on agricultural products, 10.1% on industrial products and 11.8% on fish and fish products. By comparison the EC tariffs<sup>25</sup> currently stand at 6.3% on all products, 16.2% on agricultural products, 3.6% on industrial products and 12.4% on fish and fish products.

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<sup>25</sup> WTO bound tariffs after full implementation of all concessions including - where possible - estimated ad valorem equivalents of specific and compound tariffs.

Bulgaria increased its tariff rates from 25% to 40% for fertilisers (only ammonium nitrate, not carbamide) during the reporting period, but abolished the measure before schedule. This safeguard measure was justified by the need to ensure higher protection for the local fertiliser plants against relatively low-cost import mainly from Romania. The rate did not concern EU companies but was applicable on imports from CEFTA countries.

Legislative progress has been made in further liberalising and streamlining the licensing procedures to facilitate imports and exports.

Amendments to the law on export insurance, ensuring further alignment with the *acquis*, indicated as a short-term priority in the NPAA, were not adopted as foreseen. Nevertheless, there has been progress in implementing the provisions of the law on export insurance.

In the field of dual-use goods, the law on controlling arms was not passed by the Parliament, although the first reading took place in 1999.

Negotiations on a new wine and spirits agreement with the EC were finalised in December 2000. Negotiations on further trade concessions for processed agricultural products have been concluded on a technical level.

Concerning **bilateral agreements with third countries**, a Free Trade Agreement (FTA) was signed with Lithuania and the FTA with Israel was ratified in 2001. Negotiations are ongoing for concluding FTAs with Latvia, Estonia, Croatia and Morocco.

Bulgaria became a signatory to the Memorandum of Understanding on Trade Liberalisation and Facilitation in the framework of the Stability Pact for South Eastern Europe on 27 June 2001. Under this Memorandum of Understanding, Bulgaria has committed to conclude with the six other signatories (Albania, Bosnia-Herzegovina, Croatia, the Federal Republic of Yugoslavia, FYROM and Romania) a network of bilateral free trade agreements by 2002, liberalising at least 90% of their trade, within a transitional period of six years.

Bulgaria progressed further towards accession to the WTO Public Procurement Agreement. It submitted the questionnaire/check-list required by the WTO Committee on Public Procurement. The next step will be for Bulgaria to prepare its offer on public procurement.

Concerning the Information Technology Agreement (ITA), Bulgaria has been applying its provisions on an autonomous basis. In February 2001 Bulgaria submitted its list of commitments concerning tariff reductions on IT products and the list was approved by the WTO. At present the formal decision by the committee on the accession of Bulgaria to the ITA is expected.

In the field of **development policy and humanitarian aid**, Bulgaria has so far no specific budget allocation for these purposes.

### *Overall assessment*

Bulgaria is rather advanced in the area of bilateral free trade agreements with EC preferential partners, in regional trade liberalisation as well as with regard to its overall trade policy. Further progress is however still needed to achieve full alignment with the EC's international trade obligations.

Bulgaria has progressed towards acceding to WTO instruments, particularly in the fields of public procurement and IT. It will need to have joined the WTO plurilateral agreements on IT and Government Procurement by the time of accession to the EU. In addition, further co-operation is needed to ensure the alignment of Bulgaria's GATS commitments with EC commitments and MFN exemptions. With regards to the WTO Agreement for Textiles and Clothing (ATC), Bulgaria needs to use its third stage notification to align its list of integrated products under the ATC to the EU's while avoiding integrating products that have not yet been integrated by the EC.

Bulgaria actively co-ordinates its policy in the WTO with the EU and has been supportive of EU policies and positions within the WTO framework. As regards a new WTO 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.

Bulgaria has bilateral Free Trade Agreements with the CEFTA countries, EFTA, FYROM, Lithuania and Israel.

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. Any international agreement which is incompatible with the obligations of membership will have to be renegotiated or renounced prior to accession.

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

Further alignment is also necessary in the field of dual-use goods.

Bulgaria's alignment with and future participation in the common commercial policy is administered by the Ministry of Economy, the Ministry of Foreign Affairs and the Export Insurance Agency. The administrative capacity in the area (particularly in the trade policy area, FTAs and bilateral relations) is good overall; human resources have a high level of qualification and are sufficiently experienced. Substantial work still lies ahead in the area of export control. The administrative infrastructure which needs to be in place as regards customs services is addressed under *chapter 25 – Customs union*.

Decisions on development and humanitarian aid are made by the Council of Ministers. Bulgaria should ensure that preparations are made to ensure the administrative infrastructure (participation in EU committees and working groups) for development co-operation is in place upon accession. For the purpose of Bulgaria's future financial contribution to the European Development Fund, Bulgaria's management of its national budget organisation and management of flow of funds to the EC budget is addressed under *chapter 29 – Financial and budgetary provisions*.

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

Since the previous Regular Report, Bulgaria has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy (CFSP).



The regular **political dialogue** established by the Association Agreement with Bulgaria 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 CFSP, including all the relevant meetings at the level of Political Directors, European Correspondents and Working Groups.

Bulgaria has shown a keen interest in the development of the European Security and Defence Policy (ESDP) as part of CFSP and has actively participated in the exchanges in this context with the EU, in the EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU). Bulgaria has developed considerable efforts to support international peacekeeping missions and has participated in a series of UN, KFOR and OSCE peacekeeping observer operations.

Bulgaria played an active role in the first Capabilities Commitment Conference in November 2000 and, in March 2001, held bilateral consultations with the EU on its participation in ESDP missions. It has announced its preparedness to contribute both to the EU Rapid Intervention Force missions and to EU civilian instruments for crisis management.

As regards alignment with **EU statements and declarations**, Bulgaria's statements have consistently been in line with those of the Union and when invited to do so it has associated itself with the Union's joint actions and common positions, including **sanctions and restrictive measures**. Since October 2000, it associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia.

Bulgaria has trilateral co-operation relationships with Greece and Romania, Romania and Turkey, FYROM and Albania, and Greece and Turkey. It is an active member of the Stability Pact. Relations with most neighbours remain good or even improved (Romania, FRY). The developments in FYROM have been of great concern in Bulgaria and a priority of the government.

