

FOOD AND AGRICULTURE IN BULGARIA:

The Challenge of Preparing for EU Accession

A study by

Csaba Csaki
John Nash
Achim Fock
Holger Kray

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FOREWORD

Although becoming a member of the European Union has been accorded highest priority by the Bulgarian Government, meeting this goal remains a challenge. Because of a slow initial start in transition in the early 1990s, in 1997 the current Government inherited an economy in disarray, and a set of agricultural policies that heavily taxed farmers and relied to a large extent on planning mechanisms, that in important respects, differed little from those used under socialism. Privatization of state-owned assets and land restitution and titling had almost stalled. The macroeconomic situation was hyperinflationary. The financial system had collapsed. In short, Bulgaria's progress in the transition from socialism had virtually ground to a halt, and the economy was far from meeting the EU's most fundamental pre-requisites for accession—that the country have a functioning market economy and that the productive sectors be able to compete in the unified market.

The Government moved decisively to reverse this situation. Because of its importance, the agricultural sector was accorded high priority in the comprehensive program of stabilization and structural adjustment. The World Bank has supported the agricultural policy reforms, both through a continuous program of technical assistance and an Agricultural Sector Adjustment Lending operation. Progress has been impressive in all the important areas. The sector still suffers from the legacy of the past, but markets are working and output is recovering. In some ways, Bulgaria's agricultural policy regime has improved from one of the worst of the candidate countries to one of the best.

Notwithstanding this progress, important challenges remain. The reform program needs to be completed. Appropriate agricultural and rural development strategies will be needed to address the problems of adjustment to EU agricultural policy and to EU rules, regulations, and standards. The integration with western European markets will generate many new opportunities and advantages, but it will also bring with it greater competition, posing challenges for Bulgarian agricultural and food producers to increase their efficiency. It will also affect consumers, in particular the poor, through changes in food prices and quality.

In agreement with the European Union, the World Bank is assisting its clients in preparing for the accession. Bulgaria's is the latest in a series of country economic memoranda (CEM) which have been carried out for six of the EU accession countries. These studies provide an overall review of the economies of the respective countries, assess their readiness for EU membership, and identify critical areas and concerns for further government attention in the accession process. Given the importance and sensitivity of the food and agricultural sector in the region, the review of the sector is one of the major components in these studies. This volume is a background paper for the rural development section of the CEM for Bulgaria. It presents an overview of the food and agricultural sector and its status in the preparations for EU accession.

Kevin Cleaver	Andrew Vorkink
Sector Director for ECSSD	Country Director for Bulgaria
Europe and Central Asia Region	

ABSTRACT

This report reviews the recent history and current state of Bulgarian agriculture and agro-industry. It examines the status of the sectoral reforms program, including reforms affecting pricing and trade, rural finance, land markets, and agro-industry, with emphasis on evaluating its progress toward meeting the criteria for EU accession. It highlights the tremendous advances made recently, and also suggests an agenda for prioritizing and tackling the remaining obstacles. It analyzes several strategies for adoption of the EU Common Agricultural Policy, and recommends that in the near future Bulgaria focus on putting in place the institutions of the CAP, while deferring any attempts to mimic the support policies, which are in any case a moving target. And importantly, it recommends that Bulgaria focus on measures aimed at meeting the basic criteria for accession -- a functioning and competitive market economy -- which will require continued progress in the structural reform program, and on making sure that the SAPARD investments enhance the market orientation of the economy, rather than picking winners. The report is intended for agricultural scientists, public officials, politicians, agricultural and agro-industrial leaders, economic researchers and others interested in the transformation of agriculture in the transition economies and in issues pertaining to accession of Central and East European candidate countries to the European Union.

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CURRENCY

BGN 1 = BGL 1000 = USD 0.54 = DEM 1 0.51 = 1 EURO

Weights and Measures

METRIC SYSTEM

Acronyms

APK	agro-industrial complex
ASAL	Agriculture Sector Adjustment Loan
BGL	Bulgarian Leva
BGN	Bulgarian Leva (new)
BSI	Bulgarian Standardization Institute
BVCI	Border Veterinary Control Inspectorate
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Countries
CEFTA	Central European Free Trade Association
CEM	Country Economic Memorandum
CIS	Commonwealth of Independent States
CICSC	Chief Inspectorate for Certification and Seed Control
CMEA	Council for Mutual Economic Assistance
CN	Combined Nomenclature
COM	Common Organization of Markets
CPI	Consumer Price Index
CSE	Consumer Subsidy Equivalent
CSM	Committee on Standardization and Metrology
DEM	Deutsche Mark
DSM	Divergence Separation Module
EAA	Economic Accounts for Agriculture
EAGGF	European Agricultural Guarantee and Guidance Funds
EIB	European Investment Bank
ERDF	European Regional Development Fund
ERP	Effective Rate of Protection
ESF	European Social Fund
EU	European Union
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organization of the United Nations
GAO	Gross agricultural output
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	Gross national product
GOB	Government of Bulgaria
GSP	Generalized System of Preferences

HACCP	Hazard Analysis Critical Control Point
HEI	Hygienic-Epidemiological Inspectorate
IACS	Integrated Administration Control System
ISPA	Instrument for Structural Policies for Pre-Accession
LFA	Less favored areas
LOUAL	Law on Ownership and Use of Agricultural Land
MAFAR	Ministry of Agriculture, Forestry and Agrarian Reform
MFN	Most Favored Nation
MRTDB	Ministry of Regional Territorial Development
MJLEI	Ministry of Justice and Legal Eurointegration
NAAS	National Agricultural Advisory Service
n.a.	not available
NAC	Nominal Assistance Coefficient
NASRS	National Animal Selection and Reproduction Service
NGGFCI	National Grain and Grain Feed Control Inspectorate
NPAA	National Programme for the Adoption of the Acquis
NPPQAS	National Service for Plant Protection, Quarantine and Agrochemistry
NRP	Nominal Rate of Protection
NVS	National Veterinary Service
o.w.	of which
OECD	Organization for Economic Co-operation and Development
PHARE	Pologne, Hongrie Assistance pour la Restructuration Économique
PHCS	Public Health Control Service)
PMRCA	Private Mutual Rural Credit Associations
PPI	Producer Price Index
PSE	Producer Subsidy Equivalent
SAPARD	Special Assistance Programme for Agriculture and Rural Development
SFA	State Fund Agriculture
SFI	State Fisheries Inspectorate
SRA	State Reserve Agency
SSC	State Sanitary Control
SVSI	State Veterinary and Sanitary Inspection
USD	US dollar
VAT	value added tax
WTO	World Trade Organization
ZH	Zarneni Hrani (grain marketing agency)