Regarding arms exports, the law on control of trade in arms, which had its first reading in Parliament in 1999, has not yet been adopted and will need to be amended to ensure full compatibility with EU rules. On 5 April 2001 a decree was adopted imposing a ban or restrictions on the sale and supply of armaments and equipment of any kind, including arms and ammunition, military means of transportation, spare parts and military assistance and training of military personnel to 19 countries. The decree was adopted in compliance with UN Security Council resolutions and decisions of the EU and the OSCE. Bulgaria thus adopted the practice of EU Member States where the government indicates which countries are subject to sanctions.

### *Overall assessment*

Bulgaria's alignment in this field is satisfactory. Bulgaria continues to contribute substantially and actively to regional stability. Bulgaria maintains good relations with its neighbours and adopted a constructive attitude to the FYROM crisis (supporting the EU initiatives and the international community). As the *acquis* in the field of foreign policy and security develops further, Bulgaria should maintain the orientation of its foreign policy in line with that of the Union.

Concerning the administrative capacity to implement the provisions relating to the CFSP, the Bulgarian Ministry of Foreign Affairs has an administrative set-up compatible with EU Member

States' CFSP structures. The Bulgarian MFA is connected to the Associated Correspondent's Network's information system through which the EU communicates within the CFSP with the associated partners.

### ***Chapter 28: Financial control***

During the period covered by this Regular Report, Bulgaria has made further progress in this area.

As regards **public internal financial control**, the new Public Internal Financial Control (PIFC) law came into effect at the beginning of 2001. The law allows the independent PIFC Agency in the Ministry of Finance to perform *ex ante* control and a centralised version of internal audit. The Agency is also responsible for harmonising internal audit systems and financial management and control in the wider public sector. Regulations relating to the implementation of the new law were adopted in May. Meanwhile, a regulation on the structure of the Agency was adopted in February 2001, the Agency now has a total of 1 421 staff, including 1 134 auditors, in Sofia and the country's 28 administrative regions.

As regards **external audit**, the National Audit Office (NAO) prepared new legislation in 2000 to bring the legal framework into line with internationally accepted and EU-compliant external audit standards, in consultation with the European Court of Auditors and as foreseen in the NAO's Strategic Plan. The draft legislation was withdrawn from the National Assembly in September 2000 for modifications. Meanwhile, the NAO made progress in harmonising its audit methodology with INTOSAI standards and European implementing guidelines, and in drawing up and testing national audit standards. The NAO, which has 474 staff including 355 auditors, has also put considerable efforts into training, qualification and other activities to improve the professional capacity of the organisation.

With regard to **EC pre-accession funding**, the National Fund in the Ministry of Finance has overall responsibility for managing EC funds. An ongoing programme of institution-building aims to improve the capacity of the National Fund and the various Implementing Agencies, in preparation for the eventual extended decentralisation of Phare and ISPA implementation. Both the National Fund and CFCU are now staffed by permanent civil servants. Bulgaria's SAPARD Agency was the first in any candidate country to secure partial accreditation from the Commission, in May 2001. New arrangements were made in 2001 to ensure that national co-financing for projects supported by EC funds was made available in a more systematic and timely way. The PIFC Agency will certify the accounts of the newly accredited SAPARD Agency in addition to auditing the use of Phare and ISPA funds.

In the field of **protecting EC financial interests**, the PIFC Agency is entitled to carry out investigations, including joint on-the-spot checks in relation to EC pre-accession and other funds.

### ***Overall assessment***

Public financial control is a key priority in Bulgaria's preparations for accession. With the adoption of the new PIFC law, the legal basis for adequate public internal financial control has been achieved. The functional independence of the PIFC Agency itself will have to be reviewed. The adoption of new legislation on external audit has been significantly delayed but

the latest draft legislation contains all the necessary provisions for organising and operating external audit to international standards. It is important that the new legislation is adopted as soon as possible.

There will need to be a sustained and determined effort to implement the new legislative frameworks and ensure that the PIFC Agency and the NAO discharge their responsibilities in an effective manner that delivers tangible improvements in public sector financial control. As far as the PIFC Agency is concerned, the priorities include developing manuals for financial management and control systems and internal audit, including the audit of EC funds, and phasing out the practice of funding the PIFC Agency partly from funds recovered during investigations. As far as the NAO is concerned, the priorities include a redirection towards systems based and performance audit activities.

These activities will need to be supported by a substantial investment in training staff in the PIFC Agency, NAO and line ministries. The establishment of a Public Finance School should be considered. Some first steps have been taken to plan for the eventual extended decentralisation of Phare and ISPA implementation. Bulgaria needs to strengthen the capacity of the National Fund, CFCU and other Implementing Agencies dealing with pre-accession funds in preparation for the eventual extended decentralisation of Phare and ISPA implementation, which will itself be essential preparation for participation in Structural Funds after accession. The Ministry of Finance should play a pro-active role in ensuring progress in this area.

Bulgaria should nominate as soon as possible, in consultation with OLAF, an institution or administrative structure with the appropriate competencies to co-ordinate investigations into cases of fraud and irregularities affecting the EC's financial interests, and to act as a single contact point for relations with OLAF.

### ***Chapter 29: Financial and budgetary provisions***

Bulgaria has made some progress over the reporting period, notably as regards the **national budget and EC co-financed measures**. A new text in the State Budget Law covers the domestic and foreign currency guarantees of budgetary organisations. The Decree implementing the latest State Budget Law was adopted in January 2001, which reflects a substantial improvement in the timeliness of budgetary procedures. The Ministry of Finance approved the Chart of Accounts for budget entities in February 2001; this will ensure the preparation of public sector accounts on an accrual basis.

The state budget planning process has been improved by using cost-benefit analyses, bringing forward the planning process, preparing medium-term spending and revenue forecasts, increasing control on budgetary spending, and placing a greater emphasis on the outputs of public spending programmes. The number of extra-budgetary accounts is being gradually reduced. The Ministry of Finance has started implementing a new treasury system to improve management of national and EC funds; it should cover all budgetary and extra-budgetary accounts by 2003. A new system for electronic budgetary payments has become operational. The Ministry has set up a department for budgetary aspects of European integration.

As regards **Own Resources and administrative infrastructure**, Bulgaria's customs and tax administrations have continued to strengthen their administrative and operational capacity

through new information systems, training and improving their internal organisation (*see also chapters 10, taxation, and 25, customs union*).

### *Overall assessment*

Although basic budgetary rules are broadly satisfactory, Bulgaria should ensure that further efforts are made to bring the budgetary principles and rules into line with those standards generally applicable in the Community. Public expenditure management and control has improved. The broadened scope and medium-term perspective of public expenditure planning and control, the phasing out of extra-budgetary funds, and the introduction of the Treasury Single Account and Chart of Accounts are positive developments. There has been less progress in improving the analysis of policy, programme and project outputs, with public expenditure still essentially input-driven.

In the immediate future, the priorities include extending and implementing the Treasury Single Account, the new accounting system and the Financial Management Information System, strengthening top-down mechanisms for making budget decisions, and implementing the multi-annual budgeting framework. In the medium term, national accounts statistics must be brought into compliance with the ESA95 standard, a more detailed functional budget classification should be developed, budget legislation should be aligned with EU and international standards, the remaining extra-budgetary funds should be closed and the number of budget entities reduced, and the Ministry of Finance should pursue its own internal restructuring to strengthen in particular its strategic capacity to evaluate the composition and quality of public expenditure.

In relation to the control of future EC Own Resources, Bulgaria should strengthen its efforts to set up effective instruments to combat fraud relating to VAT and customs duties so that the protection of the financial interests of the EC can be assured. In addition to the need for central co-ordination for the proper collection, monitoring and payment and control of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this report such as Financial Control, Customs, Taxation, Regional Policy and Agriculture. Appropriate administrative steps should be taken by Bulgaria to ensure adequate co-ordination between the various authorities involved in the application of the system of Own Resources. The capacity to calculate in a reliable, accurate and transparent way the level of customs duties and VAT collected by Bulgaria and to calculate Bulgaria's GNP needs to be improved to allow calculations to be made in a harmonised and controllable way. Adequate administrative capacity to duly collect and transfer in a timely manner all Own Resources to the Community budget, building on the Own Resources Unit established in the Ministry of Finance, will need to be established prior to accession, as well as the ability to accurately and regularly report to the Commission on the situation with regard to each of the types of own resources.

### **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. Primary and secondary legislation alone represents 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 and Eastern 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 for translation of the *acquis* during the process of accession to the EU was drawn up. This strategy provides for four stages in the translation process: initial translation, linguistic revision, legal revision and final revision. In 2001, in order to meet the increasing need for translations of the *acquis*, the Central Translation Unit was replaced by the National Document and Translation Centre under the responsibility of the Minister of Public Administration. This new centre brings together the functions of the Central Translation Unit, the National Documentation Centre of the Ministry of Justice, and the editorial unit on regulatory acts. The new centre, which was only set up in May 2001, is currently in the process of taking on new staff following the holding of competitions.

The basic treaties have been translated. Regarding secondary legislation, 13 785 pages of the Official Journal have been translated and 3 000 of these have been fully revised. Last year's report mentioned that by 2001, a minimum of 17 000 pages of the Official Journal will be being translated each year. Current performance appears to be well below this target, but it is hoped that the new centre will be able to speed up work once staff are in place. Without prejudice to the outcome of the accession negotiations, considerable further efforts are required in this area.

Due attention must also be given to the training of conference interpreters.

### **3.3. General evaluation<sup>26</sup>**

Bulgaria has continued a good pace of alignment of legislation with the *acquis* but still needs to pay more attention to how this will be implemented and enforced. Progress on public administration reform has continued and is a positive sign. This needs to be sustained to ensure public administration is prepared for its role at EU accession. However, little has been done to prepare the judicial system, which needs to be modernised and strengthened, in particular to ensure effective enforcement of the *acquis*.

Regarding the internal market, Bulgaria has made further progress in most areas. In free movement of goods progress continued with membership of European Accreditation as a major achievement. Reinforcement of administrative infrastructure for standardisation and certification, and of market surveillance systems, is still necessary. On financial services, Bulgaria has developed sound banking supervision practices. Company law has been further aligned and the legal framework for protecting intellectual and industrial property rights improved, but further steps are needed to ensure this is enforced. On state aids, Bulgaria is at last starting to develop and implement a framework for state aids but this is not yet compatible with the *acquis*. Bulgaria still lacks a legal framework on data protection compatible with the *acquis*.

In agriculture, Bulgaria has continued generally good progress on approximation of legislation but implementing the *acquis* poses a significant challenge. Veterinary and phytosanitary inspection arrangements need further upgrading. The partial accreditation of SAPARD is a noteworthy success. Progress on fisheries has accelerated compared to previous years.

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<sup>26</sup> See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

Whilst progress has been made to amend labour law towards alignment with the *acquis*, progress on equal treatment legislation remains slow. Whilst administrative capacity of the general labour inspectorate has been reinforced, the capacity to implement the *acquis* on occupational health and safety will need to be increased.

Concerning regional policy, Bulgaria has made little further progress and much more attention needs to be paid to preparation for implementing structural policies.

Bulgaria has continued its positive efforts on transposition of the EC environmental *acquis* but implementation and the cost of alignment remain a challenge.

The pace of progress on transport has been pursued both on adoption and creation of implementing structures. There has also been an increase in investments.

The restructuring of the energy sector has progressed at a very slow pace throughout 2001 following delays in the planned revision of the legislative framework. These delays have hindered efficiency improvement and preparation for privatisation. As regards nuclear energy, Bulgaria must respect the de-commissioning commitments of the Memorandum of Understanding and ensure a high level of nuclear safety.

In justice and home affairs, further progress has been made in most areas in terms of legislation but progress on strengthening administrative capacity was not as strong as required. Some progress has been made on control of external borders; however, there is scope for further improvement, in particular in inter-agency co-operation.

In external policies, Bulgaria's performance remains strong, continuing to make a substantial contribution to regional stability and following the path of trade liberalisation with the EC and its preferential partners.

For customs and taxation, Bulgaria will need to develop IT systems that allow for exchange of data with the EC.

Further progress has been made to strengthen financial control and on improving public expenditure management and control. Efforts should be pursued.

Whilst some progress can be noted on establishment of the institutions necessary to implement the *acquis* and on public administration reform, the capacity of the Bulgarian administration remains limited. Further sustained progress and allocation of the necessary resources will be necessary to meet the challenges ahead. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Whilst work on public administration is progressing, the slow pace of preparation of the judicial system to enforce the *acquis* is worrying. Progress on judicial reform needs to be substantially accelerated.

Bulgaria has fulfilled partially and made progress since last year on all of the short-term Accession Partnership priorities relating to the *acquis*. Concerning administrative capacity, Bulgaria has moved forward on priorities, with the exception of that of strengthening the judiciary, where little progress has been made. The implementation of the recently adopted

strategy for judicial reform should make a difference. Bulgaria has started to address the majority of medium-term Accession Partnership priorities.

## C. Conclusion<sup>27</sup>

In its 1997 Opinion, the Commission concluded that Bulgaria fulfilled the political criteria. Since that time, Bulgaria has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Bulgaria continues to fulfil the Copenhagen political criteria.

Since last year, further progress has been made in public administration reform. Many employees have civil servant status and there is now a Code of Ethics for Civil Servants. The Law on Access to Public Information is a positive step, but needs further clarification to ensure effective implementation. Further steps are needed to ensure an efficient, transparent and accountable public administration.

The recent adoption by the government of two strategies, one on judicial reform and the other on combating corruption, is a significant development. The challenge now is to implement these. The judicial system remains weak and there is as yet no reason to change the assessment made last year that further efforts are needed for it to become strong, independent, effective and professional and able to guarantee full respect for the rule of law as well as effective participation in the internal market. Corruption has continued to give serious cause for concern. Enforcing the legal framework effectively presents a challenge and greater focus is needed on prevention of corruption.

Some progress has been made on human rights training of police and on combating trafficking of human beings. However, there is a need to address police behaviour, notably as regards reported cases of ill-treatment. continues to give cause for serious concern.

A child protection agency and a national advisory council for child protection have been set up. Further steps need to be taken to make the Child Protection Agency operational. On child welfare, there is not yet a significant change in the number of children in institutions. Poor conditions in some homes for children with mental disabilities are cause for concern.

Roma continue to suffer from widespread social discrimination. Political commitment from the government to remedy their problems has still not been matched by concrete action. One more positive development is that some NGOs have pursued projects on desegregation of Roma schools.

Very little further progress has been made to meet the Accession Partnership priority to start implementation of the Roma Framework Programme, and to strengthen the National Council on Ethnic and Demographic Issues.

Concerning other related Accession Partnership priorities, Bulgaria has made further progress to implement the Civil Service Law. However, the priority of strengthening the judiciary has not yet been met.

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<sup>27</sup> See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.



Bulgaria is close to being a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided it continues implementing reform and intensifies the reform effort to remove persistent difficulties.

The Bulgarian macroeconomy is going into its fourth year of stable conditions, having established a satisfactory track record of macroeconomic performance. Good progress has been made in privatisation, especially as regards banks, and with structural reform, setting the microeconomic basis for sustained growth.

However, inflation has risen considerably in 2000. Investment remains insufficient. Financial intermediation continues to be low and inefficient. Specific deficiencies remaining in the land market affect the performance of this market and of other economic sectors. The authorities should give priority to strengthening the judiciary and the enforcement of the regulatory framework. Administrative obstacles to private sector development, affecting enterprise creation, their development and their closing down, including bankruptcy procedures, must be eliminated. A sustained implementation of these reform measures and higher levels of private and public investment are key requirements for sustainable growth, and building up competitiveness.

Bulgaria has continued a good pace of alignment of legislation with the *acquis* but still needs to pay more attention to how this will be implemented and enforced. Progress on public administration reform has continued and is a positive sign. This needs to be sustained to ensure public administration is prepared for its role at EU accession. However, little has been done to prepare the judicial system, which needs to be modernised and strengthened, in particular to ensure effective enforcement of the *acquis*.

Regarding the internal market, Bulgaria has made further progress in most areas. In free movement of goods progress continued with membership of European Accreditation as a major achievement. Reinforcement of administrative infrastructure for standardisation and certification, and of market surveillance systems, is still necessary. On financial services, Bulgaria has developed sound banking supervision practices. Company law has been further aligned and the legal framework for protecting intellectual and industrial property rights improved, but further steps are needed to ensure this is enforced. On state aids, Bulgaria is at last starting to develop and implement a framework for state aids but this is not yet compatible with the *acquis*. Bulgaria still lacks a legal framework on data protection compatible with the *acquis*.

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The pace of progress on transport has been pursued both on adoption and creation of implementing structures. There has also been an increase in investments.

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In justice and home affairs, further progress has been made in most areas in terms of legislation but progress on strengthening administrative capacity was not as strong as required. Some progress has been made on control of external borders; however, there is scope for further improvement, in particular in inter-agency co-operation.

In external policies, Bulgaria's performance remains strong, continuing to make a substantial contribution to regional stability and following the path of trade liberalisation with the EC and its preferential partners.

For customs and taxation, Bulgaria will need to develop IT systems that allow for exchange of data with the EC.

Further progress has been made to strengthen financial control and on improving public expenditure management and control. Efforts should be pursued.

Whilst some progress can be noted on establishment of the institutions necessary to implement the *acquis* and on public administration reform, the capacity of the Bulgarian administration remains limited. Further sustained progress and allocation of the necessary resources will be necessary to meet the challenges ahead. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Whilst work on public administration is progressing, the slow pace of preparation of the judicial system to enforce the *acquis* is worrying. Progress on judicial reform needs to be substantially accelerated.

Bulgaria has fulfilled partially and made progress since last year on all of the short-term Accession Partnership priorities relating to the *acquis*. Concerning administrative capacity, Bulgaria has moved forward on priorities, with the exception of that of strengthening the judiciary, where little progress has been made. The implementation of the recently adopted strategy for judicial reform should make a difference. Bulgaria has started to address the majority of medium-term Accession Partnership priorities.

## D. Accession Partnership and National Programmes 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

#### *Short-term priorities*

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership<sup>28</sup> highlighted in *italics*.

#### **Political criteria**

Compared to last year, very little further progress has been made to *start implementation of the Roma Framework Programme*. 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 continue to make effective performance of its task difficult. There are few new developments as concerns *progress to implement measures aimed at fighting discrimination (including within the public administration) and foster employment opportunities*. The appointment of Roma experts to ministries did however continue. **This priority continues to be only partially met.**

#### **Economic criteria:**

Privatisation has still not always brought with it the necessary *market-based enterprise restructuring to promote competitiveness*. There has been some further work to *simplify the business environment, and stimulate domestic and inward investments*, which have increased to a level above previous years but further efforts are still 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 has remained a

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<sup>28</sup> For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to Council Decision 1999/857/EC, OJ L 335, 28/12/1999, pp. 48-54.

concern. Whilst special legal chambers to handle bankruptcy are being developed, further progress is still required to *improve bankruptcy and liquidation procedures and streamline implementation*. Bulgaria has still not *adopted a restructuring plan for the steel sector as a whole*. **Therefore, this priority has been partially met but progress has been made.**

### **Internal Market**

- Bulgaria has taken further steps to *align public procurement procedures*. Whilst it has largely *aligned* its laws, the *enforcement of intellectual and industrial property rights* and the *fight against piracy* remain a particular concern. Bulgaria has still not *adopted national legislation and established a monitoring body on personal data protection*. **This priority continues to be partially met.**
- Concerning *free movement of goods*: Bulgaria has *adopted a framework law on technical requirements* which introduces *New and Global Approach principles* but some amendments are still needed to ensure full compatibility with the *acquis*. Bulgaria has gained membership of European Accreditation but further attention needs to be paid to *enforce the new law on standardisation and reinforce infrastructure*. As mentioned last year, Bulgaria has *adopted framework laws on chemicals, foodstuffs and pharmaceuticals*. In the area of *free movement of capital*, there is a generally high level of *liberalisation of direct investment abroad and investment in foreign securities by residents*; Bulgaria has *established a timetable for the liberalisation of the remaining restrictions on capital movements including acquisition of real estate sector*. Concerning *free movement of services*, Bulgaria has made good progress to *strengthen supervisory bodies*; particularly in the *banking sector* but more attention needs to be paid to the insurance sector. **This priority has been met to a large extent.**
- In *competition* Bulgaria is finally starting to develop a framework and control system for *state aids*, but still needs to *adopt comprehensive new legislation on state aid, and to increase awareness of EU state aids rules and practices*. *The state aid report needs to be improved*. *A state aid inventory has been established* but still need improvement. Progress has been made in the field of *secondary legislation on anti-trust*, with a decision on block exemptions of certain categories of vertical agreements based on new EU *acquis*. **This priority continues to be partially met.**
- In the field of *taxation*, Bulgaria has already achieved much *alignment of VAT legislation* to the *acquis*. Further steps have been taken to *improve tax collection system at national and regional level* however the establishment of the Unified Revenue Agency has been postponed. In *customs*, further efforts are needed as regards the strengthening of the administrative and operational capacity *to ensure enforcement of the new Customs code*. **These priorities continue to have been partially met.**

### **Agriculture**

- Bulgaria's efforts to *continue alignment of the veterinary and phytosanitary legislation* have progressed further, but as mentioned last year 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*, the State control bodies carried out checks to ensure requirements had been met and as a result of this some further plants were closed. Preparation to *establish a vineyard register* is still underway. **This priority continues to be partially met.**

## **Energy**

- Since last year, there has been limited further 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*. As concerns the *establishment of a price and tariff structure leading to cost based and transparent energy prices*, work has begun but the objective of full price liberalisation by the end of 2001 will not be met. 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 needs to *continue to strengthen the independence and technical capability of the nuclear safety authority*. **This priority has been partially met with only limited progress since last year.**

## **Transport**

- There has been progress to *align legislation on maritime safety issues* but further alignment is still needed. **This priority continues to be partially met.**

## **Employment and Social Affairs**

Whilst some progress has been made to *support social partners' capacity-building efforts*, further progress needs to be made to improve autonomous social dialogue; Bulgaria has continued to work on a Joint Assessment Paper. The finalisation is a priority. *With a view to later participation in the European Employment strategy*, a National Action Plan on Employment 2000-2001 has been prepared. **This priority continues to be partially met.**

## **Environment**

- Bulgaria has *continued transposition of framework legislation in the water, air and waste sectors*. Further emphasis is needed to *prepare and implement detailed directive specific approximation programmes*. Bulgaria has made progress to strengthen the administrative capacity of the Ministry of Environment and Water but further work is needed to *strengthen implementation structures, particularly at the regional level*. Adoption of amendments to *complete transposition and enforce the Environmental Impact Assessment Directive* have been postponed which is regrettable. Some progress has been made but **this priority has been partially met.**

## **Justice and Home Affairs**

- Bulgaria has *continued progressive alignment of visa legislation and practice with that of the EU*. Some progress has been made towards *implementing effective border management control systems and co-ordination of services to prevent illegal immigration and to enable full participation in Schengen*. There has also been progress to *implement and enforce new legislative framework relating to migration and asylum procedures*; but further efforts in particular on enforcement are still needed.

However, Bulgaria's Law on Refugees, criticised for not being in line with some basic principles of the Geneva Convention, has still not been amended. Very little progress has been made to *upgrade the judiciary, which remains weak*. Methods of *recruitment, inadequate training and equipment* remain problems. Further efforts are needed to *upgrade law enforcement bodies to continue the fight against organised crime, drug trafficking and corruption and ensure better co-ordination between law enforcement bodies*. The Bulgarian government has just adopted a *national strategy to combat corruption*. Some steps have been taken to *strengthen capacity to deal with money laundering* through the Bureau of Financial Intelligence. Bulgaria has *ratified the Council of Europe Criminal Law Convention on Corruption and the Convention on the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime*. Bulgaria has signed the *OECD convention on bribery*. **Whilst further progress has been made to meet some of the JHA priorities, that on strengthening the judiciary has not yet been met.**

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

- Concerning *Phare*<sup>29</sup> and *ISPA*<sup>30</sup>, Bulgaria has *further developed its National Development Plan*, finalised its ISPA environment and transport strategies, adopted a *Rural Development Plan*, and gained partial accreditation from the Commission for its *SAPARD*<sup>31</sup> Agency. However, there remain significant weaknesses in the capacity of the Bulgarian public administration to programme externally supported assistance in a strategic and co-ordinated fashion and implement and evaluate projects in an effective manner. **This priority continues to be partially met.**
- Bulgaria has made further progress in adopting and implementing the secondary legislation necessary to *implement the Civil Service Law*. **This priority has been partially met and further progress has been made.**
- Little progress has been made to *strengthen the independence of magistrates, judges and the efficiency of the court system*. **This priority has still not been met.**
- Whilst some improvements have been made to procedures for *assessing the financial and institutional impact of new legislation*, more needs to be done in particular to consider implementation and enforcement issues. **This priority continues to be partially met.**

#### *Medium-term priorities*

### **Political criteria**

- Very little progress has been made to *implement Roma framework programme*. **This priority has not been met.**

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<sup>29</sup> PHARE: Action plan for co-ordinated aid to Poland and Hungary.

<sup>30</sup> ISPA: Instrument for Structural Policies for Pre-Accession.

<sup>31</sup> SAPARD: Special Accession Programme for Agriculture or Rural Development.

## **Economic criteria**

- Bulgaria has *maintained overall macro-financial stability*; Steps have been taken towards restructuring but more efforts are needed to *improve competitiveness through market-based restructuring*. Progress has been made towards *completing the privatisation process*. More efforts are needed to *strengthen market economy institutions* and to *improve the legal and regulatory framework for enterprises*. Bulgaria is participating in *an annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances, specifically fiscal positions, in line with EU procedures*; Bulgaria has still not adopted a restructuring plan for the steel sector as a whole so has not *implemented the steel restructuring programme*; Bulgaria still needs to *establish a functioning land market and finalise the land and property register*. **This priority has been partially met.**

## **Internal Market**

- Concerning *public procurement*, Bulgaria has taken some steps towards *ensuring transparent public procurement procedures at central and regional level*. For *Intellectual and industrial property rights*, further efforts are needed to *complete alignment and implement industrial property rights (trade marks, geographical destinations and industrial designs)*, and in particular to introduce *effective border control measures*. On *data protection*, legislation has still not been adopted therefore cannot be *implemented*; on *Free movement of goods*, further work on transposition is needed before work can start on *implementation of new approach legislation*. More work is needed to *pursue alignment of traditional technical legislation*; Major efforts are needed to *implement market surveillance system*. **This priority has been partially met.**
- *Free movement of persons*: Bulgaria still has to *complete alignment of mutual recognition of diplomas*. **This priority has not yet been met.**
- *Free movement of services*: Steps have been taken towards *complete alignment and implementing the banking law*. **This priority has been partially met.**
- *Competition*: Whilst progress has been made on anti-trust, much more work is needed to *reinforce the state aid authorities and procedures*; **This priority has not yet been met.**
- *Telecommunication*: Further efforts are needed to *strengthen the capacity of the national regulatory authorities*. **This priority has not yet been met.**
- *Taxation*: Further alignment is needed to reach *full alignment of the tax acquis including the Community's transitional VAT regime*; and to *strengthen administrative capacity and control procedures including administrative co-operation and mutual assistance*; **This priority has not yet been met.**
- *Consumer protection*: 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. **This priority has been partially met.**

- *Customs: Work is progressing to strengthen border control; Bulgaria has progressed to develop an integrated tariff; Major challenges remain to develop operational capacities and computerisation of the customs administration; Whilst efforts have begun, Bulgaria still needs to reinforce the fight against fraud and corruption in customs. This priority has been partially met.*

### **Agriculture**

- Detailed feasibility studies on *Common Agricultural Policy management mechanisms* under some of the key common market regulations (milk and dairy, fruit and vegetables and grain) are underway or complete. Bulgaria has continued to *restructure the agri-food sector* and close enterprises that do not meet the hygiene requirements. Monitoring programmes to check the residues of harmful substances are in place. **This priority has been partially met.**

### **Fisheries**

- Recently Bulgaria has made major efforts to start work *towards developing the capacity to implement and enforce the common fisheries policy*; however considerable further work and investment is still needed in the areas of adoption of secondary legislation, development of administrative capacity, training of staff and upgrading of technical resources of the inspection and control bodies, and the establishment of the fishing vessels register. **This priority has been partially met.**

### **Energy**

- Nothing has yet been done to *align oil stock requirements* and insufficient importance is given to *improving energy efficiency*. To *prepare for the internal energy market, notably the electricity and gas directives (including adaptation of energy prices to cost levels)*, Bulgaria should speed up substantially the path of adopting legal amendments and to develop an appropriate and efficient regulatory mechanism able to carry out the functions defined in the internal energy market directives. It is too early to assess whether Bulgaria will *implement commitments on the phased closure and decommissioning of units 1, 2, 3 and 4 of Kozloduy NPP and to maintain a high level of nuclear safety for Kozloduy units 5-6*. Further work is needed to *strengthen regulatory structures for nuclear safety and radiation protection*. **This priority has not yet been met.**

### **Transport**

- A start has been made to *align road transport (market access, road safety and taxation), railways; maritime transport, inland waterways (technical requirements for vessels) and air transport (in particular air safety and air traffic management)*, but there is still much more to do. **This priority has not yet been met.**

### **Employment and social affairs**

- Concerning *equal treatment for women and men*, Bulgaria needs for further changes in legislation and the legal framework for enforcement of equal treatment, including proper complaint procedure, monitoring and control mechanisms. Transposition in other areas has begun (*occupational health and safety, labour law*). Efforts are needed to *reinforce related administrative structures and those required for the co-ordination of social*



security; a General Labour Inspectorate and regional inspectorates have been created. Bulgaria has not *established an independent guarantee fund for employees in the case of employer's insolvency*. **This priority has not yet been met.**

### **Economic and social cohesion**

- Bulgaria has prepared a National Economic Development Plan, which covers inter alia *national policy for economic and social cohesion* but is not yet fully integrated into the national and policy-making framework. Regional Economic and Social Cohesion Commissions provide for some consultation of economic and social interest groups at regional level. Bulgaria has a long way to go to *prepare for the implementation of regional development programmes as well as Community initiatives; improve administrative procedures and establish a budgetary system allowing for multi annual commitments and manage it according to structural funds standards, including appraisal and evaluation*. **This priority has not yet been met.**

### **Environment**

- Significant further efforts will be needed to *complete transposition and implementation of framework and sectoral legislation according to pre-defined timetable; and to integrate sustainable development principles into the definition and implementation of all other sectoral policies*. **This priority has not yet been met.**

### **Justice and home affairs**

- Whilst progress has been made, work needs to be pursued to further *up-grade facilities for asylum seekers and refugees, and to further intensify international co-ordination and co-operation in the field of combating trans-border crime, especially in the field of transiting, producing and selling drugs as well as money laundering; implement anti-corruption strategy; continue fight against trafficking in women and children*. No steps have been taken to *reinforce the independence of judiciary*. **This priority has not yet been met.**

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

- Bulgaria is making efforts to *complete the establishment of a professional and impartial civil service on the basis of the Civil Service Law and to establish a civil service management structure*. Work to *ensure simplification of procedures* should be accelerated. Whilst work has begun, more needs to be done to *upgrade teaching of European matters, including training of judges with regard to European Community law*. **This priority has not yet been met.**
- Progress has been made in improving the legislative framework and institutional capacity for *public internal financial control* and public external audit, though new legislation on external audit has been badly delayed and has not yet been finally adopted. **This priority has been partially met.**
- Bulgaria has substantially developed and improved the administrative organisation of the statistical system, which contributes to *strengthening statistical capacities*. **This priority has been partially met.**

## **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 29 June 2001 and then presented to the Commission. As before, the NPAA covers political and economic criteria and all chapters of the *acquis* in line with negotiation chapters. Priority objectives are aimed at meeting the Copenhagen criteria. The 2001 document integrates textual comments and tables of legislative measures. Whilst last year it was mentioned that the format of separation into two volumes, one textual and the second of tables, led to greater clarity, the overall quality of the 2001 NPAA reflects progress on previous years.

For the political and economic criteria, the NPAA gives brief descriptions of past developments and those expected in future but does not go into detail either on legislative or budgetary matters related to these; the focus of the document is clearly intended to be on the *acquis* chapters.

For each *acquis* area, the document starts with the Bulgarian assessment of the degree of compatibility reached and progress made. It then gives for each sub-chapter of the *acquis* a description of the main laws and plans for harmonisation, followed by tables with the date foreseen for adoption of laws, relevant administrative infrastructure, Celex reference and budget. The budget figures cover donor support and national budgetary allocations.

As for last year, tables are generally well structured, but information is not always complete and quality varies. The NPAA's content is, as in previous years, generally consistent with commitments made by Bulgaria in other fora (e.g. Europe Agreement meetings) and Accession Partnership priorities and comments from the 2000 Regular Report.

Concerning links to provision of budgetary resources, this has been improved compared to past years with more references to national budgetary contributions but there is considerable further scope for improvement in these elements which are important if the NPAA is to become a more valuable instrument for Bulgaria in co-ordinating its preparations for membership.

The quality of the NPAA is not consistent across all chapters but certain general remarks are valid for all chapters. The document still lacks a truly co-ordinated and strategic approach being more a collection of work plans. It could benefit from more emphasis on financial aspects and administrative structures necessary to implement and enforce the *acquis* as well as adoption of laws.

## **Annexes**

***Human Rights Conventions ratified by the Candidate Countries,  
30 September 2001***

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

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= Slovak Republic; SV=Slovenia; T=Turkey

## Statistical data

	1996	1997	1998	1999	2000
<b>Basic data</b>	<b>in 1000</b>				
Population (average)	8.363	8.312	8.257	8.211	8.170
	<b>in km<sup>2</sup></b>				
Total area	110.994	110.994	110.994	110.971	110.971

<b>National accounts</b>	<b>Mio New Lev<sup>32</sup></b>				
Gross domestic product at current prices	1.749	17.055	21.577	22.776	25.454
	<b>1000 Mio ECU/euro</b>				
Gross domestic product at current prices	7,8	9,0	11,0	11,6	13,0
	<b>ECU/euro</b>				
Gross domestic product per capita <sup>33</sup> at current prices	900	1.100	1.300	1.400	1.600
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	-10,1	-7,0	3,5	2,4	5,8
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita <sup>34</sup> at current prices	4.600	4.400	4.700	4.900	5.400
	<b>in % of Gross Value Added<sup>35</sup></b>				
Structure of production					
- Agriculture	15,4	26,6	21,1	17,3	14,5
- Industry (excluding construction)	25,9	25,4	25,0	23,1	24,1
- Construction	4,3	2,8	3,7	3,7	3,7
- Services	54,4	45,2	50,2	55,9	57,7
Structure of expenditure	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	88,5	83,1	88,0	90,7	89,8
- household and NPISH	76,6	70,3	72,9	74,8	72,2
- general government	11,9	12,8	15,1	15,9	17,6
- Gross fixed capital formation	13,6	10,8	13,2	15,9	16,2
- Stock variation <sup>36</sup>	-5,2	0,6	1,7	1,1	-0,3
- Exports of goods and services	62,9	61,9	48,0	44,1	58,5
- Imports of goods and services	59,8	56,4	50,9	51,9	64,1

<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index <sup>37</sup>	123,0	1.044,7	18,7	2,6	10,3

<b>Balance of payments</b>	<b>In Mio ECU/euro</b>				
-Current account	208	1.187	-69	-695	-649
-Trade balance	155	364	-427	-1.153	-1.087
<i>Exports of goods</i>	5.954	5.454	4.701	4.274	4.451
<i>Imports of goods</i>	5.800	5.090	5.128	5.427	5.538
-Net services	424	959	418	335	468
-Net income	-503	-405	-318	-197	-297
-Net current transfers	133	269	258	320	268
<i>-of which: government transfers</i>	47	146	66	72	51

<sup>32</sup> Note that Bulgaria has rebased their currency in July 99, dividing it by 1000. The currency is now called "New Bulgarian Lev".

<sup>33</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>34</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>35</sup> Including FISIM.

<sup>36</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

<sup>37</sup> Changes in Methodology: PROXY HICP since 1997 (see methodological notes).

- FDI (net) inflows	138	573	602	874	926
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<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
General government deficit/surplus	-15,3	-0,3	1,3	0,2	-0,7
General government debt	:	107,4	82,7	82,8	76,9

<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
Gross foreign debt of the whole economy	106,3	102,7	72,8	79,7	81,8
	<b>as % of exports</b>				
Gross foreign debt of the whole economy	168,9	165,9	160,9	180,6	139,8
Monetary aggregates	<b>1000 Mio ECU /euro</b>				
- M1	0,4	1,1	1,4	1,5	1,9
- M2	2,0	2,8	3,2	3,5	4,6
- M3	:	3,0	3,4	3,8	4,8
Total credit	:	3,9	3,6	3,9	4,0
Average short-term interest rates	<b>% per annum</b>				
- Day-to-day money rate	286,4	136,8	2,4	2,6	2,9
- Lending rate	298,3	191,3	14,8	14,6	13,6
- Deposit rate	147,4	79,8	3,0	3,3	3,2
ECU/EUR exchange rates	<b>(1ECU/euro=..New Lev)</b>				
- Average of period	0,225	1,902	1,969	1,956	1,954
- End of period	0,611	1,976	1,956	1,956	1,954
	<b>1994=100</b>				
- Effective exchange rate index	273,0	343,5	99,0	110,4	109,5
Reserve assets	<b>Mio ECU/euro</b>				
-Reserve assets (including gold)	690	2.307	2.684	3.360	3.853
-Reserve assets (excluding gold)	386	2.036	2.426	3.069	3.592

<b>External trade</b>	<b>Mio ECU/euro</b>				
Trade balance	-143	7	-670	-1.406	-1833
Exports	3.819	4.355	3.753	3.734	5.258
Imports	3.962	4.348	4.423	5.140	7.091
	<b>previous year=100</b>				
Terms of trade	:	:	:	:	:
	<b>as % of total</b>				
Exports with EU-15	39,1	43,2	50,4	52,1	51,1
Imports with EU-15	35,1	37,7	45,2	48,4	44,0

<b>Demography</b>	<b>per 1000 of population</b>				
Natural growth rate	-5,4	-7	-6,4	-4,8	-5,1
Net migration rate (including corrections)	:	:	:	:	:
	<b>per 1000 live-births</b>				
Infant mortality rate	15,6	17,5	14,4	14,6	13,3
Life expectancy	<b>at birth</b>				
Males:	67,1	:	67,6	:	68,15
Females:	74,3	:	74,6	:	75,34

<b>Labour market (ILO methodology)</b>	<b>% of labour force</b>				
Economic activity rate	51,8	51,6	50,4	49,2	47,5
Unemployment rate, total	13,7	15,0	16,0	17,0	16,4
Unemployment rate, males	13,6	14,7	16,1	17,3	16,5
Unemployment rate, females	13,8	15,3	15,9	16,8	16,2
Unemployment rate of persons < 25 years	33,5	36,0	36,0	36,7	34,2
Unemployment rate of persons >= 25 years	11,3	12,4	13,4	14,6	14,4
	<b>as % of all unemployed</b>				
Long-term unemployment rate	58,6	56,5	53,3	52,5	58,6
Average employment by NACE branches	<b>in % of total</b>				
- Agriculture and forestry	:	:	:	:	:
- Industry (excluding construction)	:	:	:	:	:
- Construction	:	:	:	:	:

- Services

:	:	:	:	:
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<b>Infrastructure</b>	<b>in km per 1000 km<sup>2</sup></b>				
Railway network	38,7	38,7	38,7	38,7	38,9
	<b>in km</b>				
Length of motorways	314	314	319	324	324

<b>Industry and agriculture</b>	<b>previous year=100</b>				
Industrial production volume indices	105,1	90,0	92,1	90,7	105,8 P
Gross agricultural production volume indices	88,7	112,4	100,2 P	99,4 P	90,9 P

<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
Number of cars	204,1	208,9	219,1	232,4	243,9
Main telephone lines	317,5	323,7	335,1	345,9	353,6
Number of subscriptions to cellular mobile services	4,8	4,5	15,9	40,1	90,6
Number of Internet subscriptions	:	:	0,1	0,4	0,7

P=provisional figures

## Methodological Notes

### Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized 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 that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1996 (rates from 1997).

### Finance

*Public finance:* The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

*Gross foreign debt* is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

*Monetary aggregates* are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

*Interest rates:* Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

*Exchange rates:* ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

*Reserve assets* are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

## **External trade**

*Imports and exports (current prices)*. The 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 means that 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).

*Imports and exports with EU-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 under reporting or delay in reporting of migration.

*Life expectancy*. Data are compiled on the basis of a survey carried out with three-years periodicity.

## **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 , November 1996, November 1997, November 1998 November 1999 and December 2000. 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 based on LFS. Employment data by ILO methodology are for November 1996, November 1997, November 1998 November 1999 and December 2000. 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.

## **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 are based on SNA methodology and include agriculture and forestry ( NACE sections A and B).

### **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.

*Internet subscriptions*: Data are provided by Bulgarian Telecommunication Company.

### **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.